# 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 2015

**FINANCIAL HIGHLIGHTS**

- The Group's revenue decreased by 12.2% to HK$402.7 million as compared to the same period last year.
- Gross receipts from sales of prepaid beauty packages decreased from approximately HK$387.5 million for the same period last year to approximately HK$350.4 million for the period under review.
- Profit for the period under review attributable to equity shareholders was approximately HK$5.7 million, representing a decrease of 87.4% compared with approximately HK$45.5 million for the same period last year.
- The Board recommended the payment of an interim dividend of HK0.4 cents per ordinary share for the period under review.

**OPERATIONAL HIGHLIGHTS**

- The Group operated a total of 42 service centres in Mainland China, Hong Kong and Taiwan with a total weighted average gross floor area of approximately 291,000 square feet.
- The Group had 16 and 3 beauty service centres in Singapore and Malaysia respectively, with a total weighted average gross floor area of approximately 28,000 square feet and approximately 8,900 square feet respectively.
- Customer number in Hong Kong and Singapore reached approximately 387,000 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 2015 (the "period under review").

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS

*for the six months ended 30 September 2015*

| | | **Six months ended 30 September** | |
|---|---|---|---|
| | | **2015** | 2014 |
| | *Note* | ***HK$'000*** | *HK$'000* |
| | | **(unaudited)** | (unaudited) |
| **Revenue** | *5* | **402,735** | 458,685 |
| Other income | *6* | **1,150** | 842 |
| Cost of inventories sold | | **(15,134)** | (13,734) |
| Advertising costs | | **(3,003)** | (4,460) |
| Building management fees | | **(7,762)** | (8,128) |
| Bank charges | | **(17,672)** | (19,083) |
| Employee benefit expenses | | **(206,523)** | (206,594) |
| Depreciation | | **(23,584)** | (24,568) |
| Occupancy costs | | **(81,094)** | (82,463) |
| Other operating expenses | | **(43,361)** | (41,713) |
| **Profit from operations** | | **5,752** | 58,784 |
| Interest income | | **1,720** | 1,407 |
| Finance costs | *7(a)* | **(121)** | (189) |
| Fair value changes on investment properties | | **590** | – |
| Fair value change on purchase consideration | | **885** | – |
| Share of profit of an associate | | **2** | 55 |
| Share of profit/(loss) of a joint venture | | **118** | (70) |
| **Profit before taxation** | *7* | **8,946** | 59,987 |
| Income tax expense | *8* | **(3,212)** | (14,491) |
| **Profit for the period** | | **5,734** | 45,496 |
| **Attributable to:** | | | |
| Equity shareholders of the Company | | **5,667** | 45,498 |
| Non-controlling interests | | **67** | (2) |
| **Profit for the period** | | **5,734** | 45,496 |
| **Earnings per share (HK cents)** | *9* | | |
| – Basic | | **0.65** | 5.21 |
| – Diluted | | **0.60** | 4.75 |

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**
*for the six months ended 30 September 2015*

| | | Six months ended 30 September | |
|---|---|---|---|
| | | **2015** | 2014 |
| | *Note* | ***HK$'000*** | *HK$'000* |
| | | **(unaudited)** | (unaudited) |
| **Profit for the period** | | **5,734** | 45,496 |
| **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 | | **(832)** | 868 |
| **Other comprehensive income for the period** | | **(832)** | 868 |
| **Total comprehensive income for the period** | | **4,902** | 46,364 |
| **Attributable to:** | | | |
| Equity shareholders of the Company | | **4,835** | 46,366 |
| Non-controlling interests | | **67** | (2) |
| **Total comprehensive income for the period** | | **4,902** | 46,364 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*at 30 September 2015*

| | *Note* | **At 30 September 2015 HK$'000 (unaudited)** | At 31 March 2015 HK$'000 (audited) |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | | **108,087** | 122,427 |
| Investment properties | | **13,010** | 12,420 |
| Interest in an associate | | **81** | 79 |
| Interest in a joint venture | | **5,014** | 5,146 |
| Deposits | *10* | **26,806** | 29,309 |
| Deferred tax assets | | **16,615** | 14,256 |
| | | **169,613** | 183,637 |
| **Current assets** | | | |
| Inventories | | **21,749** | 23,499 |
| Trade and other receivables, deposits and prepayments | *10* | **219,884** | 221,363 |
| Tax recoverable | | **15,206** | 15,811 |
| Pledged bank deposits | | **53,776** | 53,842 |
| Cash and bank balances | | **375,272** | 397,248 |
| | | **685,887** | 711,763 |
| **Current liabilities** | | | |
| Trade and other payables, deposits received and accrued expenses | *11* | **91,397** | 92,129 |
| Deferred revenue | *12* | **567,844** | 604,843 |
| Convertible note | | **1,840** | 3,680 |
| Dividend payable | *13(b)* | **18,354** | – |
| Tax payable | | **12,588** | 16,662 |
| | | **692,023** | 717,314 |
| **Net current liabilities** | | **(6,136)** | (5,551) |
| **Total assets less current liabilities** | | **163,477** | 178,086 |

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)**
*at 30 September 2015*

| | *Note* | **At 30 September 2015** ***HK$'000*** **(unaudited)** | At 31 March 2015 *HK$'000* (audited) |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Convertible note | | **575** | 454 |
| Deferred tax liabilities | | **1,716** | 1,787 |
| Purchase consideration payable for an acquisition | | **3,352** | 4,673 |
| | | **5,643** | 6,914 |
| **NET ASSETS** | | **157,834** | 171,172 |
| **CAPITAL AND RESERVES** | | | |
| Share capital | | **87,400** | 87,400 |
| Reserves | | **70,217** | 83,563 |
| **Total equity attributable to equity shareholders of the Company** | | **157,617** | 170,963 |
| Non-controlling interests | | **217** | 209 |
| **TOTAL EQUITY** | | **157,834** | 171,172 |

## NOTES

*for the six months ended 30 September 2015*

### 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, Ms. Tsang Yue, Joyce ("Ms. 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 2015 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 2015, except for the accounting policy changes that are expected to be reflected in the annual financial statements for the year ending 31 March 2016. 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 2015. 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").

As at 30 September 2015, the Group had net current liabilities of HK$6,136,000. Notwithstanding the net current liabilities of the Group at 30 September 2015, the Group's condensed consolidated financial statements have been prepared on a going concern basis because the directors are of the opinion that the Group would have adequate funds to meet its obligation, as and when they fall due, having regard to the following:

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

(ii) the deferred revenue of HK$567,844,000 represents prepayment of beauty and wellness packages and will be recognised as income rather than refunded.

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

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 2015 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 2015 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 26 June 2015.

## 3 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued the following amendments to HKFRSs that are first effective for the current accounting period of the Group and the Company:

– *Annual Improvements to HKFRSs 2010-2012 Cycle*

– *Annual Improvements to HKFRSs 2011-2013 Cycle*

None of these developments has had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

## 4 SEGMENT INFORMATION

The Group has two reportable segments as follows:

Beauty and wellness services – Provision of beauty and wellness services

Skincare and wellness products – Sales of skincare and wellness products

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

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 2015. 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, 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, amount due to 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 2015** | | | |
| Revenue from external customers | **385,668** | **17,067** | **402,735** |
| Reportable segment profit | **19,610** | **7,231** | **26,841** |
| **As at 30 September 2015** | | | |
| Reportable segment assets | **782,043** | **7,647** | **789,690** |
| Reportable segment liabilities | **649,620** | **9,532** | **659,152** |
| **For the six months ended 30 September 2014** | | | |
| Revenue from external customers | 437,124 | 21,561 | 458,685 |
| Reportable segment profit | 72,692 | 4,170 | 76,862 |
| **As at 31 March 2015** | | | |
| Reportable segment assets | 822,869 | 8,933 | 831,802 |
| Reportable segment liabilities | 684,225 | 12,658 | 696,883 |

(b) Reconciliations of reportable segment profit

| | Six months ended 30 September | |
|---|---|---|
| | **2015** | 2014 |
| | ***HK$'000*** | *HK$'000* |
| | **(unaudited)** | (unaudited) |
| Reportable segment profit | **26,841** | 76,862 |
| Other income | **1,150** | 842 |
| Interest income | **1,720** | 1,407 |
| Finance costs | **(121)** | (189) |
| Fair value changes on investment properties | **590** | – |
| Fair value change on purchase consideration | **885** | – |
| Share of profit of an associate | **2** | 55 |
| Share of profit/(loss) of a joint venture | **118** | (70) |
| Unallocated costs | **(22,239)** | (18,920) |
| Income tax expense | **(3,212)** | (14,491) |
| Consolidated profit for the period | **5,734** | 45,496 |

## 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 | |
|---|---|---|
| | **2015** | 2014 |
| | ***HK$'000*** | *HK$'000* |
| | **(unaudited)** | (unaudited) |
| Revenue recognised from provision of beauty and wellness services and expiry of prepaid beauty packages | **385,668** | 437,124 |
| Sales of skincare and wellness products | **17,067** | 21,561 |
| | **402,735** | 458,685 |

## 6 OTHER INCOME

| | Six months ended 30 September | |
|---|---|---|
| | **2015** | 2014 |
| | ***HK$'000*** | *HK$'000* |
| | **(unaudited)** | (unaudited) |
| Commission income | **20** | 94 |
| Government grants | **–** | 39 |
| Net gain on disposals of property, plant and equipment | **–** | 4 |
| Rental income | **268** | 268 |
| Others | **862** | 437 |
| | **1,150** | 842 |

## 7 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

### (a) Finance costs

| | Six months ended 30 September | |
|---|---|---|
| | **2015** | 2014 |
| | ***HK$'000*** | *HK$'000* |
| | **(unaudited)** | (unaudited) |
| Interest on convertible note wholly repayable within five years | **121** | 189 |

### (b) Other items

| | Six months ended 30 September | |
|---|---|---|
| | **2015** | 2014 |
| | ***HK$'000*** | *HK$'000* |
| | **(unaudited)** | (unaudited) |
| Auditor's remuneration | | |
| – Current | **1,862** | 1,499 |
| Directors' remuneration | **6,137** | 6,184 |
| Foreign exchange loss, net | **7,717** | 1,537 |
| Loss on disposal of a subsidiary | **–** | 47 |
| Net loss on disposals of property, plant and equipment | **427** | – |

## 8 INCOME TAX EXPENSE

| | Six months ended 30 September | |
|---|---|---|
| | **2015** | 2014 |
| | ***HK$'000*** | *HK$'000* |
| | **(unaudited)** | (unaudited) |
| Current tax – Hong Kong Profits Tax | **2,823** | 5,487 |
| Current tax – Overseas | **3,025** | 7,605 |
| Deferred taxation | **(2,636)** | 1,399 |
| | **3,212** | 14,491 |

Hong Kong Profits Tax is calculated at 16.5% (30 September 2014: 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 $5,667,000 (30 September 2014: $45,498,000) and the weighted average of 873,996,190 ordinary shares (30 September 2014: 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 $5,788,000 (30 September 2014: $45,687,000) and the weighted average number of 961,615,238 ordinary shares (30 September 2014: 961,615,238 ordinary shares), calculated as follows:

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

| | **Six months ended 30 September** | |
|---|---|---|
| | **2015** | 2014 |
| | ***HK$'000*** | *HK$'000* |
| | **(unaudited)** | (unaudited) |
| Profit attributable to ordinary equity shareholders | **5,667** | 45,498 |
| After tax effect of effective interest on the liability component of convertible note | **121** | 189 |
| Profit attributable to ordinary equity shareholders (diluted) | **5,788** | 45,687 |

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

| | **Six months ended 30 September** | |
|---|---|---|
| | **2015** | 2014 |
| | **(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 2015 and 2014 do not give rise to any dilution effect to the earnings per share.

## 10 TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

| | At 30 September 2015 HK$'000 (unaudited) | At 31 March 2015 HK$'000 (audited) |
|---|---|---|
| **Non-current assets** | | |
| Deposits | **26,806** | 29,309 |
| **Current assets** | | |
| Trade receivables | **50,537** | 55,053 |
| Trade deposits retained by banks/credit card companies *(note)* | **133,378** | 135,774 |
| Rental and other deposits, prepayments and other receivables | **35,811** | 30,419 |
| Amounts due from related companies | **158** | 117 |
| | **219,884** | 221,363 |
| | **246,690** | 250,672 |

*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 2015 HK$'000 (unaudited) | At 31 March 2015 HK$'000 (audited) |
|---|---|---|
| 0 – 30 days | **22,123** | 21,517 |
| 31 – 60 days | **10,744** | 9,684 |
| 61 – 90 days | **9,617** | 11,537 |
| 91 – 180 days | **7,157** | 10,606 |
| Over 180 days | **896** | 1,709 |
| | **50,537** | 55,053 |

The Group's revenue comprises mainly cash and credit card sales. Trade receivables are due within 7 – 180 days (31 March 2015: 7 – 180 days), from the date of billing.

## 11 TRADE AND OTHER PAYABLES, DEPOSITS RECEIVED AND ACCRUED EXPENSES

| | At 30 September 2015 *HK$'000* (unaudited) | At 31 March 2015 *HK$'000* (audited) |
|---|---|---|
| Trade payables | **1,680** | 2,361 |
| Other payables, deposits received and accrued expenses | **89,628** | 89,679 |
| Amount due to the ultimate controlling party | **2** | 2 |
| Amounts due to related companies | **87** | 87 |
| | **91,397** | 92,129 |

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

| | At 30 September 2015 *HK$'000* (unaudited) | At 31 March 2015 *HK$'000* (audited) |
|---|---|---|
| Within 90 days | **688** | 2,352 |
| Over 90 days | **992** | 9 |
| | **1,680** | 2,361 |

## 12 DEFERRED REVENUE

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

| | At 30 September 2015 *HK$'000* (unaudited) | At 31 March 2015 *HK$'000* (audited) |
|---|---|---|
| Within 1 year | **567,844** | 603,032 |
| More than 1 year but within 2 years | **–** | 1,811 |
| | **567,844** | 604,843 |

## 13 DIVIDENDS

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

| | Six months ended 30 September | |
|---|---|---|
| | **2015** | 2014 |
| | ***HK$'000*** | *HK$'000* |
| | **(unaudited)** | (unaudited) |
| Interim dividend declared and paid after the interim period of HK0.4 cents per ordinary share (30 September 2014: HK3.4 cents per ordinary share) | **3,496** | 29,716 |

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 | |
|---|---|---|
| | **2015** | 2014 |
| | ***HK$'000*** | *HK$'000* |
| | **(unaudited)** | (unaudited) |
| Final dividend in respect of the previous financial year, approved during the following interim period, of HK2.1 cents per ordinary share (30 September 2014: HK2.0 cents per ordinary share) | **18,354** | 17,480 |

## MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

### Hong Kong

The year 2015 so far has proven to be another challenging period as volatile financial market and weakened economy in Hong Kong made people more conservative on their spending. Our beauty, slimming and wellness service business in Hong Kong was inevitably affected. Nevertheless, leveraging on our excellent service management that facilitate greater quality assurance, our management is confident of the further prospects of our business.

The Group is currently operating 32 beauty and spa service centers with a total gross floor area of approximately 251,100 square feet, decreased by 4.5% when compared with the figure of 262,800 square feet as at 30 September 2014. 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 Viora REACTION™ machine which facilitates breakthrough skin tightening and cellulite reduction treatment by using variable radio frequencies with vacuum technology to intensify the treatment process and allow for deeper (and safe) penetration of the skin, together with a built-in cooling system to keep the skin cool while the device does the hard work. It is designed to treat those stubborn cellulite marks at the core, while strengthening existing collagen fibers. The result is a more toned, firmer appearance to the skin.

During the period under review, we launched an O2O mobile app which serves as a convenient platform for our members who want to make bookings on their phones in accordance with their own needs. It also serves as a marketing media to advertise our latest services and promotion campaign.

With regard to the sales of skincare and wellness products, as of 30 September 2015, the Group had a total of 17 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$313,465,000 and HK$296,772,000 respectively, representing a decrease of 5.9% and 5.3% respectively, as compared to the same period last year.

### Mainland China

Our Mainland China operations are conducted through three wholly owned foreign enterprises established in Beijing, Shanghai and Guangzhou in the People's Republic of China. These three wholly owned foreign enterprises operate a total of 8 service centres at the three cities referred to. During the period under review, our service income and receipts from prepaid beauty packages in the Mainland China amounted to HK$13,965,000 and HK$12,863,000 respectively, representing a decrease of 5.0% and 10.0% respectively, as compared to the same period last year.

Notwithstanding the retarded growth of economy in Mainland China during the period under review, we still believe that the beauty, slimming and wellness market in Mainland China will continue to prosper by strong demand since a larger portion of the population moves up to the bourgeoisie. Our brand name has secured a presence in the Mainland China with a solid foundation that we have established for years in Beijing, Shanghai and Guangzhou. Plans to open more stores in the Mainland China are afoot.

### Singapore and Malaysia

The Group operates a total of 19 beauty and wellness service centres in Singapore and Malaysia, increased by 2 stores compared with the same period last year. During the period under review, our Singapore and Malaysia operations reported a revenue of HK$57,396,000. Receipts from sales of prepaid beauty packages amounted to HK$37,768,000, while revenue from services rendered amounted to HK$55,673,000, decreased by 35.0% and 36.6% respectively when compared with the same period last year. The drops are mainly due to the new government policies in Singapore and Malaysia. For Singapore, from June 2015, if a local person's aggregate interest-bearing outstanding balance on all credit cards and unsecured credit facilities exceeds 24 times his monthly income for 3 consecutive months, his credit lines will be suspended. This means that he will not be allowed to charge new amounts to his existing credit cards and/or unsecured credit facilities. For Malaysia, from April 2015, a GST of 6% has been imposed on local services providers, including beauty services. These policies have hurt the local consumption sentiments significantly. The Group will continue to carry out its local business development prudently and we believe that the local people will accustom to the new policies and the consumption sentiments will recover as time goes by.

### 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 2015, revenue of the Group decreased by 12.2% to HK$402,735,000 as compared to the same period last year due to the weakened consumption sentiments in different business regions as a result of volatile financial market and weakened economy. 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** | | | | |
|---|---|---|---|---|---|
| | **2015** | | 2014 | | |
| **Sales mix** | ***HK$'000*** | ***Percentage of Revenue*** | *HK$'000* | *Percentage of Revenue* | **Change** |
| Beauty and facial | **288,828** | **71.7%** | 333,168 | 72.6% | **-13.3%** |
| Slimming | **59,008** | **14.7%** | 76,935 | 16.8% | **-23.3%** |
| Spa and massage | **37,817** | **9.4%** | 26,937 | 5.9% | **+40.4%** |
| Fitness | **15** | **0.0%** | 84 | 0.0% | **-82.1%** |
| Beauty and wellness services | **385,668** | **95.8%** | 437,124 | 95.3% | **-11.8%** |
| Sales of skincare and wellness products | **17,067** | **4.2%** | 21,561 | 4.7% | **-20.8%** |
| Total | **402,735** | **100.0%** | 458,685 | 100.0% | **-12.2%** |

Compared to the same period last year, the Group's revenue from beauty and facial services for ladies decreased by 14.8% to HK$256,161,000 (2014: HK$300,683,000), while revenue from beauty and facial services for men increased by 0.6% to HK$32,667,000 (2014: HK$32,485,000).

Revenue from the slimming service decreased to HK$59,008,000 in the period under review, down by approximately 23.3% from approximately HK$76,935,000 in the same period of 2014. Meanwhile, spa and massage revenue for the Group in the period under review increased by 40.4% to HK$37,817,000. As for the product revenue, it decreased by 20.8% to HK$17,067,000 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 0.03% to HK$206,523,000 comparing to HK$206,594,000 for the same period last year. The total headcount of the Group as at 30 September 2015 decreased by 4.8% to 1,761, as compared to a headcount of 1,850 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 51.3% of our revenue, as compared to 45.0% for the same period last year.

**Occupancy costs**

During the period under review, the Group's occupancy costs were approximately HK$81,094,000 (2014: HK$82,463,000), accounting for approximately 20.1% of our revenue (2014: 18.0%). As of 30 September 2015, the Group operated a total of 42 service centres in Mainland China, Hong Kong and Taiwan with a total weighted average gross floor area of 291,000 square feet, representing a decrease of 1.4% as compared to 295,000 square feet for the same period last year. As of 30 September 2015, the Group had 16 and 3 service centres in Singapore and Malaysia respectively, with a total weighted average gross floor area of approximately 28,000 square feet and approximately 8,900 square feet respectively.

**Other operating expenses**

Other operating expenses mainly include bank charges, depreciation, advertising costs, utilities, building management fees and foreign exchange gains and losses. Bank charges decreased by 7.4% to HK$17,672,000 during the period under review. Depreciation decreased to HK$23,584,000 or by 4.0% with some new shops opening and some older ones closing down. Advertising costs decreased to HK$3,003,000, as compared to HK$4,460,000 for the same period last year. The percentage of advertising costs to total revenue decreased by a small extent from 1.0% for the same period last year to 0.7%. Foreign exchange loss of HK$7,717,000 was incurred due to the depreciation of RMB and Singapore dollar during the period under review.

**Net profit and net profit margin**

For the six months ended 30 September 2015, the net profit was approximately HK$5,734,000, representing an decrease of 87.4% as compared to HK$45,496,000 for the same period last year. Net profit margin decreased from 9.9% for the same period last year to 1.4% 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 maximizing shareholders' returns. Basic earnings per share for the period under review was HK0.65 cents as compared to the earnings per share of HK5.21 cents for the same period last year.

## Interim dividend

The Board has approved to pay an interim dividend of HK0.4 cents per share for the six months ended 30 September 2015, totaling HK$3,496,000 (interim dividend for 2014: HK3.4 cents, totaling HK$29,716,000). The total interim dividend of HK0.4 cents will be paid on or around 8 January 2016 to the shareholders whose names appear on the register of shareholders of the Company at the close of business on 18 December 2015.

## Closure of register of members

The register of members of the Company will be closed from 16 December 2015 to 18 December 2015, 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, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on 15 December 2015.

## 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 2015 was HK$157,834,000. Cash and bank balances as at 30 September 2015 amounted to HK$375,272,000 (31 March 2015: HK$397,248,000) 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 annualized yield of approximately 0.78%. 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 2015 was approximately HK$11,168,000, 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$15,887,000.

## 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 2015. The Group had capital commitment of HK$1,517,000 as at 30 September 2015 (31 March 2015: HK$7,644,000) in respect of the acquisition of plant and equipment.

**Charges on assets**

As of 30 September 2015, the Group had pledged bank deposits of HK$53,776,000 (31 March 2015: HK$53,842,000) 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 and Southeast Asian regions. 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$206,523,000, representing a 0.03% decrease as compared to HK$206,594,000 for the same period last year. The Group had a workforce of 1,761 staff as of 30 September 2015 (2014: 1,850 staff), including 1,314 front-line service centre staff in Hong Kong, 96 in the Mainland China and 164 in other Southeast Asian regions (Singapore, Malaysia and Taiwan). Back office staff totaled 134 in Hong Kong, 19 in the Mainland China and 34 in Southeast Asian regions respectively. 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 2015, a total of 6,120,000 share options had been granted to certain directors, senior management and employees of the Group.

## 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 recognized 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 recognized 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 minimize the use of air conditioning and reduce our water consumption at service centres.

## OUTLOOK

In the context of continuous economic uncertainties in Europe and the retarded economic growth in China, the retail and consumption sentiment have been adversely affected, which in turn affect the performance of beauty and wellness services industry and its product sales. Nonetheless, we have strived to control the operating costs as well as focusing on the maintenance of a healthy cash position. Therefore, in spite of the weakened business environment we are facing, we are still prudently optimistic about the Group's performance in the future.

In July 2014, we formed a joint venture with an Australian partner. The joint venture engages not only in the manufacture of the "Advanced Natural" beauty and skincare products, but also wholesales and/or retails of these products internationally in Europe, Australia, Middle-East, the Mainland China and Southeast Asia. During the period under review, in face of the Europe economic uncertainties, the sales performance in Europe was deeply affected. On the other hand, we are looking for other business opportunities in other region and countries. During the period under review, we have successfully distributed our "Advanced Natural" products in the Kingdom of Saudi Arabia. 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 joint venture.

Leveraging on our internal IT development team, during the period under review, we have launched an O2O mobile app which served as a convenient platform for our members who wants to make bookings on their phones in accordance with their own needs. It also serves as a marketing media to advertise our latest services and promotion campaign so as to bring more customers to our service center. Looking ahead, in the second half of the financial year ending 31 March 2016, we will also launch a B2C online product sales platform so that our products can be sold directly to those who make online orders, which are expected to increase our products sales 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 emphasize transparency, accountability and independence.

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

During the 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 and from Code Provision A.6.7 as set out in the section headed “Non-Compliance with Code Provision A.6.7” below.

**Chairperson and Chief Executive Officer**

During the period under review, Ms. Tsang Yue, Joyce (“Ms. Tsang”) 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 A.6.7

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

Mr. Hong Po Kui, Martin, an Independent Non-executive Director of the Company, was absent from the Annual General Meeting of the Company held on 26 August 2015 due to personal reason.

**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 Independent Non-executive Directors ("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*

Ms. 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*

Ms. Tsang Yue, Joyce *(Chairman)*

*Independent Non-executive Directors*

Ms. Liu Mei Ling, Rhoda

Mr. Wong Man Hin, Raymond

Mr. Hong Po Kui, Martin

The Board established the Nomination Committee with written terms of reference which cover recommendations to the Board on the appointment of Directors, evaluation of Board composition, assessment of the independence of INEDs and the management of Board succession.

The basis for the Nomination Committee to select and recommend candidates emphasize appropriate professional knowledge and industry experience, personal ethics, integrity and personal skills, and possible time commitments to the Board and the Company.

**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 30 December 2015 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, 30 November 2015

*As at the date of this announcement, the Board consists of Three Executive Directors, Ms. 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.*