MODERN BEAUTY SALON HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 919)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 MARCH 2018

The Board of Directors (the "Board") of Modern Beauty Salon Holdings Limited (the "Company") is pleased to announce the consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 March 2018 ("FY2018" or the "year under review"), with comparative figures for the year ended 31 March 2017 ("FY2017") as follows. The consolidated results for the year ended 31 March 2018 have been reviewed by the audit committee of the Company.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 MARCH 2018

	Note	**2018**	2017
		HK$'000	*HK$'000*
Revenue	*5*	**599,018**	693,284
Other income	*6*	**5,109**	3,225
Cost of inventories sold		**(23,270)**	(22,366)
Advertising costs		**(4,246)**	(4,744)
Building management fees		**(14,589)**	(13,970)
Bank charges		**(26,829)**	(27,318)
Employee benefit expenses	*7(b)*	**(342,245)**	(335,364)
Depreciation and amortisation		**(14,647)**	(35,473)
Occupancy costs		**(135,292)**	(142,448)
Other operating expenses		**(66,774)**	(69,426)

	Note	2018 HK$'000	2017 HK$'000
(Loss)/profit from operations		**(23,765)**	45,400
Interest income		**621**	723
Finance costs	*7(a)*	**—**	(3,856)
Fair value change on investment properties		**1,030**	170
Fair value change on purchase consideration		**1,148**	1,245
Impairment loss on goodwill		**(2,038)**	—
Impairment loss on property, plant and equipment		**(2,180)**	—
Share of loss of a joint venture		**—**	(41)
(Loss)/profit before taxation	*7*	**(25,184)**	43,641
Income tax credit/(expense)	*8*	**2,339**	(9,766)
(Loss)/profit for the year		**(22,845)**	33,875
Attributable to:			
Equity shareholders of the Company		**(22,855)**	33,262
Non-controlling interests		**10**	613
(Loss)/profit for the year		**(22,845)**	33,875
(Loss)/earnings per share *(HK cents)*	*9*		
Basic		**(2.53)**	3.78
Diluted		**(2.53)**	3.78

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2018

	Note	**2018** *HK$'000*	2017 *HK$'000*
(Loss)/profit for the year		**(22,845)**	33,875
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		**(2,861)**	(1,610)
Reclassification adjustment upon loss of joint control of a joint venture, net of Nil tax		**—**	675
Other comprehensive income for the year		**(2,861)**	(935)
Total comprehensive income for the year		**(25,706)**	32,940
Attributable to:			
Equity shareholders of the Company		**(25,716)**	32,327
Non-controlling interests		**10**	613
Total comprehensive income for the year		**(25,706)**	32,940

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2018

	Note	31 March 2018 HK$'000	31 March 2017 HK$'000
Non-current assets			
Property, plant and equipment		**68,760**	63,424
Investment properties		**13,900**	12,870
Intangible assets		**2,147**	2,342
Goodwill		**1,070**	3,108
Deposits and prepayments	*10*	**22,798**	14,864
Deferred tax assets		**20,609**	14,864
		129,284	111,472
Current assets			
Inventories		**26,097**	29,344
Trade and other receivables, deposits and prepayments	*10*	**210,308**	205,147
Tax recoverable		**3,517**	5,572
Pledged bank deposits		**54,471**	54,235
Bank deposits with original maturity over three months		**5,556**	5,234
Cash and bank balances		**181,683**	244,605
		481,632	544,137
Current liabilities			
Trade and other payables, deposits received and accrued expenses	*11*	**92,595**	87,265
Deferred revenue	*12*	**428,719**	439,367
Tax payable		**717**	1,567
		522,031	528,199
Net current (liabilities)/assets		**(40,399)**	15,938
Total assets less current liabilities		**88,885**	127,410

	Note	31 March 2018 HK$'000	31 March 2017 HK$'000
Non-current liabilities			
Deferred tax liabilities		**457**	822
Purchase consideration payable for acquisitions		**—**	1,148
		457	1,970
NET ASSETS		**88,428**	125,440
CAPITAL AND RESERVES			
Share capital		**90,448**	90,448
Reserves		**(4,655)**	32,367
Total equity attributable equity shareholders of the Company		**85,793**	122,815
Non-controlling interests		**2,635**	2,625
TOTAL EQUITY		**88,428**	125,440

NOTES

1 GENERAL INFORMATION

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

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

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

The financial information relating to the financial years ended 31 March 2018 and 2017 included in this announcement of annual results does not constitute the Company's statutory annual financial statements for those financial years but is derived from those financial statements.

The consolidated financial statements for the year ended 31 March 2018 comprise the Company and its subsidiaries (together referred to as the "Group"). The consolidated results set out in this announcement do not constitute the Group's consolidated financial statements for the year ended 31 March 2018 but are extracted from those financial statements.

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

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

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair values as explained in the accounting policies set out below:

— investment properties; and

— purchase consideration payable for acquisitions.

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.

As at 31 March 2018, the Group had net current liabilities of HK$40,399,000. Notwithstanding the net current liabilities of the Group at 31 March 2018, the Group's consolidated financial statements have been prepared on a going concern basis because the directors are of the opinion that the Group would have adequate funds to meet its obligation, as and when they fall due, having regard to the following:

(i) the Group expects to generate positive operating cash flows in the future; and

(ii) the deferred revenue of HK$428,719,000 represents prepayment of beauty and wellness packages and will be recognised as income rather than refunded.

Consequently, the consolidated financial statements have been prepared on a going concern basis.

3 CHANGES IN ACCOUNTING POLICIES

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

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

4 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, unallocated costs, which comprise corporate administrative expenses, and income tax credit/(expense). Segment assets do not include properties held for corporate uses, investment properties, deferred tax assets and tax recoverable. Segment liabilities do not include tax payable, deferred tax liabilities, amounts due to related companies and the ultimate controlling party and purchase consideration payable for acquisitions.

(a) Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 March 2018 and 2017 is set out below.

	Beauty and wellness services *HK$'000*	**Skincare and wellness products** *HK$'000*	**Total** *HK$'000*
Year ended 31 March 2018			
Revenue from external customers	**574,737**	**24,281**	**599,018**
Reportable segment (loss)/profit	**(5,442)**	**3,489**	**(1,953)**
Other segment information:			
Additions to property, plant and equipment	**20,164**	**1,180**	**21,344**
Depreciation and amortisation	**14,220**	**427**	**14,647**
As at 31 March 2018			
Reportable segment assets	**545,379**	**12,838**	**558,217**
Reportable segment liabilities	**507,960**	**10,003**	**517,963**

	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

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

	2018	2017
	HK$'000	*HK$'000*
Profit/(loss)		
Reportable segment (loss)/profit	**(1,953)**	73,984
Other income	**5,109**	3,225
Interest income	**621**	723
Finance costs	**—**	(3,856)
Fair value change on investment properties	**1,030**	170
Fair value change on purchase consideration	**1,148**	1,245
Share of loss of a joint venture	**—**	(41)
Unallocated costs	**(31,139)**	(31,809)
Income tax credit/(expense)	**2,339**	(9,766)
Consolidated (loss)/profit for the year	**(22,845)**	33,875
Assets		
Reportable segment assets	**558,217**	607,128
Properties held for corporate use	**14,673**	15,175
Investment properties	**13,900**	12,870
Deferred tax assets	**20,609**	14,864
Tax recoverable	**3,517**	5,572
Consolidated total assets	**610,916**	655,609
Liabilities		
Reportable segment liabilities	**517,963**	524,311
Tax payable	**717**	1,567
Deferred tax liabilities	**457**	822
Amounts due to related companies	**1,926**	887
Amount due to the ultimate controlling party	**1,425**	1,434
Purchase consideration payable for acquisitions	**—**	1,148
Consolidated total liabilities	**522,488**	530,169

(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**	
	2018	2017	**2018**	2017
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong (place of domicile)	**519,054**	593,341	**63,298**	54,969
Mainland China	**23,318**	22,313	**1,672**	4,025
Singapore	**48,385**	66,349	**3,419**	2,816
Malaysia	**1,681**	3,319	**—**	76
Taiwan	**4,604**	5,964	**—**	1,044
Australia	**1,976**	1,998	**371**	494
	599,018	693,284	**68,760**	63,424

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:

	2018	2017
	HK$'000	*HK$'000*
Revenue recognised from provision of beauty and wellness services and expiry of prepaid beauty packages	**574,737**	664,830
Sales of skincare and wellness products	**24,281**	28,454
	599,018	693,284

6 OTHER INCOME

	2018	2017
	HK$'000	*HK$'000*
Commission income	**139**	172
Government grants	**204**	361
Foreign exchange gain, net	**2,664**	584
Net gain on disposals of property, plant and equipment	**115**	161
Rental income	**1,015**	536
Others	**972**	1,411
	5,109	3,225

7 (LOSS)/PROFIT BEFORE TAXATION

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

(a) Finance costs

	2018	2017
	HK$'000	*HK$'000*
Interest on convertible note wholly repayable within five years	—	2,590
Fair value change in derivative financial instruments	—	1,266
	—	3,856

(b) Employee benefit expenses

	2018	2017
	HK$'000	*HK$'000*
Wages and salaries	**321,353**	318,803
Contributions to defined contribution retirement plans	**19,347**	19,740
Other staff welfare	**1,545**	(3,179)
	342,245	335,364

(c) Other items

	2018	2017
	HK$'000	*HK$'000*
Auditor's remuneration	**3,116**	3,065
Operating lease charges for land and buildings	**135,292**	142,448
Loss on disposal of a subsidiary	**—**	17
Loss on disposal of an associate	**—**	80
Loss on deemed disposal of previously owned equity interest of a joint venture	**—**	1,802

8 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

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

	2018	2017
	HK$'000	*HK$'000*
Current tax — Hong Kong Profits Tax		
Provision for the year	**3,566**	5,507
Under-provision in respect of prior years	**26**	14
	3,592	5,521
Current tax — Overseas		
Provision for the year	**293**	2,906
Over-provision in respect of prior years	**(123)**	(7)
	170	2,899
Deferred tax		
Origination and reversal of temporary differences	**(6,101)**	1,346
	(2,339)	9,766

The provision for Hong Kong Profits Tax for 2018 is calculated at 16.5% (2017: 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 2016-17 subject to a maximum reduction of HK$20,000 for each business (2017: a maximum reduction of HK$20,000 was granted for the year of assessment 2015-16 and was taken into account in calculating the provision for 2017). Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

9 (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on the loss attributable to ordinary equity shareholders of the Company of HK$22,855,000 (2017: profit attributable to ordinary equity shareholders of the Company of HK$33,262,000) and the weighted average number of 904,483,942 ordinary shares (2017: weighted average number of 880,761,965 ordinary shares) in issue during the year.

(b) Diluted (loss)/earnings per share

The calculation of diluted (loss)/earnings per share is based on the loss attributable to ordinary equity shareholders of the Company of HK$22,855,000 (2017: profit attributable to ordinary equity shareholders of the Company of HK$34,163,000) and the weighted average number of ordinary shares of 904,483,942 (2017: weighted average number of ordinary shares of 904,483,942), calculated as follows:

(i) (Loss)/profit attributable to ordinary equity shareholders of the Company (diluted)

	2018	2017
	HK$'000	*HK$'000*
(Loss)/profit attributable to ordinary equity shareholders for basic earnings per share	**(22,855)**	33,262
After tax effect of effective interest on the liability component of dilutive convertible note	—	901
(Loss)/profit attributable to ordinary equity shareholders for diluted earnings per share	**(22,855)**	34,163

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

	2018	2017
Weighted average number of ordinary shares for basic earnings per share at 31 March	**904,483,942**	880,761,965
Effect of conversion of dilutive convertible note	—	23,721,977
Weighted average number of ordinary shares for diluted earnings per share at 31 March	**904,483,942**	904,483,942

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

10 TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2018	2017
	HK$'000	*HK$'000*
Non-current asset		
Deposits and prepayments	**22,798**	14,864
Current assets		
Trade receivables	**36,230**	33,676
Less: allowance for doubtful debts	**(828)**	(828)
	35,402	32,848
Trade deposits retained by banks/credit card companies *(note)*	**134,137**	133,818
Rental and other deposits, prepayments and other receivables	**36,789**	35,807
Amounts due from related companies	**3,980**	2,674
	210,308	205,147
	233,106	220,011

Note: Trade deposits represent trade receivables that were retained by the banks/credit card companies in reserve accounts to secure the Group's performance of services to customers who paid for the services by credit cards, in accordance with the merchant agreements entered into between the Group and the banks/credit card companies.

(a) Ageing analysis

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

	2018	2017
	HK$'000	*HK$'000*
0–30 days	**19,116**	17,080
31–60 days	**5,960**	6,051
61–90 days	**5,529**	5,262
91–180 days	**4,583**	4,349
Over 180 days	**214**	106
	35,402	32,848

Trade receivables are due within 7–180 days (2017: 7–180 days) from the date of billing.

The ageing analysis of the trade receivables based on the payment due date and net of provision is as follows:

	2018	2017
	HK$'000	*HK$'000*
Neither past due nor impaired	**35,217**	30,602
Less than 30 days past due	**—**	2,030
31–60 days past due	**90**	94
61–90 days past due	**23**	1
91–150 days past due	**28**	29
Over 150 days past due	**44**	92
	35,402	32,848

Trade receivables of approximately HK$185,000 that were past due but not impaired (2017: HK$2,246,000) 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.

(b) Impairment of trade receivables

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

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

	2018	2017
	HK$'000	*HK$'000*
At 1 April and 31 March	**828**	828

At 31 March 2018, 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 (2017: HK$828,000) were recognised.

11 TRADE AND OTHER PAYABLES, DEPOSITS RECEIVED AND ACCRUED EXPENSES

	2018	2017
	HK$'000	*HK$'000*
Trade payables	**2,103**	2,392
Other payables, deposits received and accrued expenses	**87,141**	82,553
Amount due to the ultimate controlling party	**1,425**	1,434
Amounts due to related companies	**1,926**	886
	92,595	87,265

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:

	2018	2017
	HK$'000	*HK$'000*
Within 90 days	**2,034**	2,354
Over 90 days	**69**	38
	2,103	2,392

12 DEFERRED REVENUE

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

	2018	2017
	HK$'000	*HK$'000*
Within 1 year	**428,719**	439,367

(b) Movement of deferred revenue:

	2018	2017
	HK$'000	*HK$'000*
At beginning of year	**439,367**	547,224
Gross receipts from sales of prepaid beauty packages	**563,069**	558,670
Revenue recognised for provision of beauty and wellness services and expiry of prepaid beauty packages	**(574,737)**	(664,830)
Exchange differences	**1,020**	(1,697)
At end of year	**428,719**	439,367

13 DIVIDENDS

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

	2018	2017
	HK$'000	*HK$'000*
Interim dividend declared and paid of nil per ordinary share (2017: HK1 cent per ordinary share)	—	8,740
Final dividend proposed after the end of the reporting period of nil per ordinary share (2017: HK1.25 cents per ordinary share)	—	11,306
	—	20,046

BUSINESS REVIEW

Overview

During the year under review, revenue of the Group amounted to approximately HK$599.0 million, representing a decrease of 13.6% compared with approximately HK$693.3 million for the year ended 31 March 2017 ("FY2017" or the "same period last year"). The receipts from sales of prepaid beauty packages during the year under review was HK$563.1 million, an increase of 0.8% over the same period last year. The employees benefit expenses and occupancy costs increased by 2.1% to HK$342.2 million and decreased by 5.0% to HK$135.3 million respectively as compared with the same period last year. The Group recorded an operating loss of HK$23.8 million during the year under review (FY2017: an operating profit of HK$45.4 million).

Below is the key statistics:

	For the year ended 31 March		
	2018	2017	Change
Revenue *(HK$ million)*	**599.0**	693.3	−13.6%
Operating loss/profit margin *(%)*	**-4.0%**	6.5%	-10.5 Percentage points
Net loss/profit margin *(%)*	**-3.8%**	4.9%	-8.7 Percentage points
Number of shops	**62**	60	+3.3%
Employee benefit expenses *(HK$ million)*	**342.2**	335.4	+2.1%
Occupancy costs *(HK$ million)*	**135.3**	142.4	−5.0%
Total dividend per ordinary share *(HK cents)*	**Nil**	2.25	
Annual dividend pay-out ratio *(%)*	**N/A**	59.2%	

Hong Kong

Hong Kong GDP growth rate expanded notably by 4.7% year-on-year in real terms in the first quarter of 2018, marking a sizable acceleration from 3.4% growth in the preceding quarter, and is the sixth consecutive quarter of growth above the trend growth rate of 2.7% per annum in the past ten years. Increasing salaries and inflating rentals cost are the two main negative factors for our business. Nevertheless, we will strive to leverage 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 12.6%. 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 as 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$504.0 million and HK$482.4 million respectively (FY2017: HK$570.9 million and HK$486.7 million). Revenue from sales of skincare and wellness products was HK$15.1 million in FY2018 (FY2017: HK$22.4 million). The number of our customers in Hong Kong amounted to a total of approximately 414,000 during the year under review, representing an increase of 1.7% as compared to approximately 407,000 in the same period last year.

Various comprehensive high quality beauty, slimming and facial services are offered to the general public including, inter alia, skincare, slimming, hairstyling, cosmetics, manicures, pedicures, electrology, and aesthetics services. Since 2013, we have also provided wedding photography services to our customers. To further strengthen our beauty services for our customers, we offer a number of innovative and sophisticated beauty, slimming and anti-ageing treatments and machineries.

In terms of the sales of skincare and wellness products, as of 31 March 2018, 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 80 varieties of products are available for sale under different series of skincare service, including "Y.U.E", "Advanced Natural", "Bioline", "BeYu", "Malu Wilz", "Byotea", "Oro", "Fanola", "Botugen" 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 (FY2017: six service centres) at the three cities referred to, with a total weighted average gross floor area of approximately 25,000 square feet (FY2017: 27,000 square feet).

The Group's revenue in Mainland China increased to HK$23.3 million (FY2017: HK$22.3 million) and receipts from sales of prepaid beauty packages increased by 3.2% to HK$19.9 million as compared to HK$19.3 million for the same period last year. The business recorded a loss of HK$3.7 million during the year under review as compared with a loss of HK$5.3 million for the same period last year.

During the period under review, there is no change in the number of shops. We plan 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 FY2018, the number of service centres in Singapore increased to eleven (FY2017: ten) while the number of service centre in Malaysia remained to be one (FY2017: one) respectively. During the year under review, the revenue from operations in Singapore and Malaysia was HK$50.1 million, as compared with HK$69.7 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$47.5 million and HK$57.6 million respectively, as compared with HK$67.3 million and HK$46.4 million for the same period last year.

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

Taiwan

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

FINANCIAL REVIEW

Revenue

Set out below is a breakdown on the revenue of the Group by service lines and product sales during FY2018 (with comparative figures for FY2017):

	For the year ended 31 March				
	2018		2017		
Sales mix	***HK$'000***	**Percentage of revenue**	*HK$'000*	Percentage of revenue	**Change**
Beauty & facial	**432,514**	**72.2%**	505,111	72.9%	**−14.4%**
Slimming	**102,735**	**17.1%**	106,661	15.4%	**−3.7%**
Spa and massage	**39,488**	**6.6%**	53,058	7.6%	**−25.6%**
Beauty and wellness services	**574,737**	**95.9%**	664,830	95.9%	**−13.6%**
Sales of skincare and wellness products	**24,281**	**4.1%**	28,454	4.1%	**−14.7%**
Total	**599,018**	**100%**	693,284	100%	**−13.6%**

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 13.6% from approximately HK$664.8 million in FY2017 to approximately HK$574.7 million in the year under review.

The Group reported that the sales of new prepaid beauty packages of the Group amounted to HK$563.1 million, representing an increase of 0.8% compared with HK$558.7 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									
	2018					2017				
Movement of deferred revenue	**Hong Kong**	**Mainland**	**Taiwan**	**Singapore and Malaysia**	**Total**	Hong Kong	Mainland	Taiwan	Singapore and Malaysia	Total
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At beginning of the year	**392,345**	**9,021**	**2,311**	**35,690**	**439,367**	476,526	10,585	2,123	57,990	547,224
Exchange differences	**—**	**(41)**	**(35)**	**1,096**	**1,020**	—	(222)	(141)	(1,333)	(1,697)
Gross receipts from sales of prepaid beauty packages	**482,400**	**19,883**	**3,160**	**57,626**	**563,069**	486,738	19,262	6,293	46,377	558,670
Revenue recognized for provision of beauty and wellness services and expiry of prepaid beauty package	**(504,048)**	**(18,548)**	**(4,604)**	**(47,537)**	**(574,737)**	(570,919)	(20,603)	(5,964)	(67,344)	(664,830)
At the end of the year	**370,697**	**10,315**	**832**	**46,875**	**428,719**	392,345	9,021	2,311	35,690	439,367

Employee benefit expenses

Employee benefit expenses (including staff's salaries and bonuses as well as directors' remunerations) represented the largest component of the Group's operating costs. During the year under review, employee benefit expenses increased by about 2.1% from HK$335.4 million in FY2017 to approximately HK$342.2 million. Employee benefit expenses accounted for 57.1% of our revenue in FY2018, as compared to 48.4% for FY2017. The total headcount of the Group as at 31 March 2018 increased by 0.1% to 1,350, as compared to a headcount of 1,348 for the same period last year. The stable amount 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 is 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 2018, the Group operated a total of 37 service centres in Mainland China, Hong Kong and Taiwan with a total weighted average gross floor area of approximately 248,000 square feet, representing a decrease of 2.0% as compared to 253,000 square feet in FY2017. The number of product sales points of the Group was 62 during the year under review (FY2017: 60). As of 31 March 2018, the Group had 11 and 1 beauty service centres in Singapore and Malaysia respectively, with a total weighted average gross floor area of approximately 22,000 square feet and approximately 2,000 square feet respectively (FY2017: approximately 20,000 square feet and approximately 2,000 square feet respectively). The Group's occupancy costs in FY2018 were approximately HK$135.3 million (FY2017: HK$142.4 million), accounting for approximately 22.6% of our revenue (FY2017: 20.5%).

Depreciation and amortisation

Depreciation and amortisation for the year under review decreased by 58.7% to HK$14.6 million as compared with HK$35.5 million for FY2017. 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 1.8% to HK$26.8 million. Advertising costs decreased to HK$4.2 million from HK$4.7 million for the same period last year. Advertising cost as a percentage of revenue in FY2018 was 0.7% which remained the same as that of FY2017. The decrease of HK$0.5 million 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.

Net loss

The net loss attributable to equity shareholders of the Company was approximately HK$22.9 million in FY2018, as compared to the net profit attributable to equity shareholders of the Company of HK$33.3 million 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.

Dividend per share

The Board did not recommend any final dividend to the shareholders of the Company for the year under review (FY2017: HK1.25 cents per share). As no interim dividend had been approved by the Board for the six months ended 30 September 2017, the total dividend for the year under end 31 March 2018 will be nil (FY2017: 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$181.7 million (FY2017: HK$244.6 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$21.3 million, as compared to HK$5.8 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 were no material contingent liabilities as at 31 March 2018. The Group had capital commitment of HK$1.4 million as at 31 March 2018 (31 March 2017: HK$1.1 million), mainly for the acquisition of plant and equipment.

Charges on assets

As of 31 March 2018, the Group had pledged bank deposits of HK$54.5 million (31 March 2017: HK$54.2 million) in favour of certain banks to secure banking facilities granted to certain subsidiaries in the Group.

Foreign exchange risk exposures

The Group's transactions were mainly denominated in Hong Kong Dollars. However, the exchange rates of Hong Kong Dollars against Renminbi, Singapore Dollars, Ringgit Malaysia and Australian Dollar also affected the operating costs as the Group expanded its business to Mainland China and Southeast Asian regions and Australia. The management will closely monitor the risk exposures faced by the Group, and will take necessary actions to minimise potential risks and strike a balance between our exposure and return so as to properly hedge such exposures.

Human resources and training

The Group had a workforce of 1,350 staff as of 31 March 2018 (31 March 2017: 1,348 staff), including 1,016 front-line service centre staff in Hong Kong, 65 in Mainland China and 108 in Singapore, Malaysia and Taiwan. Back office staff totaled 82 in Hong Kong, 51 in Mainland China, 25 in Singapore, Malaysia and Taiwan and 3 in Australia. 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.

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$342.2 million, representing a 2.1% increase as compared to HK$335.4 million in FY2017. 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

Although Hong Kong GDP growth in the first quarter of 2018 was notably strong, recent developments show that the growth may well have peaked. The recent trade tensions leading to trade wars between the United States and China have been a source of economic instability for Hong Kong. Furthermore, the United States ongoing monetary tightening, which has shown signs of being scaled up in recent months, is poised to provide some headwinds to the expansion going forward.

In spite of these uncertainties, the Group will continue to leverage on its excellent brand visibility and solid customer base in Hong Kong, Mainland China and Southeast Asia to brave the headwind afflicting the industry.

We continue to expand our business internationally through our Australian subsidiary which manufactures and distributes "Advanced Natural" beauty and skincare products 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 return will be brought to the shareholders from this subsidiary.

The Group had started to launch beauty training course which is accredited by Hong Kong Council for Accreditation of Academic and Vocational Qualifications in FY2018. Together with the provision of our long existing training programs which are internationally recognised by CIDESCO, ITEC and CIBTAC, we aim to give a valued choice of flexible progression pathway for school leavers and adult learners to acquire the generic competence, practical skills and professional knowledge of beauty industry. This, at the same time, widens our business horizon in beauty industry which will be benefited at the end.

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

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

CLOSURE OF REGISTER OF MEMBERS

The Annual General Meeting ("AGM") is scheduled to be held on Wednesday, 29 August 2018. For determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Friday, 24 August 2018 to Wednesday, 29 August 2018, 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 Thursday, 23 August 2018.

CORPORATE GOVERNANCE PRACTICE

The Company is committed to principles of good corporate governance consistent with prudent management and enhancement of shareholder value, which emphasise transparency, accountability and independence.

The Company has adopted the code provisions ("Code Provisions") set out in the Corporate Governance Code (taking effect from 1 April 2012) (the "Code") as set out in Appendix 14 to the Rules Governing The Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

During the year under review, the Company met the Code Provisions in the Code, except for the deviation from Code provision A.2.1 and Code provision E.1.2 as set out below.

CHAIRPERSON AND CHIEF EXECUTIVE OFFICER ("CEO")

During the year under review, Dr. Tsang Yue, Joyce ("Dr. Tsang") was both the Chairperson and CEO of the Company. Code provision A.2.1 of the Code stipulates that the role of chairperson and chief executive should be separate and should not be performed by the same individual. After reviewing the management structure, the Board is of the opinion that Board decisions are collective decisions of all Directors made by way of voting and not decisions of the Chairperson of the Board alone. Further, there is a clear division of responsibilities between the management of the Board and the day-to-day management of the business of the Company, which relies on the support of the senior management. As such, the power of management of the Company is not concentrated in any one individual. The Board considers that the present structure will not impair the balance of power and authority between the Board and the senior management of the Group.

CODE PROVISION 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 25 August 2017 due to personal reason.

SCOPE OF WORK OF KPMG

The financial figures in respect of the preliminary announcement of the Group's results for the year ended 31 March 2018 have been compared by the Company's auditors, KPMG, Certified Public Accountants, to the amounts set out in the Group's draft consolidated financial statements for the year ended 31 March 2018 and the amounts were found to be in agreement. The work performed by KPMG in this respect did not constitute an audit, review or other assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagement or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by the auditor.

AUDIT COMMITTEE

The composition of the Audit Committee is as follows:

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

The Audit Committee has reviewed and approved the Group's annual results for the year ended 31 March 2018 prior to their approval by the Board.

PUBLICATION OF THE FINAL RESULTS AND ANNUAL REPORT

This results announcement is published on the website of the Hong Kong Exchanges and Clearing Limited at www.hkex.com.hk under "Latest Listed Company Information" and on the website of the Company at www.modernbeautysalon.com under "Investor Relations — Statutory Announcements". The Annual Report and the Notice of Annual General Meeting will be despatched to the shareholders on or about 25 July 2018 and will be available at the Stock Exchange's and the Company's websites at the same time.

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

Hong Kong, 27 June 2018

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