MODERN BEAUTY SALON HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 919)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2016

FINANCIAL HIGHLIGHTS

- The Group's revenue decreased by 10.3% to HK$361.4 million as compared to the same period last year.

- Gross receipts from sales of prepaid beauty packages decreased from approximately HK$350.4 million for the same period last year to approximately HK$303.2 million for the period under review.

- Profit for the period under review attributable to equity shareholders was approximately HK$17.2 million, representing an increase of 203.4% compared with approximately HK$5.7 million for the same period last year.

- The Board recommended the payment of an interim dividend of HK1 cent per ordinary share for the period under review.

OPERATIONAL HIGHLIGHTS

- The Group operated a total of 38 service centres in Mainland China, Hong Kong and Taiwan with a total weighted average gross floor area of approximately 257,300 square feet.

- The Group had 12 and 2 beauty service centres in Singapore and Malaysia respectively, with a total weighted average gross floor area of approximately 23,100 square feet and approximately 4,000 square feet respectively.

- Customer number in Hong Kong and Singapore reached approximately 403,000 and 104,000 respectively.

The Board of Directors (the "Board"or the "Directors") of Modern Beauty Salon Holdings Limited (the "Company") are pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 30 September 2016 (the "period under review").

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
For the six months ended 30 September 2016

		Six months ended 30 September	
		2016	2015
	Note	***HK$'000***	*HK$'000*
		(unaudited)	(unaudited)
Revenue	*5*	**361,410**	402,735
Other income	*6*	**2,298**	1,150
Cost of inventories sold		**(9,765)**	(15,134)
Advertising costs		**(2,560)**	(3,003)
Building management fees		**(7,085)**	(7,762)
Bank charges		**(14,920)**	(17,672)
Employee benefit expenses		**(181,647)**	(206,523)
Depreciation and amortisation		**(19,215)**	(23,584)
Occupancy costs		**(72,864)**	(81,094)
Other operating expenses		**(35,951)**	(43,361)
Profit from operations		**19,701**	5,752
Interest income		**310**	1,720
Finance costs	*7(a)*	**(49)**	(121)
Fair value changes on investment properties		**86**	590
Fair value change on purchase consideration		**1,250**	885
Share of profit of an associate		**–**	2
Share of (loss)/profit of a joint venture		**(41)**	118
Profit before taxation	*7*	**21,257**	8,946
Income tax expense	*8*	**(3,793)**	(3,212)
Profit for the period		**17,464**	5,734
Attributable to:			
Equity shareholders of the Company		**17,194**	5,667
Non-controlling interests		**270**	67
Profit for the period		**17,464**	5,734
Earnings per share *(HK cents)*	*9*		
Basic		**1.97**	0.65
Diluted		**1.79**	0.60

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 September 2016

	Note	Six months ended 30 September **2016** *HK$'000* (unaudited)	2015 *HK$'000* (unaudited)
Profit for the period		**17,464**	5,734
Other comprehensive income for the period (after tax and reclassification adjustments):			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		**(711)**	(832)
Reclassification adjustment upon loss of joint control of a joint venture		**675**	–
Other comprehensive income for the period		**(36)**	(832)
Total comprehensive income for the period		**17,428**	4,902
Attributable to:			
Equity shareholders of the Company		**17,158**	4,835
Non-controlling interests		**270**	67
Total comprehensive income for the period		**17,428**	4,902

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 September 2016

	Note	**At 30 September 2016 HK$'000 (unaudited)**	At 31 March 2016 HK$'000 (audited)
Non-current assets			
Property, plant and equipment		**79,152**	96,717
Investment properties		**12,786**	12,700
Intangible assets		**2,451**	–
Goodwill		**697**	–
Interest in an associate		**80**	80
Interest in a joint venture		**–**	4,205
Deposits	*11*	**12,021**	15,119
Deferred tax assets		**17,248**	16,389
		124,435	145,210
Current assets			
Inventories		**27,143**	21,977
Trade and other receivables, deposits and prepayments	*11*	**212,524**	213,206
Tax recoverable		**9,119**	15,697
Pledged bank deposits		**54,137**	53,857
Cash and bank balances		**354,343**	366,652
		657,266	671,389
Current liabilities			
Trade and other payables, deposits received and accrued expenses	*12*	**89,691**	89,029
Deferred revenue	*13*	**504,179**	547,224
Convertible note		**712**	2,503
Dividend payable	*14(b)*	**5,244**	–
Tax payable		**4,949**	14,342
		604,775	653,098
Net current assets		**52,491**	18,291
Total assets less current liabilities		**176,926**	163,501

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

At 30 September 2016

	Note	**At 30 September 2016** *HK$'000* **(unaudited)**	At 31 March 2016 *HK$'000* (audited)
Non-current liabilities			
Deferred tax liabilities		**508**	375
Purchase consideration payable for an acquisition		**–**	1,259
		508	1,634
NET ASSETS		**176,418**	161,867
CAPITAL AND RESERVES			
Share capital		**87,400**	87,400
Reserves		**85,876**	73,962
Total equity attributable to equity shareholders of the Company		**173,276**	161,362
Non-controlling interests		**3,142**	505
TOTAL EQUITY		**176,418**	161,867

NOTES

For the six months ended 30 September 2016

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 and its subsidiaries (the "Group") are principally engaged in the provision of beauty and wellness services and 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 BASIS OF PREPARATION

The interim results set out in the announcement do not constitute the Group's interim financial report for the six months ended 30 September 2016 but are extracted from the report.

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard ("HKAS") 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The interim financial report has been prepared in accordance with the same accounting policies adopted in the annual financial statements for the year ended 31 March 2016, except for the new and changes in accounting policies that are expected to be reflected in the annual financial statements for the year ending 31 March 2017. Details of any changes in accounting policies are set out in note 3.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the annual financial statements for the year ended 31 March 2016. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the HKICPA.

The financial information relating to the financial year ended 31 March 2016 that is included in the interim financial report as comparative information does not constitute the Company's statutory annual consolidated financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 March 2016 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 29 June 2016.

3 NEW AND CHANGES IN ACCOUNTING POLICIES

(a) 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.

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.

(b) Intangible assets (other than goodwill)

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

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

– Customer relationship 6 years

Both the period and method of amortisation are reviewed annually.

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

(c) The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following amendments are relevant to the Group:

– *Annual Improvements to HKFRSs 2012 – 2014 Cycle*

– *Amendments to HKAS 1, Presentation of financial statements: Disclosure initiative*

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

Annual Improvements to HKFRSs 2012 – 2014 Cycle

This cycle of annual improvements contains amendments to four standards. Among them, HKAS 34, *Interim financial reporting*, has been amended to clarify that if an entity discloses the information required by the standard outside the interim financial statements by a cross-reference to the information in another statement of the interim financial report, then users of the interim financial statements should have access to the information incorporated by the cross-reference on the same terms and at the same time. The amendments do not have an impact on the Group's interim financial report as the Group does not present the relevant required disclosures outside the interim financial statements.

Amendments to HKAS 1, Presentation of financial statements: Disclosure initiative

The amendments to HKAS 1 introduce narrow-scope changes to various presentation requirements. The amendments do not have a material impact on the presentation and disclosure of the Group's interim financial report.

4 SEGMENT INFORMATION

The Group has two reportable segments as follows:

Beauty and wellness services – Provision of beauty and wellness services

Skincare and wellness products – Sales of skincare and wellness products

The Group's reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology and marketing strategies.

The accounting policies of the operating segments are the same as those described in the Group's annual financial statements for the year ended 31 March 2016. Segment profits do not include other income, interest income, finance costs, fair value changes on investment properties and purchase consideration, share of profits/(losses) of an associate and a joint venture, unallocated costs, which comprise corporate administrative expenses, and income tax expense. Segment assets do not include properties held for corporate uses, investment properties, interests in an associate and a joint venture, deferred tax assets and tax recoverable. Segment liabilities do not include dividend payable, tax payable, convertible note, deferred tax liabilities, amounts due to related companies and the ultimate controlling party and purchase consideration payable for an acquisition.

(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 periods is set out below.

	Beauty and wellness services *HK$'000* **(unaudited)**	**Skincare and wellness products** *HK$'000* **(unaudited)**	**Total** *HK$'000* **(unaudited)**
For the six months ended 30 September 2016			
Revenue from external customers	**345,705**	**15,705**	**361,410**
Reportable segment profit	**26,654**	**7,521**	**34,175**
As at 30 September 2016			
Reportable segment assets	**714,285**	**11,498**	**725,783**
Reportable segment liabilities	**583,373**	**10,408**	**593,781**

	Beauty and wellness services *HK$'000* (unaudited)	Skincare and wellness products *HK$'000* (unaudited)	Total *HK$'000* (unaudited)
For the six months ended 30 September 2015			
Revenue from external customers	385,668	17,067	402,735
Reportable segment profit	19,610	7,231	26,841
As at 31 March 2016			
Reportable segment assets	744,439	7,413	751,852
Reportable segment liabilities	625,339	10,825	636,164

(b) **Reconciliations of reportable segment profit or loss**

	Six months ended 30 September	
	2016	2015
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Reportable segment profit	**34,175**	26,841
Other income	**2,298**	1,150
Interest income	**310**	1,720
Finance costs	**(49)**	(121)
Fair value changes on investment properties	**86**	590
Fair value change on purchase consideration	**1,250**	885
Share of profit of an associate	**–**	2
Share of (loss)/profit of a joint venture	**(41)**	118
Unallocated costs	**(16,772)**	(22,239)
Income tax expense	**(3,793)**	(3,212)
Consolidated profit for the period	**17,464**	5,734

5 REVENUE

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

The amount of each significant category of revenue recognised during the period is as follows:

	Six months ended 30 September	
	2016	2015
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Revenue recognised from provision of beauty and wellness services and expiry of prepaid beauty packages	**345,705**	385,668
Sales of skincare and wellness products	**15,705**	17,067
	361,410	402,735

6 OTHER INCOME

	Six months ended 30 September	
	2016	2015
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Commission income	**–**	20
Foreign exchange gain, net	**445**	–
Net gain on disposals of property, plant and equipment	**144**	–
Rental income	**268**	268
Others	**1,441**	862
	2,298	1,150

7 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Finance costs

	Six months ended 30 September	
	2016	2015
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Interest on convertible note wholly repayable within five years	**49**	121

(b) Other items

	Six months ended 30 September	
	2016	2015
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Auditor's remuneration		
– Current	**1,750**	1,862
Directors' remuneration	**6,198**	6,137
Foreign exchange loss, net	**–**	7,717
Net loss on disposals of property, plant and equipment	**–**	427
Loss on deemed disposal of previously owned equity interest of a joint venture	**1,802**	–

8 INCOME TAX EXPENSE

	Six months ended 30 September	
	2016	2015
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Current tax – Hong Kong Profits Tax	**2,673**	2,823
Current tax – Overseas	**2,048**	3,025
Deferred taxation	**(928)**	(2,636)
	3,793	3,212

Hong Kong Profits Tax is calculated at 16.5% (30 September 2015: 16.5%) of the estimated assessable profits for the period.

Tax charge on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretation and practices in respect thereof.

9 EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following:

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of HK$17,194,000 (30 September 2015: HK$5,667,000) and the weighted average of 873,996,190 ordinary shares (30 September 2015: 873,996,190 ordinary shares) in issue during the interim period.

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of HK$17,243,000 (30 September 2015: HK$5,788,000) and the weighted average number of 961,615,238 ordinary shares (30 September 2015: 961,615,238 ordinary shares), calculated as follows:

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

	Six months ended 30 September	
	2016	2015
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Profit attributable to ordinary equity shareholders	**17,194**	5,667
After tax effect of effective interest on the liability component of convertible note	**49**	121
Profit attributable to ordinary equity shareholders (diluted)	**17,243**	5,788

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

	Six months ended 30 September	
	2016	2015
	(unaudited)	(unaudited)
Weighted average number of ordinary shares	**873,996,190**	873,996,190
Effect of conversion of convertible note	**87,619,048**	87,619,048
Weighted average number of ordinary shares (diluted)	**961,615,238**	961,615,238

The Company's share options and unlisted warrants as at 30 September 2016 and 2015 do not give rise to any dilution effect to the earnings per share.

10 BUSINESS COMBINATION

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

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

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

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

According to HKFRS 3, a step acquisition is accounted for using the acquisition method of accounting. Therefore the initial equity investments are remeasured to fair value as at the acquisition date and any gain or loss arising from the acquisition is recognised in the statement of profit or loss. The initial equity investments are deemed to have been disposed of, in return, with the consideration transferred for the total 51% equity interest in Care Plus. The fair values of the initial equity investments form one of the components to calculate goodwill, along with the consideration transferred and non-controlling interests, if any, less the fair value of the identifiable net assets of Care Plus. The aggregate loss on deemed disposal of the initial equity investments is HK$1,802,000, which is recognised in the Group's consolidated statement of profit or loss (note 7(b)).

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

Fair value of net assets:

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

Acquisition method of accounting:

	HK$'000
	(unaudited)
Fair value of existing 49% equity interest in Care Plus	3,037
Financial assets in relation to 2% equity interest in Care Plus	124
Total deemed consideration for 51% equity interest in Care Plus	3,161
Less: Fair value of net assets	(4,831)
Add: Non-controlling interest (49% x HK$4,831,000)	2,367
Goodwill *(note)*	697

Note: Goodwill of HK$697,000 was recognised which represented the future economic benefits arising from assets acquired that are not currently individually identified and separately recognised. None of the goodwill recognised is expected to be deductible for income tax purposes.

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

The revenue and profit of Care Plus included in the consolidated statement of profit or loss and other comprehensive income from 24 May to 30 September 2016 were HK$831,000 and HK$82,000, respectively. Had Care Plus been consolidated from 1 April 2016, the Group's revenue and profit for the period would be HK$361,410,000 and HK$17,620,000, respectively.

11 TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	At 30 September 2016 *HK$'000* (unaudited)	At 31 March 2016 *HK$'000* (audited)
Non-current asset		
Deposits	**12,021**	15,119
Current assets		
Trade receivables	**37,700**	43,366
Less: allowance for doubtful debts	**(828)**	(828)
	36,872	42,538
Trade deposits retained by banks/credit card companies *(note)*	**133,799**	134,094
Rental and other deposits, prepayments and other receivables	**41,274**	36,303
Amounts due from related companies	**579**	271
	212,524	213,206
	224,545	228,325

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

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

	At 30 September 2016 *HK$'000* (unaudited)	At 31 March 2016 *HK$'000* (audited)
0 – 30 days	**18,981**	22,996
31 – 60 days	**7,686**	7,128
61 – 90 days	**6,809**	7,809
91 – 180 days	**3,334**	4,605
Over 180 days	**62**	–
	36,872	42,538

The Group's revenue comprises mainly cash and credit card sales. Trade receivables are due within 7-180 days (31 March 2016: 7-180 days), from the date of billing.

12 TRADE AND OTHER PAYABLES, DEPOSITS RECEIVED AND ACCRUED EXPENSES

	At 30 September 2016 *HK$'000* (unaudited)	At 31 March 2016 *HK$'000* (audited)
Trade payables	**412**	742
Other payables, deposits received and accrued expenses	**89,190**	88,198
Amount due to the ultimate controlling party	**2**	2
Amounts due to related companies	**87**	87
	89,691	89,029

An ageing analysis of trade payables, based on the invoice date, is as follows:

	At 30 September 2016 *HK$'000* (unaudited)	At 31 March 2016 *HK$'000* (audited)
Within 90 days	**374**	704
Over 90 days	**38**	38
	412	742

13 DEFERRED REVENUE

An ageing analysis of deferred revenue, based on the invoice date, is as follows:

	At 30 September 2016 *HK$'000* (unaudited)	At 31 March 2016 *HK$'000* (audited)
Within 1 year	**504,179**	547,224

14 DIVIDENDS

(a) Dividends payable to equity shareholders attributable to the interim period:

	Six months ended 30 September	
	2016	2015
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Interim dividend declared and paid after the interim period of HK1 cent per ordinary share (30 September 2015: HK0.4 cent per ordinary share)	**8,740**	3,496

The interim dividends have not been recognised as a liability at the end of the interim reporting period.

(b) Dividends payable to equity shareholders attributable to the previous financial year, approved during the interim period:

	Six months ended 30 September	
	2016	2015
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Final dividend in respect of the previous financial year, approved during the following interim period, of HK0.6 cents per ordinary share (30 September 2015: HK2.1 cents per ordinary share)	**5,244**	18,354

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Hong Kong

In 2016, the real GDP growth rate in Hong Kong was 1.9% in the third season, picking up from the 1.7% expansion registered in the second season, which brought economic growth for the first nine months of 2016 to 1.4%. It is believed that Hong Kong's low growth environment and conservative consumer spending is likely to persist under the expectations for a weakening economy, and the beauty industry will inevitably continue to suffer. Nonetheless, leveraging on our excellent brand recognition and solid client base, our management is confident of the further prospects of our business.

The Group is currently operating 29 beauty and spa service centers with a total gross floor area of approximately 224,400 square feet, decreased by 10.6% when compared with the figure of 251,100 square feet as at 30 September 2015. 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-aging treatments and machineries, such as UltrashapeV3 which has been cleared and approved by the FDA in US. Unlike other popular body contouring procedures, UltraShape doesn't require extreme heat or cold to destroy fat. Instead, it harnesses ultrasound waves, which shake the fat cells until the membranes collapse. Then the destroyed fat cell particles are filtered through the liver and digested through the body.

With regard to the sales of skincare and wellness products, as of 30 September 2016, the Group had a total of 15 stores under the names of "p.e.n" and "be Beauty Shop", locating across Hong Kong, Kowloon and the 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", which can fulfill the needs of customers with different skin types.

During the period under review, our service income and receipts from prepaid beauty packages in Hong Kong amounted to HK$291,824,000 and HK$261,316,000 respectively, representing a decrease of 6.9% and 11.9% respectively, as compared to the same period last year.

Mainland China

Our Mainland China operations are conducted through 3 wholly owned foreign enterprises established in Beijing, Shanghai and Guangzhou in the People's Republic of China. These 3 wholly owned foreign enterprises operate a total of 7 service centres at the 3 cities referred to. During the period under review, our service income and receipts from prepaid beauty packages in Mainland China amounted to HK$11,600,000 and HK$11,014,000 respectively, representing a decrease of 16.9% and 14.4% respectively, as compared to the same period last year.

During the period under review, one shop in Beijing was closed to rationalise our operation. 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

The Group operates a total of 14 beauty and wellness service centres in Singapore and Malaysia, decreased by 5 stores compared with the same period last year. During the period under review, our Singapore and Malaysia operations reported a revenue of HK$39,640,000. Receipts from sales of prepaid beauty packages amounted to HK$27,549,000, while revenue from services rendered amounted to HK$38,898,000, decreased by 27.1% and 30.1% respectively when compared with 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 2 service centres in Taiwan. We will continue to maintain a prudent approach in developing the local business.

FINANCIAL REVIEW

Revenue

Revenue of the Group was mainly contributed by the beauty, facial and slimming services. For the six months ended 30 September 2016, revenue of the Group decreased by 10.3% to HK$361,410,000 as compared to the same period last year due to the weakened economy in different business regions.

Set out below is a breakdown of the revenue of the Group by service lines and product sales during the period under review:

	For the six months ended 30 September				
	2016		2015		
Sales mix	***HK$'000***	***Percentage of Revenue***	*HK$'000*	*Percentage of Revenue*	**Change**
Beauty and facial	**260,289**	**72.0%**	288,828	71.7%	**-9.9%**
Slimming	**54,738**	**15.2%**	59,008	14.7%	**-7.2%**
Spa and massage	**30,678**	**8.5%**	37,817	9.4%	**-18.9%**
Fitness	**–**	**0.0%**	15	0.0%	**-100%**
Beauty and wellness services	**345,705**	**95.7%**	385,668	95.8%	**-10.4%**
Sales of skincare and wellness products	**15,705**	**4.3%**	17,067	4.2%	**-8.0%**
Total	**361,410**	**100.0%**	402,735	100.0%	**-10.3%**

Compared to the same period last year, the Group's revenue from beauty and facial services for ladies decreased by 9.6% to HK$231,557,000 (2015: HK$256,161,000), while revenue from beauty and facial services for men decreased by 12.0% to HK$28,732,000 (2015: HK$32,667,000). Revenue from the slimming service decreased to HK$54,738,000 in the period under review, down by approximately 7.2% from approximately HK$59,008,000 in the same period of 2015.

Meanwhile, spa and massage revenue for the Group in the period under review decreased by 18.9% to HK$30,678,000. As for the product revenue, it decreased by 8.0% to HK$15,705,000 as compared to the same period last year, which was mainly attributed to the restructuring of our product portfolio in order to suit the customer needs.

Employee benefit expenses

Employee benefit expenses represent the largest component of the Group's operating expenses, decreased by approximately 12.0% to HK$181,647,000 comparing to HK$206,523,000 for the same period last year. The total headcount of the Group as at 30 September 2016 decreased by 16.5% to 1,474, as compared to a headcount of 1,761 for the same period last year. The drop of employee benefits expenses and headcount is mainly due to the continuous cost efficiency that we endeavor to pursue. In order to attract and retain the talents to enhance the competitive advantages of the Group, elite system has been launched since 2010 to provide comprehensive training to improve the staff's customer services skills. Eminent employees with excellent performance will be entitled to discretionary bonuses offered by the management in recognition of their contribution. Employee benefits expenses accounted for 50.3% of our revenue, as compared to 51.3% for the same period last year.

Occupancy costs

During the period under review, the Group's occupancy costs were approximately HK$72,864,000 (2015: HK$81,094,000), accounting for approximately 20.2% of our revenue (2015: 20.1%). As of 30 September 2016, the Group operated a total of 38 service centres in Mainland China, Hong Kong and Taiwan with a total weighted average gross floor area of 257,300 square feet, representing a decrease of 11.6% as compared to 291,000 square feet for the same period last year. As of 30 September 2016, the Group had 12 and 2 service centres in Singapore and Malaysia respectively, with a total weighted average gross floor area of approximately 23,100 square feet and approximately 4,000 square feet respectively.

Other operating expenses

Other operating expenses mainly include bank charges, depreciation and amortisation, advertising costs, utilities, building management fees and foreign exchange gains and losses. Bank charges decreased by 15.6% to HK$14,920,000 during the period under review. Depreciation and amortisation decreased to HK$19,215,000 or by 18.5% with some new shops opening and some older ones closing down. Advertising costs decreased to HK$2,560,000, as compared to HK$3,003,000 for the same period last year. The percentage of advertising costs to total revenue was the same as the same period last year which was 0.7%.

Net profit and net profit margin

For the six months ended 30 September 2016, the net profit was approximately HK$17,464,000, representing an increase of 204.6% as compared to HK$5,734,000 for the same period last year. Net profit margin improved from 1.4% for the same period last year to 4.8% for the period under review. 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. Basic earnings per share for the period under review was HK1.97 cents as compared to the earnings per share of HK0.65 cent for the same period last year.

Interim dividend

The Board has approved to pay an interim dividend of HK1 cent per share for the six months ended 30 September 2016, totaling HK$8,740,000 (interim dividend for 2015: HK0.4 cent, totaling HK$3,496,000).

The total interim dividend of HK1 cent per share will be paid on or around 6 January 2017 to the shareholders whose names appeared on the register of shareholders of the Company at the close of business on 16 December 2016.

Closure of register of members

The register of members of the Company will be closed from 14 December 2016 to 16 December 2016, both days inclusive, during which period no transfer of share will be effected. In order to qualify for the interim dividend, 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, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on 13 December 2016.

Liquidity, capital structure and treasury policies

During the period under review, we maintained a strong financial position. The total equity of the Group as at 30 September 2016 was HK$176,418,000. Cash and bank balances as at 30 September 2016 amounted to HK$354,343,000 (31 March 2016: HK$366,652,000) with no bank borrowings. The Group generally finances its liquidity requirements through the receipts from sales of prepaid beauty packages and collection of credit card prepayment from banks.

During the period under review, except for the fund required for operation, the majority of the Group's cash was held under fixed and savings deposits in banks at an annualised yield of approximately 0.17%. During the period under review, the Group did not have any other security or capital investments, derivative investments, or hedging on foreign currencies.

Capital expenditure

The total capital expenditure of the Group during the six months ended 30 September 2016 was approximately HK$1,174,000, which was mainly used for the addition of leasehold improvements, motor vehicles and equipment and machinery in connection with the expansion and integration of its service and retail networks in various regions. The capital expenditure for the same period last year was approximately HK$11,168,000.

Contingent liabilities and capital commitment

The Group had capital commitment mainly for the acquisition of machinery, equipment and plant. The Board considered that there were no material contingent liabilities as at 30 September 2016. The Group had capital commitment of HK$80,000 as at 30 September 2016 (31 March 2016: HK$290,000) in respect of the acquisition of plant and equipment.

Charges on assets

As of 30 September 2016, the Group had pledged bank deposits of HK$54.1 million (31 March 2016: HK$53.9 million) in favour of certain banks to secure banking facilities granted to certain subsidiaries in the Group.

Foreign exchange risk exposures

The Group's transactions were mainly denominated in Hong Kong Dollars. However, the exchange rates of Hong Kong Dollars against foreign currencies also affected the operating costs as the Group expanded its business to Mainland China, Southeast Asian regions and Australia. Therefore, the management will closely assess the foreign currency risk exposures faced by the Group, and will take the necessary actions to properly hedge such exposures.

Human resources and training

Total employee benefit expenses including directors' emoluments for the period under review amounted to HK$181,647,000, representing a 12.0% decrease as compared to HK$206,523,000 for the same period last year. The Group had a workforce of 1,474 staff as of 30 September 2016 (30 September 2015: 1,761 staff), including 1,127 front-line service centre staff in Hong Kong, 75 in Mainland China and 129 in Singapore, Malaysia and Taiwan. Back office staff totaled 95 in Hong Kong, 17 in Mainland China and 31 in Singapore, Malaysia, Taiwan and Australia. To ensure our service quality, the Group regularly offers appropriate trainings to its staff, including the safe application of the latest beauty technology, exchanging of tips on service techniques, and in-depth introduction of our services and products. The trainings are designed by the Group's senior management, who are also responsible for certain teaching and sharing of experiences. During the training, the Group also encourages its staff to raise questions and express their opinions, which facilitates the interaction between the senior management and the general staff. Meanwhile, the sound communication between the management and the staff enables the management to understand the daily operations of the Group in a more efficient manner.

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 employees. The Remuneration Committee also reviews the remuneration policies and packages of executive directors and the senior management. 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. Share options and discretionary bonus are also granted to eligible employees based on the Group's results and individual performance of the employees. The Group has adopted the share option scheme since 20 January 2006. As at 30 September 2016, a total of 6,120,000 share options had been granted to certain directors, senior management and employees of the Group.

Pursuant to the provisions of the share option scheme, no share option may be granted under the share option scheme after 19 January 2016 and no option granted may be exercised after 22 October 2016.

CORPORATE SOCIAL RESPONSIBILITY

The Group has been providing beauty and facial and slimming services over the years and such extensive experience have guided us to attach great importance to the safety of our services and products. The Group exercises stringent quality control on its products, of which the ingredients and hygienic packaging have all been recognised internationally. The advanced machines used in our services have also passed various safety tests and have attained international safety standards.

In addition, the professionalism of our staff is also a key to service safety. The Group established the Beauty Expert International College in 2002 and our professional teachers have nurtured numerous highly skilled and well-rounded students. The teachers of the college possess years of experience in cosmetology training with different international professional accreditations, while the students can also take a number of internationally recognised examinations in order to acquire experience. The college enables the Group to recruit elites and talents as well as to arrange appropriate trainings or further studies for suitable staff, thus achieve a win-win situation. Upon completing their programme, the students not only have the opportunity to join our Group's professional team, but also are able to explore their career path in other beauty businesses and contribute to the industry. Concerning environmental protection, as part of our effort to provide a comfortable service environment while strongly support environmental protection, the Group has specific policies stipulating how to minimise the use of air conditioning and reduce our water consumption at service centres.

OUTLOOK

In 2016, our markets in Hong Kong, Singapore and Mainland China performed mediocrely, where economic performance was below expectations in spite of a modest but steady growth pace, dampening the sentiment and confidence of consumption. Stepping into 2017, with the victory of the election of the new US leader who may stimulate US economy through aggressive fiscal policies and pursue trade protectionism as mentioned in his manifesto, US interest rates may go up faster than expected and the global economy may suffer. Outlook for the local economy continued to be fogged.

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

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

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

During the period under review, the Company had not redeemed, and neither the Company nor any of its subsidiaries had purchased or sold, any of the Company's listed securities.

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 (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 period under review, the Company had met the Code Provisions in the Code, except for the deviation from Code provision A.2.1 as discussed in the section headed "Chairperson and Chief Executive Officer" below, from Code Provision E.1.2 as set out in the section headed "Non-Compliance with Code Provision E.1.2" below, from Code Provision A.6.7 as set out in the section headed "Non-Compliance with Code Provision A.6.7" below and from Code Provision C.1.2 as set out in the section headed "Non-Compliance with Code Provision C.1.2" below.

Chairperson and Chief Executive Officer

During the period under review, Dr. Tsang Yue, Joyce had been both the Chairperson and Chief Executive Officer 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.

Non-Compliance with Code Provision E.1.2

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

Dr. Tsang Yue, Joyce, the Chairperson of the Board, was absent from the Annual General Meeting of the Company held on 26 August 2016 due to personal reason.

Non-Compliance with Code Provision A.6.7

Code Provision A.6.7 provides that Independent Non-executive Directors ("INEDs") and other Non-executive Directors of the Company should attend general meetings and develop a balanced understanding of the views of the shareholders.

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

Non-Compliance with Code Provision C.1.2

Code Provision C.1.2 provides that management of the Company should provide all members of the board with monthly updates giving a balanced and understandable assessment of the Company's performance, position and prospects in sufficient detail to enable the board as a whole and each director to discharge their duties under Rule 3.08 and Chapter 13 of the Listing Rules.

For some months of the period under review, the management of the Company missed in providing all members of the board with monthly updates giving a balanced and understandable assessment of the Company's performance, position and prospects in sufficient detail due to shortage of manpower in the Accounting Department of the Company. The management of the Company will ensure compliance with this Code Provision in the future.

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 period under review.

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 is set out in its written terms of reference which 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 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.

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.

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, internal controls 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.

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

Publication of the Interim Results and Interim Report

This results announcement is published on the website of the Hong Kong Exchanges and Clearing Limited at www.hkex.com.hk under "Latest Listed Company Information" and on the website of the Company at www.modernbeautysalon.com under "Investor Relations – Statutory Announcements". The Interim Report will be despatched to the shareholders on or about 23 December 2016 and will be available at the Stock Exchange's and the Company's websites at the same time.

By Order of the Board
Modern Beauty Salon Holdings Limited
Tsang Yue, Joyce
Chairperson

Hong Kong, 25 November 2016

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