MODERN BEAUTY SALON HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 919)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 MARCH 2016

FINANCIAL HIGHLIGHTS

- The Group's revenue decreased by 11.3% to HK$775.4 million as compared to HK$874.2 million in FY2015.
- Gross receipts from sales of prepaid beauty packages decreased from approximately HK$749.9 million in FY2015 to approximately HK$688.7 million in FY2016.
- Profit attributable to equity shareholders was approximately HK$12.7 million in FY2016, representing a decrease of 81.6% compared with approximately HK$68.8 million in FY2015.
- The Board recommended the payment of a final dividend of HK0.6 cent per ordinary share for the year under review.

OPERATIONAL HIGHLIGHTS

- The Group operated a total of 40 service centres in Mainland China, Hong Kong and Taiwan with a total weighted average gross floor area of approximately 281,000 square feet.
- The Group had 12 and 2 beauty service centres in Singapore and Malaysia respectively, with a total weighted average gross floor area of approximately 23,000 square feet and approximately 4,000 square feet respectively.
- Customer number in Hong Kong and Singapore reached approximately 396,000 and 104,000 respectively.

The Board of Directors (the "Board") of Modern Beauty Salon Holdings Limited (the "Company") is pleased to announce the consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 March 2016 ("FY2016" or the "year under review"), with comparative figures for the year ended 31 March 2015 ("FY2015") as follows. The annual results for the year ended 31 March 2016 have been reviewed by the audit committee of the Company.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 MARCH 2016

	Note	**2016** **HK$'000**	2015 *HK$'000*
Revenue	*5*	**775,391**	874,235
Other income	*6*	**2,924**	2,344
Cost of inventories sold		**(24,806)**	(29,103)
Advertising costs		**(5,839)**	(8,337)
Building management fees		**(15,200)**	(15,905)
Bank charges		**(34,092)**	(37,618)
Employee benefit expenses	*7(b)*	**(401,615)**	(408,527)
Depreciation		**(44,927)**	(47,821)
Occupancy costs		**(156,614)**	(163,551)
Other operating expenses		**(83,763)**	(82,852)
Profit from operations		**11,459**	82,865
Interest income		**2,615**	2,769
Finance costs	*7(a)*	**(209)**	(346)
Fair value change on investment properties		**280**	72
Fair value change on purchase consideration		**3,392**	(114)
Impairment loss on a joint venture		**(892)**	–
Share of profit of an associate		**1**	77
Share of (loss)/profit of a joint venture		**(22)**	474
Profit before taxation	*7*	**16,624**	85,797
Income tax expense	*8*	**(3,601)**	(16,866)
Profit for the year		**13,023**	68,931
Attributable to:			
Equity shareholders of the Company		**12,668**	68,849
Non-controlling interests		**355**	82
Profit for the year		**13,023**	68,931
Earnings per share *(HK cents)*	*10*		
Basic		**1.45**	7.88
Diluted		**1.34**	7.20

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2016

	Note	**2016** *HK$'000*	2015 *HK$'000*
Profit for the year		**13,023**	68,931
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		**(606)**	162
Revaluation of investment properties		**–**	3,552
Other comprehensive income for the year		**(606)**	3,714
Total comprehensive income for the year		**12,417**	72,645
Attributable to:			
Equity shareholders of the Company		**12,062**	72,495
Non-controlling interests		**355**	150
Total comprehensive income for the year		**12,417**	72,645

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 MARCH 2016

	Note	**2016** *HK$'000*	2015 *HK$'000*
Non-current assets			
Property, plant and equipment		**96,717**	122,427
Investment properties		**12,700**	12,420
Interest in an associate		**80**	79
Interest in a joint venture		**4,205**	5,146
Deposits	*11*	**15,119**	29,309
Deferred tax assets		**16,389**	14,256
		145,210	183,637
Current assets			
Inventories		**21,977**	23,499
Trade and other receivables, deposits and prepayments	*11*	**213,206**	221,363
Tax recoverable		**15,697**	15,811
Pledged bank deposits		**53,857**	53,842
Cash and bank balances		**366,652**	397,248
		671,389	711,763
Current liabilities			
Trade and other payables, deposits received and accrued expenses	*12*	**89,029**	92,129
Deferred revenue	*13*	**547,224**	604,843
Convertible note		**2,503**	3,680
Tax payable		**14,342**	16,662
		653,098	717,314
Net current assets/(liabilities)		**18,291**	(5,551)
Total assets less current liabilities		**163,501**	178,086

	Note	2016 HK$'000	2015 HK$'000
Non-current liabilities			
Convertible note		**–**	454
Deferred tax liabilities		**375**	1,787
Purchase consideration payable for an acquisition		**1,259**	4,673
		1,634	6,914
NET ASSETS		**161,867**	171,172
CAPITAL AND RESERVES			
Share capital		**87,400**	87,400
Reserves		**73,962**	83,563
Total equity attributable to equity shareholders of the Company		**161,362**	170,963
Non-controlling interests		**505**	209
TOTAL EQUITY		**161,867**	171,172

NOTES
FOR THE YEAR ENDED 31 MARCH 2016

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

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

The consolidated financial statements for the year ended 31 March 2016 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interests in an associate and a joint venture. The consolidated results set out in this announcement do not constitute the Group's consolidated financial statements for the year ended 31 March 2016 but are extracted from those financial statements.

The 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"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The 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.

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. Note 3 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 the financial statements.

The measurement basis used in the preparation of the financial statements is the historical cost basis except as otherwise stated in the accounting policies.

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.

The accounting policies used in the preparation of the financial statements are consistent with those used in the 2014/15 annual financial statements except the changes set out in note 3.

3. CHANGES IN ACCOUNTING POLICIES

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

– *Annual Improvements to HKFRSs 2010-2012 cycle*

– *Annual Improvements to HKFRSs 2011-2013 cycle*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Impacts of the adoption of the amended HKFRSs are discussed below:

Annual Improvements to HKFRSs 2010-2012 Cycle and 2011-2013 Cycle

These two cycles of annual improvements contain amendments to nine standards with consequential amendments to other standards. Among them, HKAS 24, *Related party disclosures* has been amended to expand the definition of a "related party" to include a management entity that provides key management personnel services to the reporting entity, and to require the disclosure of the amounts incurred for obtaining the key management personnel services provided by the management entity. These amendments do not have an impact on the Group's related party disclosures as the Group does not obtain key management personnel services from management entities.

4. SEGMENT INFORMATION

The Group has two reportable segments as follows:

Beauty and wellness services – Provision of beauty and wellness services

Skincare and wellness products – Sales of skincare and wellness products

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

Segment profits do not include other income, interest income, finance costs, fair value changes on investment properties and purchase consideration, impairment loss on a joint venture, share of profits/(losses) of an associate and a joint venture, unallocated costs, which comprise corporate administrative expenses, and income tax expense. Segment assets do not include properties held for corporate uses, investment properties, interests in an associate and a joint venture, deferred tax assets and tax recoverable. Segment liabilities do not include tax payable, convertible note, deferred tax liabilities, amounts due to related companies and the ultimate controlling party and purchase consideration payable for an acquisition.

(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 2016 and 2015 is set out below.

	Beauty and wellness services *HK$'000*	**Skincare and wellness products** *HK$'000*	**Total** *HK$'000*
Year ended 31 March 2016			
Revenue from external customers	**744,609**	**30,782**	**775,391**
Reportable segment profit	**38,051**	**12,995**	**51,046**
Other segment information:			
Additions to property, plant and equipment	**20,825**	**–**	**20,825**
Depreciation	**43,998**	**929**	**44,927**
As at 31 March 2016			
Reportable segment assets	**744,439**	**7,413**	**751,852**
Reportable segment liabilities	**625,339**	**10,825**	**636,164**
Year ended 31 March 2015			
Revenue from external customers	830,794	43,441	874,235
Reportable segment profit	101,338	18,210	119,548
Other segment information:			
Additions to property, plant and equipment	31,648	–	31,648
Depreciation	45,142	2,679	47,821
As at 31 March 2015			
Reportable segment assets	822,869	8,933	831,802
Reportable segment liabilities	684,225	12,658	696,883

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

	2016	2015
	HK$'000	*HK$'000*
Profit:		
Reportable segment profit	**51,046**	119,548
Other income	**2,924**	2,344
Interest income	**2,615**	2,769
Finance costs	**(209)**	(346)
Fair value change on investment properties	**280**	72
Fair value change on purchase consideration	**3,392**	(114)
Impairment loss on a joint venture	**(892)**	–
Share of profit of an associate	**1**	77
Share of (loss)/profit of a joint venture	**(22)**	474
Unallocated costs	**(42,511)**	(39,027)
Income tax expense	**(3,601)**	(16,866)
Consolidated profit for the year	**13,023**	68,931
Assets:		
Reportable segment assets	**751,852**	831,802
Properties held for corporate use	**15,676**	15,886
Investment properties	**12,700**	12,420
Interest in an associate	**80**	79
Interest in a joint venture	**4,205**	5,146
Deferred tax assets	**16,389**	14,256
Tax recoverable	**15,697**	15,811
Consolidated total assets	**816,599**	895,400
Liabilities:		
Reportable segment liabilities	**636,164**	696,883
Tax payable	**14,342**	16,662
Convertible note	**2,503**	4,134
Deferred tax liabilities	**375**	1,787
Amounts due to related companies	**87**	87
Amount due to the ultimate controlling party	**2**	2
Purchase consideration payable for an acquisition	**1,259**	4,673
Consolidated total liabilities	**654,732**	724,228

(c) Geographic information

The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's property, plant and equipment ("specified non-current assets"). The geographical location of customers is based on the location at which the services were provided or the goods delivered. The geographical location of the specified non-current asset is based on the physical location of the asset, in the case of property, plant and equipment. Specified non-current assets do not include investment properties, interests in an associate and a joint venture, deferred tax assets and deposits.

	Revenue from external customers		**Specified non-current assets**	
	2016	2015	**2016**	2015
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong (place of domicile)	**640,677**	688,177	**81,994**	97,197
Mainland China	**26,594**	29,230	**6,490**	10,579
Singapore	**95,351**	142,070	**6,307**	11,351
Malaysia	**7,367**	11,250	**358**	1,012
Taiwan	**5,402**	3,508	**1,568**	2,288
	775,391	874,235	**96,717**	122,427

5. REVENUE

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 is as follows:

	2016	2015
	HK$'000	*HK$'000*
Revenue recognised from provision of beauty and wellness services and expiry of prepaid beauty packages	**744,609**	830,794
Sales of skincare and wellness products	**30,782**	43,441
	775,391	874,235

6. OTHER INCOME

	2016	2015
	HK$'000	*HK$'000*
Commission income	**20**	85
Government grants	**951**	898
Net gain on disposals of property, plant and equipment	**–**	61
Rental income	**536**	536
Others	**1,417**	764
	2,924	2,344

7. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Finance costs

	2016	2015
	HK$'000	*HK$'000*
Interest on convertible note wholly repayable within five years	**209**	346

(b) Employee benefit expenses

	2016	2015
	HK$'000	*HK$'000*
Wages and salaries	**376,175**	382,903
Contributions to defined contribution retirement plan	**22,737**	24,295
Other staff welfare	**2,575**	974
Share-based payments	**128**	355
	401,615	408,527

(c) Other items

	2016	2015
	HK$'000	*HK$'000*
Auditor's remuneration		
– Current	**2,985**	3,052
Foreign exchange loss, net	**9,897**	5,189
Operating lease charges for land and buildings	**156,614**	163,551
Net loss on disposals of property, plant and equipment	**1,054**	–
Loss on disposal of a subsidiary	**–**	47
Impairment loss on trade receivables *(note 11(b))*	**828**	–

8. INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	2016	2015
	HK$'000	*HK$'000*
Current tax – Hong Kong Profits Tax		
Provision for the year	**1,958**	7,139
Over-provision in respect of prior years	**(26)**	(23)
	1,932	7,116
Current tax – Overseas		
Provision for the year	**5,302**	10,502
Under/(over)-provision in respect of prior years	**22**	(460)
	5,324	10,042
Deferred tax		
Origination and reversal of temporary differences	**(3,655)**	(292)
	3,601	16,866

The provision for Hong Kong Profits Tax for 2016 is calculated at 16.5% (2015: 16.5%) of the estimated assessable profits for the year, taking into account a reduction granted by the Hong Kong SAR Government of 75% of the tax payable for the year of assessment 2014-15 subject to a maximum reduction of HK$20,000 for each business (2015: a maximum reduction of HK$10,000 was granted for the year of assessment 2013-14 and was taken into account in calculating the provision for 2015). Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

9. DIVIDENDS

Dividends payable to equity shareholders of the Company attributable to the year

	2016	2015
	HK$'000	*HK$'000*
Interim dividend declared and paid of HK0.4 cent per ordinary share (2015: HK3.4 cents per ordinary share)	**3,496**	29,716
Final dividend proposed after the end of the reporting period of HK0.6 cent per ordinary share (2015: HK2.1 cents per ordinary share)	**5,244**	18,354
	8,740	48,070

10. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of HK$12,668,000 (2015: HK$68,849,000) and the weighted average of 873,996,190 ordinary shares (2015: 873,996,190 ordinary shares) in issue during the year.

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of HK$12,877,000 (2015: HK$69,195,000) and the weighted average number of 961,615,238 ordinary shares (2015: 961,615,238 ordinary shares), calculated as follows:

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

	2016	2015
	HK$'000	*HK$'000*
Profit attributable to ordinary equity shareholders	**12,668**	68,849
After tax effect of effective interest on the liability component of convertible note	**209**	346
Profit attributable to ordinary equity shareholders (diluted)	**12,877**	69,195

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

	2016	2015
Weighted average number of ordinary shares at 31 March	**873,996,190**	873,996,190
Effect of conversion of convertible note	**87,619,048**	87,619,048
Weighted average number of ordinary shares (diluted) at 31 March	**961,615,238**	961,615,238

The Company's share options and unlisted warrants as at 31 March 2016 and 2015 do not give rise to any dilution effect to the earnings per share.

11. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2016	2015
	HK\$'000	*HK\$'000*
Non-current asset		
Deposits	**15,119**	29,309
Current assets		
Trade receivables	**43,366**	55,053
Less: allowance for doubtful debts *(note 11(b))*	**(828)**	–
	42,538	55,053
Trade deposits retained by banks/credit card companies *(note)*	**134,094**	135,774
Rental and other deposits, prepayments and other receivables	**36,303**	30,419
Amounts due from related companies	**271**	117
	213,206	221,363
	228,325	250,672

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.

(a) Ageing analysis

At the end of the reporting period, the ageing analysis of trade receivables, based on the invoice date and net of allowance for doubtful debts, is as follows:

	2016	2015
	HK\$'000	*HK\$'000*
0-30 days	**22,996**	21,517
31-60 days	**7,128**	9,684
61-90 days	**7,809**	11,537
91-180 days	**4,605**	10,606
Over 180 days	**–**	1,709
	42,538	55,053

The Group's revenue comprises mainly cash and credit card sales. Trade receivables are due within 7-180 days (2015: 7-180 days), from the date of billing.

(b) Impairment of trade receivables

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly.

The movement in the allowance for doubtful debts during the year is as follows:

	2016	2015
	HK$'000	*HK$'000*
At 1 April	**–**	–
Impairment loss recognised	**828**	–
At 31 March	**828**	–

At 31 March 2016, the individually impaired receivables related to certain past due balances receivable from banks/credit card companies and management assessed that recovery of the balances is remote. Consequently, specific allowance for doubtful debts of HK$828,000 (2015: Nil) were recognised.

(c) Trade receivables that are not impaired

At 31 March 2016, trade receivables of approximately HK$1,480,000 that were past due but not impaired (2015: HK$2,577,000) 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:

	2016	2015
	HK$'000	*HK$'000*
0-30 days	**1,425**	1,626
31-60 days	**26**	117
61-90 days	**24**	–
91-150 days	**5**	–
Over 150 days	**–**	834
	1,480	2,577

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

	2016	2015
	HK$'000	*HK$'000*
Trade payables	**742**	2,361
Other payables, deposits received and accrued expenses	**88,198**	89,679
Amount due to the ultimate controlling party	**2**	2
Amounts due to related companies	**87**	87
	89,029	92,129

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

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

	2016	2015
	HK$'000	*HK$'000*
Within 90 days	**704**	2,352
Over 90 days	**38**	9
	742	2,361

13. DEFERRED REVENUE

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

	2016	2015
	HK$'000	*HK$'000*
Within 1 year	**547,224**	603,032
More than 1 year but within 2 years	**–**	1,811
	547,224	604,843

(b) Movement of deferred revenue:

	2016	2015
	HK$'000	*HK$'000*
At beginning of year	**604,843**	688,451
Gross receipts from sales of prepaid beauty packages	**688,697**	749,923
Revenue recognised for provision of beauty and wellness services and expiry of prepaid beauty packages	**(744,609)**	(830,794)
Exchange differences	**(1,707)**	(2,737)
At end of year	**547,224**	604,843

BUSINESS REVIEW

Overview

During the year under review, revenue of the Group amounted to approximately HK$775.4 million, representing an decrease of 11.3% compared with approximately HK$874.2 million for the year ended 31 March 2015 ("FY2015" or the "same period last year"). The receipts from sales of prepaid beauty packages during the year under review was HK$688.7 million, a decrease of 8.2 % over the same period last year. The employees benefit expenses and occupancy costs decreased by 1.7% to HK$401.6 million and by 4.3% to HK$156.6 million respectively as compared with the same period last year. The Group recorded an operating profit of HK$11.5 million during the year under review (FY2015: HK$82.9 million).

Below is the key statistics:

	For the year ended 31 March		
	2016	2015	Change
Revenue *(HK$ million)*	**775.4**	874.2	-11.3%
Operating profit margin *(%)*	**1.5%**	9.5%	-8.0 percentage points
Net profit margin *(%)*	**1.7%**	7.9%	-6.2 percentage points
Number of shops	**70**	77	-7
Employee benefit expenses *(HK$ million)*	**401.6**	408.5	-1.7%
Occupancy costs *(HK$ million)*	**156.6**	163.6	-4.2%
Total dividend per ordinary share *(HK cents)*	**1.0**	5.5	
Annual dividend pay-out ratio *(%)*	**67.1%**	69.7%	

Hong Kong

Amid the unstable internal and external business environment, the retail sales in Hong Kong showed significant decline during the year under review. As revealed by the Census and Statistic Department, after seasonally adjustment, the value of total retail sales decreased by 8.0% in the first quarter of 2016 compared with the preceding quarter, while the volume of total retail sales decreased by 9.1%. Our beauty, slimming and wellness service business in Hong Kong was inevitably affected. Nevertheless, leveraging on our excellent service management that facilitate greater quality assurance, our management is confident of the further prospects of our business.

Revenue for the year under review decreased by 6.9%. 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 under review will be fully recognised in revenue in the upcoming financial years according to actual situations. Revenue from services rendered and expiry of prepaid beauty packages and receipts from prepaid beauty packages for the year under review were HK$613.2 million and HK$586.4 million respectively (FY2015: HK$651.5 million and HK$617.0 million). Revenue from sales of skincare and wellness products was HK$27.5 million in FY2016 (FY2015: HK$36.7 million). Our customers in Hong Kong amounted up to a total of approximately 396,000 during the year under review, representing an increase of 5.3% as compared to approximately 376,000 in the same period last year.

Various comprehensive high quality beauty, slimming and facial services are offered to the general public including, inter alia, skincare, slimming, hairstyling, cosmetics, manicures, pedicures, electrology, and aesthetics services. Since 2013, we have also provided wedding photography services to our customers. To further strengthen our beauty services for our customers, we offer a number of innovative and sophisticated beauty, slimming and anti-ageing treatments and machineries, such as Viora REACTION™ machine which facilitates breakthrough skin tightening and cellulite reduction treatment by using variable radio frequencies with vacuum technology to intensify the treatment process and allow for deeper (and safe) penetration of the skin, together with a builtin cooling system to keep the skin cool while the device does the hard work. It is designed to treat those stubborn cellulite marks at the core, while strengthening existing collagen fibers. The result is a more toned, firmer appearance to the skin. During the year under review, we launched an O2O mobile app which serves as a convenient platform for our members who want to make bookings on their phones in accordance with their own needs. It also serves as a marketing media to advertise our latest services and promotion campaign.

In terms of the sales of skincare and wellness products, as of 31 March 2016, the Group had a total of 16 stores under the names of "p.e.n" or "be Beauty Shop", locating across Hong Kong, Kowloon and New Territories. More than 100 varieties of products are available for sale under different series of skincare service, including "Y.U.E", "Advanced Natural", "Bioline", "BeYu", "Malu Wilz" which can fulfill the needs of customers with different skin types.

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. These three wholly foreign owned enterprises operate a total of 8 service centres (FY2015: 8 service centres) at the three cities referred to, with a total weighted average gross floor area of approximately 33,000 square feet (FY2015: 28,000 square feet).

During the year under review, we closed one shop in Beijing and reopen another shop in other area in Beijing due to the expiry of the leasehold agreement. We will continue to identify suitable shop location and open more shops to capture the business opportunity in Mainland China. The Group's revenue in Mainland China decreased to HK$26.6 million (FY2015: HK$29.2 million) and receipts from sales of prepaid beauty packages decreased by 13.8% to HK$23.8 million as compared to HK$27.7 million for the same period last year. The business recorded a loss of HK$7.3 million during the year under review as compared with a loss of HK$6.4 million for the same period last year.

Notwithstanding the retarded growth of economy in Mainland China during the year under review, we still believe that the beauty, slimming and wellness market in Mainland China will continue to prosper by strong demand since a larger portion of the population moves up to the bourgeoisie. Our brand name has secured a presence in Mainland China with a solid foundation that we have established for years in Beijing, Shanghai and Guangzhou. Plans to open more stores in Mainland China are afoot.

Singapore and Malaysia

In FY2016, the number of service centres in Singapore decreased to 12 (FY2015: 14) while the number of service centres in Malaysia decreased to 2 (FY2015: 3) respectively. During the year under review, the revenue from operations in Singapore and Malaysia was HK$102.7 million, as compared with HK$153.3 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$100.2 million and HK$72.1 million respectively, as compared with HK$148.3 million and HK$101.4 million for the same period last year.

The drops are mainly due to the new government policies in Singapore and Malaysia. For Singapore, from June 2015, if a local person's aggregate interest-bearing outstanding balance on all credit cards and unsecured credit facilities exceeds 24 times of his monthly income for 3 consecutive months, his credit lines will be suspended. This means that he will not be allowed to charge new amounts to his existing credit cards and/or unsecured credit facilities. For Malaysia, from April 2015, a GST of 6% has been imposed on local services providers, including beauty services. These policies have hurt the local consumption sentiments significantly. The Group will continue to carry out its local business development prudently and we believe that the local people will accustom to the new policies and the consumption sentiments will recover as time goes by.

Taiwan

Currently, the Group is operating 2 service centres in Taiwan. We will continue to maintain a prudent approach in developing the local business.

FINANCIAL REVIEW

Revenue

Set out below is a breakdown on the revenue of the Group by service lines and product sales during FY2016 (with comparative figures for FY2015):

	For the year ended 31 March				
	2016		2015		
Sales mix	***HK$'000***	**Percentage of revenue**	*HK$'000*	Percentage of revenue	**Change**
Beauty & facial	**559,924**	**72.2%**	635,734	72.7%	**-11.9%**
Slimming	**113,764**	**14.7%**	148,592	17.0%	**-23.4%**
Spa and massage	**70,921**	**9.1%**	46,468	5.3%	**52.6%**
Beauty and wellness services	**744,609**	**96.0%**	830,794	95.0%	**-10.4%**
Sales of skincare and wellness products	**30,782**	**4.0%**	43,441	5.0%	**-29.1%**
Total	**775,391**	**100.0%**	874,235	100.0%	**-11.3%**

Revenue of the Group was mainly contributed by the beauty, facial and slimming services. The Group's revenue from beauty and wellness services decreased by about 10.4% from approximately HK$830.8 million in FY2015 to approximately HK$744.6 million in the year under review.

The Group reported that the sales of new prepaid beauty packages of the Group amounted to HK$688.7 million, representing a decrease of 8.2% compared with HK$749.9 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 revenue in the upcoming financial years according to actual situations.

Set out below is an analysis on the deferred revenue:

	For the year ended 31 March									
	2016					2015				
Movement of deferred revenue	**Hong Kong**	**Mainland China**	**Taiwan**	**Singapore and Malaysia**	**Total**	Hong Kong	Mainland China	Taiwan	Singapore and Malaysia	Total
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At beginning of the year	**503,350**	**12,652**	**1,192**	**87,649**	**604,843**	537,836	12,509	772	137,334	688,451
Exchange differences	**–**	**(166)**	**(14)**	**(1,527)**	**(1,707)**	–	(21)	54	(2,770)	(2,737)
Gross receipts from sales of prepaid beauty packages	**586,402**	**23,835**	**6,346**	**72,114**	**688,697**	617,027	27,661	3,874	101,361	749,923
Revenue recognised for provision of beauty and wellness services and expiry of prepaid beauty package	**(613,226)**	**(25,736)**	**(5,401)**	**(100,246)**	**(744,609)**	(651,513)	(27,497)	(3,508)	(148,276)	(830,794)
At end of the year	**476,526**	**10,585**	**2,123**	**57,990**	**547,224**	503,350	12,652	1,192	87,649	604,843

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 decreased by about 1.7% from HK$408.5 million in FY2015 to approximately HK$401.6 million. Employee benefit expenses accounted for 51.8% of our revenue in FY2016, as compared to 46.7% for FY2015. The total headcount of the Group as at 31 March 2016 decreased by 9.7% to 1,582, as compared to a headcount of 1,752 for the same period last year. The drop of employee benefits expenses and headcount is mainly due to the continuous cost efficiency that we endeavor to pursue. 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 2016, the Group operated a total of 40 service centres in Mainland China, Hong Kong and Taiwan with a total weighted average gross floor area of approximately 281,000 square feet, representing an decrease of 4.5% as compared to 294,300 square feet in FY2015.

The number of product sales points of the Group was 70 during the year under review (FY2015: 76). As of 31 March 2016, the Group had 12 and 2 beauty service centres in Singapore and Malaysia respectively, with a total weighted average gross floor area of approximately 23,000 square feet and approximately 4,000 square feet respectively (FY2015: approximately 28,000 square feet and approximately 8,900 square feet respectively). The Group's occupancy costs in FY2016 were approximately HK$156.6 million (FY2015: HK$163.6 million), accounting for approximately 20.2% of our revenue (FY2015: 18.7%).

Depreciation

Depreciation for the year under review decreased by 6.1% to HK$44.9 million as compared with HK$47.8 million for FY2015. The decrease is mainly due to the closure of some shops during the year under review with less cost being incurred in the renovations, beauty equipment and fixtures.

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 decreased by 9.4% to HK$34.1 million. Advertising costs decreased to HK$5.8 million from HK$8.3 million for the same period last year. Advertising cost as a percentage of revenue decreased from 0.95% in FY2015 to 0.75% in FY2016. 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.

Profit for the year

Profit for the year under review attributable to equity shareholders of the Company decreased from approximately HK$68.8 million in FY2015 to approximately HK$12.7 million in FY2016. Net profit margin attributable to equity shareholders of the Company decreased from 7.9% in FY2015 to 1.7% in FY2016. The Group will continue to expand its business when opportunities arise in order to achieve the long-term value-added objective of maximizing shareholders' returns. Basic earnings per share was HK1.45 cents as compared to basic earnings per share of HK7.88 cents for the same period last year.

Dividend per share

The Board recommended payment of a final dividend of HK0.6 cent per share subject to approval of the shareholders at the forthcoming Annual General Meeting. Together with the interim dividends of HK0.4 cent per share paid during the year under review, the total dividend paid for the year ended 31 March 2016 will be HK1.0 cent 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$366.7 million (FY2015: HK$397.2 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$20.8 million, as compared to HK$31.6 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 2016. The Group had capital commitment of HK$0.3 million as at 31 March 2016 (31 March 2015: HK$7.6 million), mainly for the acquisition of plant and equipment.

Charges on assets

As of 31 March 2016, the Group had pledged bank deposits of HK$53.9 million (31 March 2015: HK$53.8 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 1,582 staff as of 31 March 2016 (31 March 2015: 1,752 staff), including 1,208 front-line service centre staff in Hong Kong, 85 in Mainland China and 123 in Singapore, Malaysia and Taiwan. Back office staff totaled 117 in Hong Kong, 17 in Mainland China and 32 in Singapore, Malaysia and Taiwan. 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 2016, 6,120,000 share options had 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$401.6 million, representing a 1.7% decrease as compared to HK$408.5 million in FY2015. 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.

OUTLOOK

With a much anticipated slowdown of economy in Mainland China and the persistently weak economic performances in Hong Kong, the retail and consumption sentiment have been adversely affected, which in turn affect the performance of beauty and wellness services industry and its product sales. Nonetheless, we have strived to control the operating costs as well as focusing on the maintenance of a healthy cash position. In spite of the weakened business environment we are facing, we are still prudently optimistic about the Group's performance in the future.

In July 2014, we formed a joint venture with an Australian partner. The joint venture engages not only in the manufacture of the "Advanced Natural" beauty and skincare products, but also wholesales and/or retails of these products internationally in Europe, Australia, Middle-East, Mainland China and Southeast Asia. During the year under review, in face of the Europe economic uncertainties, the sales performance in Europe was deeply affected. On the other hand, we are looking for other business opportunities in other region and countries. During the year under review, we successfully distributed our "Advanced Natural" products in the Kingdom of Saudi Arabia. Leveraging on the profound experience of our partner in developing international markets, it is expected that greater returns will be bought to the shareholders from this joint venture. Leveraging on our internal IT development team, during the year under review, we launched an O2O mobile app which served as a convenient platform for our members who wants to make bookings on their phones in accordance with their own needs. It also serves as a marketing media to advertise our latest services and promotion campaign so as to bring more customers to our service center. Also, we launched a B2C online product sales platform during the year under review so that our products can be sold directly to those who make online orders, which are expected to increase our products sales in the future.

Alongside with the business development, we are committed to continually improving our risk management framework, capabilities, and culture across the Group so as to ensure the long-term growth and sustainability of our business.

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.

CLOSURE OF REGISTER OF MEMBERS

The Annual General Meeting ("AGM") of the Company is scheduled to be held on Friday, 26 August 2016. For determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Wednesday, 24 August 2016 to Friday, 26 August 2016, 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, 23 August 2016.

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, 7 September 2016. For determining the entitlement to the proposed final dividend, the register of members of the Company will be closed from Monday, 5 September 2016 to Wednesday, 7 September 2016, 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 registrar in Hong Kong, Tricor Investor Services Limited, for registration not later than 4:30 p.m. on Friday, 2 September 2016. The payment of final dividend will be made on Monday, 3 October 2016.

CORPORATE GOVERNANCE PRACTICE

The Company is committed to principles of good corporate governance consistent with prudent management and enhancement of shareholder value, which emphasise 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, Code provision E.1.2 and Code provision A.6.7 as set out below.

CHAIRPERSON AND CHIEF EXECUTIVE OFFICER ("CEO")

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.

CODE PROVISION E.1.2

Code provision E.1.2 provides that the chairman of the board should attend the general meeting.

Ms. Tsang Yue, Joyce, the Chairperson of the Board, was absent from the Annual General Meeting of the Company held on 26 August 2015 due to her pregnancy.

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 26 August 2015 due to personal reason.

SCOPE OF WORK OF KPMG

The financial figures in respect of the preliminary announcement of the Group's results for the year ended 31 March 2016 have been compared by the Company's auditors, KPMG, Certified Public Accountants, to the amounts set out in the Group's consolidated financial statements for the year and the amounts were found to be in agreement. The work performed by KPMG in this respect did not constitute an audit, review or other assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagement or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by the auditor.

AUDIT COMMITTEE

The composition of the Audit Committee is as follows:

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

The Audit Committee has reviewed and approved the Group's annual results for the year ended 31 March 2016 prior to their approval by the Board.

PUBLICATION OF THE FINAL RESULTS AND ANNUAL REPORT

This results announcement is published on the website of the Hong Kong Exchanges and Clearing Limited at www.hkex.com.hk under "Latest Listed Company Information" and on the website of the Company at www.modernbeautysalon.com under "Investor Relations – Statutory Announcements". The Annual Report and the Notice of Annual General Meeting will be despatched to the shareholders on or about 26 July 2016 and will be available at the Stock Exchange's and the Company's websites at the same time.

On behalf of the Board,
TSANG YUE, JOYCE
Chairperson & Chief Executive Officer

Hong Kong, 29 June 2016

As at the date of this announcement, the Board consists of three Executive Directors, Ms. Tsang Yue, Joyce, Mr. Yip Kai Wing and Ms. Yeung See Man and four Independent Non-executive Directors, Ms. Liu Mei Ling, Rhoda, Mr. Wong Man Hin, Raymond, Mr. Hong Po Kui, Martin and Mr. Lam Tak Leung.