

**BEA securities**

EAST ASIA SECURITIES COMPANY LIMITED

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HONG KONG RESEARCH**27th January 2006**

Analyst: Stanley Lau

Main Board Listing – Research

現代美容控股有限公司

Modern Beauty Salon Holdings Limited [Stock Code: 0919]

Sponsor and Bookrunner : Sun Hung Kai International Limited
Joint Lead Managers : Sun Hung Kai International Limited
Polaris Securities (Hong Kong) Limited
Co-Lead Manager : Taiwan Securities (Hong Kong) Company Limited

Sector : Healthcare Equipment & Services**Business** : A network of beauty and healthcare services in Hong Kong

Total share offer: <u>180,000,000</u> shares (25% of the enlarged share capital) Public Offer: 18,000,000 shares (10%) Placing: 162,000,000 shares (90%) Greenshoe: 27,000,000 shares (15%)	<u>Business of Modern Beauty</u> The Group is principally engaged in the provision of comprehensive beauty and healthcare services, including (i) beauty and facial services, (ii) spa and massage services, (iii) slimming services, (vi) fitness services, and (v) sales of beauty products and equipment, through its 15 service centres in Hong Kong predominantly under its brandname "Modern Beauty Salon". The Group also market its services through other tradenames, which include "be Sanctuary Spa" (for spa and massage), "Slim Express" (for slimming) and "Modern Fitness" (for fitness). The Group's target customers are from medium-to-high income group including office ladies and females from upper class society. As at 17 th January 2006, it maintained a customer base of approximately 149,000 customers. The Group promotes its services by offering prepaid packages with discounted pricing to customers. Service income is recognised when the treatments are delivered to customers from time to time and in the event that the prepaid package is not fully utilised upon its expiry date.
Price: HK\$0.88 – HK\$1.08 per share Market Cap.: HK\$633.6 million – HK\$777.6 million Pro Forma FY2005 P/E: 6.0x – 7.4x Adjusted NTA per share: HK\$0.249 – HK\$0.298 Staffing: 1,066	
HK Public Offer period: 27 th January 2006 – 3 rd February 2006 Receiving bank: Standard Chartered Bank Share registrar: Tricor Investor Services Limited Listing date: 9 th February 2006	

Major Shareholders after Listing (Assuming the over-allotment option is not exercised)

Ms. Tsang Yue, Joyce, *the founder, Chairperson and Chief Executive Officer of the Group*,
through her wholly-owned SPVs - Silver Compass Holdings Corp (BVI) and Silver Hendon
Enterprises Corp (BVI)

75%

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Use of Proceeds

Net proceeds from the offer are estimated to be HK\$161.9 million.

(Assuming the over-allotment option is not exercised, and at an issue price of HK\$0.98 each, being the mid-point of the indicative price range)

	HK\$ million
Expansion of the network of service centres in Hong Kong	57.0
Expansion of "be Sanctuary Spa" business	48.0
Launching of advertising campaign in the mass media	29.0
Assessment and examination of the beauty and healthcare service market in the PRC	7.0
Upgrading of management information system	5.0
General working capital	15.9

Financial Highlights

	Year ended 31 st March			4 months ended
	2003	2004	2005	31 st July 2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Sales				
Provision of beauty and healthcare services	308,274	325,167	377,803	128,337
Sales attributable to the recognition of expired prepaid packages	7,772	44,750	58,394	13,317
Sales of products and equipment	<u>17,996</u>	<u>11,739</u>	<u>20,735</u>	<u>9,251</u>
Total Sales	334,042	381,656	456,932	150,905
Operating profit	46,264	72,944	126,743	40,671
Net profit	38,995	61,491	105,171	34,126

Strengths/Opportunities

- ✓ The Group should benefit from the increasing trend in the number of high-income females in Hong Kong. This female group tends to look for quality services and is able to afford luxurious beauty and healthcare services and products.
- ✓ The Group is one of the few local beauty-related service providers who are capable of providing a full spectrum of beauty services. As such, the Group should be able to maintain a steady income flow and avoid too much reliance on one single business stream.
- ✓ In the absence of large-scale and quality beauty and healthcare services in the PRC, the Group is able to leverage on its business model in Hong Kong to tap into the mainland market.

Weaknesses/Threats

- × The beauty and healthcare service sector in Hong Kong is highly fragmented. Price competition and increasing rental and marketing costs have already eroded the overall sector profitability, especially for slimming services. This is reflected by its peer Sau San Tong (stock code: 8200)'s loss-making half-year results ended 30th September 2005.
- × The Group faces legal claims of approximately HK\$7.6 million. Among these, approximately HK\$6.1 million relating to former director Mr. Kwong Ping Sun and approximately HK\$0.8 million involving the provision of beauty-related service contracts.
- × Priced at 6.0x to 7.4x FY2005 P/E, valuation of the counter is at a premium to its smaller rivals BAL Holdings (stock code: 8079) of 4.4x and Sau San Tong of 5.6x.

Recommendation: Caveat Emptor

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