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

Stock Code 股份代號：919

MODERN BEAUTY

ANNUAL REPORT
年報 2016/17

CONTENT


EXCELLENT
MALU WILZ
ULTIMATE LIFTING EYE CREAM
MALU WILZ
ULTIMATE LIFTING CREAM

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 antiageing 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", "Byotea", "Mila d'Opiz", "CARE PLUS+". The Group launched distributor brands "Bioline", "Malu Wilz", "Fanola", "Byotea", "Mila d'Opiz", "BeYu" as well as further promoted our self-owned brands "p.e.n", "be", "FERRECARE", "Y.U.E", "Advanced Natural", "CARE PLUS+" 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 2017, we had 28, 6, 10, 1 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 9 and 4 outlets respectively as at 31 March 2017.

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

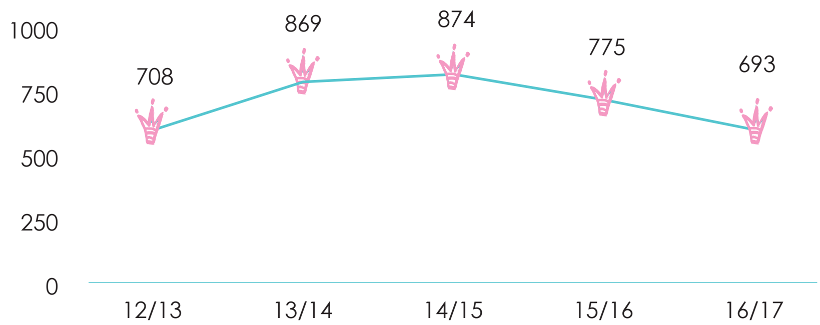
Website

www.modernbeautysalon.com

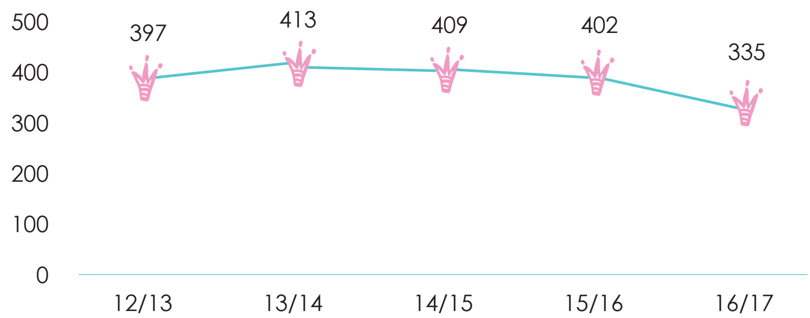
FINANCIAL HIGHLIGHTS

FINANCIAL HIGHLIGHTS

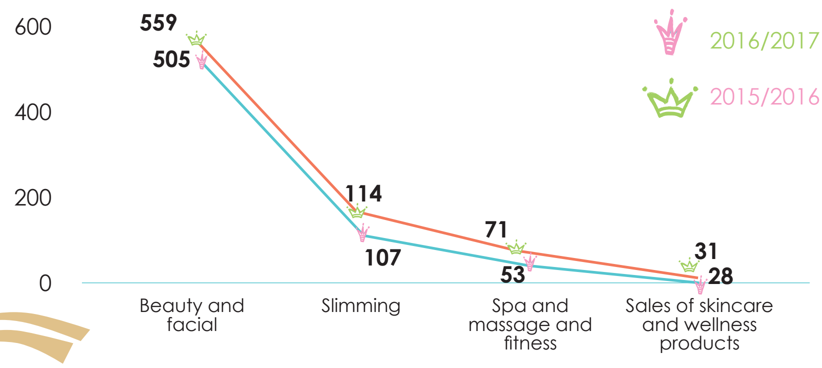
Revenue HK$ (million)



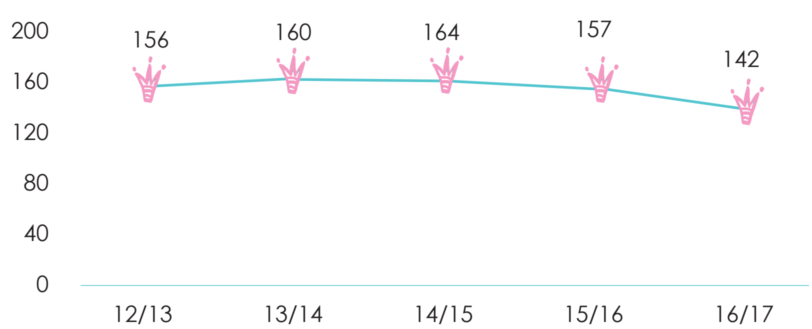
Employee Benefits Expenses HK$ (million)



Sales Mix HK$ (million)



Occupancy Costs HK$ (million)



- 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.

MILESTONES AND KEY EVENTS

May 2016

- Awarded "Caring Company by The Hong Kong Council of Social Service for the fifth year (2011-2016)

May 2016

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

Milestones and Key Events

June 2016

- Awarded "2016 Asian Outstanding Business Achievement Award" by Asian Hair & Beauty Association

July 2016

- Awarded the "The Excellence Beauty Group Brand Award" by Yellow Page & PCCW

Milestones and Key Events

July 2016

* Dr. Joyce Tsang, the Chairperson and Chief Executive Officer of our Group was appointed as the President of Senior Police Call Honorary Presidents Council for Tuen Mun District (2016-2018)

July 2016

• Awarded the“ Metro Awards for Service Excellence” by Metro Daily

Milestones and Key Events

September 2016

- Awarded "The Most Distinguished Friendly Employer Award" by the Cosmetic and Perfumery Association of Hong Kong and Qualification Framework

October 2016

- Dr. Joyce Tsang, the Chairperson and Chief Executive Officer of the Group was awarded "Special Achievement Award" of the "Asia Pacific Entrepreneurship Awards 2016"

Milestones and Key Events

January 2017

- Grand opening of the newest service centre in Parklane Square, Tuen Mun

February 2017

- Opening the newest be Beauty Shop at Yu Chau Street, Sham Shui Po

Milestones and Key Events

March 2017

- Awarded "Caring Company" by The Hong Kong Council of Social Service for the sixth year (2011-2017)

March 2017

- Awarded "ERB Merit Award for Employers" by the Employees Training Board at the ERB 25th Anniversary Opening Ceremony cum the 9th ERB "Manpower Development Scheme" Award Presentation Ceremony

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Overview

During the financial year ended 31 March 2017 ("FY 2017" or "the year under review"), revenue of Modern Beauty Salon Holdings Limited (the "Company") and its subsidiaries (collectively, "the Group") amounted to approximately HK$693.3 million, representing a 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 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.

Management Discussion and Analysis

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 UltrashapeV3 which has been cleared and approved by the FDA in USA. 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.

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", "CARE PLUS+" 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 in Mainland China 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.

Management Discussion and Analysis

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 HK$'000	Mainland HK$'000	Taiwan HK$'000	Singapore and Malaysia HK$'000	Total HK$'000	Hong Kong HK$'000	Mainland HK$'000	Taiwan HK$'000	Singapore and Malaysia HK$'000	Total HK$'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	–	(222)	(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

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 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 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 a 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.

Management Discussion and Analysis

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 dividend 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 minimize 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 were exercisable expired on 22 October 2016.

Management Discussion and Analysis

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 revenue 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, the Middle-East, 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.

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 2017.

Management Discussion and Analysis

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.

(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 small, regional or niche competitors attempt to increase market share.

4. Foreign currency risk associated with the Group's investment – The Group may be exposed 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.

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 2017 Annual General Meeting	*21 August 2017*
Closure of Register of Members for 2017 Annual General Meeting	*22 August 2017 to 25 August 2017, both dates inclusive*
2017 Annual General Meeting	*25 August 2017*
Last day to register for entitlement to 2017 final dividend	*1 September 2017*
Closure of Register of Members for entitlement to 2017 final dividend	*4 September 2017 to 6 September 2017, both dates inclusive*
Record date for entitlement to 2017 final dividend	*6 September 2017*
Payment of 2017 final dividend	*3 October 2017*

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 2017:	904,483,942 shares
Board lot:	4,000 shares
Nominal value:	HK$0.10 per share
Market Capitalization as at 31 March 2017:	HK$353 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 56, 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. Dr. Tsang was also appointed as the Vice President of New Territories Anniversary Celebration Activities Organizing Committee. 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. 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. In July, 2016, she was appointed as the President of Senior Police Call Honorary Presidents Council for Tuen Mun District (2016-2018). In October 2016, she was awarded "Special Achievement Award" of the "Asia Pacific Entrepreneurship Awards 2016". In May 2017, Dr. Tsang was appointed the Vice President of the Hunan Fraternal Association of Hong Kong. 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 43, 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 fourteen years of experience in the system integration, information system, network operation and telecommunications industries. He graduated from the Chinese University of Hong Kong in 1997 with a Bachelor Degree in Social Science and was awarded a Microsoft Certified Professional Systems Engineer, as well as CheckPoint Certified Administrator and Turbolinux Engineer in 2002. Mr. Yip joined the Group in March 2002.

Ms. Yeung See Man

Aged 43, is an Executive Director and the Financial Controller of the Group. She is responsible for overseeing the accounting and financial reporting of the Group. Ms. Yeung graduated from The Hong Kong Polytechnic University with a Bachelor Degree of Arts in Accountancy in 1995. She is an associate member of The Institute of Chartered Accountants in England and Wales as well as a member of the Hong Kong Institute of Certified Public Accountants. She is also a fellow member of the Association of Chartered Certified Accountants. Ms. Yeung has over six years of audit experience with Deloitte Touche Tohmatsu. She joined the Group in March 2004.

Biography of Directors and Senior Management

Independent Non-Executive Directors

Ms. Liu Mei Ling, Rhoda

Aged 55, 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 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 51, 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 67, 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 38 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.

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. 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, 6th and 7th Vice President of Hunan Overseas Friendship Association. Mr. Lam is chairman of Hong Kong New Territories District Adviser Alumni 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.

Biography of Directors and Senior Management

Senior Management

Dr. Lee Soo Ghee

Aged 42, 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 50, 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 45, 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 ten 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	Board Committee Meetings	Audit Committee Meetings	Remuneration Committee Meetings	Extraordinary General Meeting	2016 Annual General Meeting
Executive Director						
Dr. Tsang Yue, Joyce[1]	1/10	N/A	N/A	1/3	0/1	0/1
Mr. Yip Kai Wing	9/10	2/2	N/A	N/A	0/1	0/1
Ms. Yeung See Man	10/10	2/2	N/A	N/A	1/1	1/1
Independent Non-Executive Director						
Ms. Liu Mei Ling, Rhoda[2]	10/10	N/A	5/5	3/3	0/1	1/1
Mr. Wong Man Hin, Raymond[3]	10/10	N/A	5/5	3/3	1/1	1/1
Mr. Hong Po Kui, Martin	10/10	N/A	5/5	3/3	1/1	1/1
Mr. Lam Tak Leung	4/10	N/A	N/A	N/A	0/1	0/1

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.

Corporate Governance Report

Delegation to Management

Day-to-day operational responsibilities are specifically delegated by the Board to the management under the leadership of the Chief Executive Officer ("CEO"). Major matters include implementation of the strategies and decisions approved by the Board and the management assumes full responsibility to the Board for operations of the Group.

Directors' Participation in Continuous Professional Trainings

Code Provision A.6.5 of the Code provides that all directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant. The Company should be responsible for arranging and funding suitable training, placing an appropriate emphasis on the roles, functions and duties of a listed company director. All Directors have been required to provide the Company with their training records. During the year under review, the Company organized training courses to the Directors or provided written materials to develop and refresh their professional skills on the latest development of applicable laws, rules and regulations for the Directors to assist them in discharging their duties. 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	Participation in training course
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

Corporate Governance Report

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 Nonexecutive 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.

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 2016 for a term of three years commencing from 27 August 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. 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.

Corporate Governance Report

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.

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.

Corporate Governance Report

During the year under review, the Remuneration Committee met three times. 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

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.

Corporate Governance Report

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 announcement and positive profit alert announcement;

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.

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	2,500
Non-audit services	280

Remuneration of Directors and Senior Management

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

Remuneration bands (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 remuneration and the five highest paid employees are set out in notes 9 and 10 to the financial statements, respectively.

Corporate Governance Report

Directors' Responsibilities for preparing accounts and Auditor's Responsibilities

The Directors acknowledged their responsibility for preparing the accounts of the Company for the year under review and the auditor's reporting responsibilities is set out on page 56 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.

Based on the results of evaluations and representations made by the senior management, the Audit Committee is satisfied that:

- there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group that threaten the achievement of its business objectives; and
- 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.

Corporate Governance Report

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 the year ended 31 March 2017 ("FY2017").

Principal Activities

The principal activities of the Company is investment holding and the principal activities of the Group continued throughout FY2017 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 2017 are set out in note 16 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 14 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 FY2017 are set out in the consolidated statement of profit or loss on page 59.

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 4 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 section headed "Management Discussion and Analysis" of this annual report.

Declaration of Dividend

An interim dividend of HK1.0 cent per Share, amounting to HK$8,740,000, was paid to shareholders of the Company ("Shareholders") during the year under review (FY2016: an interim dividend of HK0.4 cent per Share totaling HK$3,496,000).

The Directors are pleased to recommend the payment of a final dividend of HK1.25 cents per Share amounting to HK$11,306,000 during the year under review (FY2016: a final dividend of HK0.6 cent per Share, totaling HK$5,244,000), subject to the Shareholders' approval at the forthcoming annual general meeting of the Company.

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.

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, 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.

Reserves

Movements during the year under review in the reserves of the Group and the Company are set out in the consolidated statement of changes in equity on page 63 and note 26 to the financial statements respectively.

Distributable Reserves

As at 31 March 2017, the Company's reserve available for distribution amounted to approximately HK$391.8 million. Movements in reserves of the Company during the year under review and the distributable reserves of the Company as at 31 March 2017 are set out in note 26 to the financial statements.

Financial Summary

A summary of the results and assets and liabilities of the Group for the last five financial years is set out on page 138, 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% (FY2016: 7%) of the Group's total purchase for the year under review and the five largest suppliers taken together accounted for approximately 23% (FY2016: 26%) 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.

Report of the Directors

Share Capital

Details of movements in the share capital of the Company during the year under review are set out in note 26 to the financial statements.

Convertible Note: Mandatory Conversion and Redemption on Maturity Date

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.

Further details of the Convertible Note during the year under review are set out in notes 3 and 25 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 no donations to charitable or non-profitmaking 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, Dr. Tsang Yue, Joyce, Ms. Yeung See Man and Mr. Lam Tak Leung 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 sections headed "Connected Transactions" and "Continuing Connected Transactions" below and in note 31 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 or an entity connected with 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 sections headed "Connected Transactions" and "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 2017, 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	677,247,942	–	–	677,247,942	74.88%
	Interest of spouse[2]	650,000	–	–	650,000	0.07%
Mr. Yip Kai Wing	Beneficial Owner	185,000	–	–	185,000	0.02%
Ms. Yeung See Man	Beneficial Owner	172,000	–	–	172,000	0.02%

Notes:

1. The percentage has been compiled based on the total number of Shares of the Company in issue as at 31 March 2017 (i.e. 904,483,942 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.

Save as disclosed above, as at 31 March 2017, 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 2017, 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	677,247,942	–	677,247,942[4]	74.88%
	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]	677,247,942	–	677,247,942[4]	74.88%
TMF (Cayman) Ltd[5]	Trustee (other than a bare trustee)	677,247,942	–	677,247,942[4]	74.88%
Kelday International Limited[5]	Nominee for another person (other than a bare trustee)	677,247,942	–	677,247,942[4]	74.88%
Allied Chance Management Limited[5]	Interest of corporation controlled by it	677,247,942	–	677,247,942[4]	74.88%
Allied Wealth Limited[5]	Beneficial owner	209,247,942	–	209,247,942[6]	23.13%
Silver Compass Holdings Corp.[5]	Beneficial owner	367,200,000	–	367,200,000[6]	40.60%
Silver Hendon Enterprises Corp.[5]	Beneficial owner	100,800,000	–	100,800,000[6]	11.14%

Report of the Directors

Notes:

1. The percentage has been compiled based on the total number of Shares of the Company in issue as at 31 March 2017 (i.e. 904,483,942 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 677,247,942. 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 2017.

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.

Report of the Directors

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

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

The maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2006 Scheme and other share option schemes of the Company shall not exceed thirty (30) per cent. of the relevant class of Shares in issue from time to time. No options shall be granted under share option scheme of the Company (including the 2006 Scheme) if this will result in the thirty (30) per cent. limit being exceeded.

No Share is available for issue under the 2006 Scheme 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;

Report of the Directors

(ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five (5) business days immediately preceding the date of grant (provided that the new issue price shall be used as the closing price for any business day falling within the period before the listing of the Shares, where the Company has been listed for less than five (5) business days as at the date of grant); and

(iii) the nominal value of the Shares.

(i) The remaining life of the 2006 Scheme

The Company by ordinary resolution in general meeting or the Board may at any time terminate the operation of the 2006 Scheme and in such event no further options will be offered or granted. Subject to the aforesaid, the 2006 Scheme shall be valid and effective for a period of ten (10) years commencing on 20 January 2006 (i.e. until 19 January 2016).

Name	Balance as at 1 April 2016	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 2017	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	–
Mr. Yip Kai Wing	175,000	–	–	(175,000)	–	23/10/2006	23/10/2014 to 22/10/2016	HK$1.33	–
Mr. Yip Kai Wing	200,000	–	–	(200,000)	–	23/10/2006	23/10/2015 to 22/10/2016	HK$1.33	–
Ms. Yeung See Man	75,000	–	–	(75,000)	–	23/10/2006	23/10/2010 to 22/10/2016	HK$1.33	–
Ms. Yeung See Man	105,000	–	–	(105,000)	–	23/10/2006	23/10/2014 to 22/10/2016	HK$1.33	–
Ms. Yeung See Man	120,000	–	–	(120,000)	–	23/10/2006	23/10/2015 to 22/10/2016	HK$1.33	–
Others	1,330,000	–	–	(1,330,000)	–	23/10/2006	23/10/2010 to 22/10/2016	HK$1.33	–
Others	1,862,000	–	–	(1,862,000)	–	23/10/2006	23/10/2014 to 22/10/2016	HK$1.33	–
Others	2,128,000	–	–	(2,128,000)	–	23/10/2006	23/10/2015 to 22/10/2016	HK$1.33	–
Total	6,120,000	–	–	(6,120,000)	–				

Note:

1. The relevant percentages are calculated by reference to the Shares in issue on 31 March 2017 i.e. 904,483,942 shares.

Report of the Directors

Connected Transactions

(1) Save and except those related party transactions or continuing related party transactions as described in paragraph (2) below (" the Excepted Note 31 Transactions"), the other related party transactions or continuing related party transactions (as the case may be) ("the Remaining Note 31 Transactions") included in note 31 to the financial statements in accordance with the Hong Kong Accounting Standards fell under the definition of "connected transactions" or "continuing connected transactions" (as the case may be) in Chapter 14A of the Listing Rules. It is confirmed that the Company has, to the extent required, complied with the applicable shareholder's approval, annual review and disclosure requirements in accordance with Chapter 14A of the Listing Rules in relation to the Remaining Note 31 Transactions.

(2) The Excepted Note 31 Transactions: (A) Interest charge on convertible note issued to an associate of the ultimate controlling party in the amount of HK$2,590,000 (see note (iii) to paragraph (b) of note 31 to the financial statements) and (B) cash settlement upon maturity of convertible note issued to an associate of the ultimate controlling party in the amount of HK$59,988,000 (see note (iv) to paragraph (b) of note 31 to the financial statements) included in the financial statements in accordance with the Hong Kong Accounting Standards did not fall under the definition of "connected transaction" or "continuing connected transaction" (as the case may be) in Chapter 14A of the Listing Rules. The issue of the convertible note concerned in 2012, by itself, constituted a connected transaction of the Company under the Listing Rules, and the Company, in respect of such issue of convertible note, complied with all applicable shareholder's approval and disclosure requirements in accordance with the then Listing Rules.

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:-

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

Since the Group intended 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 entered into new leases during the ordinary and usual course of the Group's business during the three years ended 31 March 2017, the Company and the Lessor entered into a Master Lease Agreement on 20 February 2014 ("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 2014 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").

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

Report of the Directors

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

Pursuant to the 2014 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 identified by the Group, the Company obtained a fair rent opinion from an independent property valuer regarding the then prevailing market rent of such new premises. The Independent Non-executive Directors also reviewed the 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 2014-2017 Leasing Arrangements were (i) entered into in the ordinary and usual course of business of the Company; (ii) on normal commercial terms and on terms that were no less favourable than those offered by the Owners to other independent third parties; and (iii) in accordance with the terms of the 2014 Master Lease Agreement.

The government rent, rates and management fee under each 2014-2017 Leasing Arrangement were 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 2014 Master Lease Agreement for the year ended 31 March 2015, the year ended 31 March 2016 and the year ended 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").

Pursuant to the 2014 Master Lease Agreement, the Group (as tenant) and the Owners (as landlord) had 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;

Report of the Directors

(iii) tenancy agreement dated 8 April 2014 in respect of D1-D14, 3rd Floor, Block D and Car Storage Parking Space Nos. 131-132 on 1st Floor, Tsing Yi Industrial Centre Phase II Nos. 1-33 Cheung Tat Road, Tsing Yi, New Territories, Hong Kong at the monthly rent of HK$137,700 exclusive of rates, Government rent, management fee and other outgoings (including but not limited to water, gas and electricity charges) for a term of 36 months from 1 April 2014;

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

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

(vi) tenancy agreement dated 8 April 2014 in respect of Units B74-B90, B99-B116, B132-B136, 1/F., The Commercial Accommodation of Well On Garden, No. 9 Yuk Nga Lane, Tseung Kwan O, New Territories, Hong Kong at the monthly rent of HK$168,300 exclusive of rates, Government rent, management fee and other outgoings (including but not limited to water, gas and electricity charges) for a term of 36 months from 1 April 2014;

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

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

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

Report of the Directors

(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, this tenancy agreement was early terminated on 2 December 2016;

(xv) 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; this tenancy agreement was early terminated on 1 April 2016;

(xvi) 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;

(xvii) tenancy agreement dated 14 July 2015 in respect of 3/F, 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

(xviii) 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 in this sub-paragraph (1) are referred to as "2014-2017 Continuing Connected Transactions"); and

Report of the Directors

(2) The following transactions have been approved by independent shareholders at an Extraordinary General Meeting held on 29 March 2017.

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 2020, the Company and the Lessor entered into a Master Lease Agreement on 23 February 2017 ("2017 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 2017 Master Lease Agreement by entering into a tenancy or lease agreement in respect of such premises between the Group and the relevant Owner ("2017-2020 Leasing Arrangements") in the future.

The 2017 Master Lease Agreement shall be for a term commencing from 1 April 2017 and ending on 31 March 2020. In addition, the 2017 Master Lease Agreement may be terminated by the Company by giving the Lessor at least sixty days' written notice of termination.

Each of the 2017-2020 Leasing Arrangements to be entered into between the Company and the relevant Owner pursuant to the 2017 Master Lease Agreement will have a term commencing on or after 1 April 2017 and expiring on or before 31 March 2020.

Pursuant to the 2017 Master Lease Agreement, each 2017-2020 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 2017-2020 Leasing Arrangement shall be determined by the parties to each 2017-2020 Leasing Arrangement with reference to the then prevailing market rents on premises comparable in location, area and permitted use ("Comparable Premises") provided that before each 2017-2020 Leasing Arrangement is entered into, the Group shall, at its own cost and expenses, obtain a confirmation from an independent property valuer providing its opinion of the then prevailing market rent of the premises with reference to the market rent of the Comparable Premises and the rent to be set out in the relating 2017-2020 Leasing Arrangement shall be no more than such prevailing market rent and the effective date of the opinion shall not be more than three months. In light of such safeguard, there will not be a situation where the actual rent payable by the Group under any individual lease to be entered into pursuant to the 2017 Master Lease Agreement will be higher than the prevailing market rent of the relevant Comparable Premises.

The government rent, rates and management fee under each 2017-2020 Leasing Arrangement will be paid to the government or, as the case may be, the management companies by the relevant tenant direct.

It is expected that the maximum consideration payable by the Group to the Lessor and/or the Owners (as the case may be) in respect of the 2017-2020 Leasing Arrangements as contemplated under the 2017 Master Lease Agreement for the year ending 31 March 2018, the year ending 31 March 2019 and the year ending 31 March 2020 will not exceed HK$79 million, HK$79 million and HK$79 million, respectively ("2017-2020 Annual Caps").

Report of the Directors

The Independent Non-executive Directors have reviewed the 2014-2017 Continuing Connected Transactions and the 2017 Master Lease Agreement 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 2014-2017 Continuing Connected Transactions in accordance with the Hong Kong Standard on Assurance Engagements 3000 (Revised) "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 2014-2017 Continuing Connected Transactions:

a. nothing has come to their attention that causes them to believe that the 2014-2017 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 disclosed 2014-2017 Continuing Connected 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 disclosed 2014-2017 Continuing Connected 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 2014-2017 Continuing Connected Transactions, nothing has come to their attention that causes them to believe that the disclosed 2014-2017 Continuing Connected Transactions have exceeded the annual cap disclosed in the previous announcement dated 20 February 2014 made by the Company in respect of the 2014-2017 Continuing Connected Transactions.

The Company confirms that it has complied with the disclosure requirements, where appropriate, in accordance with Chapter 14A of the Listing Rules.

Public Float

Based on the information that is publicly available to the Company and within the knowledge of its Directors, as at the date of this annual report, there is sufficient public float of not less than 25% of the Company's issued shares as required under the Listing Rules.

Report of the Directors

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 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.

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.

Report of the Directors

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 2017 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 31 of this annual report.

Corporate Governance

The Company's corporate governance practices are set out in Corporate Governance Report on page 27 of this annual report.

Environmental, Social and Governance Report

The Company will publish a separate Environmental, Social and Governance Report as close as possible to, and in any event no later than three months after, the publication of this annual report.

Auditor

The financial statements for FY2017 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, 28 June 2017

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)

Opinion

We have audited the consolidated financial statements of Modern Beauty Salon Holdings Limited ("the Company") and its subsidiaries ("the Group") set out on pages 59 to 136, which comprise the consolidated statement of financial position as at 31 March 2017, 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 notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 March 2017 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in the Cayman Islands, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

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.

Independent Auditor's Report

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Recognition of revenue

Refer to notes 5 and 24 to the consolidated financial statements and the accounting policies on pages 88 and 111.

The Key Audit Matter

The Group's revenue mainly comprises income from the provision of beauty and wellness services, which contributed approximately 96% of the Group's total revenue for the year ended 31 March 2017.

The Group sells prepaid packages for beauty and wellness services which comprise multiple numbers of treatments. When prepaid packages are sold, the Group receives upfront payment of the treatment fees, which are initially recorded as revenue. The Group makes an adjustment at the end of each month to reverse revenue in respect of beauty and wellness services that have yet to be provided and records this as deferred revenue in the consolidated statement of financial position. Deferred revenue at the reporting date primarily represents treatment fees received where the associated beauty and wellness services have not yet been provided.

How the matter was addressed in our audit

Our audit procedures to assess the recognition of revenue in respect of the provision of beauty and wellness services included the following:

- with the assistance of our internal IT specialists, identifying and evaluating the relevant IT systems and the design, implementation and operating effectiveness of key internal controls over the recognition of revenue, with particular emphasis on the capturing and recording of beauty and wellness services transactions;

- utilising our internal IT specialists to assist us in assessing the calculation logic of the pre-defined formulae built in the IT system and the related parameters used in the calculation of deferred revenue for beauty and wellness services;

- comparing the monthly manual journal entries relating to the aggregate deferred revenue balance recorded in the accounting system with reports generated by the IT system;

- selecting a sample of invoices issued to customers and comparing the details therein with the corresponding trade receivables and/or cash receipts;

Independent Auditor's Report

Key Audit Matters (Continued)

Recognition of revenue

Refer to notes 5 and 24 to the consolidated financial statements and the accounting policies on pages 88 and 111.

The Key Audit Matter	How the matter was addressed in our audit
The Group uses an information technology system ("IT system") to track details of the beauty and wellness services transactions, including receipts of treatment fees from sales of prepaid packages, subsequent provision of the related services and the beauty and wellness services which have not yet been provided (i.e. deferred revenue). Upon provision of services, customers are required to sign off via an electronic device, which is integrated with the Group's IT system, as evidence of the services provided. At the end of each month, the Group utilises the IT system generated deferred revenue report to quantify prepaid services for which the related services have not yet been provided and have not yet expired, to derive revenue to be deferred at each month end. The calculation of deferred revenue is automatically performed by the IT system on a monthly basis based on pre-defined formulae built into the IT system and parameters input into the IT system. Based on this monthly report, manual journal entries are prepared to adjust the monthly revenue and the balance of deferred revenue at each month end. We identified the recognition of revenue from the provision of beauty and wellness services as a key audit matter because revenue is a key performance indicator of the Group and therefore there is a risk that revenue could be manipulated to meet specific targets or expectations.	• comparing the details in the deferred revenue report generated by the IT system, on a sample basis, with relevant underlying documentation (including original invoices and the customer acknowledgement records for beauty and wellness services provided) to assess whether prepaid treatment fees had been accounted for in the appropriate period; and • inspecting underlying documentation for other manual journal entries relating to revenue which were considered to be material or met other specific risk-based criteria.

Independent Auditor’s Report

Information Other than The Consolidated Financial Statements and Auditor’s Report Thereon

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor’s report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of The Directors for The Consolidated Financial Statements

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA 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.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group’s financial reporting process.

Auditor’s Responsibilities For The Audit Of The Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. 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.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

Independent Auditor's Report

Auditor's Responsibilities For The Audit Of The Consolidated Financial Statements (Continued)

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Independent Auditor's Report

Auditor's Responsibilities For The Audit Of The Consolidated Financial Statements (Continued)

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Kwee Wei.

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

28 June 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 March 2017

	Note	2017 HK$'000	2016 HK$'000 (Restated)
Revenue	5	693,284	775,391
Other income	6	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	7(b)	(335,364)	(401,615)
Depreciation and amortisation	12&15	(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	7(a)	(3,856)	(2,510)
Fair value change on investment properties		170	280
Fair value change on purchase consideration	28(d)(ii)	1,245	3,392
Impairment loss on a joint venture	17	–	(892)
Share of profit of an associate		–	1
Share of loss of a joint venture	17	(41)	(22)
Profit before taxation	7	43,641	14,323
Income tax expense	8(a)	(9,766)	(3,601)
Profit for the year		33,875	10,722
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)	11		
Basic		3.78	1.19
Diluted		3.78	1.19

The notes on pages 65 to 136 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 26(b).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 March 2017

	Note	2017 HK$'000	2016 HK$'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	17	**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

The notes on pages 65 to 136 form part of these financial statements.

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	12	63,424	96,717	122,427
Investment properties	13	12,870	12,700	12,420
Intangible assets	15	2,342	–	–
Goodwill	14	3,108	–	–
Interest in an associate		–	80	79
Interest in a joint venture	17	–	4,205	5,146
Deposits	18	14,864	15,119	29,309
Deferred tax assets	19(a)	14,864	16,389	14,256
		111,472	145,210	183,637
Current assets				
Inventories	20	29,344	21,977	23,499
Trade and other receivables, deposits and prepayments	18	205,147	213,206	221,363
Tax recoverable		5,572	15,697	15,811
Pledged bank deposits	21	54,235	53,857	53,842
Bank deposits with original maturity over three months		5,234	–	–
Cash and bank balances	22	244,605	366,652	397,248
		544,137	671,389	711,763
Current liabilities				
Trade and other payables, deposits received and accrued expenses	23	87,265	89,029	92,129
Deferred revenue	24	439,367	547,224	604,843
Convertible note	25	–	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

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 liabilities				
Convertible note	25	–	–	87,533
Deferred tax liabilities	19(a)	822	375	1,787
Purchase consideration payable for acquisitions	28(d)	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	26(c)	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

Approved and authorised for issue by the Board of Directors on 28 June 2017.

Ms. Yeung See Man
Director

Mr. Yip Kai Wing
Director

The notes on pages 65 to 136 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2017

		Attributable to equity shareholders of the Company											
	Note	Share capital HK$'000	Share premium HK$'000	Share-based compensation reserve HK$'000	Warrants reserve HK$'000	Merger reserve HK$'000	Exchange reserve HK$'000	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 2015													
As previously reported		87,400	289,999	4,606	170	(374,921)	1,434	84,870	3,552	73,853	170,963	209	171,172
Prior year adjustments (note 3)		–	(172)	–	–	1,668	–	(84,870)	–	(3,227)	(86,601)	–	(86,601)
As restated		87,400	289,827	4,606	170	(373,253)	1,434	–	3,552	70,626	84,362	209	84,571
Changes in equity for 2016: (Restated)													
Profit for the year (Restated)		–	–	–	–	–	–	–	–	10,367	10,367	355	10,722
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 (Restated)		–	–	–	–	–	(606)	–	–	10,367	9,761	355	10,116
Share-based payments	7(b)	–	–	128	–	–	–	–	–	–	128	–	128
Increase in the Group's interests in a subsidiary		–	–	–	–	–	–	–	–	59	59	(59)	–
2015 final dividends paid	26(b)(ii)	–	–	–	–	–	–	–	–	(18,354)	(18,354)	–	(18,354)
2016 interim dividends paid	26(b)(i)	–	–	–	–	–	–	–	–	(3,496)	(3,496)	–	(3,496)
		–	–	128	–	–	–	–	–	(21,791)	(21,663)	(59)	(21,722)
Balance at 31 March 2016 (Restated)		87,400	289,827	4,734	170	(373,253)	828	–	3,552	59,202	72,460	505	72,965
Balance at 1 April 2016													
As previously reported		87,400	289,999	4,734	170	(374,921)	828	84,870	3,552	64,730	161,362	505	161,867
Prior year adjustments (note 3)		–	(172)	–	–	1,668	–	(84,870)	–	(5,528)	(88,902)	–	(88,902)
As restated		87,400	289,827	4,734	170	(373,253)	828	–	3,552	59,202	72,460	505	72,965
Changes in equity for 2017:													
Profit for the year		–	–	–	–	–	–	–	–	33,262	33,262	613	33,875
Other comprehensive income													
– Exchange differences on translation of subsidiaries		–	–	–	–	–	(1,610)	–	–	–	(1,610)	–	(1,610)
– Reclassification adjustment upon loss of joint control of a joint venture		–	–	–	–	–	675	–	–	–	675	–	675
Total comprehensive income		–	–	–	–	–	(935)	–	–	33,262	32,327	613	32,940
Issue of shares upon conversion of convertible note	25	3,048	28,964	–	–	–	–	–	–	–	32,012	–	32,012
Lapse of warrants	26(c)	–	–	–	(170)	–	–	–	–	170	–	–	–
Lapse of share options	27(a)	–	–	(4,734)	–	–	–	–	–	4,734	–	–	–
Increase in the Group's interests in a subsidiary		–	–	–	–	–	–	–	–	–	–	1,507	1,507
2016 final dividends paid	26(b)(ii)	–	–	–	–	–	–	–	–	(5,244)	(5,244)	–	(5,244)
2017 interim dividends paid	26(b)(i)	–	–	–	–	–	–	–	–	(8,740)	(8,740)	–	(8,740)
		3,048	28,964	(4,734)	(170)	–	–	–	–	(9,080)	18,028	1,507	19,535
Balance at 31 March 2017		90,448	318,791	–	–	(373,253)	(107)	–	3,552	83,384	122,815	2,625	125,440

The notes on pages 65 to 136 form part of the financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 March 2017

	Note	2017 HK$'000	2016 HK$'000 (Restated)
Operating activities			
Profit before taxation		43,641	14,323
Adjustments for:			
Depreciation and amortisation	12&15	35,473	44,927
Interest income		(723)	(2,615)
Finance costs	7(a)	3,856	2,510
Equity-settled share-based payment expenses	7(b)	–	128
Net (gain)/loss on disposals of property, plant and equipment	6&7(c)	(161)	1,054
Fair value change on investment properties		(170)	(280)
Fair value change on purchase consideration		(1,245)	(3,392)
Impairment loss on a joint venture	17	–	892
Loss on deemed disposal of previously owned equity interest of a joint venture		1,802	–
Loss on disposal of an associate		80	–
Share of profit of an associate		–	(1)
Share of loss of a joint venture		41	22
Operating profit before changes in working capital		82,594	57,568
(Increase)/decrease in inventories		(7,524)	1,482
Decrease in trade and other receivables, deposits and prepayments		7,232	22,066
Decrease in trade and other payables, deposits received and accrued expenses		(2,045)	(3,163)
Decrease in deferred revenue		(106,450)	(55,912)
Cash (used in)/generated from operations		(26,193)	22,041
Interest received		723	2,615
Tax paid		(11,082)	(9,680)
Net cash (used in)/generated from operating activities		(36,552)	14,976
Investing activities			
Increase in bank deposits with original maturity over three months		(5,234)	–
Purchase of property, plant and equipment		(1,290)	(20,825)
Proceeds from disposals of property, plant and equipment		240	11
Increase in pledged bank deposits		(378)	(15)
Net cash used in investing activities		(6,662)	(20,829)
Financing activities			
Dividends paid to equity shareholders of the Company		(13,984)	(21,850)
Interest paid on convertible note		(1,840)	(1,840)
Redemption of convertible note		(59,988)	–
Net cash used in financing activities		(75,812)	(23,690)
Net decrease in cash and cash equivalents		(119,026)	(29,543)
Effect of foreign exchange rates changes		(3,021)	(1,053)
Cash and cash equivalents at beginning of year		366,652	397,248
Cash and cash equivalents at end of year	22	244,605	366,652

The notes on pages 65 to 136 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. Significant accounting policies adopted by the Group are disclosed 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. 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 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 measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair values as explained in the accounting policies set out below:

– investment properties (see note 2(h));

– purchase consideration payable for acquisitions (see note 2(v)); and

– derivative financial instruments (see note 2(g)).

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 33.

(c) Changes in accounting policies

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 (see note 36).

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(o), 2(p) or 2(q) 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(l)), 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 note 2(l)). 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) Goodwill

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 2(l)).

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(g) 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.

(h) 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(w)(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(k).

Notes to the Financial Statements

2 Significant Accounting Policies (Continued)

(i) Property, plant and equipment

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

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.

(j) Intangible assets (other than goodwill)

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 2(l)). Intangible assets, if acquired in a business combination, are measured at fair value at acquisition date.

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

–	Customer relationship	6 years

Both the period and method of amortisation are reviewed annually.

Intangible assets are not amortised while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortisation of intangible assets with finite lives as set out above.

Notes to the Financial Statements

2 Significant Accounting Policies (Continued)

(k) 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.

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

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.

(l) 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 an equity instrument below its cost.

Notes to the Financial Statements

2 Significant Accounting Policies (Continued)

(l) 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(l)(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(l)(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)

(l) 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, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment; and
- intangible assets;
- goodwill; 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. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

- 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 first to reduce the carrying amount of any goodwill allocated to the cash generating unit (or group of units) and then, to reduce the carrying amount of the other 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

  In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

  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.

Notes to the Financial Statements

2 Significant Accounting Policies (Continued)

(l) Impairment of assets (Continued)

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

(m) 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.

(n) 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(l)), 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.

(o) 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 2(g)). 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.

Notes to the Financial Statements

2 Significant Accounting Policies (Continued)

(o) Convertible notes (Continued)

The derivative component is subsequently remeasured in accordance with note 2(g). 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.

(p) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(q) 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.

(r) 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.

(s) 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, including those payable in Australia, Hong Kong, Singapore, Malaysia, PRC and Taiwan, and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Notes to the Financial Statements

2 Significant Accounting Policies (Continued)

(s) Employee benefits (Continued)

(ii) Defined contribution retirement plans

The Group operates a mandatory provident fund scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for all qualifying employees in Hong Kong. The Group's contributions to the MPF Scheme are calculated at 5% of the salaries and wages subject to a monthly maximum amount of contribution of HK$1,500 per employee and vest fully with employees when contributed into the MPF 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).

The Group's subsidiaries established in Australia and Malaysia are required to make contributions to respective defined contribution plans, which are charged to profit or loss in the financial year to which they relate.

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.

A subsidiary company and branches of subsidiary companies of the Group in Taiwan have a defined contribution scheme governed by the Taiwan Labor Pension Act. Under the scheme, a subsidiary company and branches of subsidiary companies of the Group in Taiwan contribute monthly to the Bureau of Labor Insurance 6 per cent. of the payroll of the employees who choose to participate in the scheme. Contributions to the scheme vest immediately.

(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.

Notes to the Financial Statements

2 Significant Accounting Policies (Continued)

(s) Employee benefits (Continued)

(iii) Share-based payments (Continued)

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.

(t) 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)

(t) Income tax (Continued)

Apart from certain limited exceptions, 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.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

Where investment properties are carried at their fair value in accordance with the accounting policy set out in note 2(h), 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)

(t) 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.

(u) 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.

(v) 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 are recognised in profit or loss.

Notes to the Financial Statements

2 Significant Accounting Policies (Continued)

(w) 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 service 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)

(x) 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, including goodwill arising on consolidation of foreign operations acquired, 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.

(y) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

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

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

Notes to the Financial Statements

2 Significant Accounting Policies (Continued)

(y) Related parties (Continued)

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

(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.

(z) 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 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.

Notes to the Financial Statements

3 Prior Year Adjustments (Continued)

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

(i) Effect on the consolidated statement of financial position

Opening balances as at 1 April 2015	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
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 at 31 March 2016	As previously reported at 31 March 2016 HK$'000	Effect of prior year adjustments HK$'000	As restated HK$'000
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

Notes to the Financial Statements

3 Prior Year Adjustments (Continued)

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

	As previously reported HK$'000	Effect of prior year adjustments HK$'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

4 Segment Information

The Group has two reportable segments as follows:

Beauty and wellness services – Provision of beauty and wellness services

Skincare and wellness products – Sales of skincare and wellness products

The Group's reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology and marketing strategies. Segment profits do not include other income, interest income, finance costs, fair value changes on investment properties and purchase consideration, impairment loss on a joint venture, share of profits/(losses) of an associate and a joint venture, unallocated costs, which comprise corporate administrative expenses, and income tax expense. Segment assets do not include properties held for corporate uses, investment properties, 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.

Notes to the Financial Statements

4 Segment Information (Continued)

(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**
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

Notes to the Financial Statements

4 Segment Information (Continued)

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

	2017 HK$'000	2016 HK$'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

Notes to the Financial Statements

4 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, 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 HK$'000	2016 HK$'000	2017 HK$'000	2016 HK$'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

5 Revenue

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

The amount of each significant category of revenue is as follows:

	2017 HK$'000	2016 HK$'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

6 Other Income

	2017 HK$'000	2016 HK$'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

Notes to the Financial Statements

7 Profit Before Taxation

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

(a) Finance costs

	2017 HK$'000	2016 HK$'000 (Restated)
Interest on convertible note wholly repayable within five years (note 25)	2,590	3,298
Fair value change in derivative financial instruments	1,266	(788)
	3,856	2,510

(b) Employee benefit expenses

	2017 HK$'000	2016 HK$'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 (note 27)	–	128
	335,364	401,615

(c) Other items

	2017 HK$'000	2016 HK$'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 18(b))	–	828
Loss on deemed disposal of previously owned equity interest of a joint venture (note 14)	1,802	–

Notes to the Financial Statements

8 Income Tax in the Consolidated Statement of Profit or Loss

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

	2017 HK$'000	2016 HK$'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 (note 19(a))	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.

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

	2017 HK$'000	2016 HK$'000 (Restated)
Profit before taxation	43,641	14,323
Notional tax on profit before taxation, calculated at 16.5% (2016: 16.5%)	7,201	2,363
Effect of different tax rates of subsidiaries	(394)	(388)
Tax effect of tax exemption	(481)	(414)
Tax effect of non-taxable income	(671)	(1,049)
Tax effect of non-deductible expenses	1,934	1,932
Tax effect of utilisation of tax losses previously not recognised	(335)	(1,624)
Tax effect of temporary differences and tax losses not recognised	2,505	2,785
Under/(over)-provision in respect of prior years	7	(4)
Actual tax expense	9,766	3,601

Notes to the Financial Statements

9 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 are as follows:

	2017				
Name of Director	Directors' fees HK$'000	Salaries and other benefits in kind HK$'000	Contributions to defined contributions retirement plan HK$'000	Share-based Payments (note 27(a)) HK$'000	Total HK$'000
Tsang Yue, Joyce	–	10,175	72	–	10,247
Yip Kai Wing	–	645	18	–	663
Yeung See Man	–	756	18	–	774
Liu Mei Ling, Rhoda	324	–	–	–	324
Wong Man Hin, Raymond	264	–	–	–	264
Hong Po Kui, Martin	264	–	–	–	264
Lam Tak Leung	264	–	–	–	264
	1,116	11,576	108	–	12,800

	2016				
Name of Director	Directors' fees HK$'000	Salaries and other benefits in kind HK$'000	Contributions to defined contributions retirement plan HK$'000	Share-based Payments (note 27(a)) HK$'000	Total HK$'000
Tsang Yue, Joyce	–	11,067	75	–	11,142
Yip Kai Wing	–	623	18	10	651
Yeung See Man	–	728	18	6	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	111	16	13,629

Notes to the Financial Statements

10 Individuals with Highest Emoluments

Of the five individuals with the highest emoluments, one (2016: one) is a director whose emolument is disclosed in note 9. The aggregate of the emoluments in respect of the other four (2016: four) individuals are as follows:

	2017 HK$'000	2016 HK$'000
Salaries and other benefits in kind	4,789	5,366
Contributions to defined contribution retirement plan	141	129
Share-based payments	–	21
	4,930	5,516

The emoluments of the four (2016: four) individuals with the highest emoluments are within the following bands:

	Number of individuals	
	2017	2016
Nil – HK$1,000,000	2	1
HK$1,000,001 – HK$1,500,000	1	2
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 (2016: Nil).

11 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.

Notes to the Financial Statements

11 Earnings Per Share (Continued)

(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 HK$'000	2016 HK$'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 (Restated)
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 25)	**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.

Notes to the Financial Statements

12 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 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 and 1 April 2016	15,886	192,882	89,779	4,594	18,064	11,019	332,224
Additions	–	2,246	2,827	12	–	728	5,813
Disposals/written off	–	(8,744)	(578)	(55)	(399)	–	(9,776)
Exchange differences	–	(1,383)	(808)	(62)	(68)	(52)	(2,373)
At 31 March 2017	15,886	185,001	91,220	4,489	17,597	11,695	325,888
Depreciation:							
At 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 and 1 April 2016	210	129,842	76,321	4,187	16,208	8,739	235,507
Charge for the year	502	24,940	7,654	259	1,167	766	35,288
Written back on disposals/written off	–	(5,445)	(520)	(55)	(379)	–	(6,399)
Exchange differences	–	(1,075)	(692)	(59)	(56)	(50)	(1,932)
At 31 March 2017	712	148,262	82,763	4,332	16,940	9,455	262,464
Carrying amount:							
At 31 March 2017	15,174	36,739	8,457	157	657	2,240	63,424
At 31 March 2016	15,676	63,040	13,458	407	1,856	2,280	96,717

(a) As of 31 March 2017 and 2016, the Group's land and buildings at their carrying amounts are situated in Hong Kong under medium-term leases.

Notes to the Financial Statements

13 Investment Properties

	2017 HK$'000	2016 HK$'000
At 1 April	**12,700**	12,420
Fair value gain	**170**	280
At 31 March	**12,870**	12,700

Investment properties were revalued as at 31 March 2017. Details of the fair value measurement are disclosed in note 13(a)(i).

As of 31 March 2017, 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 2017, 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 (2016: 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 2017. The valuations were carried out 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 annual reporting date.

Notes to the Financial Statements

13 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 located in Hong Kong 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 investment 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.

Total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	2017 **HK$'000**	2016 HK$'000
Within 1 year	**–**	536
After 1 year but within 5 years	**–**	–
After 5 years	**–**	–
	–	536

Notes to the Financial Statements

14 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 (note 7(c)).

Notes to the Financial Statements

14 Business Combination (Continued)

(a) Acquisition of Care Plus International Pty Limited (Continued)

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 (note 15)	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.

Notes to the Financial Statements

14 Business Combination (Continued)

(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.

Notes to the Financial Statements

14 Business Combination (Continued)

(b) Acquisition of Elegant Trend Limited (Continued)

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

The impairment testing of goodwill is based on below valuation technique. No impairment loss is recorded during the year ended 31 March 2017 (2016: Nil).

The recoverable amount of the CGUs are determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using an estimated weighted average growth rate of 3% (2016: N/A) which is consistent with the forecasts included in industry reports. The growth rates used do not exceed the long-term average growth rates for the business in which the CGU operates. The cash flows are discounted using a discount rate of 17.9% (2016: N/A) and 19.8% (2016: N/A) for Australia CGU and PRC CGU respectively. The discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

Notes to the Financial Statements

15 Intangible Assets

Total intangible assets generated from an acquisition of a subsidiary as at 31 March 2017 amounted to HK$2,342,000 (2016: Nil) (note 14). The movement of intangible assets is set out below.

	Customer relationships HK$'000	Trademarks HK$'000	Total HK$'000
Cost:			
At 1 April 2015, 31 March 2016, 1 April 2016	–	–	–
Additions through acquisition of a subsidiary during the year (note 14)	1,243	1,126	2,369
Exchange difference	85	77	162
At 31 March 2017	1,328	1,203	2,531
Accumulated amortisation:			
At 1 April 2015, 31 March 2016, 1 April 2016	–	–	–
Charge for the year	185	–	185
Exchange difference	4	–	4
At 31 March 2017	189	–	189
Net book value:			
At 31 March 2017	1,139	1,203	2,342
At 31 March 2016	–	–	–

The amortisation charge for the year is included in "depreciation and amortisation" in the consolidated statement of profit or loss.

Notes to the Financial Statements

16 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
Care Plus International Pty Limited*	Australia	1 ordinary shares	–	51%	Sales of skincare and wellness products, Australia
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
Koladen Enterprises Inc.*	British Virgin Islands	100 ordinary shares of US$1 each	100%	–	Investment holding, Hong Kong
Modern Beauty Holdings Limited*	British Virgin Islands	1,000 ordinary shares of US$1 each	–	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
Nice Sound Investments Limited*	British Virgin Islands	1 ordinary share of US$1	–	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
Artemis Beauty Supplies Limited	Hong Kong	650,000 ordinary shares	–	100%	Sales of skincare and wellness products, Hong Kong
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 (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

Notes to the Financial Statements

16 Investment in a Subsidiary (Continued)

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
Elegant Trend Limited	Hong Kong	100 ordinary shares	–	51%	Investment holding, 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
Main Deal Limited	Hong Kong	1 ordinary share	–	100%	Investment holding, Hong Kong
Modern (Human Resource) Limited	Hong Kong	10,000 ordinary shares	–	100%	Provision of management services, Hong Kong
Modern Beauty Management Company Limited	Hong Kong	1,000 ordinary shares	–	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
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
Rise Star Asia Pacific Limited	Hong Kong	1 ordinary share	–	100%	Property holding, Hong Kong
Sino Kingdom Trading Limited	Hong Kong	1 ordinary share	–	100%	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
Zegna Management Limited	Hong Kong	1 ordinary share	–	100%	Investment holding, Hong Kong
Zi Advertising (HK) Limited	Hong Kong	10,000 ordinary shares	–	100%	Provision of advertising services, Hong Kong
Splendid Overseas Pte. Limited	Singapore	150,000 ordinary shares of S$1 each	–	100%	Provision of beauty and wellness services, Singapore

Notes to the Financial Statements

16 Investment in a Subsidiary (Continued)

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
Modern Beauty Salon (S) 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
Beijing Modern Beauty Salon Company Limited* 北京芭伊妮美容有限公司 ("BJMBS") (Note)	PRC	Registered capital of US$2,250,000	–	100%	Provision of beauty and wellness services, PRC
Guangzhou Be Beauty Salon and Fitness Company Limited* 廣州貝倚美容健身有限公司 ("GZBS") (Note)	PRC	Registered capital of HK$15,000,000	–	100%	Provision of beauty and wellness services, PRC
Shanghai Be Beauty Salon and Fitness Company Limited* 上海貝倚美容健身有限公司 ("SHBS") (Note)	PRC	Registered capital of HK$10,000,000	–	100%	Provision of beauty and wellness services, PRC
廣州市美研達化妝品有限公司*	PRC	Registered capital of RMB500,000	–	51%	Sales of skincare and wellness products, PRC
台灣貝倚有限公司* ("台灣貝倚") (Note)	Taiwan	Registered capital of TWD15,000,000	–	100%	Provision of beauty and wellness services, Taiwan
杰裕有限公司* ("杰裕") (Note)	Taiwan	Registered capital of TWD500,000	–	100%	Provision of beauty and wellness services, Taiwan

* Companies not audited by KPMG. The financial statements of the subsidiaries not audited by KPMG reflect total net assets and total revenue constituting approximately 2% and 5% respectively of the related consolidated totals.

Note: SHBS, GZBS, and BJMBS are wholly foreign owned enterprises established in the PRC. 台灣貝倚 and 杰裕 are wholly foreign owned enterprises established in 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 2017.

Notes to the Financial Statements

16 Investment in a Subsidiary (Continued)

The following table lists out the information relating to Care Plus, the subsidiary of the Group acquired during the year which has a material non-controlling interest (NCI). The summarised financial information presented below represents the amounts before any inter-company elimination.

	2017 HK$'000
NCI percentage	49%
Current assets	5,141
Non-current assets	2,719
Current liabilities	(2,055)
Non-current liabilities	–
Net assets	5,805
Carrying amount of NCI	2,844
Revenue	2,876
Profit for the period	654
Total comprehensive income	–
Profit allocated to NCI	320
Dividend paid to NCI	–
Cash flows from operating activities	(936)
Cash flows from investing activities	3
Cash flows from financing activities	–

17 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") was the only joint venture in which the Group participated and it was 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:

	2017 HK$'000	2016 HK$'000
Loss from continuing operations	(41)	(22)
Other comprehensive income	675	(27)
Total comprehensive income	634	(49)

Notes to the Financial Statements

17 Interest in a Joint Venture (Continued)

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 was 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 was estimated based on value-in-use calculation. These calculations used cash flow projections based on budget and business plan approved by the management for the following year after the end of the reporting period. 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 was 17.8%.

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 (note 14).

18 Trade and Other Receivables, Deposits and Prepayments

	2017 HK$'000	2016 HK$'000
Non-current asset		
Deposits	14,864	15,119
Current assets		
Trade receivables	33,676	43,366
Less: allowance for doubtful debts (note 18(b))	(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 (note 31(c))	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.

Notes to the Financial Statements

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

(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 HK$'000	2016 HK$'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. Further details on the Group's credit policy are set out in note 28(a).

(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(l)(i)).

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

	2017 HK$'000	2016 HK$'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.

Notes to the Financial Statements

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

(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 HK$'000	2016 HK$'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.

19 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 2015	(1,787)	199	1,522	12,477	58	12,469
Credited/(charged) to profit or loss (note 8(a))	1,405	–	(360)	2,610	–	3,655
Exchange differences	7	–	(97)	(20)	–	(110)
At 31 March 2016 and 1 April 2016	(375)	199	1,065	15,067	58	16,014
Credited/(charged) to profit or loss (note 8(a))	32	–	238	(1,616)	–	(1,346)
Acquisition of a subsidiary	(457)	–	–	–	–	(457)
Exchange differences	(22)	–	(124)	(21)	(2)	(169)
At 31 March 2017	(822)	199	1,179	13,430	56	14,042

Notes to the Financial Statements

19 Deferred Tax in the Consolidated Statement of Financial Position (Continued)

(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: (Continued)

	2017 HK$'000	2016 HK$'000
Represented by:		
Deferred tax assets	14,864	16,389
Deferred tax liabilities	(822)	(375)
	14,042	16,014

(b) At the end of the reporting period, the Group has total tax losses of HK$123,888,000 (2016: HK$121,755,000). Deferred tax assets have been recognised in respect of HK$81,018,000 (2016: HK$90,288,000) 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 tax losses of HK$42,870,000 (2016: HK$31,467,000) due to the unpredictability of future profit streams.

Included in unrecognised tax losses are (a) losses of HK$20,477,000 (2016: HK$11,129,000) from the PRC operations that will expire in five years, from the year the losses were incurred, (b) losses of HK$5,680,000 (2016: HK$4,864,000) from the Taiwan operations that will expire in ten years, from the year the losses were incurred, and (c) losses of HK$16,713,000 (2016: HK$15,474,000) from other jurisdictions that can be carried forward indefinitely.

20 Inventories

As at 31 March 2017 and 2016, inventories represented finished goods of skincare and wellness products. The carrying amount of inventories recognised as an expense and included in profit or loss is HK$22,366,000 (2016: HK$24,806,000) which is recognised as "cost of inventories sold".

21 Pledged Bank Deposits

The Group's pledged bank deposits represented deposits pledged to banks to secure banking facilities of HK$6,000,000 (2016: 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 0.08% (2016: 0.05%), 0.1% – 0.16% (2016: 0.1% – 0.16%) and 0.80% – 1.35% (2016: 0.80% – 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 (2016: HK$6,000,000) in form of documentary credit and trust receipt loan at 31 March 2017.

Notes to the Financial Statements

22 Cash and Bank Balances

Cash and bank balances comprise:

	2017 HK$'000	2016 HK$'000
Cash at bank and in hand	169,388	181,786
Short-term bank deposits with maturity less than three months	75,217	184,866
Cash and bank balances in the consolidated statement of financial position and cash and cash equivalents in the consolidated cash flow statement	244,605	366,652

23 Trade and Other Payables, Deposits Received and Accrued Expenses

	2017 HK$'000	2016 HK$'000
Trade payables	2,392	742
Other payables, deposits received and accrued expenses	82,553	88,198
Amount due to the ultimate controlling party (note 31(c))	1,434	2
Amounts due to related companies (note 31(c))	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 HK$'000	2016 HK$'000
Within 90 days	2,354	704
Over 90 days	38	38
	2,392	742

Notes to the Financial Statements

24 Deferred Revenue

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

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

(b) Movement of deferred revenue:

	2017 HK$'000	2016 HK$'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

25 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 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.

Notes to the Financial Statements

25 Convertible Note (Continued)

Movements of the liability component are as follows:

	2017 HK$'000	2016 HK$'000 (Restated)
As previously reported		4,134
Prior year adjustment (note 3)		87,079
Liability component at 1 April (2016: as restated)	92,671	91,213
Interest charged (note 7(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 note are as follows:

	2017 HK$'000	2016 HK$'000 (Restated)
As previously reported		–
Prior year adjustment (note 3)		478
Derivative financial asset at 1 April (2016: as restated)	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.

Notes to the Financial Statements

26 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:

	Note	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
Company									
Balance at 1 April 2015									
As previously reported		87,400	289,999	4,606	170	47,076	84,870	65,969	580,090
Prior year adjustments		–	(172)	–	–	–	(84,870)	(3,227)	(88,269)
As restated		87,400	289,827	4,606	170	47,076	–	62,742	491,821
Changes in equity for 2016: (Restated)									
Total comprehensive income for the year		–	–	–	–	–	–	(2,681)	(2,681)
Share-based payments	7(b)	–	–	128	–	–	–	–	128
2015 final dividends paid	26(b)(ii)	–	–	–	–	–	–	(18,354)	(18,354)
2016 interim dividends paid	26(b)(i)	–	–	–	–	–	–	(3,496)	(3,496)
Balance at 31 March 2016 (Restated)		87,400	289,827	4,734	170	47,076	–	38,211	467,418

Notes to the Financial Statements

26 Capital, Reserves and Dividends (Continued)

(a) Movements in components of equity (Continued)

	Note	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
Company									
Balance at 1 April 2016									
As previously reported		87,400	289,999	4,734	170	47,076	84,870	43,739	557,988
Prior year adjustments (note 3)		–	(172)	–	–	–	(84,870)	(5,528)	(90,570)
As restated		87,400	289,827	4,734	170	47,076	–	38,211	467,418
Changes in equity for 2017:									
Total comprehensive income for the year		–	–	–	–	–	–	(3,920)	(3,920)
Lapse of warrants	26(c)	–	–	–	(170)	–	–	170	–
Lapse of share options	27(a)	–	–	(4,734)	–	–	–	4,734	–
Issue of shares upon conversion of convertible note	25	3,048	28,964	–	–	–	–	–	32,012
2016 final dividends paid	26(b)(ii)	–	–	–	–	–	–	(5,244)	(5,244)
2017 interim dividends paid	26(b)(i)	–	–	–	–	–	–	(8,740)	(8,740)
Balance at 31 March 2017		90,448	318,791	–	–	47,076	–	25,211	481,526

(b) Dividends

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

	2017 HK$'000	2016 HK$'000
Interim dividend declared and paid of HK1 cents per ordinary share (2016: HK0.4 cents 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 cents 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.

Notes to the Financial Statements

26 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

	2017 HK$'000	2016 HK$'000
Final dividend in respect of the previous financial year, approved and paid during the year, of HK0.6 cents per ordinary share (2016: HK2.1 cents per ordinary share)	5,244	18,354

(c) Share capital

Authorised and issued share capital

	2017		2016	
	No. of shares	Amount HK$'000	No. of shares	Amount HK$'000
Authorised:				
Ordinary shares of HK$0.1 each	10,000,000,000	1,000,000	10,000,000,000	1,000,000
Issued and fully paid:				
At 1 April	873,996,190	87,400	873,996,190	87,400
Shares issued on conversion of convertible note (note 25)	30,487,752	3,048	–	–
Ordinary shares of HK$0.1 each	904,483,942	90,448	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 had been exercised and they were expired on 20 June 2016. Upon the lapse of the warrants during the year ended 31 March 2017, the Group reversed the warrant reserve of HK$170,000 (2016: Nil).

Notes to the Financial Statements

26 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(s)(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.

Notes to the Financial Statements

26 Capital, Reserves and Dividends (Continued)

(d) Nature and purpose of reserves (Continued)

(iv) Merger reserve (Continued)

(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") (note 25).

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

26 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(x).

(vii) Property revaluation reserve

The property revaluation reserve has been set up to deal with the fair value changes arising from the Group's property, plant and equipment reclassified to investment properties.

(e) Distributability of reserves

At 31 March 2017, the aggregate amount of reserves available for distribution to equity shareholders of the Company was HK$391,827,000 (2016: HK$375,114,000 (Restated)). After the end of reporting period the directors proposed a final dividend of HK$1.25 cents per ordinary share (2016: HK$0.6 cents per share), amounting to HK$11,306,000 (2016: HK$5,244,000) (note 26(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 registrars 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

27 Employee Benefits

(a) 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 42 to 44 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 2017				
Directors	800,000	(800,000)	–	–
Senior management	350,000	(350,000)	–	–
Other employees	4,970,000	(4,970,000)	–	–
	6,120,000	(6,120,000)	–	–

	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

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

During the year ended 31 March 2017, all the share options were expired with no options being exercised. Upon the lapse of the share options during the year, the Group reversed the share-based compensation reserve of HK$4,734,000 (2016: Nil) to retain earnings in accordance with accounting policy set out in note 2(s)(iii).

Notes to the Financial Statements

27 Employee Benefits (Continued)

(b) 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 employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$30,000. Contributions to the plan vest immediately.

Details of the accounting policies adopted by the Group over the defined contribution retirements plans are disclosed under note 2(s)(ii).

28 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/credit card companies with sound credit ratings. Sales to customers are made in cash or via credit cards. The Group made transactions with counterparties with acceptable credit quality in conformance to the Group risk management policies to minimise credit exposure. The credit quality of counterparties will be closely monitored over the life of the transactions. The Group reviews its financial counterparties periodically in order to reduce credit risk concentrations relative to the underlying size and credit strength of each counterparty.

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.

Notes to the Financial Statements

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

(b) Liquidity risk

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

The following tables show the remaining contractual maturities at the end of the reporting period of the Group's 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 2017						
Trade and other payables, deposits received and accrued expenses	87,265	–	–	–	87,265	87,265

	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 (Restated)						
Trade and other payables, deposits received and accrued expenses	89,029	–	–	–	89,029	89,029
Convertible note	91,405	–	–	–	91,405	91,405
	180,434	–	–	–	180,434	180,434

Notes to the Financial Statements

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

(c) Currency risk

The Group is exposed to currency risk primarily through sales and purchases which give rise to receivables, payables and cash balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The currency giving rise to this risk is primarily Renminbi. Given the insignificant net exposure to Renminbi, any change in the exchange rate of Renminbi relative to Hong Kong dollars is considered to have an insignificant impact on the Group's profit after tax (and retained earnings).

(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 2017 and 2016.

(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

Notes to the Financial Statements

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

(d) Fair value measurement (Continued)

(i) Financial assets and liabilities measured at fair value (Continued)

Fair value hierarchy

	Fair value at 31 March 2017 HK$'000	Fair value measurements as at 31 March 2017 categorised into Level 3 HK$'000
Recurring fair value measurement		
Financial liability:		
– Purchase consideration payable for acquisitions	1,148	1,148

	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

During the years ended 31 March 2016 and 2017, there were no transfer between Level 1 and Level 2, or transfers into or out of Level 3. 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.

Notes to the Financial Statements

28 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 and subsidiaries, the fair value of the contingent consideration was HK$1,148,000 (2016: HK$1,259,000) as at 31 March 2017 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, subsidiaries and other relevant information.

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

	2017 HK$'000	2016 HK$'000
Purchase consideration payable for an acquisition:		
At 1 April	1,259	4,673
Fair value change on purchase consideration	(1,245)	(3,392)
Acquisition of subsidiaries	1,143	–
Exchange differences	(9)	(22)
At 31 March	1,148	1,259
Gain for the year included in profit or loss for liability held at the end of the reporting period	1,254	3,414

Notes to the Financial Statements

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

(d) Fair value measurement (Continued)

(iii) Fair value of financial assets and liabilities carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortised cost were not materially different from their fair values as at 31 March 2016 except for the following financial instruments, for which their carrying amounts and fair value and the level of fair value hierarchy are disclosed below:

	Carrying amounts at 31 March 2016 (Restated) HK$'000	Fair value at 31 March 2016 (Restated) HK$'000	Fair value measurements as at 31 March 2016 categorised into		
			Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000
Convertible notes	91,405	88,400	–	–	88,400

Valuation techniques and inputs used in Level 3 fair value measurements

The fair values of the convertible notes are estimated as being the present values of future cash flows, discounted at interest rates based on the yield of Hong Kong Stock Exchange Notes as at the end of the reporting period plus credit spread of comparable bonds of similar credit rating with the Company, adjusted for the rating based default spread and liquidity premium at the valuation date.

29 Commitments

(a) Operating lease commitments

At 31 March 2017, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2017 HK$'000	2016 HK$'000
Within 1 year	**60,031**	132,246
After 1 year but within 5 years	**45,452**	49,906
	105,483	182,152

The Group is the lessee in respect of certain of its beauty service centres, retail shops, offices, staff quarters and warehouses operated by the subsidiaries. Leases are negotiated for an initial period of 1 to 6 years (2016: 1 to 6 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.

Notes to the Financial Statements

29 Commitments (Continued)

(b) Capital commitments

Capital commitments outstanding at 31 March 2017 not provided for in the financial statements were as follows:

	2017 HK$'000	2016 HK$'000
Contracted but not yet provided for:		
– Acquisition of plant and equipment	1,098	290

30 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.

31 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 9 and certain of the highest paid employees as disclosed in note 10, is as follows:

	2017 HK$'000	2016 HK$'000
Short-term employee benefits	15,491	16,305
Post-employment benefits	229	221
Equity compensation benefits	–	19
	15,720	16,545

Total remuneration is included in "employee benefit expenses" (see note 7(b)).

Notes to the Financial Statements

31 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	2017 HK$'000	2016 HK$'000 (Restated)	2015 HK$'000 (Restated)
Rental expenses paid to related companies:	(i)			
– All Link International Limited		247	367	367
– China Tech International Limited		3,223	2,417	–
– East Union Industries Limited		1,652	1,652	1,652
– Joy East Limited		734	734	734
– Luck Elegant Industrial Limited		3,376	3,376	1,628
– Lucky Forever Limited		17,075	17,296	17,550
– Golden National Limited		8,997	8,997	8,997
– United Industries Limited		8,170	8,282	8,459
– Well Faith International Enterprise Limited		13,862	13,862	13,862
– Wise World Limited		3,316	2,206	1,836
	(ix)	60,652	59,189	55,085
Rental income received from a related company:	(ii)			
Grateful Heart Charitable Foundation Limited		536	536	536

Notes to the Financial Statements

31 Material Related Party Transactions and Balances (Continued)

(b) Material related party transactions (Continued)

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: (Continued)

	Note	2017 HK$'000	2016 HK$'000 (Restated)	2015 HK$'000 (Restated)
Interest charge on convertible note issued to an associate of the ultimate controlling party:				
– Dr. Tsang	(iii)	2,590	3,298	3,237
Cash settlement upon maturity of convertible note issued to an associate of the ultimate controlling party:				
– Dr. Tsang	(iv)	59,988	–	–
Donation to a related company:				
– Grateful Heart Charitable Foundation Limited	(v)	–	313	358
Salaries and other benefits in kind paid to related parties:				
– Related party A	(vi)	1,718	1,706	1,826
– Related party B	(vii)	1,386	1,396	1,510
– Related party C	(viii)	473	477	457
		3,577	3,579	3,793

Notes to the Financial Statements

31 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 interest charge on convertible note issued to an associate of Dr. Tsang. Dr. Tsang is the beneficial owner of the associate. Details of which are set out in the paragraph headed "Connected Transactions" in the Report of the Directors of the annual report for the year ended 31 March 2017.

(iv) The amount represented cash settlement paid to an associate of Dr. Tsang. Dr. Tsang is the beneficial owner of the associate. Details of which are set out in the paragraph headed "Connected Transactions" in the Report of the Directors of the annual report for the year ended 31 March 2017.

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

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

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

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

(ix) 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 of the annual report for the year ended 31 March 2017.

Notes to the Financial Statements

31 Material Related Party Transactions and Balances (Continued)

(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 2017 HK$'000	Balance at 1 April 2016 HK$'000	Maximum amount outstanding during the year HK$'000
All Link International Limited	26	3	26
Grateful Heart Charitable Foundation Limited	632	153	632
Lucky Forever Limited	1	–	1
Luck Elegant Industrial Limited	1	–	1
Lucky Forever (S) Pte. Limited	40	37	40
Swisscelin Distribution Limited	13	72	13
United Industries Limited	–	1	–
Advanced Natural Australia PTY Ltd	5	5	5
Golden National Ltd	1	–	1
MCB Limited	1,955	–	1,955
	2,674	271	2,674

Notes to the Financial Statements

32 Company-Level Statement of Financial Position

	Note	31 March 2017 HK$'000	31 March 2016 HK$'000 (Restated)	1 April 2015 HK$'000 (Restated)
Non-current asset				
Investment in a subsidiary	16	101,076	101,076	101,076
Current assets				
Amounts due from subsidiaries		380,985	456,849	481,229
Cash and bank balances		906	907	258
		381,891	457,756	481,487
Current liabilities				
Other payables		9	9	7
Amount due to the ultimate controlling party		1,432	–	–
Convertible note	25	–	91,405	3,202
		1,441	91,414	3,209
Net current assets		380,450	366,342	478,278
Total assets less current liabilities		481,526	467,418	579,354
Non-current liability				
Convertible note	25	–	–	87,533
NET ASSETS		481,526	467,418	491,821
CAPITAL AND RESERVES	26(a)			
Share capital		90,448	87,400	87,400
Reserves		391,078	380,018	404,421
TOTAL EQUITY		481,526	467,418	491,821

Notes to the Financial Statements

33 Critical Judgements and Key Estimates

Key sources of estimation uncertainty

Note 13(a), 14, 15, 25 and 28(d) contain information about the assumptions and their risk factors relating to valuation of investment properties, goodwill impairment, intangible assets, financial instruments and contingent consideration. Other key sources of estimation uncertainty are as follows:

(i) 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.

(ii) 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.

34 Non-Adjusting Events After The Reporting Period

After the end of the reporting period the directors proposed a final dividend. Further details are disclosed in note 26(b).

35 Comparative Figures

As further explained in note 3, 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 presented.

Notes to the Financial Statements

36 Possible Impact of Amendments, New Standards and Interpretations Issued but Not Yet Effective for The Year Ended 31 March 2017

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and new standards which are not yet effective for the year ended 31 March 2017 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
Amendments to HKAS 7, *Statement of Cash flows: Disclosure initiative*	1 January 2017
Amendments to HKFRS 12, *Income taxes: Recognition of deferred tax assets for unrealised losses*	1 January 2017
HKFRS 9, *Financial instruments*	1 January 2018
HKFRS 15, *Revenue from contracts with customers*	1 January 2018
Amendments to HKFRS 2, *Share-based payment: Classification and measurement of share-based payment transactions*	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 the Group has identified some aspects of the new standards which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. As the Group has not completed its assessment, further impacts may be identified in due course and will be taken into consideration when determining whether to adopt any of these new requirements before their effective date and which transitional approach to take, where there are alternative approaches allowed under the new standards.

HKFRS 9, Financial instruments

HKFRS 9 will replace the current standard on accounting for financial instruments, HKAS 39, *Financial instruments: Recognition and measurement*. Based on a preliminary assessment, the Group expected that the new requirements of HKFRS 9 on classification and measurement of financial assets and calculation of impairment of financial assets may have an impact on the Group's financial statements. However, a more detailed analysis is required to determine the extent of the impact.

Notes to the Financial Statements

36 Possible Impact of Amendments, New Standards and Interpretations Issued but Not Yet Effective for The Year Ended 31 March 2017 (Continued)

HKFRS 15, Revenue from contracts with customers

HKFRS 15 establishes a comprehensive framework for recognising revenue from contracts with customers. HKFRS 15 will replace the existing revenue standards, HKAS 18, *Revenue*, which covers revenue arising from sale of goods and rendering of services, and HKAS 11, *Construction contracts*, which specifies the accounting for revenue from construction contracts. The Group is currently assessing the impacts of adopting HKFRS 15 on its financial statements. Based on the preliminary assessment, the Group has identified the following areas which are likely to be affected:

(a) Timing of revenue recognition

The Group's revenue recognition policies are disclosed in note 2(w).

Under HKFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. HKFRS 15 identifies 3 situations in which control of the promised good or service is regarded as being transferred over time:

(i) When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

(ii) When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;

(iii) When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under HKFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that will be considered in determining when the transfer of control occurs.

Revenue from the provision of services is dependent on the estimation of the utilisation pattern of the provision of services. Based on the Group's historical experience, the Group will make an estimates of an expected amount of breakage.

Further analysis is required to determine whether this change in accounting policy may have a material impact on the amounts reported in any given financial reporting period.

Notes to the Financial Statements

36 Possible Impact of Amendments, New Standards and Interpretations Issued but Not Yet Effective for The Year Ended 31 March 2017 (Continued)

HKFRS 15, Revenue from contracts with customers (Continued)

(b) Significant financing component

HKFRS 15 requires an entity to adjust the transaction price for the time value of money when a contract contains a significant financing component, regardless of whether the payments from customers are received significantly in advance or in arrears.

Currently, the Group would only apply such a policy when payments are significantly deferred, which is currently not common in the Group's arrangements with its customers. Currently, the Group does not apply such a policy when payments are received in advance.

(c) Sales with a right of return

Currently when the customers are allowed to return the products, the Group estimates the level of returns and makes an adjustment against revenue and cost of sales.

The Group expects that the adoption of HKFRS 15 will not materially affect how the Group recognises revenue and cost of sales when the customers have a right of return. However, the new requirement to recognise separately a return asset for the products expected to be returned will impact the presentation in the consolidated statement of financial position as the Group currently adjusts the carrying amounts of inventory for the expected returns, instead of recognising a separate asset.

HKFRS 16, Leases

As disclosed in note 2(k), currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Group enters into some leases as the lessor and others as the lessee.

HKFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once HKFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

Notes to the Financial Statements

36 Possible Impact of Amendments, New Standards and Interpretations Issued but Not Yet Effective for The Year Ended 31 March 2017 (Continued)

HKFRS 16, Leases (Continued)

HKFRS 16 will primarily affect the Group's accounting as a lessee of leases for properties, plant and equipment which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease. As disclosed in note 29, at 31 March 2017 the Group's future minimum lease payments under non-cancellable operating leases amount to $105,483,000 for properties, the majority of which is payable between 1 and 5 years after the reporting date. Some of these amounts may therefore need to be recognised as lease liabilities, with corresponding right-of-use assets, once HKFRS 16 is adopted. The Group will need to perform a more detailed analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of HKFRS 16, after taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of HKFRS 16 and the effects of discounting.

37 Approval of Financial Statements

The financial statements were approved and authorised for issue by the Board of Directors on 28 June 2017.

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				
	2017	2016	2015	2014	2013
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
		(Restated)	(Restated)	(Restated)	(Restated)
Revenue	**693,284**	775,391	874,235	868,806	708,122
Profit/(loss) before tax	**43,641**	14,323	84,691	91,851	(64,561)
Income tax (expense)/credit	**(9,766)**	(3,601)	(16,866)	(26,942)	4,549
Profit/(loss) for the year	**33,875**	10,722	67,825	64,909	(60,012)

Consolidated Assets and Liabilities

	As at 31 March				
	2017	2016	2015	2014	2013
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
		(Restated)	(Restated)	(Restated)	(Restated)
Total non-current assets	**111,472**	145,210	183,637	183,512	180,179
Total current assets	**544,137**	671,389	711,763	771,364	811,086
Total assets	**655,609**	816,599	895,400	954,876	991,265
Total non-current liabilities	**(1,970)**	(1,634)	(93,993)	(88,367)	(84,788)
Total current liabilities	**(528,199)**	(742,000)	(716,836)	(806,699)	(856,597)
Total liabilities	**(530,169)**	(743,634)	(810,829)	(895,066)	(941,385)
Net assets	**125,440**	72,965	84,571	59,810	49,880

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

MODERN BEAUTY SALON HOLDINGS LIMITED
6/F, Sino Industrial Plaza,
9 Kai Cheung Road, Kowloon Bay,
Kowloon, Hong Kong
Tel: (852) 2866 2377
Fax: (852) 2804 6607
Email: ir@modernbeautysalon.com
Website: www.modernbeautysalon.com

現代美容控股有限公司
香港九龍九龍灣啟祥道9號信和工商中心6樓
電話：(852) 2866 2377
傳真：(852) 2804 6607
電郵：ir@modernbeautysalon.com
網址：www.modernbeautysalon.com