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

Stock Code 股份代號：919

ANNUAL REPORT
年報 2015/16

CONTENT

CORPORATE PROFILE

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 highend of the beauty industry that is dedicated to providing 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 five service lines as follows:

Corporate Profile

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.

Aesthetics Services

As the world of advanced skin care and anti-ageing services develops and matures, aesthetics 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 many brands, such as "be", "FERRECARE" "p.e.n", "Y.U.E". "Advanced Natural", "Bioline", "Malu Wilz", "BeYu", "Fanola", "Byothea", "Mila d'Opiz". The Group launched distributor brands "Bioline", "Malu Wilz", "Fanola", "Byothea", "Mila d'Opiz", "BeYu" as well as further promoted our self-owned brands "p.e.n", "be", "FERRECARE", "Y. U. E.", "Advanced Natural" 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 2016, we had 30, 8, 12, 2 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" and "p.e.n" shop, had 11, and 5 outlets respectively as at 31 March 2016.

CORPORATE INFORMATION

Board of Directors

Dr. 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

Dr. 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)
Dr. 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

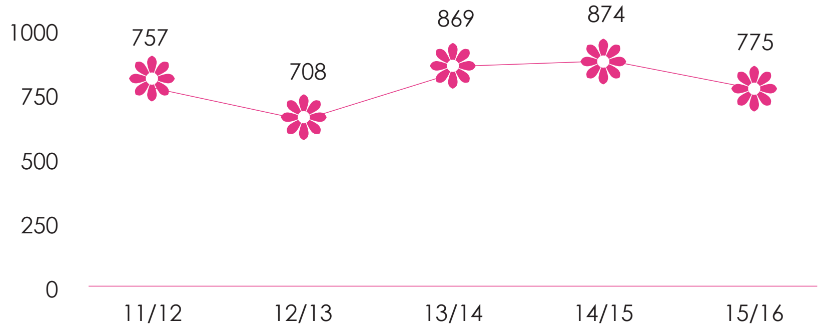
Email address:
ir@modernbeautysalon.com

Website

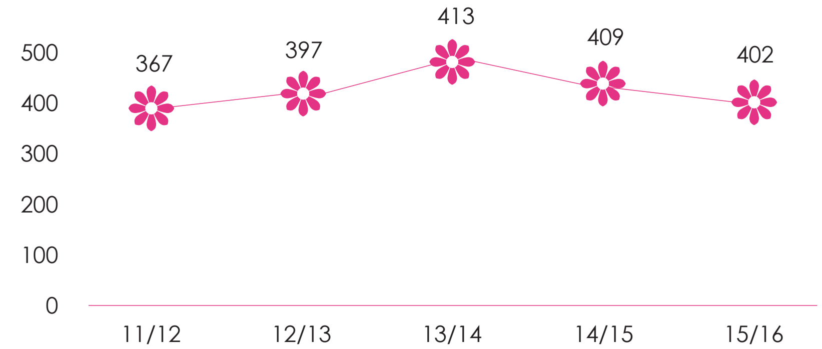
www.modernbeautysalon.com

FINANCIAL HIGHLIGHTS

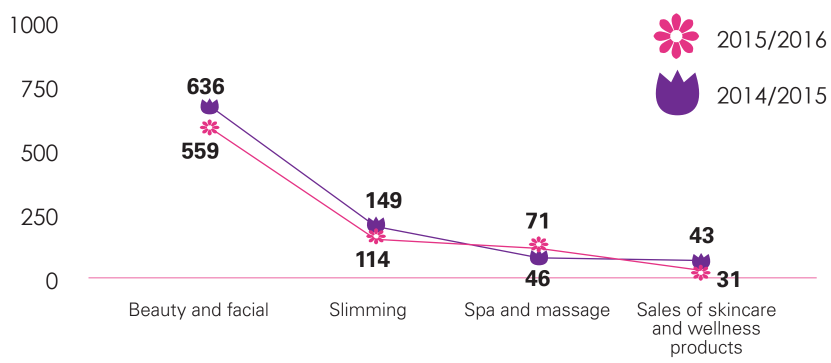
Revenue HK$ (million)



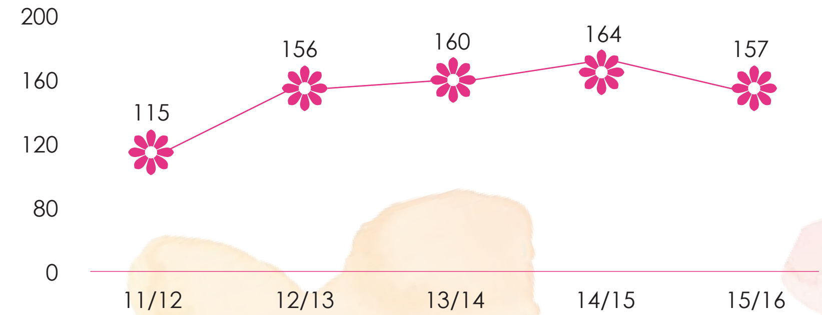
Employee Benefit Expenses HK$ (million)



Sales Mix HK$ (million)



Occupancy Costs HK$ (million)



- The Group's revenue decreased by 11.3% to 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.

2015/2016 MILESTONES AND KEY EVENTS

May 2015
Opening the YUE SPA Centre in Causeway Bay

July 2015
Opening a new branch in Yuen Long

July 2015
Dr. Tsang Yue, Joyce, Chairperson and Chief Executive Officer of the Group, was awarded the Medal of Honour by the Government of the HKSAR

2015/2016 Milestones and Key Events

August 2015
Opening a new branch at Tang Lung Street in Causeway Bay

November 2015
Awarded "Most Valuable Companies in Hong Kong Award" by Mediazone Group

February 2016
Opening a new branch at TG Place in Kwun Tong

May 2016
Awarded "Caring Company award 2011-2016" by Hong Kong Council of Social Service

May 2016
Dr. Tsang Yue, Joyce, Chairlady and Chief Executive Officer of the group, was awarded "Top Ten Leaders of Excellence Awards 2016" by CAPITAL magazine

CHAIRPERSON'S STATEMENT

CHAIRPERSON'S STATEMENT

On behalf of the Board of Directors (the "Board") of Modern Beauty Salon Holdings Limited (the "Company"), I am pleased to present the audited financial report of the Company and its subsidiaries (the "Group") for the financial year ended 31 March 2016 ("FY2016" or the "year under review").

Business Review

During FY2016, the retail sales in Hong Kong showed significant decline due to the unstable internal and external business environment. Our business in Hong Kong was inevitably affected but to a lesser extent leveraging on our long-term commitment to excellent service management and quality assurance. Revenue of the Group amounted to approximately HK$775.4 million, representing a drop of 11.3% compared with approximately HK$874.2 million for the year ended 31 March 2015 ("FY2015" or the "same period last year"). Despite challenging business environment, we maintain an operating profit of HK$11.5 million. Our customers in Hong Kong amounted up to a total of approximately 396,000 during the year under review, representing an encouraging growth of 5.3% as compared to approximately 376,000 in FY2015. 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.

While we continue to provide comprehensive high quality beauty, slimming and facial services (wedding photography services have also been provided since 2013), we manage to take further steps to launch electronic sales platform via an O2O mobile app which enables customers to make bookings on their phones and serves as a marketing media to advertise our latest services and promotion campaign to achieve higher promotion and advertising efficiency. Also, we have launched a B2C online product sales platform during the year under review so that our products can be sold directly to customers making online orders.

During the year under review, 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 built-in cooling system to keep the skin cool.

We also continue our consistent cost control policy by integrating various of the Group's service centres in Hong Kong through renewing leases, merging and leasing of other premises when the lease terms expired. We achieve remarkable results in this regard as 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.

Outlook

With a much anticipated slowdown of economy in Mainland China and the persistently unstable 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 and adopt prudent business strategy. On the other hand, we are looking for other business opportunities in other region and countries. During the year under review, we have successfully distributed our joint venture partner "Advanced Natural" products in the Kingdom of Saudi Arabia with further developments to follow.

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 FY2016, the Group was able to obtain a distinguishable financial position despite 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 to the Group. 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.

Dr. Tsang Yue, Joyce
Chairperson and Chief Executive Officer

Hong Kong, 29 June 2016

MANAGEMENT DISCUSSION AND ANALYSIS

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	76	-6
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%	

BUSINESS AND FINANCIAL REVIEW

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).

Management Discussion and Analysis

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 seasonal 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 future 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 built-in 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.

Management Discussion and Analysis

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 Mainland 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.

Management Discussion and Analysis

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 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	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

Management Discussion and Analysis

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.

Management Discussion and Analysis

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.

Management Discussion and Analysis

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.

Environmental Policies and Performance

The Group understands that its business has an impact on the environment and recognizes the importance of sound environmental management practices and sustainable business operations. It is committed to comply with the relevant environmental standards and policies related to its business operations as set by the relevant governments.

The Group has implemented a number of environment-friendly measures in its operations and workplaces including but not limited to retail shops, warehouses and offices. In its day-to-day operations, the Group advocates "paperless office" and actively promotes electronic management information system. It also sets up required equipment in order to arrange different kinds of meeting by using teleconference and video conference, resulting in savings in time and resources. For retail shops, the Group has implemented energy saving practices by using some LED lighting fixtures.

Compliance with Laws and Regulations

The Group recognizes the importance of compliance with regulatory requirements and risks of non-compliance with such requirements. The Group has conducted on-going review of the newly enacted laws and regulations affecting the operations of the Group and provides relevant trainings and guidance to the staff. The Group has complied with the relevant laws and regulations of its places of operation that have significant impact on the operations of the Group for the year ended 31 March 2016.

Key Relationships

(a) Employees

The Group believes that employees are a key element to the success of its business, so it strives to maintain a high staff retention rate by providing competitive remuneration package and developing harmonious workplace. To enhance capabilities and effectiveness of its employees in operation, the Group provides them with a comprehensive training program which includes quality service skills, product knowledge and language and interpersonal skills. In addition, the Group would organize regular retail staff gatherings to promote team spirits and award retail staff with outstanding sales performance.

Management Discussion and Analysis

(b) *Consumers*

The Group provides direct service to consumers in its retail and salon shops. To ensure continuous improvement of the quality of products and services, the Group regularly conducts internal and external market surveys to interact with consumers and to gain market insights and feedback.

(c) *Suppliers*

The Group has established long standing cooperation relationship with certain suppliers. It selects its suppliers prudently. The relevant suppliers need to fulfill certain assessment criteria of the Group, including, among others, experience, financial capability, reputation and history of meeting our standards for raw materials or finished products.

(d) *Shareholders and Investors*

The Board believes effective communication and accurate and timely information disclosure builds the Shareholders' and investors' confidence, and also facilitates the flow of constructive feedback and ideas that are beneficial for investor relations and future corporate development.

Principle risks and uncertainties

1. Macroeconomic changes – The Group's business is sensitive to the general economic conditions and other factors like consumer credit.

2. Regulatory & political risk of business – This includes legal regulation update in Hong Kong, especially the Trade Description Ordinance Chapter 362, Law of Hong Kong, since the Group's business mainly operated in Hong Kong. In addition, the Group would develop markets in Mainland China further, which also bring more risk in relation to regulatory and political changes.

3. Market competition – The Group is under intense pressure to compete on both price and service as large and smaller, regional or niche competitors attempt to increase market share.

4. Foreign currency risk associated with the Group's investment – The Group may expose to transaction and translation (exchange rate) risks, particularly RMB, Taiwan Dollars, Singapore Dollars and Malaysian Ringgit, and associated financial cost risks.

5. Rising costs of Hong Kong business – This mainly refers to increasing operational cost resulting from uncertain economic environment.

6. Reputation and performance risk of skincare and wellness products business of the Group – The Group's business is dependent on its reputation and quality of service and the Group may lose potential business if its products and quality of service are called into question.

Management Discussion and Analysis

Significant subsequent events

No important event affecting the Group had occurred since the end of the year ended 31 March 2016.

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.

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, 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 2016 Annual General Meeting	*23 August 2016*
Closure of Register of Members for 2016 Annual General Meeting	*24 August 2016 to 26 August 2016, both dates inclusive*
2016 Annual General Meeting	*26 August 2016*
Last day to register for entitlement to 2016 final dividend	*2 September 2016*
Closure of Register of Members for entitlement to 2016 final dividend	*5 September 2016 to 7 September 2016, both dates inclusive*
Record date for entitlement to 2016 final dividend	*7 September 2016*
Payment of 2016 final dividend	*3 October 2016*

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 2016:	873,996,190 shares
Board lot:	4,000 shares
Nominal value:	HK$0.10 per share
Market Capitalization as at 31 March 2016:	HK$424 million

Stock Codes

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

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Dr. Tsang Yue, Joyce

Aged 55, 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. She 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 Fellow of The Professional Valuation Centre of Hong Kong. Dr. 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 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, Dr. Tsang was appointed as a committee member of the 11th Chinese People's Political Consultative Conference in Hunan Province, China. In 2013, Dr. Tsang was appointed as the Convenor of Community Kitchen of Food for Good. Dr. Tsang was also appointed as the Vice President of New Territories Anniversary Celebration Activities Organizing Committee. Dr. Tsang was also the winner of Executive Award in DHL/SCMP Hong Kong Business Awards 2014. In 2015, Dr. Tsang was appointed as the Founding Executive Vice Chairman of Happy Hong Kong Charity Foundation for a term of three years. In 2015, Dr. Tsang was appointed as the Vice President of the sixth Executive Committee of Hong Kong New Territories District Adviser Alumni Association. Dr. Tsang was awarded the Medal of Honour (MH) by the Hong Kong Special Administrative Region Government in July 2015. She was also appointed as the Honorary President of the sixteenth executive committee of Tuen Mun District Women's Association Limited for the year 2015 to 2017. In 2015, Dr. Tsang was awarded the "Asia Prime Awards for Outstanding Leaders" by Chi Fung International Group. She was also awarded the "Top Ten Leaders of Excellence Awards 2016" by Capital magazine. In 2016, Dr. Tsang was awarded the Outstanding Contribution Award by HKBWA. In 2016, Dr. Tsang was awarded the "2015-2016 Asia Health and Beauty Person of the Year Award" by CMM International Group. Dr. Tsang is the spouse of Dr. 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 42, 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 thirteen 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.

Biography of Directors and Senior Management

Ms. Yeung See Man

Aged 42, 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. She joined the Group in March 2004.

Independent Non-Executive Directors

Ms. Liu Mei Ling, Rhoda

Aged 54, 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 50, 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. Hong Po Kui, Martin

Aged 66, 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 37 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 63, 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 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

Dr. Lee Soo Ghee

Aged 41, is the Chief Administrative Officer of the Company. Dr. Lee is a former Executive Director of the Company (resigned on 15 September 2010). Dr. 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. Dr. Lee holds a diploma in Electronics, Computer & Communication Engineering from Singapore Polytechnic, having extraordinary talent in the sphere of design. He also holds a Degree of Doctor from Business Administration by International American University. He is the spouse of Dr. Tsang Yue, Joyce, Executive Director and Chairperson of the Board.

Mr. Wong Shu Pui

Aged 49, 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 44, 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, Code provision A.6.7 and Code provision E.1.2 as set out 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:
Dr. Tsang Yue, Joyce (Chairperson of the Board & Chief Executive Officer)
Mr. Yip Kai Wing
Ms. Yeung See Man

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 22 to 24 of this annual report.

Corporate Governance 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 nine board meetings.

Directors' Attendance at Board/Board Committee/General Meetings

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

	Board Meetings	**Audit Committee Meetings**	**Remuneration Committee Meetings**	**2015 Annual General Meeting**
Executive Director				
Ms. Tsang Yue, Joyce[1]	4/9	N/A	1/1	0/1
Mr. Yip Kai Wing	8/9	N/A	N/A	1/1
Ms. Yeung See Man	9/9	N/A	N/A	1/1
Independent Non-Executive Director				
Ms. Liu Mei Ling, Rhoda[2]	8/9	5/5	1/1	1/1
Mr. Wong Man Hin, Raymond[3]	9/9	5/5	1/1	1/1
Mr. Hong Po Kui, Martin	9/9	5/5	1/1	0/1
Mr. Lam Tak Leung	6/9	N/A	N/A	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.

Corporate Governance Report

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;

(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.

Corporate Governance Report

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. 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:–

Dr. Tsang Yue, Joyce	Reading materials
Mr. Yip Kai Wing	Reading materials
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 ("CEO")

During the year under review, Dr. Tsang Yue, Joyce ("Dr. 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.

Dr. 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.

Corporate Governance Report

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 2015 for a term of three years commencing from 1 January 2016, 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 subheading "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.

Corporate Governance Report

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
Dr. Tsang Yue, Joyce

The responsibilities of Remuneration Committee as set out in its written terms of reference 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 once. 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 performance and 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
Dr. Tsang Yue, Joyce *(Chairman)*

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

Corporate Governance Report

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 did not hold any meeting.

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, risk management, internal control 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 five 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;

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

c. reviewed the audit planning for the annual results circulated to them;

d. approved issue of profit warning announcements;

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

f. reviewed the audit programme of the internal audit department and risk management and internal control 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.

Corporate Governance Report

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 services were as follows:

	Fee paid/payable HK$'000
Audit services	2,948
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 (HK$)	**Number of persons**
HK$Nil to HK$1,000,000	8
HK$1,000,001 to HK$2,000,000	1
Over HK$2,000,000	1

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

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 49 of this annual report.

Internal Control and Risk Management

The Board has conducted a review of the effectiveness of the risk management and internal control systems of the Company and its subsidiaries and considered the systems to be effective and adequate.

The Board is responsible for maintaining sound and effective systems of risk management and internal control in the Group and for reviewing its effectiveness through the Audit Committee. Such systems are designed to manage rather than eliminate the risk of failure to achieve corporate objectives. They aim to provide reasonable but not absolute assurance against material misstatement, loss or fraud.

The Company has set up an internal audit department. The risk management and internal control systems are reviewed at least once during the year under review.

The Board has adopted a structure of enterprise risk management for the Company. Business units, support functions and individuals of the Group review, share experience and report to the senior management if any material risk is alerted during daily operation. Internal audit department communicates and assesses the Group's risk profile and material risk at Group level. The Board has delegated to executive management the design, implementation and ongoing assessment of such systems of risk management and internal control, 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. Inside information is handled by and disseminated to senior management on a need-to-know basis.

Corporate Governance Report

Based on the results of evaluations and representations made by the senior management, the Board and the Audit Committee are 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

- appropriate systems of internal control and risk management have 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).

Corporate Governance Report

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
6th Floor, 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 FY2016.

Principal Activities

The principal activities of the Company is investment holding and the principal activities of the Group continued throughout FY2016 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 2016 are set out in note 13 to the financial statements.

Business Review

A review of the business of the Group during the year under review, including (a) a fair review of the Group's business; (b) a description of the principal risks and uncertainties facing the Group; (c) particulars of important events affecting the Group that have occurred since the end of the year under review; (d) an indication of likely future development in the Group's business; (e) an analysis of the Group's performance during the year under review using financial key performance indicators; (f) a discussion on the Group's environmental policies and performance and compliance with the relevant laws and regulations that have a significant impact on the Group (if any) and (g) an account of the Group's key relationships with its employees, customers and suppliers and others that have a significant impact on the Group and on which the Group's success depends, is set out in "Management Discussion and Analysis" on page 12 to page 20 of this annual report, which constitutes part of this report of the directors.

Results and Appropriations

The results of the Group for FY2016 are set out in the consolidated statement of profit or loss on page 51.

The revenue 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 revenue 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.

Declaration of Dividend

An interim dividend of HK0.4 cent per share, amounting to HK$3,496,000, was paid to shareholders of the Company ("Shareholders") during the year under review (FY2015: an interim dividend of HK3.4 cents per Share totaling HK$29,716,000).

The Directors are pleased to recommend the payment of a final dividend of HK0.6 cent per share amounting to HK$5,244,000 during the year under review (FY2015: a final dividend of HK2.1 cents per share, totaling HK$18,354,000), subject to the Shareholders' approval at the forthcoming annual general meeting of the Company. 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.

Report of the Directors

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.

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 112, which does not form part of 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 7% (FY2015: 9%) of the Group's total purchase for the year under review and the five largest suppliers taken together accounted for approximately 26% (FY2015: 27%) 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 Notes

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

Pre-emptive Rights

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

Charitable Donations

During the year under review, the Group made donations of approximately HK$313,000 to charitable and non-profit-making organisations.

Report of the Directors

Directors

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

Executive Directors

Dr. Tsang Yue, Joyce (Chairperson and Chief Executive Officer)
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. Liu Mei Ling, Rhoda, Mr. Hong Po Kui, Martin and Mr. Yip Kai Wing 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 had received from each Independent Non-executive Director ("INED") an annual confirmation of his or her independence as regard each of the factors referred to in Rule 3.13(1) to (8) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Company considered all of them to be independent.

Directors' Service Contracts

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 Transaction, Arrangement or Contract

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 transaction, arrangement or 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.

Report of the Directors

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

As at 31 March 2016, 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 Voting Shares of the Company[1]
Dr. 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 issued voting Shares of the Company as at 31 March 2016 (i.e. 873,996,190 Shares).

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

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

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

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

Save as disclosed above, as at 31 March 2016, 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.

Report of the Directors

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 2016, 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 Voting Shares of the Company[1]
Dr. 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%
Dr. 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%
Silver Compass Holdings Corp.[5]	Beneficial owner	367,200,000	–	367,200,000[6]	42.01%
Allied Wealth Limited[5]	Beneficial owner	178,760,190	87,619,048	266,379,238[6]	30.48%
Silver Hendon Enterprises Corp.[5]	Beneficial owner	100,800,000	–	100,800,000[6]	11.53%
Value Partners Group Limited	Interest of corporation controlled by the substantial shareholder	45,232,000	–	45,232,000	5.17%

Report of the Directors

Notes:

1. The percentage has been compiled based on the total number of issued voting Shares of the Company as at 31 March 2016 (i.e. 873,996,190 Shares).

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

3. Dr. Lee Soo Ghee is the spouse of Dr. Tsang Yue, Joyce and is deemed to be interested in the Shares in which Dr. 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 Dr. 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 2016.

Share Option Scheme

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

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

Summary of the 2006 Scheme is set out as follows:

(a) Purpose of the 2006 Scheme

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

(b) Participants of the 2006 Scheme

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

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

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

Report of the Directors

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 62,360,000 which represents 7.1% of the issued shares 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.

Report of the Directors

(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 2015	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 2016	Date of grant	Period during which options are exercisable	Exercise price	Approximate percentage of share per issued share (Note 1)
Executive Director									
Mr. Yip Kai Wing	125,000	–	–	–	125,000	23/10/2006	23/10/2010 to 22/10/2016	HK$1.33	0.01%
Mr. Yip Kai Wing	175,000	–	–	–	175,000	23/10/2006	23/10/2014 to 22/10/2016	HK$1.33	0.02%
Mr. Yip Kai Wing	200,000	–	–	–	200,000	23/10/2006	23/10/2015 to 22/10/2016	HK$1.33	0.02%
Ms. Yeung See Man	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	1,330,000	–	–	–	1,330,000	23/10/2006	23/10/2010 to 22/10/2016	HK$1.33	0.15%
Others	1,862,000	–	–	–	1,862,000	23/10/2006	23/10/2014 to 22/10/2016	HK$1.33	0.21%
Others	2,128,000	–	–	–	2,128,000	23/10/2006	23/10/2015 to 22/10/2016	HK$1.33	0.24%
Total	6,120,000	–	–	–	6,120,000				

Note:

1. The relevant percentages are calculated by reference to the Shares in issue on 31 March 2016 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 below.

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 Dr. 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 directly.

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 Mansion, 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;

Report of the Directors

(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 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;

(xiii) 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;

(xiv) 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;

(xv) 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; this tenancy agreement was early terminated on 1 September 2015;

(xvi) 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;

(xvii) tenancy agreement dated 24 December 2014 in respect of Portion B of Shop C on Ground Floor and Shop E on Basement, King's View Court, 901-907 King's Road, Quarry Bay, Hong Kong at the monthly rent of HK$212,500 exclusive of rates, Government rent, management fee and other outgoings (including but not limited to water, gas and electricity charges) for a term of 27 months 24 days from 8 December 2014;

(xviii) tenancy agreement dated 14 July 2015 in respect of 3rd Floor, Causeway Bay Commercial Building, No. 3 Sugar Street, Causeway Bay, Hong Kong at the monthly rent of HK$268,600 exclusive of rates, Government rent, management fee and other outgoings (including but not limited to water, gas and electricity charges) for a term of 21 months from 1 July 2015; and

Report of the Directors

(xix) tenancy agreement dated 30 December 2015 in respect of Units C1, C2, D1, D2, E1 & E2, 16th Floor, TG Place, No. 10 Shing Yip Street, Kowloon at the monthly rent of HK$123,335 exclusive of rates, Government rent, management fee and other outgoings (including but not limited to water, gas and electricity charges) for a term of 15 months from 1 January 2016

(collectively, the transactions above are referred to as "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.

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 Continuing Connected Transactions:

a. nothing has come to their attention that causes them to believe that the 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 Continuing Connected Transactions, nothing has come to their attention that causes them to believe that the Continuing Connected Transactions have exceeded the maximum aggregate annual value disclosed in the previous announcement dated 20 February 2014 made by the Company in respect of the 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.

Report of the Directors

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. The warrants were expired on 20 June 2016.

Permitted Indemnity Provision

Article 225 of the Articles of Association of the Company provides, inter alia, that every director of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities incurred or sustained by him as a director of the Company in defending any proceedings, whether civil or criminal, in which judgment is given in his favour, or in which he is acquitted.

Report of the Directors

Article 226 of the Articles of Association of the Company provides, inter alia, that subject to Companies Law (2004 Revision), Cap. 22 of the Cayman Islands and any amendments thereto or re-enactments thereof for the time being in force and includes every other law incorporated therewith or substituted therefor, if any director of the Company shall become personally liable for the payment of any sum primarily due from the Company, the majority of the directors of the Company present and voting at a meeting of the directors of the Company at which a quorum is present, may execute or cause to be executed any mortgage, charge, or security over or affecting the whole or any part of the assets of the Company by way of indemnity to secure the director so becoming liable as aforesaid from any loss in respect of such liability.

During the year under review, the Company took out and kept in force insurance for directors and officers of the Company against liability for certain claims for certain wrongful acts.

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 had reviewed and approved the Group's annual results for the year ended 31 March 2016 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 25 of this annual report.

Corporate Governance

The Company's corporate governance practices are set out in Corporate Governance Report on page 25 of this annual report.

Auditor

The financial statements for FY2016 had been audited by KPMG who will retire and, being eligible, offer itself for reappointment 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
Dr. Tsang Yue, Joyce
Chairperson and Chief Executive Officer

Hong Kong, 29 June 2016

INDEPENDENT AUDITOR'S REPORT

Independent auditor's report to the shareholders of
Modern Beauty Salon Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Modern Beauty Salon Holdings Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 51 to 110, which comprise the consolidated statement of financial position as at 31 March 2016, 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, 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 audit opinion.

Independent Auditor's Report

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 March 2016 and of the Group's financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance 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

29 June 2016

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 March 2016

	Note	2016 HK$'000	2015 HK$'000
Revenue	4	775,391	874,235
Other income	5	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	6(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	6(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	14	(892)	–
Share of profit of an associate		1	77
Share of (loss)/profit of a joint venture		(22)	474
Profit before taxation	6	16,624	85,797
Income tax expense	7(a)	(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

The notes on pages 57 to 110 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 2016

	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

The notes on pages 57 to 110 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2016

	Note	2016 HK$'000	2015 HK$'000
Non-current assets			
Property, plant and equipment	11	96,717	122,427
Investment properties	12	12,700	12,420
Interest in an associate		80	79
Interest in a joint venture	14	4,205	5,146
Deposits	15	15,119	29,309
Deferred tax assets	16(a)	16,389	14,256
		145,210	183,637
Current assets			
Inventories	17	21,977	23,499
Trade and other receivables, deposits and prepayments	15	213,206	221,363
Tax recoverable		15,697	15,811
Pledged bank deposits	18	53,857	53,842
Cash and bank balances	19	366,652	397,248
		671,389	711,763
Current liabilities			
Trade and other payables, deposits received and accrued expenses	20	89,029	92,129
Deferred revenue	21	547,224	604,843
Convertible note	22	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

Consolidated Statement of Financial Position

As at 31 March 2016

	Note	2016 HK$'000	2015 HK$'000
Non-current liabilities			
Convertible note	22	–	454
Deferred tax liabilities	16(a)	375	1,787
Purchase consideration payable for an acquisition	25(d)	1,259	4,673
		1,634	6,914
NET ASSETS		161,867	171,172
CAPITAL AND RESERVES			
Share capital	23(c)	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

Approved and authorised for issue by the Board of Directors on 29 June 2016.

Ms. Yeung See Man
Director

Mr. Yip Kai Wing
Director

The notes on pages 57 to 110 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2016

	Note	Attributable to equity shareholders of the Company											
		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	Convertible note reserve HK$'000	Property revaluation reserve HK$'000	Retained earnings HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
Balance at 1 April 2014		87,400	289,999	4,384	170	(374,921)	1,272	84,870	–	52,072	145,246	59	145,305
Changes in equity for 2015:													
Profit for the year		–	–	–	–	–	–	–	–	68,849	68,849	82	68,931
Other comprehensive income													
– Exchange differences on translation of subsidiaries		–	–	–	–	–	809	–	–	–	809	–	809
– Exchange differences on translation of a joint venture		–	–	–	–	–	(647)	–	–	–	(647)	–	(647)
– Revaluation of investment properties		–	–	–	–	–	–	–	3,552	–	3,552	–	3,552
Total comprehensive income		–	–	–	–	–	162	–	3,552	68,849	72,563	82	72,645
Share-based payments	6(b)	–	–	355	–	–	–	–	–	–	355	–	355
Lapse of share options		–	–	(133)	–	–	–	–	–	133	–	–	–
Decrease in the Group's interests in a subsidiary		–	–	–	–	–	–	–	–	(5)	(5)	5	–
Acquisition of subsidiaries		–	–	–	–	–	–	–	–	–	–	63	63
2014 final dividends paid	23(b)(ii)	–	–	–	–	–	–	–	–	(17,480)	(17,480)	–	(17,480)
2015 interim dividends paid	23(b)(i)	–	–	–	–	–	–	–	–	(29,716)	(29,716)	–	(29,716)
		–	–	222	–	–	–	–	–	(47,068)	(46,846)	68	(46,778)
Balance at 31 March 2015 and 1 April 2015		87,400	289,999	4,606	170	(374,921)	1,434	84,870	3,552	73,853	170,963	209	171,172
Changes in equity for 2016:													
Profit for the year		–	–	–	–	–	–	–	–	12,668	12,668	355	13,023
Other comprehensive income													
– Exchange differences on translation of subsidiaries		–	–	–	–	–	(579)	–	–	–	(579)	–	(579)
– Exchange differences on translation of a joint venture		–	–	–	–	–	(27)	–	–	–	(27)	–	(27)
Total comprehensive income		–	–	–	–	–	(606)	–	–	12,668	12,062	355	12,417
Share-based payments	6(b)	–	–	128	–	–	–	–	–	–	128	–	128
Increase in the Group's interests in a subsidiary		–	–	–	–	–	–	–	–	59	59	(59)	–
2015 final dividends paid	23(b)(ii)	–	–	–	–	–	–	–	–	(18,354)	(18,354)	–	(18,354)
2016 interim dividends paid	23(b)(i)	–	–	–	–	–	–	–	–	(3,496)	(3,496)	–	(3,496)
		–	–	128	–	–	–	–	–	(21,791)	(21,663)	(59)	(21,722)
Balance at 31 March 2016		87,400	289,999	4,734	170	(374,921)	828	84,870	3,552	64,730	161,362	505	161,867

The notes on pages 57 to 110 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 March 2016

	Note	2016 HK$'000	2015 HK$'000
Operating activities			
Profit before taxation		16,624	85,797
Adjustments for:			
Depreciation		44,927	47,821
Interest income		(2,615)	(2,769)
Finance costs		209	346
Equity-settled share-based payment expenses		128	355
Net loss/(gain) on disposals of property, plant and equipment		1,054	(61)
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)
Operating profit before changes in working capital		57,568	130,980
Decrease/(increase) in inventories		1,482	(354)
Decrease in trade and other receivables, deposits and prepayments		22,066	6,743
(Decrease)/increase in trade and other payables, deposits received and accrued expenses		(3,163)	1,724
Decrease in deferred revenue		(55,912)	(80,871)
Cash generated from operations		22,041	58,222
Interest received		2,615	2,769
Tax paid		(9,680)	(20,618)
Net cash generated from operating activities		14,976	40,373
Investing activities			
Purchase of property, plant and equipment		(20,825)	(31,648)
Proceeds from disposals of property, plant and equipment		11	374
Increase in pledged bank deposits		(15)	(1,672)
Net cash used in investing activities		(20,829)	(32,946)
Financing activities			
Dividends paid to equity shareholders of the Company		(21,850)	(47,196)
Interest paid on convertible note		(1,840)	(1,840)
Net cash used in financing activities		(23,690)	(49,036)
Net decrease in cash and cash equivalents		(29,543)	(41,609)
Effect of foreign exchange rates changes		(1,053)	(1,993)
Cash and cash equivalents at beginning of year		397,248	440,850
Cash and cash equivalents at end of year	19	366,652	397,248

The notes on pages 57 to 110 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

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, Dr. Tsang Yue, Joyce ("Dr. 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"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies 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. 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.

Notes to the Financial Statements

2 Significant Accounting Policies (Continued)

(b) Basis of preparation of the financial statements

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 measurement basis used in the preparation of the financial statements is the historical cost basis except that the investment properties (see note 2(f)) and the purchase consideration payable for an acquisition (see note 2(r)) are stated at their fair value as explained in the accounting policies set out below.

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 30.

(c) 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 (see note 31). 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.

Notes to the Financial Statements

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(l) or 2(m) 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 a joint venture (see note 2(e)).

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 2(i)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

Notes to the Financial Statements

2 Significant Accounting Policies (Continued)

(e) Associates and joint ventures

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A joint venture is an arrangement whereby the Group or Company and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in an associate or a joint venture is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see notes 2(i)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income.

When the Group's share of losses exceeds its interest in the associate or the joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate or the joint venture.

Unrealised profits and losses resulting from transactions between the Group and its associate and joint venture are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

If an investment in an associate becomes an investment in a joint venture or vice versa, retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset.

Notes to the Financial Statements

2 Significant Accounting Policies (Continued)

(f) Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use and property that is being constructed or developed for future use as investment property.

Investment properties are stated at fair value, unless they are still in the course of construction or development at the end of the reporting period and their fair value cannot be reliably measured at that time. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in profit or loss. Rental income from investment properties is accounted for as described in note 2(s)(iii).

When the Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease, and the same accounting policies are applied to that interest as are applied to other investment properties leased under finance leases. Lease payments are accounted for as described in note 2(h).

(g) Property, plant and equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 2(i)).

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.

Depreciation is calculated to write off the cost 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 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.

Notes to the Financial Statements

2 Significant Accounting Policies (Continued)

(h) 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.

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.

(i) Impairment of assets

(i) Impairment of investments in equity securities, trade and other receivables

Investments in equity securities, 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;

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

– a significant or prolonged decline in the fair value of an investment in equity instrument below its cost.

Notes to the Financial Statements

2 Significant Accounting Policies (Continued)

(i) Impairment of assets (Continued)

(i) Impairment of investments in equity securities, trade and other receivables (Continued)

If any such evidence exists, any impairment loss is determined and recognised as follows:

– For investments in an associate and a joint venture accounted for under the equity method in the consolidated financial statements (see note 2(e)), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 2(i)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 2(i)(ii).

– For trade and other current and non-current receivables and other financial assets carried at amortised cost, 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. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

  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.

Notes to the Financial Statements

2 Significant Accounting Policies (Continued)

(i) Impairment of assets (Continued)

(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

– investments in a subsidiary, an associate and a joint venture in the Company's statement of financial position.

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(i)(i) and (ii)).

Notes to the Financial Statements

2 Significant Accounting Policies (Continued)

(j) 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.

(k) 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(i)), 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.

(l) 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 earnings.

Notes to the Financial Statements

2 Significant Accounting Policies (Continued)

(m) 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.

(n) 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.

(o) 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.

(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$1,500 (HK$1,250 before 1 June 2014) 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 "Mainland China") 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).

Notes to the Financial Statements

2 Significant Accounting Policies (Continued)

(o) Employee benefits (Continued)

(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 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 directors and 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 director or 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 earnings).

(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.

(p) 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.

Notes to the Financial Statements

2 Significant Accounting Policies (Continued)

(p) Income tax (Continued)

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. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

Where investment properties are carried at their fair value in accordance with the accounting policy set out in note 2(f), the amount of deferred tax recognised is measured using the tax rates that would apply on sales of those assets at their carrying value at the reporting date unless the property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, 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.

Notes to the Financial Statements

2 Significant Accounting Policies (Continued)

(p) Income tax (Continued)

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.

(q) 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.

(r) Purchase consideration

Purchase consideration recognised in a business combination is measured at fair value at the date of acquisition. Subsequently, it is remeasured to fair value at each reporting date until the contingency is settled, with the changes in the fair value recognised in profit or loss.

Notes to the Financial Statements

2 Significant Accounting Policies (Continued)

(s) 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) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(iv) Interest income

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

(v) 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 for 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.

(vi) Commission income

Commission income is recognised upon the provision of services.

Notes to the Financial Statements

2 Significant Accounting Policies (Continued)

(t) 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.

(u) 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.

Notes to the Financial Statements

2 Significant Accounting Policies (Continued)

(u) Related parties (Continued)

(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).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

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.

(v) 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.

Notes to the Financial Statements

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 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

Notes to the Financial Statements

3 Segment Information (Continued)

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

	2016 HK$'000	2015 HK$'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

Notes to the Financial Statements

3 Segment Information (Continued)

(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

4 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

5 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

Notes to the Financial Statements

6 Profit before Taxation

Profit before taxation is arrived at after charging:

(a) Finance costs

	2016 HK$'000	2015 HK$'000
Interest on convertible note wholly repayable within five years (note 22)	**209**	346

(b) Employee benefit expenses

	2016 HK$'000	2015 HK$'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 (note 24)	**128**	355
	401,615	408,527

(c) Other items

	2016 HK$'000	2015 HK$'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 15(b))	**828**	–

Notes to the Financial Statements

7 Income Tax in the Consolidated Statement of Profit or Loss

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

	2016 HK$'000	2015 HK$'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 (note 16(a))	(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.

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

	2016 HK$'000	2015 HK$'000
Profit before taxation	16,624	85,797
Notional tax on profit before taxation, calculated at 16.5% (2015: 16.5%)	2,743	14,157
Effect of different tax rates of subsidiaries	(388)	963
Tax effect of tax exemption	(414)	(443)
Tax effect of non-taxable income	(1,049)	(704)
Tax effect of non-deductible expenses	1,552	1,162
Tax effect of utilisation of tax losses previously not recognised	(1,624)	(2,684)
Tax effect of temporary differences and tax losses not recognised	2,785	4,898
Over-provision in respect of prior years	(4)	(483)
Actual tax expense	3,601	16,866

Notes to the Financial Statements

8 Directors' Emoluments

Directors' emoluments disclosed with reference to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation is as follows:

	2016				
Name of Director	Directors' fees HK$'000	Salaries and other benefits in kind HK$'000	Share-based payments HK$'000	Contributions to defined contributions retirement plan HK$'000	Total HK$'000
Tsang Yue, Joyce	–	11,067	–	75	11,142
Yip Kai Wing	–	623	10	18	651
Yeung See Man	–	728	6	18	752
Liu Mei Ling, Rhoda	316	–	–	–	316
Wong Man Hin, Raymond	256	–	–	–	256
Hong Po Kui, Martin	256	–	–	–	256
Lam Tak Leung	256	–	–	–	256
	1,084	12,418	16	111	13,629

	2015				
Name of Director	Directors' fees HK$'000	Salaries and other benefits in kind HK$'000	Share-based payments HK$'000	Contributions to defined contributions retirement plan HK$'000	Total HK$'000
Tsang Yue, Joyce	–	16,238	–	69	16,307
Yip Kai Wing	–	684	28	18	730
Yeung See Man	–	742	17	18	777
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	17,664	45	105	18,834

Notes to the Financial Statements

9 Individuals with Highest Emoluments

Of the five individuals with the highest emoluments, one (2015: one) is a director whose emolument is disclosed in note 8. The aggregate of the emoluments in respect of the other four (2015: four) individuals are as follows:

	2016 HK$'000	2015 HK$'000
Salaries and other benefits in kind	5,366	5,713
Contributions to defined contribution retirement plan	129	138
Share-based payments	21	56
	5,516	5,907

The emoluments of the four (2015: four) individuals with the highest emoluments are within the following bands:

	Number of individuals	
	2016	2015
Nil – HK$1,000,000	1	–
HK$1,000,001 – HK$1,500,000	2	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 (2015: Nil).

Notes to the Financial Statements

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 number 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 HK$'000	2015 HK$'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 (note 22)	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.

Notes to the Financial Statements

11 Property, Plant and Equipment

	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 2014	24,682	189,292	96,531	5,275	17,083	11,716	344,579
Additions	–	21,648	6,746	69	2,371	814	31,648
Fair value change on revaluation upon transfer of assets to investment properties	3,552	–	–	–	–	–	3,552
Transfer to investment properties (note 12)	(12,348)	–	–	–	–	–	(12,348)
Disposals/written off	–	(12,179)	(587)	(41)	(1,956)	(546)	(15,309)
Exchange differences	–	(2,467)	(1,734)	(192)	(205)	(66)	(4,664)
At 31 March 2015 and 1 April 2015	15,886	196,294	100,956	5,111	17,293	11,918	347,458
Additions	–	14,846	4,444	34	745	756	20,825
Disposals/written off	–	(17,631)	(15,469)	(558)	–	(1,617)	(35,275)
Exchange differences	–	(627)	(152)	7	26	(38)	(784)
At 31 March 2016	15,886	192,882	89,779	4,594	18,064	11,019	332,224
Depreciation:							
At 1 April 2014	–	94,453	72,329	3,999	15,042	9,770	195,593
Charge for the year	–	34,081	11,037	528	1,530	645	47,821
Written back on disposals/written off	–	(11,866)	(587)	(41)	(1,956)	(546)	(14,996)
Exchange differences	–	(1,714)	(1,314)	(176)	(126)	(57)	(3,387)
At 31 March 2015 and 1 April 2015	–	114,954	81,465	4,310	14,490	9,812	225,031
Charge for the year	210	31,616	10,410	419	1,695	577	44,927
Written back on disposals/written off	–	(16,576)	(15,464)	(553)	–	(1,617)	(34,210)
Exchange differences	–	(152)	(90)	11	23	(33)	(241)
At 31 March 2016	210	129,842	76,321	4,187	16,208	8,739	235,507
Carrying amount:							
At 31 March 2016	15,676	63,040	13,458	407	1,856	2,280	96,717
At 31 March 2015	15,886	81,340	19,491	801	2,803	2,106	122,427

(a) As of 31 March 2016 and 2015, the Group's land and buildings at their carrying amounts are situated in Hong Kong under medium-term leases.

(b) During the year ended 31 March 2015, certain properties were leased to a related party (see note 28(b)) and resulted in a change in use of the properties from self use to leasing for rental income. Upon this change in use, the Group transferred these properties from land and buildings to investment properties. These investment properties are stated at their fair values in accordance with the accounting policy set out in note 2(f) and the appreciation in value of HK$3,552,000, representing the difference between their fair value and net book value at the date of the transfer, was credited to property revaluation reserve.

Notes to the Financial Statements

12 Investment Properties

	2016 HK$'000	2015 HK$'000
At 1 April	12,420	–
Transferred from property, plant and equipment (note 11)	–	12,348
Fair value gain	280	72
At 31 March	12,700	12,420

Investment properties were revalued at 31 March 2016. Details of the fair value measurement are disclosed in note 12(a)(i). Investment properties were revalued by Roma Appraisal Limited, an independent firm of chartered surveyors, and future market condition changes may result in further gains or losses to be recognised through profit or loss account in subsequent periods.

As of 31 March 2016, the Group's investment properties at their carrying amounts are situated in Hong Kong under medium-term leases.

(a) Fair value measurement of investment properties

(i) Fair value hierarchy

The following table presents the fair value of the Group's investment properties measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

– Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date

– Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available

– Level 3 valuations: Fair value measured using significant unobservable inputs

All of the Group's investment properties measured at fair value on a recurring basis are categorised as Level 3 of the fair value hierarchy.

During the year ended 31 March 2016, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 in respect of the Group's investment properties (2015: Nil). The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

All the Group's investment properties were revalued as at 31 March 2016 by an independent firm of surveyors, Roma Appraisal Limited, who have among their staff Members of the Hong Kong Institute of Surveyors with recent experience in the location and category of property being valued. The Group's senior management have discussion with the surveyors on the valuation assumptions and valuation results when the valuation is performed at each interim and annual reporting date.

Notes to the Financial Statements

12 Investment Properties (Continued)

(a) Fair value measurement of investment properties (Continued)

(ii) Information about Level 3 fair value measurements

The fair value of the Group's investment properties is determined on a recurring basis using the direct comparison approach assuming sale of properties in their existing state with vacant possession and by reference to recent comparable sales transactions as available in the market.

Fair value adjustment of investment properties is recognised in the line item "fair value change on investment properties" on the face of the consolidated statement of profit or loss.

All the gains recognised in profit or loss for the year arise from the properties held at the end of the reporting period.

(b) Investment properties leased out under operating leases

The Group leases out investment properties. The leases typically run for an initial period of three years, with an option to renew the lease after that date at which time all terms renegotiated. Lease payments are adjusted periodically to reflect market rentals. None of the leases includes contingent rentals.

The Group's total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	2016 **HK$'000**	2015 HK$'000
Within 1 year	**536**	536
After 1 year but within 5 years	**–**	536
After 5 years	**–**	–
	536	1,072

Notes to the Financial Statements

13 Investment in a Subsidiary

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

Name of company	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 business
BE Universal Limited	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
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

Notes to the Financial Statements

13 Investment in a Subsidiary (Continued)

Name of company	Place of incorporation/ registration	Particulars of issued and paid up capital	Percentage of ownership interest Direct	Indirect	Principal activities and place of business
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	–	51%	Sales of skincare and wellness products, Hong Kong
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

Notes to the Financial Statements

13 Investment in a Subsidiary (Continued)

Name of company	Place of incorporation/ registration	Particulars of issued and paid up capital	Percentage of ownership interest Direct	Indirect	Principal activities and place of business
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)	Mainland China	Registered capital of HK$10,000,000	–	100%	Provision of beauty and wellness services, Mainland China
Guangzhou Be Beauty Salon and Fitness Company Limited* 廣州貝倚美容健身有限公司 ("GZBS") (Note)	Mainland China	Registered capital of HK$15,000,000	–	100%	Provision of beauty and wellness services, Mainland China
Beijing Modern Beauty Salon Company Limited* 北京芭伊妮美容有限公司 ("BJMBS") (Note)	Mainland China	Registered capital of US$2,250,000	–	100%	Provision of beauty and wellness services, Mainland China
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
Main Deal Limited	Hong Kong	1 ordinary share	–	100%	Investment holding, Hong Kong
Sino Kingdom Trading Limited	Hong Kong	1 ordinary share	–	100%	Sales of skincare and wellness products, Hong Kong
Artemis Beauty Supplies Limited (Formerly known as Gold Treasure Limited)	Hong Kong	650,000 ordinary shares	–	100%	Sales of skincare and wellness products, Hong Kong

* Companies not audited by KPMG. The financial statements of the subsidiaries not audited by KPMG reflect total net assets and total revenue constituting approximately 6% and 4% respectively of the related consolidated totals.

Note: SHBS, GZBS, and BJMBS are wholly foreign owned enterprises established in Mainland China. 台灣貝倚 and 杰裕 are wholly foreign owned enterprises established in 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 2016.

Notes to the Financial Statements

14 Interest in a Joint Venture

Details of the Group's interest in the joint venture, which is accounted for using the equity method in the consolidated financial statements, are as follows:

Name of joint venture	Form of business structure	Place of incorporation	Particulars of issued and paid up capital	Percentage of ownership interest Direct	Percentage of ownership interest Indirect	Principal activities and place of business
Care Plus International Pty Limited	Incorporated	Australia	100 ordinary shares of AUD1 each	–	49%	Manufacturing and trading of beauty and wellness products, Australia

Care Plus International Pty Limited ("Care Plus") is the only joint venture in which the Group participates and it is not considered material to the Group. It is an unlisted corporate entity whose quoted market price is not available. Financial information of this joint venture is as follows:

	2016 HK$'000	2015 HK$'000
(Loss)/profit from continuing operations	(22)	474
Other comprehensive income	(27)	(647)
Total comprehensive income	(49)	(173)

During the year ended 31 March 2016, the Group conducted a review of the joint venture and determined that the recoverable amount of the joint venture is estimated to be less than its carrying amount. Based on the results of the review, an impairment loss of HK$892,000 in respect of the joint venture was recognised in the consolidated statement of profit or loss. The recoverable amount of the joint venture is estimated based on value-in-use calculation. These calculations use cash flow projections based on budget and business plan approved by the management for the year ending 31 March 2017. Cash flows beyond 2016 are derived based on projections of revenue of a growth rate generally expected for the industry. The discount rate used for the cash flow projection is 17.8%. There was no impairment loss recognised in respect of the joint venture in 2015.

Subsequent to year end in May 2016, an additional 2% equity interest in Care Plus was acquired by the Group and Care Plus has become a subsidiary of the Group since then.

Notes to the Financial Statements

15 Trade and Other Receivables, Deposits and Prepayments

	2016 HK$'000	2015 HK$'000
Non-current asset		
Deposits	15,119	29,309
Current assets		
Trade receivables	43,366	55,053
Less: allowance for doubtful debts (note 15(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 (note 28(c))	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 HK$'000	2015 HK$'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. Further details on the Group's credit policy are set out in note 25(a).

Notes to the Financial Statements

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

(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 (see note 2(i)(i)).

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

	2016 HK$'000	2015 HK$'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 the recovery of the balance 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 HK$'000	2015 HK$'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

Notes to the Financial Statements

16 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:

	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
Deferred tax arising from:						
At 1 April 2014	(2,305)	199	2,559	11,744	45	12,242
Credited/(charged) to profit or loss (note 7(a))	342	–	(800)	731	19	292
Exchange differences	176	–	(237)	2	(6)	(65)
At 31 March 2015 and 1 April 2015	(1,787)	199	1,522	12,477	58	12,469
Credited/(charged) to profit or loss (note 7(a))	1,405	–	(360)	2,610	–	3,655
Exchange differences	7	–	(97)	(20)	–	(110)
At 31 March 2016	(375)	199	1,065	15,067	58	16,014

	2016 HK$'000	2015 HK$'000
Represented by:		
Deferred tax assets	16,389	14,256
Deferred tax liabilities	(375)	(1,787)
	16,014	12,469

(b) At the end of the reporting period, the Group has total tax losses of HK$121,755,000 (2015 HK$134,711,000). A deferred tax asset has been recognised in respect of HK$90,288,000 (2015: HK$75,388,000) 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$31,467,000 (2015: HK$59,323,000) due to the unpredictability of future profit streams.

Included in unrecognised tax losses are (a) losses of HK$11,129,000 (2015: HK$14,377,000) from Mainland China operations that will expire in five years, from the year the losses were incurred, (b) losses of HK$4,864,000 (2015: HK$3,207,000) from the Taiwan operations that will expire in ten years, from the year the losses were incurred, and (c) losses of HK$15,474,000 (2015: HK$41,739,000) from other jurisdictions that can be carried forward indefinitely.

Notes to the Financial Statements

17 Inventories

As at 31 March 2016 and 2015, inventories represented finished goods of skincare and wellness products. The amount of inventories recognised as an expense and included in profit or loss is HK$24,806,000 (2015: HK$29,103,000) which is recognised as "cost of inventories sold".

18 Pledged Bank Deposits

The Group's pledged bank deposits represented deposits pledged to banks to secure banking facilities of HK$6,000,000 (2015: HK$6,000,000) and credit card instalment programme granted to the Group. The deposits are denominated in United States dollars, Hong Kong dollars and Taiwan dollars at floating interest rate, with effective interest rate during the year of 0.05% (2015: 0.01%), 0.1% – 0.16% (2015: 0.1% – 0.16%) and 0.80% – 1.35% (2015: 0.94% – 1.35%) per annum respectively and therefore are subject to foreign currency risk and cash flow interest rate risk.

The Group had undrawn facilities of HK$6,000,000 (2015: HK$3,408,000) in form of documentary credit and trust receipt loan at 31 March 2016.

19 Cash and Bank Balances

Cash and bank balances comprise:

	2016 HK$'000	2015 HK$'000
Cash at bank and in hand	181,786	246,163
Short-term bank deposits	184,866	151,085
Cash and bank balances in the consolidated statement of financial position	366,652	397,248

20 Trade and Other Payables, Deposits Received and Accrued Expenses

	2016 HK$'000	2015 HK$'000
Trade payables	742	2,361
Other payables, deposits received and accrued expenses	88,198	89,679
Amount due to the ultimate controlling party (note 28(c))	2	2
Amounts due to related companies (note 28(c))	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.

Notes to the Financial Statements

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

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

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

21 Deferred Revenue

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

	2016 HK$'000	2015 HK$'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 HK$'000	2015 HK$'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

Notes to the Financial Statements

22 Convertible Note

The Company has issued convertible note ("CN") with face value of HK$250,000,000 to Dr. 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)). Dr. 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.

Movements of the liability component are as follows:

	2016 HK$'000	2015 HK$'000
Liability component at 1 April	4,134	5,628
Interest charged (note 6(a))	209	346
Interest paid	(1,840)	(1,840)
Liability component at 31 March	2,503	4,134
Less: Amount due within one year	(2,503)	(3,680)
Amount due more than one year but within five years	–	454

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 2016 of HK$2,503,000 (2015: HK$4,134,000) is not materially different from its fair value at that date.

Notes to the Financial Statements

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
Balance at 1 April 2014	87,400	289,999	4,384	170	47,076	84,870	23,821	537,720
Changes in equity for 2015:								
Total comprehensive income for the year	–	–	–	–	–	–	89,211	89,211
Share-based payments	–	–	355	–	–	–	–	355
Lapse of share options	–	–	(133)	–	–	–	133	–
2014 final dividends paid	–	–	–	–	–	–	(17,480)	(17,480)
2015 interim dividends paid	–	–	–	–	–	–	(29,716)	(29,716)
Balance at 31 March 2015 and 1 April 2015	87,400	289,999	4,606	170	47,076	84,870	65,969	580,090
Changes in equity for 2016:								
Total comprehensive income for the year	–	–	–	–	–	–	(380)	(380)
Share-based payments	–	–	128	–	–	–	–	128
2015 final dividends paid	–	–	–	–	–	–	(18,354)	(18,354)
2016 interim dividends paid	–	–	–	–	–	–	(3,496)	(3,496)
Balance at 31 March 2016	87,400	289,999	4,734	170	47,076	84,870	43,739	557,988

(b) Dividends

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

	2016 HK$'000	2015 HK$'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

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.

Notes to the Financial Statements

23 Capital, Reserves and Dividends (Continued)

(b) Dividends (Continued)

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

	2016 HK$'000	2015 HK$'000
Final dividend in respect of the previous financial year, approved and paid during the year, of HK2.1 cents per ordinary share (2015: HK2.0 cents per ordinary share)	18,354	17,480

(c) Share capital

Authorised and issued share capital

	2016 No. of shares	2016 Amount HK$'000	2015 No. of shares	2015 Amount HK$'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

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per ordinary share at general meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

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 expired on 20 June 2016. No warrants were exercised during the year.

Notes to the Financial Statements

23 Capital, Reserves and Dividends (Continued)

(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(o)(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.

(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 Dr. 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 Dr. 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").

Notes to the Financial Statements

23 Capital, Reserves and Dividends (Continued)

(d) Nature and purpose of reserves (Continued)

(iv) Merger reserve (Continued)

(b) (Continued)

On 30 September 2011, BE Universal and Dr. 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 Dr. 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 Dr. 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.

Notes to the Financial Statements

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(t).

(vii) Convertible note reserve

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

(viii) 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.

(e) Distributability of reserves

At 31 March 2016, the aggregate amount of reserves available for distribution to equity shareholders of the Company was HK$380,814,000 (2015: HK$403,044,000). After the end of reporting period the directors proposed a final dividend of HK$0.6 cent per ordinary share (2015: HK2.1 cents per share), amounting to HK$5,244,000 (2015: HK$18,354,000) (note 23(b)(ii)). This dividend has not been recognised as a liability at the end of the reporting period.

(f) 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 registrar monthly on substantial share interests showing the non-public float and it demonstrates continuing compliance with the 25% limit throughout the year.

Notes to the Financial Statements

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.

Particulars of the share option scheme is set out in pages 40 to 42 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	Lapsed during the year	Outstanding at end of year	Exercisable at end of year
Year ended 31 March 2016				
Directors	800,000	–	800,000	800,000
Senior management	350,000	–	350,000	350,000
Other employees	4,970,000	–	4,970,000	4,970,000
	6,120,000	–	6,120,000	6,120,000
Year ended 31 March 2015				
Directors	800,000	–	800,000	480,000
Senior management	350,000	–	350,000	210,000
Other employees	5,150,000	(180,000)	4,970,000	2,982,000
	6,300,000	(180,000)	6,120,000	3,672,000

The options outstanding at 31 March 2016 had an exercise price of HK$1.33 (2015: HK$1.33) and a weighted average remaining contractual life of 0.6 year (2015: 1.6 years).

Notes to the Financial Statements

25 Financial Risk Management and Fair Values of Financial Instruments

Exposure to credit, liquidity 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 and 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.

(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 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 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 2016						
Trade and other payables, deposits received and accrued expenses	89,029	–	–	–	89,029	89,029
Convertible note	3,272	–	–	–	3,272	2,503
	92,301	–	–	–	92,301	91,532

Notes to the Financial Statements

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

(b) Liquidity risk (Continued)

	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 2015						
Trade and other payables, deposits received and accrued expenses	92,129	–	–	–	92,129	92,129
Convertible note	3,680	1,432	–	–	5,112	4,134
	95,809	1,432	–	–	97,241	96,263

(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.

	Exposure to foreign currencies (expressed in Hong Kong dollars)			
	2016		2015	
	Renminbi HK$'000	**European Euro HK$'000**	Renminbi HK$'000	European Euro HK$'000
Cash and bank balances	**4**	**37**	104,404	47
Trade and other payables, deposits received and accrued expenses	**–**	**–**	(1,213)	–
Net exposure arising from recognised assets and liabilities	**4**	**37**	103,191	47

Notes to the Financial Statements

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 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.

	2016		2015	
	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained earnings HK$'000	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained earnings HK$'000
Renminbi	5%	–	5%	4,308
	(5)%	–	(5)%	(4,308)
European Euro	5%	2	5%	2
	(5)%	(2)	(5)%	(2)

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' profit 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 2015.

Notes to the Financial Statements

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

(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 2016 and 2015.

(i) Financial assets and liabilities measured at fair value

Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

– Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date

– Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available

– Level 3 valuations: Fair value measured using significant unobservable inputs

	Fair value at 31 March 2016 HK$'000	**Fair value measurements as at 31 March 2016 categorised into Level 3 HK$'000**
Recurring fair value measurement		
Financial liability:		
– Purchase consideration payable for an acquisition	1,259	1,259

	Fair value at 31 March 2015 HK$'000	Fair value measurements as at 31 March 2015 categorised into Level 3 HK$'000
Recurring fair value measurement		
Financial liability:		
– Purchase consideration payable for an acquisition	4,673	4,673

Notes to the Financial Statements

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

(d) Fair value measurement (Continued)

(ii) Information about Level 3 fair value measurements

In respect of the acquisition of the Group's interest in the joint venture, the fair value of the contingent consideration was HK$1,259,000 (2015: HK$4,673,000) as at 31 March 2016 and is recognised as a financial liability under "Purchase consideration payable for an acquisition".

The fair value of purchase consideration payable for an acquisition is determined by an independent external valuer based on the latest financial forecast of the joint venture and other relevant information.

The movements during the year in the balance of Level 3 fair value measurements are as follows:

	2016 HK$'000	2015 HK$'000
Purchase consideration payable for an acquisition:		
At 1 April	4,673	–
Acquisition of a joint venture	–	5,548
Fair value change on purchase consideration	(3,392)	114
Exchange differences	(22)	(989)
At 31 March	1,259	4,673
Gain for the year included in profit or loss for liability held at the end of the reporting period	3,414	875

26 Commitments

(a) Operating lease commitments

At 31 March 2016, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2016 HK$'000	2015 HK$'000
Within 1 year	132,246	150,390
After 1 year but within 5 years	49,906	138,609
	182,152	288,999

Notes to the Financial Statements

26 Commitments (Continued)

(a) Operating lease commitments (Continued)

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 (2015: 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 2016 not provided for in the financial statements were as follows:

	2016 HK$'000	2015 HK$'000
Contracted but not yet provided for:		
– Acquisition of plant and equipment	290	7,644

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.

28 Material Related Party Transactions and Balances

(a) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 8 and certain of the highest paid employee as disclosed in note 9, is as follows:

	2016 HK$'000	2015 HK$'000
Short-term employee benefits	16,305	21,658
Post-employment benefits	221	226
Equity compensation benefits	19	53
	16,545	21,937

Total remuneration is included in "employee benefit expenses" (see note 6(b)).

Notes to the Financial Statements

28 Material Related Party Transactions and Balances (Continued)

(b) Material related party transactions

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

	Note	2016 HK'000	2015 HK'000
Rental expenses paid to related companies:	(i)		
– All Link International Limited		367	367
– Chain Tech International Limited		2,417	–
– East Union Industries Limited		1,652	1,652
– Joy East Limited		734	734
– Luck Elegant Industrial Limited		3,376	1,628
– Lucky Forever Limited		17,296	17,550
– Golden National Limited		8,997	8,997
– United Industries Limited		8,282	8,459
– Well Faith International Enterprise Limited		13,862	13,862
– Wise World Limited		2,206	1,836
	(vii)	59,189	55,085
Rental income received from a related company:			
– Grateful Heart Charitable Foundation Limited	(ii)	536	536
Interest charge on convertible note issued to ultimate controlling party:			
– Dr. Tsang		209	346
Donation to a related company			
– Grateful Heart Charitable Foundation Limited	(iii)	313	358
Salaries and other benefits in kind paid to related parties:			
– Related party A	(iv)	1,706	1,826
– Related party B	(v)	1,396	1,510
– Related party C	(vi)	477	457
		3,579	3,793

Notes to the Financial Statements

28 Material Related Party Transactions and Balances (Continued)

(b) Material related party transactions (Continued)

Notes:

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

(ii) The amount represented rental income received for area leased to a related company for use as office at a monthly rental mutually agreed by both parties. Dr. Tsang is the member of the related company.

(iii) The amount represented donation expense to a related company. Dr. Tsang is the member of the related company.

(iv) Related party A is the spouse of a director, Dr. Tsang.

(v) Related party B is the son of a director, Dr. Tsang.

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

(vii) 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 are provided in the Report of the Directors.

(c) 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. Dr. Tsang is the ultimate controlling party of those related companies.

Amounts due from related companies disclosed with reference to section 383(1) of the Hong Kong Companies Ordinance, are as follows:

	Balance at 31 March 2016 HK$'000	Balance at 1 April 2015 HK$'000	Maximum amount outstanding during the year HK$'000
All Link International Limited	3	1	46
Grateful Heart Charitable Foundation Limited	153	8	153
Lucky Forever (S) Pte. Limited	37	31	37
Swisscelin Distribution Limited	72	72	72
United Industries Limited	1	–	3
Advanced Natural Australia Pty Ltd	5	5	5
	271	117	316

Notes to the Financial Statements

29 Company-level Statement of Financial Position

	Note	2016 HK$'000	2015 HK$'000
Non-current asset			
Investment in a subsidiary	13	101,076	101,076
Current assets			
Amounts due from subsidiaries		458,517	482,897
Cash and bank balances		907	258
		459,424	483,155
Current liabilities			
Other payables		9	7
Convertible note		2,503	3,680
		2,512	3,687
Net current assets		456,912	479,468
Total assets less current liabilities		557,988	580,544
Non-current liability			
Convertible note		–	454
NET ASSETS		557,988	580,090
CAPITAL AND RESERVES	23		
Share capital		87,400	87,400
Reserves		470,588	492,690
TOTAL EQUITY		557,988	580,090

Notes to the Financial Statements

30 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.

(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.

Notes to the Financial Statements

31 Possible Impact of Amendments, New Standards and Interpretations Issued but Not Yet Effective for the Year Ended 31 March 2016

Up to the date of issue of these financial statements, the HKICPA has issued a few amendments and new standards which are not yet effective for the year ended 31 March 2016 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Annual improvements to HKFRSs 2012-2014 cycle	1 January 2016
Amendments to HKFRS 11, *Accounting for acquisitions of interests in joint operations*	1 January 2016
Amendments to HKAS 1, *Disclosure initiative*	1 January 2016
Amendments to HKAS 16 and HKAS 38, *Clarification of acceptable methods of depreciation and amortisation*	1 January 2016
HKFRS 9, *Financial instruments*	1 January 2018
HKFRS 15, *Revenue from contracts with customers*	1 January 2018
HKFRS 16, *Leases*	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far it has concluded that the above developments and new standards may be relevant to the consolidated financial statements but the impact upon adoption of them is yet to be confirmed.

32 Approval of Financial Statements

The financial statements were approved and authorised for issue by the Board of Directors on 29 June 2016.

PROPERTIES HELD BY THE GROUP

Location	Category of the lease	Use
Unit 7, 8, 9, East Wing, Twenty-seventh Floor, Tuen Mun Central Square, No. 22 Hoi Wing Road, Tuen Mun, New Territories	Medium-term lease	Rented to a related party
Unit 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	Spa and beauty treatment
Unit 16, West Wing, Twenty-seventh Floor, Tuen Mun Central Square, No. 22 Hoi Wing Road, Tuen Mun, New Territories	Medium-term lease	Spa and beauty treatment

FIVE YEARS FINANCIAL SUMMARY

Consolidated Results

	Year ended 31 March				
	2016 HK$'000	2015 HK$'000	2014 HK$'000	2013 HK$'000	2012 HK$'000
Revenue	775,391	874,235	868,806	708,122	756,605
Profit/(loss) before tax	16,624	85,797	81,783	(57,983)	101,357
Income tax (expense)/credit	(3,601)	(16,866)	(26,942)	4,549	(19,220)
Profit/(loss) for the year	13,023	68,931	54,841	(53,434)	82,137

Consolidated Assets and Liabilities

	As at 31 March				
	2016 HK$'000	2015 HK$'000	2014 HK$'000	2013 HK$'000	2012 HK$'000
Total non-current assets	145,210	183,637	183,512	180,179	288,824
Total current assets	671,389	711,763	771,364	811,086	729,920
Total assets	816,599	895,400	954,876	991,265	1,018,744
Total non-current liabilities	(1,634)	(6,914)	(4,179)	(3,316)	(4,556)
Total current liabilities	(653,098)	(717,314)	(805,392)	(842,506)	(742,045)
Total liabilities	(654,732)	(724,228)	(809,571)	(845,822)	(746,601)
Net assets	161,867	171,172	145,305	145,443	272,143

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

Stock Code 股份代號：919

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