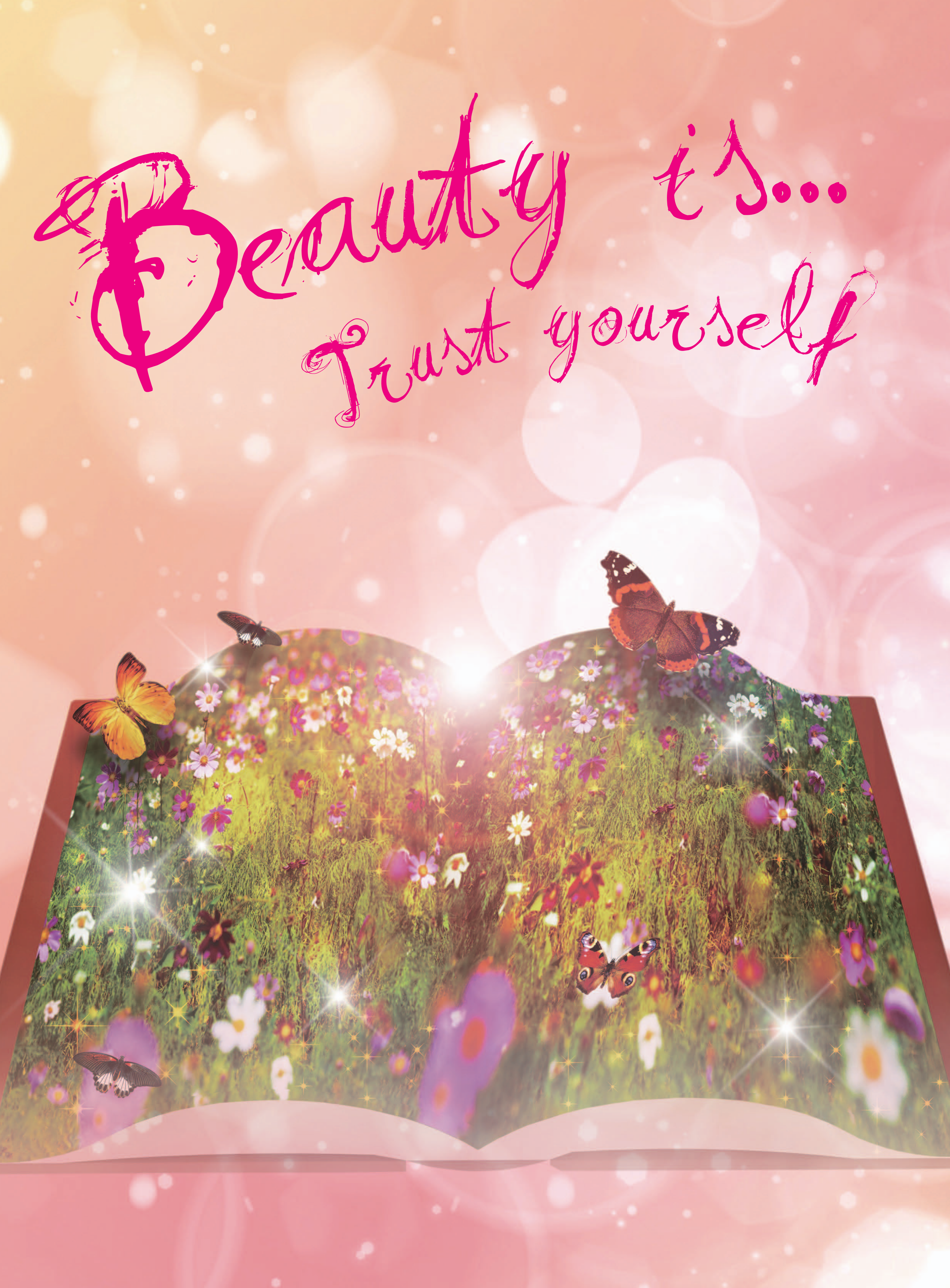
MODERN BEAUTY SALON HOLDINGS LIMITED
現代美容控股有限公司

MODERN BEAUTY

2012/13 年報 Annual Report

Stock Code 股份代號：919


Beauty is...
Trust yourself

from heart!

Contents


Beauty

Corporate Profile

is inside you

Beauty is away of life

Beauty can be anything

Beauty is me, you, life

Modern Beauty Salon Holdings Limited (the "Company") and its subsidiaries (the "Group" or "Modern Beauty") is a leader of the beauty industry in Hong Kong offering professional treatments as well as quality services and products with natural ingredients. We are positioned at the high-end of the beauty industry that is dedicated to provide beauty and wellness services to customers who pursue a rejuvenating experience from the highest level of technical expertise and impeccable guest service. Our business operation is composed of six service lines as follows:

Beauty and Facial

Modern Beauty Salon offers a wide range of treatments by our well-trained beauty therapists. Our beauty consultants review customers' usage regularly and recommend suitable treatments to our customers. We also customize specific treatments according to the needs of our VIP customers. Our senior management closely monitors the latest trends of beauty industry and acquires state-of-the-art beauty machines in order to maintain a pipeline of new treatments.

Slimming

Slim Express offers a series of weight management programs that deliver stunning results. These programs are specially designed to kick-start the metabolism and bring awareness to healthier food choices. Together with our practical solutions offered by advanced equipments and machines of Icoone and Eximia, customers will rediscover esteem that brings balance into their lives.

Spa and massage

Our spa and massage treatments provide a form of escapism and offer an immersive opportunity for our customers to experience pampering styles and grooming techniques inspired by the luxurious living in the 21st century. be sanctuary spa provides resplendent bathroom furnishings and a hydrotherapeutic pool decorated with fresh flowers and carved statues, which fill the room with an aura of nature. Yue Spa is the first spa centre adopting the Five Elements – the traditional Chinese philosophy as its theme. It provides spa treatment sets named according to Destiny, Soil, Metal, Wood, Water, Fire and Earth that effectively reduce stress and improve the skin conditions. Moment of Serenity is a foot treatment centre that offers foot spa, foot treatment and foot massage services.

Fitness

The centres of Modern Fitness are superbly located in the heart of Hong Kong. They are bathed in natural light and are fully equipped. Our extensive class programme is very convenient for a lunchtime or after work session. Customers can shape up and get fit whilst fitting into their busy schedules. Yoga is a system to help its practitioners achieving highest potential and experiencing enduring health and happiness. We offer yoga classes under the brand "SooYoga" consistent with our mission of furbishing our customers with allure and esteem. Dance Square offers different dancing classes, such as Hip-hop, funky dance, Latin dance etc., which are perfect complements to an effective weight control program.

Aesthetics Services

As the world of advanced skin care and anti-aging services develop and mature, aesthetic services emerge. Present day cosmetic laser technicians can use a specific form of energy to tighten skin, stimulate the production of collagen to eliminate wrinkles and fine line, remove tattoos or unwanted hair, or a myriad of other highly sought after services. Aesthetics services include skincare treatments, professional consultation and referral service on plastic reconstruction, which is most specialized and effective and with the highest quality.

Sales of skincare and wellness products

We have been selling skincare and wellness products through four brands, namely "be", "FERRECARE", "JOYCET" and "p.e.n". All products are built on cleanliness and nature, and utilize natural ingredients to enhance the quality of inner and outer skin, and optimize the natural beauty of skin from within. With sales points across different places in Greater China and Asian region, we strive to seek for high quality and efficient skincare and wellness products and updated information on beauty, to bring pure beauty with zero burden resulting from state-of-the-art technology to women today.

As at 31 March 2013, we had 33, 9, 15 and 3 service centres in Hong Kong, Mainland China, Singapore and Malaysia, respectively. These service centres are integrated in nature and provide different business combinations at different locations wherever appropriate. Our retail network, which operates under the brands of "be Beauty Shop" and "p.e.n" shop, had 11 outlets each as at 31 March 2013.

Corporate Information

Board of Directors

Ms. Tsang Yue, Joyce (Chairperson)
Mr. Yip Kai Wing
Mr. Leung Man Kit
Ms. Yeung See Man
Ms. Liu Mei Ling, Rhoda *(Independent Non-executive Director)*
Mr. Wong Man Hin, Raymond *(Independent Non-executive Director)*
Mr. Hong Po Kui, Martin *(Independent Non-executive Director)*
Mr. Lam Tak Leung *(Independent Non-executive Director)*

Authorised Representatives

Mr. Leung Man Kit
Mr. Yip Kai Wing

Company Secretary

Mr. Wong Shu Pui

Audit Committee

Ms. Liu Mei Ling, Rhoda (Chairperson)
Mr. Wong Man Hin, Raymond
Mr. Hong Po Kui, Martin

Nomination Committee

Ms. Tsang Yue, Joyce (Chairperson)
Mr. Wong Man Hin, Raymond
Mr. Hong Po Kui, Martin
Ms. Liu Mei Ling, Rhoda

Remuneration Committee

Mr. Wong Man Hin, Raymond (Chairperson)
Ms. Tsang Yue, Joyce
Mr. Hong Po Kui, Martin
Ms. Liu Mei Ling, Rhoda

Registered Office

M&C Corporate Services Limited
PO Box 309 GT
Ugland House
South Church Street
George Town
Grand Cayman
Cayman Islands

Head Office and Principal Place of Business in Hong Kong

6th Floor
Sino Industrial Plaza
9 Kai Cheung Road
Kowloon Bay
Kowloon
Hong Kong

Auditor

RSM Nelson Wheeler
Certified Public Accountants
29th Floor, Caroline Centre
Lee Gardens Two
28 Yun Ping Road
Hong Kong

Share Registrar and Transfer Office

Tricor Investor Services Limited
26th Floor
Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

Principal Bankers

The Hongkong and Shanghai Banking Corporation Limited
1 Queen's Road Central
Hong Kong

Standard Chartered Bank (Hong Kong) Limited
4-4A Des Voeux Road Central
Hong Kong

Stock Code

919

Investors Relation

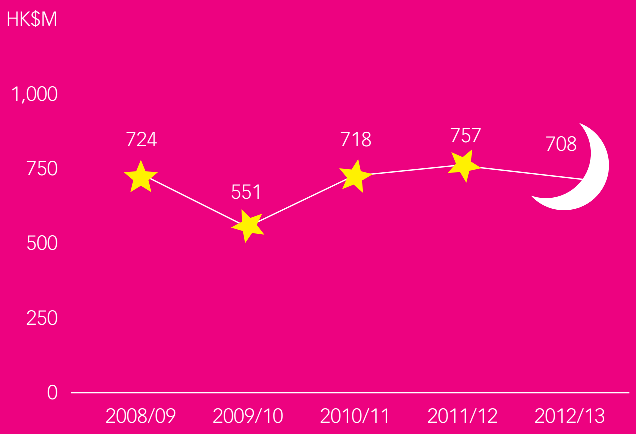
Email address:
ir@modernbeautysalon.com

Website

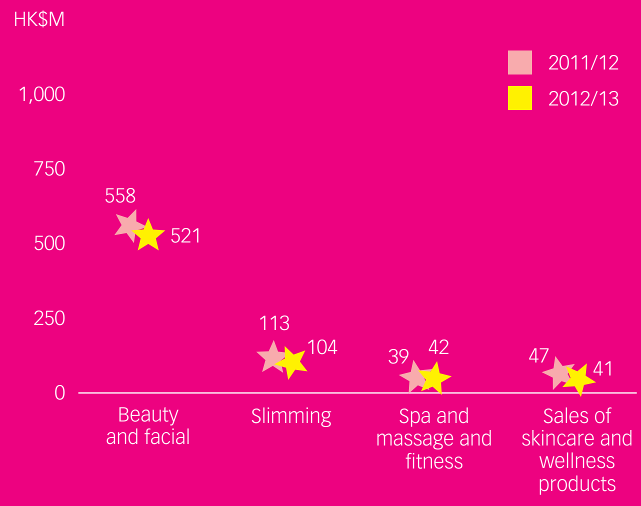
www.modernbeautysalon.com

Financial Highlights

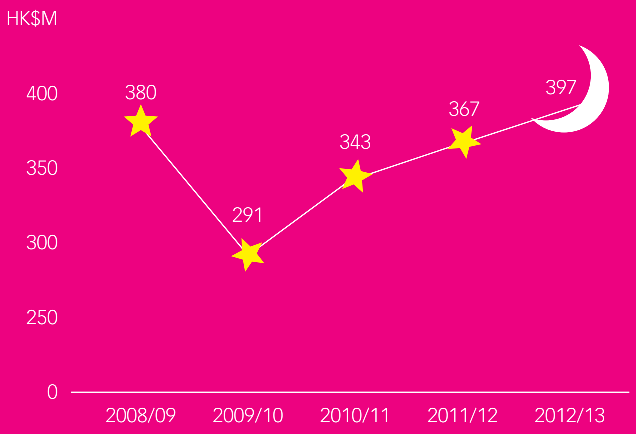
Turnover



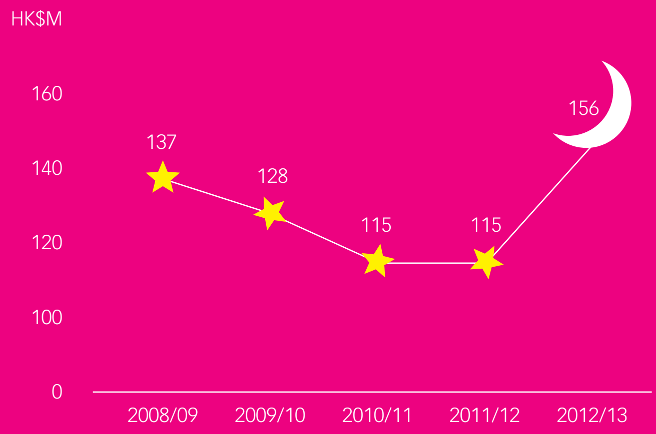
Sales Mix



Employee Benefits Expenses



Occupancy Costs



- 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.

2012/2013 Milestones and Key Events

May 2012

- Opening of the Group's retail shop, p.e.n shop, at King's Road, North Point
- The Group was awarded the "Outstanding Professional Beauty Salon" (優秀專業美容院) in 2012 4th Sisters BeautyPro Trade Fair

- Dr. Tsang Yue, Joyce, Chairperson and Chief Executive Officer of the Group, was awarded five awards from "Distincted Listed Company Leader" award co-organized by Glorious China Association and the Hong Kong Commercial Daily, including the "Distincted Listed Company Leader" and the "Distincted Chinese Medal". She was also awarded a Doctorate Degree (Honoris Causa) from International American University, "The President's Volunteer Service Award", the "Congratulatory Letter of The White House Washington" and the "US President Volunteer Service Award Medal"

June 2012

- Awarded "The Outstanding Brand Awards 2012" from Economic Digest

- Dr. Tsang Yue, Joyce was awarded "Honorary Fellow" by the Professional Validation Centre of Hong Kong Business Sector

- "Modern Beauty Sanctuary Spa" (芭伊妮星級水療生活館), the Group's large-scale beauty brand in Beijing, opened a new shop at Xizhimen Kaide Shopping Centre (西直門凱德購物中心) in Beijing

July 2012

- Dr. Tsang Yue, Joyce was awarded the "2012 Distinguished CEO of the Year" from Capital CEO

- The Group's slimming centre "Slim Express" organized its 3rd "Feminine Rescuers" (粉紅救兵) campaign

- The Group established a new shop in Bedok District, Singapore

- Awarded "The Credible Enterprise of China" Accreditation

August 2012

- The Group's p.e.n shop established new retail shops at Kingston Street, Causeway Bay and Sunshine City Plaza, Ma On Shan
- Opening of the Group's new be beauty shop at Flora Plaza, Fanling

- The Group established a new shop at Tampines St., Singapore
- Grand opening of the Group's new Modern Beauty Salon store at Paradise Square, Mong Kok

- Opening of the Group's new Modern Beauty Salon store at Amber House, Prince Edward

October 2012

- The Group's p.e.n shop established new retail shops at Skyline Plaza, Tsuen Wan and Amoy Plaza, Kowloon Bay

- Awarded the "Supreme Service Awards 2012 – Beauty Services" from Capital CEO

November 2012

- Grand opening of the Group's Modern Beauty Salon flagship store at World-Wide House, Central

December 2012

- Awarded the "Supreme Brand Award - Slimming and Beauty" from Capital CEO

January 2013

- The Group established a new shop at Concorde Hotel & Shopping Mall, Singapore
- Dr. Tsang Yue, Joyce, Chairperson and Chief Executive Officer of the Group, was appointed as a CPPCC member of Hunan Province

March 2013

- Opening of the Group's new Modern Beauty Salon store at V. Heun Building, Central

- Awarded the "Entrepreneur of the Year" from Capital Entrepreneur

Chairperson's Statement

The beauty of the moon,
is the beauty of nightfall.
The beauty of you,
is the beauty of everything.

On behalf of the Board of Directors (the "Board") of Modern Beauty Salon Holdings Limited (the "Company"), I am pleased to present the audited financial report of the Company and its subsidiaries (the "Group") for the financial year ended 31 March 2013 ("FY2013" or the "year under review").

Business Review

During FY2013, turnover of the Group amounted to approximately HK$708.1 million under the impact of the series of beauty treatment incidents within the industry, representing a decrease of 6.4% as compared to HK$756.6 million for the year ended 31 March 2012 ("FY2012" or the "same period last year"). Nevertheless, the Group's sound reputation and customers' loyalty in tandem with the Group's increased marketing efforts have contributed to receipts from prepaid beauty packages of approximately HK$764.2 million during the year under review, representing only a slight decrease of 3.3% over the same period last year. Such figures indicated that the business outlook remained positive, and we believe that our turnover will ultimately return to its normal level.

As a leading beauty and wellness service provider in Hong Kong, the Group is committed to delivering quality services, which involves the use of premium and safe skincare and wellness products, the establishment of an extensive service centre network in order to meet our customers' demands, and ensuring the professional standards of our service team. During the year under review, the Hong Kong government continued to enforce minimum wage policies, while rental in Hong Kong continued to rise due to the high rate of inflation and the influx of hot money. Moreover, the Group's beauty and wellness service centre network underwent a period of integration during FY2013, posing significant impact on the Group's operating costs. A loss of approximately HK$53.4 million was recorded during FY2013 (profit for FY2012: approximately HK$82.1 million).

The lease term of the Group's certain beauty and wellness service centres in Hong Kong expired during the year under review. We took the chance to integrate the Group's service centre network in Hong Kong through renewing leases, merging and leasing of other premises. In a bid to ensure a smooth transition through the period of integration to avoid losing our customer base, certain relocated service centres have relatively long overlapping lease terms of its previous and new leased premises. Such overlap ensured that impacts caused by the relocation or merging of service centres on customers will be minimized. The overlap of lease terms coupled with the rental rise under the new tenancy agreements conforming to the economic environment during FY2013 resulted in an increase of nearly 35.7% in the occupancy costs during the year under review.

We hope that such lease integration can provide our customers with a more convenient service centre network and, in the long run, allow the Group to achieve improved operating revenue with lower costs after the period of integration.

During FY2013, the Group's business in Mainland China has been developing steadily. Apart from maintaining our operating costs at a stable level, our professional team and quality products and services have also won the trust and support from Mainland customers. Despite market challenges such as economic inflation and competition within the industry, the Group's business in Mainland China recorded a 142.9% growth in profit during the year under review. We will continue to control our costs effectively in order to maintain our profitability.

During FY2012, the Group has successfully expanded its business network to Singapore and Malaysia through acquisitions. During the year under review, in spite of the slowdown in local economic growth, the Group's local business managed to record a steady growth in turnover and profit, while the local business development was in line with our expectations. During the year under review, the Group has increased its number of beauty service centres in Singapore by 5 in response to the business expansion in the region and to consolidate its position in the local beauty service market. We will continue to keep a close eye on the local market trends and formulate appropriate strategic development plans in order to strengthen the Group's market position in the Asia-Pacific region.

We actively expanded the Group's product sales business during FY2013. The Group has established 5 new product sales points in Hong Kong so as to expand its sales coverage as well as launched a new distributor brand Bioline. We have also further promoted our self-owned brands "p.e.n", "be", "FERRECARE" and other brand of which we are the distributor with the aim of expanding our product sales business and potential clienteles through providing diversified high-quality skincare products. I am committed to making sure that the products sold by the Group are all made in Europe or Australia and obtained excellent quality assurance as well as attained various environmental protection and safety standards. Together with our appropriate business development strategy, we are confident that we will persistently expand our customer coverage and increase profit contribution from product sales.

Awards

During the year under review, the Group was proud to be awarded a number of awards, including "The Outstanding Brand Awards" from Economic Digest, the "Capital CEO Supreme Brand Award" from Capital Magazine, as well as "The Credible Enterprise of China" Accreditation. "The Credible Enterprise of China" Accreditation was co-organized by the Reputation Institute (China) as well as the China Enterprise Reputation & Credibility Association (Overseas). The accreditation is in compliance with the international standards of the Reputation Institute and is adjusted to meet the national situations in China. It is currently the sole corporate accreditation in the China market. The awards demonstrated the Group's outstanding brand achievement, wide recognition and trustworthiness. The brand's public recognition will help enhance the brand recognition, competitiveness, as well as the market share of the Group.

I am able to understand the needs of the customers with my extensive experience in the beauty industry. I have been devoted to leading our staff in providing top-quality services as well as skincare and wellness products to our customers while leading the Group and our team towards further achievements. During FY2013, I had the honor of being presented with several prestigious awards, including the "Distinguished CEO of the Year" from Capital CEO, "Distincted Listed Company Leader" award co-organized by the Hong Kong Commercial Daily and Glorious China Association, as well as being awarded "Honorary Fellow" by the Professional Validation Centre of Hong Kong Business Sector.

Outlook

The Group will persist in consolidating its slimming and beauty businesses in Hong Kong while steadily developing its business in Mainland China, Singapore and Malaysia. In order to expand our customer base and offer a more diversified skincare and wellness product sales business, we will continue to research and develop as well as introduce additional high-quality and safe skincare and wellness products.

Meanwhile, the Group has been identifying suitable development opportunities in Greater China and Asian regions in line with its business expansion in an effort to tap into the beauty and slimming service market in Southeast Asia. Following its business expansion to Singapore and Malaysia in FY2012, the Group established its first two beauty service centres in Taiwan in the second quarter of 2013. The Group hopes to proceed with its business expansion in an active yet prudent pace, so as to boost its market position in the Asia-Pacific region and enhance its market share to gradually develop into one of the leading beauty enterprises in the Asia-Pacific region.

Appreciation

During FY2013, the Group was able to maintain a sound financial position amid the economic uncertainties. On behalf of the Board, I would like to express my sincere gratitude to the management team and staff for their hard work and dedication. In addition, I would like to thank our business partners, customers as well as shareholders for their loyal support, and for pushing the Group to strive for higher goals. I look forward to contributing to the Group's success alongside all of you, and we are confident that the Group will be able to meet future challenges, continue to develop steadily and reap promising returns for our shareholders.

Beauty and Facial

Slimming

Spa and Massage

Fitness

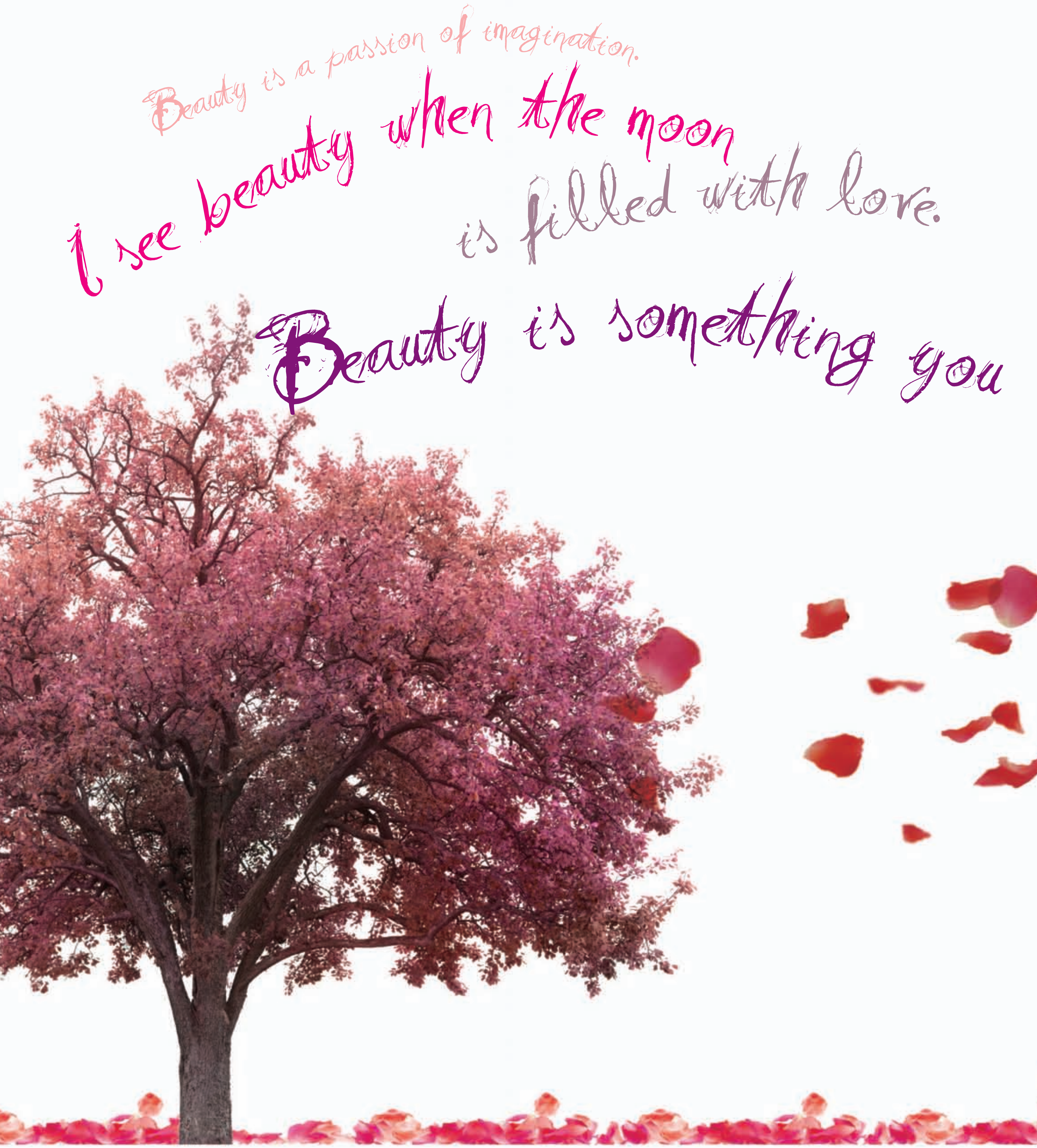
-6%

in Revenue recognised from Provision of Beauty and Wellness Services

and Expiry of

Prepaid Beauty Packages

Management Discussion and Analysis



Overview

For the year ended 31 March 2013 ("FY2013" or the "year under review"), 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 under review, 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 the same period 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 under review 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 (FY2012: 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 under review, the Group has established 5 new points of sale for "p.e.n" products in exercising our sales coverage and further promote our products as well as consolidate our market position. The Group insists in exercising 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 under review.

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
Gross 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 improving 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 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. During the year under review, 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. Owing 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 attributable to owners of the Company 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 aspect. During the year under review, we managed to maintain the level of receipts from prepaid beauty packages and continuously 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 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.

In Sales of Skincare and Wellness Products

-13%

The sales of skincare and wellness products is expected to be a major force of the Group's profit growth in the future.

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 Southeast 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 FY2012.

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 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.

The basis on which the Company generates or preserves value over the longer term (the business model) and the strategy for delivering the Company's objectives is persistently expanding our customer coverage and increasing profit contribution from product sales.

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 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.

Student Management Team

Investor Relations and Financial Calendar

Upholding the principles of timeliness, fairness and openness, we continue to proactively expand our active and effective investor relations program during the year under review. We are committed to maintaining stable and smooth two-way communications with the shareholders, investors, sell-side analysts, financial media and potential investors, so as to ensure that the investors fully understand the current and future developments of the Group and make informed investment decisions, and allow the Group's shares price to fully reflect the long-term value of the Company.

Investor Relations Strategy and Policy

We understand the importance of transparency and accountability to the Company and strongly believe that the best way to improve business transparency and accountability to shareholders is a sincere and active communication with investors, media and the public on an on-going basis so as to enhance the investment sector and the community's perception and understanding on the Group's business affairs, strategies and plans and financial positions. We also highly value investors' opinions and feedback as these will help us to formulate our development strategy for the enhancement of shareholder value.

Effective Two-way Communication

We have in place a dedicated investor relations team for handling investor relations and setting up a bridge between the Group and the investors. During the year under review, as arranged by the investor relations team, we held such investor relations events as the annual general meeting, press conference for results announcement, road shows, investor conferences and company visits. Through these activities, the investment community is able to have a clearer insight on our business development and shareholders are able to have latest information on the Group.

Valuable opinions from investors on our business development will also be collected by the investor relations team through various channels to enable the Group to better understand the market's concern and formulate more effective future investor relations programs and business strategy and practices.

As our business continues to growth, we expect more access to the capital markets, and it will be more and more important to maintain timely and smooth communication with the investors. We shall continue to improve and enhance our investor relations system, and endeavor to maintain a high standard of investor relations.

Financial Calendar

Last day to register for 2013 Annual General Meeting	*27 August 2013*
Closure of Register of Members for 2013 Annual General Meeting	*28 August 2013 to 30 August 2013, both dates inclusive*
2013 Annual General Meeting	*30 August 2013*
Last day to register for entitlement to 2013 special dividend	*5 September 2013*
Closure of Register of Members for entitlement to 2013 special dividend	*6 September 2013 to 10 September 2013, both dates inclusive*
Record date for entitlement to 2013 special dividend	*10 September 2013*
Payment of 2013 special dividend	*2 October 2013*

Share Information

Modern Beauty Salon Holdings Limited has been listed on The Stock Exchange of Hong Kong Limited since 9 February 2006.

Issued ordinary shares as at 31 March 2013:	873,996,190 shares
Board lot:	4,000 shares
Nominal value:	HK$0.10 per share
Market Capitalization as at 31 March 2013:	HK$778 million

Stock Codes

Stock Exchange:	*919*
Reuters:	*0919.HK*
Bloomberg:	*919 HK*

Biography of Directors and Senior Management

Executive Directors

Ms. Tsang Yue, Joyce
Aged 52, is Executive Director and the Chairperson of the Board, the Chief Executive Officer of the Group, and the Chairperson of the Nomination Committee and a member of the Remuneration Committee of the Company. She is the founder and substantial shareholder of the Company as well as a veteran in the beauty and wellness industry who has profound understanding and distinctive expertise on how to originate and capitalize on the trends and changes in the market. Her wealth of knowledge in the business and her unique vision in corporate management had enabled to spearhead business growth at the Group in a dynamic manner. Ms. Tsang holds a Doctorate in Business Administration (Honoris Causa) from International American University. She is a Fellow of the Hong Kong Institute of Directors. She is the Honorary President of International CICA Association of Esthetics — CIDESCO Section China and the Honorary Fellow of The Professional Valuation Centre of Hong Kong. Ms. Tsang is also devoted to community and welfare activities. She is the director of the board of Pok Oi Hospital since 2009. She is also the founder and chairperson of Grateful Heart Charitable Foundation Limited and the founder and dean of Beauty Expert International College. Ms. Tsang is the School Manager of Pok Oi Hospital Chan Kai Memorial College since 2009. She is the Sub-Committee Chairman, Other Services of The Chinese Manufacturer's Association of Hong Kong. She is the Honorary President of Carnation Women's Association. She was awarded "Woman Entrepreneur of the Year" in 2011 from APEA. She was also awarded the "Award of listed company leader 2012", "Prime Awards for Outstanding Leaders" from "Metro Box magazine", "The 4th Excellence in Achievement of World Chinese Youth Entrepreneurs" jointly from Yazhou Zhoukan and World Federation of Chinese Entrepreneurs Organization, "《Capital CEO》 2012 Distinguished CEO of the year" and "《Capital Entrepreneur》 2012 Entrepreneur of the year". In 2012, Ms. Tsang was awarded five awards from "Distincted Listed Company Leader" award co-organized by Glorious China Association and the Hong Kong Commercial Daily, including the "Distincted Listed Company Leader" and the "Distincted Chinese Medal". Ms. Tsang was also awarded "The President's Volunteer Service Award", the "Congratulatory Letter of The White House Washington" and the "US President Volunteer Service Award Medal". Ms. Tsang was awarded "Honorary Fellow" by the Professional Validation Centre of Hong Kong Business Sector. In 2013, Ms. Tsang was appointed a committee member of the 11th Chinese People's Political Consultative Conference (CPPCC) in Hunan Province, China. Ms. Tsang was also awarded the "Entrepreneur of the Year" from Capital Entrepreneur. Ms. Tsang is the spouse of Mr. Lee Soo Ghee, a former Executive Director of the Company (resigned on 15 September 2010) and currently Chief Administrative Officer of the Company.

Mr. Yip Kai Wing
Aged 39, is the Chief Technology Officer and an Executive Director of the Company. Mr. Yip is responsible for all computer and information system matters of the Group. Mr. Yip brings with him about ten years of experience in the system integration, information system, network operation and telecommunications industries. He graduated from the Chinese University of Hong Kong in 1997 with a Bachelor Degree in Social Science and was awarded a Microsoft Certified Professional Systems Engineer, as well as CheckPoint Certified Administrator and Turbolinux Engineer in 2002. Mr. Yip joined the Group in March 2002.

Mr. Leung Man Kit
Aged 36, is an Executive Director and the Chief Financial Officer of the Group. He is responsible for the financial planning and monitoring, business development and taxation of the Group. He is a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants as well as Fellow Member of the Association of International Accountants, Fellow Member of the Taxation Institute of Hong Kong and also a Member of The Hong Kong Institute of Directors. Mr. Leung holds a Master Degree of Business Administration in Financial Management from The University of Hull in United Kingdom. He has over 8 years of audit and tax experience from various listed groups and private companies in Hong Kong. Mr. Leung joined the Group in September 2008.

Ms. Yeung See Man
Aged 39, is an Executive Director (appointed on 11 December 2012) and the Financial Controller of the Group. She is responsible for overseeing the accounting and financial reporting of the Group. Ms. Yeung graduated from The Hong Kong Polytechnic University with a Bachelor Degree of Arts in Accountancy in 1995. She is an associate member of The Institute of Chartered Accountants in England and Wales as well as a member of the Hong Kong Institute of Certified Public Accountants. She is also a fellow member of the Association of Chartered Certified Accountants. Ms. Yeung has over six years of audit experience with Deloitte Touche Tohmatsu. She joined the Group in March 2004.

Independent Non-Executive Directors

Ms. Liu Mei Ling, Rhoda
Aged 51, was appointed as an Independent Non-executive Director in December 2009. Ms. Liu is a Member of the Canadian Institute of Chartered Accountants, Fellow Practicing Member of the Hong Kong Institute of Certified Public Accountants, Fellow Member of the Taxation Institute of Hong Kong, and Fellow Member of the Hong Kong Institute of Directors. Ms. Liu holds a Bachelor of Art degree in Commercial Studies and Finance from University of Western Ontario in Canada, Professional Degree in China Law from Tsing Hua University in China, and a Master of Business Administration Degree from McMaster University in Canada. Ms. Liu is a Practicing Certified Public Accountant in Hong Kong and sole proprietor of Liu & Wong, Certified Public Accountants. Ms. Liu is also an independent non-executive director, chairperson of audit committee and member of remuneration committee and nomination committee of Mirach Energy Limited, a company listed on the Singapore Stock Exchange. Save as disclosed above, Ms. Liu did not hold directorship in other listed public companies in the past three years.

Mr. Wong Man Hin, Raymond
Aged 47, was appointed as an Independent Non-executive Director in December 2009. Mr. Wong is a member of American Institute of Certified Public Accountants (CPA), a Certified Management Accountant (CMA) and holds a certificate in financial management (CFM). Mr. Wong holds a bachelor degree in chemical engineering and a master degree in economics. Mr. Wong is an executive director and deputy chairman of Raymond Industrial Limited (stock code: 229), a company listed on the Main Board of the Stock Exchange. Mr. Wong is also an independent non-executive director of Nan Nan Resources Enterprise Limited (formerly known as International Resources Enterprise Limited) (stock code: 1229), a company listed on the Main Board of the Stock Exchange. Mr. Wong was an independent non-executive director of Fulbond Holdings Limited (stock code: 1041) during the period from 8 December 2006 to 5 August 2009. Mr. Wong was an independent non-executive director of BEP International Holdings Limited (stock code: 2326) during the period from 9 October 2007 to 5 June 2009. Mr. Wong was also an independent non-executive director of ERA Holdings Global Ltd. (stock code: 8043) during the period from 17 August 2007 to 25 February 2008.

Mr. Hong Po Kui, Martin
Aged 63, was appointed as an Independent Non-executive Director in December 2009. Mr. Hong has been practicing as a solicitor of the High Court of the Hong Kong Special Administrative Region for over 35 years and is a notary public in Hong Kong. Mr. Hong is now the senior partner of Messrs. Lau Chan & Ko, Solicitors & Notaries. Mr. Hong is also an independent non-executive director of Sau San Tong Holdings Limited (stock code: 8200), a company listed on the Growth Enterprise Market of the Stock Exchange.

Mr. Lam Tak Leung
Aged 60, was appointed as an Independent Non-executive Director with effect from 1 January 2013. Mr. Lam graduated from City University of Macau with a Master Degree of Business Administration in June 2012. Mr. Lam has been dealing with his business in Hunan Province, China for more than 30 years, and is currently the President of Steeland Investment and Development Limited. Mr. Lam Tak Leung was a committee member of the 7th, 8th, 9th and 10th Chinese People's Political Consultative Conference (CPPCC) in Hunan Province, China. Meanwhile, he was the 5th and 6th Vice President of Hunan Overseas Friendship Association. Mr. Lam is currently a member of Tuen Mun District Council, chairman of Hong Kong New Territories District Adviser Alumni Association, chairman of New Territories West Residents Association and chairman of Training Committee of Scout Association of Hong Kong New Territories Region. He has been serving the community in Hong Kong for many years and was awarded the British Medal of Honour (BH) by Queen Elizabeth in 1995, awarded the Medal of Honour (MH) by the Hong Kong Special Administrative Region Government in 2006 and appointed as the Justice of Peace (JP) by the Hong Kong Special Administrative Region Government in 2012.

Senior Management

Mr. Lee Soo Ghee
Aged 38, is the Chief Administrative Officer of the Company. Mr. Lee is a former Executive Director of the Company (resigned on 15 September 2010). Mr. Lee is responsible for overseeing brand management, overseas business/supply chain, marketing and sales, products research and development, property management, procurement and administration of the Group. He is also responsible for providing comprehensive, technical, programmatic guidance in the areas of facilities management, logistics management and creative design and engineering as well as overall planning and strategic development of the Group's operation. Mr. Lee holds a diploma in Electronics, Computer & Communication Engineering from Singapore Polytechnic, having extraordinary talent in the sphere of design. Mr. Lee also holds a Degree of Doctor from Business Administration by International American University. He is the spouse of Ms. Tsang Yue, Joyce, Executive Director and Chairperson of the Board.

Mr. Wong Shu Pui
Aged 46, is the Company Secretary of the Company. Mr. Wong is a former Executive Director of the Company (resigned on 11 December 2012). Mr. Wong is a Solicitor admitted in Hong Kong. He joined the Group in April 2008 as Legal Counsel and has years of experience in many fields. Mr. Wong is now appointed to provide leading legal advice and support to all the Group's major business projects and activities.

Ms. Ip Lai Fong
Aged 41, is the Operation Manager of Customer Service of the Group. She is responsible for the day-to-day operation of the Customer Services Department. Ms. Ip obtained an Advanced Certificate Programme on Professional Customer Service from Hong Kong Management Association in 2005. Ms. Ip graduated from Lingnan University and The Hong Kong Management Association in 2007 with Diploma in Business Management. She has seven years of guest services experience in Kimberley Hotel, Hilton Hotel and Marriott Harbour View Hotel — Hong Kong (previously known as New World Harbour View Hotel) in Hong Kong. Ms. Ip joined the Group in May 1999.

Ms. Chiu Yuen Ting
Aged 29, is the Finance Manager of the Group. She is responsible for financial management and reporting of the Group. Ms. Chiu graduated from the Chinese University of Hong Kong with a Bachelor of Business Administration. She is a member of the Hong Kong Institute of Certified Public Accountants and a Financial Risk Manager of the Global Association of Risk Professionals. Ms. Chiu has years of experience in auditing and accounting services. Prior to joining the Group, she worked in PricewaterhouseCoopers. She joined the Group in December 2009.

Corporate Governance Report

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.

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 under review, 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.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the directors of the Company (the "Directors").

Having made specific enquiry of all Directors, all Directors confirmed that they had complied with, and there had been no non-compliance with, the required standard set out in the Model Code and its code of conduct regarding the Directors' securities transactions during the year under review.

Board of Directors

Board Composition
Composition of the board of directors of the Company (the "Board") is as follows:

Executive Directors:
Ms. Tsang Yue, Joyce, Chairperson of the Board & Chief Executive Officer
Mr. Yip Kai Wing
Mr. Leung Man Kit
Mr. Wong Shu Pui (resigned on 11 December 2012)
Ms. Yeung See Man (appointed on 11 December 2012)

Independent Non-executive Directors:
Ms. Liu Mei Ling, Rhoda
Mr. Wong Man Hin, Raymond
Mr. Hong Po Kui, Martin
Mr. Lam Tak Leung (appointed on 1 January 2013)

The Board is currently composed of four executive Directors (including Chairperson of the Board) and four independent non-executive directors. The Board considered this composition to be balanced and to reinforce a stronger independent review and monitoring function on overall management practices. A majority of the independent non-executive Directors have the appropriate professional or accounting qualifications required by Rule 3.10(2) of the Listing Rules. Directors' biographical details and relevant relationships are set out in the section headed "Biography of Directors and Senior Management" on pages 31 to 34 of this annual report.

Board Meetings
The Board conducts meeting on a regular basis and also as and when required. Board meetings are scheduled in advance to facilitate maximum attendance by Directors. The Company Secretary assists the Chairperson in preparing the meeting agendas, and each Director may request inclusion of items in the agenda. Senior Management is invited to join all Board meetings to enhance the Board and management communication. Meeting agendas and other relevant information are provided to the Directors in advance of Board or Board committee meetings.

During the year under review, save for executive Board meetings held between executive Directors during the normal course of business of the Company, the Board had held 10 board meetings.

Directors' Attendance at Board/Board Committee/ General Meetings

A summary of all Directors' attendance at the Board meetings, Board Committee meetings and general meeting held during the year under review is set out in the following table:

	Board Meetings	Audit Committee Meetings	Nomination Committee Meetings	Remuneration Committee Meetings	2012 Annual General Meeting
	Number of Meetings Attended/Held				
Executive Director					
Ms. Tsang Yue, Joyce[1]	3/10	N/A	0/1	0/4	1/1
Mr. Yip Kai Wing	9/10	N/A	N/A	N/A	0/1
Mr. Wong Shu Pui[4]	6/6	N/A	N/A	N/A	1/1
Mr. Leung Man Kit	10/10	N/A	N/A	N/A	1/1
Ms. Yeung See Man[5]	5/5	N/A	N/A	N/A	N/A
Independent Non-Executive Director					
Ms. Liu Mei Ling, Rhoda[2]	10/10	2/2	1/1	4/4	1/1
Mr. Wong Man Hin, Raymond[3]	10/10	2/2	1/1	4/4	1/1
Mr. Hong Po Kui, Martin	10/10	2/2	1/1	4/4	0/1
Mr. Lam Tak Leung[6]	2/4	N/A	N/A	N/A	N/A

Notes:

1. Chairperson of the Board and Chairperson of the Nomination Committee of the Company.
2. Chairperson of the Audit Committee of the Company.
3. Chairperson of the Remuneration Committee of the Company.
4. Mr. Wong Shu Pui resigned as Director with effect from 11 December 2012, and attended 6 Board meetings before his resignation.
5. Ms. Yeung See Man was appointed as Director with effect from 11 December 2012, and attended 5 Board meetings after her appointment.
6. Mr. Lam Tak Leung was appointed as Director with effect from 1 January 2013, and attended 2 Board meetings after his appointment.

Respective Responsibilities, Accountabilities and Contributions of the Board and the Management

The Board is responsible for the leadership and control of the Group (comprising the Company and its subsidiaries) and oversees the Group's businesses, strategic decisions and performance. The Board has the functions of considering and approving the strategies, financial objectives, annual budget and investment proposals of the Group. The independent non-executive Directors, who combine to offer diverse industry expertise, serve the important function of advising the management on strategy and ensuring that the Board maintains high standards of financial and other mandatory reporting requirements as well as providing adequate checks and balances for safeguarding the interests of shareholders and the Company as a whole. Significant transactions shall be approved by the Board.

The members of the Board have no financial, business, family or other material/relevant relationship with each other.

The Board also takes up the corporate governance functions pursuant to the Code. During the year under review, the work performed by the Board on corporate governance function is summarized as follows:

(a) developed and reviewed policies and practices on corporate governance and make recommendations to the board;

(b) reviewed and monitored the training and continuous professional development of directors and senior management;

(c) reviewed and monitored the policies and practices on compliance with legal and regulatory requirements;

(d) developed, reviewed and monitored the code of conduct and compliance manual (if any) applicable to employees and directors; and

(e) reviewed the Company's compliance with the Code and disclosure in the Corporate Governance Report.

Delegation to Management

Day-to-day operational responsibilities are specifically delegated by the Board to the management under the leadership of the Chief Executive Officer ("CEO"). Major matters include implementation of the strategies and decisions approved by the Board and the management assumes full responsibility to the Board for operations of the Group.

Directors' Participation in Continuous Professional Trainings

Code Provision A.6.5 of the Code provides that all directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant. The Company should be responsible for arranging and funding suitable training, placing an appropriate emphasis on the roles, functions and duties of a listed company director. All Directors have been required to provide the Company with their training records. From time to time, the Company have organized training courses to the Directors or provided written materials to develop and refresh their professional skills on the latest development of applicable laws, rules and regulations for the Directors to assist them in discharging their duties. The Company has received from each of the Directors the confirmations on taking continuous professional training course during the year under review.

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.

Independence of Independent Non-executive Directors ("INEDs")

Ms. Liu Mei Ling, Rhoda, Mr. Wong Man Hin, Raymond and Mr. Hong Po Kui, Martin, INEDs, had each entered into a letter of appointment dated 27 August 2010 for a term of three years commencing from 27 August 2010, subject to, inter alia, retirement from office by rotation at least once every three years and re-election in accordance with the Company's Articles of Association. Mr. Lam Tak Leung, INED, had entered into a letter of appointment dated 21 December 2012 for a term of three years commencing from 1 January 2013, subject to, inter alia, retirement from office by rotation at least once every three years and re-election in accordance with the Company's Articles of Association.

Each INED is required to give a written annual confirmation of his/her independence and to inform the Company as soon as practicable if there is any change that may affect his/her independence. The Company confirms that it has received from each INED an annual confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules and the Company still considers each INED to be independent.

Appointment and Re-election of the Directors

In accordance with the Articles of Association of the Company, the appointment of a new director must be approved by the Board. The Board has delegated the power to the Nomination Committee to select and recommend candidates for directorship including the consideration of referrals and engagement of external recruitment professionals when necessary. The responsibilities of Nomination Committee are set out in the sub-heading "Board Committees" below.

All Directors, including INEDs, elected at the annual general meeting are subject to retirement at annual general meeting of the Company by rotation at least once every three years in accordance with the Company's Articles of Association. All retiring Directors, including INEDs, shall be eligible for re-election. All Directors, including non-executive Directors, appointed to fill a causal vacancy or as an addition to the existing Board, shall hold office only until the first annual general meeting after their appointment and shall then be eligible for re-election.

Board Committees

The Board has established the following committees with defined terms of reference, which are on no less exacting terms than those set out in the Code:

- Remuneration Committee
- Nomination Committee
- Audit Committee

Each Committee has authority to engage outside consultants or experts as it considers necessary to discharge the Committee's responsibilities. Minutes of all committees meetings are circulated to their members. To further reinforce independence and effectiveness, all Audit Committee members are INEDs, and the Nomination and Remuneration Committees have been structured with a majority of INEDs as members.

Remuneration Committee
The composition of the Remuneration Committee is as follows:

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

Executive Director
Ms. Tsang Yue, Joyce

The responsibilities of Remuneration Committee as set out in its written terms of reference which include reviewing and determining the terms of remuneration packages, bonuses and other compensation payable to the Directors and senior management according to the policies as prescribed. Such policies are to link total compensation for senior management with the achievement of annual and long term performance goals. By providing total compensation at competitive industry levels for delivering on-target performance, the Group seeks to attract, motivate and retain the key executives essential to its long term success.

During the year under review, the Remuneration Committee met four times. Details of the attendance of the members of the Remuneration Committee in the said meeting(s) are set out under the sub-heading "Directors' Attendance at Board/ Board Committee/General Meetings" above.

The work performed by the Remuneration Committee during the year under review is summarized as follows:

a. reviewed remuneration policy, organizational structure and human resources deployment;

b. reviewed remuneration of Executive Directors and senior management for the year under review; and

c. reviewed the compensation and benefits for directors and senior management for the year under review.

Nomination Committee
The composition of the Nomination Committee is as follows:

Executive Director
Ms. Tsang Yue, Joyce (Chairman)

Independent Non-executive Directors
Ms. Liu Mei Ling, Rhoda
Mr. Wong Man Hin, Raymond
Mr. Hong Po Kui, Martin

The Board established the Nomination Committee with written terms of reference which cover recommendations to the Board on the appointment of Directors, evaluation of Board composition, assessment of the independence of INEDs and the management of Board succession.

The basis for the Nomination Committee to select and recommend candidates emphasize appropriate professional knowledge and industry experience, personal ethics, integrity and personal skills, and possible time commitments to the Board and the Company.

During the year under review, the Nomination Committee met once. Details of the attendance of the members of the Nomination Committee in the said meeting(s) are set out under the sub-heading "Directors' Attendance at Board/ Board Committee/General Meetings" above.

The work performed by the Nomination Committee during the year under review is summarized as follows:

a. reviewed the structure and composition of the Board;

b. the nomination of new director for approval by the Board;

c. the nomination of Ms. Yeung See Man as an Executive Director of the Company;

d. the nomination of Mr. Lam Tak Leung as an INED of the Company; and

e. the succession and development plans for executives and managers.

Audit Committee
The composition of the Audit Committee is as follows:

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

The Audit Committee reviews the Group's financial reporting, internal controls and corporate governance issues and makes relevant recommendations to the Board. 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 twice. Details of the attendance of the members of the Audit Committee in the said meeting(s) are set out under the sub-heading "Directors' Attendance at Board/Board Committee/General Meetings" above.

The work performed by the Audit Committee during the year under review is summarized as follows:

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

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

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

d. discussed with the external auditor on the audit approach, the nature and scope of the audit; and

e. reviewed the audit programme of the internal audit function and risk management systems.

The Audit Committee had reviewed and approved the Group's annual results for the year under review in conjunction with the Company's auditor prior to their approval by the Board.

Auditors' Remuneration

During the year under review, the remuneration paid/payable to the Company's external auditor, RSM Nelson Wheeler and its network firms, for providing the audit and other non-audit services were as follows:

Fee paid/payable	HK$'000
Audit services	2,057
Review of interim financial information	270
Non-audit services	475

Directors' Responsibilities for preparing accounts and Auditor's Responsibilities

The Directors acknowledged their responsibility for preparing the accounts of the Company for the year under review and the auditor's reporting responsibilities is set out on page 54 of this annual report.

Internal Control and Risk Management

The Board has conducted a review of the effectiveness of the internal control system of the Company and its subsidiaries.

The Board is responsible for maintaining a sound and effective system of internal controls in the Group and for reviewing its effectiveness through the Audit Committee. Such system is designed to manage the risk of failure to achieve corporate objectives. It aims to provide reasonable but not absolute assurance against material misstatement, loss or fraud.

The Board has delegated to executive management the design, implementation and ongoing assessment of such systems of internal controls, while the Board through its Audit Committee oversees and reviews the adequacy and effectiveness of relevant financial, operational and compliance controls and risk management procedures that have been in place. Qualified personnel throughout the Group maintain and monitor these systems of controls on an ongoing basis.

Based on the results of evaluations and representations made by the senior management, the Audit Committee is satisfied that:

- there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group that threaten the achievement of its business objectives; and

- an appropriate system of internal control and risk management has been in place for the year under review, and up to the date of approval of this annual report.

Company Secretary

The Company Secretary of the Company has taken no less than 15 hours of relevant professional training during the year under review.

Shareholders' Rights

The Way by Which Shareholders Can Convene Extraordinary General Meeting/Put Forward Proposal

Pursuant to Article 79 of the Articles of Association of the Company, the Board may, whenever it thinks fit, convene an extraordinary general meeting. General meetings shall also be convened on the written requisition of any two or more members of the Company deposited at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office specifying the objects of the meeting and signed by the requisitionists, provided that such requisitionists held as at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company. General meeting may also be convened on the written requisition of any one member of the Company which is a recognized clearing house (or its nominee(s)) deposited at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office specifying the objects of the meeting and signed by the requisitionists, provided that such requisitionists held as at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company. If the Board does not within 21 days from the date of deposit of the requisition proceed duly to convene the meeting to be held within a further 21 days, the requisitionist(s) themselves or any of them representing more than one-half of the total voting rights of all of them, may convene the general meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Board provided that any meeting so convened shall not be held after the expiration of three months from the date of deposit of the requisition, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to them by the Company.

And, if a shareholder wishes to make any proposal at any general meeting of the Company, the shareholder should deposit a written notice of the proposal to the Company Secretary of the Company within 7 days commencing from the date of the notice of the general meeting of the Company (or such other period as may be determined and announced by the Director from time to time).

The Procedures for Sending Enquiries to the Board

Any enquiries to be put to the Board are welcomed and can be addressed to the Investors Relation Department of the Company by email at ir@modernbeautysalon.com or by mail to the following address:

Modern Beauty Salon Holdings Limited
6/F., Sino Industrial Plaza
9 Kai Cheung Road
Kowloon Bay
Kowloon
Hong Kong

Attn: Investor Relation Department

Investor Relations and Communications with Shareholders

The Company has a proactive policy for promoting investor relations and communications by maintaining regular dialogue and fair disclosure with investors, analysts and the media. On the other hand, the Company's annual general meeting provides another channel for the Chairperson and the senior management to meet and communicate with shareholders, who are likewise encouraged to participate. All shareholders are provided at least 21 days' notice to attend the annual general meeting, during which the Chairperson and the senior management are available to answer questions. The results of the voting by poll are published on the Group's website.

Our website (www.modernbeautysalon.com) facilitates effective communications with shareholders and investors, making corporate information and other relevant financial and non-financial information available electronically and on a timely basis. The Group also values feedback from shareholders on its efforts to promote transparency and foster investor relationships.

Changes in Constitutional Documents

There has been no significant change in the Company's constitutional documents during the year under review.

Report of the Directors

The directors (the "Directors") of Modern Beauty Salon Holdings Limited (the "Company") have pleasure in submitting their report together with the audited financial statements of the Company and its subsidiaries (collectively, the "Group") for FY2013.

Principal Activities

The principal activities of the Company is investment holding and the principal activities of the Group continued throughout FY2013 was provision of beauty and wellness services and sales of skincare and wellness products. Details of the Company's principal subsidiaries as at 31 March 2013 are set out in note 18 to the financial statements.

Results and Appropriations

The results of the Group for FY2013 are set out in the consolidated statement of comprehensive income on page 56.

The turnover and results of the Group are principally derived from the provision of beauty and wellness services in Hong Kong, the PRC, Singapore and Malaysia. The Group's turnover and results by reportable segment are set out in note 6 to the financial statements. A detailed review of the development of the business of the Group during the year under review, and likely future prospects, is set out in the sections headed "Chairperson's Statement" and "Management Discussion and Analysis" of this annual report.

An interim dividend and a special dividend of HK3.0 cents and HK1.1 cents per share respectively, amounting to HK$35,833,000, were paid to shareholders of the Company ("Shareholders") during the year under review (FY2012: an interim dividend of HK3.38 cents per share and nil special dividend, totaling HK$24,455,000).

The Directors are pleased to recommend the payment of nil final dividend but a further special dividend of HK4.0 cents per share amounting to HK$34,960,000 during the year under review (FY2012: a final dividend of HK4.25 cents per share, and nil special dividend, totaling HK$37,145,000), subject to the Shareholders' approval at the forthcoming annual general meeting of the Company ("AGM").

The AGM is scheduled to be held on Friday, 30 August 2013. For determining the entitlement to attend and vote at the AGM, 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 AGM, 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 AGM. 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.

Reserves

Movements during the year under review in the reserves of the Group and the Company are set out in the consolidated statement of changes in equity on pages 60 and note 25 to the financial statements respectively.

Distributable Reserves

As at 31 March 2013, the Company's reserve available for distribution amounted to approximately HK$468.8 million. Movements in reserves of the Company during the year under review and the distributable reserves of the Company as at 31 March 2013 are set out in note 25 to the financial statements.

Financial Summary

A summary of the results and assets and liabilities of the Group for the last five financial years is set out on page 108, which does not form part of the financial statements.

Property, Plant and Equipment

During the year under review, the Group spent approximately HK$88.6 million on additions to property, plant and equipment mainly for the expansion and enhancement of its service capability and relocation purpose.

Details of movements in the Group's property, plant and equipment during the year under review are set out in note 16 to the financial statements.

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company and the Group were entered into or existed during the year under review.

Major Customers and Suppliers

During the year under review, the aggregate purchases attributable to the Group's largest supplier accounted for approximately 16 % (FY2012: 8%) of the Group's total purchase for the year under review and the five largest suppliers taken together accounted for approximately 33% (FY2012: 29%) of the Group's total purchase for the year under review.

The five largest customers of the Group in aggregate accounted for less than 5% of the total sales.

None of the Directors, their associates, or any Shareholders (which to the knowledge of the Directors own more than 5% of the Company's issued share capital) has any interest in any of the Group's five largest suppliers and customers during the year under review.

Share Capital

Details of movements in the share capital of the Company during the year under review are set out in note 24 to the financial statements.

Convertible Notes

Details of the convertible notes of the Group during the year under review are set out in note 28 to the financial statements.

Pre-emptive Rights

There are no provisions for pre-emptive rights under the Company's Articles of Association or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing Shareholders.

Charitable Donations

During the year under review, the Group made donations of approximately HK$5,000 to charitable and non-profit-making organisations.

Directors

The Directors during the year under review and up to the date of this report are:

Executive Directors

Ms. Tsang Yue, Joyce (Chairperson and Chief Executive Officer)
Mr. Leung Man Kit
Mr. Yip Kai Wing
Mr. Wong Shu Pui (resigned on 11 December 2012)
Ms. Yeung See Man (appointed on 11 December 2012)

Independent Non-executive Directors

Mr. Wong Man Hin, Raymond
Mr. Hong Po Kui, Martin
Ms. Liu Mei Ling, Rhoda
Mr. Lam Tak Leung (appointed on 1 January 2013)

Pursuant to Article 130 of the Company's Articles of Association, Ms. Liu Mei Ling, Rhoda, Mr. Wong Man Hin, Raymond and Mr. Leung Man Kit. will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming AGM. Pursuant to Article 115 of the Company's Articles of Association, Ms. Yeung See Man and Mr. Lam Tak Leung shall hold office until the AGM and being eligible, offer themselves for re-election at the AGM. Particulars of the aforesaid Directors seeking for re-election at the AGM are set out in the relevant circular to be sent to the Shareholders.

The Company had received from each Independent Non-executive Director ("INED") an annual confirmation of his or her independence as regard each of the factors referred to in Rule 3.13(1) to (8) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Company considered all of them to be independent.

Directors' Service Contracts

Each of Ms. Liu Mei Ling, Rhoda, Mr. Wong Man Hin, Raymond and Mr. Hong Po Kui, Martin, INEDs, had entered into a letter of appointment dated 27 August 2010 for a term of three years commencing from 27 August 2010, subject to, inter alia, retirement from office by rotation at least once every three years and re-election in accordance with the Company's Articles of Association. Mr. Lam Tak Leung, INED, had entered into a letter of appointment dated 21 December 2012 for a term of three years commencing from 1 January 2013, subject to, inter alia, retirement from office by rotation at least once every three years and re-election in accordance with the Company's Articles of Association.

Save as disclosed above, none of the Directors has entered into any service contract which is not determinable by the Company and any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

Directors' Interests in Contracts

Save as disclosed in the section headed "Continuing Connected Transactions" below and in note 34 to the financial statements and those exempted from the reporting, annual review, announcement and independent shareholders' approval requirements under the Listing Rules, no contract of significance to the business of the Group to which the Company, its subsidiaries, its holding companies or any subsidiaries of its holding companies was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year under review or at any time during the year under review.

Competing Interest

Save as disclosed in the section headed "Continuing Connected Transactions" below, none of the Directors or their respective associates (as defined in the Listing Rules) had an interest in a business, which competes or may compete with the business of the Group.

Directors' and Chief Executives' Interests and Short Positions in the Shares, Underlying Shares and Debentures

As at 31 March 2013, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") as recorded in the register kept by the Company pursuant to Section 352 of the SFO or otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 to the Listing Rules, were as follows:

Long positions in Shares, underlying Shares and Debentures of the Company

Name	Capacity in which interests are held	Interests in Shares	Equity Derivatives (Share Options)	Equity Derivatives (Convertible Note)	Total Interests	Approximate Percentage of Issued Share Capital of the Company[1]
Ms. Tsang Yue, Joyce	Founder of a discretionary trust	646,760,190	–	87,619,048	734,379,238	84.03%
	Interest of spouse[2]	650,000	–	–	650,000	0.07%
Mr. Yip Kai Wing	Beneficial Owner	185,000	500,000[3]	–	685,000	0.08%
	Interest of spouse[4]	–	200,000	–	200,000	0.02%
Ms. Yeung See Man	Beneficial Owner	172,000	300,000[5]	–	472,000	0.05%

Notes:

1. The percentage has been compiled based on the total number of shares of the Company in issue as at 31 March 2013 (i.e. 873,996,190 shares).

2. Ms. Tsang Yue, Joyce is the spouse of Mr. Lee Soo Ghee and is deemed to be interested in the shares in which Mr. Lee Soo Ghee is deemed or taken to be interested for the purpose of the SFO.

3. The period during which the equity derivatives (share options) under the name of Mr. Yip Kai Wing are exercisable is set out in the section headed "Share Option Scheme" below.

4. Mr. Yip Kai Wing is the spouse of Ms. Ng Kwai Ho and is deemed to be interested in the derivative shares in which Ms. Ng Kwai Ho is deemed or taken to be interested for the purpose of the SFO (Ms. Ng Kwai Ho is the grantee of an option in respect of 200,000 shares of HK$0.10 each of the Company under the Share Option Scheme adopted by the shareholders of the Company on 20 January 2006).

5. The period during which the equity derivatives (share options) under the name of Ms. Yeung See Man are exercisable is set out in the section headed "Share Option Scheme" below.

Save as disclosed above, as at 31 March 2013, none of the Directors and chief executives of the Company nor their respective associates had any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or pursuant to section 352 of the SFO, to be entered in the register referred to therein, or notified to the Company and the Stock Exchange pursuant to the Model Code.

Directors' Rights to Acquire Shares or Debentures

Save as disclosed above and in the section headed "Share Option Scheme" below, at no time during the year under review was the Company, any of its holding companies, subsidiaries or fellow subsidiaries a party to any arrangements to enable the Directors or chief executives of the Company or any of their respective spouses or children under 18 years of age to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Substantial Shareholders' and Other Persons' Interests and Short Positions in the Shares and Underlying Shares

As at 31 March 2013, the interests or short positions of substantial shareholders and other persons of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO, or as otherwise notified to the Company, were as follows:

Long positions of substantial shareholders and other persons in the Shares and underlying Shares of the Company

Name	Capacity in which interests are held	Interests in Shares	Equity Derivatives (Convertible Note)	Total Interests	Approximate Percentage of Issued Share Capital of the Company[1]
Ms. Tsang Yue, Joyce	Founder of a discretionary trust	646,760,190	87,619,048	734,379,238[4]	84.03%
	Interest of spouse[2]	650,000	–	650,000	0.07%
Mr. Lee Soo Ghee	Beneficial owner	650,000	–	650,000	0.07%
	Interest of spouse[3]	646,760,190	87,619,048	734,379,238[4]	84.03%
TMF (Cayman) Ltd.[5]	Trustee (other than a bare trustee)	646,760,190	87,619,048	734,379,238[4]	84.03%
Kelday International Limited[5]	Nominee for another person (other than a bare trustee)	646,760,190	87,619,048	734,379,238[4]	84.03%
Allied Chance Management Limited[5]	Interest of corporation controlled by it	646,760,190	87,619,048	734,379,238[4]	84.03%
Allied Wealth Limited[5]	Beneficial owner	178,760,190	87,619,048	266,379,238[6]	30.48%
Silver Compass Holdings Corp.[5]	Beneficial owner	367,200,000	–	367,200,000[6]	42.01%
Silver Hendon Enterprises Corp.[5]	Beneficial owner	100,800,000	–	100,800,000[6]	11.53%
Mutual Fund Populus	Custodian corporation/ approved lending agent	70,164,000	–	70,164,000	8.03%

Substantial Shareholders' and Other Persons' Interests and Short Positions in the Shares and Underlying Shares (Continued)

Long positions of substantial shareholders and other persons in the Shares and underlying Shares of the Company (Continued)

Notes:

1. The percentage has been compiled based on the total number of shares of the Company in issue as at 31 March 2013 (i.e. 873,996,190 shares).

2. Ms. Tsang Yue, Joyce is the spouse of Mr. Lee Soo Ghee and is deemed to be interested in the shares in which Mr. Lee Soo Ghee is deemed or taken to be interested for the purpose of the SFO.

3. Mr. Lee Soo Ghee is the spouse of Ms. Tsang Yue, Joyce and is deemed to be interested in the shares in which Ms. Tsang Yue, Joyce is deemed or taken to be interested for the purpose of the SFO.

4. These shares were the same parcel of shares held by a trust of which Ms. Tsang Yue, Joyce was the founder. TMF (Cayman) Ltd. was the trustee of the trust. See Note 5.

5. Allied Wealth Limited, Silver Compass Holdings Corp. and Silver Hendon Enterprises Corp. are indirect wholly-owned subsidiaries of Allied Chance Management Limited. Allied Chance Management Limited is in turn a direct wholly-owned subsidiary of Kelday International Limited. TMF (Cayman) Ltd. is the ultimate holding company of Allied Chance Management Limited and Kelday International Limited.

6. These shares were included in the above-mentioned number of shares of 734,379,238. See note 4 and note 5.

Apart from the above, no other interest or short position in the shares or underlying shares of the Company was recorded in the register required to be kept under section 336 of the SFO as at 31 March 2013.

Share Option Scheme

On 20 January 2006, the Shareholders adopted a share option scheme ("2006 Scheme").

On 23 October 2006, the Board resolved to grant 15,640,000 share options to certain Directors and employees of the Group pursuant to the 2006 Scheme, to take up option to subscribe for shares of the Company ("Shares") at an exercise price of HK$1.33 per option and exercisable for a period of one to six years after the vesting period of four to nine years commencing from the date of grant. The life of options is ten years.

Summary of the 2006 Scheme is set out as follows:

(a) Purpose of the 2006 Scheme

The purpose of the 2006 Scheme is to give Participants (as defined in sub-paragraph (b) herein below) an opportunity to have a personal stake in the Company and help motivate Participants to optimise their performance and efficiency and attract and retain them whose contributions are important to the long-term growth and profitability of the Group.

(b) Participants of the 2006 Scheme

Any directors (including executive directors, non-executive directors and independent non-executive directors) and employees (whether full-time or part-time) of the Group and any advisors, consultants, of any member of the Group who the Board considers, in its sole discretion, have contributed or will contribute to the Group.

(c) Total Number of Shares Available for Issue under the 2006 Scheme

The maximum number of shares of HK$0.10 each of the Company ("Shares") which may be issued upon exercise of all options to be granted under the 2006 Scheme and any other share option schemes of the Company shall not in aggregate exceed ten (10) per cent. of the relevant class of Shares in issue on 9 February 2006, the date of listing of the Shares on the Stock Exchange (the "Listing Date") (without taking into account any Shares which may be issued pursuant to the exercise of the Over-allotment Option (as defined in the 2006 Scheme) (the "Scheme Mandate Limit"). Option lapsed in accordance with the terms of the 2006 Scheme and any other share option scheme of the Company will not be counted for the purpose of calculating the Scheme Mandate Limit.

Share Option Scheme (Continued)

(c) Total Number of Shares Available for Issue under the 2006 Scheme (Continued)

The maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2006 Scheme and other share option schemes of the Company shall not exceed thirty (30) per cent. of the relevant class of Shares in issue from time to time. No options shall be granted under share option scheme of the Company (including the 2006 Scheme) if this will result in the thirty (30) per cent. limit being exceeded.

The total number of Shares available for issue under the 2006 Scheme is 62,180,000 which represents 7.1% of the issued share capital of the Company as at the date of this annual report.

(d) Maximum Entitlement of Each Participant under the 2006 Scheme

Except with the approval of the Shareholders in general meeting, the maximum number of Shares to a specifically identified single Participant who accepts the offer of an option in accordance with the 2006 Scheme ("Grantee"), issued and to be issued upon exercise of options granted under the 2006 Scheme and any other share option scheme of the Company shall not in any twelve (12)-month period exceed one (1) per cent of the Shares in issue.

(e) The period within which the Shares must be taken up under an option

An option may be exercised by the Grantee at any time during the period to be notified by the Board to each Grantee at the time of making an offer which shall commence on the date falling six (6) months after the date of grant and expiring not later than ten (10) years from the date of grant.

(f) The minimum period, if any, for which an option must be held before it can be exercised

Six (6) months after the date of grant.

(g) The amount, if any, payable on application or acceptance of the option

HK$1.00

(h) Basis of Determining the Exercise Price

The price per Share at which a grantee may subscribe for Shares on the exercise of an option pursuant to the 2006 Scheme shall be determined by the Board in its absolute discretion but in any event shall at least be the higher of:

(i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant;

(ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five (5) business days immediately preceding the date of grant (provided that the new issue price shall be used as the closing price for any business day falling within the period before the listing of the Shares, where the Company has been listed for less than five (5) business days as at the date of grant); and

(iii) the nominal value of the Shares.

(i) The remaining life of the 2006 Scheme

The Company by ordinary resolution in general meeting or the Board may at any time terminate the operation of the 2006 Scheme and in such event no further options will be offered or granted. Subject to the aforesaid, the 2006 Scheme shall be valid and effective for a period of ten (10) years commencing on 20 January 2006 (i.e. until 19 January 2016).

Share Option Scheme (Continued)

(j) Movements of the options granted under the 2006 Scheme during the year under review were as follows:

Name	Balance as at 1 April 2012	No. of options granted during the year under review	Reclassification	No. of options exercised/ cancelled/ lapsed during the year under review	No. of options as at 31 March 2013	Date of grant	Period during which options are exercisable	Exercise price	Approximate percentage of share per issued share (Note 1)
Executive Director									
Mr. Yip Kai Wing	125,000	–	–	–	125,000	23/10/2006	23/10/2010 to 22/10/2016	HK$1.33	0.01%
Mr. Yip Kai Wing	175,000	–	–	–	175,000	23/10/2006	23/10/2014 to 22/10/2016	HK$1.33	0.02%
Mr. Yip Kai Wing	200,000	–	–	–	200,000	23/10/2006	23/10/2015 to 22/10/2016	HK$1.33	0.02%
Ms. Yeung See Man	–[2]	–	75,000[2]	–	75,000	23/10/2006	23/10/2010 to 22/10/2016	HK$1.33	0.01%
Ms. Yeung See Man	–[2]	–	105,000[2]	–	105,000	23/10/2006	23/10/2014 to 22/10/2016	HK$1.33	0.01%
Ms. Yeung See Man	–[2]	–	120,000[2]	–	120,000	23/10/2006	23/10/2015 to 22/10/2016	HK$1.33	0.01%
Others	1,545,000	–	(75,000)[2]	(95,000)	1,375,000	23/10/2006	23/10/2010 to 22/10/2016	HK$1.33	0.16%
Others	2,163,000	–	(105,000)[2]	(133,000)	1,925,000	23/10/2006	23/10/2014 to 22/10/2016	HK$1.33	0.22%
Others	2,472,000	–	(120,000)[2]	(152,000)	2,200,000	23/10/2006	23/10/2015 to 22/10/2016	HK$1.33	0.25%
Total	6,680,000	–	–	(380,000)	6,300,000				

Notes:

1. The relevant percentages are calculated by reference to the Shares in issue on 31 March 2013 i.e. 873,996,190 shares.

2. Movements of the options granted to Ms. Yeung See Man under the 2006 Scheme during FY2012 were included as part of the options granted to "Others".

Continuing Connected Transactions

Certain transactions entered into by the Group constituted continuing connected transactions under the Listing Rules during the year under review, in respect of which the Company confirms that it has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules. Details of these transactions required to be disclosed are set out as follows:

Continuing Connected Transactions

(1) The following continuing connected transactions are only subject to the reporting, announcement and annual review requirements under Chapter 14A of the Listing Rules as the annual cap for each of the four financial years ending 31 March 2016 exceeds HK$1,000,000 and the relevant percentage ratio(s) in respect of the annual cap for each of the four financial years ending 31 March 2016 under the Listing Rules is not less than 0.1% but is less than 5%.

Tenancy agreements in respect of 21 Kovan Road #10–15 Singapore 548192 and 21 Kovan Road #9–16 Singapore 548192

On 17 February 2012, United Industries Limited, a subsidiary of Asia Power Global Limited, a company wholly owned by a family trust set up by Ms. Tsang Yue, Joyce, an Executive Director, the Chairperson of the Board and the controlling shareholder of the Company, and Spendid Overseas Pte. Ltd., a wholly-owned subsidiary of the Company, entered into two tenancy agreements pursuant to which Spendid Overseas Pte. Ltd. leased from United Industries Limited the premises at 21 Kovan Road #10–15 Singapore 548192 and 21 Kovan Road #9–16 Singapore 548192 respectively as staff quarters of the Group. The duration of the tenancy agreements for 21 Kovan Road #10–15 Singapore 548192 and 21 Kovan Road #9–16 Singapore 548192 is three years commencing from 3 September 2011 and from 1 January 2012 respectively.

The rental paid by the Group in relation to the premises at 21 Kovan Road #10–15 Singapore 548192 and 21 Kovan Road #9–16 Singapore 548192 under the above two tenancy agreements amounted to HK$374,982 and HK$374,982 respectively for the year ended 31 March 2013 (FY2012: HK$124,406 and HK$93,305 respectively). The rental is calculated based on a monthly rental of S$5,000 for each of the above two tenancy agreements.

Tenancy agreements in respect of Flat B on 8th Floor of Tower 7, Residence Oasis, No. 15 Pui Shing Road, Tseung Kwan O, Sai Kung, New Territories, Hong Kong and Flat A on 32nd Floor of Tower 3, The Wings, No. 9 Tong Yin Street, Tseung Kwan O, New Territories, Hong Kong

On 1 February 2013, All Link International Limited, a company incorporated in Hong Kong with limited liability and principally engaged in property investment and investment holding and wholly-owned by a family trust set up by Ms. Tsang Yue, Joyce, an Executive Director, Chairperson of the Board and a controlling shareholder of the Company and Modern (Human Resource) Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of the Company, entered into two tenancy agreements pursuant to which Modern (Human Resource) Limited leased from All Link International Limited the premises at Flat B on 8th Floor of Tower 7, Residence Oasis, No. 15 Pui Shing Road, Tseung Kwan O, Sai Kung, New Territories, Hong Kong and Flat A on 32nd Floor of Tower 3, The Wings, No. 9 Tong Yin Street, Tseung Kwan O, New Territories, Hong Kong respectively as staff quarters for the Group's employees in Hong Kong both for a term of thirty-six months commencing from 1 February 2013.

The rental paid by the Group in relation to the premises at Flat B on 8th Floor of Tower 7, Residence Oasis, No. 15 Pui Shing Road, Tseung Kwan O, Sai Kung, New Territories, Hong Kong and Flat A on 32nd Floor of Tower 3, The Wings, No. 9 Tong Yin Street, Tseung Kwan O, New Territories, Hong Kong under the above two tenancy agreements amounted to HK$56,000 and HK$56,000 respectively for the year ended 31 March 2013. The rental is calculated based on a monthly rental of HK$28,000 for each of the above two tenancy agreements.

Continuing Connected Transactions (Continued)

Continuing Connected Transactions (Continued)

(2) The following transactions have been approved by independent shareholders at an Extraordinary General Meeting held on 19 December 2011.

Since the Company intended to continue to lease certain premises and, if appropriate, other premises, owned/to be owned by the subsidiaries ("Owners") of Asia Power Global Limited, a company wholly owned by a family trust set up by Ms. Tsang Yue, Joyce, from time to time in Hong Kong and/or other place(s) in the world as its operating facilities and anticipated that it would enter into new leases during the ordinary and usual course of the Group's business, the Company and Asia Power Global Limited entered into a Master Leasing Agreement ("Master Leasing Agreement") on 8 November 2011 to set out the principal terms and conditions governing the leasing of the premises by the Group from the Owners pursuant to the Master Leasing Agreement by the entering into a tenancy or leasing agreement in respect of each of the premises between the Group and the relevant Owners ("Leasing Arrangements") in the future.

The Master Leasing Agreement shall be for a term commencing from 8 November 2011 to 31 March 2014. In addition, the Master Leasing Agreement may be terminated by the Company by giving Asia Power Global Limited at least sixty days' written notice of termination. In addition, each of the Leasing Arrangements to be entered into between the Company and the relevant Owners pursuant to the Master Leasing Agreement will have a term expiring on or before 31 March 2014.

Pursuant to the Master Leasing Agreement, each of the Leasing Arrangements shall be on normal commercial terms and shall be on terms which are no less favourable than those offered by the Owners to other independent third parties and the amount of rental (exclusive of rates, land rent and management fees) under each of the Leasing Arrangements shall be determined by the parties to each of the Leasing Arrangements with reference to the then prevailing market rents on premises comparable in location, area and permitted use.

The government rent, rates and management fee under each of the Leasing Arrangements will be paid to the government or, as the case may be, the management companies by the relevant tenant directly.

The maximum aggregate consideration payable by the Group to Asia Power Global Limited and/or the Owners (as the case may be) under the Leasing Arrangements pursuant to the Master Leasing Agreement for the period from 8 November 2011 to 31 March 2012, for the year ended 31 March 2013 and for the year ending 31 March 2014 are in the amounts of HK$19 million, HK$55 million and HK$55 million respectively ("Annual Caps").

Pursuant to the Master Leasing Agreement, the Group (as tenant) and the Owners (as landlord) has entered into the following tenancy agreements:

(i) tenancy agreement dated 30 January 2012 (as amended by a supplemental tenancy agreement dated 1 March 2012) in respect of Workshops Nos. 11–31, 32B, 33B, 41–78 and Store Room No. 10 on 6th Floor and Lorry Car Parking Space Nos. L8, L10, L14 and L15 on Basement, Sino Industrial Plaza, No. 9 Kai Cheung Road, Kowloon Bay, Kowloon, Hong Kong at the monthly rent of HK$320,000 exclusive of rates, Government rent, management fee and other outgoings (including but not limited to water, gas and electricity charges) for a term from 1 January 2012 to 31 March 2014;

(ii) tenancy agreement dated 30 January 2012 (as amended by a supplemental tenancy agreement dated 1 March 2012) in respect of 18th Floor, Hou Feng Industrial Building, Nos. 1–5 Wing Kin Road, Kwai Chung, New Territories, Hong Kong at the monthly rent of HK$46,000 exclusive of rates, Government rent, management fee and other outgoings (including but not limited to water, gas and electricity charges) for a term from 1 January 2012 to 31 March 2014;

Continuing Connected Transactions (Continued)

Continuing Connected Transactions (Continued)

(2) (Continued)

(iii) tenancy agreement dated 30 January 2012 (as amended by a supplemental tenancy agreement dated 1 March 2012) in respect of Workshops D1–D14, Third Floor, Block D and Car Parking Space Nos. 131–132 on First Floor, Tsing Yi Industrial Centre Phase II, Nos. 1–33 Cheung Tat Road, Tsing Yi, New Territories, Hong Kong at the monthly rent of HK$124,000 exclusive of rates, Government rent, management fee and other outgoings (including but not limited to water, gas and electricity charges) for a term from 1 January 2012 to 31 March 2014;

(iv) tenancy agreement dated 30 January 2012 (as amended by a supplemental tenancy agreement dated 1 March 2012) in respect of Shop 1 on Ground Floor and First Floor (with flat roof adjacent thereto) including the staircases and landings treatment on and leading from the Ground Floor to the First Floor and Covered Air-Conditioned Plant Shelter on Second Floor, Len Fat Mansion, Nos.56–60, 64–86 Kin Yip Street, Yuen Long, New Territories, Hong Kong at the monthly rent of HK$134,000 exclusive of rates, Government rent, management fee and other outgoings (including but not limited to water, gas and electricity charges) for a term from 1 January 2012 to 31 March 2014;

(v) tenancy agreement dated 30 January 2012 (as amended by a supplemental tenancy agreement dated 1 March 2012) in respect of First and Second Floor, The Grandeur, No. 47 Jardine’s Bazaar, Hong Kong at the monthly rent of HK$614,000 exclusive of rates, Government rent, management fee and other outgoings (including but not limited to water, gas and electricity charges) for a term from 1 January 2012 to 31 March 2014;

(vi) tenancy agreement dated 30 January 2012 (as amended by a supplemental tenancy agreement dated 1 March 2012) in respect of B74–90, B99–116 & B132–B136 on First Floor of The Commercial Accommodation of Well On Garden, No. 9 Yuk Nga Lane, Tseung Kwan O, New Territories, Hong Kong at the monthly rent of HK$157,000 exclusive of rates, Government rent, management fee and other outgoings (including but not limited to water, gas and electricity charges) for a term from 1 January 2012 to 31 March 2014;

(vii) tenancy agreement dated 30 January 2012 (as amended by a supplemental tenancy agreement dated 1 March 2012) in respect of Portion A of Shop 3 on Ground Floor, Unit B on Cockloft, Whole of First Floor, Whole of Block B on Second Floor and Portion of Roof, Chung On Building, Nos. 297/303 & 307/313 Sha Tsui Road, Tsuen Wan, New Territories together with Flat 1 and Flat Roof on First Floor, Kwong Yick Building, 315–323 Sha Tsui Road, Tsuen Wan, New Territories, Hong Kong at the monthly rent of HK$650,000 exclusive of rates, Government rent, management fee and other outgoings (including but not limited to water, gas and electricity charges) for a term from 1 January 2012 to 31 March 2014;

(viii) tenancy agreement dated 30 January 2012 (as amended by a supplemental tenancy agreement dated 1 March 2012) in respect of First Floor (including its Flat Roof and Stair-Enterance on Ground Floor) King Kwong Mansion, No. 8 King Kwong Street, Hong Kong at the monthly rent of HK$65,000 exclusive of rates, Government rent, management fee and other outgoings (including but not limited to water, gas and electricity charges) for a term from 1 January 2012 to 31 March 2014;

(ix) tenancy agreement dated 3 September 2012 in respect of Commercial Area on Upper Ground Floor, First Floor (Excluding Canopy) and Second Floor, V. Heun Building, No. 138 Queen’s Road Central, Hong Kong at the monthly rent of HK$621,000 exclusive of rates, Government rent, management fee and other outgoings (including but not limited to water, gas and electricity charges) for a term from 1 August 2012 to 31 March 2014;

(x) tenancy agreement dated 3 September 2012 in respect of Shop No. 5 on the Ground Floor, First Floor and Second Floor Commercial Unit with First Floor and Second Floor Advertising Space, Paradise Square, No. 3 Kwong Wa Street, Kowloon, Hong Kong at the monthly rent of HK$420,000 exclusive of rates, Government rent, management fee and other outgoings (including but not limited to water, gas and electricity charges) for a term from 1 August 2012 to 31 March 2014; and

Continuing Connected Transactions (Continued)

Continuing Connected Transactions (Continued)

(2) (Continued)

(xi) tenancy agreement dated 1 June 2012 (as amended by a supplemental tenancy agreement dated 1 March 2013) in respect of Blk 218 Bedok North Street 1 #01–19 Singapore 460218 at the monthly rent of S$8,800 including the usage of the outdoor display area which is subject to approval by the Town Council which said sum includes the monthly service and conservancy charges but excludes the outdoor display area monthly charges for a term from 1 June 2012 to 31 March 2014.

(collectively, the "Continuing Connected Transactions")

The Independent Non-executive Directors have reviewed the Continuing Connected Transactions and confirmed that the transactions have been entered into:

(i) in the ordinary and usual course of business of the Company;

(ii) either on normal commercial terms or, on terms no less favourable to the Company than terms available to or from independent third parties; and

(iii) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

Pursuant to Rule 14A.38 of the Listing Rules, the Company has engaged the auditor of the Company to report on the Continuing Connected Transactions in accordance with the Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has confirmed in writing to the Board of Directors that nothing has come to its attention that causes it to believe that the Continuing Connected Transactions:

(i) have not been approved by the Board of Directors of the Company;

(ii) were not entered into in accordance with the relevant agreements governing the transactions; and

(iii) have exceeded the respective annual caps for the year under review as disclosed in the relevant announcements of the Company.

The Company confirms that it has complied with the disclosure requirements, where appropriate, in accordance with Chapter 14A of the Listing Rules.

Public Float

Based on the information that is publicly available to the Company and within the knowledge of its Directors, as at the date of this annual report, there is sufficient public float of not less than 25% of the Company's issued shares as required under the Listing Rules.

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

During the year under review, 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.

Audit Committee

The Audit Committee has reviewed and approved the Group's annual results for the year ended 31 March 2013 in conjunction with the Company's external auditor prior to their approval by the Board. Information on the work of the Audit Committee and its composition are set out in the Corporate Governance Report on page 39 of this annual report.

Corporate Governance

The Company's corporate governance practices are set out in Corporate Governance Report on page 35 of this annual report.

Auditor

The financial statements for FY2013 have been audited by RSM Nelson Wheeler whose term of office will expire upon the conclusion of 2013 AGM. RSM Nelson Wheeler will retire at the conclusion of the forthcoming AGM and will not seek for re-appointment. The Board has resolved, with the recommendation from the Audit Committee, to propose the appointment of KPMG as new auditor of the Company to fill the vacancy following the retirement of RSM Nelson Wheeler at the forthcoming AGM.

In the financial year ended on 31 March 2010, RSM Nelson Wheeler was appointed by the Directors as auditor of the Company to fill the casual vacancy following the resignation of PricewaterhouseCoopers. Save as aforesaid, there was no other change of auditor in the past three years.

By order of the Board
Ms. Tsang Yue, Joyce
Chairperson and Chief Executive Officer

26 June 2013

Independent Auditor's Report

TO THE SHAREHOLDERS OF
MODERN BEAUTY SALON HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Modern Beauty Salon Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 56 to 106, which comprise the consolidated and Company statements of financial position as at 31 March 2013, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2013, and of the Group's results and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

RSM Nelson Wheeler
Certified Public Accountants

Hong Kong
26 June 2013

Consolidated Statement of Comprehensive Income

For the year ended 31 March 2013

	Note	2013 HK$'000	2012 HK$'000
Turnover	7	**708,122**	756,605
Other income	8	**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	9	**(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	10	**(620)**	(321)
Fair value changes on investment properties		**(14,300)**	900
(Loss)/profit before tax		**(57,983)**	101,357
Income tax credit/(expense)	11	**4,549**	(19,220)
(Loss)/profit for the year	12	**(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
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)	15		
— 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	16	**133,724**	75,830
Investment properties	17	**–**	176,300
Deposits	19	**22,264**	23,032
Deferred tax assets	20	**24,191**	13,662
		180,179	288,824
Current assets			
Inventories	21	**19,293**	13,159
Trade and other receivables, deposits and prepayments	19	**245,390**	217,466
Current tax assets		**17,992**	7,728
Pledged bank deposits	22	**47,162**	7,141
Cash and bank balances	23	**481,249**	484,426
		811,086	729,920
Total assets		**991,265**	1,018,744
EQUITY			
Capital and reserves			
Share capital	24	**87,400**	87,400
Reserves	25	**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
LIABILITIES			
Non-current liabilities			
Finance lease payables	27	**–**	18
Convertible note	28	**3,316**	4,538
		3,316	4,556

	Note	2013 HK$'000	2012 HK$'000
Current liabilities			
Trade and other payables, deposits received and accrued expenses	29	**83,973**	72,412
Deferred revenue	30	**747,614**	648,623
Finance lease payables	27	**18**	19
Convertible note	28	**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

Approved by the Board of Directors on 26 June 2013

Mr. Leung Man Kit
Director

Mr. Yip Kai Wing
Director

Statement of Financial Position

At 31 March 2013

	Note	2013 HK$'000	2012 HK$'000
ASSETS			
Non-current assets			
Investment in a subsidiary	18	**101,076**	101,076
Current assets			
Amount due from a subsidiary	18	**460,360**	457,304
Prepayments		**38**	36
Cash and bank balances	23	**1,708**	1,709
		462,106	459,049
Total assets		**563,182**	560,125
EQUITY			
Capital and reserves			
Share capital	24	**87,400**	87,400
Reserves	25	**468,784**	465,438
Total equity		**556,184**	552,838
LIABILITIES			
Non-current liabilities			
Convertible note	28	**3,316**	4,538
Current liabilities			
Other payables		**2**	11
Convertible note	28	**3,680**	2,738
		3,682	2,749
Total liabilities		**6,998**	7,287
Total equity and liabilities		**563,182**	560,125
Net current assets		**458,424**	456,300
Total assets less current liabilities		**559,500**	557,376

Approved by the Board of Directors on 26 June 2013

Mr. Leung Man Kit
Director

Mr. Yip Kai Wing
Director

Consolidated Statement of Changes in Equity

For the year ended 31 March 2013

	Attributable to owners of the Company										
	Share capital HK$'000	Share premium HK$'000	Share-based compensation reserve HK$'000	Merger reserve HK$'000	Foreign currency translation reserve HK$'000	Property revaluation reserve HK$'000	Convertible note reserve HK$'000	Retained earnings HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 April 2011	72,352	146,875	3,277	(124,921)	(401)	29,798	–	154,470	281,450	79	281,529
Total comprehensive income for the year	–	–	–	–	1,234	–	–	82,151	83,385	(14)	83,371
Share-based payments	–	–	493	–	–	–	–	–	493	–	493
Lapse of share options	–	–	(83)	–	–	–	–	83	–	–	–
Dividend paid to the then equity holder of Zegna	–	–	–	–	–	–	–	(41,000)	(41,000)	–	(41,000)
Issue of convertible note as consideration of the Business Combination (Note 3(b))	–	–	–	(250,000)	–	–	230,626	–	(19,374)	–	(19,374)
Issue of shares on conversion of convertible note (Note 28)	15,048	143,124	–	–	–	–	(145,756)	–	12,416	–	12,416
2011 final dividends paid	–	–	–	–	–	–	–	(20,837)	(20,837)	–	(20,837)
2012 interim dividends paid	–	–	–	–	–	–	–	(24,455)	(24,455)	–	(24,455)
Changes in equity for the year	15,048	143,124	410	(250,000)	1,234	–	84,870	(4,058)	(9,372)	(14)	(9,386)
Balance at 31 March 2012 and 1 April 2012	87,400	289,999	3,687	(374,921)	833	29,798	84,870	150,412	272,078	65	272,143
Total comprehensive loss for the year	–	–	–	–	(769)	–	–	(53,431)	(54,200)	(3)	(54,203)
Share-based payments	–	–	481	–	–	–	–	–	481	–	481
Lapse of share options	–	–	(237)	–	–	–	–	237	–	–	–
Transfer upon disposal	–	–	–	–	–	(29,798)	–	29,798	–	–	–
2012 final dividends paid	–	–	–	–	–	–	–	(37,145)	(37,145)	–	(37,145)
2013 interim dividends paid	–	–	–	–	–	–	–	(26,219)	(26,219)	–	(26,219)
2013 special dividends paid	–	–	–	–	–	–	–	(9,614)	(9,614)	–	(9,614)
Changes in equity for the year	–	–	244	–	(769)	(29,798)	–	(96,374)	(126,697)	(3)	(126,700)
Balance at 31 March 2013	87,400	289,999	3,931	(374,921)	64	–	84,870	54,038	145,381	62	145,443

Consolidated Statement of Cash Flows

For the year ended 31 March 2013

	Note	2013 HK$'000	2012 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss)/profit before tax		**(57,983)**	101,357
Adjustments for:			
Depreciation of property, plant and equipment		**30,977**	31,162
Interest income		**(1,961)**	(995)
Finance costs		**620**	321
Equity-settled share-based payments		**481**	493
Fair value changes on investment properties		**14,300**	(900)
(Gain)/loss on disposals of property, plant and equipment		**(108)**	243
Operating (loss)/profit before working capital changes		**(13,674)**	131,681
Increase in inventories		**(6,134)**	(1,930)
Increase in trade and other receivables, deposits and prepayments	31	**(27,156)**	(49,590)
Increase in trade and other payables, deposits received and accrued expenses		**11,561**	4,818
Increase in deferred revenue		**96,869**	80,249
Cash generated from operations		**61,466**	165,228
Interest received		**1,961**	995
Finance lease charges paid		**(2)**	(3)
Income taxes paid		**(27,387)**	(4,777)
Net cash generated from operating activities		**36,038**	161,443
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	31	**(88,637)**	(42,296)
Proceeds from disposals of property, plant and equipment		**120**	141
Proceeds from disposal of investment properties		**162,000**	–
Withdrawal/(placement) of fixed deposits with bank with maturity over three months		**6,184**	(6,184)
(Increase)/decrease in pledged bank deposits		**(40,021)**	19
Net cash generated from/(used in) investing activities		**39,646**	(48,320)

	Note	2013 HK$'000	2012 HK$'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividend paid to the then equity holder of Zegna		**–**	(41,000)
Dividends paid		**(72,978)**	(45,292)
Repayment of finance lease payables		**(19)**	(20)
Interest paid on convertible note		**(898)**	–
Net cash used in financing activities		**(73,895)**	(86,312)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**1,789**	26,811
Effect of foreign exchange rate changes		**1,218**	1,936
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**478,242**	449,495
CASH AND CASH EQUIVALENTS AT END OF YEAR	23	**481,249**	478,242

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 is an investment holding company. The principal activities of its subsidiaries are set out in note 18 to the financial statements. 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. Adoption of New and Revised Hong Kong Financial Reporting Standards

In the current year, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (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.

3. Significant Accounting Policies

These financial statements have been prepared in accordance with HKFRSs, accounting principles generally accepted in Hong Kong and the applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") 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. The areas involving a higher degree of critical judgements and areas where assumptions and estimates are significant to these financial statements, are disclosed in note 4 to the financial statements.

The significant accounting policies applied in the preparation of these financial statements are set out below.

(a) Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 March. Subsidiaries are entities over which the Group has control. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has control.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

3. Significant Accounting Policies (Continued)

(a) Consolidation (Continued)

The gain or loss on the disposal of a subsidiary that results in a loss of control represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that subsidiary and (ii) the Company's share of the net assets of that subsidiary plus any remaining goodwill relating to that subsidiary and any related accumulated foreign currency translation reserve.

Intragroup transactions, balances and unrealised profits are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests represent the equity in subsidiaries not attributable, directly or indirectly, to the Company. Non-controlling interests are presented in the consolidated statement of financial position and consolidated statement of changes in equity within equity. Non-controlling interests are presented in the consolidated statement of comprehensive income as an allocation of profit or loss and total comprehensive income for the year between the non-controlling shareholders and owners of the Company.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling shareholders even if this results in the non-controlling interests having a deficit balance.

Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e. transactions with owners in their capacity as owners). The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

In the Company's statement of financial position the investment in a subsidiary is stated at cost less allowance for impairment losses. The result of the subsidiary is accounted for by the Company on the basis of dividends received and receivable.

(b) Merger accounting for business combination under common control

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 Management Limited ("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") ("hereinafter referred to as the "Business Combination").

On 30 September 2011, BE Universal and Ms. Tsang entered into a supplemental sale 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 ("Splendid") 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 (the "Waiver"); 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.

3. Significant Accounting Policies (Continued)

(b) Merger accounting for business combination under common control (Continued)

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 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.

The consolidated financial statements incorporate the financial statements of the combining entities as if they had been combined from the date when they first came under the control of the controlling party.

The consolidated statements of comprehensive income and consolidated statements of cash flows include the results and cash flows of the combining entities from the earliest date presented or since the date when the combining entities first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

The consolidated statements of financial position were prepared to present the assets and liabilities of the combining entities as if the Group structure had been in existence at the end of each reporting period. The net assets of the combining entities are combined using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or gain on bargain purchase at the time of common control combination, to the extent of the continuation of the controlling party's interest.

There was no adjustment made to the net assets nor the net profit or loss of any combining entities in order to achieve consistency of the Group's accounting policies.

(c) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollars ("HK$"), which is the Company's functional and presentation currency.

(ii) Transactions and balances in each entity's financial statements

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in profit or loss.

(iii) Translation on consolidation

The results and financial position of all the Group entities that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows:

— Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

3. Significant Accounting Policies (Continued)

(c) Foreign currency translation (Continued)

(iii) Translation on consolidation (Continued)

— Income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and

— All resulting exchange differences are recognised in the foreign currency translation reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings are recognised in the foreign currency translation reserve. When a foreign operation is sold, such exchange differences are recognised in the consolidated profit or loss as part of the gain or loss on disposal.

(d) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are recognised in the profit or loss during the period in which they are incurred.

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their costs less their residual values over the estimated useful lives on a straight-line basis. The principal useful lives are as follows:

Land and buildings	Over the lease term
Leasehold improvements	Over the lease term
Equipment and machinery	4 years
Furniture and fixtures	4 years
Motor vehicles	3 years
Computers	3 years

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at the end of each reporting period.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss.

(e) Investment properties

Investment properties are land and/or buildings held to earn rentals and/or for capital appreciation. An investment property is measured initially at its cost including all direct costs attributable to the property.

After initial recognition, the investment property is stated at its fair value. Gains or losses arising from changes in fair value of the investment property are recognised in profit or loss for the period in which they arise.

If an item of property, plant and equipment becomes an investment property because its use has changed, any difference between the carrying amount and the fair value of this item at the date of transfer is recognised as a revaluation of property, plant and equipment.

3. Significant Accounting Policies (Continued)

(e) Investment properties (Continued)

The gain or loss on disposal of an investment property is the difference between the net sales proceeds and the carrying amount of the property, and is recognised in profit or loss.

(f) Leases

(i) Operating leases

Leases that do not substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as operating leases. Lease payments (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the lease term.

(ii) Finance leases

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as finance leases. At the commencement of the lease term, a finance lease is capitalised at the lower of the fair value of the leased asset and the present value of the minimum lease payments, each determined at the inception of the lease.

The corresponding liability to the lessor is included in the statement of financial position as finance lease payable. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Assets under finance leases are depreciated the same as owned assets over the shorter of the lease term and their estimated useful lives.

(g) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average basis. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale.

(h) Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position when the Group becomes a party to the contractual provisions of the instruments.

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; the Group transfers substantially all the risks and rewards of ownership of the assets; or the Group neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

3. Significant Accounting Policies (Continued)

(i) Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. An allowance for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the allowance is the difference between the receivables' carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate computed at initial recognition. The amount of the allowance is recognised in profit or loss.

Impairment losses are reversed in subsequent periods and recognised in profit or loss when an increase in the receivables' recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the receivables at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

(j) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. Bank overdrafts which are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents.

(k) Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under HKFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

(l) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

(m) Convertible note

Convertible note which entitle the holder to convert the note into a fixed number of equity instruments at a fixed conversion price are regarded as compound instruments consist of a liability and an equity component. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible debt. The difference between the value of the convertible note and the fair value assigned to the liability component, representing the embedded option for the holder to convert the note into equity of the Group, is included in equity as convertible note reserve. The liability component is carried as a liability at amortised cost using the effective interest method until extinguished on conversion or redemption.

Transaction costs are apportioned between the liability and equity components of the convertible note based on their relative carrying amounts at the date of issue. The portion relating to the equity component is charged directly to equity.

3. Significant Accounting Policies (Continued)

(n) Trade and other payables

Trade and other payables are stated initially at fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

(o) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(p) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

Revenue from provision of beauty and wellness services is recognised when services treatments are delivered to customers. Payments that are related to services not yet rendered are deferred and shown as deferred revenue in the statement of financial position. Upon expiry of prepaid packages of beauty and wellness services, the corresponding deferred revenue is fully recognised in profit or loss.

Revenue from the sales of skincare and wellness products and equipment is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the skincare and wellness products and equipment are delivered to customers.

Interest income is recognised on a time proportion basis using the effective interest method.

Rental income is recognised on a straight-line basis over the lease term.

(q) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the end of the reporting period.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) Bonus plans

The expected cost of bonus payments are recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Liabilities for bonus plans are expected to be settled within twelve months and are measured at the amounts expected to be paid when they are settled.

3. Significant Accounting Policies (Continued)

(q) Employee benefits (Continued)

(iii) Pension obligations

The Group operates a mandatory provident fund scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for all qualifying employees in Hong Kong. The Group's contributions to the MPF Scheme are calculated at 5% of the salaries and wages subject to a monthly maximum amount of contribution of HK$1,000 (HK$1,250 effective from 1 June 2012) per employee and vest fully with employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries established in the People's Republic of China (the "PRC") are members of a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute certain percentage of the employees' basic salaries and wages to the central pension scheme to fund the retirement benefits. The local municipal government undertakes to assume the retirement benefits obligations of all existing and future retired employees of these subsidiaries. The only obligation of these subsidiaries with respect to the central pension scheme is to meet the required contributions under the scheme.

The Group's subsidiaries established in Singapore are required to make contributions to defined contribution retirement benefit plans are recognised as an expense as they fall due. The entity's legal or constructive obligation is limited to the amount that it agrees to contribute to an independently administered fund which is the Central Provident Fund in Singapore (a government managed retirement benefit plan).

As required by law, the Group's subsidiary established in Malaysia makes contributions to the Employees Provident Fund (EPF). Such contributions are recognised as an expense in the profit or loss as incurred.

The retirement benefit scheme cost charged to profit or loss represents contributions payable by the Group to the funds.

(iv) Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(r) Share-based payments

The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) of the equity instruments at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

(s) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

3. Significant Accounting Policies (Continued)

(s) Borrowing costs (Continued)

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(t) Government grants

A government grant is recognised when there is reasonable assurance that the Group will comply with the conditions attaching to it and that the grant will be received.

Government grants that become receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

(u) Taxation

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit recognised in profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

3. Significant Accounting Policies (Continued)

(u) Taxation (Continued)

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model of the Group whose business objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. If the presumption is rebutted, deferred tax for such investment properties are measured based on the expected manner as to how the properties will be recovered.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

(v) Related parties

A related party is a person or entity that is related to the Group.

(A) A person or a close member of that person's family is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Company or of a parent of the Company.

(B) An entity is related to the Group (reporting entity) if any of the following conditions applies:

(i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (A).

(vii) A person identified in (A)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

3. Significant Accounting Policies (Continued)

(w) Impairment of assets

At the end of each reporting period, the Group reviews the carrying amounts of its assets except investment properties, deferred tax assets, inventories and receivables to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

(x) Provision and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

(y) Events after the reporting period

Events after the reporting period that provide additional information about the Group's position at the end of the reporting period or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes to the financial statements when material.

4. Critical Judgements and Key Estimates

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Property, plant and equipment and depreciation

The Group determines the estimated useful lives, residual values and related depreciation charges for the Group's property, plant and equipment. This estimate is based on the historical experience of the actual useful lives and residual values of property, plant and equipment of similar nature and functions. The Group will revise the depreciation charge where useful lives and residual values are different to those previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

Income taxes

The Group is subject to income taxes in Hong Kong, the PRC, Singapore and Malaysia. Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Impairment of property, plant and equipment

The Group conducts impairment reviews of property, plant and equipment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. Determining whether an asset is impaired requires an estimation of the value in use, which requires the Group to estimate the future cash flows and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise.

5. Financial Risk Management

The Group's activities expose it to a variety of financial risks: foreign currency risk, credit risk, liquidity risk and interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Foreign currency risk

The functional currency of the Group's entities are principally denominated in HK$, Singapore dollars ("S$"), Ringgit Malaysia ("RM") and Renminbi ("RMB"). The Group has certain exposure to foreign currency risk as some of its business transactions, assets and liabilities are principally denominated in currencies other than the functional currency of respective Group entities such as RMB and European Euro ("EUR"). The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

	Functional currency strengthened/ (weakened) by	**(Decrease)/increase in consolidated (loss)/profit after tax** HK$'000
Year ended 31 March 2013		
RMB	**5%/(5%)**	**3,184/(3,184)**[(i)]
EUR	**5%/(5%)**	**255/(255)**[(ii)]
Year ended 31 March 2012		
RMB	5%/(5%)	(3,109)/3,109[(i)]
EUR	5%/(5%)	(561)/561[(ii)]

(i) This is mainly a result of foreign exchange (loss)/gain on bank deposits denominated in RMB.
(ii) This is mainly a result of foreign exchange (loss)/gain on bank deposits denominated in EUR.

(b) Credit risk

The Group's maximum exposure to credit risk in the event that counterparties fail to perform their obligations at 31 March 2013 in relation to each class of recognised financial assets is the carrying amounts of those assets as included in the consolidated statement of financial position. The Group's credit risk is primarily attributable to its deposits with banks and trade receivables. The Group has credit policies in place and the exposures to these credit risks are monitored on an ongoing basis.

The credit risk on deposits with banks is limited as the counterparties are reputable banks with sound credit ratings.

Sales to customers are made in cash or via credit cards. The credit risk on trade receivables is limited as the counterparties are reputable banks with sound credit ratings.

5. Financial Risk Management (Continued)

(c) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

The maturity analysis of the Group's financial liabilities is as follows:

	Less than 1 year HK$'000	**Between 1 and 2 years** HK$'000	**Between 2 and 5 years** HK$'000	**Over 5 years** HK$'000
At 31 March 2013				
Trade and other payables, deposits received and accrued expenses	**83,973**	**–**	**–**	**–**
Finance lease payables	**24**	**–**	**–**	**–**
Convertible note	**3,680**	**1,840**	**3,267**	**–**
At 31 March 2012				
Trade and other payables, deposits received and accrued expenses	72,412	–	–	–
Finance lease payables	24	24	–	–
Convertible note	2,738	1,840	5,107	–

(d) Interest rate risk

The Group's exposure to interest rate risk arises from its deposits with banks. The deposits with bank bear interests at variable rates varied with the then prevailing market condition.

At 31 March 2013, if interest rates at that date had been 75 basis points higher/lower with all other variables held constant, consolidated loss (2012: profit) after tax for the year would have been HK$3,963,000 lower/higher (2012: HK$3,687,000 higher/lower), arising mainly as the result of the higher/lower interest income from bank deposits.

(e) Categories of financial instruments at 31 March

	2013 **HK$'000**	2012 HK$'000
Financial assets:		
Loan and receivables (including cash and cash equivalents)	**796,065**	732,065
Financial liabilities:		
Financial liabilities at amortised costs	**90,969**	79,688

(f) Fair values

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated statement of financial position approximate their respective fair values.

6. Segment Information

The Group has two reportable segments as follows:

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

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

The accounting policies of the operating segments are the same as those described in note 3 to the financial statements. 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**

6. Segment Information (Continued)

Information about reportable segment profit or loss, assets and liabilities: (Continued)

	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

6. Segment Information (Continued)

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

	2013 HK$'000	2012 HK$'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

6. Segment Information (Continued)

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.

7. 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

8. 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

9. Employee Benefit Expenses (Including Directors' Emoluments)

	2013 **HK$'000**	2012 HK$'000
Wages and salaries	**371,504**	347,170
Retirement benefit scheme contributions	**23,158**	17,854
Other staff welfare	**2,328**	1,236
Share-based payments (Note 26)	**481**	493
	397,471	366,753

Directors' emoluments

The emoluments of each director were as follows:

Name of Director	Note	**Fees** **HK$'000**	**Salaries and other benefits in kind** **HK$'000**	**Share-based payments** **HK$'000**	**Retirement benefit scheme contribution** **HK$'000**	**Total** **HK$'000**
Tsang Yue, Joyce		**–**	**14,490**	**–**	**64**	**14,554**
Yip Kai Wing		**–**	**651**	**36**	**15**	**702**
Wong Shu Pui	(i), (v)	**–**	**586**	**–**	**10**	**596**
Leung Man Kit		**–**	**1,061**	**–**	**15**	**1,076**
Yeung See Man	(ii), (v)	**–**	**189**	**7**	**4**	**200**
Liu Mei Ling, Rhoda		**300**	**–**	**–**	**–**	**300**
Wong Man Hin, Raymond		**240**	**–**	**–**	**–**	**240**
Hong Po Kui, Martin		**240**	**–**	**–**	**–**	**240**
Lam Tak Leung	(iii)	**60**	**–**	**–**	**–**	**60**
Total for 2013		**840**	**16,977**	**43**	**108**	**17,968**

Name of Director	Note	Fees HK$'000	Salaries and other benefits in kind HK$'000	Share-based payments HK$'000	Retirement benefit scheme contribution HK$'000	Total HK$'000
Tsang Yue, Joyce		–	7,407	–	19	7,426
Yip Kai Wing		–	646	36	12	694
Tung Kwok Lui	(iv)	–	65	–	1	66
Wong Shu Pui		–	838	–	12	850
Leung Man Kit		–	833	–	12	845
Liu Mei Ling, Rhoda		285	–	–	–	285
Wong Man Hin, Raymond		225	–	–	–	225
Hong Po Kui, Martin		225	–	–	–	225
Total for 2012		735	9,789	36	56	10,616

9. Employee Benefit Expenses (Including Directors' Emoluments) (Continued)

Directors' emoluments (Continued)

Notes:

(i) Resigned on 11 December 2012

(ii) Appointed on 11 December 2012

(iii) Appointed on 1 January 2013

(iv) Resigned on 20 May 2011

(v) Salaries and other benefits in kind of Wong Shu Pui and Yeung See Man after his resignation/before her appointment of director since 11 December 2012 had not been included in the 2013 above emoluments.

Five highest paid individuals

The five highest paid individuals in the Group during the year included 1 (2012: 1) director whose emolument is reflected in the analysis presented above. The emoluments of the remaining 4 (2012: 4) individuals are set out below:

	2013 **HK$'000**	2012 HK$'000
Basic salaries and allowances	**4,892**	3,777
Retirement benefit scheme contribution	**128**	48
Share-based payments	**72**	163
	5,092	3,988

The emoluments of the five highest paid individuals in the Group fell within the following band:

	Number of individuals	
	2013	2012
Nil–HK$1,000,000	**–**	1
HK$1,000,001–HK$1,500,000	**3**	3
HK$1,500,001–HK$2,000,000	**1**	–
HK$7,000,001–HK$7,500,000	**–**	1
HK$14,500,001–HK$15,000,000	**1**	–
	5	5

During the year, no emoluments were paid by the Group to any of the directors or the highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

10. Finance Costs

	2013 HK$'000	2012 HK$'000
Finance lease charges (Note 27)	**2**	3
Interest on convertible note wholly repayable within five years (Note 28)	**618**	318
	620	321

11. Income Tax (Credit)/Expense

	2013 HK$'000	2012 HK$'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 (Note 20)	**(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.

11. Income Tax (Credit)/Expense (Continued)

The reconciliation between the income tax (credit)/expense and the product of (loss)/profit before tax multiplied by the Hong Kong Profits Tax rate is as follows:

	2013 **HK$'000**	2012 HK$'000
(Loss)/profit before tax	**(57,983)**	101,357
Tax at the domestic tax rate of 16.5%	**(9,567)**	16,724
Tax effect of tax exemption	**(299)**	(443)
Tax effect of income that is not taxable	**(1,278)**	(498)
Tax effect of expenses that is not deductible	**5,123**	2,356
Over-provision in prior years	**(1,254)**	(55)
Tax effect of utilisation of tax losses not previously recognised	**(1,331)**	(240)
Tax effect of tax losses and other temporary differences previously recognised and reversed	**317**	894
Tax effect of temporary differences not recognised	**(20)**	(177)
Tax effect of tax losses not recognised	**2,681**	249
Effect of different tax rates of subsidiaries	**1,079**	410
Income tax (credit)/expense	**(4,549)**	19,220

12. (Loss)/Profit for the Year

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

	2013 **HK$'000**	2012 HK$'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 (included contingent rental of HK$2,000 (2012: HK$Nil))	**156,104**	115,028
Loss on disposals of property, plant and equipment	**–**	243

13. Profit/(Loss) Attributable to Owners of the Company

Profit/(loss) attributable to owners of the Company is dealt with in the financial statements of the Company to the extent of profit HK$75,843,000 (2012: loss HK$860,000).

14. Dividends

	2013 HK$'000	2012 HK$'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

15. (Loss)/Earnings Per Share

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

	2013 HK$'000	2012 HK$'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.

16. Property, Plant and Equipment

	Group						
	Land and buildings HK$'000	Leasehold improvements HK$'000	Equipment and machinery HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Computers HK$'000	Total HK$'000
Cost							
At 1 April 2011	–	130,812	62,855	4,824	11,184	9,093	218,768
Additions	–	27,111	13,668	682	4,935	705	47,101
Disposals/write off	–	(8,362)	(980)	(1,170)	(277)	(106)	(10,895)
Exchange differences	–	186	99	10	(14)	17	298
At 31 March 2012 and 1 April 2012	–	149,747	75,642	4,346	15,828	9,709	255,272
Additions	24,682	45,443	16,045	792	608	1,067	88,637
Disposals/write off	–	(26,670)	(192)	(27)	(519)	–	(27,408)
Exchange differences	–	273	213	26	26	8	546
At 31 March 2013	24,682	168,793	91,708	5,137	15,943	10,784	317,047
Depreciation							
At 1 April 2011	–	87,313	49,944	3,578	10,157	7,539	158,531
Charge for the year	–	20,372	7,349	556	2,074	811	31,162
Disposals/write off	–	(8,147)	(862)	(1,119)	(277)	(106)	(10,511)
Exchange differences	–	160	80	8	(4)	16	260
At 31 March 2012 and 1 April 2012	–	99,698	56,511	3,023	11,950	8,260	179,442
Charge for the year	–	19,324	8,593	506	1,684	870	30,977
Disposals/write off	–	(26,670)	(180)	(27)	(519)	–	(27,396)
Exchange differences	–	113	153	19	7	8	300
At 31 March 2013	–	92,465	65,077	3,521	13,122	9,138	183,323
Carrying amount							
At 31 March 2013	24,682	76,328	26,631	1,616	2,821	1,646	133,724
At 31 March 2012	–	50,049	19,131	1,323	3,878	1,449	75,830

As of 31 March 2013, the Group's land and buildings at their carrying amounts are situated in Hong Kong under medium-term leases.

17. Investment Properties

	Group HK$'000
At 1 April 2011	**175,400**
Fair value gain	**900**
At 31 March 2012	**176,300**
Fair value loss	**(14,300)**
Disposal	**(162,000)**
At 31 March 2013	**–**

Investment properties were revalued at 31 March 2012 on the open market value basis by reference to market evidence of recent transactions for similar properties by Roma Appraisals Limited, an independent firm of chartered surveyors.

As of 31 March 2012, the Group's investment properties at their carrying amounts are situated in Hong Kong under medium-term leases.

18. Investment in a Subsidiary

	The Company	
	2013 HK$'000	2012 HK$'000
Unlisted investment, at cost	**101,076**	101,076

The amount due from a subsidiary is unsecured, interest free and repayable on demand.

18. Investment in a Subsidiary (Continued)

Particulars of the principal subsidiaries as at 31 March 2013 are as follows:

Name	Place of incorporation/ registration	Issued and paid up capital	Percentage of ownership interest Direct	Percentage of ownership interest Indirect	Principal activities and place of operation
BE Universal	Hong Kong	1,000 ordinary shares of HK$1 each	–	100%	Sales of skincare and wellness products, Hong Kong
Beauty Expert (B.V.I.) Limited	British Virgin Islands	1,000 ordinary shares of US$1 each	–	100%	Provision of franchise and trademark services in relation to the provision of beautification and gymnastic services, Hong Kong
Beauty Expert (International) Limited	Hong Kong	10,000 ordinary shares of HK$1 each	–	100%	Provision of management services, Hong Kong
Beauty Expert (Logistics) Limited	Hong Kong	10,000 ordinary shares of HK$1 each	–	100%	Sales of skincare and wellness products and leasing of fixed assets, Hong Kong
Kin Yik Biomedical Technology Limited	Hong Kong	2 ordinary shares of HK$1 each	–	100%	Provision of beauty and wellness services and sales of skincare and wellness products, Hong Kong
Koladen Enterprises Inc.	British Virgin Islands	100 ordinary shares of US$1 each	100%	–	Investment holding, Hong Kong
Modern Beauty Salon (HK) Limited	Hong Kong	2 ordinary shares of HK$1 each	–	100%	Provision of beauty and wellness services and sales of skincare and wellness products, Hong Kong
Spread Full Limited	Hong Kong	1 ordinary share of HK$1	–	100%	Provision of beauty and wellness services, Hong Kong
Rise Luck Development Limited	Hong Kong	1,000 ordinary shares of HK$1 each	–	100%	Property holding, Hong Kong
Rise Star Asia Pacific Limited	Hong Kong	1 ordinary share of HK$1	–	100%	Property holding, Hong Kong
Zegna	Hong Kong	1 ordinary share of HK$1	–	100%	Investment holding, Hong Kong

18. Investment in a Subsidiary (Continued)

Particulars of the principal subsidiaries as at 31 March 2013 are as follows: (Continued)

Name	Place of incorporation/ registration	Issued and paid up capital	Percentage of ownership interest Direct	Percentage of ownership interest Indirect	Principal activities and place of operation
MBSS	Singapore	150,000 ordinary shares of S$1 each	–	100%	Provision of beauty and wellness services, Singapore
Splendid	Singapore	150,000 ordinary shares of S$1 each	–	100%	Provision of beauty and wellness services, Singapore
Lucky Marketing Management Company Pte. Limited	Singapore	100,000 ordinary shares of S$1 each	–	100%	Provision of beauty consultancy, marketing and management services, Singapore
Modern Beauty Wellness Pte. Limited (formerly known as M Wellness Pte. Limited)	Singapore	150,000 ordinary shares of S$1 each	–	100%	Provision of beauty and wellness services, Singapore
Beauclear Enterprise Sdn. Bhd.	Malaysia	500,000 ordinary shares of RM1 each	–	100%	Provision of beauty and wellness services and sales of skincare and wellness products, Malaysia
Modern (Human Resource) Limited	Hong Kong	10,000 ordinary shares of HK$1 each	–	100%	Provision of management services, Hong Kong
Zi Advertising (HK) Limited	Hong Kong	10,000 ordinary shares of HK$1 each	–	100%	Provision of advertising services, Hong Kong
Modern Beauty Holdings Limited	British Virgin Islands	1,000 ordinary shares of US$1 each	–	100%	Investment holding, Hong Kong
Advanced Natural (Hong Kong) Limited	Hong Kong	10,000 ordinary shares of HK$1 each	–	55%	Sales of skincare and wellness products, Hong Kong
Modern Beauty Management Company Limited	Hong Kong	1,000 ordinary shares of HK$1 each	–	100%	Investment holding, Hong Kong
Modern Beauty Salon (International) Limited	British Virgin Islands	450,000 preferred shares of US$0.1 each and 50,000 ordinary shares of US$0.1 each	–	100%	Provision of sub-franchising services in relation to the provision of beautification and gymnastic services, Hong Kong

18. Investment in a Subsidiary (Continued)

Particulars of the principal subsidiaries as at 31 March 2013 are as follows: (Continued)

Name	Place of incorporation/ registration	Issued and paid up capital	Percentage of ownership interest Direct	Percentage of ownership interest Indirect	Principal activities and place of operation
Modern Beauty Saloon Limited	Hong Kong	10,000 ordinary shares of HK$1 each	–	100%	Provision of sub-franchising services in relation to the provision of beautification and gymnastic services, Hong Kong
Moral Management Limited	Hong Kong	1 ordinary share of HK$1	–	100%	Investment holding, Hong Kong
Nice Sound Investments Limited	British Virgin Islands	1 ordinary share of US$1	–	100%	Investment holding, Hong Kong
Shanghai Be Beauty Salon and Fitness Company Limited 上海貝倚美容健身有限公司 ("SHBS") (Note)	PRC	Registered capital of HK$10,000,000	–	100%	Provision of beauty and wellness services, PRC
Guangzhou Be Beauty Salon and Fitness Company Limited 廣州貝倚美容健身有限公司 ("GZBS") (Note)	PRC	Registered capital of HK$10,000,000	–	100%	Provision of beauty and wellness services, PRC
Beijing Modern Beauty Salon Company Limited 北京芭伊妮美容有限公司 ("BJMBS") (Note)	PRC	Registered capital of US$1,250,000	–	100%	Provision of beauty and wellness services, PRC

Note: SHBS, GZBS, and BJMBS are wholly foreign owned enterprises established in the PRC. These subsidiaries have financial reporting year end dated on 31 December in accordance with the local statutory requirements, which is not coterminous with the Group. The consolidated financial statements of the Group were prepared based on the financial statements of these subsidiaries for the twelve months ended 31 March 2013.

The above list contains the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group.

19. Trade and Other Receivables, Deposits and Prepayments

	Group 2013 HK$'000	2012 HK$'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 (Note 34(b))	**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:

	Group 2013 HK$'000	2012 HK$'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

19. Trade and Other Receivables, Deposits and Prepayments (Continued)

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 annual report. The ageing analysis of these trade receivables, based on due date, is as follows:

	Group	
	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:

	Group	
	2013	2012
	HK$'000	HK$'000
HK$	**58,241**	50,474
S$	**1,696**	994
RM	**283**	341
RMB	**242**	106
Total	**60,462**	51,915

20. Deferred Tax

The following are the major deferred tax assets and liabilities recognised by the Group.

	Group					
	Accelerated tax depreciation HK$'000	Decelerated tax depreciation HK$'000	Deferred revenue HK$'000	Provision HK$'000	Tax losses HK$'000	Total HK$'000
At 1 April 2011	(48)	9,053	3,986	–	9,691	22,682
Credited/(charged) to profit or loss for the year (Note 11)	(117)	(188)	(316)	10	(8,397)	(9,008)
Exchange differences	1	6	(61)	–	42	(12)
At 31 March 2012 and 1 April 2012	(164)	8,871	3,609	10	1,336	13,662
Credited/(charged) to profit or loss for the year (Note 11)	85	(3,011)	(874)	36	14,304	10,540
Exchange differences	–	1	(18)	–	6	(11)
At 31 March 2013	(79)	5,861	2,717	46	15,646	24,191

At the end of the reporting period the Group has unused tax losses of HK$144,387,000 (2012: HK$42,419,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK$94,598,000 (2012: HK$5,424,000) of such losses. No deferred tax asset has been recognised in respect of the remaining HK$49,789,000 (2012: HK$36,995,000) due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of HK$15,610,000 (2012: HK$19,138,000) that will expire in five years from year the losses were incurred. Other tax losses may be carried forward indefinitely.

21. Inventories

As at 31 March 2013 and 31 March 2012, inventories represented finished goods.

22. Pledged Bank Deposits

The Group's pledged bank deposits represented deposits pledged to banks to secure banking facilities granted to the Group. The deposits are denominated in United States dollars ("US$") and HK$ at floating interest rate of 0.01% (2012: 0.05%) and 0.03% (2012: Nil) per annum respectively and therefore are subject to foreign currency risk and cash flow interest rate risk.

The Group had undrawn facilities of HK$3,132,000 (2012: HK$3,849,000) in form of documentary credit and trust receipt loan at 31 March 2013.

23. Cash and Bank Balances

The Group's cash and bank balances comprise the following:

	Group	
	2013	2012
	HK$'000	HK$'000
Cash at bank and cash in hand	**348,796**	344,770
Short-term bank deposits	**132,453**	133,472
Cash and cash equivalents	**481,249**	478,242
Fixed deposits with bank with maturity over three months	**–**	6,184
Cash and bank balances	**481,249**	484,426

The carrying amounts of the Group's cash and bank balances are denominated in the following currencies:

	Group	
	2013	2012
	HK$'000	HK$'000
HK$	**201,684**	224,265
US$	**98**	98
S$	**163,133**	135,285
EUR	**6,197**	13,445
Taiwan dollars	**2,879**	–
RMB (Note)	**94,860**	97,797
RM (Note)	**12,279**	13,536
Macau pataca	**119**	–
	481,249	484,426

Note: Conversion of RMB and RM into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations; and Laws of Malaysia Act 17 Exchange Control Act 1953 respectively.

The carrying amounts of the Company's cash and bank balances represented cash at bank and cash in hand and are denominated in HK$.

24. Share Capital

	Number of shares	Amount HK$'000
Authorised:		
Ordinary shares of HK$0.1 each		
At 1 April 2011, 31 March 2012, 1 April 2012 and 31 March 2013	**10,000,000,000**	**1,000,000**

	Number of shares	Amount HK$'000
Issued and fully paid:		
Ordinary shares of HK$0.1 each		
At 1 April 2011	723,520,000	72,352
Issue of shares on conversion of convertible note (Note 28)	150,476,190	15,048
At 31 March 2012, 1 April 2012 and 31 March 2013	873,996,190	87,400

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to maximise returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The only externally imposed capital requirement is that for the Group to maintain its listing on the Stock Exchange it has to have a public float of at least 25% of the shares. The Group receives a report from the shares registrars monthly on substantial share interests showing the non-public float and it demonstrates continuing compliance with the 25% limit throughout the year.

25. Reserves

(a) Group

The amounts of the Group's reserves and movements therein are presented in the consolidated statement of comprehensive income and consolidated statement of changes in equity.

(b) Company

	Share premium HK$'000	Share-based compensation reserve HK$'000	Contributed surplus HK$'000	Convertible note reserve HK$'000	Retained earnings HK$'000	Total HK$'000
At 1 April 2011	146,875	3,277	47,076	–	85,875	283,103
Share-based payments	–	493	–	–	–	493
Lapse of share options	–	(83)	–	–	83	–
Loss for the year	–	–	–	–	(860)	(860)
Issue of convertible note (Note 28)	–	–	–	230,626	–	230,626
Issue of shares on conversion of convertible note (Note 28)	143,124	–	–	(145,756)	–	(2,632)
2011 final dividends paid	–	–	–	–	(20,837)	(20,837)
2012 interim dividends paid	–	–	–	–	(24,455)	(24,455)
At 31 March 2012 and 1 April 2012	289,999	3,687	47,076	84,870	39,806	465,438
Share-based payments	–	481	–	–	–	481
Lapse of share options	–	(237)	–	–	237	–
Profit for the year	–	–	–	–	75,843	75,843
2012 final dividends paid	–	–	–	–	(37,145)	(37,145)
2013 interim dividends paid	–	–	–	–	(26,219)	(26,219)
2013 special dividends paid	–	–	–	–	(9,614)	(9,614)
At 31 March 2013	289,999	3,931	47,076	84,870	42,908	468,784

(c) Nature and purpose of reserves

(i) Share premium account

Under the Companies Law of the Cayman Islands, the funds in the share premium account of the Company are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

(ii) Share-based compensation reserve

The share-based compensation reserve represents the fair value of the actual or estimated number of unexercised share options granted to directors and employees of the Group recognised in accordance with the accounting policy adopted for equity-settled share-based payments in note 3(r) to the financial statements.

25. Reserves (Continued)

(c) Nature and purpose of reserves (Continued)

(iii) Merger reserve

The merger reserve mainly represents the aggregate of:

— Pursuant to the Group's reorganisation effected on 24 January 2006 (the "Reorganisation"), the Company acquired the share capital of Koladen Enterprises Inc. in consideration of allotment and issue of 539,999,925 shares to its corporate shareholders, Silver Compass Holdings Corp. and Silver Hendon Enterprises Corp. Under the merger basis of accounting, the difference between the nominal value of the shares of subsidiaries acquired over the nominal value of the share capital of the Company issued in exchange amounting to approximately HK$53,982,000 was debited to the merger reserve account of the Group.

— A debit amount of approximately HK$71,488,000, representing the deemed partial consideration of the Business Combination, being the net asset value of Euro King after the Waiver disposed to Ms. Tsang at nil consideration, pursuant to the Supplemental SPA of the Business Combination as defined in note 3(b) to the financial statements; in fact that Euro King did not form part of the Zegna Group in the Business Combination.

— A credit balance of approximately HK$549,000, being the difference between the aggregated amount of nominal value of the shares of subsidiaries acquired by Zegna and the relevant consideration paid.

— A net debit amount of HK$249,999,999, being the difference between (i) the value of the CN amounting to HK$250,000,000 issued for the Business Combination as defined in note 3(b) to the financial statements; and (ii) the nominal value of the share capital of Zegna.

(iv) Contributed Surplus

The contributed surplus of the Company arose as a result of the Reorganisation and represented the excess of the fair value of the subsidiaries acquired, over the nominal value of the share capital of the Company issued in exchange therefore.

(v) Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 3(c)(iii) to the financial statements.

(vi) Property revaluation reserve

The property revaluation reserve has been set up and is dealt with the fair value changes arising from the Group's property, plant and equipment reclassified to investment properties.

(vii) Convertible note reserve

The convertible note reserve represents the equity component of the convertible note at initial recognition, representing the value of the embedded option for the holder to convert the note into equity of the Company.

26. Share-Based Payments

Equity-settled share option scheme

On 20 January 2006, the Company has established a share option scheme (the "Share Option Scheme") whereby the Board of Directors is authorised to grant share options to the directors and employees of the Group.

On 23 October 2006, the Board of Directors resolved to grant 15,640,000 share options to certain directors and employees of the Group pursuant to the Share Option Scheme, to subscribe for shares of the Company at an exercise price of HK$1.33 per option. The share options are exercisable for a period of one to six years after the vesting period of four to nine years commencing from the date of grant. The life of the share options is ten years.

Particulars of the Share Option Scheme is set out in pages 46 to 48 of this annual report.

Details of the share options outstanding during the year are as follows:

	Number of share options				
	Outstanding at beginning of year	**Reclassification**	**Lapsed during the year**	**Outstanding at end of year**	**Exercisable at end of year**
Year ended 31 March 2013					
Directors	**500,000**	**300,000**	**–**	**800,000**	**200,000**
Senior management	**650,000**	**(300,000)**	**–**	**350,000**	**87,500**
Other employees	**5,530,000**	**–**	**(380,000)**	**5,150,000**	**1,287,500**
	6,680,000	**–**	**(380,000)**	**6,300,000**	**1,575,000**
Year ended 31 March 2012					
Directors	500,000	–	–	500,000	125,000
Senior management	650,000	–	–	650,000	162,500
Other employees	5,680,000	–	(150,000)	5,530,000	1,382,500
	6,830,000	–	(150,000)	6,680,000	1,670,000

The fair value of the share options granted on 23 October 2006 determined using the Black-Scholes valuation model was HK$11,847,300. The significant inputs into the model were share price of HK$1.33 as at the grant date, exercise price of HK$1.33 per option, expected volatility of 50%, expected life of options of ten years, expected dividend paid-out rate of 10.38% and annual risk-free interest rate of 4.13% for exercise dates beginning on 23 October 2010, 2014 and 2015, respectively. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis.

27. Finance Lease Payables

	The Group			
	Minimum lease payments		Present value of minimum lease payments	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**24**	24	**18**	19
In the second to fifth years, inclusive	**–**	24	**–**	18
	24	48	**18**	37
Less: Future finance charges	**(6)**	(11)	**N/A**	N/A
Present value of lease obligations	**18**	37	**18**	37
Less: Amount due for settlement within 12 months (shown under current liabilities)			**(18)**	(19)
Amount due for settlement after 12 months			**–**	18

It is the Group's policy to lease certain of its motor vehicles under finance leases. The average lease term is 7 years. During the year, the average effective borrowing rate was 6.39% (2012: 6.39%). Interest rates are fixed at the contract dates and thus expose the Group to fair value interest rate risk. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

All finance lease payables are denominated in RM and secured by the lessor's title to the leased assets.

28. Convertible Note

The Company has issued CN with value of HK$250,000,000 to Ms. Tsang on 10 January 2012 to settle the consideration of the Business Combination. Ms. Tsang is entitled to convert the CN in whole or in part (in the amount not less than a whole multiple of HK$1,000,000 or if the remaining outstanding amount of the CN is in a lesser amount, such lesser amount) into new ordinary shares of the Company at the conversion price of HK$1.05 per share at any time between the date of issue of the CN and 9 January 2017. No conversion right attached to the CN may be exercised if following such exercise, the public float of the Company will fall below the minimum requirement as prescribed under the Listing Rules. The value of the CN which remains outstanding on the maturity date shall be automatically converted into the new ordinary shares of the Company at the then prevailing conversion price. However, in the event that such conversion would result in the Company's failure to comply with the public float requirement as prescribed under the Listing Rules, there shall not be any conversion in respect of such value of the CN and the balance of the CN not converted into the shares of the Company, shall be redeemed by the Company at a redemption amount equals to 100% of the value of the said balance of the CN.

The CN bears interest of 2% per annum and shall be payable annually on each 31 March.

Upon the issuance, the value of the CN has been split into the liability element and an equity component of HK$19,374,000 and HK$230,626,000 respectively.

On 6 March 2012, CN with value of HK$158,000,000 were converted into 150,476,190 ordinary shares of the Company.

28. Convertible Note (Continued)

Movements of the liability element are as follows:

	The Company and the Group	
	2013	2012
	HK$'000	HK$'000
At beginning of the year/date of issue	**7,276**	19,374
Interest charged	**618**	318
Converted into ordinary shares of the Company	**–**	(12,416)
Interest paid	**(898)**	–
Liability component at 31 March	**6,996**	7,276
Less: Amount due within one year	**(3,680)**	(2,738)
Amount due over one year	**3,316**	4,538

The interest charged for the year is calculated by applying an effective interest rate of 9.15% to the liability component of the CN.

The directors estimate the fair value of the liability component of the CN at 31 March 2013 to be approximately HK$6,996,000 (2012: HK$6,858,000). This fair value has been calculated by discounting the future cash flows at the market rate.

29. Trade and Other Payables, Deposits Received and Accrued Expenses

	Group	
	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 (Note 34(b))	**2**	2
Amounts due to related companies (Note 34(b))	**87**	110
	83,973	72,412

29. Trade and Other Payables, Deposits Received and Accrued Expenses (Continued)

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

	Group 2013 HK$'000	2012 HK$'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:

	Group 2013 HK$'000	2012 HK$'000
Australian dollars	**13**	–
EUR	**85**	–
HK$	**568**	669
S$	**62**	527
RM	**10**	48
RMB	**14**	32
US$	**159**	–
	911	1,276

30. Deferred Revenue

An ageing analysis of the deferred revenue is as follows:

	Group	
	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:

	Group	
	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

31. Notes to Consolidated Statement of Cash Flows

Major non-cash transactions

Consideration for the additions to property, plant and equipment during the year was settled by offsetting the deposits of HK$Nil (2012: HK$4,805,000) paid to the sellers in prior year.

32. Commitments

(a) Commitments under operating leases

At 31 March 2013, the total future minimum lease payments under non-cancelable operating leases are payable as follows:

	Group 2013 HK$'000	2012 HK$'000
Not later than one year	**151,678**	124,908
Later than one year and not later than five years	**91,800**	115,127
Over five years	**404**	–
	243,882	240,035

Operating lease payments represent rentals payable by the Group for certain of its beauty service centres, retail shops, offices, staff quarters and warehouses operated by the subsidiaries. Leases are negotiated for an average term of 3 years (2012: 3 years) and rentals are either fixed over the lease terms or are based on the higher of a minimum guaranteed rental or a sales level based rental. The minimum guaranteed rental has been used to compute the above commitments.

(b) Capital commitments

Capital commitments at the end of the reporting period are as follows:

	Group 2013 HK$'000	2012 HK$'000
Contracted but not yet provided for:		
Acquisition of plant and equipment	**13,370**	12,389

33. Contingent Liabilities

During the course of business, the Group has received complaints and claims concerned with the provision of beauty services in respect of breach of contract, content of advertisement, tenancy dispute and personal injuries in relation to the services provided, including claims of insignificant or unspecified amounts. The directors are of the opinion that such complaints and claims are remote and have no material financial impact to the Group.

34. Related Party Balances and Transactions

(a) Related party transactions

In addition to those related party transactions disclosed elsewhere in the financial statements, the Group had the following material transactions with its related parties during the year:

	2013	2012
	HK$'000	HK$'000
Rental expenses paid to related companies (Note (i)):		
— All Link International Limited	**272**	–
— East Union Industries Limited	**1,488**	636
— Joy East Limited	**552**	222
— Luck Elegant Industrial Limited	**780**	74
— Lucky Forever Limited	**8,878**	–
— Golden National Limited	**7,800**	6,750
— United Industries Limited	**2,634**	689
— Well Faith International Enterprise Limited	**11,101**	4,573
— Wise World Limited	**1,608**	755
	35,113	13,699
Donation paid to a related company (Note (ii)):		
— Grateful Heart Charitable Foundation Limited ("Grateful Heart")	**–**	5
Interest charge on convertible note issued to ultimate controlling party:		
— Ms. Tsang	**618**	318

34. Related Party Balances and Transactions (Continued)

(a) Related party transactions (Continued)

	2013 HK$'000	2012 HK$'000
Salaries and other benefits in kind paid to related parties:		
— Related party A (Note (iii))	**1,582**	874
— Related party B (Note (iv))	**1,200**	1,173
— Related party C (Note (iv))	**142**	77
— Related party D (Note (v))	**400**	378
	3,324	2,502

Notes:

(i) The pricing of the related party transactions are mutually agreed by the Group and the related companies. Ms. Tsang is the ultimate controlling party of the related companies.

(ii) Ms. Tsang is the ultimate controlling party of the related company.

(iii) Related party A is the spouse of a director, Ms. Tsang.

(iv) Related party B and C are the sons of a director, Ms. Tsang.

(v) Related party D is the spouse of a director, Mr. Yip Kai Wing.

(b) Balances with related parties

The amounts due from/to related companies and ultimate controlling party are unsecured, interest free and repayable on demand.

Ms. Tsang is the ultimate controlling party of the related companies.

Amounts due from related companies disclosed pursuant to section 161B of the Hong Kong Companies Ordinance are as follows:

	Group		
	Balance at 31 March 2013 HK$'000	Balance at 1 April 2012 HK$'000	Maximum amount outstanding during the year HK$'000
All Link International Limited	**1**	1	60
Chain Tech International Limited	**–**	1	1
Lucky Forever (S) Pte. Limited	**14**	7	14
Grateful Heart	**221**	143	222
United Industries Limited	**–**	198	199
	236	350	

34. Related Party Balances and Transactions (Continued)

(c) Key management compensation

	Group	
	2013	2012
	HK$'000	HK$'000
Fees	**840**	735
Salaries and allowances	**16,761**	9,789
Retirement benefit scheme contribution	**108**	56
Share-based payments	**43**	36
	17,752	10,616

35. Events after the Reporting Period

On 21 May 2013, the Company and two independent third parties entered into two subscription agreements in respect of the placement of 42,500,000 unlisted warrants of the Company to each subscriber at a price of HK$0.002 per warrant. Each warrant confers the right to subscribe for one ordinary share of the Company of HK$0.1 each at a subscription price of HK$1.05 at anytime during a period of 36 months commencing from the date of issue of the warrant, subject to adjustment upon occurrence of certain events. The placement was completed on 21 June 2013 with the warrants expiring on 20 June 2016. Details of the above are set out in the Company's announcements dated 21 May 2013.

36. Comparative Figures

Certain comparative figures have been reclassified to conform to the current year's presentation. The changes included separate disclosure of fair value changes on investment properties from other income. The new classification of the accounting items was considered to provide a more appropriate presentation of the consolidated statement of comprehensive income of the Group.

37. Approval of Financial Statements

The financial statements were approved and authorised for issue by the Board of Directors on 26 June 2013.

Properties Held by the Group

Location	Category of the lease	Use
Unit 7, 8, 9, 10, 11, 12 and 15, East Wing, Twenty-seventh Floor, Tuen Mun Central Square, No. 22 Hoi Wing Road, Tuen Mun, New Territories	Medium-term lease	The property is currently vacant
Unit 16, West Wing, Twenty-seventh Floor, Tuen Mun Central Square, No. 22 Hoi Wing Road, Tuen Mun, New Territories		

Five Years Financial Summary

Consolidated Results

	Year ended 31 March				
	2013	2012	2011	2010	2009
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
			(Restated)	(Restated)	(Restated)
Turnover	**708,122**	756,605	718,230	551,377	724,059
(Loss)/profit before tax	**(57,983)**	101,357	107,491	(7,982)	(10,543)
Income tax credit/(expense)	**4,549**	(19,220)	(18,228)	4,887	(240)
(Loss)/profit for the year	**(53,434)**	82,137	89,263	(3,095)	(10,783)

Consolidated Assets and Liabilities

	As at 31 March				
	2013	2012	2011	2010	2009
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
			(Restated)	(Restated)	(Restated)
Total non-current assets	**180,179**	288,824	276,813	265,507	174,434
Total current assets	**811,086**	729,920	653,128	512,922	571,617
Total assets	**991,265**	1,018,744	929,941	778,429	746,051
Total non-current liabilities	**(3,316)**	(4,556)	(37)	(53)	(1,119)
Total current liabilities	**(842,506)**	(742,045)	(648,375)	(582,369)	(540,481)
Total liabilities	**(845,822)**	(746,601)	(648,412)	(582,422)	(541,600)
Net assets	**145,443**	272,143	281,529	196,007	204,451

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

Stock Code 股份代號：919

MODERN BEAUTY SALON HOLDINGS LIMITED
6/F, Sino Industrial Plaza,
9 Kai Cheung Road, Kowloon Bay,
Kowloon, Hong Kong
Tel: (852) 2866 2377
Fax: (852) 2804 6607
Email: ir@modernbeautysalon.com
Website: www.modernbeautysalon.com

現代美容控股有限公司
香港九龍九龍灣啟祥道9號信和工商中心6樓
電話 : (852) 2866 2377
傳真 : (852) 2804 6607
電郵：ir@modernbeautysalon.com
網址：www.modernbeautysalon.com