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

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 2017

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 2017 (the "period under review").

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 September 2017

		Six months ended 30 September	
	Note	**2017** **HK$'000** **(unaudited)**	2016 *HK$'000* (unaudited and restated)
Revenue	*6*	**314,093**	361,410
Other income	*7*	**2,150**	2,298
Cost of inventories sold		**(13,576)**	(9,765)
Advertising costs		**(1,714)**	(2,560)
Building management fees		**(7,279)**	(7,085)
Bank charges		**(13,058)**	(14,920)
Employee benefit expenses		**(169,403)**	(181,647)
Depreciation and amortisation		**(7,008)**	(19,215)

	Note	Six months ended 30 September 2017 HK$'000 (unaudited)	2016 HK$'000 (unaudited and restated)
Occupancy costs		**(70,124)**	(72,864)
Other operating expenses		**(33,903)**	(35,951)
Profit from operations		**178**	19,701
Interest income		**219**	310
Finance costs	*8(a)*	**–**	(1,623)
Fair value changes on investment properties		**162**	86
Fair value change on purchase consideration		**1,148**	1,250
Impairment loss on goodwill	*15*	**(2,038)**	–
Share of loss of a joint venture		**–**	(41)
(Loss)/profit before taxation	*8*	**(331)**	19,683
Income tax expense	*9*	**(1,613)**	(3,793)
(Loss)/profit for the period		**(1,944)**	15,890
Attributable to:			
Equity shareholders of the Company		**(1,702)**	15,620
Non-controlling interests		**(242)**	270
(Loss)/profit for the period		**(1,944)**	15,890
(Loss)/earnings per share *(HK cents)*	*10*		
Basic		**(0.19)**	1.79
Diluted		**(0.19)**	1.79

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 September 2017

	Note	Six months ended 30 September 2017 HK$'000 (unaudited)	2016 HK$'000 (unaudited and restated)
(Loss)/profit for the period		**(1,944)**	15,890
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		**(1,008)**	(711)
Reclassification adjustment upon loss of joint control of a joint venture		–	675
Other comprehensive income for the period		**(1,008)**	(36)
Total comprehensive income for the period		**(2,952)**	15,854
Attributable to:			
Equity shareholders of the Company		**(2,710)**	15,584
Non-controlling interests		**(242)**	270
Total comprehensive income for the period		**(2,952)**	15,854

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 September 2017

	Note	At 30 September 2017 HK$'000 (unaudited)	At 31 March 2017 HK$'000 (audited)
Non-current assets			
Property, plant and equipment		**71,485**	63,424
Investment properties		**13,032**	12,870
Intangible assets		**2,294**	2,342
Goodwill		**1,070**	3,108
Deposits	*11*	**19,634**	14,864
Deferred tax assets		**15,527**	14,864
		123,042	111,472
Current assets			
Inventories		**24,194**	29,344
Trade and other receivables, deposits and prepayments	*11*	**207,305**	205,147
Tax recoverable		**9,301**	5,572
Pledged bank deposits		**54,339**	54,235
Bank deposits with original maturity over three months		**5,407**	5,234
Cash and bank balances		**204,002**	244,605
		504,548	544,137
Current liabilities			
Trade and other payables, deposits received and accrued expenses	*12*	**89,761**	87,265
Deferred revenue	*13*	**410,937**	439,367
Dividend payable	*16(b)*	**11,306**	–
Tax payable		**3,570**	1,567
		515,574	528,199
Net current (liabilities)/assets		**(11,026)**	15,938
Total assets less current liabilities		**112,016**	127,410

	Note	At 30 September 2017 HK$'000 (unaudited)	At 31 March 2017 HK$'000 (audited)
Non-current liabilities			
Deferred tax liabilities		**834**	822
Purchase consideration payable for acquisitions		**–**	1,148
		834	1,970
NET ASSETS		**111,182**	125,440
CAPITAL AND RESERVES			
Share capital		**90,448**	90,448
Reserves		**18,351**	32,367
Total equity attributable to equity shareholders of the Company		**108,799**	122,815
Non-controlling interests		**2,383**	2,625
TOTAL EQUITY		**111,182**	125,440

NOTES

1 GENERAL INFORMATION

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

The Company 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 this announcement do not constitute the Group's interim financial report for the six months ended 30 September 2017 but are extracted from the report.

The 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 2017, 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 2018. 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.

The 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 2017. 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 2017, the Group had net current liabilities of HK$11,026,000. Notwithstanding the net current liabilities of the Group at 30 September 2017, 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 deferred revenue of HK$410,937,000 which represents non-cancellable contracts of beauty and wellness packages and will be recognised as income within 12 months.

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 2017 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 2017 are available from the Company's registered office. The auditors have expressed an unqualified opinion with an emphasis of matter paragraph on those financial statements in their report dated 28 June 2017.

3 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued several amendments to HKFRSs that are first effective for the current accounting period of the Group. None of these developments 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 in the interim financial report.

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

4 PRIOR PERIOD ADJUSTMENTS

In the course of preparation of the Group's annual financial statements for the year ended 31 March 2017, the directors made certain adjustments to reflect the revised accounting treatment in respect of convertible note relating to the Group's annual financial statements for the years ended 31 March 2016 and 2015 and the Group's interim financial report for the six months ended 30 September 2016 ("the 2016 Interim Financial Report").

Further details of this correction can be found in note 3 to the consolidated financial statements for the year ended 31 March 2017. The amounts of the restatements for each financial statement line item affected for the six months ended 30 September 2016 are as follows:

Effect on the consolidated statement of profit or loss for the six months ended 30 September 2016

	As previously reported *HK$'000*	**Effect of prior period adjustments** *HK$'000*	**As restated** *HK$'000*
Finance costs	(49)	(1,574)	(1,623)
Profit before taxation	21,257	(1,574)	19,683
Profit for the period	17,464	(1,574)	15,890
Attributable to equity shareholders of the Company	17,194	(1,574)	15,620
Earnings per share *(HK cents)*			
– Basic	1.97	(0.18)	1.79
– Diluted	1.79	–	1.79
Total comprehensive income for the period	17,428	(1,574)	15,854
Total comprehensive income attributable to equity shareholders of the Company	17,158	(1,574)	15,584

5 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 2017. Segment profits do not include other income, interest income, finance costs, fair value changes on investment properties and purchase consideration, share of loss of 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, intangible assets, goodwill, deferred tax assets and tax recoverable. Segment liabilities do not include dividend payable, tax payable, deferred tax liabilities, amounts due to related companies and the ultimate controlling party and purchase consideration payable for acquisitions.

(a) Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the 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 2017			
Revenue from external customers	**302,096**	**11,997**	**314,093**
Reportable segment profit	**8,366**	**5,435**	**13,801**
As at 30 September 2017			
Reportable segment assets	**562,136**	**12,673**	**574,809**
Reportable segment liabilities	**(488,387)**	**(8,972)**	**(497,359)**

	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 31 March 2017			
Reportable segment assets	591,710	15,418	607,128
Reportable segment liabilities	514,458	9,853	524,311

(b) Reconciliations of reportable segment profit or loss

	Six months ended 30 September	
	2017	2016
	HK$'000	*HK$'000*
	(unaudited)	(unaudited and restated)
Reportable segment profit	**13,801**	34,175
Other income	**2,150**	2,298
Interest income	**219**	310
Finance costs	**–**	(1,623)
Fair value changes on investment properties	**162**	86
Fair value change on purchase consideration	**1,148**	1,250
Impairment loss on goodwill	**(2,038)**	–
Share of loss of a joint venture	**–**	(41)
Unallocated costs	**(15,773)**	(16,772)
Income tax expense	**(1,613)**	(3,793)
Consolidated (loss)/profit for the period	**(1,944)**	15,890

6 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	
	2017	2016
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Revenue recognised from provision of beauty and wellness services and expiry of prepaid beauty packages	**302,096**	345,705
Sales of skincare and wellness products	**11,997**	15,705
	314,093	361,410

7 OTHER INCOME

	Six months ended 30 September	
	2017	2016
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Commission income	**142**	–
Foreign exchange gain, net	**824**	445
Net gain on disposals of property, plant and equipment	**119**	144
Rental income	**268**	268
Others	**797**	1,441
	2,150	2,298

8 (LOSS)/PROFIT BEFORE TAXATION

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

(a) Finance costs

	Six months ended 30 September	
	2017	2016
	HK$'000	*HK$'000*
	(unaudited)	(unaudited and restated)
Interest on convertible note wholly repayable within five years	**–**	1,764
Fair value change in derivative financial instruments	**–**	(141)
	–	1,623

(b) Other items

	Six months ended 30 September	
	2017	2016
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Auditor's remuneration		
– Current	**1,787**	1,750
Directors' remuneration	**6,193**	6,198
Loss on deemed disposal of previously owned equity interest of a joint venture	**–**	1,802

9 INCOME TAX EXPENSE

	Six months ended 30 September	
	2017	2016
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Current tax – Hong Kong Profits Tax	**1,586**	2,673
Current tax – Overseas	**632**	2,048
Deferred taxation	**(605)**	(928)
	1,613	3,793

Hong Kong Profits Tax is calculated at 16.5% (30 September 2016: 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.

10 (LOSS)/EARNINGS PER SHARE

The calculation of the basic and diluted (loss)/earnings per share is based on the following:

(a) Basic (loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on the loss attributable to ordinary equity shareholders of the Company of HK$1,702,000 (30 September 2016: profit attributable to ordinary equity shareholders of the Company of HK$15,620,000 (Restated)) and the weighted average number of 904,483,942 ordinary shares (30 September 2016: 873,996,190 ordinary shares) in issue during the interim period.

(b) Diluted (loss)/earnings per share

The calculation of diluted (loss)/earnings per share is based on the loss attributable to ordinary equity shareholders of the Company of HK$1,702,000 (profit attributable to ordinary equity shareholders of the Company of 30 September 2016: HK$15,620,000 (Restated)) and the weighted average number of 904,483,942 ordinary shares (30 September 2016: weighted average number of ordinary shares of 873,996,190 (Restated)), calculated as follows:

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

	Six months ended 30 September	
	2017	2016
	HK$'000	*HK$'000*
	(unaudited)	(unaudited and restated)
(Loss)/profit attributable to ordinary equity shareholders	**(1,702)**	15,620
(Loss)/profit attributable to ordinary equity shareholders (diluted)	**(1,702)**	15,620

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

	Six months ended 30 September	
	2017	2016
	(unaudited)	(unaudited and restated)
Weighted average number of ordinary shares	**904,483,942**	873,996,190
Weighted average number of ordinary shares (diluted)	**904,483,942**	873,996,190

The Company's share options, unlisted warrants and convertible note (note 14) as at 30 September 2016 do not give rise to any dilution effect to the earnings per share.

11 TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	At 30 September 2017 HK$'000 (unaudited)	At 31 March 2017 HK$'000 (audited)
Non-current asset		
Deposits	**19,634**	14,864
Current assets		
Trade receivables	**35,272**	33,676
Less: allowance for doubtful debts	**(828)**	(828)
	34,444	32,848
Trade deposits retained by banks/credit card companies *(note)*	**134,173**	133,818
Rental and other deposits, prepayments and other receivables	**35,564**	35,807
Amounts due from related companies	**3,124**	2,674
	207,305	205,147
	226,939	220,011

Note: Trade deposits represent trade receivables that were retained by the banks/credit card companies in reserve accounts to secure the Group's performance of services to customers who paid for the services by credit cards, in accordance with the merchant agreements entered into between the Group and the 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 2017 HK$'000 (unaudited)	At 31 March 2017 HK$'000 (audited)
0 – 30 days	**18,120**	17,080
31 – 60 days	**7,130**	6,051
61 – 90 days	**5,235**	5,262
91 – 180 days	**3,839**	4,349
Over 180 days	**120**	106
	34,444	32,848

The Group's trading terms with its customers are mainly on credit card settlements. The credit period is generally 7 to 180 days (31 March 2017: 7 to 180 days) for the credit card settlement from the respective banks/credit card companies.

12 TRADE AND OTHER PAYABLES, DEPOSITS RECEIVED AND ACCRUED EXPENSES

	At 30 September 2017 HK$'000 (unaudited)	At 31 March 2017 HK$'000 (audited)
Trade payables	**806**	2,392
Other payables, deposits received and accrued expenses	**85,615**	82,553
Amount due to the ultimate controlling party	**1,425**	1,434
Amounts due to related companies	**1,915**	886
	89,761	87,265

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

	At 30 September 2017 HK$'000 (unaudited)	At 31 March 2017 HK$'000 (audited)
Within 90 days	**777**	2,354
Over 90 days	**29**	38
	806	2,392

Included in "other payables, deposits received and accrued expenses", HK$5,530,000 (31 March 2017: HK$5,663,000) is expected to be utilised after more than one year.

13 DEFERRED REVENUE

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

	At 30 September 2017 HK$'000 (unaudited)	At 31 March 2017 HK$'000 (audited)
Within 1 year	**410,937**	439,367

14 CONVERTIBLE NOTE

The Company issued convertible note ("CN") with face value of HK$250,000,000 to an associate of Dr. Tsang on 10 January 2012 to settle the consideration for the Company's acquisition of the entire equity interest in Zegna Management Limited. The associate of Dr. Tsang is entitled to convert the CN in whole or in part (in the amount not less than a whole multiple of HK$1,000,000 or, if the remaining outstanding amount of the CN is in a lesser amount, such lesser amount) into new ordinary shares of the Company at the conversion price of HK$1.05 per share at any time between the date of issue of the CN and 9 January 2017. No conversion right attached to the CN may be exercised if following such exercise, the public float of the Company will fall below the minimum requirement as prescribed under the Listing Rules. The value of the CN which remains outstanding on the maturity date shall be automatically converted into the new ordinary shares of the Company at the then prevailing conversion price. However, in the event that such conversion would result in the Company's failure to comply with the public float requirement as prescribed under the Listing Rules, there shall not be any conversion in respect of such value of the CN and the balance of the CN not converted into the shares of the Company, shall be redeemed by the Company at a redemption amount equals to 100% of the value of the said balance of the CN.

The CN bears interest at 2% per annum payable annually on 31 March until conversion or redemption.

Subsequent to the issuance date on 10 January 2012, HK$158,000,000 of the CN's face value were converted into 150,476,190 ordinary shares on 6 March 2012. As a result of the mandatory conversion right attached to the CN upon maturity of the CN on 9 January 2017, CN with face value of HK$32,012,000 was converted into 30,487,752 shares. Accordingly, the remainder of the CN not converted into ordinary shares upon the maturity of the CN on 9 January 2017 was redeemed by the Company in cash at a redemption amount equal to 100% of the then remaining principal amount of HK$59,988,000. The accrued coupons have not yet been settled at the end of the interim reporting period.

Movements of the liability component are as follows:

	At 30 September 2017 **_HK$'000_** **(unaudited)**	At 31 March 2017 _HK$'000_ (audited)
Liability component at 1 April 2017/1 April 2016 (restated)	–	92,671
Interest charged	–	2,590
Interest paid	–	(3,261)
Conversion into ordinary shares	–	(32,012)
Principal paid upon redemption	–	(59,988)
Liability component at 30 September 2017/31 March 2017	–	–

Movements of the derivative financial asset of the convertible note are as follows:

	At 30 September 2017	At 31 March 2017
	HK$'000	*HK$'000*
	(unaudited)	(audited)
Derivative financial asset at 1 April 2017/1 April 2016 (restated)	–	1,266
Changes in fair value recognised in profit or loss during the period/year	–	(1,266)
Derivative financial asset at 30 September 2017/31 March 2017	–	–

The interest charged for the six months ended 30 September 2016 was calculated by applying an effective interest rate of 3.68% to the liability component of the CN.

15 IMPAIRMENT TESTS FOR CASH-GENERATING UNITS ("CGU") CONTAINING GOODWILL

During the six months ended 30 September 2017, the operating performance of a PRC CGU is behind budget.

The recoverable amount of the PRC CGU is determined based on value-in-use calculation. This calculation uses cash flow projections based on financial budgets and business plans approved by management covering a five-year period, with estimated average revenue growth rate of 3%-10% and terminal capitalisation rate of 3%. Risks associated with the future operations are incorporated in the cash flow projections. The cash flows are discounted using a pre-tax discount rate of 24%.

The Group estimated that the carrying amount of the CGU at 30 September 2017 exceeded its estimated recoverable amount by HK$2,038,000. Accordingly, impairment loss of HK$2,038,000 was recognised as a separate line item in the Group's consolidated statement of profit or loss.

16 DIVIDENDS

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

	Six months ended 30 September	
	2017	2016
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Interim dividend declared and paid after the interim period of nil per ordinary share (30 September 2016: HK1 cent per ordinary share)	–	8,740

The interim dividend has 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	
	2017	2016
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Final dividend in respect of the previous financial year, approved during the following interim period, of HK1.25 cents per ordinary share (30 September 2016: HK0.6 cents per ordinary share)	**11,306**	5,244

17 COMPARATIVE FIGURES

As a result of the prior period adjustments, certain comparative figures have been restated to conform with the current period's treatment. Further details of these adjustments are disclosed in Note 4.

BUSINESS REVIEW

Hong Kong

We encountered another challenging year for beauty industry in 2017, amid a number of negative factors such as increasing salaries and inflating rentals. Furthermore, the 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, capitalising on our excellent service management that facilitate greater quality assurance, our management is confident of the future prospects of our business.

The Group is currently operating 28 beauty and spa service centers with a total gross floor area of approximately 217,900 square feet, decreased by 2.9% when compared with the figure of 224,400 square feet as at 30 September 2016. 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.

In an effort to further strengthen its leading market position, the Group introduced a number of innovative beauty, slimming and antiaging treatments and machineries during the period under review, such as the PicoWay picosecond pulse solid-state laser system which received U.S. Food and Drug Administration ("FDA") clearance and is intended to treat skin conditions with high pulse energy and extremely short duration in the range of 300-450 picoseconds ("ps").

The PicoWay is effective in tattoo removal, skin rejuvenation and revitalisation, scar revision and removal of pigmentation, acne scars, wrinkles and fine lines, and pigmented lesions.

With regard to the sales of skincare and wellness products, as of 30 September 2017, the Group had a total of 13 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$264,956,000 and HK$236,037,000 respectively, representing a decrease of 9.2% and 9.7% 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 6 service centres at the three cities referred to. During the period under review, our service income and receipts from prepaid beauty packages in Mainland China amounted to HK$9,219,000 and HK$9,041,000 respectively, representing a decrease of 20.5% and 17.9% respectively, as compared to the same period last year.

Singapore and Malaysia

The Group operates a total of 11 beauty and wellness service centres in Singapore and Malaysia, decreased by 3 stores compared with the same period last year. During the period under review, our Singapore and Malaysia operations reported a revenue of HK$27,207,000. Receipts from sales of prepaid beauty packages amounted to HK$26,043,000, while revenue from services rendered amounted to HK$25,927,000, decreased by 5.5% and 33.3% respectively when compared with the same period last year.

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 2017, revenue of the Group decreased by 13.1% to HK$314,093,000 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				
	2017		2016		
Sales mix	***HK$'000***	***Percentage of revenue***	*HK$'000*	*Percentage of revenue*	**Change**
Beauty & facial	**229,996**	**73.2%**	260,289	72.0%	**-11.6%**
Slimming	**49,828**	**15.9%**	54,738	15.2%	**-9.0%**
Spa and massage	**22,272**	**7.1%**	30,678	8.5%	**-27.4%**
Beauty and wellness services	**302,096**	**96.2%**	345,705	95.7%	**-12.6%**
Sales of skincare and wellness products	**11,997**	**3.8%**	15,705	4.3%	**-23.6%**
Total	**314,093**	**100%**	361,410	100%	**-13.1%**

Compared to the same period last year, the Group's revenue from beauty and facial services for ladies decreased by 12.3% to HK$203,000,000 (2016: HK$231,557,000), while revenue from beauty and facial services for men decreased by 6.0% to HK$26,996,000 (2016: HK$28,732,000). Revenue from the slimming service decreased to HK$49,828,000 in the period under review, down by approximately 9.0% from approximately HK$54,738,000 in the same period of 2016.

Meanwhile, spa and massage revenue for the Group in the period under review decreased by 27.4% to HK$22,272,000. As for the product revenue, it decreased by 23.6% to HK$11,997,000 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 6.7% to HK$169,403,000, comparing to HK$181,647,000 for the same period last year. The total headcount of the Group as at 30 September 2017 decreased by 3.1% to 1,429, as compared to a headcount of 1,474 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 53.9% of our revenue, as compared to 50.3% for the same period last year.

Occupancy costs

During the period under review, the Group's occupancy costs were approximately HK$70,124,000 (2016: HK$72,864,000), accounting for approximately 22.3% of our revenue (2016: 20.2%). As of 30 September 2017, the Group operated a total of 36 service centres in Mainland China, Hong Kong and Taiwan with a total weighted average gross floor area of 248,000 square feet, representing a decrease of 3.5% as compared to 257,000 square feet for the same period last year. As of 30 September 2017, the Group had 10 and 1 service centres in Singapore and Malaysia respectively, with a total weighted average gross floor area of approximately 20,000 square feet and approximately 2,000 square feet respectively.

Other operating expenses

Other operating expenses mainly include bank charges, depreciation and amortisation, advertising costs, utilities and building management fees. Bank charges decreased by 12.5% to HK$13,058,000 during the period under review. Depreciation and amortisation decreased to HK$7,008,000 or by 63.5% with some new shops opening and some older ones closing down. Advertising costs decreased to HK$1,714,000, as compared to HK$2,560,000 for the same period last year. The percentage of advertising costs to total revenue was decreased to 0.5%, as compared to 0.7% for the same period last year.

Net loss

For the six months ended 30 September 2017, the net loss was approximately HK$1,944,000, as compared to the net profit of HK$15,890,000 (Restated) for the same period last year. 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 loss per share for the period under review was HK0.19 cent as compared to the earnings per share of HK1.79 cents (Restated) for the same period last year.

Interim dividend

No interim dividend had been approved by the Board for the six months ended 30 September 2017 (interim dividend for 2016: HK1 cent, totaling HK$8,740,000).

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 2017 was HK$111,182,000. Cash and bank balances as at 30 September 2017 amounted to HK$204,002,000 (31 March 2017: HK$244,605,000) 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 0.1%. 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 2017 was approximately HK$14,732,000, which was mainly used for the addition of leasehold improvements 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$1,174,000.

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 2017. The Group had capital commitment of HK$3,543,000 as at 30 September 2017 (31 March 2017: HK$1,098,000) in respect of the acquisition of plant and equipment.

Charges on assets

As of 30 September 2017, the Group had pledged bank deposits of HK$54,339,000 (31 March 2017: HK$54,235,000) 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, 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$169,403,000, representing a 6.7% decrease as compared to HK$181,647,000 for the same period last year. The Group had a workforce of 1,429 staff as of 30 September 2017 (30 September 2016: 1,474 staff), including 1,056 front-line service centre staff in Hong Kong, 69 in Mainland China and 123 in Singapore, Malaysia and Taiwan. Back office staff totaled 98 in Hong Kong, 51 in Mainland China and 32 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.

CORPORATE SOCIAL RESPONSIBILITY

The Group has been providing beauty and facial and slimming services over the years and such extensive experience has 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 the 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

Affected by the weak consumption under a weak economy in Hong Kong and decelerating economic growth in the PRC, as well as other negative factors such as increasing costs of sales, rising salaries and inflating rentals, the beauty industry was unavoidably affected to some extent in the first half of 2017.

Spending is going to remain conservative under the expectations for a weakening economy, and our industry will inevitably continue to suffer.

Despite the factors, the Group will continue to leverage on its excellent brand visibility and solid customer base in Hong Kong, China and Southeast Asia to brave the headwind afflicting the industry.

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

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

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

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 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 E.1.2 as set out in the section headed "Non-Compliance with Code Provision E.1.2" below.

Chairperson and Chief Executive Officer

During the period under review, Dr. Tsang Yue, Joyce was 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 25 August 2017 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

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 21 December 2017 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, 27 November 2017

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.