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

MODERN BEAUTY SALON HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 919)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 MARCH 2017

FINANCIAL HIGHLIGHTS

- The Group's revenue decreased by 10.6% to HK$693.3 million as compared to HK$775.4 million in FY2016.

- Gross receipts from sales of prepaid beauty packages decreased from approximately HK$688.7 million in FY2016 to approximately HK$558.7 million in FY2017.

- Profit attributable to equity shareholders increased from approximately HK$10.4 million (Restated) in FY2016 to approximately HK$33.3 million in FY2017.

- The Board recommended the payment of a final dividend of HK1.25 cents per ordinary share for the year under review.

OPERATIONAL HIGHLIGHTS

- The Group operated a total of thirty-six service centres in Mainland China, Hong Kong and Taiwan with a total weighted average gross floor area of approximately 253,000 square feet.

- The Group had ten and one service centres in Singapore and Malaysia respectively, with a total weighted average gross floor area of approximately 20,000 square feet and approximately 2,000 square feet respectively.

- Customer number in Hong Kong and Singapore reached approximately 407,000 and 104,000 respectively.

The Board of Directors (the "Board") of Modern Beauty Salon Holdings Limited (the "Company") is pleased to announce the consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 March 2017 ("FY2017" or the "year under review"), with comparative figures for the year ended 31 March 2016 ("FY2016") as follows. The annual results for the year ended 31 March 2017 have been reviewed by the audit committee of the Company.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 MARCH 2017

	Note	**2017** *HK$'000*	2016 *HK$'000* (Restated)
Revenue	*6*	**693,284**	775,391
Other income	*7*	**3,225**	2,924
Cost of inventories sold		**(22,366)**	(24,806)
Advertising costs		**(4,744)**	(5,839)
Building management fees		**(13,970)**	(15,200)
Bank charges		**(27,318)**	(34,092)
Employee benefit expenses	*8(b)*	**(335,364)**	(401,615)
Depreciation and amortisation		**(35,473)**	(44,927)
Occupancy costs		**(142,448)**	(156,614)
Other operating expenses		**(69,426)**	(83,763)
Profit from operations		**45,400**	11,459
Interest income		**723**	2,615
Finance costs	*8(a)*	**(3,856)**	(2,510)
Fair value change on investment properties		**170**	280
Fair value change on purchase consideration		**1,245**	3,392
Impairment loss on a joint venture		**–**	(892)
Share of profit of an associate		**–**	1
Share of loss of a joint venture		**(41)**	(22)
Profit before taxation	*8*	**43,641**	14,323
Income tax expense	*9*	**(9,766)**	(3,601)
Profit for the year		**33,875**	10,722

	Note	**2017**	2016
		HK$'000	*HK$'000*
			(Restated)
Attributable to:			
Equity shareholders of the Company		**33,262**	10,367
Non-controlling interests		**613**	355
Profit for the year		**33,875**	10,722
Earnings per share *(HK cents)*	*10*		
Basic		**3.78**	1.19
Diluted		**3.78**	1.19

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2017

	Note	2017	2016
		HK$'000	*HK$'000*
			(Restated)
Profit for the year		**33,875**	10,722
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, net of Nil tax		**(1,610)**	(606)
Reclassification adjustment upon loss of joint control of a joint venture, net of Nil tax		**675**	–
Other comprehensive income for the year		**(935)**	(606)
Total comprehensive income for the year		**32,940**	10,116
Attributable to:			
Equity shareholders of the Company		**32,327**	9,761
Non-controlling interests		**613**	355
Total comprehensive income for the year		**32,940**	10,116

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2017

	Note	**31 March 2017** *HK$'000*	31 March 2016 *HK$'000* (Restated)	1 April 2015 *HK$'000* (Restated)
Non-current assets				
Property, plant and equipment		**63,424**	96,717	122,427
Investment properties		**12,870**	12,700	12,420
Intangible assets		**2,342**	–	–
Goodwill		**3,108**	–	–
Interest in an associate		**–**	80	79
Interest in a joint venture		**–**	4,205	5,146
Deposits	*11*	**14,864**	15,119	29,309
Deferred tax assets		**14,864**	16,389	14,256
		111,472	145,210	183,637
Current assets				
Inventories		**29,344**	21,977	23,499
Trade and other receivables, deposits and prepayments	*11*	**205,147**	213,206	221,363
Tax recoverable		**5,572**	15,697	15,811
Pledged bank deposits		**54,235**	53,857	53,842
Bank deposits with original maturity over three months		**5,234**	–	–
Cash and bank balances		**244,605**	366,652	397,248
		544,137	671,389	711,763
Current liabilities				
Trade and other payables, deposits received and accrued expenses	*12*	**87,265**	89,029	92,129
Deferred revenue	*13*	**439,367**	547,224	604,843
Convertible note	*14*	**–**	91,405	3,202
Tax payable		**1,567**	14,342	16,662
		528,199	742,000	716,836
Net current assets/(liabilities)		**15,938**	(70,611)	(5,073)
Total assets less current liabilities		**127,410**	74,599	178,564

	Note	31 March 2017 HK$'000	31 March 2016 HK$'000 (Restated)	1 April 2015 HK$'000 (Restated)
Non-current liabilities				
Convertible note	14	**–**	–	87,533
Deferred tax liabilities		**822**	375	1,787
Purchase consideration payable for acquisitions		**1,148**	1,259	4,673
		1,970	1,634	93,993
NET ASSETS		**125,440**	72,965	84,571
CAPITAL AND RESERVES				
Share capital		**90,448**	87,400	87,400
Reserves		**32,367**	(14,940)	(3,038)
Total equity attributable equity shareholders of the Company		**122,815**	72,460	84,362
Non-controlling interests		**2,625**	505	209
TOTAL EQUITY		**125,440**	72,965	84,571

NOTES

1 GENERAL INFORMATION

Modern Beauty Salon Holdings Limited (the "Company") was incorporated in the Cayman Islands with limited liability. The address of its registered office is M&C Corporate Services Limited, PO Box 309 GT, Ugland House, South Church Street, George Town, Grand Cayman, Cayman Islands. The address of its principal place of business is 6th Floor, Sino Industrial Plaza, 9 Kai Cheung Road, Kowloon Bay, Kowloon, Hong Kong. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company is an investment holding company. The principal activities of its subsidiaries are provision of beauty and wellness services and the sales of skincare and wellness products. In the opinion of the directors of the Company, Ms. Tsang Yue, Joyce ("Dr. Tsang"), who is a director of the Company, is the ultimate controlling party of the Company.

2 STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The financial information relating to the financial years ended 31 March 2017 and 2016 included in this announcement of annual results does not constitute the Company's statutory annual financial statements for those financial years but is derived from those financial statements.

The consolidated financial statements for the year ended 31 March 2017 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interests in an associate and a joint venture. The consolidated results set out in this announcement do not constitute the Group's consolidated financial statements for the year ended 31 March 2017 but are extracted from those financial statements.

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.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

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

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

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

3 NEW AND CHANGES IN ACCOUNTING POLICIES

(a) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss, except where the derivatives qualify for cash flow hedge accounting or hedge the net investment in a foreign operation, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged.

(b) Convertible notes

Convertible notes which do not contain an equity component are accounted for as follows:

At initial recognition the derivative component of the convertible notes is measured at fair value and presented as part of derivative financial instruments (see note 3(a)). Any excess of proceeds over the amount initially recognised as the derivative component is recognised as the liability component. Transaction costs that relate to the issue of the convertible note are allocated to the liability and derivative components in proportion to the allocation of proceeds. The portion of the transaction costs relating to the liability component is recognised initially as part of the liability. The portion relating to the derivative component is recognised immediately in profit or loss.

The derivative component is subsequently remeasured in accordance with note 3(a). 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.

If the note is converted, the carrying amounts of the derivative and liability components are transferred to share capital and share premium as consideration for the shares issued. If the note is redeemed, any difference between the amount paid and the carrying amounts of both components is recognised in profit or loss.

(c) The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Group. None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented.

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

4 PRIOR YEAR ADJUSTMENTS

On 9 January 2017, the convertible note issued by the Group to an associate of Dr. Tsang on 10 January 2012 matured. At that time, the remaining unconverted principal amount of the convertible note was HK$92,000,000. HK$32,012,000 of this principal was mandatorily converted into 30,487,752 ordinary shares of the Company, being the maximum number of ordinary shares that could be issued to the associate of Dr. Tsang at that time without breaching the public float requirement as prescribed under the Listing Rules, and the remainder was settled in cash of HK$59,988,000 in accordance with the terms of the convertible note described in note 22 to the consolidated financial statements for the year ended 31 March 2016.

In evaluating the overall financial impact of the cash settlement to the associate of Dr. Tsang during the year ended 31 March 2017, the directors of the Group reassessed the accounting treatment for the contingent condition in the terms of the convertible note which obliged the Company to settle the outstanding principal amount in cash in the event that conversion of the principal amount into ordinary shares would result in the Company's failure to comply with the public float requirement as prescribed under the Listing Rules. After discussion with the Company's current auditors, the directors have now concluded that, based on a valuation performed by a third party, at the time of initial recognition in 2012 the fair value of the convertible note was HK$248,332,000 in aggregate and that this amount contained embedded derivative financial instruments (being the call and conversion features of the convertible note) and a financial liability with their respective amounts of HK$17,176,000 and HK$231,156,000. The Group had previously recognised the convertible note as containing both liability and equity components with values of HK$19,374,000 and HK$230,626,000 respectively at the inception date, which amounted to the principal amount of HK$250,000,000 in aggregate, and had believed that the contingent cash settlement feature did not require accounting recognition.

The following tables disclose the adjustments that have been made by the directors of the Group to each of the line items in the consolidated statements of profit or loss and other comprehensive income for the year ended 31 March 2016, and the consolidated statement of financial position as at 31 March 2016 and 1 April 2015 to reflect the revised accounting treatment. These adjustments take into account the fact that on 6 March 2012, part of the convertible note with face value of HK$158,000,000 was converted into 150,476,190 ordinary shares of the Company, which reduced the financial liability component to HK$85,537,000 at that date. No further conversion rights were exercised before the maturity on 9 January 2017 described above.

The amounts of the adjustments for each line item affected are as follows:

(i) Effect on the consolidated statement of financial position

	As previously reported at 31 March 2015 *HK$'000*	Effect of prior year adjustments *HK$'000*	Opening balances as at 1 April 2015, as restated *HK$'000*
Opening balances as at 1 April 2015			
Convertible note – current liabilities	(3,680)	478	(3,202)
Current liabilities	(717,314)	478	(716,836)
Net current liabilities	(5,551)	478	(5,073)
Total assets less current liabilities	178,086	478	178,564
Convertible note – non-current liabilities	(454)	(87,079)	(87,533)
Non-current liabilities	(6,914)	(87,079)	(93,993)
Net assets	171,172	(86,601)	84,571
Reserve – surplus/(deficits)	83,563	(86,601)	(3,038)
Total equity attributable to equity shareholders of the Company	170,963	(86,601)	84,362
Total equity	171,172	(86,601)	84,571

	As previously reported at 31 March 2016 *HK$'000*	Effect of prior year adjustments *HK$'000*	As restated *HK$'000*
As at 31 March 2016			
Convertible note – current liabilities	(2,503)	(88,902)	(91,405)
Current liabilities	(653,098)	(88,902)	(742,000)
Net current assets/(liabilities)	18,291	(88,902)	(70,611)
Total assets less current liabilities	163,501	(88,902)	74,599
Net assets	161,867	(88,902)	72,965
Reserve – surplus/(deficits)	73,962	(88,902)	(14,940)
Total equity attributable to equity shareholders of the Company	161,362	(88,902)	72,460
Total equity	161,867	(88,902)	72,965

(ii) **Effect on the consolidated statement of profit or loss for the year ended 31 March 2016**

	As previously reported *HK$'000*	Effect of prior year's adjustments *HK$'000*	As restated *HK$'000*
Finance costs	(209)	(2,301)	(2,510)
Profit before taxation	16,624	(2,301)	14,323
Profit for the year	13,023	(2,301)	10,722
Attributable to equity shareholders of the Company	12,668	(2,301)	10,367
Earnings per share *(HK cents)*			
– Basic	1.45	(0.26)	1.19
– Diluted	1.34	(0.15)	1.19
Total comprehensive income for the year	12,417	(2,301)	10,116
Total comprehensive income attributable to equity shareholders of the Company	12,062	(2,301)	9,761

5 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, intangible assets, goodwill, 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 acquisitions.

(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 2017 and 2016 is set out below.

	Beauty and wellness services *HK$'000*	**Skincare and wellness products** *HK$'000*	**Total** *HK$'000*
Year ended 31 March 2017			
Revenue from external customers	**664,830**	**28,454**	**693,284**
Reportable segment profit	**60,405**	**13,579**	**73,984**
Other segment information:			
Additions to property, plant and equipment	**4,362**	**1,451**	**5,813**
Depreciation and amortisation	**35,058**	**415**	**35,473**
As at 31 March 2017			
Reportable segment assets	**591,710**	**15,418**	**607,128**
Reportable segment liabilities	**514,458**	**9,853**	**524,311**

	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

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

	2017	2016
	HK$'000	*HK$'000*
		(Restated)
Profit		
Reportable segment profit	**73,984**	51,046
Other income	**3,225**	2,924
Interest income	**723**	2,615
Finance costs	**(3,856)**	(2,510)
Fair value change on investment properties	**170**	280
Fair value change on purchase consideration	**1,245**	3,392
Impairment loss on a joint venture	**–**	(892)
Share of profit of an associate	**–**	1
Share of loss of a joint venture	**(41)**	(22)
Unallocated costs	**(31,809)**	(42,511)
Income tax expense	**(9,766)**	(3,601)
Consolidated profit for the year	**33,875**	10,722
Assets		
Reportable segment assets	**607,128**	751,852
Properties held for corporate use	**15,175**	15,676
Investment properties	**12,870**	12,700
Interest in an associate	**–**	80
Interest in a joint venture	**–**	4,205
Deferred tax assets	**14,864**	16,389
Tax recoverable	**5,572**	15,697
Consolidated total assets	**655,609**	816,599
Liabilities		
Reportable segment liabilities	**524,311**	636,164
Tax payable	**1,567**	14,342
Convertible note	**–**	91,405
Deferred tax liabilities	**822**	375
Amounts due to related companies	**887**	87
Amount due to the ultimate controlling party	**1,434**	2
Purchase consideration payable for acquisitions	**1,148**	1,259
Consolidated total liabilities	**530,169**	743,634

(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, intangible assets, goodwill, interests in an associate and a joint venture, deferred tax assets and deposits.

	Revenue from external customers		**Specified non-current assets**	
	2017	2016	**2017**	2016
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong (place of domicile)	**593,341**	640,677	**54,969**	81,994
Mainland China	**22,313**	26,594	**4,025**	6,490
Singapore	**66,349**	95,351	**2,816**	6,307
Malaysia	**3,319**	7,367	**76**	358
Taiwan	**5,964**	5,402	**1,044**	1,568
Australia	**1,998**	–	**494**	–
	693,284	775,391	**63,424**	96,717

6 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:

	2017	2016
	HK$'000	*HK$'000*
Revenue recognised from provision of beauty and wellness services and expiry of prepaid beauty packages	**664,830**	744,609
Sales of skincare and wellness products	**28,454**	30,782
	693,284	775,391

7 OTHER INCOME

	2017	2016
	HK$'000	*HK$'000*
Commission income	**172**	20
Government grants	**361**	951
Foreign exchange gain, net	**584**	–
Net gain on disposals of property, plant and equipment	**161**	–
Rental income	**536**	536
Others	**1,411**	1,417
	3,225	2,924

8 PROFIT BEFORE TAXATION

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

(a) Finance costs

	2017	2016
	HK$'000	*HK$'000*
		(Restated)
Interest on convertible note wholly repayable within five years *(note 14)*	**2,590**	3,298
Fair value change in derivative financial instruments	**1,266**	(788)
	3,856	2,510

(b) Employee benefit expenses

	2017	2016
	HK$'000	*HK$'000*
Wages and salaries	**318,803**	376,175
Contributions to defined contribution retirement plans	**19,740**	22,737
Other staff welfare	**(3,179)**	2,575
Share-based payments	**–**	128
	335,364	401,615

(c) Other items

	2017	2016
	HK$'000	*HK$'000*
Auditor's remuneration	**3,065**	2,985
Foreign exchange loss, net	**–**	9,897
Operating lease charges for land and buildings	**142,448**	156,614
Net loss on disposals of property, plant and equipment	**–**	1,054
Loss on disposal of a subsidiary	**17**	–
Loss on disposal of an associate	**80**	–
Impairment loss on trade receivables *(note 11(b))*	**–**	828
Loss on deemed disposal of previously owned equity interest of a joint venture	**1,802**	–

9 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	2017	2016
	HK$'000	*HK$'000*
Current tax – Hong Kong Profits Tax		
Provision for the year	**5,507**	1,958
Under/(over)-provision in respect of prior years	**14**	(26)
	5,521	1,932
Current tax – Overseas		
Provision for the year	**2,906**	5,302
(Over)/under-provision in respect of prior years	**(7)**	22
	2,899	5,324
Deferred tax		
Origination and reversal of temporary differences	**1,346**	(3,655)
	9,766	3,601

The provision for Hong Kong Profits Tax for 2017 is calculated at 16.5% (2016: 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 2015-16 subject to a maximum reduction of HK$20,000 for each business (2016: a maximum reduction of HK$20,000 was granted for the year of assessment 2014-15 and was taken into account in calculating the provision for 2016). Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

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$33,262,000 (2016: HK$10,367,000 (Restated)) and the weighted average number of 880,761,965 ordinary shares (2016: 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$34,163,000 (2016: HK$10,367,000 (Restated)) and the weighted average number of ordinary shares of 904,483,942 (2016: weighted average number of ordinary shares of 873,996,190 (Restated)), calculated as follows:

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

	2017	2016
	HK$'000	*HK$'000*
		(Restated)
Profit attributable to ordinary equity shareholders for basic earnings per share	**33,262**	10,367
After tax effect of effective interest on the liability component of dilutive convertible note	**901**	–
Profit attributable to ordinary equity shareholders for diluted earnings per share	**34,163**	10,367

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

	2017	2016
Weighted average number of ordinary shares for basic earnings per share at 31 March	**880,761,965**	873,996,190
Effect of conversion of dilutive convertible note *(note 14)*	**23,721,977**	–
Weighted average number of ordinary shares for diluted earnings per share at 31 March	**904,483,942**	873,996,190

The Company's share options and unlisted warrants as at 31 March 2017 and 2016 do not give rise to any dilution effect to the earnings per share.

11 TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2017	2016
	HK$'000	*HK$'000*
Non-current asset		
Deposits	**14,864**	15,119
Current assets		
Trade receivables	**33,676**	43,366
Less: allowance for doubtful debts	**(828)**	(828)
	32,848	42,538
Trade deposits retained by banks/credit card companies *(note)*	**133,818**	134,094
Rental and other deposits, prepayments and other receivables	**35,807**	36,303
Amounts due from related companies	**2,674**	271
	205,147	213,206
	220,011	228,325

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

As of 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:

	2017	2016
	HK$'000	*HK$'000*
0 – 30 days	**17,080**	22,996
31 – 60 days	**6,051**	7,128
61 – 90 days	**5,262**	7,809
91 – 180 days	**4,349**	4,605
Over 180 days	**106**	–
	32,848	42,538

Trade receivables are due within 7 – 180 days (2016: 7 – 180 days) from the date of billing.

(b) Impairment of trade receivables

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

The movement in the allowance for doubtful debts during the year, including both specific and collective loss components, is as follows:

	2017	2016
	HK$'000	*HK$'000*
At 1 April	**828**	–
Impairment loss recognised	**–**	828
At 31 March	**828**	828

At 31 March 2017, the individually impaired receivables related to certain past due balances receivable from banks/credit card companies and management assessed that the recovery of the balances is remote. Consequently, specific allowance for doubtful debts of HK$828,000 (2016: HK$828,000) were recognised.

(c) Trade receivables that are not impaired

The ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired, based on due date, are as follows:

	2017	2016
	HK$'000	*HK$'000*
0 – 30 days	**2,030**	1,425
31 – 60 days	**94**	26
61 – 90 days	**1**	24
91 – 150 days	**29**	5
Over 150 days	**92**	–
	2,246	1,480

Trade receivables of approximately HK$2,246,000 that were past due but not impaired (2016: HK$1,480,000) 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.

12 TRADE AND OTHER PAYABLES, DEPOSITS RECEIVED AND ACCRUED EXPENSES

	2017	2016
	HK$'000	*HK$'000*
Trade payables	**2,392**	742
Other payables, deposits received and accrued expenses	**82,553**	88,198
Amount due to the ultimate controlling party	**1,434**	2
Amounts due to related companies	**886**	87
	87,265	89,029

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

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

	2017	2016
	HK$'000	*HK$'000*
Within 90 days	**2,354**	704
Over 90 days	**38**	38
	2,392	742

13 DEFERRED REVENUE

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

	2017	2016
	HK$'000	*HK$'000*
Within 1 year	**439,367**	547,224

(b) Movement of deferred revenue:

	2017	2016
	HK$'000	*HK$'000*
At beginning of year	**547,224**	604,843
Gross receipts from sales of prepaid beauty packages	**558,670**	688,697
Revenue recognised for provision of beauty and wellness services and expiry of prepaid beauty packages	**(664,830)**	(744,609)
Exchange differences	**(1,697)**	(1,707)
At end of year	**439,367**	547,224

14 CONVERTIBLE NOTE

The Company issued convertible note ("CN") with face value of HK$250,000,000 to an associate of Dr. Tsang on 10 January 2012 to settle the consideration for the Company's acquisition of the entire equity interest in Zegna Management Limited. The associate of 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 31 March until conversion or redemption.

Subsequent to the issuance date on 10 January 2012, HK$158,000,000 of the CN's face value were converted into 150,476,190 ordinary shares on 6 March 2012. As a result of the mandatory conversion right attached to the CN upon maturity of the CN on 9 January 2017, HK$32,012,000 of the CN's face value were converted into 30,487,752 shares. Accordingly, the remainder of the CN not converted into ordinary shares upon the maturity of the CN on 9 January 2017 was redeemed by the Company in cash at a redemption amount equal to 100% of the then remaining principal amount of HK$59,988,000. The accrued coupons have not yet settled at the reporting year end.

Movements of the liability component are as follows:

	2017	2016
	HK$'000	*HK$'000*
		(Restated)
Liability component at 1 April	**92,671**	91,213
Interest charged *(note 8(a))*	**2,590**	3,298
Interest paid	**(3,261)**	(1,840)
Conversion into ordinary shares	**(32,012)**	–
Principal paid upon redemption	**(59,988)**	–
Liability component at 31 March	**–**	92,671
Less: Amount due within one year	**–**	(92,671)
Amount due more than one year but within five years	**–**	–

Movements of the derivative financial asset of the convertible notes are as follows:

	2017	2016
	HK$'000	*HK$'000*
		(Restated)
Derivative financial asset at 1 April	**1,266**	478
Changes in fair value recognised in profit or loss during the year	**(1,266)**	788
Derivative financial asset at 31 March	**–**	1,266

The interest charged for the year is calculated by applying an effective interest rate of 3.68% 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$92,671,000 (Restated) was not materially different from its fair value as at that date.

15 BUSINESS COMBINATION

(a) Acquisition of Care Plus International Pty Limited

During the year ended 31 March 2015, Main Deal Limited, a wholly owned subsidiary of the Group, entered into agreements with an individual ("the seller") to acquire 49% equity interest in Care Plus International Pty Limited ("Care Plus"), which is incorporated in Australia, with a subsequent acquisition of an additional 2% equity interest in Care Plus in 2016. Care Plus is an unlisted corporate entity whose quoted market price is unavailable. The principal activities of Care Plus are manufacturing and trading of beauty and wellness products. The effective date of the acquisition was 30 July 2014.

Pursuant to the agreements, the consideration for the acquisition of the 49% equity interest comprises a cash consideration of AUD1 (equivalent to HK$7) payable immediately and a further contingent amount to be settled in 2018 (if applicable) depending upon the fulfilment of certain pre-determined conditions. The contingent consideration was recognised as a financial liability under "Purchase consideration payable for acquisitions". Financial asset in relation to the 2% equity interest in Care Plus was recognised under "Trade and other receivables, deposits and prepayments".

As the financial and operational processes of the entity required the unanimous consent of the Group and the individual, this investment was accounted for as a joint venture under HKFRS 11 Joint Arrangements as at 31 March 2015 and 31 March 2016.

On 24 May 2016, the Group completed the acquisition of the 2% equity interest in Care Plus, which has given the Group control over Care Plus. Care Plus has become a subsidiary of the Group since then. The acquisitions in July 2014 and May 2016 have been treated as "step acquisitions" under HKFRS 3 (Revised) Business Combination ("HKFRS 3").

According to HKFRS 3, a step acquisition is accounted for using the acquisition method of accounting. Therefore the initial equity investments are remeasured to fair value as at the acquisition date and any gain or loss arising from the acquisition is recognised in the statement of profit or loss. The initial equity investments are deemed to have been disposed of, in return, with the consideration transferred for the total 51% equity interest in Care Plus. The fair values of the initial equity investments form one of the components to calculate goodwill, along with the consideration transferred and non-controlling interests, if any, less the fair value of the identifiable net assets of Care Plus. The aggregate loss on deemed disposal of the initial equity investments is HK$1,802,000, which is recognised in the Group's consolidated statement of profit or loss.

The following tables summarise the fair value of the identifiable assets acquired and liabilities assumed from the acquisitions of Care Plus on 24 May 2016 and the illustration of the acquisition method of accounting and the calculation of goodwill:

Fair value of net assets:

	HK$'000
Property, plant and equipment	561
Intangible assets	2,369
Inventories	609
Trade and other receivables	1,547
Trade and other payables	(57)
Deferred tax liabilities	(139)
Other net liabilities	(59)
Net assets	4,831

Acquisition method of accounting:

	HK$'000
Fair value of existing 49% equity interest in Care Plus	3,037
Financial assets in relation to 2% equity interest in Care Plus	124
Total deemed consideration for 51% equity interest in Care Plus	3,161
Add: Deferred tax effect on intangible assets	373
Less: Fair value of net assets	(4,831)
Add: Non-controlling interest (49% x HK$4,831,000)	2,367
Goodwill *(note)*	1,070

Note: Goodwill of HK$1,070,000, including HK$373,000 deferred tax effect on intangible assets, was recognised which represented the future economic benefits arising from assets acquired that are not currently individually identified and separately recognised. None of the goodwill recognised is expected to be deductible for income tax purposes.

Acquisition-related costs are included in other operating expenses in the consolidated statement of profit or loss. These totalled HK$108,000, which comprised mainly legal and professional fees.

The revenue and profit of Care Plus included in the consolidated statement of profit or loss and other comprehensive income from 24 May 2016 to 31 March 2017 were HK$1,998,000 and HK$911,000, respectively. Had Care Plus been consolidated from 1 April 2016, the Group's revenue and profit for the period would be HK$693,284,000 and HK$34,031,000, respectively.

(b) Acquisition of Elegant Trend Limited

During the year ended 31 March 2016, Topluck International Holdings Limited, a wholly owned subsidiary of the Group, entered into an agreement with an individual ("the seller") to acquire 51% equity interest in Elegant Trend Limited ("Elegant Trend"), a Hong Kong incorporated company with a factory in Mainland China named 廣州市美研達化妝品有限公司(「美研達」). Elegant Trend is an unlisted corporate entity whose quoted market price is unavailable. The principal activities of Elegant Trend and 美研達 are investment holding and manufacturing of beauty and wellness products, respectively. The effective date of the acquisition was on 10 January 2017.

Pursuant to the agreement, the consideration for the acquisition of the 51% equity interest comprises a cash consideration of HK$1 payable immediately and a further contingent amount to be settled in 2018 (if applicable) depending upon the fulfilment of certain pre-determined conditions. The contingent consideration was recognised as a financial liability under "Purchase consideration payable for acquisitions".

The following tables summarise the fair value of the identifiable assets acquired and liabilities assumed from the acquisitions of Elegant Trend on 10 January 2017 and the calculation of goodwill:

Fair value of net liabilities:

	HK$'000
Property, plant and equipment	607
Inventories	3,311
Trade and other receivables	1,029
Trade and other payables	(6,777)
Other net liabilities	74
Net liabilities	(1,756)
Total consideration for 51% equity interest in Elegant Trend	1,143
Less: Fair value of net liabilities	1,756
Add: Non-controlling interest (49% x HK$(1,756,000))	(861)
Goodwill *(note)*	2,038

Note: Goodwill of HK$2,038,000 was recognised which represented the future economic benefits arising from assets acquired that are not currently individually identified and separately recognised. None of the goodwill recognised is expected to be deductible for income tax purposes.

Acquisition-related costs are included in other operating expenses in the consolidated statement of profit or loss. These totalled HK$108,000, which comprised mainly legal and professional fees.

The revenue and loss of Elegant Trend included in the consolidated statement of profit or loss and other comprehensive income from 10 January to 31 March 2017 were HK$656,000 and HK$91,000, respectively. Had Elegant Trend been consolidated from 1 April 2016, the Group's revenue and profit for the year would be HK$695,597,000 and HK$33,419,000, respectively.

Total goodwill generated from acquisitions of subsidiaries as at 31 March 2017 amounted to HK$3,108,000 in aggregate (2016: Nil).

(c) Impairment tests for cash-generating units containing goodwill

Goodwill is allocated to the Group's cash-generating units ("CGU") identified according to country of operation and operating segment as follows:

	2017	2016
	HK$'000	*HK$'000*
Skincare and wellness - Australia	**1,070**	–
Skincare and wellness - PRC	**2,038**	–
	3,108	–

No impairment loss is recorded during the year ended 31 March 2017 (2016: Nil).

16 DIVIDENDS

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

	2017	2016
	HK$'000	*HK$'000*
Interim dividend declared and paid of HK1.0 cent per ordinary share (2016: HK0.4 cent per ordinary share)	**8,740**	3,496
Final dividend proposed after the end of the reporting period of HK1.25 cents per ordinary share (2016: HK0.6 cent per ordinary share)	**11,306**	5,244
	20,046	8,740

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.

17 COMPARATIVE FIGURES

As further explained in note 4 of this announcement, due to the prior year adjustments, certain comparative amounts have been restated to conform with the current year's treatment, and a third consolidated statements of financial position as at 1 April 2015 has been presented. In addition, the comparative consolidated statement of profit or loss and other comprehensive income have been represented.

BUSINESS REVIEW

Overview

During the year under review, revenue of the Group amounted to approximately HK$693.3 million, representing an decrease of 10.6% compared with approximately HK$775.4 million for the year ended 31 March 2016 ("FY2016"or the"same period last year"). The receipts from sales of prepaid beauty packages during the year under review was HK$558.7 million, a decrease of 18.9% over the same period last year. The employee benefit expenses and occupancy costs decreased by 16.5% to HK$335.4 million and by 9.0% to HK$142.4 million respectively as compared with the same period last year. The Group recorded an operating profit of HK$45.4 million during the year under review (FY2016: HK$11.5 million).

Below is the key statistics:

	For the year ended 31 March		
	2017	2016 (Restated)	Change
Revenue *(HK$ million)*	**693.3**	775.4	-10.6%
Operating profit margin *(%)*	**6.5%**	1.5%	5.0 Percentage points
Net profit margin *(%)*	**4.9%**	1.4%	3.5 Percentage points
Number of shops	**60**	70	-14.3%
Employee benefit expenses *(HK$ million)*	**335.4**	401.6	-16.5%
Occupancy costs *(HK$ million)*	**142.4**	156.6	-9.0%
Total dividend per ordinary share *(HK cents)*	**2.25**	1.0	
Annual dividend pay-out ratio *(%)*	**59.2%**	81.5%	

Hong Kong

The Hong Kong GDP growth rate expanded 4.3 percent year-on-year in the first quarter of 2017. It is the biggest growth rate since the second quarter of 2011 as private consumption accelerated for the third period and exports rose the most in more than three years. The Hong Kong economy should benefit from further recovery in advanced economies such as USA and steady growth on the Mainland China, in spite of the economic uncertainties such as potential changes in international trade policies. Leveraging on our excellent brand recognition and solid client base, our management is confident of the further prospects of our business.

Revenue for the year under review decreased by 6.9%. According to the accounting policies, deferred revenue is recognised when service treatments are delivered to customers or upon expiry of prepaid beauty packages. Hence, unrecognised deferred revenue for the year under review will be fully recognised in revenue in the upcoming financial years according to actual situations. Revenue from services rendered and expiry of prepaid beauty packages and receipts from prepaid beauty packages for the year under review were HK$570.9 million and HK$486.7 million respectively (FY2016: HK$613.2 million and HK$586.4 million). Revenue from sales of skincare and wellness products was HK$22.4 million in FY2017 (FY2016: HK$27.5 million). Our customers in Hong Kong amounted up to a total of approximately 407,000 during the year under review, representing an increase of 2.8% as compared to approximately 396,000 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 antiageing treatments and machineries, such as UltrashapeV3 which has been cleared and approved by the FDA in US. Unlike other popular body contouring procedures, UltraShape doesn't require extreme heat or cold to destroy fat. Instead, it harnesses ultrasound waves, which shake the fat cells until the membranes collapse. Then the destroyed fat cell particles are filtered through the liver and digested through the body, just like fat from a meal. This process doesn't harm any of your tissues, blood vessels or nerves, so there's no recovery time.

In terms of the sales of skincare and wellness products, as of 31 March 2017, the Group had a total of 13 stores under the names of "p.e.n" or "be Beauty Shop", locating across Hong Kong, Kowloon and New Territories. More than 100 varieties of products are available for sale under different series of skincare service, including "Y.U.E", "Advanced Natural", "Bioline", "BeYu", "Malu Wilz" which can fulfill the needs of customers with different skin types.

Mainland China

We conduct our Mainland China operations through three wholly foreign owned enterprises established in Beijing, Shanghai and Guangzhou in the People's Republic of China. These three wholly foreign owned enterprises operate a total of six service centres (FY2016: eight service centres) at the three cities referred to, with a total weighted average gross floor area of approximately 27,000 square feet (FY2016: 33,000 square feet).

The Group's revenue in Mainland China decreased to HK$22.3 million (FY2016: HK$26.6 million) and receipts from sales of prepaid beauty packages decreased by 19.2% to HK$19.3 million as compared to HK$23.8 million for the same period last year. The business recorded a loss of HK$5.3 million during the year under review as compared with a loss of HK$7.3 million for the same period last year.

During the year under review, one shop in Beijing was closed to rationalise our operation. We are considering to open more shops in the second tier cities to grasp the business opportunities in the context of ample spending power of the consumers but with much less operating costs in those regions.

Singapore and Malaysia

In FY2017, the number of service centres in Singapore decreased to ten (FY2016: twelve) while the number of service centres in Malaysia decreased to one (FY2016: two) respectively. During the year under review, the revenue from operations in Singapore and Malaysia was HK$69.7 million, as compared with HK$102.7 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$67.3 million and HK$46.4 million respectively, as compared with HK$100.2 million and HK$72.1 million for the same period last year.

Despite the sluggish local economic growth and dampened overall consumer confidence, we will continue to focus on the provision of quality services to lay a solid foundation for our business, build up local customers' confidence in the Group and enhance our brand awareness.

Taiwan

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

FINANCIAL REVIEW

Revenue

Set out below is a breakdown on the revenue of the Group by service lines and product sales during FY2017 (with comparative figures for FY2016):

	For the year ended 31 March				
	2017		2016		
Sales mix	***HK$'000***	**Percentage of revenue**	*HK$'000*	Percentage of revenue	**Change**
Beauty & facial	**505,111**	**72.9%**	559,924	72.2%	**-9.8%**
Slimming	**106,661**	**15.4%**	113,764	14.7%	**-6.2%**
Spa and massage	**53,058**	**7.6%**	70,921	9.1%	**-25.2%**
Beauty and wellness services	**664,830**	**95.9%**	744,609	96.0%	**-10.7%**
Sales of skincare and wellness products	**28,454**	**4.1%**	30,782	4.0%	**-7.6%**
Total	**693,284**	**100%**	775,391	100%	**-10.6%**

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 10.7% from approximately HK$744.6 million in FY2016 to approximately HK$664.8 million in the year under review.

The Group reported that the sales of new prepaid beauty packages of the Group amounted to HK$558.7 million, representing a decrease of 18.9% compared with HK$688.7 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									
	2017					2016				
Movement of deferred revenue	**Hong Kong**	**Mainland**	**Taiwan**	**Singapore and Malaysia**	**Total**	Hong Kong	Mainland	Taiwan	Singapore and Malaysia	Total
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At beginning of the year	**476,526**	**10,585**	**2,123**	**57,990**	**547,224**	503,350	12,652	1,192	87,649	604,843
Exchange differences	**–**	**(223)**	**(141)**	**(1,333)**	**(1,697)**	–	(166)	(14)	(1,527)	(1,707)
Gross receipts from sales of prepaid beauty packages	**486,738**	**19,262**	**6,293**	**46,377**	**558,670**	586,402	23,835	6,346	72,114	688,697
Revenue recognized for provision of beauty and wellness services and expiry of prepaid beauty package	**(570,919)**	**(20,603)**	**(5,964)**	**(67,344)**	**(664,830)**	(613,226)	(25,736)	(5,401)	(100,246)	(744,609)
At the end of the year	**392,345**	**9,021**	**2,311**	**35,690**	**439,367**	476,526	10,585	2,123	57,990	547,224

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 16.5% from HK$401.6 million in FY2016 to approximately HK$335.4 million. Employee benefit expenses accounted for 48.4% of our revenue in FY2017, as compared to 51.8% for FY2016. The total headcount of the Group as at 31 March 2017 decreased by 14.8% to 1,348, as compared to a headcount of 1,582 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 2017, the Group operated a total of thirty-six service centres in Mainland China, Hong Kong and Taiwan with a total weighted average gross floor area of approximately 253,000 square feet, representing an decrease of 10.0% as compared to 281,000 square feet in FY2016. The number of product sales points of the Group was 60 during the year under review (FY2016: 70). As of 31 March 2017, the Group had ten and one beauty service centres in Singapore and Malaysia respectively, with a total weighted average gross floor area of approximately 20,000 square feet and approximately 2,000 square feet respectively (FY2016: approximately 23,000 square feet and approximately 4,000 square feet respectively). The Group's occupancy costs in FY2017 were approximately HK$142.4 million (FY2016: HK$156.6 million), accounting for approximately 20.5% of our revenue (FY2016: 20.2%).

Depreciation and amortisation

Depreciation and amortisation for the year under review decreased by 21.0% to HK$35.5 million as compared with HK$44.9 million for FY2016. 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 19.9% to HK$27.3 million. Advertising costs decreased to HK$4.7 million from HK$5.8 million for the same period last year. Advertising cost as a percentage of revenue decreased from 0.8% in FY2016 to 0.7% in FY2017. The decrease reflected the Group's ability to enjoy cost advantage in advertising cost as it could spread such costs across an enlarged service centre network that covers Hong Kong, Mainland China, Singapore, Malaysia and Taiwan. Advertising cost is allocated in effective way to raise brand awareness and capture a greater market share.

Profit for the year

Profit for the year under review attributable to equity shareholders of the Company increased from approximately HK$10.4 million (Restated) in FY2016 to approximately HK$33.3 million in FY2017. Net profit margin attributable to equity shareholders of the Company increased from 1.4% (Restated) in FY2016 to 4.9% in FY2017. 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 HK3.78 cents as compared to basic earnings per share of HK1.19 cents (Restated) for the same period last year.

Dividend per share

The Board recommended payment of a final dividend of HK1.25 cents per share subject to approval of the shareholders at the forthcoming Annual General Meeting. Together with the interim dividends of HK1.0 cent per share paid during the year under review, the total dividend paid for the year ended 31 March 2017 will be HK2.25 cents per share.

Liquidity, financial resources and capital structure

The Group generally finances its liquidity requirements through the receipts from sales of prepaid beauty packages and settlement of credit card prepayment transactions with banks. During the year under review, we maintained a strong financial position with abundant cash and bank balances of approximately HK$244.6 million (FY2016: HK$366.7 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$5.8 million, as compared to HK$20.8 million for the same period last year. The amount was mainly used for the additions of leasehold improvements 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 2017. The Group had capital commitment of HK$1.1 million as at 31 March 2017 (31 March 2016: HK$0.3 million), mainly for the acquisition of plant and equipment.

Charges on assets

As of 31 March 2017, the Group had pledged bank deposits of HK$54.2 million (31 March 2016: HK$53.9 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, Ringgit Malaysia and Australian Dollars also affected the operating costs as the Group expanded its business to mainland China, Southeast Asian and Australian regions. The management will closely monitor the risk exposures faced by the Group, and will take necessary actions to minimise potential risks and strike a balance between our exposure and return so as to properly hedge such exposures.

Human resources and training

The Group had a workforce of 1,348 staff as of 31 March 2017 (31 March 2016: 1,582 staff), including 1,023 front-line service centre staff in Hong Kong, 70 in Mainland China and 106 in Singapore, Malaysia and Taiwan. Back office staff totaled 106 in Hong Kong, 16 in Mainland China and 27 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. Bonus are also granted to eligible employees based on the Group's results and individual performance of the employees. The share option scheme adopted by the Company on 20 January 2006 ("2006 Scheme") expired on 19 January 2016, and the period during which the options granted under the 2006 Scheme are exercisable expired on 22 October 2016.

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$335.4 million, representing a 16.5% decrease as compared to HK$401.6 million in FY2016. To enhance the service quality and core skills of our staff members, the Group regularly organises training programs designed by the Group's senior management for its staff. In addition, the seminars also facilitate the interaction and communication between the Group's management and the general staff.

OUTLOOK

The Hong Kong and Singapore markets are the Group's important sources of turnover and profits. While the economies in these markets are still fogged by uncertainties, they are showing signs of improvement and stabilization, although this improvement is compared with the last year's very weak base performance. We are prudently optimistic about the economy in the coming future.

In May 2016, to strengthen the relationship and bring out more synergy with our Australian business, we acquired further 2% of the joint venture formed with our Australian partner such that the joint venture becomes our Group's Australian subsidiary. During the first half of the year under review, through the Australian subsidiary, "Advanced Natural" beauty and skincare products were sold in Australia, Middle-East, the Mainland China and Southeast Asia. We are looking for other business opportunities in other region and countries. Leveraging on the profound experience of our partner in developing international markets, it is expected that greater returns will be brought to the shareholders from this subsidiary.

During the year under review, we successfully controlled our operating costs in particular the rental and salary costs, as well as focused on the maintenance of a healthy cash position. Looking ahead, in spite of the weakened business environment we are facing, we are still prudently optimistic about the Group's performance in the future.

EXTRACT OF INDEPENDENT AUDITOR'S REPORT ON THE GROUP'S CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

The Company's auditor has informed the Company that they will include a section of "emphasis of matter" in the Auditor's report to the shareholders of the Company, the details of which are set out as follows:

"Without qualifying our opinion, we draw attention to Note 3 to the consolidated financial statements which states that the Group has made certain prior year adjustments to restate the comparative amounts for the year ended 31 March 2016 and the opening balances as at 1 April 2015."

For details of the prior year adjustments, please refer to note 4 of this announcement for the information.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year under review, the Company did not redeem, and neither the Company nor any of its subsidiaries purchased or sold, any of the Company's listed securities.

CLOSURE OF REGISTER OF MEMBERS

The Annual General Meeting ("AGM") is scheduled to be held on Friday, 25 August 2017. For determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Tuesday, 22 August 2017 to Friday, 25 August 2017, 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 Monday, 21 August 2017.

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, 6 September 2017. For determining the entitlement to the proposed final dividend, the register of members of the Company will be closed from Monday, 4 September 2017 to Wednesday, 6 September 2017, both days inclusive, during which period no transfer of Share will be effected. In order to qualify for the proposed final dividend, all transfers of Shares, accompanied by the relevant share certificates, must be lodged with the Company's share registrars in Hong Kong, Tricor Investor Services Limited, for registration not later than 4: 30 p.m. on Friday, 1 September 2017. The payment of final dividend will be made on Tuesday, 3 October 2017.

CORPORATE GOVERNANCE PRACTICE

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.

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 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.

Ms. Liu Mei Ling, Rhoda, an Independent Non-executive Director of the Company, was absent from the Extraordinary General Meeting of the Company held on 29 March 2017 due to personal reason.

Mr. Lam Tak Leung, an Independent Non-executive Director of the Company, was absent from the Annual General Meeting of the Company held on 26 August 2016 and the Extraordinary General Meeting of the Company held on 29 March 2017 respectively due to personal reason.

CODE PROVISION E.1.2

Code Provision E.1.2 provides that the chairman of the board should attend the annual 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 2016 due to personal reason.

SCOPE OF WORK OF KPMG

The financial figures in respect of the preliminary announcement of the Group's results for the year ended 31 March 2017 have been compared by the Company's auditors, KPMG, Certified Public Accountants, to the amounts set out in the Group's consolidated financial statements for the year and the amounts were found to be in agreement. The work performed by KPMG in this respect did not constitute an audit, review or other assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagement or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by the auditor.

AUDIT COMMITTEE

The composition of the Audit Committee is as follows:

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

The Audit Committee has reviewed and approved the Group's annual results for the year ended 31 March 2017 prior to their approval by the Board.

PUBLICATION OF THE FINAL RESULTS AND ANNUAL REPORT

This results announcement is published on the website of the Hong Kong Exchanges and Clearing Limited at www.hkex.com.hk under "Latest Listed Company Information" and on the website of the Company at www.modernbeautysalon.com under "Investor Relations – Statutory Announcements". The Annual Report and the Notice of Annual General Meeting will be despatched to the shareholders on or about 25 July 2017 and will be available at the Stock Exchange's and the Company's websites at the same time.

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

Hong Kong, 28 June 2017

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