



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

MODERN BEAUTY

2017/18 ANNUAL REPORT 年報
Stock Code 股份代號 : 919



*Uncompromising
Beauty*



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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 high-end 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 customise specific treatments according to the needs of our VIP customers. Our senior management closely monitors the latest trends of beauty industry and acquires state-of-the-art beauty machines in order to maintain a pipeline of new treatments.

Slimming

Slim Express offers a series of weight management programs that deliver stunning results. These programs are specially designed to kick-start the metabolism and bring awareness to healthier food choices. Together with our practical solutions offered by advanced equipments and machines, customers will rediscover esteem that brings balance into their lives.

Spa and Massage

Our spa and massage treatments provide a form of escapism and offer an immersive opportunity for our customers to experience pampering styles and grooming techniques inspired by the luxurious living in the 21st century. "be sanctuary spa" provides resplendent bathroom furnishings and a hydrotherapeutic pool decorated with fresh flowers and carved statues, which fill the room with an aura of nature. Yue Spa is the first spa centre adopting the Five Elements – the traditional Chinese philosophy as its theme. It provides spa treatment sets named according to Destiny, Soil, Metal, Wood, Water, Fire and Earth that effectively reduce stress and improve the skin conditions. Moment of Serenity is a foot treatment centre that offers foot spa, foot treatment and foot massage services.

Aesthetics Services

As the world of advanced skin care and anti-ageing services develops and matures, aesthetics services emerge. Present day cosmetic laser technicians can use a specific form of energy to tighten skin, stimulate the production of collagen to eliminate wrinkles and fine line, remove tattoos or unwanted hair, or a myriad of other highly sought after services. Aesthetics services include skincare treatments, professional consultation and referral service on plastic reconstruction, which is most specialised 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", "FERRECARÉ" "p.e.n", "Y.U.E". "Advanced Natural", "Bioline", "Malu Wilz", "BeYu", "Fanola", "Byothea", "Mila d'Opiz". The Group launched distributor brands "Bioline", "Malu Wilz", "Fanola", "Byothea", "Mila d'Opiz", "BeYu" as well as further promoted our self-owned brands "p.e.n", "be", "FERRECARÉ", "Y. U. E.", "Advanced Natural" with the aim of expanding our product sales business and potential clientele through providing diversified high quality skincare products. All products are built on cleanliness and nature, and utilise natural ingredients to enhance the quality of inner and outer skin, and optimise 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 2018, we had 29, 6, 11, 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 12 and 1 outlets respectively as at 31 March 2018.

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

Milestones and Key Events

2017

May

- Modern Beauty Salon was awarded Loving Family Awards 2017 – Loving Beauty Service by Peegaboo Group



October

- The opening of a new Modern Beauty Salon in Provident Square in North Point



June

- Awarded "My Favorite Brand Awards – Beauty Care" by HK Beauty & Fitness Expo 2017



November

- Awarded the Green Office and Healthy Eco-Healthy Workplace Award and Certificate of Recognition by World Green Organization
- The opening of the Group's new "be Beauty Shop" in Amoy Plaza in Kowloon Bay



August

- The opening of the Group's new "be Beauty Shop" in Prince Edward



December

- The opening of a new Modern Beauty Salon in Chartered Bank Building in Aberdeen



Milestones and Key Events

2018

December

- The Chairperson of the Group, Dr. Tsang Yue, Joyce was awarded the Beauty Entrepreneur Award by Beauty Pro



- YUE Hydrating and Rejuvenating Mask was awarded the "Professional Moisturizing Product Award" in the 2017 Sisters BeautyPro Awards



- Ferrecare C.B. Formula Revitalizing Firming Eye Gel was awarded the "Professional Eye Care Product Award" in the 2017 Sisters BeautyPro Awards



- The Beauty Expert International Academy was awarded the "Beauty Talent Discovery Award" by Sisters BeautyPro



March

- Awarded the "Caring Company Award" by The Hong Kong Council of Social Services for the 7th consecutive year



April

- The opening of a new Modern Beauty Salon in On Lok Yuen Building, Central



Management Discussion and Analysis

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%	
Gearing ratio	N/A	N/A	

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 future 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:



Management Discussion and Analysis

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.

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 FY2018 (with comparative figures for FY2017):

	For the year ended 31 March		2017		Change
	2018	Percentage of revenue	2017	Percentage of revenue	
Sales mix	HK\$'000	Percentage of revenue	HK\$'000	Percentage of revenue	
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:

Movement of deferred revenue	For the year ended 31 March					2017				
	2018		Singapore and			2017		Singapore and		
	Hong Kong	Mainland	Taiwan	Malaysia	Total	Hong Kong	Mainland	Taiwan	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	—	(223)	(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 recognised 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

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 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%).



Management Discussion and Analysis

Depreciation

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.

Bank charges and other operating expenses

Other operating expenses include 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 maximising 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 ended 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



Management Discussion and Analysis

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 Dollars 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.



Management Discussion and Analysis



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.

Management Discussion and Analysis

Environmental Policies and Performance

The Group understands that its business has an impact on the environment and recognises 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 recognises 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 2018.

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 of 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.

Management Discussion and Analysis

Principal 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, Malaysian Ringgit and Australian Dollars, 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 2018 Annual General Meeting	23 August 2018
Closure of Register of Members for 2018 Annual General Meeting	24 August 2018 to 29 August 2018, both dates inclusive
2018 Annual General Meeting	29 August 2018

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 2018:	904,483,942 shares
Board lot:	4,000 shares
Nominal value:	HK\$0.10 per share
Market Capitalization as at 31 March 2018:	HK\$235 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 57, 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 capitalise 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". Dr. Tsang was appointed as the Honorary President of the fifteenth executive committee of Tuen Mun District Women's Association Limited for the year 2012 to 2015. 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 Organising 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 awarded the Beauty Entrepreneur Award by Beauty Pro. 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 44, 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 fifteen 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 44, 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 56, 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. On 2 August 2017, Ms. Liu was appointed an independent director and a member of the audit committee of Ellipsiz Communications Ltd ("ECL"), a company listed on TSX Venture Exchange. On 30 November 2017, Ms. Liu was appointed as the new Audit Committee Chairlady of ECL. 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 52, 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. Wong is also an independent non-executive director of Tak Lee Machinery Holdings Limited

(stock code: 8142) and Zhejiang United Investment Holdings Group Limited (stock code: 8366), both companies listed on the GEM of the Stock Exchange.

Mr. Hong Po Kui, Martin

Aged 68, 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 39 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 GEM of the Stock Exchange.

Mr. Lam Tak Leung

Aged 65, 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 43, 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 51, 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 46, 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 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.

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 considers 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 18 to 20 of this annual 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 thirteen board meetings.

Corporate Governance Report

Directors' Attendance at Board/Board Committee/General Meetings

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

	Board Meetings	Audit Committee Meetings	Remuneration Committee Meetings	2017 Annual General Meeting
<i>Executive Director</i>				
Ms. Tsang Yue, Joyce ¹	4/13	N/A	0/1	0/1
Mr. Yip Kai Wing	9/13	N/A	N/A	1/1
Ms. Yeung See Man	13/13	N/A	N/A	1/1
<i>Independent Non-Executive Director</i>				
Ms. Liu Mei Ling, Rhoda ²	12/13	4/4	1/1	1/1
Mr. Wong Man Hin, Raymond ³	12/13	4/4	1/1	1/1
Mr. Hong Po Kui, Martin	11/13	4/4	1/1	1/1
Mr. Lam Tak Leung	6/13	N/A	N/A	1/1

Notes:

1. Chairperson of the Board and Chairperson of the Nomination Committee of the Company.
2. Chairperson of the Audit Committee of the Company.
3. Chairperson of the Remuneration Committee of the Company.

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 summarised 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;

Corporate Governance Report

- (c) reviewed and monitored the policies and practices on compliance with legal and regulatory requirements;
- (d) developed, reviewed and monitored the code of conduct and compliance manual (if any) applicable to employees and directors; and
- (e) reviewed the Company's compliance with the Code and disclosure in the Corporate Governance Report.

Delegation to Management

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

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 organised 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 course
Ms. Liu Mei Ling, Rhoda	Participation in training courses
Mr. Wong Man Hin, Raymond	Participation in training courses
Mr. Hong Po Kui, Martin	Participation in training courses
Mr. Lam Tak Leung	Reading materials

Chairperson and Chief Executive Officer ("CEO")

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

Code Provision E.1.2

Code Provision E.1.2 provides that the chairman of the board should attend the 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.

Corporate Governance Report

Independence of Independent Non-executive Directors (“INEDs”)

Ms. Liu Mei Ling, Rhoda, Mr. Wong Man Hin, Raymond and Mr. Hong Po Kui, Martin, INEDs, had each entered into a letter of appointment dated 27 August 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.

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 one time. 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 summarised as follows:

- a. reviewed remuneration policy, organisational 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 emphasise 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 four times. Details of the attendance of the members of the Audit Committee in the said meeting(s) are set out under the sub-heading "Directors' Attendance at Board/Board Committee/General Meetings" above.

The work performed by the Audit Committee during the year under review is summarised as follows:

- a. approved the remuneration and terms of engagement of KPMG as the external auditor of the Company;
- b. reviewed the external auditor's independence and objectivity and the effectiveness of audit process in accordance with applicable standards;
- c. reviewed the audit planning for the annual results circulated to them;
- d. approved issue of profit warning announcements;
- e. reviewed the interim and annual financial statements before submission to the Board; and
- f. reviewed the audit programme of the internal audit department and risk management and internal control systems.

The Audit Committee had reviewed and approved the Group's annual results for the year under review prior to their approval by the Board.

Corporate Governance Report

Auditors' Remuneration

During the year under review, the remuneration paid/payable to the Company's external auditor, KPMG and its network firms, for providing the audit and other services were as follows:

	Fee paid/payable HK\$'000
Audit services	2,780
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 8 and 9 to the financial statements, respectively.

Directors' Responsibilities for preparing accounts and Auditor's Responsibilities

The Directors acknowledged their responsibility for preparing the accounts of the Company for the year under review and the auditor's reporting responsibilities is set out on page 41 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 recognised 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 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).

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 2018 ("FY2018").

Principal Activities

The principal activity of the Company is investment holding and the principal activities of the Group continued throughout FY2018 were provision of beauty and wellness services and sales of skincare and wellness products. Details of the Company's principal subsidiaries as at 31 March 2018 are set out in note 15 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 8 to page 16 of this annual report, which constitutes part of this report of the directors.

Results and Appropriations

The results of the Group for FY2018 are set out in the consolidated statement of profit or loss on page 43.

The revenue and results of the Group are principally derived from the provision of beauty and wellness services in Hong Kong, Mainland China, Taiwan, Singapore and Malaysia. The Group's revenue and results by reportable segment are set out in note 3 to the financial statements. A detailed review of the development of the

business of the Group during the year under review, and likely future prospects, is set out in the section headed "Management Discussion and Analysis" of this annual report.

Declaration of Dividend

No interim dividend had been paid to shareholders of the Company ("Shareholders") during the year under review (FY2017: an interim dividend of HK1 cent per Share totaling HK\$8,740,000).

No final dividend had been approved by the board during the year under review (FY2017: a final dividend of HK1.25 cents per Share, totaling HK\$11,306,000).

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 24 August 2018 to 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 23 August 2018.

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 47 and note 23 to the financial statements respectively.

Distributable Reserves

As at 31 March 2018, the Company's reserve available for distribution amounted to approximately HK\$442.7 million. Movements in reserves of the Company during the year under review and the distributable reserves of the Company as at 31 March 2018 are set out in note 23 to the financial statements.

Report of the Directors

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 106, 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 6% (FY2017: 7%) of the Group's total purchase for the year under review and the five largest suppliers taken together accounted for approximately 18% (FY2017: 23%) of the Group's total purchase for the year under review.

The five largest customers of the Group in aggregate accounted for less than 5% of the total sales.

None of the Directors, their associates, or any Shareholders (which to the knowledge of the Directors own more than 5% of the Company's issued share capital) had any interest in any of the Group's five largest suppliers and customers during the year under review.

Share Capital

Details of movements in the share capital of the Company during the year under review are set out in note 23 to the financial statements.

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 and non-profit making organisations.

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, Mr. Wong Man Hin, Raymond, Mr. Hong Po Kui, Martin and Ms. Liu Mei Ling, Rhoda 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.

Report of the Directors

Directors' Interests in Transaction, Arrangement or Contract

Save as disclosed in the sections headed "Connected Transactions" and "Continuing Connected Transactions" below and in note 28 to the financial statements and those exempted from the reporting, annual review, announcement and independent shareholders' approval requirements under the Listing Rules, no transaction, arrangement or contract of significance to the business of the Group to which the Company, its subsidiaries, its holding companies or any subsidiaries of its holding companies was a party and in which a Director 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.

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

As at 31 March 2018, 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	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:

- The percentage has been compiled based on the total number of Shares of the Company in issue as at 31 March 2018 (i.e. 904,483,942 Shares).
- 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.

Report of the Directors

Save as disclosed above, as at 31 March 2018, 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.

Directors' Rights to Acquire Shares or Debentures

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 2018, 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	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 2018 (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 2018.

Connected Transactions

The related party transactions or continuing related party transactions (as the case may be) ("the Note 28 Transactions") included in note 28 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 Note 28 Transactions.

Continuing Connected Transactions

Certain transactions entered into by the Group constituted continuing connected transactions under the Listing Rules during the year under review, in respect of which the Company confirms that it has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules. Details of these transactions required to be disclosed are set out below:

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

Report of the Directors

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 directly.

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").

Under the Company's internal policy, the independent non-executive Directors will review the proposed 2017-2020 Leasing Arrangements in respect of any additional new premises in light of the then prevailing market rent of such new premises and other terms of the leases to ensure that the proposed 2017-2020 Leasing Arrangements are (i) entered into in the ordinary and usual course of business of the Company; (ii) on normal commercial terms and on terms that are no less favourable than those offered by the Owners to other independent third parties; and (iii) in accordance with the provisions of the 2017 Master Lease Agreement. The interested parties, i.e. Dr. Tsang Yue, Joyce and her associates, will not be involved in such reviewing process.

Report of the Directors

Pursuant to the 2017 Master Lease Agreement, the Group (as tenant) and the Owners (as landlord) has entered into the following tenancy agreements:

- (i) tenancy agreement dated 12 April 2017 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\$501,500 exclusive of rates, Government rent, management fee and other outgoings (including but not limited to water, gas and electricity charges) for a term of 36 months from 1 April 2017;
- (ii) tenancy agreement dated 12 April 2017 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\$62,050 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 2017;
- (iii) tenancy agreement dated 12 April 2017 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\$144,500 exclusive of rates, Government rent, management fee and other outgoings (including but not limited to water, gas and electricity charges) for a term of 36 months from 1 April 2017;
- (iv) tenancy agreement dated 12 April 2017 in respect of Shop 1 on Ground Floor and 1st Floor (with flat roof adjacent thereto) including the staircases and landings treatment on and leading from the Ground Floor to the First Floor and Covered Air-Conditioned Plant Shelter on 2nd Floor, Len Fat Mansion, Nos. 56–60, 64–86 Kin Yip Street, Yuen Long, New Territories, Hong Kong at the monthly rent of HK\$161,500 exclusive of rates, Government rent, management fee and other outgoings (including but not limited to water, gas and electricity charges) for a term of 36 months from 1 April 2017;
- (v) tenancy agreement dated 12 April 2017 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\$620,500 exclusive of rates, Government rent, management fee and other outgoings (including but not limited to water, gas and electricity charges) for a term of 36 months from 1 April 2017;
- (vi) tenancy agreement dated 12 April 2017 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\$161,500 exclusive of rates, Government rent, management fee and other outgoings (including but not limited to water, gas and electricity charges) for a term of 36 months from 1 April 2017;
- (vii) tenancy agreement dated 12 April 2017 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\$722,500 exclusive of rates, Government rent, management fee and other outgoings (including but not limited to water, gas and electricity charges) for a term of 36 months from 1 April 2017;

Report of the Directors

- (viii) tenancy agreement dated 12 April 2017 in respect of 1/F (including its Flat Roof and Stair-Entrance on Ground Floor), King Kwong Mansion, No. 8 King Kwong Street, Happy Valley, Hong Kong at the monthly rent of HK\$65,450 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 2017;
- (ix) tenancy agreement dated 12 April 2017 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\$637,500 exclusive of rates, Government rent, management fee and other outgoings (including but not limited to water, gas and electricity charges) for a term of 36 months from 1 April 2017; this tenancy agreement was early terminated on 12 June 2018;
- (x) tenancy agreement dated 12 April 2017 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\$514,802 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 2017;
- (xi) tenancy agreement dated 12 April 2017 in respect of Shop No. 5 on Ground Floor, Paradise Square, 3 Kwong Wa Street, Kowloon, Hong Kong at the monthly rent of HK\$12,198 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 2017;
- (xii) tenancy agreement dated 12 April 2017 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\$527,000 exclusive of rates, Government rent, management fee and other outgoings (including but not limited to water, gas and electricity charges) for a term of 6 months from 1 April 2017. This tenancy expired on 30 September 2017;
- (xiii) tenancy agreement dated 12 April 2017 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\$323,000 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 2017;
- (xiv) tenancy agreement dated 12 April 2017 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 36 months from 1 April 2017;
- (xv) tenancy agreement dated 12 April 2017 in respect of 3/F, Causeway Bay Commercial Building, No. 3 Sugar Street, Causeway 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 36 months from 1 April 2017; and
- (xvi) tenancy agreement dated 12 April 2017 in respect of Units C1, C2, D1, D2, E1 & E2, 16/F., TG Place, No. 10 Shing Yip Street, Kowloon at the monthly rent of HK\$136,000 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 2017,
- (collectively, the transactions in this sub-paragraph are referred to as "2017–2020 Continuing Connected Transactions").

Report of the Directors

The Independent Non-executive Directors have reviewed the 2017–2020 Continuing Connected Transactions and confirmed that the transactions have been entered into:

- (i) in the ordinary and usual course of business of the Group;
- (ii) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and
- (iii) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

Pursuant to the Listing Rules, the Company has engaged the auditor of the Company to report on the 2017–2020 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 2017–2020 Continuing Connected Transactions:

- a. nothing has come to their attention that causes them to believe that the 2017–2020 Continuing Connected Transactions (“the transactions”) have not been approved by the Company’s board of directors.
- b. for transactions involving the provision of goods or services by the Group, nothing has come to their attention that causes them to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Group.
- c. nothing has come to their attention that causes them to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions.

- d. with respect to the aggregate amount of the 2017–2020 Continuing Connected Transactions, nothing has come to their attention that causes them to believe that the 2017–2020 Continuing Connected Transactions have exceeded the maximum aggregate annual value disclosed in the previous announcement dated 23 February 2017 made by the Company in respect of the Continuing Connected Transactions.

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

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.

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 2018 prior to their approval by the Board. Information on the work of the Audit Committee and its composition are set out in the Corporate Governance Report on page 25 of this annual report.

Corporate Governance

The Company's corporate governance practices are set out in Corporate Governance Report on page 22 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 FY2018 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.

By order of the Board

Dr. Tsang Yue, Joyce

Chairperson and Chief Executive Officer

Hong Kong, 27 June 2018

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 43 to 104, which comprise the consolidated statement of financial position as at 31 March 2018, 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 2018 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 ("HKSAAs") 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.

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 4 and 22 to the consolidated financial statements and the accounting policies on page 60.

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 2018.

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 4 and 22 to the consolidated financial statements and the accounting policies on page 60.

The Key Audit Matter

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.

How the matter was addressed in our audit

- 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.

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.

Independent Auditor's Report

- 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.

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.

KPMG

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

27 June 2018

Consolidated Statement of Profit or Loss

For the year ended 31 March 2018

	Note	2018 HK\$'000	2017 HK\$'000
Revenue	4	599,018	693,284
Other income	5	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	6(b)	(342,245)	(335,364)
Depreciation and amortisation	11&14	(14,647)	(35,473)
Occupancy costs		(135,292)	(142,448)
Other operating expenses		(66,774)	(69,426)
(Loss)/profit from operations		(23,765)	45,400
Interest income		621	723
Finance costs	6(a)	–	(3,856)
Fair value change on investment properties	12	1,030	170
Fair value change on purchase consideration	25(d)(ii)	1,148	1,245
Impairment loss on goodwill	13	(2,038)	–
Impairment loss on property, plant and equipment	11	(2,180)	–
Share of loss of a joint venture		–	(41)
(Loss)/profit before taxation	6	(25,184)	43,641
Income tax credit/(expense)	7(a)	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)	10		
Basic		(2.53)	3.78
Diluted		(2.53)	3.78

The notes on pages 49 to 104 form part of these financial statements. Details of dividends payable to equity shareholders of the Company are set out in note 23(b).

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):			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
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

The notes on pages 49 to 104 form part of these financial statements.

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	11	68,760	63,424
Investment properties	12	13,900	12,870
Intangible assets	14	2,147	2,342
Goodwill	13	1,070	3,108
Deposits and prepayments	16	22,798	14,864
Deferred tax assets	17(a)	20,609	14,864
		129,284	111,472
Current assets			
Inventories	18	26,097	29,344
Trade and other receivables, deposits and prepayments	16	210,308	205,147
Tax recoverable		3,517	5,572
Pledged bank deposits	19	54,471	54,235
Bank deposits with original maturity over three months		5,556	5,234
Cash and bank balances	20	181,683	244,605
		481,632	544,137
Current liabilities			
Trade and other payables, deposits received and accrued expenses	21	92,595	87,265
Deferred revenue	22	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

Consolidated Statement of Financial Position

As at 31 March 2018

	Note	31 March 2018 HK\$'000	31 March 2017 HK\$'000
Non-current liabilities			
Deferred tax liabilities	17(a)	457	822
Purchase consideration payable for acquisitions	25(d)	–	1,148
		457	1,970
NET ASSETS		88,428	125,440
CAPITAL AND RESERVES			
Share capital	23(c)	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

Approved and authorised for issue by the Board of Directors on 27 June 2018.

Ms. Yeung See Man
Director

Mr. Yip Kai Wing
Director

The notes on pages 49 to 104 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 March 2018

Note	Attributable to equity shareholders of the Company											Total equity HK\$'000
	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	
Balance at 1 April 2016	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	3,048	28,964	-	-	-	-	-	-	-	32,012	-	32,012
Lapse of warrants	-	-	-	(170)	-	-	-	-	170	-	-	-
Lapse of share options	24(a)	-	(4,734)	-	-	-	-	-	4,734	-	-	-
Increase in the Group's interests in a subsidiary	-	-	-	-	-	-	-	-	-	-	1,507	1,507
2016 final dividends paid	23(b)(ii)	-	-	-	-	-	-	-	(5,244)	(5,244)	-	(5,244)
2017 interim dividends paid	23(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 and 1 April 2017	90,448	318,791	-	-	(373,253)	(107)	-	3,552	83,384	122,815	2,625	125,440
Changes in equity for 2018:												
Loss for the year	-	-	-	-	-	-	-	-	(22,855)	(22,855)	10	(22,845)
Other comprehensive income												
- Exchange differences on translation of subsidiaries	-	-	-	-	-	(2,861)	-	-	-	(2,861)	-	(2,861)
Total comprehensive income	-	-	-	-	-	(2,861)	-	-	(22,855)	(25,716)	10	(25,706)
2017 final dividends paid	23(b)(ii)	-	-	-	-	-	-	-	(11,306)	(11,306)	-	(11,306)
Balance at 31 March 2018	90,448	318,791	-	-	(373,253)	(2,968)	-	3,552	49,223	85,793	2,635	88,428

The notes on pages 49 to 104 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 March 2018

	Note	2018 HK\$'000	2017 HK\$'000
Operating activities			
(Loss)/profit before taxation		(25,184)	43,641
Adjustments for:			
Depreciation and amortisation	11&14	14,647	35,473
Interest income		(621)	(723)
Finance costs	6(a)	–	3,856
Net gain on disposals of property, plant and equipment	5	(115)	(161)
Fair value change on investment properties	12	(1,030)	(170)
Fair value change on purchase consideration	25(d)(ii)	(1,148)	(1,245)
Impairment loss on goodwill	13	2,038	–
Impairment loss on property, plant and equipment	11	2,180	–
Loss on deemed disposal of previously owned equity interest of a joint venture	6(c)	–	1,802
Loss on disposal of an associate	6(c)	–	80
Share of loss of a joint venture		–	41
Operating (loss)/profit before changes in working capital		(9,233)	82,594
Decrease/(increase) in inventories		3,623	(7,524)
(Increase)/decrease in trade and other receivables, deposits and prepayments		(11,454)	7,232
Increase/(decrease) in trade and other payables, deposits received and accrued expenses		4,389	(2,045)
Decrease in deferred revenue		(11,669)	(106,450)
Cash used in operations		(24,344)	(26,193)
Interest received		621	723
Tax paid		(2,293)	(11,082)
Net cash used in operating activities		(26,016)	(36,552)
Investing activities			
Increase in bank deposits with original maturity over three months		(322)	(5,234)
Purchase of property, plant and equipment		(21,344)	(1,290)
Proceeds from disposals of property, plant and equipment		121	240
Increase in pledged bank deposits		(236)	(378)
Net cash used in investing activities		(21,781)	(6,662)
Financing activities			
Dividends paid to equity shareholders of the Company		(11,306)	(13,984)
Interest paid on convertible note		–	(1,840)
Redemption of convertible note		–	(59,988)
Net cash used in financing activities		(11,306)	(75,812)
Net decrease in cash and cash equivalents		(59,103)	(119,026)
Effect of foreign exchange rates changes		(3,819)	(3,021)
Cash and cash equivalents at beginning of year		244,605	366,652
Cash and cash equivalents at end of year	20	181,683	244,605

The notes on pages 49 to 104 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.

(b) Basis of preparation of the 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 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(f)); and
- purchase consideration payable for acquisitions (see note 2(r)).

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.

Notes to the Financial Statements

2 Significant accounting policies (Continued)

(b) Basis of preparation of the financial statements (Continued)

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

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 30.

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.

(c) 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 (see note 31).

(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.

Notes to the Financial Statements

2 Significant accounting policies (Continued)

(d) Subsidiaries and non-controlling interests (Continued)

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 note 2(m) depending on the nature of the liability.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or a joint venture.

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

(e) 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(j)).

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.

Notes to the Financial Statements

2 Significant accounting policies (Continued)

(f) Investment properties

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

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

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

(g) Property, plant and equipment

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

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.

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(j)). Intangible assets, if acquired in a business combination, are measured at fair value at acquisition date.

Notes to the Financial Statements

2 Significant accounting policies (Continued)

(g) Property, plant and equipment (Continued)

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.

(i) 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.

(j) Impairment of assets

(i) **Impairment of trade and other receivables**

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;

Notes to the Financial Statements

2 Significant accounting policies (Continued)

(j) Impairment of assets (Continued)

(i) Impairment of trade and other receivables (Continued)

- 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.

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

- 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.

(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;

Notes to the Financial Statements

2 Significant accounting policies (Continued)

(j) Impairment of assets (Continued)

(ii) Impairment of other assets (Continued)

- goodwill; and
- investments in a subsidiary 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.

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

Notes to the Financial Statements

2 Significant accounting policies (Continued)

(k) 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.

(l) 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(j)), 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.

(m) Trade and other payables

Trade and other payables are initially recognised at fair value and are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(n) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(o) Employee benefits

(i) **Short term employee benefits and contributions to defined contribution retirement plans**

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans, 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.

(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.

Notes to the Financial Statements

2 Significant accounting policies (Continued)

(o) Employee benefits (Continued)

(ii) **Defined contribution retirement plans (Continued)**

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.

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).

Notes to the Financial Statements

2 Significant accounting policies (Continued)

(o) Employee benefits (Continued)

(iv) Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

(p) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

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.

Notes to the Financial Statements

2 Significant accounting policies (Continued)

(p) Income tax (Continued)

Where investment properties are carried at their fair value in accordance with the accounting policy set out in note 2(f), the amount of deferred tax recognised is measured using the tax rates that would apply on sales of those assets at their carrying value at the reporting date unless the property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, the amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(q) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Notes to the Financial Statements

2 Significant accounting policies (Continued)

(r) Purchase consideration

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

(s) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) **Sale of skincare and wellness products**

Revenue is recognised when goods are delivered to the customers which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) **Provision of beauty and wellness services**

Revenue is recognised when 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)

(t) Translation of foreign currencies

Foreign currency transactions during the year are translated into Hong Kong dollars at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated into Hong Kong dollars using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated into Hong Kong dollars using the foreign exchange rates ruling at the dates the fair value was measured.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items, 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.

(u) Related parties

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

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or the Group's parent.

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

- (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
- (vi) The entity is controlled or jointly controlled by a person identified in (a).

Notes to the Financial Statements

2 Significant accounting policies (Continued)

(u) Related parties (Continued)

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

- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
- (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(v) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3 Segment information

The Group has two reportable segments as follows:

- | | | |
|--------------------------------|---|---|
| Beauty and wellness services | – | Provision of beauty and wellness services |
| Skincare and wellness products | – | Sales of skincare and wellness products |

The Group's reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology and marketing strategies. Segment profits do not include other income, interest income, finance costs, fair value changes on investment properties and purchase consideration, impairment loss on a joint venture, 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.

Notes to the Financial Statements

3 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 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

Notes to the Financial Statements

3 Segment information (Continued)

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

	2018 HK\$'000	2017 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

Notes to the Financial Statements

3 Segment information (Continued)

(c) Geographic information

The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's property, plant and equipment ("specified non-current assets"). The geographical location of customers is based on the location at which the services were provided or the goods delivered. The geographical location of the specified non-current asset is based on the physical location of the asset, in the case of property, plant and equipment. Specified non-current assets do not include investment properties, 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 HK\$'000	2017 HK\$'000	2018 HK\$'000	2017 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

4 Revenue

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

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

	2018 HK\$'000	2017 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

Notes to the Financial Statements

5 Other income

	2018 HK\$'000	2017 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

6 (Loss)/profit before taxation

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

(a) Finance costs

	2018 HK\$'000	2017 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 HK\$'000	2017 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

Notes to the Financial Statements

6 (Loss)/profit before taxation (Continued)

(c) Other items

	2018 HK\$'000	2017 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 (note 13)	–	1,802

7 Income tax in the consolidated statement of profit or loss

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

	2018 HK\$'000	2017 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 (note 17(a))	(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.

Notes to the Financial Statements

7 Income tax in the consolidated statement of profit or loss (Continued)

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

	2018 HK\$'000	2017 HK\$'000
(Loss)/profit before taxation	(25,184)	43,641
Notional tax on (loss)/profit before taxation, calculated at 16.5% (2017: 16.5%)	(4,155)	7,201
Effect of different tax rates of subsidiaries	(340)	(394)
Tax effect of tax exemption	(360)	(481)
Tax effect of non-taxable income	(571)	(671)
Tax effect of non-deductible expenses	729	1,934
Tax effect of utilisation of tax losses previously not recognised	(22)	(335)
Tax effect of tax losses not recognised	1,715	1,920
Tax effect of temporary differences not recognised	(461)	585
Tax effect of temporary differences and tax losses previously recognised and now reversed	1,276	–
(Over)/under-provision in respect of prior years	(97)	7
Others	(53)	–
Actual tax (credit)/expense	(2,339)	9,766

8 Directors' emoluments

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

Name of Director	2018			Total HK\$'000
	Directors' fees HK\$'000	Salaries and other benefits in kind HK\$'000	Contributions to defined contributions retirement plan HK\$'000	
Tsang Yue, Joyce	–	10,536	73	10,609
Yip Kai Wing	–	691	18	709
Yeung See Man	–	816	18	834
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	12,043	109	13,268

Notes to the Financial Statements

8 Directors' emoluments (Continued)

Name of Director	2017			Total HK\$'000
	Directors' fees HK\$'000	Salaries and other benefits in kind HK\$'000	Contributions to defined contributions retirement plan 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

9 Individuals with highest emoluments

Of the five individuals with the highest emoluments, two (2017: one) are directors whose emoluments are disclosed in note 8. The aggregate of the emoluments in respect of the other three (2017: four) individuals are as follows:

	2018 HK\$'000	2017 HK\$'000
Salaries and other benefits in kind	4,542	4,789
Contributions to defined contribution retirement plan	125	141
	4,667	4,930

The emoluments of the three (2017: four) individuals with the highest emoluments are within the following bands:

	Number of individuals	
	2018	2017
Nil – HK\$1,000,000	1	2
HK\$1,000,001 – HK\$1,500,000	–	1
HK\$1,500,001 – HK\$2,000,000	1	1
HK\$2,000,001 – HK\$2,500,000	1	–
	3	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 (2017: Nil).

Notes to the Financial Statements

10 (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 HK\$'000	2017 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.

Notes to the Financial Statements

11 Property, plant and equipment

	Land and buildings HK\$'000	Leasehold improvements HK\$'000	Equipment and Machinery HK\$'000	Furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Computers HK\$'000	Total HK\$'000
Cost:							
At 1 April 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 and 1 April 2017	15,886	185,001	91,220	4,489	17,597	11,695	325,888
Additions	-	14,405	5,890	40	-	1,009	21,344
Disposals/written off	-	(11,379)	(258)	(83)	-	(466)	(12,186)
Impairment loss	-	(6,406)	(3,967)	(70)	-	(265)	(10,708)
Exchange differences	-	3,015	1,860	118	123	95	5,211
At 31 March 2018	15,886	184,636	94,745	4,494	17,720	12,068	329,549
Accumulated depreciation and impairment losses:							
At 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 and 1 April 2017	712	148,262	82,763	4,332	16,940	9,455	262,464
Charge for the year	502	6,823	5,802	65	410	820	14,422
Written back on disposals/written off	-	(11,379)	(252)	(83)	-	(466)	(12,180)
Impairment loss	-	(4,624)	(3,578)	(63)	-	(263)	(8,528)
Exchange differences	-	2,632	1,667	115	109	88	4,611
At 31 March 2018	1,214	141,714	86,402	4,366	17,459	9,634	260,789
Carrying amount:							
At 31 March 2018	14,672	42,922	8,343	128	261	2,434	68,760
At 31 March 2017	15,174	36,739	8,457	157	657	2,240	63,424

Notes to the Financial Statements

11 Property, plant and equipment (Continued)

(a) As of 31 March 2018 and 2017, the Group's land and buildings at their carrying amounts are situated in Hong Kong under medium-term leases.

(b) Impairment loss on property, plant and equipment

During the year ended 31 March 2018, the Group conduct a review of its property, plant and equipment and determined that the recoverable amount of certain property, plant and equipment is estimated to be less than its carrying amount. Based on the results of the review, an impairment loss of HK\$2,180,000 was recognised in "impairment loss on property, plant and equipment" in the Group's consolidated statement of profit or loss. The recoverable amount of the property, plant and equipment is estimated based on value in use calculation. There was no impairment loss recognised in respect of property, plant and equipment in 2017.

12 Investment properties

	2018 HK\$'000	2017 HK\$'000
At 1 April	12,870	12,700
Fair value gain	1,030	170
At 31 March	13,900	12,870

Investment properties were revalued as at 31 March 2018. Details of the fair value measurement are disclosed in note 12(a)(i).

As of 31 March 2018, 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

Notes to the Financial Statements

12 Investment properties (Continued)

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

(i) Fair value hierarchy (Continued)

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 2018, 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 (2017: 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 2018. 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.

(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 as a separate line item "fair value change on investment properties" in the Group's 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:

	2018 HK\$'000	2017 HK\$'000
Within 1 year	1,015	–
After 1 year but within 5 years	1,015	–
	2,030	–

Notes to the Financial Statements

13 Goodwill and business combination

	2018 HK\$'000	2017 HK\$'000
At 1 April	3,108	–
Business combinations	–	3,108
Impairment loss	(2,038)	–
At 31 March	1,070	3,108

(a) Acquisition of Care Plus International Pty Limited

In July 2014, Main Deal Limited, a wholly owned subsidiary of the Group, acquired 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. In 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”). The principal activities of Care Plus is manufacturing and trading of beauty and wellness products.

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 was recognised in the Group’s consolidated statement of profit or loss for the year ended 31 March 2017 (note 6(c)).

Goodwill of HK\$1,070,000 was recognised during the year ended 31 March 2017 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 for the year ended 31 March 2017. These totalled HK\$108,000, which comprised mainly legal and professional fees.

(b) Acquisition of Elegant Trend Limited

In January 2017, Topluck International Holdings Limited, a wholly owned subsidiary of the Group, acquired 51% equity interest in Elegant Trend Limited (“Elegant Trend”), a Hong Kong incorporated company with a factory in the PRC 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.

Notes to the Financial Statements

13 Goodwill and business combination (Continued)

(b) Acquisition of Elegant Trend Limited (Continued)

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" as at 31 March 2017. The fair value of the contingent consideration was nil as at 31 March 2018.

Goodwill of HK\$2,038,000 was recognised during the year ended 31 March 2017 which represented the future economic benefits arising from the acquisition 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 for the year ended 31 March 2017. These totalled HK\$108,000, which comprised mainly legal and professional fees.

(c) Acquisition of Silver Dynasty Holdings Limited and W.Z.T Innovation Beauty Limited

On 1 October 2017, the Group completed the acquisitions of 91% equity interest in Silver Dynasty Holdings Limited ("Silver Dynasty") and W.Z.T Innovation Beauty Limited ("W.Z.T.") from two independent third parties.

Pursuant to the agreement, the consideration for the acquisitions comprises a cash consideration of USD91 and HK\$91 payable immediately and a further contingent consideration of up to HK\$5.0 million and HK\$4.9 million respectively to be settled in 2019 and 2020 (if applicable) depending upon the fulfilment of certain pre-determined conditions.

Since both entities have no business operation, no goodwill in relation to the acquisitions is recognized. Based on management assessment, the purchase consideration payables for the acquisitions are assessed to be Nil as at 31 March 2018.

(d) 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:

	2018 HK\$'000	2017 HK\$'000
Skincare and wellness – Australia	1,070	1,070
Skincare and wellness – PRC	–	2,038
	1,070	3,108

During the year ended 31 March 2018, impairment loss of HK\$2,038,000 (2017: Nil) was recognised as a separate line item in the Group's consolidated statement of profit or loss as the operating performance of a PRC CGU is behind budget. The impairment testing of goodwill is based on below valuation technique.

Notes to the Financial Statements

13 Goodwill and business combination (Continued)

(d) Impairment tests for cash-generating units containing goodwill (Continued)

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 7 – 8% (2017: 3%) and terminal capitalisation rate of 3% (2017: 3%) which are 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 24.8% (2017: 17.9%) and 23.9% (2017: 19.8%) for Australia CGU and PRC CGU respectively. The discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

14 Intangible assets

	Customer relationships HK\$'000	Trademarks HK\$'000	Total HK\$'000
Cost:			
At 1 April 2016	–	–	–
Additions through acquisition of a subsidiary during the year	1,243	1,126	2,369
Exchange difference	85	77	162
At 31 March 2017	1,328	1,203	2,531
At 1 April 2017	1,328	1,203	2,531
Exchange difference	17	15	32
At 31 March 2018	1,345	1,218	2,563
Accumulated amortisation:			
At 1 April 2016	–	–	–
Charge for the year	185	–	185
Exchange difference	4	–	4
At 31 March 2017	189	–	189
At 1 April 2017	189	–	189
Charge for the year	225	–	225
Exchange difference	2	–	2
At 31 March 2018	416	–	416
Net book value:			
At 31 March 2018	929	1,218	2,147
At 31 March 2017	1,139	1,203	2,342

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

15 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		Principal activities and place of business
			Direct	Indirect	
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

Notes to the Financial Statements

15 Investment in a subsidiary (Continued)

Name of company	Place of incorporation/ registration	Particulars of issued and paid up capital	Percentage of ownership interest		Principal activities and place of business
			Direct	Indirect	
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
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

Notes to the Financial Statements

15 Investment in a subsidiary (Continued)

Name of company	Place of incorporation/ registration	Particulars of issued and paid up capital	Percentage of ownership interest		Principal activities and place of business
			Direct	Indirect	
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
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

Notes to the Financial Statements

15 Investment in a subsidiary (Continued)

Name of company	Place of incorporation/ registration	Particulars of issued and paid up capital	Percentage of ownership interest		Principal activities and place of business
			Direct	Indirect	
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 11% and 8% 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 2018.

Notes to the Financial Statements

15 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.

	2018 \$'000	2017 \$'000
NCI percentage	49%	49%
Current assets	4,691	5,141
Non-current assets	2,519	2,719
Current liabilities	(922)	(2,055)
Non-current liabilities	-	-
Net assets	6,288	5,805
Carrying amount of NCI	3,081	2,844
Revenue	3,691	2,876
Profit for the period	1,178	654
Total comprehensive income	1,178	654
Profit allocated to NCI	577	320
Dividend paid to NCI	-	-
Cash flows from operating activities	31	(936)
Cash flows from investing activities	-	3
Cash flows from financing activities	-	-

Notes to the Financial Statements

16 Trade and other receivables, deposits and prepayments

	2018 HK\$'000	2017 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 (note 16(b))	(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 (note 28(c))	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 HK\$'000	2017 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. Further details on the Group's credit policy are set out in note 25(a).

Notes to the Financial Statements

16 Trade and other receivables, deposits and prepayments (Continued)

(a) Ageing analysis (Continued)

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

	2018 HK\$'000	2017 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 (see note 2(j)(i)).

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

	2018 HK\$'000	2017 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.

Notes to the Financial Statements

17 Deferred tax in the consolidated statement of financial position

(a) The components of deferred tax (liabilities)/assets 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 2016	(375)	199	1,065	15,067	58	16,014
Credited/(charged) to profit or loss (note 7(a))	32	–	238	(1,616)	–	(1,346)
Acquisition of a subsidiary	(457)	–	–	–	–	(457)
Exchange differences	(22)	–	(124)	(21)	(2)	(169)
At 31 March 2017 and 1 April 2017	(822)	199	1,179	13,430	56	14,042
Credited/(charged) to profit or loss (note 7(a))	378	(458)	(1,261)	6,886	556	6,101
Exchange differences	(13)	–	82	34	(94)	9
At 31 March 2018	(457)	(259)	–	20,350	518	20,152
				2018		2017
				HK\$'000		HK\$'000
Represented by:						
Deferred tax assets				20,609		14,864
Deferred tax liabilities				(457)		(822)
				20,152		14,042

(b) At the end of the reporting period, the Group has total tax losses of HK\$171,838,000 (2017: HK\$123,888,000). Deferred tax assets have been recognised in respect of HK\$122,601,000 (2017: HK\$81,018,000) 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\$49,237,000 (2017: HK\$42,870,000) due to the unpredictability of future profit streams.

Included in unrecognised tax losses are (a) losses of HK\$23,590,000 (2017: HK\$20,477,000) from the PRC operations that will expire in five years, from the year the losses were incurred, (b) losses of HK\$13,804,000 (2017: HK\$5,680,000) from the Taiwan operations that will expire in ten years, from the year the losses were incurred, and (c) losses of HK\$11,843,000 (2017: HK\$16,713,000) from other jurisdictions that can be carried forward indefinitely.

Notes to the Financial Statements

18 Inventories

As at 31 March 2018 and 2017, 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\$23,270,000 (2017: HK\$22,366,000) which is recognised as "cost of inventories sold".

19 Pledged bank deposits

The Group's pledged bank deposits represented deposits pledged to banks to secure banking facilities of HK\$6,000,000 (2017: 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% (2017: 0.08%), 0.1% – 0.16% (2017: 0.1% – 0.16%) and 0.66% – 1.05% (2017: 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 (2017: HK\$6,000,000) in form of documentary credit and trust receipt loan at 31 March 2018.

20 Cash and bank balances

Cash and bank balances comprise:

	2018 HK\$'000	2017 HK\$'000
Cash at bank and in hand	137,733	169,388
Short-term bank deposits with maturity less than three months	43,950	75,217
Cash and bank balances in the consolidated statement of financial position and cash and cash equivalents in the consolidated cash flow statement	181,683	244,605

21 Trade and other payables, deposits received and accrued expenses

	2018 HK\$'000	2017 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 (note 28(c))	1,425	1,434
Amounts due to related companies (note 28(c))	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.

Notes to the Financial Statements

21 Trade and other payables, deposits received and accrued expenses (Continued)

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

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

22 Deferred revenue

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

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

(b) Movement of deferred revenue:

	2018 HK\$'000	2017 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

Notes to the Financial Statements

23 Capital, reserves and dividends

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

Company	Note	Share capital HK\$'000	Share premium HK\$'000	Share-based compensation reserve HK\$'000	Warrants reserve HK\$'000	Contributed surplus HK\$'000	Retained earnings HK\$'000	Total HK\$'000
Balance at 1 April 2016		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		-	-	-	(170)	-	170	-
Lapse of share options	24(a)	-	-	(4,734)	-	-	4,734	-
Issue of shares upon conversion of convertible note		3,048	28,964	-	-	-	-	32,012
2016 final dividends paid	23(b)(ii)	-	-	-	-	-	(5,244)	(5,244)
2017 interim dividends paid	23(b)(i)	-	-	-	-	-	(8,740)	(8,740)
Balance at 31 March 2017 and 1 April 2017		90,448	318,791	-	-	47,076	25,211	481,526
Changes in equity for 2018:								
Total comprehensive income for the year		-	-	-	-	-	62,958	62,958
2017 final dividends paid	23(b)(ii)	-	-	-	-	-	(11,306)	(11,306)
Balance at 31 March 2018		90,448	318,791	-	-	47,076	76,863	533,178

(b) Dividends

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

	2018 HK\$'000	2017 HK\$'000
Interim dividend declared and paid of nil per ordinary share (2017: HK1 cents 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

The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

Notes to the Financial Statements

23 Capital, reserves and dividends (Continued)

(b) Dividends (Continued)

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

	2018 HK\$'000	2017 HK\$'000
Final dividend in respect of the previous financial year, approved and paid during the year, of HK1.25 cents per ordinary share (2017: HK0.6 cents per ordinary share)	11,306	5,244

(c) Share capital

Authorised and issued share capital

	2018		2017	
	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	904,483,942	90,448	873,996,190	87,400
Shares issued on conversion of convertible note	-	-	30,487,752	3,048
Ordinary shares of HK\$0.1 each	904,483,942	90,448	904,483,942	90,448

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.

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 ("Zegna") (note 23(d)(iv)(b)). 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. 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.

Notes to the Financial Statements

23 Capital, reserves and dividends (Continued)

(d) Nature and purpose of reserves

(i) Share premium

Under the Companies Law of the Cayman Islands, the funds in the share premium account of the Company are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

(ii) Share-based compensation reserve

The share-based compensation reserve comprises the portion of the grant date fair value of unexercised share options granted to directors and employees of the Group that has been recognised in accordance with the accounting policy adopted for share-based payments in note 2(o)(iii).

(iii) Warrants reserve

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.

The warrants reserve represents the net proceeds received from the issue of warrants of the Company. The warrants reserve is transferred to the share premium account when the warrant is exercised or released directly to retained earnings when the warrant expires.

(iv) Merger reserve

The merger reserve represents the aggregate of:

- (a) Pursuant to the Group's reorganisation effected on 24 January 2006 (the "Reorganisation"), the Company acquired the share capital of Koladen Enterprises Inc. in consideration of allotment and issue of 539,999,925 shares to its corporate shareholders, Silver Compass Holdings Corp. and Silver Hendon Enterprises Corp. Under the merger basis of accounting, the difference between the nominal value of the shares of subsidiaries acquired over the nominal value of the share capital of the Company issued in exchange amounting to approximately HK\$53,982,000 was debited to the merger reserve of the Group.
- (b) Pursuant to the sale and purchase agreement dated 5 July 2011 ("SPA") entered into between BE Universal Limited ("BE Universal", a subsidiary of the Company) as purchaser and Dr. Tsang as vendor, BE Universal conditionally agreed to acquire the entire equity interest in Zegna Management Limited ("Zegna") together with its subsidiaries (collectively referred to as the "Zegna Group") from Dr. Tsang at a consideration of HK\$250,000,000 which is to be satisfied by the issue of CN at conversion price of HK\$1.05 per share (hereinafter referred to as the "Business Combination").

Notes to the Financial Statements

23 Capital, reserves and dividends (Continued)

(d) Nature and purpose of reserves (Continued)

(iv) Merger reserve (Continued)

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.

(v) Contributed surplus

The contributed surplus of the Company arose as a result of the Reorganisation and represented the excess of the fair value of the subsidiaries acquired, over the nominal value of the share capital of the Company issued in exchange therefore.

(vi) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 2(t).

(vii) 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.

Notes to the Financial Statements

23 Capital, reserves and dividends (Continued)

(e) Distributability of reserves

At 31 March 2018, the aggregate amount of reserves available for distribution to equity shareholders of the Company was HK\$442,730,000 (2017: HK\$391,078,000). After the end of reporting period the directors proposed a final dividend of nil per ordinary share (2017: HK\$1.25 cents per share), amounting to Nil (2017: HK\$11,306,000) (note 23(b)(i)). 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

24 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.

Details of the share options outstanding during the year ended 31 March 2017 are as follows:

	Outstanding at beginning of year	Number of share options 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)	–	–

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 ended 31 March 2017, the Group reversed the share-based compensation reserve of HK\$4,734,000 to retained earnings in accordance with accounting policy set out in note 2(o)(iii).

(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(o)(ii).

Notes to the Financial Statements

25 Financial risk management and fair values of financial instruments

Exposure to credit, liquidity and currency risks arises in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

The Group's credit risk is primarily attributable to trade receivables and trade deposits retained by banks/credit card companies. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

The credit risk on trade deposits retained by banks/credit card companies is limited as the counterparties are reputable banks/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.

(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				Total HK\$'000	Carrying amount HK\$'000
	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		
At 31 March 2018						
Trade and other payables, deposits received and accrued expenses	92,595	-	-	-	92,595	92,595

Notes to the Financial Statements

25 Financial risk management and fair values of financial instruments (Continued)

(b) Liquidity risk (Continued)

	Contractual undiscounted cash outflow				Total HK\$'000	Carrying amount HK\$'000
	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		
At 31 March 2017						
Trade and other payables, deposits received and accrued expenses	87,265	–	–	–	87,265	87,265

(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 2018 and 2017.

(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

25 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 (Continued)

	Fair value at 31 March 2018 HK\$'000	Fair value measurements as at 31 March 2018 categorised into Level 3 HK\$'000
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Recurring fair value measurement

Financial liability:

– Purchase consideration payable for acquisitions	–	–
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	Fair value at 31 March 2017 HK\$'000	Fair value measurements as at 31 March 2017 categorised into Level 3 HK\$'000
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Recurring fair value measurement

Financial liability:

– Purchase consideration payable for acquisitions	1,148	1,148
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During the years ended 31 March 2017 and 2018, 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.

(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 Nil as at 31 March 2018 (2017: the fair value of the contingent consideration of HK\$1,148,000 was 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 subsidiaries and other relevant information.

Notes to the Financial Statements

25 Financial risk management and fair values of financial instruments (Continued)

(d) Fair value measurement (Continued)

(ii) Information about Level 3 fair value measurements (Continued)

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

	2018 HK\$'000	2017 HK\$'000
Purchase consideration payable for an acquisition:		
At 1 April	1,148	1,259
Fair value change on purchase consideration	(1,148)	(1,245)
Acquisition of subsidiaries	–	1,143
Exchange differences	–	(9)
At 31 March	–	1,148
Gain for the year included in profit or loss for liability held at the end of the reporting period	1,148	1,245

26 Commitments

(a) Operating lease commitments

At 31 March 2018, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2018 HK\$'000	2017 HK\$'000
Within 1 year	111,499	60,031
After 1 year but within 5 years	93,082	45,452
	204,581	105,483

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 (2017: 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

26 Commitments (Continued)

(b) Capital commitments

Capital commitments outstanding at 31 March 2018 not provided for in the financial statements were as follows:

	2018 HK\$'000	2017 HK\$'000
Contracted but not yet provided for:		
– Acquisition of plant and equipment	1,352	1,098

27 Contingent liabilities

During the course of business, the Group has received complaints and claims concerned with the provision of beauty services in respect of breach of contract, content of advertisement, tenancy dispute and personal injuries in relation to the services provided, including claims of insignificant or unspecified amounts. The directors are of the opinion that the loss or settlement for such complaints and claims have no material financial impact to the Group.

28 Material related party transactions and balances

(a) Key management personnel remuneration

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

	2018 HK\$'000	2017 HK\$'000
Short-term employee benefits	16,072	15,491
Post-employment benefits	233	229
	16,305	15,720

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

Notes to the Financial Statements

28 Material related party transactions and balances (Continued)

(b) Material related party transactions

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

	Note	2018 HK\$'000	2017 HK\$'000
Rental expenses paid to related companies:			
	(i)		
– All Link International Limited		–	247
– China Tech International Limited		2,550	3,223
– East Union Industries Limited		1,734	1,652
– Joy East Limited		745	734
– Luck Elegant Industrial Limited		3,335	3,376
– Lucky Forever Limited		17,850	17,075
– Golden National Limited		8,670	8,997
– United Industries Limited		5,100	8,170
– Well Faith International Enterprise Limited		13,464	13,862
– Wise World Limited		3,570	3,316
	(viii)	57,018	60,652
Rental income received from a related company:			
	(ii)		
Grateful Heart Charitable Foundation Limited		1,015	536
	Note	2018 HK\$'000	2017 HK\$'000
Interest charge on convertible note issued to an associate of the ultimate controlling party:			
	(iii)		
– Dr. Tsang		–	2,590
Cash settlement upon maturity of convertible note issued to an associate of the ultimate controlling party:			
	(iv)		
– Dr. Tsang		–	59,988
Salaries and other benefits in kind paid to related parties:			
	(v)		
– Related party A		1,741	1,718
– Related party B	(vi)	2,005	1,386
– Related party C	(vii)	532	473
		4,278	3,577

Notes to the Financial Statements

28 Material related party transactions and balances (Continued)

(b) Material related party transactions (Continued)

Notes:

- (i) The pricing of the related party transactions are mutually agreed by the Group and the related companies. Dr. Tsang is the ultimate controlling party of the related companies.
- (ii) The amount represented rental income received for area leased to a related company for use as office at a monthly rental mutually agreed by both parties. Dr. Tsang is the member of the related company.
- (iii) The amount represented interest charge on convertible note issued to an associate of Dr. Tsang. Dr. Tsang is the beneficial owner of the associate. The transaction also constituted connected transactions under the Listing Rules, 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. The transaction also constituted connected transactions under the Listing Rules, 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) Related party A is the spouse of a director, Dr. Tsang.
- (vi) Related party B is the son of a director, Dr. Tsang.
- (vii) Related party C is the spouse of a director, Mr. Yip Kai Wing.
- (viii) 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 2018.

(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 or her close family members 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 2018 HK\$'000	Balance at 1 April 2017 HK\$'000	Maximum amount outstanding during the year HK\$'000
All Link International Limited	163	26	163
Grateful Heart Charitable Foundation Limited	1,749	632	1,749
Lucky Forever Limited	–	1	1
Luck Elegant Industrial Limited	–	1	1
Lucky Forever (S) Pte. Limited	49	40	49
Swisscelin Distribution Limited	72	13	72
Advanced Natural Australia PTY Ltd	5	5	5
Golden National Ltd	–	1	1
MCB Limited	1,937	1,955	1,955
Hong Kong Beauty Industry Alliance Limited	5	–	5
	3,980	2,674	4,001

Notes to the Financial Statements

29 Company-level statement of financial position

	Note	31 March 2018 HK\$'000	31 March 2017 HK\$'000
Non-current asset			
Investment in a subsidiary	15	101,076	101,076
Current assets			
Amounts due from subsidiaries		432,632	380,985
Cash and bank balances		903	906
		433,535	381,891
Current liabilities			
Other payables		10	9
Amount due to the ultimate controlling party		1,423	1,432
		1,433	1,441
Net current assets		432,102	380,450
NET ASSETS		533,178	481,526
CAPITAL AND RESERVES			
Share capital	23(a)	90,448	90,448
Reserves		442,730	391,078
TOTAL EQUITY		533,178	481,526

Notes to the Financial Statements

30 Critical judgements and key estimates

Key sources of estimation uncertainty

Note 12(a), 13(d), 14 and 25(d) contain information about the assumptions and their risk factors relating to valuation of investment properties, goodwill impairment, intangible assets 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.

31 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 March 2018

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 March 2018 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
HKFRS 9, <i>Financial instruments</i>	1 January 2018
HKFRS 15, <i>Revenue from contracts with customers</i>	1 January 2018
Amendments to HKFRS 2, <i>Share-based payment: Classification and measurement of share-based payment transactions</i>	1 January 2018
Amendments to HKAS 40, <i>Investment property: Transfers of investment property</i>	1 January 2018
HK(IFRIC) 22, <i>Foreign currency transactions and advance consideration</i>	1 January 2018
HKFRS 16, <i>Leases</i>	1 January 2019
HK(IFRIC) 23, <i>Uncertainty over income tax treatments</i>	1 January 2019

Notes to the Financial Statements

31 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 March 2018 (Continued)

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations 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. While the assessment has been substantially completed for HKFRS 9 and HKFRS 15, the actual impacts upon the initial adoption of the standards may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standards are initially applied in the Group's interim financial report for the six months ending 30 September 2018. The Group may also change its accounting policy elections, including the transition options, until the standards are initially applied in that financial report.

HKFRS 9, Financial instruments

HKFRS 9 will replace the current standard on accounting for financial instruments, HKAS 39, *Financial instruments: Recognition and measurement*. HKFRS 9 introduces new requirements for classification and measurement of financial assets, including the measurement of impairment for financial assets and hedge accounting. On the other hand, HKFRS 9 incorporates without substantive changes the requirements of HKAS 39 for recognition and derecognition of financial instruments and the classification and measurement of financial liabilities.

HKFRS 9 is effective for annual periods beginning on or after 1 April 2018 on a retrospective basis. The Group plans to use the exemption from restating comparative information and will recognise any transition adjustments against the opening balance of equity at 1 April 2018.

Expected impacts of the new requirements on the Group's financial statements are as follows:

Impairment

The new impairment model in HKFRS 9 replaces the "incurred loss" model in HKAS 39 with an "expected credit loss" model. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised. Instead, an entity is required to recognise and measure either a 12-month expected credit loss or a lifetime expected credit loss, depending on the asset and the facts and circumstances. The Group expects that the application of the expected credit loss model will result in earlier recognition of credit losses.

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.

Notes to the Financial Statements

31 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 March 2018 (Continued)

HKFRS 15, Revenue from contracts with customers (Continued)

Based on the assessment completed to date, the Group has identified the following areas which are likely to be affected:

Timing of revenue recognition

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

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.

The Group has assessed that the new revenue standard is not likely to have significant impact on how it recognises revenue from sales of skincare and wellness products. However, revenue recognition for sales of prepaid packages for beauty and wellness services is expected to be affected as follows:

The Group sells prepaid packages for beauty and wellness services which comprise multiple numbers of treatments. Prepaid packages are non-refundable and customers may not utilise all of their contracted rights within the service period. Such unutilised treatments are referred to as "breakage". Revenue from the provision of services is dependent on the estimation of the utilisation pattern of the provision of services. An expected amount of breakage is estimated by management based on historical experience and is recognised as revenue in proportion to the pattern of treatments provided to customers. Actual utilisation may be higher or lower than those estimated at the end of each reporting period, which would affect the revenue and profit/loss recognised in future year.

HKFRS 16, Leases

As disclosed in note 2(i), 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.

Notes to the Financial Statements

31 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 March 2018 (Continued)

HKFRS 16, Leases (Continued)

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.

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 26, at 31 March 2018 the Group's future minimum lease payments under non-cancellable operating leases amount to \$204,581,000 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.

32 Approval of financial statements

The financial statements were approved and authorised for issue by the Board of Directors on 27 June 2018.

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

	2018 HK\$'000	Year ended 31 March			2014 HK\$'000 (Restated)
		2017 HK\$'000	2016 HK\$'000 (Restated)	2015 HK\$'000 (Restated)	
Revenue	599,018	693,284	775,391	874,235	868,806
(Loss)/profit before taxation	(25,184)	43,641	14,323	84,691	91,851
Income tax credit/(expense)	2,339	(9,766)	(3,601)	(16,866)	(26,942)
(Loss)/profit for the year	(22,845)	33,875	10,722	67,825	64,909

Consolidated Assets and Liabilities

	2018 HK\$'000	As at 31 March			2014 HK\$'000 (Restated)
		2017 HK\$'000	2016 HK\$'000 (Restated)	2015 HK\$'000 (Restated)	
Total non-current assets	129,284	111,472	145,210	183,637	183,512
Total current assets	481,632	544,137	671,389	711,763	771,364
Total assets	610,916	655,609	816,599	895,400	954,876
Total non-current liabilities	(457)	(1,970)	(1,634)	(93,993)	(88,367)
Total current liabilities	(522,031)	(528,199)	(742,000)	(716,836)	(806,699)
Total liabilities	(522,488)	(530,169)	(743,634)	(810,829)	(895,066)
Net assets	88,428	125,440	72,965	84,571	59,810



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