MODERN BEAUTY

2018/2019

INTERIM REPORT 中期報告

MODERN BEAUTY SALON HOLDINGS LIMITED

現代美容控股有限公司

Stock Code 股份代號：919

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BUSINESS REVIEW

Hong Kong

Hong Kong GDP growth rate in the third quarter of 2018 was 2.9% after the growth of 3.5% in the preceding quarter, reflecting the weakening economic momentum in Hong Kong and is most likely to continue weakening in the fourth quarter and beyond. The shift mainly reflects an ongoing economic slowdown in mainland China coupled with the effects of the escalating U.S.-China trade war, both of which weigh on the external sector and negatively impact business and consumer confidence.

Nevertheless, we continued to maintain our well-established market position in the beauty, slimming and wellness service industry, and our management is confident of the future prospects of our business.

The Group is currently operating 26 beauty and spa service centers with a total gross floor area of approximately 212,000 square feet, decreased by 2.7% when compared with the figure of 217,900 square feet as at 30 September 2017. 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 six months ended 30 September 2018 (the "period under review"), such as the TherMatrix which heats up the dermis with mono-polar radio frequency to tighten the collagen and, at the same time, promotes the remodeling and growth of collagen. The skin can thus restore its plumpness, elasticity and firmness.

With regard to the sales of skincare and wellness products, as of 30 September 2018, the Group had a total of 12 stores under the names of "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$231,471,000 and HK$236,532,000 respectively, representing a decrease of 12.6% and 0.2% respectively, as compared to the same period last year.

Mainland China

During the period under review, we disposed our Beijing foreign enterprise to reallocate our resources to other cities in Mainland China. The document procedures in China are underway as at the end of the period under review. With the disposal of our Beijing foreign enterprise, our Mainland China operations are now conducted through two wholly owned foreign enterprises established in Shanghai and Guangzhou. These two wholly owned foreign enterprises operate a total of 3 service centres at the two cities referred to. During the period under review, our service income and receipts from prepaid beauty packages in Mainland China amounted to HK$8,816,000 and HK$7,143,000 respectively, representing a decrease of 4.4% and 21.0% respectively, as compared to the same period last year.

Singapore and Malaysia

During the period under review, we disposed our Malaysian shop in June 2018 to reallocate our resources to our shops in Singapore. The Group operates a total of 11 beauty and wellness service centres in Singapore. During the period under review, our Singapore operations reported a revenue of HK$30,598,000. Receipts from sales of prepaid beauty packages amounted to HK$28,094,000, while revenue from services rendered amounted to HK$28,277,000, increased by 9.8% and 13.0% respectively when compared with the same period last year.

Taiwan

During the period under review, we disposed our 2 service centres in Taiwan to consolidate the resources. We will continue to maintain a prudent approach in developing our business in other Southeast Asian region.

FINANCIAL REVIEW

Revenue

Revenue of the Group was mainly contributed by the beauty, facial and slimming services. For the six months ended 30 September 2018, revenue of the Group decreased by 9.1% to HK$285,606,000 as compared to the same period last year mainly due to the adoption of the HKFRS 15 during the period under review.

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				
	2018		2017		
Sales mix	**HK$'000**	**Percentage of revenue**	HK$'000	Percentage of revenue	**Change**
Beauty & facial	**206,259**	**72.2%**	229,996	73.2%	-10.3%
Slimming	**46,506**	**16.3%**	49,828	15.9%	-6.7%
Spa and massage	**16,734**	**5.9%**	22,272	7.1%	-24.9%
Beauty and wellness services	**269,499**	**94.4%**	302,096	96.2%	-10.8%
Sales of skincare and wellness products	**16,107**	**5.6%**	11,997	3.8%	+34.3%
Total	**285,606**	**100%**	314,093	100%	-9.1%

Compared to the same period last year, the Group's revenue from beauty and facial services for ladies decreased by 11.0% to HK$180,608,000 (2017: HK$203,000,000), while revenue from beauty and facial services for men decreased by 5.0% to HK$25,651,000 (2017: HK$26,996,000). Revenue from the slimming service decreased to HK$46,506,000 in the period under review, decreased by approximately 6.7% from approximately HK$49,828,000 in the same period of 2017.

Meanwhile, spa and massage revenue for the Group in the period under review decreased by 24.9% to HK$16,734,000. As for the product revenue, it increased by 34.3% to HK$16,107,000 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 2.0% to HK$165,974,000, comparing to HK$169,403,000 for the same period last year. The total headcount of the Group as at 30 September 2018 decreased by 14.5% to 1,222, as compared to a headcount of 1,429 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 58.1% of our revenue, as compared to 53.9% for the same period last year.

Occupancy costs

During the period under review, the Group's occupancy costs were approximately HK$61,564,000 (2017: HK$70,124,000), accounting for approximately 21.6% of our revenue (2017: 22.3%). As of 30 September 2018, the Group operated a total of 29 service centres in Mainland China and Hong Kong with a total weighted average gross floor area of 233,000 square feet, representing a decrease of 6.0% as compared to 248,000 square feet for the same period last year. As of 30 September 2018, the Group had 11 service centres in Singapore, with a total weighted average gross floor area of approximately 21,000 square feet.

Other operating expenses

Other operating expenses mainly include bank charges, depreciation and amortisation, advertising costs, utilities and building management fees. Bank charges increased by 1.4% to HK$13,242,000 during the period under review. Depreciation and amortisation decreased to HK$6,223,000 or by 11.2% with some new shops opening and some older ones closing down. Advertising costs decreased to HK$1,622,000, as compared to HK$1,714,000 for the same period last year.

Net loss

For the six months ended 30 September 2018, the net loss was approximately HK$10,555,000, as compared to the net loss of HK$1,944,000 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 HK1.16 cents as compared to the loss per share of HK0.19 cents for the same period last year.

Interim dividend

No interim dividend had been approved by the Board for the six months ended 30 September 2018 (interim dividend for 2017: nil).

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 2018 was HK$183,134,000. Cash and bank balances as at 30 September 2018 amounted to HK$167,612,000 (31 March 2018: HK$181,683,000) 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 0.2%. 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 2018 was approximately HK$18,110,000, 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$14,732,000.

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 2018. The Group had capital commitment of HK$1,823,000 as at 30 September 2018 (31 March 2018: HK$1,352,000) in respect of the acquisition of plant and equipment.

Charges on assets

As of 30 September 2018, the Group had pledged bank deposits of HK$53,146,000 (31 March 2018: HK$54,471,000) 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$165,974,000, representing a 2.0% decrease as compared to HK$169,403,000 for the same period last year. The Group had a workforce of 1,222 staff as of 30 September 2018 (30 September 2017: 1,429 staff), including 999 front-line service centre staff in Hong Kong, 39 in Mainland China and 83 in Singapore. Back office staff totaled 72 in Hong Kong, 6 in Mainland China and 23 in Singapore 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

Uncertainties such as the US-China trade disputes and rising interest rates have started to affect investment decisions across different sectors of the economy. The consumer sentiment and the retail sales will suffer at the end.

Nonetheless, we have strived to control the operating costs as well as focusing on the maintenance of a healthy cash position. Also, the Group will continue to ensure the safety and quality of its services and products. Such dedication boosts customers' confidence in the Group, and also brought along sound reputation which laid a solid foundation for the future development of the Group.

During the period under review, the property as well as rental prices have started to fall down in Hong Kong after the consistent rise for years. The Group will seize this opportunity in future to find good locations to open new shops to enhance our market share in the industry.

In the coming future, the Group will continue to introduce strategic high-quality skincare and wellness products to meet market demands. We will also strive to explore into hightech-oriented aesthetics treatments, so as to provide beauty and wellness services of significant and lasting effect, and to vigorously expand into a wider customer base.

CORPORATE INFORMATION

Board of Directors
Dr. Tsang Yue, Joyce (Chairperson)
Mr. Yip Kai Wing
Ms. Yeung See Man
Ms. Liu Mei Ling, Rhoda *(Independent Non-executive Director)*
Mr. Wong Man Hin, Raymond *(Independent Non-executive Director)*
Mr. Hong Po Kui, Martin *(Independent Non-executive Director)*
Mr. Lam Tak Leung *(Independent Non-executive Director)*

Authorised Representatives
Mr. Yip Kai Wing
Ms. Yeung See Man

Company Secretary
Mr. Wong Shu Pui

Audit Committee
Ms. Liu Mei Ling, Rhoda (Chairperson)
Mr. Wong Man Hin, Raymond
Mr. Hong Po Kui, Martin

Nomination Committee
Dr. Tsang Yue, Joyce (Chairperson)
Mr. Wong Man Hin, Raymond
Mr. Hong Po Kui, Martin
Ms. Liu Mei Ling, Rhoda

Remuneration Committee
Mr. Wong Man Hin, Raymond (Chairperson)
Dr. Tsang Yue, Joyce
Mr. Hong Po Kui, Martin
Ms. Liu Mei Ling, Rhoda

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George Town
Grand Cayman
Cayman Islands

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Sino Industrial Plaza
9 Kai Cheung Road
Kowloon Bay
Kowloon
Hong Kong

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

Share Registrar and Transfer Office
Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

Principal Bankers
The Hongkong and Shanghai Banking Corporation Limited
1 Queen's Road Central
Hong Kong

Standard Chartered Bank (Hong Kong) Limited
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Hong Kong

Stock Code
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CORPORATE GOVERNANCE AND OTHER INFORMATION

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

As at 30 September 2018, the interests and short positions of the directors (the "Directors") and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") as recorded in the register kept by the Company pursuant to Section 352 of the SFO or otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 to the Listing Rules, were as follows:

Long positions in Shares, underlying Shares and Debentures of the Company

Name	Capacity in which interests are held	Interests in Shares	Total Interests	Approximate Percentage of Issued Share Capital of the Company[1]
Dr. Tsang Yue, Joyce	Founder of a discretionary trust	677,247,942	677,247,942	74.88%
	Interest of spouse[2]	650,000	650,000	0.07%
Mr. Yip Kai Wing	Beneficial Owner	185,000	185,000	0.02%
Ms. Yeung See Man	Beneficial Owner	172,000	172,000	0.02%

Notes:

1. The percentage has been compiled based on the total number of shares of the Company in issue as at 30 September 2018 (i.e. 904,483,942 shares).

2. Dr. Tsang Yue, Joyce is the spouse of Dr. Lee Soo Ghee and is deemed to be interested in the shares in which Dr. Lee Soo Ghee is deemed or taken to be interested for the purpose of the SFO.

Save as disclosed above, as at 30 September 2018, none of the Directors and chief executive of the Company nor their respective associates had any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or pursuant to section 352 of the SFO, to be entered in the register referred to therein, or notified to the Company and the Stock Exchange pursuant to the Model Code.

Directors' Rights to Acquire Shares or Debentures

Save as disclosed above, at no time during the period under review was the Company, any of its holding companies, subsidiaries or fellow subsidiaries a party to any arrangements to enable the Directors or chief executive of the Company or any of their respective spouses or children under 18 years of age to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Substantial Shareholders' and Other Persons' Interests and Short Positions in the Shares and Underlying Shares

As at 30 September 2018, the interests or short positions of substantial shareholders and other persons of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO, or as otherwise notified to the Company, were as follows:

Long positions of substantial shareholders and other persons in the Shares and underlying Shares of the Company

Name	Capacity in which interests are held	Interests in Shares	Total Interests	Approximate Percentage of Issued Share Capital of the Company[1]
Dr. Tsang Yue, Joyce	Founder of a discretionary trust	677,247,942	677,247,942[4]	74.88%
	Interest of spouse[2]	650,000	650,000	0.07%
Dr. Lee Soo Ghee	Beneficial owner	650,000	650,000	0.07%
	Interest of spouse[3]	677,247,942	677,247,942[4]	74.88%
TMF (Cayman) Ltd[5]	Trustee (other than a bare trustee)	677,247,942	677,247,942[4]	74.88%
Kelday International Limited[5]	Nominee for another person (other than a bare trustee)	677,247,942	677,247,942[4]	74.88%
Allied Chance Management Limited[5]	Interest of corporation controlled by it	677,247,942	677,247,942[4]	74.88%
Allied Wealth Limited[5]	Beneficial owner	209,247,942	209,247,942[6]	23.13%
Silver Compass Holdings Corp[5]	Beneficial owner	367,200,000	367,200,000[6]	40.60%
Silver Hendon Enterprises Corp[5]	Beneficial owner	100,800,000	100,800,000[6]	11.14%

Notes:

1. The percentage has been compiled based on the total number of shares of the Company in issue as at 30 September 2018 (i.e. 904,483,942 shares).

2. Dr. Tsang Yue, Joyce is the spouse of Dr. Lee Soo Ghee and is deemed to be interested in the shares in which Dr. Lee Soo Ghee is deemed or taken to be interested for the purpose of the SFO.

3. Dr. Lee Soo Ghee is the spouse of Dr. Tsang Yue, Joyce and is deemed to be interested in the shares in which Dr. Tsang Yue, Joyce is deemed or taken to be interested for the purpose of the SFO.

4. These shares were the same parcel of shares held by a trust of which Dr. Tsang Yue, Joyce was the founder. TMF (Cayman) Ltd. was the trustee of the trust. See Note 5.

5. Allied Wealth Limited, Silver Compass Holdings Corp. and Silver Hendon Enterprises Corp. are indirect wholly-owned subsidiaries of Allied Chance Management Limited. Allied Chance Management Limited is in turn a direct wholly-owned subsidiary of Kelday International Limited. TMF (Cayman) Ltd. is the ultimate holding company of Allied Chance Management Limited and Kelday International Limited.

6. These shares were included in the above-mentioned total interest in shares and underlying shares of 677,247,942. See note 4 and note 5.

Apart from the above, no other interest or short position in the shares or underlying shares of the Company was recorded in the register required to be kept under section 336 of the SFO as at 30 September 2018.

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, from Code Provision E.1.2 as set out in the section headed "Non-Compliance with Code Provision E.1.2" 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, 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 29 August 2018 due to personal reason.

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.

Ms. Liu Mei Ling, Rhoda, an Independent Non-executive Director of the Company, was absent from the Annual General Meeting of the Company held on 29 August 2018 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 this interim report for the period under review prior to their approval by the Board.

By Order of the Board
Modern Beauty Salon Holdings Limited

Dr. Tsang Yue, Joyce
Chairperson and Chief Executive Officer

Hong Kong, 29 November 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the six months ended 30 September 2018

	Note	Six months ended 30 September	
		2018	2017
		HK$'000	HK$'000
		(unaudited)	(unaudited)
Revenue	5	**285,606**	314,093
Other income	6	**1,969**	2,150
Cost of inventories sold		**(11,820)**	(13,576)
Advertising costs		**(1,622)**	(1,714)
Building management fees		**(7,309)**	(7,279)
Bank charges		**(13,242)**	(13,058)
Employee benefit expenses		**(165,974)**	(169,403)
Depreciation and amortisation		**(6,223)**	(7,008)
Occupancy costs		**(61,564)**	(70,124)
Other operating expenses		**(32,508)**	(33,903)
(Loss)/profit from operations		**(12,687)**	178
Interest income		**211**	219
Fair value changes on investment properties		**310**	162
Fair value change on purchase consideration		**—**	1,148
Net loss on disposals of subsidiaries		**(306)**	—
Impairment loss on goodwill	12	**—**	(2,038)
Loss before taxation	7	**(12,472)**	(331)
Income tax credit/(expense)	8	**1,917**	(1,613)
Loss for the period		**(10,555)**	(1,944)
Attributable to:			
Equity shareholders of the Company		**(10,483)**	(1,702)
Non-controlling interests		**(72)**	(242)
Loss for the period		**(10,555)**	(1,944)
Loss per share (HK cents)	9		
Basic		**(1.16)**	(0.19)
Diluted		**(1.16)**	(0.19)

The notes on pages 20 to 40 form part of this interim financial report. Details of dividends payable to equity shareholders of the Company are set out in note 17(a).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the six months ended 30 September 2018

		Six months ended 30 September	
	Note	**2018** **HK$'000** **(unaudited)**	2017 HK$'000 (unaudited)
Loss for the period		**(10,555)**	(1,944)
Other comprehensive income for the period (after tax and reclassification adjustments):			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		**2,143**	(1,008)
Reclassification adjustments for amounts transferred to profit or loss on disposal of subsidiaries		**(450)**	—
Other comprehensive income for the period		**1,693**	(1,008)
Total comprehensive income for the period		**(8,862)**	(2,952)
Attributable to:			
Equity shareholders of the Company		**(8,790)**	(2,710)
Non-controlling interests		**(72)**	(242)
Total comprehensive income for the period		**(8,862)**	(2,952)

The notes on pages 20 to 40 form part of this interim financial report.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 September 2018

	Note	At 30 September 2018 HK$'000 (unaudited)	At 31 March 2018 HK$'000 (audited)
Non-current assets			
Property, plant and equipment	10	**80,274**	68,760
Investment properties		**14,210**	13,900
Intangible assets	11	**1,906**	2,147
Goodwill	12	**1,070**	1,070
Deposits and prepayments	13	**21,088**	22,798
Deferred tax assets		**8,555**	20,609
		127,103	129,284
Current assets			
Inventories		**21,342**	26,097
Trade and other receivables, deposits and prepayments	13	**204,520**	210,308
Tax recoverable		**2,664**	3,517
Pledged bank deposits		**53,146**	54,471
Bank deposits with original maturity over three months		**5,389**	5,556
Cash and bank balances	14	**167,612**	181,683
		454,673	481,632
Current liabilities			
Trade and other payables, deposits received and accrued expenses	15	**84,869**	92,595
Deferred revenue	16	**300,782**	428,719
Tax payable		**7,533**	717
		393,184	522,031
Net current assets/(liabilities)		**61,489**	(40,399)
Total assets less current liabilities		**188,592**	88,885

Consolidated Statement of Financial Position

at 30 September 2018

	Note	At 30 September 2018 HK$'000 (unaudited)	At 31 March 2018 HK$'000 (audited)
Non-current liability			
Deferred tax liabilities		458	457
NET ASSETS		188,134	88,428
CAPITAL AND RESERVES			
Share capital	17(b)	90,448	90,448
Reserves		93,085	(4,655)
Total equity attributable to equity shareholders of the Company		188,533	85,793
Non-controlling interests		4,601	2,635
TOTAL EQUITY		188,134	88,428

The notes on pages 20 to 40 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 September 2018

		(Unaudited) Attributable to equity shareholders of the Company								
	Note	Share capital HK$'000	Share premium HK$'000	Merger reserve HK$'000	Exchange reserve HK$'000	Property revaluation reserve HK$'000	Retained earnings HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
Balance at 1 April 2017		90,448	318,791	(373,253)	(107)	3,552	83,384	122,815	2,625	125,440
Changes in equity for the six months ended 30 September 2017:										
Loss for the period		—	—	—	—	—	(1,702)	(1,702)	(242)	(1,944)
Other comprehensive income — Exchange differences on translation of subsidiaries		—	—	—	(1,008)	—	—	(1,008)	—	(1,008)
Total comprehensive income		—	—	—	(1,008)	—	(1,702)	(2,710)	(242)	(2,952)
2017 final dividends declared	17(a)	—	—	—	—	—	(11,306)	(11,306)	—	(11,306)
Balance at 30 September 2017		90,448	318,791	(373,253)	(1,115)	3,552	70,376	108,799	2,383	111,182
Balance at 1 April 2018		**90,448**	**318,791**	**(373,253)**	**(2,968)**	**3,552**	**49,223**	**85,793**	**2,635**	**88,428**
Impact of initial adoption of HKFRS 15	3(c)	**—**	**—**	**—**	**—**	**—**	**106,530**	**106,530**	**—**	**106,530**
Adjusted balance at 1 April 2018		**90,448**	**318,791**	**(373,253)**	**(2,968)**	**3,552**	**155,753**	**192,323**	**2,635**	**194,958**
Changes in equity for the six months ended 30 September 2018:										
Loss for the period		**—**	**—**	**—**	**—**	**—**	**(10,483)**	**(10,483)**	**(72)**	**(10,555)**
Other comprehensive income — Exchange differences on translation of subsidiaries		**—**	**—**	**—**	**1,693**	**—**	**—**	**1,693**	**2,038**	**3,731**
Total comprehensive income		**—**	**—**	**—**	**1,693**	**—**	**(10,483)**	**(8,790)**	**1,966**	**(6,824)**
Balance at 30 September 2018		**90,448**	**318,791**	**(373,253)**	**(1,275)**	**3,552**	**145,270**	**183,533**	**4,601**	**188,134**

The notes on pages 20 to 40 form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

for the six months ended 30 September 2018

	Note	Six months ended 30 September	
		2018	2017
		HK$'000	HK$'000
		(unaudited)	(unaudited)
Operating activities			
Cash used in operations		**(2,913)**	(20,244)
Tax paid		**(182)**	(3,719)
Net cash used in operating activities		**(3,095)**	(23,963)
Investing activities			
Purchase of property, plant and equipment		**(18,110)**	(14,732)
Other cash flows arising from investing activities		**4,822**	(157)
Net cash used in investing activities		**(13,288)**	(14,889)
Net decrease in cash and cash equivalents		**(16,383)**	(38,852)
Cash and cash equivalents at beginning of period	14	**181,683**	244,605
Effect of foreign exchange rates changes		**2,312**	(1,751)
Cash and cash equivalents at end of period	14	**167,612**	204,002

The notes on pages 20 to 40 form part of this interim financial report.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

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

This unaudited 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"). It was authorised for issue on 29 November 2018.

This unaudited 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 2018, except for the accounting policy changes that are expected to be reflected in the annual financial statements for the year ending 31 March 2019. 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 unaudited 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 2018. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

The financial information relating to the financial year ended 31 March 2018 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 2018 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 27 June 2018.

3 CHANGES IN ACCOUNTING POLICIES

(a) Overview

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

- HKFRS 9, *Financial instruments*
- HKFRS 15, *Revenue from contracts with customers*
- HK(IFRIC) 22, *Foreign currency transactions and advance consideration*

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

The Group has been impacted by HKFRS 15 in relation to timing of revenue recognition. Details of the changes in accounting policies are discussed in note 3(c) for HKFRS 15.

(b) HKFRS 9, *Financial instruments*

HKFRS 9 replaces HKAS 39, *Financial instruments: recognition and measurement*. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. The impact related to the credit losses measurement is summarised as follows:

(i) Credit losses

HKFRS 9 replaces the "incurred loss" model in HKAS 39 with the "expected credit loss" ("ECL") model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the "incurred loss" accounting model in HKAS 39.

Impairment based on the expected credit loss model on the Group's trade receivables have no significant financial impact on the Group's consolidated statement of profit or loss for the current accounting period.

(c) HKFRS 15, *Revenue from contracts with customers*

HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18, *Revenue*, which covered revenue arising from sale of goods and rendering of services, and HKAS 11, *Construction contracts*, which specified the accounting for construction contracts.

3 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(c) HKFRS 15, *Revenue from contracts with customers (Continued)*

The Group has elected to use the cumulative effect transition method and has recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 April 2018. Therefore, comparative information has not been restated and continues to be reported under HKAS 11 and HKAS 18. As allowed by HKFRS 15, the group has applied the new requirements only to contracts that were not completed before 1 April 2018.

Further details of the nature and effect of the changes on accounting policies are set out below:

Timing of revenue recognition

Previously, revenue arising from provision of goods and services was recognised at a point of time when the risks and rewards of ownership of the goods and services had passed to the customers.

Under HKFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. HKFRS 15 identifies the following three situations in which control of the promised good or service is regarded as being transferred over time:

(i) When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

(ii) When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;

(iii) When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these three situations, then under HKFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that is considered in determining when the transfer of control occurs.

The adoption of HKFRS 15 does not have a significant impact on the Group's revenue recognition over sales of skincare and wellness products. However, the timing of revenue recognition for sales of prepaid packages for beauty and wellness services is affected as follows:

The Group sells prepaid packages for beauty and wellness services which comprise multiple numbers of treatments. The service period of a prepaid package is one-year. Prepaid packages are non-refundable and customers may not utilise all of their contracted rights within the service period. Deferred revenue in the consolidated statement of financial position at the reporting date primarily represents treatment fees received where the associated beauty and wellness services have not been provided.

Previously, any residual deferred revenue at the end of the one-year service period is fully recognised in profit or loss. Under HKFRS 15, such unutilised treatments are referred to as "breakage". Revenue from the provision of services is dependent on the estimation of the utilisation pattern of the provision of services. An expected amount of breakage is estimated by management based on historical experience and is recognised as revenue in proportion to the pattern of treatments provided to customers..

3 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(c) HKFRS 15, *Revenue from contracts with customers (Continued)*

Timing of revenue recognition (Continued)

The following table summarises the impact of transition to HKFRS 15 on retained earnings and the related tax impact at 1 April 2018:

	HK$'000
Retained earnings	
Earlier recognition of breakage revenue for the prepaid beauty packages	127,580
Related tax	(21,050)
Net increase in retained earnings at 1 April 2018	106,530

The following tables summarise the impacts of adopting HKFRS 15 on the Group's consolidated statement of financial position as at 30 September 2018 and the consolidated statement of profit or loss for the six months then ended for each of the line items affected.

Impact on the consolidated statement of financial position:

30 September 2018	**As reported**	**Adjustments**	**Amounts without adoption of HKFRS 15**
	HK$'000	HK$'000	HK$'000
Deferred tax assets	8,555	16,739	25,294
Current tax payable	7,533	(4,311)	3,222
Deferred revenue	300,782	131,667	432,449
Retained earnings	145,270	(111,291)	33,979

3 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(c) HKFRS 15, *Revenue from contracts with customers (Continued)*

Timing of revenue recognition (Continued)

Impact on the consolidated statement of profit or loss and other comprehensive income:

For the period ended 30 September 2018	As reported	Adjustments	Amounts without adoption of HKFRS 15
	HK$'000	HK$'000	HK$'000
Revenue	285,606	(4,087)	281,519
Income tax credit	1,917	(674)	1,243

(d) HK(IFRIC) 22, *Foreign currency transactions and advance consideration*

This interpretation provides guidance on determining "the date of the transaction" for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) arising from a transaction in which an entity receives or pays advance consideration in a foreign currency.

The Interpretation clarifies that "the date of the transaction" is the date on initial recognition of the non-monetary asset or liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the date of the transaction for each payment or receipt should be determined in this way. The adoption of HK(IFRIC) 22 does not have any material impact on the financial position and the financial result of the Group.

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 2018. Segment profits do not include other income, interest income, fair value changes on investment properties and purchase consideration, 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.

4 SEGMENT INFORMATION (CONTINUED)

(a) Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the 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 2018			
Revenue from external customers	**269,499**	**16,107**	**285,606**
Reportable segment (loss)/profit	**(6,930)**	**7,158**	**228**
As at 30 September 2018			
Reportable segment assets	**531,239**	**10,687**	**541,926**
Reportable segment liabilities	**(370,250)**	**(13,890)**	**(384,140)**

	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 31 March 2018			
Reportable segment assets	545,379	12,838	558,217
Reportable segment liabilities	(507,960)	(10,003)	(517,963)

4 SEGMENT INFORMATION (CONTINUED)

(b) Reconciliations of reportable segment profit or loss

	Six months ended 30 September	
	2018	2017
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Reportable segment profit	**228**	13,801
Other income	**1,969**	2,150
Interest income	**211**	219
Fair value changes on investment properties	**310**	162
Fair value change on purchase consideration	**—**	1,148
Impairment loss on goodwill	**—**	(2,038)
Net loss on disposal of subsidiaries	**(306)**	—
Unallocated costs	**(14,884)**	(15,773)
Income tax credit/(expense)	**1,917**	(1,613)
Consolidated loss for the period	**(10,555)**	(1,944)

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	
	2018	2017
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Revenue recognised from provision of beauty and wellness services and expiry of prepaid beauty packages	**269,499**	302,096
Sales of skincare and wellness products	**16,107**	11,997
	285,606	314,093

6 OTHER INCOME

	Six months ended 30 September	
	2018	2017
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Commission income	**71**	142
Foreign exchange gain, net	**—**	824
Net gain on disposals of property, plant and equipment	**100**	119
Rental income	**508**	268
Others	**1,290**	797
	1,969	2,150

7 LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging:

	Six months ended 30 September	
	2018	2017
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Auditor's remuneration		
— Current	**1,708**	1,787
Directors' remuneration	**6,200**	6,193
Foreign exchange loss, net	**1,860**	—

8 INCOME TAX (CREDIT)/EXPENSE

	Six months ended 30 September	
	2018	2017
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Current tax — Hong Kong Profits Tax	**1,596**	1,586
Current tax — Overseas	**1,203**	632
Deferred taxation	**(4,716)**	(605)
	(1,917)	1,613

8 INCOME TAX (CREDIT)/EXPENSE (CONTINUED)

The provision for Hong Kong Profits Tax is calculated by applying the estimated annual effective tax rate of 16.5% (30 September 2017: 16.5%) to the six months ended 30 September 2018.

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 LOSS PER SHARE

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

(a) Basic loss per share

The calculation of basic loss per share is based on the loss attributable to ordinary equity shareholders of the Company of $10,483,000 (30 September 2017: loss attributable to ordinary equity shareholders of the Company of HK$1,702,000) and the weighted average number of 904,483,942 ordinary shares (30 September 2017: 904,483,942 ordinary shares) in issue during the interim period.

(b) Diluted loss per share

The calculation of diluted loss per share is based on the loss attributable to ordinary equity shareholders of the Company of HK$10,483,000 (loss attributable to ordinary equity shareholders of the Company of 30 September 2017: HK$1,702,000) and the weighted average number of 904,483,942 ordinary shares (30 September 2017: weighted average number of ordinary shares of 904,483,942), calculated as follows:

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

	Six months ended 30 September	
	2018 **HK$'000** **(unaudited)**	2017 HK$'000 (unaudited)
Loss attributable to ordinary equity shareholders	**10,483**	1,702
Loss attributable to ordinary equity shareholders (diluted)	**10,483**	1,702

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

	Six months ended 30 September	
	2018 **(unaudited)**	2017 (unaudited)
Weighted average number of ordinary shares	**904,483,942**	904,483,942
Weighted average number of ordinary shares (diluted)	**904,483,942**	904,483,942

10 PROPERTY, PLANT AND EQUIPMENT

Acquisitions

During the six months ended 30 September 2018, the Group acquired items of property, plant and equipment with a cost of approximately HK$18,110,000 (30 September 2017: HK$14,732,000).

11 INTANGIBLE ASSETS

	Customer relationships $'000	Trademarks $'000	Total $'000
Cost:			
At 31 March 2018	1,345	1,218	2,563
Exchange differences	(85)	(78)	(163)
At 30 September 2018	1,260	1,140	2,400
Accumulated amortisation:			
At 31 March 2018	416	—	416
Charge for the period	107	—	107
Exchange difference	(29)	—	(29)
At 30 September 2018	494	—	494
Net book value:			
At 30 September 2018	766	1,140	1,906
At 31 March 2018	929	1,218	2,147

The amortisation charge for the period is included in "depreciation and amortisation" in the consolidated statement of profit or loss.

12 GOODWILL AND BUSINESS COMBINATIONS

	At 30 September 2018 HK$'000 (unaudited)	At 31 March 2018 HK$'000 (audited)
At 1 April 2018/2017	**1,070**	3,108
Impairment loss	**—**	(2,038)
At 30 September 2018/31 March 2018	**1,070**	1,070

(a) Acquisition of Care Plus International Pty Limited

In July 2014, Main Deal Limited, a wholly owned subsidiary of the Group, acquired 49% equity interest in Care Plus International Pty Limited ("Care Plus"), which is incorporated in Australia, with a subsequent acquisition of an additional 2% equity interest in Care Plus in 2016. In May 2016, the Group completed the acquisition of the 2% equity interest in Care Plus, which has given the Group control over Care Plus. Care Plus has become a subsidiary of the Group since then. The acquisitions in July 2014 and May 2016 have been treated as "step acquisitions" under HKFRS 3 (Revised) *Business Combination* ("HKFRS 3"). The principal activities of Care Plus is manufacturing and trading of beauty and wellness products.

According to HKFRS 3, a step acquisition is accounted for using the acquisition method of accounting. Therefore the initial equity investments are remeasured to fair value as at the acquisition date and any gain or loss arising from the acquisition is recognised in the statement of profit or loss. The initial equity investments are deemed to have been disposed of, in return, with the consideration transferred for the total 51% equity interest in Care Plus. The fair values of the initial equity investments form one of the components to calculate goodwill, along with the consideration transferred and non-controlling interests, if any, less the fair value of the identifiable net assets of Care Plus.

As at 30 September 2018, the carrying amount of goodwill of HK$1,070,000 (31 March 2018: HK$1,070,000) represented the future economic benefits arising from assets acquired that are not currently individually identified and separately recognised. None of the goodwill recognised is expected to be deductible for income tax purposes.

(b) Acquisition and disposal of Elegant Trend Limited

In January 2017, Topluck International Holdings Limited, a wholly owned subsidiary of the Group, acquired 51% equity interest in Elegant Trend Limited ("Elegant Trend"), a Hong Kong incorporated company with a factory in the PRC named 廣州市美研達化妝品有限公司 ("美研達"). Elegant Trend is an unlisted corporate entity whose quoted market price is unavailable. The principal activities of Elegant Trend and 美研達 are investment holding and manufacturing of beauty and wellness products, respectively.

In September 2018, the Group disposed the equity interest in Elegant Trend back to the vendor at a consideration of HK$1, resulting in a gain on disposal of HK$2,122,000.

12 GOODWILL AND BUSINESS COMBINATIONS (CONTINUED)

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

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

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

In July 2018, the Group disposed the equity interest in Silver Dynasty and W.Z.T. back to the vendor at a consideration of HK$1 respectively, resulting in a loss on disposal of HK$1,000.

13 TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	At 30 September 2018 HK$'000 (unaudited)	At 31 March 2018 HK$'000 (audited)
Non-current asset		
Deposits and prepayments	**21,088**	22,798
Current assets		
Trade receivables	**38,024**	36,230
Less: allowance for doubtful debts	**(828)**	(828)
	37,196	35,402
Trade deposits retained by banks/credit card companies *(note)*	**133,845**	134,137
Rental and other deposits, prepayments and other receivables	**32,461**	36,789
Amounts due from related companies *(note 21 (c))*	**1,018**	3,980
	204,520	210,308
	225,608	233,106

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.

13 TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS (CONTINUED)

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 2018 HK$'000 (unaudited)	At 31 March 2018 HK$'000 (audited)
0–30 days	**18,413**	19,116
31–60 days	**7,365**	5,960
61–90 days	**5,651**	5,529
91–180 days	**5,431**	4,583
Over 180 days	**336**	214
	37,196	35,402

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 2018: 7 to 180 days) for the credit card settlement from the respective banks/credit card companies.

14 CASH AND BANK BALANCES

	At 30 September 2018 HK$'000 (unaudited)	At 31 March 2018 HK$'000 (audited)
Cash at bank and in hand	**123,371**	137,733
Short-term bank deposits with maturity less than three months	**44,241**	43,950
Cash and bank balances in the consolidated statement of financial position and cash and cash equivalents in the condensed consolidated cash flow statement	**167,612**	181,683

15 TRADE AND OTHER PAYABLES, DEPOSITS RECEIVED AND ACCRUED EXPENSES

	At 30 September 2018 HK$'000 (unaudited)	At 31 March 2018 HK$'000 (audited)
Trade payables	**4,993**	2,103
Other payables, deposits received and accrued expenses	**78,363**	87,141
Amount due to the ultimate controlling party *(note 21 (c))*	**1,425**	1,425
Amounts due to related companies *(note 21 (c))*	**88**	1,926
	84,869	92,595

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

	At 30 September 2018 HK$'000 (unaudited)	At 31 March 2018 HK$'000 (audited)
Within 90 days	**4,671**	2,034
Over 90 days	**322**	69
	4,993	2,103

16 DEFERRED REVENUE

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

	At 30 September 2018 HK$'000 (unaudited)	At 31 March 2018 HK$'000 (audited)
Within 1 year	**300,782**	428,719

16 DEFERRED REVENUE (CONTINUED)

(b) Movement of deferred revenue:

	At 30 September 2018 HK$'000 (unaudited)	At 31 March 2018 HK$'000 (audited)
At beginning of period/year	**428,719**	439,367
Impact of changes in accounting policy *(note 3.3)*	**(131,667)**	—
	297,052	439,367
Gross receipts from sales of prepaid beauty packages	**272,221**	563,069
Revenue recognised for provision of beauty and wellness services and expiry of prepaid beauty packages	**(265,412)**	(574,737)
Adjustment on disposal of subsidiaries	**(1,826)**	—
Exchange differences	**(1,253)**	1,020
At end of period/year	**300,782**	428,719

17 CAPITAL, RESERVES AND DIVIDENDS

(a) Dividends

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

	Six months ended 30 September	
	2018 HK$'000 (unaudited)	2017 HK$'000 (unaudited)
Final dividend in respect of the previous financial year, approved during the following interim period, of Nil per ordinary share (30 September 2017: HK1.25 cents per ordinary share)	**—**	11,306

17 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(b) Share capital

Authorised and issued share capital

	At 30 September 2018 No. of shares (unaudited)	At 30 September 2018 Amount HK$'000 (unaudited)	At 31 March 2018 No. of shares (audited)	At 31 March 2018 Amount HK$'000 (audited)
Authorised:				
Ordinary shares of HK$0.1 each	**10,000,000,000**	**1,000,000**	10,000,000,000	1,000,000
Issued and fully paid:				
Ordinary shares of HK$0.1 each	**904,483,942**	**90,448**	904,483,942	90,448

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per ordinary share at general meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

18 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

Financial assets and liabilities measured at fair value

(a) Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

— Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date

— Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available

— Level 3 valuations: Fair value measured using significant unobservable inputs

18 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

Financial assets and liabilities measured at fair value (Continued)

(b) *Information about Level 3 fair value measurements*

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

	At 30 September 2018 HK$'000 (unaudited)	At 31 March 2018 HK$'000 (audited)
Purchase consideration payable for acquisitions:		
At 1 April 2018/1 April 2017	—	1,148
Fair value change on purchase consideration included in profit or loss	—	(1,148)
At 30 September 2018/31 March 2018	—	—

19 COMMITMENTS

(a) Operating lease commitments

At 30 September 2018, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	At 30 September 2018 HK$'000 (unaudited)	At 31 March 2018 HK$'000 (audited)
Within one year	107,891	111,499
After one year but within five years	65,117	93,082
	173,008	204,581

19 COMMITMENTS (CONTINUED)

(b) Capital commitments outstanding not provided for in the interim financial report

	At 30 September 2018 HK$'000 (unaudited)	At 31 March 2018 HK$'000 (audited)
Contracted but not yet provided for:		
— Acquisition of plant and equipment	**1,823**	1,352

20 CONTINGENT LIABILITIES

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

21 MATERIAL RELATED PARTY TRANSACTIONS AND BALANCES

(a) Key management personnel compensation

	Six months ended 30 September	
	2018 HK'000 (unaudited)	2017 HK'000 (unaudited)
Fees	**558**	558
Salaries and allowances	**5,588**	5,582
Retirement benefit scheme contributions	**54**	53
	6,200	6,193

21 MATERIAL RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

(b) Material related party transactions

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

	Note	Six months ended 30 September 2018 HK'000 (unaudited)	2017 HK'000 (unaudited)
Rental expenses paid to related companies:	(ii)		
— Chain Tech International Limited		**1,275**	1,275
— East Union Industries Limited		**867**	867
— Golden National Limited		**3,771**	4,335
— Joy East Limited		**372**	372
— Luck Elegant Industrial Limited		**1,668**	1,668
— Lucky Forever Limited		**7,711**	8,925
— United Industries Limited		**969**	4,131
— Well Faith International Enterprise Limited		**5,776**	6,732
— Wise World Limited		**1,785**	1,785
		24,194	30,090
Rental income received from a related company:	(iii)		
— Grateful Heart Charitable Foundation Limited		**508**	268

21 MATERIAL RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

(b) Material related party transactions (Continued)

		Six months ended 30 September	
	Note	**2018 HK'000 (unaudited)**	2017 HK'000 (unaudited)
Salaries and other benefits in kind paid to related parties:			
— Related party A	(iv)	**940**	865
— Related party B	(v)	**1,099**	902
— Related party C	(vi)	**276**	287
		2,315	2,054

Notes:

(i) The pricing of the related party transactions are mutually agreed by the Group and the related companies. Dr. Tsang is the ultimate controlling party of the related companies.

(ii) The amounts represented rental expenses paid for areas leased from related companies for use as office, retail shops, beauty service centres, warehouses and staff quarters at a monthly rental mutually agreed by both parties. Dr. Tsang is the ultimate controlling party of the related companies.

(iii) The amount represented rental income received for area leased to a related company for use as office at a monthly rental mutually agreed by both parties. Dr. Tsang is the member of the related company.

(iv) Related party A is the spouse of a director, Dr. Tsang.

(v) Related party B is the son of a director, Dr. Tsang.

(vi) Related party C is the spouse of a director, Mr. Yip Kai Wing.

(c) Balances with related parties

The amounts due from/to related companies and the ultimate controlling party are unsecured, interest free and recoverable/repayable on demand. Dr. Tsang is the ultimate controlling party of those related companies.

22 COMPARATIVE FIGURES

The Group has initially applied HKFRS 15 and HKFRS 9 at 1 April 2018. Under the transition methods chosen, comparative information is not restated. Further details of the changes in accounting policies are disclosed in note 3.

23 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2018

A number of amendments and new standards are effective for annual periods beginning after 1 April 2018 and earlier application is permitted. However, the Group has not early adopted any new or amended standards in preparing this interim financial report.

The Group has the following update to the information provided in the last annual financial statements in respect of HKFRS 16, *Leases*, which may have a significant impact on the Group's consolidated financial statements.

HKFRS 16, *Leases*

As discussed in the 2018 annual financial statements, currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. Upon the adoption of HKFRS 16, where the Group is the lessee under the lease the Group will be required to account for all leases in a similar way to current finance lease accounting, i.e. recognise and measure a lease liability at the present value of the minimum future lease payments and recognise a corresponding "right-of-use" asset at the commencement date of the lease, subject to practical expedients. HKFRS 16 will primarily affect the Group's accounting as a lessee of leases for items of property, plant and equipment which are currently classified as operating leases.

The Group's future minimum lease payments, based on the non-cancellable operating leases that have been entered into by 30 September 2018 are disclosed under note 19(a).

Upon the initial adoption of HKFRS 16 at 1 April 2019, the present value of most of the future minimum lease payments that are payable after 12 months will be recognised as lease liabilities, with corresponding right-of-use assets recognised as non-current assets. The Group will need to perform a more detailed analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of HKFRS 16, after taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of HKFRS 16.

24 APPROVAL OF INTERIM FINANCIAL REPORT

The interim financial report was approved and authorised for issue by the Board of Directors on 29 November 2018.

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