PERFECT SHAPE MEDICAL LIMITED
必瘦站醫學美容有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 1830)

FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 MARCH 2020

HIGHLIGHTS

- The Group's revenue for the year increased by 4% year-on-year to HK$1,241 million.
- The Group's net profit for the year increased by 13% year-on-year to HK$360 million.
- The Group's net cash generated from operating activities increased by 42% year-on-year to HK$644 million.
- The Group's net profit margin increased from 27% year-on-year to 29%.
- Basic earnings per share increased by 11% to HK32.2 cents.
- Final dividend of HK29.0 cents per share and special dividend of HK5.0 cents per share were proposed. Total dividend per share for the year was HK34.0 cents, representing a payout ratio of 106%.

FINAL RESULTS

The board of directors (the "Board") of Perfect Shape Medical Limited (the "Company") announces the results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 March 2020, together with the comparative figures for the year ended 31 March 2019 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2020

	Note	**2020**	2019
		HK$'000	*HK$'000*
Revenue	*3*	**1,240,950**	1,197,031
Other income		**5,466**	3,495
Other (losses)/gains – net		**(3,062)**	2,649
Cost of inventories and consumables		**(14,968)**	(13,600)
Employee benefit and manpower service expenses	*4*	**(356,136)**	(340,736)
Marketing expenses		**(136,794)**	(169,111)
Depreciation of property, plant and equipment		**(55,436)**	(70,390)
Depreciation of right-of-use assets	*6*	**(99,388)**	–
Expenses related to short-term leases of stores and offices	*6*	**(16,092)**	–
Operating lease rentals		**–**	(94,093)
Other operating expenses		**(108,345)**	(115,387)
Operating profit		**456,195**	399,858
Finance (costs)/income – net	*5*	**(5,617)**	4,195
Profit before income tax		**450,578**	404,053
Income tax expenses	*7*	**(90,421)**	(85,020)
Profit for the year attributable to equity holders of the Company		**360,157**	319,033

	Note	**2020**	2019
		HK$'000	*HK$'000*
Other comprehensive (losses)/income:			
Item that have been reclassified or may be reclassified subsequently to profit or loss:			
Currency translation differences		**(14,100)**	(7,667)
Item that will not be reclassified subsequently to profit or loss:			
Equity investments at fair value through other comprehensive income:			
— Fair value gains/(losses) taken to reserves		**1,941**	(446)
Total other comprehensive losses for the year, net of tax		**(12,159)**	(8,113)
Total comprehensive income for the year attributable to equity holders of the Company		**347,998**	310,920
Earnings per share attributable to equity holders of the Company for the year	*8*		
— basic		**HK32.2 cents**	HK28.9 cents
— diluted		**HK32.1 cents**	HK28.7 cents

CONSOLIDATED BALANCE SHEET

As at 31 March 2020

	Note	**2020**	2019
		HK$'000	*HK$'000*
ASSETS			
Non-current assets			
Property, plant and equipment		**142,162**	108,486
Right-of-use assets	6	**246,386**	–
Deposits and prepayments		**33,396**	29,268
Financial assets at fair value through other comprehensive income		**37,232**	70,277
Deferred income tax assets		**52,213**	9,255
		511,389	217,286
Current assets			
Inventories		**1,783**	2,651
Trade receivables	*10*	**74,666**	153,570
Other receivables, deposits and prepayments		**40,313**	47,202
Financial assets at fair value through profit or loss		**33,525**	35,218
Term deposits with initial terms of over three months		**71,116**	56,814
Pledged bank deposits		**2,861**	4,021
Cash and cash equivalents		**563,591**	338,671
		787,855	638,147
Total assets		**1,299,244**	855,433

	Note	**2020** *HK$'000*	2019 *HK$'000*
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		**111,552**	110,514
Reserves		**567,444**	450,230
Total equity		**678,996**	560,744
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		**69,982**	24,594
Provision for reinstatement costs		**8,342**	5,598
Lease liabilities	*6*	**158,507**	–
		236,831	30,192
Current liabilities			
Provision for reinstatement costs		**2,769**	2,306
Trade payables	*11*	**736**	609
Accruals and other payables		**69,132**	75,025
Lease liabilities	*6*	**93,497**	–
Deferred revenue		**158,701**	116,337
Tax payables		**58,582**	70,220
		383,417	264,497
Total liabilities		**620,248**	294,689
Total equity and liabilities		**1,299,244**	855,433

1 GENERAL INFORMATION

Perfect Shape Medical Limited (the "Company") and its subsidiaries (together, the "Group") are principally engaged in the provision of slimming and high technology beauty services in Hong Kong ("HK"), the People's Republic of China (the "PRC"), Macau and Australia.

The Company was incorporated in the Cayman Islands on 11 March 2011 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The Company's shares were listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 10 February 2012.

These consolidated financial statements are presented in Hong Kong dollars ("HK$"), unless otherwise stated, and have been approved for issue by the Board of Directors on 30 June 2020.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES

2.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the disclosure requirements of the Hong Kong Companies Ordinance Cap. 622. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income which are carried at fair value.

The preparation of the consolidated financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies.

(a) New standard, amendments and interpretation to existing standards adopted by the Group

HKFRS 16	Leases
HK (IFRIC) – Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
HKFRSs (Amendments)	Annual Improvements to HKFRSs 2015 - 2017 Cycle

The Group has been impacted by HKFRS 16 in relation to the accounting treatment of leases. Details of the changes in accounting policies are disclosed in Note 2.2. The adoption of other amendments and interpretation listed above did not have material impact on the Group's accounting policies and consolidated financial statements.

(b) ***New standard and amendments to existing standards that have been issued but are not effective***

HKFRS 17	Insurance Contracts[3]
Amendments to HKFRS 3	Definition of a Business[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
Amendments to HKFRS 16	Covid-19-Related Rent Concessions[2]
Amendments to HKAS 1 and HKAS 8	Definition of Material[1]
Amendments to HKAS 39, HKFRS 7 and HKFRS 9	Hedge accounting[1]
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting[1]

(1) Effective for the Group for annual periods beginning on or after 1 January 2020
(2) Effective for the Group for annual periods beginning on or after 1 June 2020
(3) Effective for the Group for annual periods beginning on or after 1 January 2021
(4) Effective for the Group for annual periods beginning on or after a date to be determined

The Group has not early adopted the above new standard and amendments and is in the process of assessing the impact of those new standards and amendments on the Group's accounting policies and consolidated financial statements.

2.2 Changes in accounting policies

This note explains the impact of the adoption of HKFRS 16 on the Group's consolidated financial statements.

The Group has adopted HKFRS 16 retrospectively from 1 April 2019, but has not restated comparatives for the year ended 31 March 2019, as permitted under the simplified transition provisions in the standard. The reclassifications and adjustments arising from the new leasing rules are therefore recognised in the opening consolidated balance sheet as at 1 April 2019.

(a) Measurement of lease liabilities

On 1 April 2019, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of HKAS 17 "Leases". These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 April 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities as at 1 April 2019 was 4.93%.

	HK$'000
Operating lease commitments disclosed as at 31 March 2019	254,096
Less: Short-term leases with remaining lease terms of less than 12 months as at 1 April 2019 recognised on a straight-line basis as expenses pursuant to a practical expedient permitted by HKFRS 16	(16,583)
	237,513
Lease liabilities discounted using the lessee's incremental borrowing rate as at 1 April 2019	216,072
Of which are:	
Current lease liabilities	72,847
Non-current lease liabilities	143,225
	216,072

(b) Measurement of right-of-use assets

The associated right-of-use assets were measured at the amounts equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to those leases recognised in the consolidated balance sheet as at 31 March 2019. The restoration cost of those leases recognised as property, plant and equipment in the consolidated balance sheet as at 31 March 2019 were reclassified to right-of-use assets. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets as at 1 April 2019.

The carrying amounts of right-of-use assets by class of underlying asset are as below:

	1 April 2019 *HK$'000*
Properties	217,909

(c) ***Practical expedients applied***

In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics; and

- the accounting for operating leases with remaining lease terms of less than 12 months as at 1 April 2019 as short-term leases.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date, the Group relied on its assessment made applying HKAS 17 and HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease.

(d) ***Adjustments recognised on adoption of HKFRS 16***

The adoption of HKFRS 16 affected the following items in the consolidated balance sheet as at 1 April 2019:

- right-of-use assets – increased by approximately HK$217,909,000;

- deferred income tax assets – increased by approximately HK$40,483,000;

- property, plant and equipment – decreased by approximately HK$1,837,000;

- lease liabilities – increased by approximately HK$216,072,000; and

- deferred income tax liabilities – increased by approximately HK$40,483,000.

The adoption of HKFRS 16 does not have any impact on the retained earnings of the Group as at 1 April 2019.

3 SEGMENT INFORMATION

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. As the Group is principally engaged in the provision of slimming and high technology beauty services, which are subject to similar business risk, and resources are allocated based on what is beneficial to the Group in enhancing the value as a whole rather than any specific component, the Group's chief operating decision-maker considers that the performance assessment of the Group should be based on the profit before income tax of the Group as a whole. Therefore, management considers there to be only one operating segment under the requirements of HKFRS 8.

During the years ended 31 March 2020 and 2019, all of the Group's revenue is from contracts with customers and is recognised at a point in time.

The Group commenced its operation in Australia since February 2020, and now primarily operates in Hong Kong as well as, the PRC, Macau and Australia (the "Regions outside Hong Kong"). Its revenue was derived from the following regions:

	2020	2019
	HK$'000	*HK$'000*
Hong Kong	**913,051**	878,870
Regions outside Hong Kong	**327,899**	318,161
	1,240,950	1,197,031

The consolidated profits before income tax of the Group, prior to certain intra-group recharges, was attributable to the profits of the following regions:

	2020	2019
	HK$'000	*HK$'000*
Hong Kong	**264,239**	226,586
Regions outside Hong Kong	**186,339**	177,467
	450,578	404,053

The Group's total non-current assets other than deferred income tax assets and financial assets at fair value through other comprehensive income were located in the following regions:

	2020	2019
	HK$'000	*HK$'000*
Hong Kong	**337,853**	117,740
Regions outside Hong Kong	**84,091**	20,014
	421,944	137,754

The Group's capital expenditures were incurred in the following regions based on where the assets were located:

	2020	2019
	HK$'000	*HK$'000*
Hong Kong	**79,437**	52,232
Regions outside Hong Kong	**18,178**	3,955
	97,615	56,187

4 EMPLOYEE BENEFIT AND MANPOWER SERVICE EXPENSES

	2020	2019
	HK$'000	*HK$'000*
Wages and salaries	**328,974**	312,913
Pension costs – defined contribution plans *(Note a)*	**12,598**	12,028
Share-based payment expenses	**1,014**	3,147
Other staff welfares	**13,411**	12,063
Total employee benefit expenses (including directors' remunerations)	**355,997**	340,151
Manpower service expenses *(Note b)*	**139**	585
	356,136	340,736

(a) Pension costs – defined contribution plans

Hong Kong

The Group has arranged for its Hong Kong employees to join the Mandatory Provident Fund Scheme (the "MPF Scheme"), which is a defined contribution scheme managed by an independent trustee. Under the MPF Scheme, each of the Hong Kong subsidiaries of the Group and its Hong Kong employees make monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation. The respective monthly contributions made by the Group and the employee are subject to a cap of HK$1,500 with contributions beyond these amounts being voluntary.

The PRC

As stipulated under the relevant rules and regulations in the PRC, the subsidiaries operating in the PRC contribute to state-sponsored retirement plans for its employees. Depending on the provinces of their registered residences and their current regions of work, the employees contribute approximately 0% to 11% (2019: 0% to 11%) of their basic salaries, while the subsidiaries contribute approximately 19% to 31% (2019: 15% to 31%) of the basic salaries of its employees and have no further obligations for the actual payment of pensions or post-retirement benefits beyond the contributions. The state-sponsored retirement plans are responsible for the entire pension obligations payable to the retired employees.

(b) Manpower service expenses

During the years ended 31 March 2020 and 2019, the Group entered into certain manpower service arrangements with several external manpower service organisations in the PRC. Under these arrangements, certain of the Group's manpower requirements were fulfilled by these organisations at agreed service fees whereas the human resources provided were directly employed by the relevant service organisations. The individuals providing services to the Group do not have any employment relationship with the Group.

5 FINANCE (COSTS)/INCOME – NET

	2020	2019
	HK$'000	*HK$'000*
Interest income on bank deposits	**6,281**	4,195
Interest expenses on lease liabilities	**(11,898)**	–
Finance (costs)/income – net	**(5,617)**	4,195

6 RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

(a) The Group's leasing activities and how these are accounted for

The Group leases various stores and offices. Rental contracts are typically made for fixed periods of 2 to 5 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

(b) Movement of right-of-use assets

	2020
	HK$'000
Adoption of HKFRS 16 at 1 April 2019 (Note 2.2)	**217,909**
Acquisition of leases	**135,303**
Depreciation of right-of-use assets	**(99,388)**
Lease modification due to rent concession	**(3,756)**
Exchange differences	**(3,682)**
	246,386

(c) Amounts recognised in the consolidated balance sheet

The consolidated balance sheet shows the following amounts relating to leases:

	31 March 2020	1 April 2019
	HK$'000	*HK$'000*
Right-of-use assets		
Properties	**246,386**	217,909
Lease liabilities		
Non-current	**158,507**	143,225
Current	**93,497**	72,847
	252,004	216,072

(d) **Amounts recognised in the consolidated statement of comprehensive income**

The consolidated statement of comprehensive income shows the following amounts relating to leases:

	2020
	HK$'000
Depreciation of right-of-use assets	
Properties	**99,388**
Interest expenses on leases liabilities *(Note 5)*	**11,898**
Expenses related to short-term leases of stores and offices	**16,092**

7 INCOME TAX EXPENSES

The Group is not subject to taxation in the Cayman Islands and the British Virgin Islands. Hong Kong profits tax has been provided for at the rate of 16.5% (2019: 16.5%) for the year on the estimated assessable profits arising in or derived from Hong Kong. Companies established and operating in the PRC are subject to PRC corporate income tax at the rate of 25% (2019: 25%). Companies incorporated and operating in Macau are subject to Macau complementary tax, under which taxable income of up to MOP600,000 is exempted from taxation with amounts beyond this amount to be taxed at a fixed rate of 12% for the years ended 31 March 2020 and 2019. Company incorporated in Australia is subject to Australian income tax at the rate of 30%.

	2020	2019
	HK$'000	*HK$'000*
Current income taxation		
– Hong Kong profits tax	**41,652**	37,988
– PRC corporate income tax	**35,788**	36,285
– Macau income tax	**5,859**	3,887
	83,299	78,160
Under/(over)-provision in prior years		
– Hong Kong profits tax	**628**	(1,373)
Total current income taxation	**83,927**	76,787
Deferred taxation	**6,494**	8,233
	90,421	85,020

The taxation on the Group's profit before income tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the companies within the Group as follows:

	2020	2019
	HK$'000	*HK$'000*
Profit before income tax	**450,578**	404,053
Tax calculated at the applicable domestic tax rates *(Note a)*	**83,831**	77,685
Income not subject to tax	**(498)**	(163)
Expenses not deductible	**44**	74
Tax effect of unrecognised tax losses	**3,032**	3,531
Utilisation of tax losses previously not recognised	**(3,146)**	(510)
Effect of PRC withholding taxes	**7,170**	6,435
Tax credit *(Note b)*	**(552)**	(571)
Under/(over)-provision in prior years	**628**	(1,373)
Others	**(88)**	(88)
Tax charge	**90,421**	85,020

Notes:

(a) The weighted average applicable tax rate for the year ended 31 March 2020 was 18.6% (2019: 19.2%).

(b) Pursuant to the arrangement between Mainland China and Hong Kong tax authorities on the Avoidance of Double Taxation on Income, the Group is entitled to a Hong Kong profit tax credit for the withholding income tax paid in relation to the royalty income from its PRC companies.

8 EARNINGS PER SHARE

Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2020	2019
Profit attributable to equity holders of the Company (HK$'000)	**360,157**	319,033
Weighted average number of ordinary shares for the purposes of basic earnings per share (thousands of shares)	**1,116,866**	1,103,388
Basic earnings per share (HK cents)	**32.2**	28.9

Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. For the years ended 31 March 2020 and 2019, share options were granted to the Company's executive directors.

For the year ended 31 March 2020, the calculation of diluted earnings per share was based on the profit attributable to equity holders of the Company divided by the diluted weighted average number of ordinary shares of 1,121,075,000 in issue during the year (2019: 1,112,252,000). The diluted earnings per share is HK32.1 cents (2019: HK28.7 cents).

Weighted average number of shares used as the denominator in calculating diluted earnings per share are reconciled as follows:

	2020 Number of shares *(in thousand)*	2019 Number of shares *(in thousand)*
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	**1,116,866**	1,103,388
Adjustments for calculation of diluted earnings per share:		
– Effect of exercise of share options granted on 27 April 2015	**843**	753
– Effect of exercise of share options granted on 27 April 2016	**–**	86
– Effect of exercise of share options granted on 27 April 2017	**1,356**	4,054
– Effect of exercise of share options granted on 27 April 2018	**2,010**	3,971
Weighted average number of ordinary shares used as the denominator in calculating diluted earnings per share	**1,121,075**	1,112,252

9 DIVIDENDS

	2020	2019
	HK$'000	*HK$'000*
Interim, paid, of nil (2019: HK14.5 cents) per ordinary share *(notes i and iii)*	**–**	160,245
Final, proposed, of HK29.0 cents (2019: HK14.4 cents) per ordinary share *(notes ii and iv)*	**323,500**	162,382
Special, proposed, of HK5.0 cents (2019: HK5.0 cents) per ordinary share *(notes ii and iv)*	**55,775**	56,383
	379,275	379,010

Notes:

(i) At a board meeting held on 28 November 2018, the directors declared an interim dividend for the year ended 31 March 2019 of HK14.5 cents per ordinary share, totalling HK$160,245,000, which was paid on 15 January 2019 and was reflected as an appropriation of retained earnings for the year ended 31 March 2019.

(ii) At a board meeting held on 24 June 2019, the directors recommended the payment of a final and special dividend of HK14.4 cents and HK5.0 cents per ordinary share, totalling HK$162,382,000 and HK$56,383,000 respectively, which was paid on 16 September 2019 and was reflected as an appropriation of retained earnings and share premium for the year ended 31 March 2020.

(iii) The directors did not recommend any interim dividend for the year ended 31 March 2020.

(iv) At a board meeting held on 30 June 2020, the directors recommended the payment of a final and special dividend of HK29.0 cents and HK5.0 cents per ordinary share, totalling HK$323,500,000 and HK$55,775,000 respectively. The directors proposed a scrip dividend alternative to all shareholders of the Company in respect of these dividend. The dividend, with scrip dividend alternative was not reflected as dividends payable in these consolidated financial statements, but will be reflected as an appropriation of retained earnings and share premium for the year ending 31 March 2021 respectively after receiving the shareholders' approval at the forthcoming annual general meeting and the Stock Exchange's approval for granting the listing of and permission to deal in the new shares to be issued pursuant to the scrip dividend proposal.

10 TRADE RECEIVABLES

	2020	2019
	HK$'000	*HK$'000*
Trade receivables	**74,666**	153,570

The Group's trade receivables were denominated in the following currencies:

	2020	2019
	HK$'000	*HK$'000*
HK$	**72,419**	146,684
Renminbi ("RMB")	**1,348**	2,885
Macau Patacas ("MOP")	**899**	4,001
	74,666	153,570

There is no concentration of credit risk with respect to trade receivables as there is a dispersed number of financial institutions with high individual credit ratings through which the credit card and instalment sales arrangements are entered into.

The credit terms of the Group's trade receivables generally range from 3 days to 180 days (2019: 3 days to 180 days). The ageing analysis of trade receivables by the dates on which the relevant invoices are issued is as follows:

	2020	2019
	HK$'000	*HK$'000*
Less than 60 days	**40,253**	79,392
60 days to 90 days	**13,991**	24,545
91 days to 120 days	**11,368**	18,193
121 days to 180 days	**9,054**	31,440
	74,666	153,570

As at 31 March 2020, trade receivables of approximately HK$4,231,000 (2019: HK$6,025,000) were past due but not impaired because they were mainly related to a number of financial institutions of high individual credit ratings with no recent history of default. The ageing analysis of these trade receivables by the days of overdue repayment is as follows:

	2020	2019
	HK$'000	*HK$'000*
Less than 60 days	**4,231**	6,025

The credit quality of trade receivables neither past due nor impaired has been assessed by reference to historical information about the counterparty default rates. The existing counter-parties do not have significant defaults in the past.

As at 31 March 2020 and 2019, no collateral was received from these counterparties.

As at 31 March 2020 and 2019 and during the years then ended, no trade receivables was impaired.

11 TRADE PAYABLES

Payment terms with majority of the suppliers are on open account. Certain suppliers grant credit period ranging from 30 days to 180 days (2019: 30 days to 180 days).

At 31 March 2020 and 2019, the ageing analysis of trade payables based on invoice date is as follows:

	2020	2019
	HK$'000	*HK$'000*
Less than 60 days	**379**	208
60 days to 120 days	**8**	9
Over 120 days	**349**	392
	736	609

The Group's trade payables were denominated in the following currencies:

	2020	2019
	HK$'000	*HK$'000*
HK$	**379**	208
RMB	**357**	401
	736	609

MANAGEMENT DISCUSSION AND ANALYSIS

Business overview

Perfect Shape Medical Limited (the "Company") together with its subsidiaries (collectively, the "Group") have achieved strong business growth and maintained encouraging results for the year ended 31 March 2020 (the "FY2020"). This aligns with the strong growth the Group has achieved in recent years due to being a first mover in the provision of premium slimming and non-invasive medical beauty services in Hong Kong, Macau and Mainland China.

The Group will continue to create sustainable value to our stakeholders. The Group continues to focus its deployment of resources in information technology, services and brands to sustain and enhance its competitive advantage as a leader in the market, and further expand its market share in worldwide.

During FY2020, the Group's revenue increased by 4% year-on-year to HK$1,241 million (2019: HK$1,197 million). Profit attributable to equity holders of the Company increased by 13% year-on-year to HK$360 million (2019: HK$319 million). The Group has continued to maintain a strong cash position and possesses considerable operating flexibility to address market challenges. Earnings before interest, tax and depreciation of property, plant and equipment and right-of-use assets increased by 30% year-on-year to HK$611 million (2019: HK$470 million). Basic earnings per share rose to HK32.2 cents compared with HK28.9 cents for the previous period.

Hong Kong Business

During FY2020, revenue contributions from the Hong Kong operation increased by 4% year-on-year to HK$913 million up from HK$879 million in FY2019. The growth in revenue was, however, affected by the challenging macroeconomic environment resulting from social instability and the outbreak of novel coronavirus ("COVID-19") which greatly affected public movement, hence there was a lower volume of customers capable of, or willing to visit, service centres for treatments. On a positive note, the expected downturn in operations has been relatively less significant than the industry average. This suggests that the Group's strategies for managing customers and controlling costs have been successful.

In the face of the recent challenges in Hong Kong, the Group has adopted a proactive approach towards client engagement so as to retain loyal local customers. This has involved directing greater efforts towards non-invasive medical beauty services, which have been enthusiastically received by those seeking safe and effective treatments for enhancing their physical appearance and self-esteem.

In the long term, the management remains confident about the Group's business prospects owing to its exceptional management, which underpins the provision of superior quality services that are essential for tapping the high-potential medical beauty sector. Such potential is expected to only grow, driven by rising concerns about physical appearance and achieving the ideal look that increasingly more middle-class customers seek.

Overseas Business

After a promising start in FY2020, the Group's overseas business experienced a contrasting second half year owing to the uncertain macroeconomic environment and a slowdown in global economic growth. In particular, the performance of the overseas operation began to deteriorate during February and March due to the temporary closure of stores across multiple cities in Mainland China, Macau and Australia as a result of the COVID-19.

Revenue generated from the Mainland China, Macau and Australia markets collectively recorded an increase of 3% year-on-year to HK$328 million (FY2019: HK$318 million) in FY2020, and thus accounted for 26% of the Group's total revenue (FY2019: 27%). Despite the impact of COVID-19 on overall consumption sentiment, the Group has maintained stable revenue growth.

Amid the challenging conditions, the Group has remained agile and prudent towards strengthening relations with its customers, and to be in touch with their beauty and slimming needs. Consequently, this has resulted in the provision of services that exceed their expectations. The Group is therefore delighted to see its efforts rewarded with increased patronage.

Prospects

Despite the difficult business environment in both Hong Kong and Mainland China, the Group was still able to sustain growth as reflected by the rise in profit margins. This can be attributed to a solid customer base and the ability to deliver one-stop slimming and beauty services that not only meet customers' needs, but also are provided all under one roof. Among the signature services of the Group include slimming services, traditional beauty services and non-invasive medical beauty services. Providing one-stop diversified beauty services has helped the Group to drive up key performance metrics, including business volume, spending per customer and profit. Such performance has provided tremendous encouragement to the Group amid the presently harsh business climate, and serves as testament to the robustness of its business foundation.

Hong Kong Operation

With its long history of operating beauty centres in Hong Kong, the Group fully understands customers' needs and can quickly adapt to changing consumption patterns and market trends. In recent years, the Group has adopted a more prudent approach towards new store openings, with a major focus on consolidating its network of stores to enhance their sales and cost effectiveness. Hence, the Group has opened one-stop mega service centres by consolidating several smaller service centres, as well as equipping such stores with the latest and most advanced devices and equipment. This has enabled the Group to better cater for all of the beauty and slimming treatment needs of its customers, while concurrently centralise personnel, equipment and resources to raise efficiency and achieve greater economies of scale.

In respect of customer development, the Group considers Mainland Chinese visitors to Hong Kong as an important driver of long-term growth. In particular, many of the visitors who are seeking beauty treatments recognise the sound regulatory regime that is in place in Hong Kong, as well as the generally high professionalism of local practitioners. Moreover, with the rapid growth in size of the Mainland China middle-class population – numbering approximately 400 million people, they represent a vast source of untapped wealth, many of whom are willing to spend considerable amounts of money on quality and effective treatments. Given that they also prefer visiting licensed and reputable professional institutions which are considered to be more hygienic, comfortable and safe as well as skilled, the Group will continue to open, expand or consolidate its medical beauty centres in core shopping areas and along major transportation hubs connecting Hong Kong and Mainland China to capitalise on this important group of potential customers.

Another sector that the Group envisages promising growth is the male beauty business. With men placing increasing attention on their personal appearance, the number of men visiting beauty centres will invariably rise. Correspondingly, the Group is actively exploring the feasibility of extending non-invasive medical beauty treatments to men under the "Perfect Men" brand. The management is confident that such treatments can become another growth driver in the near future.

China Operation

A study on the attitudes of Mainland Chinese middle-class consumers towards beauty services has revealed that visiting beauty salons has become a routine, particularly among people living in cities. As the beauty industry has developed and technologies have improved, the expectations of female consumers in Mainland China have risen as reflected by requirements that extend beyond traditional beauty treatments. New services, including non-invasive medical beauty and slimming treatments, are becoming increasingly popular.

Leveraging Perfect Shape's strong brand appeal and well-established customer base in Mainland China – the result of a decade's worth of local services, the Group is well-positioned to accelerate growth of its business in the country by growing its footprint to cities adjacent to locations where it already holds presence. In particular, the Group will look to seize opportunities arising from the Guangdong-Hong Kong-Macao Greater Bay Area by bringing Hong Kong's world-class medical beauty technologies to this region. True to its pioneering spirit, the Group will capitalise on the tremendous growth prospects by opening Hong Kong-style one-stop mega beauty centres that benefit both the local and expatriate populations. New openings will also involve stores that are conducive to attracting high-spending customers, including those from nearby cities. The Group is also actively exploring suitable locations within the Greater Bay Area that are beyond Guangzhou and Shenzhen, with particular focus on greenfield sites.

Global Perspective

The Group's proven business model provides it with quiet confidence in its ability to weather the current storm, as well as continue to attract a steady stream of customers. Although certain customers are adjusting the schedule of their treatments, demand for beauty services remains strong and the Group is in a good position to nurture such demand going forward. What is more, industry consolidation is expected on a global level, hence consumers will likely gravitate towards brands with a long history and solid reputation. Mindful of this, the Group will make "Global Expansion" a major objective in the coming years. With its strong position in the market, the Group is well placed to capture not only business opportunities arising from market consolidation, but also investment opportunities around the world that will drive its growth both organically and through acquisitions. The success of the Group's first beauty centre in Australia is a demonstration of the Global Expansion strategy in action, and the Group has a clear development blueprint that will lead to its further penetration of the global beauty market, while concurrently extending its reach to the United States. The Group is also seeking value-for-money investment opportunities, particularly amid industry consolidation resulting from COVID-19. Its aim is to bolster the Group's business presence and bring long-term sustainable returns to its shareholders.

Besides business expansion, delivering exceptional services is of utmost concern. With over 15 years of hands-on management experience in the slimming and beauty sector, the Group fully appreciates the needs of its customers, which include safe, effective and quality services in a relaxing setting. It will therefore continue to satisfy such needs so that customers enjoy fabulous experiences that go above and beyond their expectations. To further increase customer satisfaction, the Group will also closely monitor the ever-changing market environment and shifting consumer demand, so that valid trends are swiftly translated into relevant services.

In regard to medical aesthetic technology, it has undergone significant change over the past decade, and will continue to evolve as new advances appear. Keeping abreast of the latest technologies and medical innovations is therefore of paramount importance. Led by the Group's Chairman, a registered medical practitioner in Hong Kong, the management team is committed to bringing state-of-the-art non-invasive medical beauty treatments to satisfy the enormous demand. Similarly, it will continue to procure new devices that deliver suitable treatment solutions for its customers, many of whom rely on the management team's depth of experience, expert knowledge and astute judgement.

Looking ahead, the Group will continue to provide top-notch experiences, as well as high-quality services that address the needs of sophisticated and quality-conscious customer from around the world. The Group will also look to build on its achievements in order to create an even stronger position from which to extend its market leadership, with the ultimate goal of raising both its profitability and stature over the long run. In this way, the Group will fulfil its commitment to sustaining strong growth momentum and creating greater value for its shareholders.

Liquidity, Financial Resources and Capital Structure

The Group continues to maintain a strong financial position with bank and cash balance of approximately HK$638 million as at 31 March 2020 (2019: HK$400 million), without external bank borrowing. The total equity of the Group as at 31 March 2020 was HK$679 million (2019: HK$561 million). The Group generally finances its operation with internally generated cash flows. The Group's gearing ratio as at 31 March 2020 was nil (2019: nil), based on the short-term and long-term interest bearing bank borrowings and the equity attributable to equity holders of the Company. As at 31 March 2020, the Group had net current assets of approximately HK$404 million (2019: HK$374 million).

Net cash generated from operating activities in FY2020 was approximately HK$644 million (FY2019: HK$453 million). With the healthy bank and cash balances on hand, the Group's liquidity position remains strong and it has sufficient financial resources to fund its future plans but at the same time to meet its working capital requirement.

Foreign Exchange Exposure

The Group principally engages its business operation in Hong Kong, Macau, Mainland China and Australia. The Group has subsidiaries operating in Mainland China, Macau and Australia, in which most of their transactions are denominated and settled in Chinese Renminbi ("RMB"), Macau Patacas ("MOP") and Australian dollar ("AUD"). In respect of transactions settled in RMB, MOP and AUD, the Group did not have significant exposure to foreign exchange rate risk during the year due to the transactions being generally denominated in the functional currency of the respective group companies. The Group has not entered into any foreign exchange contract as hedging measures.

Employees and Remuneration Policies

The Group adheres to a strong belief that one of the most valuable assets of a corporation is its employees. The Group values its human resources and recognises the importance of attracting and retaining qualified staff for its continuing success. Maintaining the quality of service from our well-skilled professionals is crucial in strengthening our competitiveness.

The Group employed a total work force of 1,173 employees as at 31 March 2020 (2019: 1,119 employees). The Group's remuneration policies are in line with the prevailing market practices and are determined on the basis of performance and experience of the individual. The Group has been constantly reviewing staff remuneration package to ensure it is competitive with relevant industries.

Capital Commitments

As at 31 March 2020 and 2019, the Group had the following capital commitments:

	2020	2019
	HK$'000	*HK$'000*
Capital expenditure contracted for but not yet incurred in respect of acquisition of property, plant and equipment	**5,634**	8,162

Significant Investments

The information of the Group's significant investments held at 31 March 2020 stated in this announcement is as follow:

(a) *Listed equity securities in Hong Kong*

Stock code	Name of investment	Principal business	Nature of investment	Number of shares	Percentage of total share capital	Investment cost *HK$'000*	Fair value as at 31.3.2020 *HK$'000*	Unrealised loss on change in fair value during the year *HK$'000*	Dividend received *HK$'000*	Percentage to the Group's total assets
0066	MTR Corporation Limited	Principally engaged in railway operation	Investment in shares	500,000	0.0081%	23,106	20,014	(3,092)	87	1.54%
0011	Hang Seng Bank Limited	Mainly engaged in the banking business	Investment in shares	130,000	0.0068%	21,257	17,218	(4,039)	84	1.33%
						44,363	37,232	(7,131)	171	

(b) *Unit trusts held by banks*

Name of investment	Number of units held	Investment cost *HK$'000*	Fair value as at 31.3.2019 *HK$'000*	Fair value as at 31.3.2020 *HK$'000*	Unrealised loss on change in fair value during the year *HK$'000*	Dividend received *HK$'000*	Percentage to the Group's total assets
Blackrock Asian Tiger Bond Fund	1,048,184	11,520	11,446	10,838	(608)	424	0.84%
HSBC Asian Bond Fund	1,153,589	11,595	11,636	11,101	(535)	459	0.85%
PIMCO Global Investment Grade Credit Fund	112,349	11,965	12,136	11,586	(550)	232	0.89%
		35,080	35,218	33,525	(1,693)	1,115	

Dividend

The Directors recommended a payment of a final dividend equivalent to HK29.0 cents per Share and a special dividend of HK5.0 cents per Share for the year ended 31 March 2020 subject to the approval of the Shareholders at the AGM to the Shareholders whose names appear on the register of members of the Company on Thursday, 20 August 2020.

The Directors proposed that Shareholders be given the option to receive the final dividend and special dividend in new shares in lieu of cash. The scrip dividend proposal is subject to: (1) the approval of the proposed final dividend at the AGM to be held on 7 August 2020; and (2) The Stock Exchange of Hong Kong Limited ("Stock Exchange") granting the listing of and permission to deal in the new shares to be issued pursuant to the scrip dividend proposal.

A circular containing details of the scrip dividend proposal will be despatched to Shareholders together with the form of election for scrip dividend on or about Tuesday, 1 September 2020. It is expected that the final dividend and special dividend warrants and share certificates for the scrip dividend will be despatched to Shareholders on or about Tuesday, 6 October 2020.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 4 August 2020 to Friday, 7 August 2020 (both dates inclusive) during which period no transfer of shares will be registered. In order to attend and vote at the AGM, all transfers of shares accompanied by the relevant share certificates and transfer forms must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration no later than 4:30 p.m. on Monday, 3 August 2020.

The proposed final dividend and special dividend are subject to the approval of the Shareholders at the AGM. The record date for the proposed final dividend and special dividend are at the close of business on Tuesday, 25 August 2020. For determining the entitlement to the proposed final dividend and special dividend, the register of members of the Company will be closed from Friday, 21 August 2020 to Tuesday, 25 August 2020 (both dates inclusive), during which period no transfer of Shares will be registered. In order to qualify for the proposed final dividend and special dividend, all relevant transfer document(s) and share certificate(s) must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration no later than 4:30 p.m. on Thursday, 20 August 2020.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

(a) During the year ended 31 March 2020, the Company repurchased 12,136,000 of its own shares. The total amount paid for this repurchase was HK$41,959,000 and was charged to share premium within shareholders' equity. All of the repurchased 12,136,000 shares were cancelled during the year.

Month of repurchase	Number of ordinary Shares repurchased	Purchase price paid per Share Highest	Purchase price paid per Share Lowest	Aggregate consideration paid (including transaction costs)
		HK$	*HK$*	*HK$*
November 2019	8,136,000	3.71	3.40	29,092,000
December 2019	3,000,000	3.64	3.42	10,737,000
March 2020	1,000,000	2.15	1.98	2,130,000
	12,136,000			41,959,000

(b) During the year ended 31 March 2020, the Company issued 22,512,000 (2019: 19,136,000) shares for proceeds of approximately HK$29,964,000 (2019: HK$19,983,000), as a result of the exercise of share options. The weighted average exercise price was approximately HK$1.331 per share (2019: HK$1.044 per share). As a result, HK$2,251,000 (2019: HK$1,914,000) was credited to the share capital account and HK$27,713,000 (2019: HK$18,069,000), being proceeds received net of the nominal value of the issued shares were credited to the share premium account. An amount of HK$6,678,000 (2019: HK$4,381,000) previously included in share-based compensation reserve was reclassified to the share premium account upon the issuance of share options.

Save as disclosed above, during the year ended 31 March 2020, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE PRACTICES

During the year ended 31 March 2020, the Company has complied with the Corporate Governance Code and Corporate Governance Report (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Exchange (the "Listing Rules") except the issues mentioned in the following paragraphs:

According to the code provision A.2.1 of the CG Code, the roles of the chairman and the chief executive officer should be separated and should not be performed by the same individual. During FY2020, Dr. Au-Yeung Kong is both the chairman of the Board (the "Chairman") and the chief executive officer of the Company (the "CEO"); therefore, the Group does not at present separate the roles of the Chairman and the CEO.

The Board considered that Dr. Au-Yeung Kong has in-depth knowledge and experience in the slimming and beauty industry and is the appropriate person to manage the Group. Therefore, the roles of the Chairman and the CEO performed by the same individual, Dr. Au-Yeung Kong, is beneficial to the business prospects and management of the Group. The Board believes that vesting the roles of both Chairman and Chief Executive Officer in the same individual can provide the Company with strong and consistent leadership and allows for effective and efficient planning and implementation of business decisions and strategies. Notwithstanding the above, the Board will review the current structure from time to time. If any candidate with suitable leadership, knowledge, skills and experience can be identified within or outside the Group, the Company may consider to make necessary arrangements.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code"). Specific enquiry has been made to each of the Directors and all Directors have confirmed that they have complied with the Model Code during the year ended 31 March 2020.

AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") was established on 5 December 2011 with written terms of reference which was revised on 20 March 2012, 15 January 2016 and 28 December 2018 in compliance with the CG Code and is available on the websites of the Stock Exchange and the Company. The primary duties of the Audit Committee are to review the financial information of the Group, oversee the financial reporting process and risk management and internal control procedures of the Group, and oversee the relationship with the Company's external auditor.

The Audit Committee comprises three independent non-executive directors, namely, Ms. Hsu Wai Man, Helen, Mr. Chi Chi Hung, Kenneth and Ms. Cho Yi Ping. Ms. Hsu Wai Man, Helen is the chairman of the Audit Committee.

The Audit Committee has reviewed the accounting standards and practices adopted by the Group and discussed with the management about the risk management, internal control and financial reporting matters, including reviewing the financial statements and annual results for the year ended 31 March 2020.

SCOPE OF WORK OF PRICEWATERHOUSECOOPERS

The figures in respect of the Group's consolidated balance sheet, consolidated statement of comprehensive income, and the related notes thereto for the year ended 31 March 2020 as set out in this annual results announcement have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on this annual results announcement.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This annual results announcement is published on the Company's website (http://www.perfectshape.com.hk) and the Exchange's website (http://www.hkex.com.hk). The 2020 annual report for the year ended 31 March 2020 containing all the information required by the Listing Rules will be despatched to the Shareholders and available on the same websites in due course.

By order of the Board
Perfect Shape Medical Limited
Dr. Au-Yeung Kong
Chairman

Hong Kong, 30 June 2020

As at the date of this announcement, the Board comprises Dr. Au-Yeung Kong, Ms. Au-Yeung Wai and Ms. Au-Yeung Hung as executive directors of the Company and Ms. Hsu Wai Man, Helen, Ms. Cho Yi Ping and Mr. Chi Chi Hung, Kenneth as independent non-executive directors of the Company.