MODERN BEAUTY SALON HOLDINGS LIMITED
現代美容控股有限公司
Stock code 股份代號: 919

Modern Beauty Annual Report 年報 13/14

corporate profile

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, 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 develops and matures, 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 eight brands, namely "be", "FERRECARE" "p.e.n", "Y.U.E". "Advanced Natural", "Bioline", "Malu Wilz", "BeYu". The Group launched a new distributor brand "Bioline" as well as further promoted our self-owned brands "p.e.n", "be", "FERRECARE" and other brands 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. 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 Hong Kong, Kowloon and the New Territories, 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 2014, we had 33, 10, 14, 3 and 2 service centres in Hong Kong, Mainland China, Singapore, Malaysia and Taiwan, 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", "FERRECARE" concept store and "p.e.n" shop, had 12, 1 and 9 outlets respectively as at 31 March 2014.


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Board of Directors

Ms. Tsang Yue, Joyce (Chairperson)
Mr. Yip Kai Wing
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

Ms. Yeung See Man
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

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central
Hong Kong

Share Registrar and Transfer Office

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
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

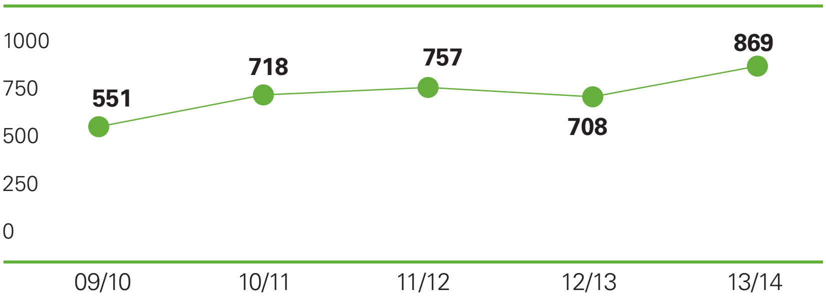
Email address:
ir@modernbeautysalon.com

Website

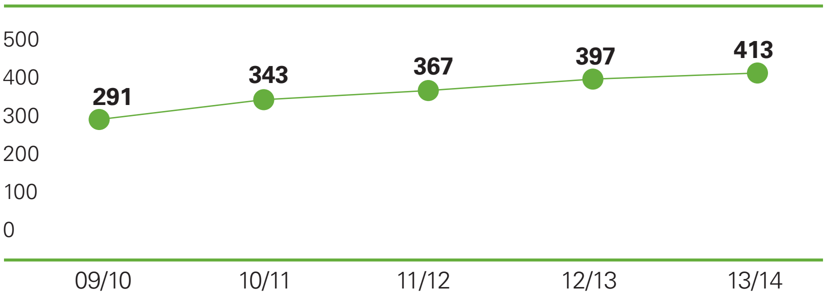
www.modernbeautysalon.com

financial highlights

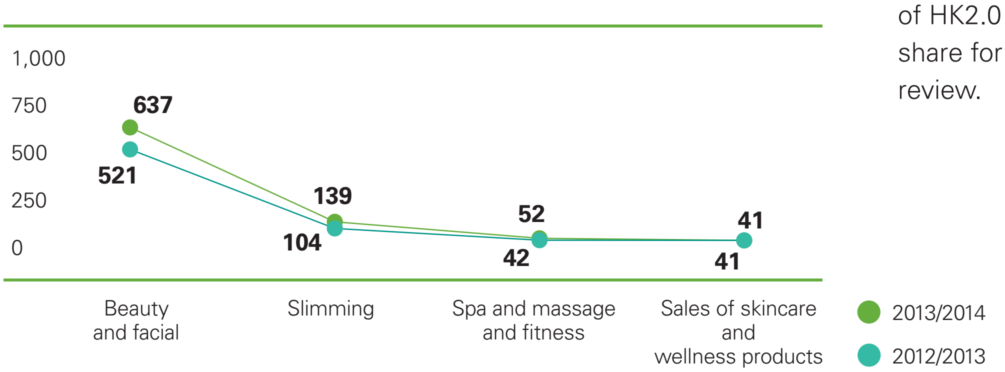
Turnover HK$ (million)



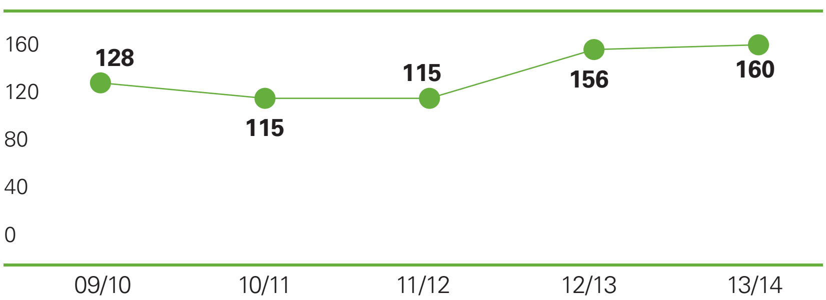
Employee Benefits Expenses HK$ (million)



Sales Mix HK$ (million)



Occupancy Costs HK$ (million)



- The Group's turnover reached approximately HK$868.8 million in FY2014, representing an increase of 22.7% compared with approximately HK$708.1 million in FY2013.
- Gross receipts from sales of prepaid beauty packages increased from approximately HK$764.2 million in FY2013 to approximately HK$772.2 million in FY2014.
- The Group recorded an operating profit of HK$80.2 million during the year under review (FY2013: operating loss of HK$45.0 million).
- The Board recommended the payment of a final dividend of HK2.0 cents per ordinary share for the year under review.

2013/14 milestones and key events

May 2013

- Opening the new shop at One Pacific Centre, Kwun Tong

July 2013

- Opening the newest beauty and spa centre at Ascendas Plaza, Shanghai

- Opening the newest be Beauty Shop at Tai Po

August 2013

- Ms. Tsang Yue, Joyce was awarded "CEO of the year 2013" from Capital CEO

September 2013

- Relocation opening ceremony of the shop at Hang Ying House, North Point

- Relocation opening ceremony of Beauty Expert International College at Hang Ying House, North Point

October 2013

- Opening the newest be Beauty Shop at Mei Foo

- Awarded "Supreme Service Awards 2013" from Capital CEO

November 2013

- Awarded "The Most Professional Spa & Beauty Centre Award" from Darizi

- Opening the newest beauty and spa centre at Shanghai Hong Kong Metropolis Plaza

December 2013

- Awarded "Supreme Brand Awards 2013" from Capital CEO + Capital Entrepreneur

December 2013

- Ms. Tsang Yue, Joyce was awarded "Outstanding Business Women of the Year" from Capital Entrepreneur

February 2014

- Opening ceremony of the Group's first beauty and spa centre in Taiwan

March 2014

- Opening the new shop at BCC Building, Tsim Sha Tsui

- Ms. Tsang Yue, Joyce was awarded "Outstanding Entrepreneur" by Capital CEO + Capital Entrepreneur

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On behalf of the Board of Directors (the "Board") of Modern Beauty Salon Holdings Limited (the "Company"), I am pleased to present the financial report of the Company and its subsidiaries (the "Group") for the financial year ended 31 March 2014 ("FY2014" or the "year under review").

Business Review

During FY2014, thanks to the burgeoning demand on the Group's beauty services in Hong Kong and Singapore driven by the rapid economic growth and a remarkable achievement arising from optimization of our internal management system, the Group saw a promising growth in turnover and earnings. Backed by more than 2 decades of accumulation of practice experience, our continuous adherence to offering excellent quality services in tandem with stable and faithful clientele, we recorded splendid and outstanding operating income despite fierce peer competition in the industry. The turnover of approximately HK$868.8 million in FY2014 amounts to an astounding increase of 22.7% as compared to HK$708.1 million for the previous year. We also cultivate encouraging earnings as we maintained our long term prudent financial management policy with effective cost control. The profits for the year under review rebounded rapidly to around HK$54.8 million.

One essential facet of the costs control is to continue the policy of integrating various service centres of the Group in Hong Kong through renewing leases, merging and leasing of other premises when the lease terms expired. We hope that such lease integration can benefit 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 the year under review, the Group's business development in Singapore was promising and maintained its leading position in providing beauty and wellness service. Also, the Group's local business managed to record a steady growth in turnover and profit. On the other hand, the Group would continue to monitor closely any new market trends in the beauty industry to consolidate the Group's market position in the Asia-Pacific Region.

Awards

During the year under review, the Group was proud to be awarded a number of awards, including the "Supreme Service Awards 2013" from Capital CEO, "Supreme Brand Awards 2013" from Capital CEO + Capital Entrepreneur as well as "The Most Professional Spa & Beauty Centre Award" from Darizi. These 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 have accumulated extensive experience in the beauty industry which enables me to keep abreast of the latest market trends and cater for needs of different customers. I have been devoted to providing all-around training to 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 more goals and achievements. During FY2014, I had the honor of being presented with several prestigious awards, including the "CEO of the Year 2013" from Capital CEO, "Outstanding Entrepreneur" from Capital CEO + Capital Entrepreneur as well as being awarded "Outstanding Business Women of the Year" by Capital Entrepreneur.

Outlook

The Group shall continue to maintain the proactive and prudent attitude in seeking business opportunities to maintain steady growth in Greater China and Asia. Under favorable conditions and appropriate timing, the Group envisages business projects to expand our business in the beauty and slimming service market and enhance market shares in these regions.

In addition to our core businesses of slimming and beauty services, the Group shall pay special emphasis to developing our retail networks for various branded products and raise our brand recognition through business projects.

Appreciation

During FY2014, the Group was able to obtain a distinguishable financial position after recovery from 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. My grateful appreciation also extends to our business partners, customers as well as shareholders for their loyal support, and for pushing the Group to milestones after milestones. I look forward to contributing to the Modern Beauty's success in establishing its leading position in the beauty service industry in Asia alongside with your support and participation.

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Overview

During the year under review, with the recovery of the industry damaged by the series of beauty treatment incidents in the 4th quarter of 2012, turnover of the Group reached approximately HK$868.8 million, representing an increase of 22.7% compared with approximately HK$708.1 million for the year ended 31 March 2013 ("FY2013" or the "same period last year"). The receipts from sales of prepaid beauty packages during the year under review was HK$772.2 million, an increase of 1.0% over the same period last year. With the inflation and business expansion of the Group, the employees benefit expenses and occupancy costs increased by 3.9% and 2.8% to HK$413.1 million and HK$160.5 million respectively as compared with the same period last year. The Group recorded an operating profit of HK$80.2 million during the year under review (FY2013: operating loss of HK$45.0 million).

Business Review

Hong Kong

The beauty industry has been reshuffled amidst the series of notorious beauty treatment incidents during in the 4th quarter in 2012. A number of beauty chain stores run by our competitors have been closed due to the adverse incidents. As one of the leading beauty and wellness services brands in Hong Kong, we managed to take this chance and expanded our market share. With the consistent application of our strategy in customer segmentation, we placed emphasis on identifying customers that are keen on consuming beauty and wellness services so as to furbish their allure and esteem. Turnover for the year under review increased by 22.9%. 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 under review were HK$614.8 million and HK$617.3 million respectively (FY2013: HK$494.7 million and HK$603.1 million).

Revenue from sales of skincare and wellness products was HK$34.0 million in FY2014 (FY2013: HK$33.3 million).

The Group is dedicated to providing safe and highly effective beauty and facial and wellness services and continue to attract new clienteles. Our customers in Hong Kong amounted to approximately 350,900 during the year under review, representing an increase of 9.0% as compared to approximately 321,900 in the same period last year.

Management Discussion and Analysis

During the year under review, the Group entered into a master lease agreement ("Master Lease Agreement") with a company wholly owned by a family trust set up by our Chairperson. This will shelter the Group from any potential loss due to relocation of its existing beauty and wellness centres in the event that the respective lease agreements were not renewed upon their expiry and save the administrative cost of the Group. In addition, the Master Lease Agreement will allow the Group to lease new premises based on the market price in which the Group considers suitable for further expansion of its network of beauty and wellness centres.

Mainland China

We conduct our Mainland China operations through three wholly foreign owned enterprises established in Beijing, Shanghai and Guangzhou in the People's Republic of China (the "PRC"). These three wholly foreign owned enterprises operate a total of 10 service centres (FY2013: 9 service centres) at the three cities referred, with a total weighted average gross floor area of approximately 33,500 square feet (FY2013: 38,400 square feet). We have a good standing within the Mainland China market with good quality services provided by the Group's professional team. We will continue to develop the Mainland China market progressively but with a prudent pace, by fine-tuning and optimising the business model for Mainland China operations. To surmount the increasing rental cost and salaries in the Mainland China, we tend to open medium sized beauty centres in middle class residential areas, instead of opening big sized beauty centres in commercial areas. The Group's turnover in Mainland China decreased to HK$34.1 million (FY2013: HK$39.0 million) and receipts from sales of prepaid beauty packages decreased by 11.4% to HK$30.4 million as compared to HK$34.3 million for the same period last year. The business recorded a loss of HK$3.5 million during the year under review as compared with a profit of HK$1.7 million for the same period last year.

Singapore and Malaysia

In FY2014, the beauty, facial and slimming services businesses in Singapore and Malaysia continued to show encouraging trend. We will continue to leverage our quality services to build up local customer's confidence in the Group and a sound brand name. During the year under review, the Group decreased its number of service centres in Singapore by 1 to a total of 14, while the number of service centres in Malaysia remained unchanged at 3.

During the year under review, the turnover from operations in Singapore and Malaysia was HK$185.1 million, as compared with HK$141.2 million for the same period last year. Revenue recognised for provision of beauty and wellness services and expiry of prepaid beauty packages and receipts from sales of prepaid beauty packages in Singapore and Malaysia amounted to HK$180.3 million and HK$123.0 million respectively, as compared with HK$135.0 million and HK$126.8 million for the same period last year.

Taiwan

During the first half of FY2014, the Group set up 2 service centres in Taiwan. We will continue to maintain a prudent approach in developing the local business.

Financial Review

Turnover

Set out below is a breakdown on the turnover of the Group by service lines and product sales during FY2014 (with comparative figures for FY2013):

	For the year ended 31 March				
	2014		2013		
Sales mix	HK$'000	Percentage of turnover	HK$'000	Percentage of turnover	Change
Beauty and facial	636,930	73.3%	520,953	73.6%	+22.3%
Slimming	139,340	16.0%	103,899	14.6%	+34.1%
Spa and massage	51,649	6.0%	41,640	5.9%	+24.0%
Fitness	177	0.0%	849	0.1%	–79.2%
Beauty and wellness services	828,096	95.3%	667,341	94.2%	+24.1%
Sales of skincare and wellness products	40,710	4.7%	40,781	5.8%	–0.2%
Total	868,806	100.0%	708,122	100.0%	+22.7%

During the year under review, the Group devoted additional resources to marketing and put emphasis on providing safe and premium beauty and wellness services in order to regain customers' confidence affected by the series of beauty treatment incidents in Hong Kong in 2012. The strategy was proved to be successful as revealed by the strong gain of turnover contributed by the beauty and wellness services and the strong gain of number of customers in FY2014.

The sales of skincare and wellness products in FY2014 was relatively stable as compared with FY2013. The Group is dedicated to put more resources to the product business in the future, and will leverage the strong brand name of the Group to develop the distribution of the skincare and wellness products.

During the year under review, the Group's turnover from beauty and wellness services increased strongly by about 24.1% from approximately HK$667.3 million in FY2013 to approximately HK$828.1 million in the year under review.

The Group reported that the sales of new prepaid beauty packages of the Group amounted to HK$772.2 million, representing a slight increase of 1.0% compared with HK$764.2 million for the same period last year, while cash and cash equivalents in hand were maintained at a healthy level. Deferred revenue will be recognised and credited to turnover in the upcoming financial years according to actual situations.

Management Discussion and Analysis

Set out below is an analysis on the deferred revenue:

	For the year ended 31 March									
	2014					2013				
Movement of deferred revenue	**Hong Kong HK$'000**	**Mainland China HK$'000**	**Taiwan HK$'000**	**Singapore and Malaysia HK$'000**	**Total HK$'000**	Hong Kong HK$'000	Mainland China HK$'000	Taiwan HK$'000	Singapore and Malaysia HK$'000	Total HK$'000
At beginning of the year	**535,364**	**14,071**	**–**	**198,179**	**747,614**	426,917	17,497	–	204,209	648,623
Exchange differences	**–**	**295**	**13**	**(3,581)**	**(3,273)**	–	(112)	–	2,234	2,122
Gross receipts from sales of prepaid beauty packages	**617,304**	**30,359**	**1,518**	**123,025**	**772,206**	603,108	34,346	–	126,756	764,210
Revenue recognised for provision of beauty and wellness services and expiry of prepaid beauty package	**(614,832)**	**(32,216)**	**(759)**	**(180,289)**	**(828,096)**	(494,661)	(37,660)	–	(135,020)	(667,341)
At end of the year	**537,836**	**12,509**	**772**	**137,334**	**688,451**	535,364	14,071	–	198,179	747.614

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. During the year under review, employee benefit expenses increased by about 3.9% from HK$397.5 million in FY2013 to approximately HK$413.1 million, which was attributable to the continuous growth of our operations and our dedication to improve the remuneration of the staff in order to attract and retain the talents. Employee benefit expenses accounted for 47.5% of our turnover in FY2014, as compared to 56.1% for FY2013.

The Group's remuneration policies are in line with the prevailing market practices and are determined based on the 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 2014, the Group operated a total of 43 service centres in Mainland China and Hong Kong with a total weighted average gross floor area of approximately 295,200 square feet, representing a decrease of 4.5% as compared to 309,100 square feet in FY2013. The number of product sales points of the Group was 22 during the year under review (FY2013: 22). In respect of the Southeast Asian region, as of 31 March 2014, the Group had 14 and 3 beauty service centres in Singapore and Malaysia respectively, with a total weighted average gross floor area of approximately 25,600 square feet and approximately 8,900 square feet respectively (FY2013: approximately 26,000 square feet and approximately 8,900 square feet respectively). The Group's occupancy costs in FY2014 were approximately HK$160.5 million (FY2013: HK$156.1 million), accounting for approximately 18.5% of our turnover (FY2013: 22.0%).

During the year under review, the Group entered into the Master Lease Agreement (which contains a number of leases) with a company wholly owned by a family trust set up by the Group's Chairperson. This will shelter the Group from any potential loss due to relocation of its existing beauty and wellness centres in the event that the relevant existing lease agreements are not being renewed upon their expiry and save the administrative costs of the Group. In addition, the Master Lease Agreement will also provide the Group with the opportunities to lease new premises based on market price in which the Group considers suitable for the continuous expansion of its network of beauty and wellness centres.

Depreciation

Depreciation for the year under review increased by 41.6% to HK$43.9 million as compared with HK$31.0 million for FY2013. The increase is mainly due to the depreciation incurred in the renovations, beauty equipment and fixtures of the new big sized services centres opened from the beginning to the middle of the calendar year of 2013.

Other operating expenses

Other operating expenses include bank charges, advertising costs, utilities and building management fees. Bank charges recorded changes in line with sales of new prepaid beauty packages, which slightly increased by 4.4% to HK$37.3 million. Advertising costs decreased to HK$11.0 million from HK$12.3 million for the same period last year. Advertising cost as a percentage of turnover decreased from 1.7% in FY2013 to 1.3% in FY2014. The decrease reflected the Group's ability to enjoy cost advantage in advertising cost as it could spread such costs across an enlarged service centre network that covers Hong Kong, Mainland China, Singapore, Malaysia and Taiwan. Advertising cost is allocated in effective way to raise brand awareness and capture a greater market share.

Management Discussion and Analysis

Profit/(loss) for the year

Profit from operations for the year under review increased to approximately HK$80.2 million as compared to a loss of approximately HK$45.0 million for FY2013. Furthermore, profit for the year under review attributable to equity shareholders of the Company also turned from a loss of approximately HK$53.4 million in FY2013 to a profit of approximately HK$54.8 million. Operating margin improved from a loss of 6.4% in FY2013 to a operating profit margin of 9.2% in FY2014. The increase in operating profit was mainly attributable to the growth in the Group's turnover, whilst the increase in operating profit margin was primarily due to the successful implementation of various cost controlling measures and the Group's focus in delivering high-end products and services of quality being accepted by customers. Basic earnings per share was HK6.28 cents as compared to loss per share of HK6.11 cents for the same period last year.

Dividend per share

The Board recommended payment of a final dividend of HK2.0 cents per share subject to approval of the shareholders at the forthcoming Annual General Meeting. Together with the interim dividends of HK2.5 cents per share paid during the year under review, the total dividend paid for the year ended 31 March 2014 will be HK4.5 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$440.9 million (FY2013: HK$481.2 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 year 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$60.1 million, as compared to HK$88.6 million for the same period last year. The amount was mainly used for the additions of leasehold improvements, motor vehicles and equipment and machinery in connection with the expansion 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 2014. The Group had capital commitment of HK$5.2 million as at 31 March 2014 (31 March 2013: HK$13.4 million), mainly for the acquisition of plant and equipment.

Charges on assets

As of 31 March 2014, the Group had pledged bank deposits of HK$52.2 million (31 March 2013: HK$47.2 million) in favour of certain banks to secure banking facilities granted to certain subsidiaries in the Group.

Foreign exchange risk exposures

The Group's 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 minimise potential risks and strike a balance between our exposure and return so as to properly hedge such exposures.

Human resources and training

The Group had a workforce of 1,826 staff as of 31 March 2014 (31 March 2013: 1,937 staff), including 1,297 front-line service centre staff in Hong Kong, 120 in Mainland China and 197 in Southeast Asian regions (Singapore, Malaysia and Taiwan). Back office staff totaled 144 in Hong Kong, 21 in Mainland China and 47 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 2014, 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$413.1 million, representing a 3.9% increase as compared to HK$397.5 million in FY2013. To enhance the service quality and core skills of our staff members, the Group regularly organises 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.

Management Discussion and Analysis

Outlook

The backlash of the society against the series of beauty treatment incidents within the industry accentuated the importance of safety of services and products. The Group always champions to provide beauty services and products with high quality and safety standards in its beauty and wellness centres, and imposes strict quality control on the skincare and wellness products used and sold by us. With the persistence to crusade for these causes, we have ridden out the difficulties of the industry and quickly revived our business during the year under review.

We will continue to explore and introduce safe and advanced beauty and slimming products and equipment, so as to suit the market needs. The Group will also continue to provide pertinent training to its service team to ensure service quality, and to ensure we abounds with well trained and experienced front-line service team to serve our customers and build a good foundation for the Group's future development and continue to be one of the bellwethers of the industry for which we have been being widely acclaimed.

In recent years, rental cost of retail shops skyrocketed and has eclipsed all other categories of cost in our industry. At the same time, it is ubiquitous that many retailers cannot renew their lease upon expiry with the landlords due to the booming retail economic conditions. In February 2014, we entered into the Master Lease Agreement, which contains premises for present usage by the Group with 10 service centres in Hong Kong and Singapore, 3 office and warehouses in Hong Kong and 3 staff quarters in Hong Kong and Singapore. It also contains premises for intended usage by the Group with 3 service centres in Hong Kong and 1 staff quarter in Singapore. The Master Lease Agreement safeguards the Group from any potential loss due to relocation of its existing beauty and wellness centres in the event that relevant leases cannot be renewed upon expiry.

Having more than 500,000 customers is one of our core values and assets. By exploring the big data analytics, we combined, contrasted and analysed to find patterns and other useful information that is most important to the business and future business decisions, and to improve customer retention, help with product development, serve the best to the customers and finally gain a competitive advantage on the market. Wedding photography is one of the new businesses that we explore during the year under review to suit the customer needs with only little marginal cost to incur. Together with our variety of services provided to the customers such as skincare, slimming, hairstyling, cosmetics, manicures, pedicures, electrology, medical beauty, we will continue to epitomise the holistic one-stop beauty service provider to our customers.

In the coming future, the Group will further beef up its product business by expanding the sales network, increasing brands and products representation, or acquiring new beauty product brands in order to achieve our business diversification goal. It is envisaged that the sales of beauty products will be one of a major force behind the Group's profit growth in the future.

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, The investment community is able to have a clearer insight on our business development and the 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 grow, 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 2014 Annual General Meeting	*26 August 2014*
Closure of Register of Members for 2014 Annual General Meeting	*27 August 2014 to 29 August 2014, both dates inclusive*
2014 Annual General Meeting	*29 August 2014*
Last day to register for entitlement to 2014 final dividend	*4 September 2014*
Closure of Register of Members for entitlement to 2014 final dividend	*5 September 2014 to 10 September 2014, both dates inclusive*
Record date for entitlement to 2014 final dividend	*10 September 2014*
Payment of 2014 final dividend	*3 October 2014*

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 2014:	873,996,190 shares
Board lot:	4,000 shares
Nominal value:	HK$0.10 per share
Market Capitalization as at 31 March 2014:	HK$551 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 53, 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 also the founder and chairperson of Grateful Heart Charitable Foundation Limited and the founder and dean of Beauty Expert International College. 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 also awarded the "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, In 2013, Ms. Tsang was awarded "CEO of the year 2013" from Capital CEO, "Outstanding Business Women of the Year" from Capital Entrepreneur. 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". 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 "Outstanding Entrepreneur" by Capital CEO + Capital Entrepreneur in March 2014. 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 40, 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 eleven 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.

Ms. Yeung See Man
Aged 40, is an Executive Director 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 52, was appointed as an Independent Non-executive Director in December 2009. Ms. Liu is a Member of the Canadian Chartered Professional 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 Finance and Commercial Studies 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 48, 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 64, 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. Mr. Hong is a Notary Public issued by Hong Kong Society of Notaries. 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.

Biography of Directors and Senior Management

Mr. Lam Tak Leung
Aged 61, 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. In 2013, Mr. Lam Tak Leung was appointed as a Counsellor of Hunan Provincial People's Government, China. He also 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. 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 39, 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 47, 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 42, 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.

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 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" and from Code Provision A.6.7 as set out in the section headed "Non-Compliance with Code Provision A.6.7" 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
Ms. Yeung See Man
Mr. Leung Man Kit (resigned on 13 February 2014)

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

The Board is currently composed of three 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. The policy concerning diversity of Board members of the Company is to maintain a balanced composition of Board members in terms of age, gender, skills, experience, education to reinforce a stronger independent review and monitoring function. 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 26 to 28 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 held 19 board meetings.

Corporate Governance Report

Directors' Attendance at Board/Board Committee/General Meetings

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

	Board Meetings	Audit Committee Meetings	Nomination Committee Meetings	Remuneration Committee Meetings	Independent Board Committee Meeting	Extraordinary General Meeting	2013 Annual General Meeting
Executive Directors							
Ms. Tsang Yue, Joyce[1]	5/19	N/A	0/1	0/2	N/A	0/1	1/1
Mr. Yip Kai Wing	13/19	N/A	N/A	N/A	N/A	1/1	0/1
Mr. Leung Man Kit[4]	17/17	N/A	N/A	N/A	N/A	N/A	1/1
Ms. Yeung See Man	18/19	N/A	N/A	N/A	N/A	1/1	1/1
Independent Non-Executive Directors							
Ms. Liu Mei Ling, Rhoda[2]	19/19	7/7	1/1	2/2	1/1	0/1	1/1
Mr. Wong Man Hin, Raymond[3]	19/19	7/7	1/1	2/2	1/1	1/1	1/1
Mr. Hong Po Kui, Martin	12/19	5/7	1/1	2/2	1/1	0/1	0/1
Mr. Lam Tak Leung	6/19	N/A	N/A	N/A	1/1	1/1	1/1

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. Leung Man Kit resigned as Director with effect from 13 February 2014, and attended 17 Board meetings before his resignation.

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 business, 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. During the year under review, the Company 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. Mr. Leung Man Kit resigned as a Director of the Company prior to organization of such training courses by the Company and as a result he did not receive training through such training courses during the year under review. Some Directors participated in continuous professional development by attending other professional training courses or by reading relevant materials in relation to corporate governance matter. The Company has received from the relevant Directors the confirmations on taking continuous professional training course during the year under review as follows:–

Ms. Tsang Yue, Joyce	Participation in training courses
Mr. Yip Kai Wing	Participation in training courses
Ms. Yeung See Man	Participation in training courses
Ms. Liu Mei Ling, Rhoda	Participation in training courses
Mr. Wong Man Hin, Raymond	Participation in training courses
Mr. Hong Po Kui, Martin	Participation in training courses
Mr. Lam Tak Leung	Reading materials

Chairperson and Chief Executive Officer

During the year under review, Ms. Tsang Yue, Joyce ("Ms. Tsang") was 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.

Non-Compliance with Code Provision A.6.7

Code Provision A.6.7 provides that Independent Non-executive Directors and other Non-executive Directors of the Company should attend general meetings and develop a balanced understanding of the views of the shareholders.

Mr. Hong Po Kui, Martin, an Independent Non-executive Director of the Company, was absent from the Annual General Meeting of the Company held on 30 August 2013 due to personal reason.

Ms. Liu Mei Ling, Rhoda, an Independent Non-executive Director of the Company, was absent from the Extraordinary General Meeting of the Company held on 31 March 2014 due to personal reason.

Mr. Hong Po Kui, Martin, an Independent Non-executive Director of the Company, was absent from the Extraordinary General Meeting of the Company held on 31 March 2014 due to personal reason.

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 2013 for a term of three years commencing from 27 August 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. Mr. Lam Tak Leung, INED, had entered into a letter of appointment dated 21 December 2012 for a term of three years commencing from

Corporate Governance Report

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 (including Directors' remuneration policy) 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 twice. 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. reviewed the resignation of Mr. Leung Man Kit as an Executive Director, Chief Financial Officer and Authorized Representative of the Company;

c. 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 seven times. 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 KPMG as the external auditor of the Company in place of RSM Nelson Wheeler;

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 prior to their approval by the Board.

Auditors' Remuneration

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

	Fee paid/ payable HK$'000
Audit services	**2,500**
Non-audit services	**280**

Remuneration of Directors and Senior Management

The remuneration of the members of the senior management by band for the year under review is set out below:

Remuneration bands	**Number of persons**
HK$Nil to HK$1,000,000	**2**
HK$1,500,001 to HK$2,000,000	**1**

Further particulars regarding Director's remuneration and the five highest paid employees are set out in notes 8 and 9 to the financial statements respectively.

Corporate Governance Report

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 52 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 took 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 was 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 FY2014.

Principal Activities

The principal activities of the Company is investment holding and the principal activities of the Group continued throughout FY2014 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 2014 are set out in note 13 to the financial statements.

Results and Appropriations

The results of the Group for FY2014 are set out in the consolidated statement of profit or loss on page 54.

The turnover and results of the Group are principally derived from the provision of beauty and wellness services in Hong Kong, Mainland China, Taiwan, Singapore and Malaysia. The Group's turnover and results by reportable segment are set out in note 3 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 of HK2.5 cent per Share, amounting to HK$21,850,000, were paid to shareholders of the Company ("Shareholders") during the year under review (FY2013: an interim dividend and a special dividend of HK3.0 cents and HK1.1 cents per Share respectively, totaling HK$35,833,000).

The Directors are pleased to recommend the payment of a final dividend of HK2.0 cents per Share amounting to HK$17,480,000 during the year under review (FY2013: nil final dividend but a further special dividend of HK4.0 cents per Share, totaling HK$34,960,000), subject to the Shareholders' approval at the forthcoming annual general meeting of the Company ("AGM").

The AGM is scheduled to be held on Friday, 29 August 2014. For determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Wednesday, 27 August 2014 to Friday, 29 August 2014, 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, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Tuesday, 26 August 2014.

The proposed final dividend is subject to the passing of an ordinary resolution by the Shareholders at the AGM. The record date for entitlement to the proposed final dividend is Wednesday, 10 September 2014. For determining the entitlement to the proposed final dividend, the register of members of the Company will be closed from Friday, 5 September 2014 to Wednesday, 10 September 2014, both days inclusive, during which period no transfer of Share will be effected. In order to qualify for the proposed final dividend, all transfers of Shares, accompanied by the relevant share certificates, must be lodged with the Company's share registrars in Hong Kong, Tricor Investor Services Limited, for registration not later than 4:30 p.m. on Thursday, 4 September 2014. The payment of final dividend will be made on Friday, 3 October 2014.

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 page 59 and note 23 to the financial statements respectively.

Distributable Reserves

As at 31 March 2014, the Company's reserve available for distribution amounted to approximately HK$450.3 million. Movements in reserves of the Company during the year under review and the distributable reserves of the Company as at 31 March 2014 are set out in note 23 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 106, which does not form part of the financial statements.

Property, Plant and Equipment

During the year under review, the Group spent approximately HK$60.1 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 12 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 15% (FY2013: 16%) of the Group's total purchase for the year under review and the five largest suppliers taken together accounted for approximately 34% (FY2013: 33%) 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) had 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 23 to the financial statements.

Convertible Note

Details of the convertible note of the Group during the year under review are set out in note 22 to the financial statements.

Report of the Directors

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$212,000 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 (resigned on 13 February 2014)
Mr. Yip Kai Wing
Ms. Yeung See Man

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

Pursuant to Article 130 of the Company's Articles of Association, Ms. Tsang Yue, Joyce, Mr. Yip Kai Wing and Mr. Hong Po Kui, Martin will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming 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 has 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 still considers all of them to be independent.

Directors' Service Contracts

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 28 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.

Update on Directors' Information under Rule 13.51B(1) of the Listing Rules

Mr. Leung Man Kit resigned as Executive Director, Chief Financial Officer and Authorised Representative of the Company with effect from 13 February 2014 due to his intention to concentrate on his family and personal affairs.

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

As at 31 March 2014, the interests and short positions of the Directors and chief executive 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 2014 (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.

Report of the Directors

Save as disclosed above, as at 31 March 2014, none of the Directors and chief executive 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 executive 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 2014, 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%

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]
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 Elite	Custodian corporation/ approved lending agent	69,660,000	–	69,660,000	7.97%

Notes:

1. The percentage has been compiled based on the total number of Shares of the Company in issue as at 31 March 2014 (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 2014.

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.

Report of the Directors

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.

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).

Name	Balance as at 1 April 2013	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 2014	Date of grant	Period during which options are exercisable	Exercise price	Approximate percentage of share per issued share (Note 1)
Executive Directors									
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	75,000	–	–	–	75,000	23/10/2006	23/10/2010 to 22/10/2016	HK$1.33	0.01%
Ms. Yeung See Man	105,000	–	–	–	105,000	23/10/2006	23/10/2014 to 22/10/2016	HK$1.33	0.01%
Ms. Yeung See Man	120,000	–	–	–	120,000	23/10/2006	23/10/2015 to 22/10/2016	HK$1.33	0.01%
Others	1,375,000	–	–	–	1,375,000	23/10/2006	23/10/2010 to 22/10/2016	HK$1.33	0.16%
Others	1,925,000	–	–	–	1,925,000	23/10/2006	23/10/2014 to 22/10/2016	HK$1.33	0.22%
Others	2,200,000	–	–	–	2,200,000	23/10/2006	23/10/2015 to 22/10/2016	HK$1.33	0.25%
Total	6,300,000	–	–	–	6,300,000				

Note:

1. The relevant percentages are calculated by reference to the Shares in issue on 31 March 2014 (i.e. 873,996,190 shares).

Report of the Directors

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:

(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$61,556 and HK$369,336 respectively for the year ended 31 March 2014 (FY2013: HK$374,982 and HK$374,982 respectively). The rental is calculated based on a monthly rental of S$5,000 for each of the above two tenancy agreements.

The above tenancy agreements for 21 Kovan Road #10–15 Singapore 548192 and 21 Kovan Road #9–16 Singapore 548192 was terminated on 3 June 2013 and on 1 April 2014 respectively.

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$336,000 and HK$336,000 respectively for the year ended 31 March 2014. The rental is calculated based on a monthly rental of HK$28,000 for each of the above two tenancy agreements.

Both of the above 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 were terminated on 1 April 2014.

(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 ended 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;

(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;

Report of the Directors

(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;

(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;

(xii) tenancy agreement dated 21 August 2013 in respect of Shop B2B and B2C of Portion B on Ground Floor, Portion B on 1st Floor, 2nd Floor, Hang Ying House, Nos. 318-328 King's Road, Hong Kong at the monthly rent of HK$570,000 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 2013 to 31 March 2014; and

(xiii) tenancy agreement dated 1 December 2013 in respect of 3rd and 4th Floor, (including Flat Roof) BCC Building, Nos. 25-31 Carnarvon Road, Kowloon, Hong Kong at the monthly rent of HK$325,000 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 December 2013 to 31 March 2014.

(3) The following transactions have been approved by independent shareholders at an Extraordinary General Meeting held on 31 March 2014.

Since the Group intends to continue to lease certain existing premises and may lease certain new premises and, if appropriate, other new premises from subsidiaries ("Owners") of Asia Power Global Limited ("Lessor"), a company wholly owned by a family trust set up by Ms. Tsang Yue, Joyce, as its operating facilities (including but not limited to offices, retail shops, service centres and warehouses) and staff quarters and anticipates that it will enter into new leases during the ordinary and usual course of the Group's business during the three years ending 31 March 2017, the Company and the Lessor entered into a Master Lease Agreement on 20 February 2014 ("Master Lease Agreement") to set out the principal terms and conditions governing the leasing of premises by the Group from the Owners pursuant to the Master Lease Agreement by entering into a tenancy or lease agreement in respect of such premises between the Group and the relevant Owner ("2014-2017 Leasing Arrangements") in the future.

The Master Lease Agreement shall be for a term commencing from 1 April 2014 and ending on 31 March 2017. In addition, the Master Lease Agreement may be terminated by the Company by giving the Lessor at least sixty days' written notice of termination.

Each of the 2014-2017 Leasing Arrangements to be entered into between the Company and the relevant Owner pursuant to the Master Lease Agreement will have a term commencing on or after 1 April 2014 and expiring on or before 31 March 2017.

Pursuant to the Master Lease Agreement, each 2014-2017 Leasing Arrangement 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 2014-2017 Leasing Arrangement shall be determined by the parties to each 2014-2017 Leasing Arrangement with reference to the then prevailing market rents on premises comparable in location, area and permitted use.

In respect of any additional new premises to be identified by the Group, the Company will obtain a fair rent opinion from an independent property valuer regarding the then prevailing market rent of such new premises. The independent non-executive Directors will also review the proposed 2014-2017 Leasing Arrangements in respect of any additional new premises in light of the then prevailing market rent of such new premises and other terms of the leases to ensure that the proposed 2014-2017 Leasing Arrangements are (i) entered into in the ordinary and usual course of business of the Company; (ii) on normal commercial terms and on terms that are no less favourable than those offered by the Owners to other independent third parties; and (iii) in accordance with the terms of the Master Lease Agreement.

The government rent, rates and management fee under each 2014-2017 Leasing Arrangement will be paid to the government or, as the case may be, the management companies by the relevant tenant direct.

The maximum consideration payable by the Group to the Lessor and/or the Owners (as the case may be) under the 2014-2017 Leasing Arrangements pursuant to the Master Lease Agreement for the year ending 31 March 2015, the year ending 31 March 2016 and the year ending 31 March 2017 in the amount of HK$76.3 million, HK$76.3 million and HK$76.3 million, respectively ("2014-2017 Annual Caps").

Report of the Directors

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 8 April 2014 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$436,050 exclusive of rates, Government rent, management fee and other outgoings (including but not limited to water, gas and electricity charges) for a term of 36 months from 1 April 2014;

(ii) tenancy agreement dated 8 April 2014 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$61,200 exclusive of rates, Government rent, management fee and other outgoings (including but not limited to water, gas and electricity charges) for a term of 36 months from 1 April 2014;

(iii) tenancy agreement dated 8 April 2014 in respect of D1-D14, 3rd Floor, Block D and Car Storage Parking Space Nos. 131-132 on 1st 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$137,700 exclusive of rates, Government rent, management fee and other outgoings (including but not limited to water, gas and electricity charges) for a term of 36 months from 1 April 2014;

(iv) tenancy agreement dated 8 April 2014 in respect of Shop 1 on Ground Floor and 1st 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 2nd Floor, Len Fat Masion, Nos. 56-60, 64-86 Kin Yip Street, Yuen Long, New Territories, Hong Kong at the monthly rent of HK$153,000 exclusive of rates, Government rent, management fee and other outgoings (including but not limited to water, gas and electricity charges) for a term of 36 months from 1 April 2014;

(v) tenancy agreement dated 8 April 2014 in respect of Shop and Toilet Area on 1st Floor, Shop and Toilet Area on 2nd Floor, Lift and Staircase (No.3) and Grease Trap Room on 1st Floor, 1st Floor Staircase for 2nd Floor, Lift and Staircase on 2nd Floor, Lift Machine Room for 1st to 2nd Floors on 3rd Floor, Signage Units Nos. 1 to 8 on Ground Floor, Signage Units Nos. 9 to 14 on 1st Floor, Store and Open Store on Ground Floor, The Grandeur, 47 Jardine's Bazaar, Causeway Bay, Hong Kong at the monthly rent of HK$719,100 exclusive of rates, Government rent, management fee and other outgoings (including but not limited to water, gas and electricity charges) for a term of 36 months from 1 April 2014;

(vi) tenancy agreement dated 8 April 2014 in respect of Units B74-B90, B99-B116, B132-B136, 1/F., 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$168,300 exclusive of rates, Government rent, management fee and other outgoings (including but not limited to water, gas and electricity charges) for a term of 36 months from 1 April 2014;

(vii) tenancy agreement dated 8 April 2014 in respect of Portion A of Shop 3 on Ground Floor, Unit B on Cockloft, Whole of 1st Floor, Whole of Block B on 2nd Floor and Portion of Roof, Chung On Building, No. 297/303 & 307/313 Sha Tsui Road, Tsuen Wan, New Territories together with Flat 1 and Flat Roof on 1st Floor, Kwong YIck Building, 315-323 Sha Tsui Road, Tsuen Wan, New Territories at the monthly rent of HK$749,700 exclusive of rates, Government rent, management fee and other outgoings (including but not limited to water, gas and electricity charges) for a term of 36 months from 1 April 2014;

(viii) tenancy agreement dated 8 April 2014 in respect of 1/F (including its Flat Roof and Stair-Entrance on Ground Floor), King Kwong Mansion, No. 8 King Kwong Street, Happy Valley, Hong Kong at the monthly rent of HK$68,850 exclusive of rates, Government rent, management fee and other outgoings (including but not limited to water, gas and electricity charges) for a term of 36 months from 1 April 2014;

(ix) tenancy agreement dated 8 April 2014 in respect of Commercial Area on Upper Ground Floor, 1st Floor (excluding canopy) and 2nd Floor, V. Heun Building, No. 138 Queen's Road, Central, Hong Kong at the monthly rent of HK$566,100 exclusive of rates, Government rent, management fee and other outgoings (including but not limited to water, gas and electricity charges) for a term of 36 months from 1 April 2014;

(x) tenancy agreement dated 8 April 2014 in respect of 1st Floor and 2nd Floor Commercial Unit with 1st Floor and 2nd Floor Advertising Space of Paradise Square, 3 Kwong Wa Street, Kowloon, Hong Kong at the monthly rent of HK$538,050 exclusive of rates, Government rent, management fee and other outgoings (including but not limited to water, gas and electricity charges) for a term of 36 months from 1 April 2014;

(xi) tenancy agreement dated 8 April 2014 in respect of Shop No. 5 on Ground Floor, Paradise Square, 3 Kwong Wa Street, Kowloon, Hong Kong at the monthly rent of HK$12,750 exclusive of rates, Government rent, management fee and other outgoings (including but not limited to water, gas and electricity charges) for a term of 36 months from 1 April 2014;

(xii) tenancy agreement dated 9 July 2014 in respect of Blk 218 Bedok North Street 1 #01-19 Singapore 460218 at the monthly rent of S$6,600 exclusive of rates, Government rent, management fee and other outgoings (including but not limited to water, gas and electricity charges) for a term of 36 months from 1 April 2014;

(xiii) tenancy agreement dated 8 April 2014 in respect of Shops B2B and B2C of Portion B on Ground Floor, Portion B on 1st Floor, Whole of 2nd Floor, MRT Plaza, Hang Ying House, Nos. 318-328 King's Road, North Point, Hong Kong at the monthly rent of HK$512,550 exclusive of rates, Government rent, management fee and other outgoings (including but not limited to water, gas and electricity charges) for a term of 36 months from 1 April 2014;

(xiv) tenancy agreement dated 8 April 2014 in respect of 3rd and 4th Floor, (including Flat Roof) BCC Building, Nos 25-31 Carnarvon Road, Kowloon, Hong Kong at the monthly rent of HK$306,000 exclusive of rates, Government rent, management fee and other outgoings (including but not limited to water, gas and electricity charges) for a term of 36 months from 1 April 2014;

(xv) tenancy agreement dated 8 April 2014 in respect of Flat A, 32nd Floor, Tower 3, The Wings, Tseung Kwan O, New Territories, Hong Kong at the monthly rent of HK$30,600 exclusive of rates, Government rent, management fee and other outgoings (including but not limited to water, gas and electricity charges) for a term of 36 months from 1 April 2014; and

(xvi) tenancy agreement dated 9 July 2014 in respect of 21 Kovan Road #09-16, Singapore 548192 at the monthly rent of S$4,000 exclusive of rates, Government rent, management fee and other outgoings (including but not limited to water, gas and electricity charges) for a term of 36 months from 1 April 2014;

(collectively, the transactions in sub-paragraphs (1), (2) and (3) above are referred to as "Continuing Connected Transactions" and the transactions in sub-paragraphs (1) and (2) above are referred to as "Auditor Reviewed 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 Group;

(ii) either on normal commercial terms or, on terms no less favourable to the Group 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.

Report of the Directors

Pursuant to 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 in respect of the Auditor Reviewed Continuing Connected Transactions:

a. nothing has come to their attention that causes them to believe that the Auditor Reviewed Continuing Connected Transactions have not been approved by the Company's board of directors.

b. for transactions involving the provision of goods or services by the Group, nothing has come to their attention that causes them to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Group.

c. nothing has come to their attention that causes them to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions.

d. with respect to the aggregate amount of the Auditor Reviewed Continuing Connected Transactions, nothing has come to their attention that causes them to believe that the Auditor Reviewed Continuing Connected Transactions have exceeded the maximum aggregate annual value disclosed in the previous announcements dated 8 November 2011 and 1 February 2013 made by the Company in respect of the Auditor Reviewed Continuing Connected Transactions.

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.

Issue of Unlisted Warrants

On 21 May 2013, the Company entered into a conditional warrant subscription agreement ("Subscription Agreement A") with Mr. Ko Kin Hang ("Subscriber A") and a conditional warrant subscription agreement ("Subscription Agreement B") with Oxley Investment Company Ltd. ("Subscriber B"), a company incorporated in the British Virgin Islands with limited liability and the entire share capital of which is legally and beneficially owned by Mr. Tsang Kwong Chiu, Kevin. Unless otherwise stated, terms defined in the Company's announcement dated 21 May 2013 shall have the same meanings when used in this paragraph. Pursuant to Subscription Agreement A and Subscription Agreement B, the Company has agreed to issue in aggregate 85,000,000 unlisted warrants ("Warrants") conferring rights to subscribe up to HK$89,250,000 for Shares and pursuant to each of the Subscription Agreement A and the Subscription Agreement B respectively, each of the Subscriber A and the Subscriber B has agreed to subscribe for 42,500,000 Warrants at the issue price of HK$0.002 per Warrant. The net issue price, after deduction of relevant expenses, is approximately HK$0.0005 per Warrant. Each of the Warrants carries the right to subscribe for one new Share ("Warrant Share") to be issued by the Company upon the exercise of the subscription rights attaching to the Warrants at the subscription price of HK$1.05 per Warrant Share ("Subscription Price"). Upon full exercise of the subscription rights attaching to the Warrants, 85,000,000 Warrant Shares will be issued. Assuming the full exercise of the subscription rights attaching to the Warrants, the net price to the Company of each Warrant, which is calculated by dividing the aggregate net proceeds from the Warrant Subscriptions and the exercise of the subscription rights attaching to the Warrants by the total number of the Warrants, is approximately HK$1.05. The subscription rights attaching to the Warrants can be exercised at any time during a period of 36 months commencing from the date of issue of the Warrants. The closing market price of the Company's Shares was HK$0.52 per Share on 21 May 2013, being the date on which the terms relating to the issue of the Warrants were fixed. Subscriber A and Subscriber B are third parties independent of the Company and of the connected persons (as defined in the Listing Rules) of the Company and are not connected persons. The Board considers that the issue of Warrants, with a subscription price at a substantial premium, represents an opportunity to raise additional funds for the Company to cater for its future needs while broadening the Shareholder and capital base of the Company. In addition, the Warrants is not interest bearing and will not result in any immediate dilution effect on the shareholding of the existing Shareholders. The net proceeds from the subscriptions of the Warrants by Subscriber A and Subscriber B of approximately HK$50,000 will be applied as general working capital of the Group. Assuming the exercise in full of the subscription rights attaching to the Warrants, the net proceeds from the exercise of the subscription rights attaching to the Warrants of approximately HK$89.3 million shall be applied as general working capital of the Group. Further details of the aforesaid issue of Warrants are set out in the announcement of the Company dated 21 May 2013. During the year under review, no warrants were exercised.

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

During the year under review, the Company did not redeem, and neither the Company nor any of its subsidiaries 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 2014 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 33 of this annual report.

Corporate Governance

The Company's corporate governance practices are set out in Corporate Governance Report on page 29 of this annual report.

Auditor

The financial statements for FY2014 have been audited by KPMG who will retire and, being eligible, offer itself for re-appointment at the AGM. A resolution for the re-appointment of KPMG as auditor of the Company will be proposed at the forthcoming AGM.

In the financial year ended on 31 March 2014, KPMG was appointed by the Directors as auditor of the Company to fill the casual vacancy of RSM Nelson Wheeler who did not seek for re-appointment as auditor of the Company for financial year ended on 31 March 2014. 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

30 June 2014

Independent Auditor's Report

Independent auditor's report to the shareholders of
MODERN BEAUTY SALON HOLDINGS LIMITED
(Incorporated in Cayman Islands with limited liability)

We have audited the consolidated financial statements of Modern Beauty Salon Holdings Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 54 to 104, which comprise the consolidated and company statements of financial position as at 31 March 2014, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement 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. This report is made solely to you, as a body, in accordance with our agreed terms of engagement, 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 the 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 qualified audit opinion.

Basis for Qualified Opinion

Because we were appointed as the auditors of the Company during 2014, it was impracticable to perform sufficient audit procedures to satisfy ourselves on the Group's consolidated statement of financial position as at 31 March 2012 which affects the determination of the results of the Group's operations for the year ended 31 March 2013. Our opinion is therefore modified because of the possible effect of this matter on the comparability of the current year's figures and the corresponding figures.

Qualified Opinion

In our opinion, except for the possible effects on the corresponding figures of the matters described in the Basis for Qualified Opinion paragraph, 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 2014 and of the Group's profit 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.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

30 June 2014

Consolidated Statement of Profit or Loss

For the year ended 31 March 2014

	Note	2014 HK$'000	2013 HK$'000
Turnover	4	**868,806**	708,122
Other income	5	**2,919**	1,784
Cost of inventories sold		**(27,647)**	(29,033)
Advertising costs		**(11,028)**	(12,331)
Building management fees		**(18,101)**	(19,128)
Bank charges		**(37,343)**	(35,776)
Employee benefit expenses	6(b)	**(413,100)**	(397,471)
Depreciation		**(43,932)**	(30,977)
Occupancy costs		**(160,538)**	(156,104)
Other operating expenses		**(79,843)**	(74,110)
Profit/(loss) from operations		**80,193**	(45,024)
Interest income		**2,066**	1,961
Finance costs	6(a)	**(476)**	(620)
Fair value changes on investment properties		**–**	(14,300)
Profit/(loss) before taxation	6	**81,783**	(57,983)
Income tax (expense)/credit	7(a)	**(26,942)**	4,549
Profit/(loss) for the year		**54,841**	(53,434)
Attributable to:			
Equity shareholders of the Company		**54,844**	(53,431)
Non-controlling interests		**(3)**	(3)
Profit/(loss) for the year		**54,841**	(53,434)
Earnings/(loss) per share (HK cents)	11		
Basic		**6.28**	(6.11)
Diluted		**5.75**	(6.11)

The notes on pages 61 to 104 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 23(b).

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 March 2014

	Note	2014 HK$'000	2013 HK$'000
Profit/(loss) for the year		**54,841**	(53,434)
Other comprehensive income for the year (after tax and reclassification adjustments):			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		**1,208**	(769)
Other comprehensive income for the year		**1,208**	(769)
Total comprehensive income for the year		**56,049**	(54,203)
Attributable to:			
Equity shareholders of the Company		**56,052**	(54,200)
Non-controlling interests		**(3)**	(3)
Total comprehensive income for the year		**56,049**	(54,203)

The notes on pages 61 to 104 form part of these financial statements.

Consolidated Statement of Financial Position

As at 31 March 2014

	Note	2014 HK$'000	2013 HK$'000
Non-current assets			
Property, plant and equipment	12	**148,986**	133,724
Deposits	14	**20,053**	22,264
Deferred tax assets	15(a)	**14,473**	24,191
		183,512	180,179
Current assets			
Inventories	16	**23,402**	19,293
Trade and other receivables, deposits and prepayments	14	**238,818**	245,390
Tax recoverable		**16,124**	17,992
Pledged bank deposits	17	**52,170**	47,162
Cash and bank balances	18	**440,850**	481,249
		771,364	811,086
Current liabilities			
Trade and other payables, deposits received and accrued expenses	19	**91,955**	83,973
Deferred revenue	20	**688,451**	747,614
Finance lease payable	21	**–**	18
Convertible note	22	**3,680**	3,680
Tax payable		**21,306**	7,221
		805,392	842,506
Net current liabilities		**(34,028)**	(31,420)
Total assets less current liabilities		**149,484**	148,759

	Note	2014 HK$'000	2013 HK$'000
Non-current liabilities			
Convertible note	22	**1,948**	3,316
Deferred tax liabilities	15(a)	**2,231**	–
		4,179	3,316
NET ASSETS		**145,305**	145,443
CAPITAL AND RESERVES			
Share capital	23(c)	**87,400**	87,400
Reserves		**57,846**	57,981
Total equity attributable equity shareholders of the Company		**145,246**	145,381
Non-controlling interests		**59**	62
TOTAL EQUITY		**145,305**	145,443

Approved and authorised for issue by the Board of Directors on 30 June 2014.

Ms. Yeung See Man
Director

Mr. Yip Kai Wing
Director

The notes on pages 61 to 104 form part of these financial statements.

Statement of Financial Position

As at 31 March 2014

	Note	2014 HK$'000	2013 HK$'000
Non-current asset			
Investment in a subsidiary	13	**101,076**	101,076
Current assets			
Amounts due from subsidiaries	13	**441,980**	460,360
Prepayments	14	**38**	38
Cash and bank balances	18	**259**	1,708
		442,277	462,106
Current liabilities			
Other payables	19	**5**	2
Convertible note	22	**3,680**	3,680
		3,685	3,682
Net current assets		**438,592**	458,424
Total assets less current liabilities		**539,668**	559,500
Non-current liability			
Convertible note	22	**1,948**	3,316
NET ASSETS		**537,720**	556,184
CAPITAL AND RESERVES	23		
Share capital		**87,400**	87,400
Reserves		**450,320**	468,784
TOTAL EQUITY		**537,720**	556,184

Approved and authorised for issue by the Board of Directors on 30 June 2014.

Ms. Yeung See Man
Director

Mr. Yip Kai Wing
Director

The notes on pages 61 to 104 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 March 2014

		Attributable to equity shareholders of the Company											
	Note	Share capital HK$'000	Share premium HK$'000	Share-based compensation reserve HK$'000	Warrants reserve HK$'000	Merger reserve HK$'000	Exchange reserve HK$'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
Balance at 1 April 2012		87,400	289,999	3,687	–	(374,921)	833	29,798	84,870	150,412	272,078	65	272,143
Changes in equity for 2013:													
Loss for the year		–	–	–	–	–	–	–	–	(53,431)	(53,431)	(3)	(53,434)
Other comprehensive income		–	–	–	–	–	(769)	–	–	–	(769)	–	(769)
Total comprehensive income		–	–	–	–	–	(769)	–	–	(53,431)	(54,200)	(3)	(54,203)
Share-based payments	6(b)	–	–	481	–	–	–	–	–	–	481	–	481
Lapse of share options		–	–	(237)	–	–	–	–	–	237	–	–	–
Transfer upon disposal of investment properties		–	–	–	–	–	–	(29,798)	–	29,798	–	–	–
2012 final dividends paid	23(b)(ii)	–	–	–	–	–	–	–	–	(37,145)	(37,145)	–	(37,145)
2013 interim dividends paid	23(b)(i)	–	–	–	–	–	–	–	–	(26,219)	(26,219)	–	(26,219)
2013 special dividends paid	23(b)(i)	–	–	–	–	–	–	–	–	(9,614)	(9,614)	–	(9,614)
Balance at 31 March 2013 and 1 April 2013		87,400	289,999	3,931	–	(374,921)	64	–	84,870	54,038	145,381	62	145,443
Changes in equity for 2014:													
Profit for the year		–	–	–	–	–	–	–	–	54,844	54,844	(3)	54,841
Other comprehensive income		–	–	–	–	–	1,208	–	–	–	1,208	–	1,208
Total comprehensive income		–	–	–	–	–	1,208	–	–	54,844	56,052	(3)	56,049
Share-based payments	6(b)	–	–	453	–	–	–	–	–	–	453	–	453
Issue of warrants		–	–	–	170	–	–	–	–	–	170	–	170
2013 special dividends paid	23(b)(ii)	–	–	–	–	–	–	–	–	(34,960)	(34,960)	–	(34,960)
2014 interim dividends paid	23(b)(i)	–	–	–	–	–	–	–	–	(21,850)	(21,850)	–	(21,850)
Balance at 31 March 2014		87,400	289,999	4,384	170	(374,921)	1,272	–	84,870	52,072	145,246	59	145,305

The notes on pages 61 to 104 form part of these financial statements.

Consolidated Cash Flows Statement

For the year ended 31 March 2014

	Note	2014 HK$'000	2013 HK$'000
Operating activities			
Profit/(loss) before taxation		81,783	(57,983)
Adjustments for:			
Depreciation		43,932	30,977
Interest income		(2,066)	(1,961)
Finance costs		476	620
Equity-settled share-based payment expenses		453	481
Fair value changes on investment properties		–	14,300
Net loss/(gain) on disposals of property, plant and equipment		629	(108)
Operating profit/(loss) before changes in working capital		125,207	(13,674)
Increase in inventories		(4,391)	(6,134)
Decrease/(increase) in trade and other receivables, deposits and prepayments		8,460	(27,156)
Increase in trade and other payables, deposits received and accrued expenses		8,266	11,561
(Decrease)/increase in deferred revenue		(55,890)	96,869
Cash generated from operations		81,652	61,466
Interest received		2,066	1,961
Interest element of finance lease payable paid		(4)	(2)
Tax refunded/(paid)		732	(27,387)
Net cash generated from operating activities		84,446	36,038
Investing activities			
Purchase of property, plant and equipment		(60,145)	(88,637)
Proceeds from disposals of property, plant and equipment		11	120
Proceeds from disposal of investment properties		–	162,000
Withdrawal of fixed deposits with bank with maturity over three months		–	6,184
Increase in pledged bank deposits		(5,008)	(40,021)
Net cash (used in)/generated from investing activities		(65,142)	39,646
Financing activities			
Proceeds from issue of warrants		170	–
Dividends paid to equity shareholders of the Company		(56,810)	(72,978)
Capital element of finance lease payable paid		(18)	(19)
Interest paid on convertible note		(1,840)	(898)
Net cash used in financing activities		(58,498)	(73,895)
Net (decrease)/increase in cash and cash equivalents		(39,194)	1,789
Effect of foreign exchange rates changes		(1,205)	1,218
Cash and cash equivalents at beginning of year		481,249	478,242
Cash and cash equivalents at end of year	18	440,850	481,249

The notes on pages 61 to 104 form part of these financial statements.

Notes to the Financial Statements

For the year ended 31 March 2014

1 General Information

Modern Beauty Salon Holdings Limited (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 13 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 Significant Accounting Policies

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and accounting principles generally accepted in Hong Kong. These financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance, which for this financial year and the comparative period continue to be those of the predecessor Companies Ordinance (Cap. 32), in accordance with transitional and saving arrangements for Part 9 of the new Hong Kong Companies Ordinance (Cap. 622), "Accounts and Audit", which are set out in sections 76 to 87 of Schedule 11 to that Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"). A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 March 2014 comprise the Company and its subsidiaries (together referred to as the "Group").

The measurement basis used in the preparation of the financial statements is the historical cost basis.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 29.

Notes to the Financial Statements

For the year ended 31 March 2014

2 Significant Accounting Policies (Continued)

(c) Changes in accounting policies

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

- Amendments to HKAS 1, *Presentation of financial statements – Presentation of items of other comprehensive income*
- HKFRS 10, *Consolidated financial statements*
- HKFRS 12, *Disclosure of interests in other entities*
- HKFRS 13, *Fair value measurement*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 30).

Impacts of the adoption of new or amended HKFRSs are discussed below:

Amendments to HKAS 1, Presentation of financial statements – Presentation of items of other comprehensive income

The amendments require entities to present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The presentation of other comprehensive income in the consolidated statement of profit or loss and other comprehensive income in these financial statements has been modified accordingly. In addition, the Group has chosen to use the new titles "statement of profit or loss" and "statement of profit or loss and other comprehensive income" as introduced by the amendments in these financial statements.

HKFRS 10, Consolidated financial statements

HKFRS 10 replaces the requirements in HKAS 27, *Consolidated and separate financial statements* relating to the preparation of consolidated financial statements and HK-SIC 12 *Consolidation – Special purpose entities*. It introduces a single control model to determine whether an investee should be consolidated, by focusing on whether the entity has power over the investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect the amount of those returns.

As a result of the adoption of HKFRS 10, the Group has changed its accounting policy with respect to determining whether it has control over an investee. The adoption does not change any of the control conclusions reached by the Group in respect of its involvement with other entities as at 1 April 2013.

HKFRS 12, Disclosure of interests in other entities

HKFRS 12 brings together into a single standard all the disclosure requirements relevant to an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The disclosures required by HKFRS 12 are generally more extensive than those previously required by the respective standards. To the extent that the requirements are applicable to the Group, the Group has provided those disclosures in note 13.

HKFRS 13, Fair value measurement

HKFRS 13 replaces existing guidance in individual HKFRSs with a single source of fair value measurement guidance. HKFRS 13 also contains extensive disclosure requirements about fair value measurements for both financial instruments and nonfinancial instruments. To the extent that the requirements are applicable to the Group, the Group has provided those disclosures in notes 12 to 28. The adoption of HKFRS 13 does not have any material impact on the fair value measurements of the Group's assets and liabilities.

2 Significant Accounting Policies (Continued)

(d) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position in accordance with notes 2(j) or (k) depending on the nature of the liability.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 2(g)).

(e) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 2(g)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Notes to the Financial Statements

For the year ended 31 March 2014

2 Significant Accounting Policies (Continued)

(e) Property, plant and equipment (Continued)

Depreciation is calculated to write off the cost or valuation of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives 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

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of the item is allocated on a reasonable basis between the parts and each part is depreciated separately.

Both the useful life of an asset and its residual value, if any, are reviewed annually.

(f) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in property, plant and equipment and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in note 2(e). Impairment losses are accounted for in accordance with the accounting policy as set out in note 2(g). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(ii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

2 Significant Accounting Policies (Continued)

(g) Impairment of assets

(i) Impairment of trade and other receivables

Trade and other current and non-current receivables that are stated at cost or amortised cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

If any such evidence exists, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment; and

– investment in a subsidiary in the Company's statement of financial position.

Notes to the Financial Statements

For the year ended 31 March 2014

2 Significant Accounting Policies (Continued)

(g) Impairment of assets (Continued)

(ii) Impairment of other assets (Continued)

If any such indication exists, the asset's recoverable amount is estimated.

– Calculation of recoverable amount
The recoverable amount of an asset is the greater of its fair value less costs of disposal 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. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses
An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

– Reversals of impairment losses
An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with HKAS 34, *Interim financial reporting*, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 2(g)(i) and (ii)).

(h) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

2 Significant Accounting Policies (Continued)

(i) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see note 2(g)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(j) Convertible note

Convertible note that can be converted to equity share capital at the option of the holder, where the number of shares that would be issued on conversion and the value of the consideration that would be received at that time do not vary, are accounted for as compound financial instruments which contain both a liability component and an equity component.

At initial recognition the liability component of the convertible note is measured as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar liabilities that do not have a conversion option. Any excess of proceeds over the amount initially recognised as the liability component is recognised as the equity component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds.

The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method. The equity component is recognised in the capital reserve until either the note is converted or redeemed.

If the note is converted, the convertible note reserve, together with the carrying amount of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the note is redeemed, the convertible note reserve is released directly to retained profits.

(k) Trade and other payables

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

(l) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(m) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Notes to the Financial Statements

For the year ended 31 March 2014

2 Significant Accounting Policies (Continued)

(m) Employee benefits (Continued)

(ii) Defined contribution retirement plans

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$1,250 (HK$1,000 before 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).

(iii) Share-based payments

The fair value of share options granted to directors and employees is recognised as an employee cost with a corresponding increase in a share-based compensation reserve within equity. The fair value is measured at grant date using the Black-Scholes valuation model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the share-based compensation reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the share-based compensation reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the share-based compensation reserve until either the option is exercised (when it is included in the amount recognised in share capital for the shares issued) or the option expires (when it is released directly to retained profits).

(iv) Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

2 Significant Accounting Policies (Continued)

(n) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from differences which arise on initial recognition of assets and liabilities, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

Notes to the Financial Statements

For the year ended 31 March 2014

2 Significant Accounting Policies (Continued)

(o) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Company has a 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 expenditure 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 of economic benefits 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 of economic benefits is remote.

(p) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sale of skincare and wellness products

Revenue is recognised when goods are delivered to the customers which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) Provision of beauty and wellness services

Revenue 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.

(iii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(iv) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group of the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

(v) Commission income and magazine subscription income

Commission income is recognised upon the provision of services and magazine subscription income is recognised on a straight line basis over the subscription period.

2 Significant Accounting Policies (Continued)

(q) Translation of foreign currencies

Foreign currency transactions during the year are translated into Hong Kong dollars at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated into Hong Kong dollars using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated into Hong Kong dollars using the foreign exchange rates ruling at the dates the fair value was measured.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into Hong Kong dollars at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(r) Related parties

(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 Group or the Group's parent.

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

- (i) The entity and the Group 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.
- (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).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(s) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

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3 Segment Information

The Group has two reportable segments as follows:

Beauty and wellness services – Provision of beauty and wellness services

Skincare and wellness products – Sales of skincare and wellness products

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

Segment profits or losses do not include other income, interest income, finance costs, fair value changes on investment properties, unallocated costs, which comprise corporate administrative expenses, and income tax (expense)/credit. Segment assets do not include properties held for corporate uses, deferred tax assets and tax recoverable. Segment liabilities do not include tax payable, convertible note, deferred tax liabilities, amounts due to related companies and amount due to the ultimate controlling party.

(a) Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 March 2014 and 2013 is set out below.

	Beauty and wellness services HK$'000	**Skincare and wellness products** HK$'000	**Total** HK$'000
Year ended 31 March 2014			
Revenue from external customers	**828,096**	**40,710**	**868,806**
Reportable segment profit	**107,760**	**13,937**	**121,697**
Other segment information:			
Additions to property, plant and equipment	**58,097**	**2,048**	**60,145**
Depreciation	**38,761**	**5,171**	**43,932**
As at 31 March 2014			
Reportable segment assets	**887,754**	**11,843**	**899,597**
Reportable segment liabilities	**766,426**	**13,891**	**780,317**
Year ended 31 March 2013			
Revenue from external customers	667,341	40,781	708,122
Reportable segment (loss)/profit	(21,145)	11,960	(9,185)
Other segment information:			
Additions to property, plant and equipment	82,467	6,170	88,637
Depreciation	26,500	4,477	30,977
As at 31 March 2013			
Reportable segment assets	917,969	6,431	924,400
Reportable segment liabilities	818,596	12,920	831,516

Note: Certain comparative figures have been adjusted to conform to current year's presentation.

3 Segment Information (Continued)

(b) Reconciliations of reportable segment profit or loss, assets and liabilities

	2014 HK$'000	2013 HK$'000
Profit or loss:		
Reportable segment profit/(loss)	**121,697**	(9,185)
Other income	**2,919**	1,784
Interest income	**2,066**	1,961
Finance costs	**(476)**	(620)
Fair value changes on investment properties	**–**	(14,300)
Unallocated costs	**(44,423)**	(37,623)
Income tax (expense)/credit	**(26,942)**	4,549
Consolidated profit/(loss) for the year	**54,841**	(53,434)
Assets:		
Reportable segment assets	**899,597**	924,400
Properties held for corporate uses	**24,682**	24,682
Deferred tax assets	**14,473**	24,191
Tax recoverable	**16,124**	17,992
Consolidated total assets	**954,876**	991,265
Liabilities:		
Reportable segment liabilities	**780,317**	831,516
Tax payable	**21,306**	7,221
Convertible note	**5,628**	6,996
Deferred tax liabilities	**2,231**	–
Amounts due to related companies	**87**	87
Amount due to the ultimate controlling party	**2**	2
Consolidated total liabilities	**809,571**	845,822
Other information:		
Total additions to property, plant and equipment of reportable segments and consolidated additions	**60,145**	88,637
Total depreciation of reportable segments and consolidated depreciation	**43,932**	30,977

Notes to the Financial Statements

For the year ended 31 March 2014

3 Segment Information (Continued)

(c) In presenting the geographical information below, (i) revenue is based on the locations of the customers; and (ii) non-current assets are based on the physical location of the assets. Non-current assets do not include deferred tax assets and deposits.

	Revenue		Non-current assets	
	2014	2013	**2014**	2013
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong	**648,859**	527,925	**119,927**	109,420
Mainland China	**34,124**	38,966	**9,721**	5,392
Singapore	**174,728**	127,710	**14,830**	17,994
Malaysia	**10,336**	13,521	**1,012**	918
Taiwan	**759**	–	**3,496**	–
	868,806	708,122	**148,986**	133,724

4 Turnover

The principal activities of the Group are the provision of beauty and wellness services and sales of skincare and wellness products.

The amount of each significant category of revenue recognised in turnover during the year is as follows:

	2014	2013
	HK$'000	HK$'000
Revenue recognised from provision of beauty and wellness services and expiry of prepaid beauty packages	**828,096**	667,341
Sales of skincare and wellness products	**40,710**	40,781
	868,806	708,122

5 Other Income

	2014	2013
	HK$'000	HK$'000
Commission income	**847**	463
Government grants	**880**	75
Net gain on disposals of property, plant and equipment	**–**	108
Magazine subscription income	**7**	51
Foreign exchange gains, net	**–**	215
Others	**1,185**	872
	2,919	1,784

6 Profit/(Loss) Before Taxation

Profit/(loss) before taxation is arrived at after charging:

(a) Finance costs

	2014 HK$'000	2013 HK$'000
Finance lease charges	4	2
Interest on convertible note wholly repayable within five years (note 22)	472	618
	476	620

(b) Employee benefit expenses

	2014 HK$'000	2013 HK$'000
Wages and salaries	386,789	371,504
Contributions to defined contribution retirement plans	24,532	23,158
Other staff welfare	1,326	2,328
Share-based payments (note 24)	453	481
	413,100	397,471

(c) Other items

	2014 HK$'000	2013 HK$'000
Auditor's remuneration		
– Current	2,905	2,166
– Over-provision in prior year	–	(166)
	2,905	2,000
Direct operating expenses of investment properties that did not generate rental income	–	33
Foreign exchange loss, net	442	–
Operating lease charges for land and buildings (included contingent rental of HK$Nil (2013: HK$2,000))	160,538	156,104
Net loss on disposals of property, plant and equipment	629	–

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For the year ended 31 March 2014

7 Income Tax in the Consolidated Statement of Profit or Loss

(a) Taxation in the consolidated statement of profit or loss represents:

	2014 HK$'000	2013 HK$'000
Current tax – Hong Kong Profits Tax		
Provision for the year	46	54
(Over)/under-provision in respect of prior years	(17)	3
	29	57
Current tax – Overseas		
Provision for the year	15,088	7,191
Under/(over)-provision in respect of prior years	29	(1,257)
	15,117	5,934
Deferred tax		
Origination and reversal of temporary differences (note 15(a))	11,796	(10,540)
	26,942	(4,549)

Hong Kong Profits Tax for 2014 is calculated at 16.5% (2013: 16.5%) of the estimated 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.

7 Income Tax in the Consolidated Statement of Profit or Loss (Continued)

(b) Reconciliation between the tax expense/(credit) and accounting profit/(loss) at applicable tax rates:

	2014 **HK$'000**	2013 HK$'000
Profit/(loss) before taxation	**81,783**	(57,983)
Notional tax on profit/(loss) before taxation, calculated at 16.5% (2013: 16.5%)	**13,494**	(9,567)
Effect of different tax rates of subsidiaries	**587**	1,079
Tax effect of tax exemption	**(516)**	(299)
Tax effect of non-taxable income	**(1,164)**	(1,278)
Tax effect of non-deductible expenses	**2,174**	5,123
Tax effect of utilisation of tax losses previously not recognised	**(122)**	(1,331)
Tax effect of tax losses and other temporary differences previously recognised and now reversed	**8,976**	317
Tax effect of temporary differences previously not recognised and now recognised	**2,226**	–
Tax effect of temporary differences not recognised	**(55)**	(20)
Tax effect of tax losses not recognised	**1,330**	2,681
Under/(over)-provision in respect of prior years	**12**	(1,254)
Income tax expense/(credit)	**26,942**	(4,549)

Notes to the Financial Statements

For the year ended 31 March 2014

8 Directors' Remuneration

Directors' remuneration disclosed pursuant to section 78 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap. 622), with reference to section 161 of the predecessor Hong Kong Companies Ordinance (Cap. 32), is as follows:

		2014				
Name of Director	Note	**Directors' fees HK$'000**	**Salaries and other benefits in kind HK$'000**	**Share-based payments HK$'000**	**Retirement scheme contributions HK$'000**	**Total HK$'000**
Tsang Yue, Joyce		**–**	**17,255**	**–**	**67**	**17,322**
Yip Kai Wing		**–**	**676**	**36**	**15**	**727**
Leung Man Kit	(iv)	**–**	**1,114**	**–**	**13**	**1,127**
Yeung See Man		**–**	**663**	**22**	**15**	**700**
Liu Mei Ling, Rhoda		**300**	**–**	**–**	**–**	**300**
Wong Man Hin, Raymond		**240**	**–**	**–**	**–**	**240**
Hong Po Kui, Martin		**240**	**–**	**–**	**–**	**240**
Lam Tak Leung		**240**	**–**	**–**	**–**	**240**
		1,020	**19,708**	**58**	**110**	**20,896**

		2013				
Name of Director	Note	Directors' fees HK$'000	Salaries and other benefits in kind HK$'000	Share-based payments HK$'000	Retirement scheme contributions HK$'000	Total HK$'000
Tsang Yue, Joyce		–	14,490	–	64	14,554
Yip Kai Wing		–	651	36	15	702
Wong Shu Pui	(i)	–	586	–	10	596
Leung Man Kit		–	1,061	–	15	1,076
Yeung See Man	(ii)	–	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
		840	16,977	43	108	17,968

8 Directors' Remuneration (Continued)

Notes:

(i) Resigned on 11 December 2012 as director and his salaries and other benefits in kind after his resignation had not been included in the 2013 above emoluments.

(ii) Appointed on 11 December 2012 as director and her salaries and other benefits in kind before her appointment had not been included in the 2013 above emoluments.

(iii) Appointed on 1 January 2013

(iv) Resigned on 13 February 2014

9 Individuals with Highest Emoluments

Of the five individuals with the highest emoluments, one (2013: one) is director whose emolument is disclosed in note 8. The aggregate of the emoluments in respect of the other four (2013: four) individuals are as follows:

	2014 HK$'000	2013 HK$'000
Basic salaries and allowances	5,265	4,892
Contributions to defined contribution retirement plan	129	128
Share-based payments	72	72
	5,466	5,092

The emoluments of the four (2013: four) individuals with the highest emoluments are within the following bands:

	Number of individuals 2014	2013
HK$Nil – HK$1,000,000	–	–
HK$1,000,001 – HK$1,500,000	3	3
HK$1,500,001 – HK$2,000,000	1	1
	4	4

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 (2013: Nil).

10 Loss Attributable to Equity Shareholders of the Company

The consolidated profit/(loss) attributable to equity shareholders of the Company includes a loss of HK$1,077,000 (2013: loss of HK$1,157,000) which has been dealt with in the financial statements of the Company.

Notes to the Financial Statements

For the year ended 31 March 2014

10 Loss Attributable to Equity Shareholders of the Company (Continued)

Reconciliation of the above amount to the Company's profit for the year:

	2014 **HK$'000**	2013 HK$'000
Amount of loss attributable to equity shareholders dealt with in the Company's financial statements	**(1,077)**	(1,157)
Dividends from subsidiary attributable to the profits of the current financial year, approved and paid during the year	**38,800**	77,000
Company's profit for the year (note 23(a))	**37,723**	75,843

11 Earnings/(Loss) Per Share

(a) Basic earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on the profit attributable to ordinary equity shareholders of the Company of HK$54,844,000 (2013: loss of HK$53,431,000) and 873,996,190 (2013: 873,996,190) ordinary shares in issue during the year.

(b) Diluted earnings/(loss) per share

The calculation of diluted earnings/(loss) per share is based on the profit attributable to ordinary equity shareholders of the Company of HK$55,316,000 (2013: loss of HK$53,431,000) and the weighted average number of ordinary shares of 961,615,238 (2013: 873,996,190) ordinary shares, calculated as follows:

(i) Profit/(loss) attributable to ordinary equity shareholders to the Company (diluted)

	2014 **HK$'000**	2013 HK$'000
Profit/(loss) attributable to ordinary equity shareholders	**54,844**	(53,431)
After tax effect of effective interest on the liability component of convertible note	**472**	–
Profit/(loss) attributable to ordinary equity shareholders (diluted)	**55,316**	(53,431)

(ii) Weighted average number of ordinary shares (diluted)

	2014	2013
Weighted average number of ordinary shares at 31 March	**873,996,190**	873,996,190
Effect of conversion of convertible note (note 22)	**87,619,048**	–
Weighted average number of ordinary shares (diluted) at 31 March	**961,615,238**	873,996,190

The Company's outstanding convertible note as at 31 March 2013 did not give rise to any dilution effect to the loss per share.

The Company's share options and unlisted warrants as at 31 March 2014 and 2013 do not give rise to any dilution effect to the earnings/(loss) per share.

12 Property, Plant and Equipment

	The 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 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/written off	–	(26,670)	(192)	(27)	(519)	–	(27,408)
Exchange differences	–	273	213	26	26	8	546
At 31 March 2013 and 1 April 2013	24,682	168,793	91,708	5,137	15,943	10,784	317,047
Additions	–	49,669	8,149	204	1,178	945	60,145
Disposals/written off	–	(28,763)	(3,072)	(25)	–	(3)	(31,863)
Exchange differences	–	(407)	(254)	(41)	(38)	(10)	(750)
At 31 March 2014	24,682	189,292	96,531	5,275	17,083	11,716	344,579
Depreciation:							
At 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
Written back on disposals/written off	–	(26,670)	(180)	(27)	(519)	–	(27,396)
Exchange differences	–	113	153	19	7	8	300
At 31 March 2013 and 1 April 2013	–	92,465	65,077	3,521	13,122	9,138	183,323
Charge for the year	–	30,315	10,499	536	1,941	641	43,932
Written back on disposals/written off	–	(28,124)	(3,071)	(25)	–	(3)	(31,223)
Exchange differences	–	(203)	(176)	(33)	(21)	(6)	(439)
At 31 March 2014	–	94,453	72,329	3,999	15,042	9,770	195,593
Carrying amount:							
At 31 March 2014	24,682	94,839	24,202	1,276	2,041	1,946	148,986
At 31 March 2013	24,682	76,328	26,631	1,616	2,821	1,646	133,724

As of 31 March 2014 and 2013, the Group's land and buildings at their carrying amounts are situated in Hong Kong under medium-term leases.

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13 Investment in a Subsidiary and Amounts Due from Subsidiaries

	The Company	
	2014	2013
	HK$'000	HK$'000
Investment in a subsidiary (unlisted shares, at cost)	**101,076**	101,076
Amounts due from subsidiaries	**441,980**	460,360

The amounts due from subsidiaries are unsecured, interest free and recoverable on demand.

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

Name	Place of incorporation/ registration	Particulars of issued and paid up capital	Percentage of ownership interest		Principal activities and place of operation
			Direct	Indirect	
BE Universal	Hong Kong	1,000 ordinary shares	–	100%	Provision of beauty and wellness services and 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	–	100%	Provision of management services, Hong Kong
Beauty Expert (Logistics) Limited	Hong Kong	10,000 ordinary shares	–	100%	Sales of skincare and wellness products and leasing of property, plant and equipment, Hong Kong
Kin Yik Biomedical Technology Limited	Hong Kong	2 ordinary shares	–	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	–	100%	Provision of beauty and wellness services and sales of skincare and wellness products, Hong Kong

13 Investment in a Subsidiary and Amounts Due from Subsidiaries (Continued)

Name	Place of incorporation/ registration	Particulars of issued and paid up capital	Percentage of ownership interest Direct	Percentage of ownership interest Indirect	Principal activities and place of operation
Spread Full Limited	Hong Kong	1 ordinary share	–	100%	Provision of beauty and wellness services, Hong Kong
Rise Star Asia Pacific Limited	Hong Kong	1 ordinary share	–	100%	Property holding, Hong Kong
Zegna Management Limited	Hong Kong	1 ordinary share	–	100%	Investment holding, Hong Kong
Modern Beauty Salon (S) Pte. Limited	Singapore	150,000 ordinary shares of S$1 each	–	100%	Provision of beauty and wellness services, Singapore
Splendid Overseas Pte. Limited	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	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	–	100%	Provision of management services, Hong Kong
Zi Advertising (HK) Limited	Hong Kong	10,000 ordinary shares	–	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	–	55%	Sales of skincare and wellness products, Hong Kong

Notes to the Financial Statements

For the year ended 31 March 2014

13 Investment in a Subsidiary and Amounts Due from Subsidiaries (Continued)

Name	Place of incorporation/ registration	Particulars of issued and paid up capital	Percentage of ownership interest Direct	Percentage of ownership interest Indirect	Principal activities and place of operation
Modern Beauty Management Company Limited	Hong Kong	1,000 ordinary shares	–	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
Modern Beauty Saloon Limited	Hong Kong	10,000 ordinary shares	–	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	–	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
台灣貝倚有限公司* (“台灣貝倚”) (note)	Taiwan	Registered capital of TWD15,000,000	–	100%	Provision of beauty and wellness services, Taiwan
杰裕有限公司* (“杰裕”) (note)	Taiwan	Registered capital of TWD500,000	–	100%	Provision of beauty and wellness services, Taiwan

13 Investment in a Subsidiary and Amounts Due from Subsidiaries (Continued)

* Companies not audited by KPMG. The financial statements of the subsidiaries not audited by KPMG reflect total net assets and total turnover constituting approximately 11% and 4% respectively of the related consolidated totals.

Note: SHBS, GZBS, and BJMBS are wholly foreign owned enterprises established in the PRC. 台灣貝倚 and 杰裕 are wholly foreign owned enterprises established in the Taiwan. 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 management accounts of these subsidiaries for the year ended 31 March 2014.

14 Trade and Other Receivables, Deposits and Prepayments

	The Group		The Company	
	2014	2013	**2014**	2013
	HK$'000	HK$'000	**HK$'000**	HK$'000
Non-current asset				
Rental and other deposits	**20,053**	22,264	**–**	–
Current assets				
Trade receivables	**55,790**	60,462	**–**	–
Trade deposits retained by banks/credit card companies (note)	**134,587**	134,738	**–**	–
Rental and other deposits, prepayments and other receivables	**48,167**	49,954	**38**	38
Amounts due from related companies (note 28(b))	**274**	236	**–**	–
	238,818	245,390	**38**	38
	258,871	267,654	**38**	38

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 credit cards, in accordance with the merchant agreements entered into between the Group and the banks/credit card companies.

Notes to the Financial Statements

For the year ended 31 March 2014

14 Trade and Other Receivables, Deposits and Prepayments (Continued)

(a) Ageing analysis

At the end of the reporting period, the ageing analysis of trade receivables, based on the invoice date, is as follows:

	The Group	
	2014	2013
	HK$'000	HK$'000
0 – 30 days	**23,711**	26,953
31 – 60 days	**9,366**	9,226
61 – 90 days	**9,834**	10,396
91 – 180 days	**9,480**	12,197
Over 180 days	**3,399**	1,690
	55,790	60,462

The Group's turnover comprises mainly cash and credit card sales. Trade receivables are due within 7 – 180 days (2013: 7 – 180 days), from the date of billing. Further details on the Group's credit policy are set out in note 25(a).

(b) Impairment of trade receivables

At 31 March 2014 and 2013, none of the Group's trade receivables were individually determined to be impaired.

(c) Trade receivables that are not impaired

At 31 March 2014, trade receivables of approximately HK$2,351,000 that were past due but not impaired (2013: HK$3,082,000) relate to banks/credit card companies that have good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The ageing analysis of these trade receivables, based on due date, is as follows:

	The Group	
	2014	2013
	HK$'000	HK$'000
0 – 30 days	**1,503**	2,009
31 – 60 days	**–**	76
61 – 90 days	**–**	116
91 – 150 days	**5**	15
Over 150 days	**843**	866
	2,351	3,082

15 Deferred Tax in the Consolidated Statement of Financial Position

(a) The components of deferred tax assets/(liabilities) recognised in the consolidated statement of financial position and the movements during the year are as follows:

	The Group					
	Depreciation allowances in excess of the related depreciation HK$'000	The related depreciation in excess of depreciation allowances HK$'000	Deferred revenue HK$'000	Tax losses HK$'000	Others HK$'000	Total HK$'000
At 1 April 2012	(164)	8,871	3,609	1,336	10	13,662
Credited/(charged) to profit or loss (note 7(a))	85	(3,011)	(874)	14,304	36	10,540
Exchange differences	–	1	(18)	6	–	(11)
At 31 March 2013 and 1 April 2013	(79)	5,861	2,717	15,646	46	24,191
Credited/(charged) to profit or loss (note 7(a))	(2,226)	(5,662)	–	(3,908)	–	(11,796)
Exchange differences	–	–	(158)	6	(1)	(153)
At 31 March 2014	(2,305)	199	2,559	11,744	45	12,242

	2014 HK$'000	2013 HK$'000
Represented by:		
Deferred tax assets	**14,473**	24,191
Deferred tax liabilities	**(2,231)**	–
	12,242	24,191

(b) At the end of the reporting period, the Group has total tax losses of HK$136,726,000 (2013: HK$144,387,000). A deferred tax asset has been recognised in respect of HK$70,945,000 (2013: HK$94,598,000) of such losses as it is probable that future taxable profits will be generated against which the losses can be utilised. No deferred tax asset has been recognised in respect of the remaining HK$65,781,000 (2013: HK$49,789,000) due to the unpredictability of future profit streams.

Included in unrecognised tax losses are (a) losses of HK$7,345,000 (2013: HK$15,610,000) from the PRC operations that will expire in five years, from the year the losses were incurred, (b) losses of HK$301,000 (2013: Nil) from the Taiwan operations that will expire in ten years, from year the losses were incurred and (c) losses of HK$58,135,000 (2013: HK$34,179,000) from other jurisdictions that can be carried forward indefinitely.

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For the year ended 31 March 2014

16 Inventories

As at 31 March 2014 and 2013, inventories represented finished goods of skincare and wellness products.

17 Pledged Bank Deposits

The Group's pledged bank deposits represented deposits pledged to banks to secure banking facilities of HK$6,000,000 (2013: HK$6,000,000) and credit card instalment programme granted to the Group. The deposits are denominated in United States dollars and Hong Kong dollars at floating interest rate, with effective interest rate during the year of 0.01% (2013: 0.01%) and 0.04% – 0.1% (2013: 0.03%) per annum respectively and therefore are subject to foreign currency risk and cash flow interest rate risk.

The Group had undrawn facilities of HK$3,851,000 (2013: HK$3,132,000) in form of documentary credit and trust receipt loan at 31 March 2014.

18 Cash and Bank Balances

Cash and bank balances comprise:

	The Group		The Company	
	2014	2013	**2014**	2013
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash at bank and in hand	**290,988**	348,796	**259**	1,708
Short-term bank deposits	**149,862**	132,453	**–**	–
Cash and bank balances	**440,850**	481,249	**259**	1,708

19 Trade and Other Payables, Deposits Received and Accrued Expenses

	The Group		The Company	
	2014	2013	**2014**	2013
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade payables	**2,471**	911	**–**	–
Other payables, deposits received and accrued expenses	**89,395**	82,973	**5**	2
Amount due to the ultimate controlling party (note 28(b))	**2**	2	**–**	–
Amounts due to related companies (note 28(b))	**87**	87	**–**	–
	91,955	83,973	**5**	2

All of the trade and other payables, deposit received and accrued expenses are expected to be settled or recognised as income within one year or are repayable on demand.

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

An ageing analysis of trade payables, based on the invoice date, is as follows:

	The Group	
	2014	2013
	HK$'000	HK$'000
Within 90 days	**2,461**	886
Over 90 days	**10**	25
	2,471	911

20 Deferred Revenue

(a) An ageing analysis, based on invoice date, of the deferred revenue is as follows:

	The Group	
	2014	2013
	HK$'000	HK$'000
Within 1 year	**655,843**	665,884
More than 1 year but within 2 years	**4,578**	42,424
More than 2 years but within 3 years	**28,030**	39,306
	688,451	747,614

(b) Movement of deferred revenue:

	The Group	
	2014	2013
	HK$'000	HK$'000
At beginning of year	**747,614**	648,623
Gross receipts from sales of prepaid beauty packages	**772,206**	764,210
Revenue recognised for provision of beauty and wellness services and expiry of prepaid beauty packages	**(828,096)**	(667,341)
Exchange differences	**(3,273)**	2,122
At end of year	**688,451**	747,614

Notes to the Financial Statements

For the year ended 31 March 2014

21 Finance Lease Payable

At 31 March 2014, the Group had obligations under finance lease payable as follows:

	The Group			
	Minimum lease payments		Present value of the minimum lease payments	
	2014	2013	**2014**	2013
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	–	24	–	18
Less: Future finance lease charges	–	(6)	–	–
Present value of lease obligations (amount due from settlement within 12 months)	–	18	–	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% (2013: 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.

The finance lease payable is denominated in Ringgit Malaysia and secured by the lessor's title to the leased assets.

All the finance leases expired during the year and no finance lease payable as at 31 March 2014.

22 Convertible Note

The Company has issued convertible note ("CN") with face value of HK$250,000,000 to Ms. Tsang on 10 January 2012 to settle the consideration for the Company's acquisition of the entire equity interest in Zegna Management Limited (see note 23(d)(iv)(b)). 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 at 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 component and the equity component of HK$19,374,000 and HK$230,626,000 respectively.

On 6 March 2012, CN with face value of HK$158,000,000 were converted into 150,476,190 ordinary shares of the Company. The equity component of the CN was decreased to HK$84,870,000 upon the conversion.

22 Convertible Note (Continued)

Movements of the liability component are as follows:

	The Group and the Company	
	2014	2013
	HK$'000	HK$'000
Liability component at 1 April	**6,996**	7,276
Interest charged (note 6(a))	**472**	618
Interest paid	**(1,840)**	(898)
Liability component at 31 March	**5,628**	6,996
Less: Amount due within one year	**(3,680)**	(3,680)
Amount due more than one year but within five years	**1,948**	3,316

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 carrying amount of the liability component of the CN at 31 March 2014 of HK$5,628,000 (2013: HK$6,996,000) is not materiality different from its fair value at that date.

Notes to the Financial Statements

For the year ended 31 March 2014

23 Capital, Reserves and Dividends

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

	Share capital HK$'000	Share premium HK$'000	Share-based compensation reserve HK$'000	Warrants reserve HK$'000	Contributed surplus HK$'000	Convertible note reserve HK$'000	Retained earnings HK$'000	Total HK$'000
At 1 April 2012	87,400	289,999	3,687	–	47,076	84,870	39,806	552,838
Changes in equity for 2013:								
Total comprehensive income for the year	–	–	–	–	–	–	75,843	75,843
Share-based payments	–	–	481	–	–	–	–	481
Lapse of share options	–	–	(237)	–	–	–	237	–
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 and 1 April 2013	87,400	289,999	3,931	–	47,076	84,870	42,908	556,184
Changes in equity for 2014:								
Total comprehensive income for the year	–	–	–	–	–	–	37,723	37,723
Share-based payments	–	–	453	–	–	–	–	453
Issue of warrants	–	–	–	170	–	–	–	170
2013 special dividends paid	–	–	–	–	–	–	(34,960)	(34,960)
2014 interim dividends paid	–	–	–	–	–	–	(21,850)	(21,850)
At 31 March 2014	87,400	289,999	4,384	170	47,076	84,870	23,821	537,720

23 Capital, Reserves and Dividends (Continued)

(b) Dividends

(i) Dividends payable to equity shareholders of the company attributable to the year

	2014 HK$'000	2013 HK$'000
Interim dividend declared and paid of HK2.5 cents per ordinary share (2013: HK3.0 cents per ordinary share)	**21,850**	26,219
Special dividend declared and paid of Nil (2013: HK1.1 cents per ordinary share)	**–**	9,614
Special dividend declared of Nil (2013: HK4.0 cents per ordinary share)	**–**	34,960
Final dividend proposed after the end of the reporting period of HK2.0 cents per ordinary share (2013: Nil)	**17,480**	–
	39,330	70,793

The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

(ii) Dividends payable to equity shareholders of the company attributable to the previous financial year, approved and paid during the year

	2014 HK$'000	2013 HK$'000
Special dividend in respect of the previous financial year, approved and paid during the year, of HK4.0 cents per ordinary share (2013: Nil)	**34,960**	–
Final dividend in respect of the previous financial year, approved and paid during the year ended 31 March 2013, of HK4.25 cents per ordinary share	**–**	37,145
	34,960	37,145

Notes to the Financial Statements

For the year ended 31 March 2014

23 Capital, Reserves and Dividends (Continued)

(c) Share capital

	2014		2013	
	No. of shares	**Amount HK$'000**	No. of shares	Amount HK$'000
Authorised:				
Ordinary shares of HK$0.1 each	**10,000,000,000**	**1,000,000**	10,000,000,000	1,000,000
Issued and fully paid:				
Ordinary shares of HK$0.1 each	**873,996,190**	**87,400**	873,996,190	87,400

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. No warrants were exercised during the year.

(d) Nature and purpose of reserves

(i) Share premium

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 comprises the portion of the grant date fair value of unexercised share options granted to directors and employees of the Group that has been recognised in accordance with the accounting policy adopted for share-based payments in note 2(m)(iii).

(iii) Warrants reserve

The warrants reserve represents the net proceeds received from the issue of warrants of the Company. The warrants reserve is transferred to the share premium account when the warrant is exercised or released directly to retained earnings when the warrant expires.

23 Capital, Reserves and Dividends (Continued)

(d) Nature and purpose of reserves (Continued)

(iv) Merger reserve

The merger reserve represents the aggregate of:

(a) 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 of the Group.

(b) 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 CN at conversion price of HK$1.05 per share (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.

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.

The merge reserve arising from the acquisition of Zegna Group comprised of:

– A debit amount of approximately HK$71,488,000, representing the deemed partial consideration of the Business Combination, being the net assets value of Euro King after the Waiver disposed to Ms. Tsang at nil consideration, pursuant to the Supplemental SPA of the Business Combination; 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 aggregate 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; and (ii) the nominal value of the share capital of Zegna.

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23 Capital, Reserves and Dividends (Continued)

(d) Nature and purpose of reserves (Continued)

(v) 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.

(vi) Exchange reserve

The exchange 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 2(q).

(vii) Property revaluation reserve

The property revaluation reserve has been set up to deal with the fair value changes arising from the Group's property, plant and equipment reclassified to investment properties. The balance was transferred to retained earnings upon the disposal of investment properties during the year ended 31 March 2013.

(viii) 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.

(e) Capital management

The Group's primary 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.

24 Share-Based Payments

On 20 January 2006, the Company 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.

24 Share-Based Payments (Continued)

Particulars of the share option scheme is set out in pages 41 to 43 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 2014					
Directors	**800,000**	**–**	**–**	**800,000**	**200,000**
Senior management	**350,000**	**–**	**–**	**350,000**	**87,500**
Other employees	**5,150,000**	**–**	**–**	**5,150,000**	**1,287,500**
	6,300,000	**–**	**–**	**6,300,000**	**1,575,000**
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

The options outstanding at 31 March 2014 had an exercise price of HK$1.33 (2013: HK$1.33) and a weighted average remaining contractual life of 2.6 years (2013: 3.6 years).

25 Financial Risk Management and Fair Values of Financial Instruments

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

The Group's credit risk is primarily attributable to trade receivables, trade deposits retained by banks/credit card companies. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

The credit risk on trade deposits retained by banks/credit card companies 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.

The Group does not provide any other guarantees which would expose the Group or the Company to credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position.

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For the year ended 31 March 2014

25 Financial Risk Management and Fair Values of Financial Instruments (Continued)

(b) Liquidity risk

The Group's policy is to regularly monitor its liquidity requirements to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following tables show the remaining contractual maturities at the end of the reporting period of the Group's and the Company's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group and the Company can be required to pay:

	Contractual undiscounted cash outflow					
	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	Total HK$'000	Carrying amount HK$'000
At 31 March 2014						
The Group						
Trade and other payables, deposits received and accrued expenses	91,955	–	–	–	91,955	91,955
Convertible note	3,680	1,840	3,272	–	8,792	5,628
	95,635	1,840	3,272	–	100,747	97,583
The Company						
Other payables	5	–	–	–	5	5
Convertible note	3,680	1,840	3,272	–	8,792	5,628
	3,685	1,840	3,272	–	8,797	5,633

	Contractual undiscounted cash outflow					
	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	Total HK$'000	Carrying amount HK$'000
At 31 March 2013						
The Group						
Trade and other payables, deposits received and accrued expenses	83,973	–	–	–	83,973	83,973
Finance lease payable	24	–	–	–	24	24
Convertible note	3,680	1,840	5,112	–	10,632	6,996
	87,677	1,840	5,112	–	94,629	90,993
The Company						
Other payables	2	–	–	–	2	2
Convertible note	3,680	1,840	5,112	–	10,632	6,996
	3,682	1,840	5,112	–	10,634	6,998

25 Financial Risk Management and Fair Values of Financial Instruments (Continued)

(c) Currency risk

(i) Exposure to currency risk

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in Hong Kong dollars, translated using the spot rate at the year end date. Differences resulting from the translation of the financial statements of foreign operations into the Group's presentation currency are excluded.

Group

	Exposure to foreign currencies (expressed in Hong Kong dollars)			
	2014		2013	
	Renminbi HK$'000	European Euro HK$'000	Renminbi HK$'000	European Euro HK$'000
Cash and bank balances	78,972	3,205	76,279	6,197
Trade and other payables, deposits received and accrued expenses	–	(1,893)	(15)	(85)
Net exposure arising from recognised assets and liabilities	78,972	1,312	76,264	6,112

Notes to the Financial Statements

For the year ended 31 March 2014

25 Financial Risk Management and Fair Values of Financial Instruments (Continued)

(c) Currency risk (Continued)

(ii) Sensitivity analysis

The following table indicates the instantaneous change in the Group's profit/(loss) after tax (and retained earnings) that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant. In this respect, it is assumed that the pegged rate between the Hong Kong dollars and the United States dollars would be materially unaffected by any changes in movement in value of the United States dollar against other currencies.

	2014		2013	
	Increase/ (decrease) in foreign exchange rates	**Effect on profit after tax and retained earnings HK$'000**	Increase/ (decrease) in foreign exchange rates	Effect on loss after tax and retained earnings HK$'000
Renminbi	**5%**	**3,297**	5%	(3,184)
	(5)%	**(3,297)**	(5)%	3,184
European Euro	**5%**	**55**	5%	(255)
	(5)%	**(55)**	(5)%	255

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' profit/(loss) after tax and equity measured in the respective functional currencies, translated into Hong Kong dollars at the exchange rate ruling at the end of the reporting period for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The analysis is performed on the same basis for 2013.

(d) Fair value measurement

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 March 2014 and 2013.

26 Commitments

(a) Operating lease commitments

At 31 March 2014, the total future minimum lease payments under non-cancelable operating leases are payable as follows:

	The Group	
	2014	2013
	HK$'000	HK$'000
Not later than one year	**128,081**	151,678
Later than one year and not later than five years	**94,468**	91,800
Over five years	**–**	404
	222,549	243,882

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 (2013: 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 outstanding at 31 March 2014 not provided for in the financial statements are as follows:

	The Group	
	2014	2013
	HK$'000	HK$'000
Contracted but not yet provided for:		
– Acquisition of plant and equipment	**5,229**	13,370

27 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 the loss or settlement for such complaints and claims have no material financial impact to the Group.

Notes to the Financial Statements

For the year ended 31 March 2014

28 Material Related Party Transactions and Balances

(a) Material 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:

	Note	2014 HK$'000	2013 HK$'000
Rental expenses paid to related companies:	(i)		
– All Link International Limited		**672**	272
– East Union Industries Limited		**1,488**	1,488
– Joy East Limited		**552**	552
– Luck Elegant Industrial Limited		**780**	780
– Lucky Forever Limited		**14,117**	8,878
– Golden National Limited		**7,800**	7,800
– United Industries Limited		**5,165**	2,634
– Well Faith International Enterprise Limited		**11,021**	11,101
– Wise World Limited		**1,608**	1,608
	(v)	**43,203**	35,113
Interest charge on convertible note issued to ultimate controlling party:			
– Ms. Tsang		**472**	618
Salaries and other benefits in kind paid to related parties:			
– Related party A	(ii)	**1,694**	1,582
– Related party B	(iii)	**1,277**	1,200
– Related party C	(iii)	**17**	142
– Related party D	(iv)	**411**	400
		3,399	3,324

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

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

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

(v) The related party transactions in respect of rental expenses above constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. The disclosures required by Chapter 14A of the Listing Rules and provided in the Report of the Directors.

28 Material Related Party Transactions and Balances (Continued)

(b) Balances with related parties

The amounts due from/to related companies and the ultimate controlling party are unsecured, interest free and recoverable/repayable on demand. Ms. Tsang is the ultimate controlling party of those related companies.

Amounts due from related companies disclosed pursuant to section 78 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap. 622), with reference to section 161B of the predecessor Hong Kong Companies Ordinance (Cap. 32), are as follows:

	The Group		
	Balance at 31 March 2014 HK$'000	Balance at 1 April 2013 HK$'000	Maximum amount outstanding during the year HK$'000
All Link International Limited	**1**	1	73
Grateful Heart Charitable Foundation Limited	**237**	221	260
Lucky Forever (S) Pte. Limited	**24**	14	24
Swisscelin Distribution Limited	**11**	–	11
United Industries Limited	**1**	–	1
	274	236	

29 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.

(a) 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.

Notes to the Financial Statements

For the year ended 31 March 2014

29 Critical Judgements and Key Estimates (Continued)

Key sources of estimation uncertainty (Continued)

(b) Impairment of property, plant and equipment

The Group conducts impairment reviews of property, plant and equipment whenever events or changes in circumstances indicated 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.

30 Possible Impact of Amendments, New Standards and Interpretations Issued but not yet Effective for the Year Ended 31 March 2014

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and a new standard which are not yet effective for the year ended 31 March 2014 and which have not been adopted in these financial statements.

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

In addition, the requirements of Part 9, "Accounts and Audit", of the new Hong Kong Companies Ordinance (Cap. 622) come into operation from the Company's first financial year commencing after 3 March 2014 (i.e. the Company's financial year which began on 1 April 2014) in accordance with section 358 of that Ordinance. The Group is in the process of making an assessment of the expected impact of the changes in the Companies Ordinance on the consolidated financial statements in the period of initial application of Part 9. So far it has concluded that the impact is unlikely to be significant and will primarily only affect the presentation and disclosure of information in the consolidated financial statements.

31 Approval of Financial Statements

The financial statements were approved and authorised for issue by the Board of Directors on 30 June 2014.

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				
	2014	2013	2012	2011	2010
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
				(Restated)	(Restated)
Turnover	**868,806**	708,122	756,605	718,230	551,377
Profit/(loss) before tax	**81,783**	(57,983)	101,357	107,491	(7,982)
Income tax (expense)/credit	**(26,942)**	4,549	(19,220)	(18,228)	4,887
Profit/(loss) for the year	**54,841**	(53,434)	82,137	89,263	(3,095)

Consolidated Assets and Liabilities

	As at 31 March				
	2014	2013	2012	2011	2010
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
				(Restated)	(Restated)
Total non-current assets	**183,512**	180,179	288,824	276,813	265,507
Total current assets	**771,364**	811,086	729,920	653,128	512,922
Total assets	**954,876**	991,265	1,018,744	929,941	778,429
Total non-current liabilities	**(4,179)**	(3,316)	(4,556)	(37)	(53)
Total current liabilities	**(805,392)**	(842,506)	(742,045)	(648,375)	(582,369)
Total liabilities	**(809,571)**	(845,822)	(746,601)	(648,412)	(582,422)
Net assets	**145,305**	145,443	272,143	281,529	196,007

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MODERN BEAUTY SALON HOLDINGS LIMITED

現代美容控股有限公司

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