MODERN BEAUTY

INTERIM REPORT 中期報告
2017 /18

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

Modern Beauty Salon Holdings Limited (the "Company") and its subsidiaries (collectively, the "Group") 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 six months ended 30 September 2017 (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.

Management Discussion and Analysis

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.

Management Discussion and Analysis

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 maximising 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.

Management Discussion and Analysis

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 Mainland China, 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, Mainland 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.

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

Head Office and Principal Place of Business in Hong Kong
6th Floor, 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
4-4A Des Voeux Road Central
Hong Kong

Stock Code
919

Investors Relation
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Website
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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 2017, 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	Equity Derivatives (Share Options)	Equity Derivatives (Convertible Note)	Total Interests	Approximate Percentage of Issued Share 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 2017 (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 2017, 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 2017, 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	Equity Derivatives (Convertible Note)	Total Interests	Approximate Percentage of Issued Share 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 2017 (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 2017.

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.

Update on Directors' Information Under Rule 13.51B(1) of The Listing Rules

Liu Mei Ling, Rhoda ("Ms. Liu")

On 2 August 2017, Ms. Liu was appointed an independent director and a member of the audit committee of Ellipsiz Communications Ltd ("ECL"), a company listed on TSX Venture Exchange. On 30 November 2017, Ms. Liu was appointed as the new Audit Committee Chairlady of ECL.

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, 27 November 2017

REVIEW REPORT

KPMG

Review report to the Board of Directors of Modern Beauty Salon Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

Introduction

We have reviewed the interim financial report set out on pages 15 to 40 which comprises the consolidated statement of financial position of Modern Beauty Salon Holdings Limited ("the Company") as of 30 September 2017 and the related consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income and consolidated statement of changes in equity and condensed consolidated cash flow statement for the six month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

We conducted our review 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 Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 September 2017 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, *Interim financial reporting*.

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

27 November 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the six months ended 30 September 2017

	Note	Six months ended 30 September 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)
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	13(c)	**(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

The notes on pages 21 to 40 form part of this interim financial report. Details of dividends payable to equity shareholders of the Company are set out in note 19(a).

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

The notes on pages 21 to 40 form part of this interim financial report.

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	11	71,485	63,424
Investment properties		13,032	12,870
Intangible assets	12	2,294	2,342
Goodwill	13	1,070	3,108
Deposits	14	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	14	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	15	204,002	244,605
		504,548	544,137
Current liabilities			
Trade and other payables, deposits received and accrued expenses	16	89,761	87,265
Deferred revenue	17	410,937	439,367
Dividend payable	19(a)(ii)	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

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 liabilities			
Deferred tax liabilities		834	822
Purchase consideration payable for acquisitions	20(b)	—	1,148
		834	1,970
NET ASSETS		111,182	125,440
CAPITAL AND RESERVES			
Share capital	19(b)	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

The notes on pages 21 to 40 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 September 2017

		(Unaudited) Attributable to equity shareholders of the Company											
	Note	Share capital HK$'000	Share premium HK$'000	Share-based compensation reserve HK$'000	Warrants reserve HK$'000	Merger reserve HK$'000	Exchange reserve HK$'000	Convertible note 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 2016													
As previously reported		87,400	289,999	4,734	170	(374,921)	828	84,870	3,552	64,730	161,362	505	161,867
Prior year adjustments		—	(172)	—	—	1,668	—	(84,870)	—	(5,528)	(88,902)	—	(88,902)
As restated		87,400	289,827	4,734	170	(373,253)	828	—	3,552	59,202	72,460	505	72,965
Changes in equity for the six months ended 30 September 2016: (Restated)													
Profit for the period (Restated)	4	—	—	—	—	—	—	—	—	15,620	15,620	270	15,890
Other comprehensive income													
— Exchange differences on translation of subsidiaries		—	—	—	—	—	(711)	—	—	—	(711)	—	(711)
— Reclassification adjustment upon loss of joint control of a joint venture		—	—	—	—	—	675	—	—	—	675	—	675
Total comprehensive income (Restated)		—	—	—	—	—	(36)	—	—	15,620	15,584	270	15,854
Lapse of warrants	19(b)	—	—	—	(170)	—	—	—	—	170	—	—	—
Acquisition of a new subsidiary		—	—	—	—	—	—	—	—	—	—	2,367	2,367
2016 final dividends declared	19(a)(ii)	—	—	—	—	—	—	—	—	(5,244)	(5,244)	—	(5,244)
Balance at 30 September 2016 (Restated)		87,400	289,827	4,734	—	(373,253)	792	—	3,552	69,748	82,800	3,142	85,942
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	19(a)(ii)	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(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**

The notes on pages 21 to 40 form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

for the six months ended 30 September 2017

	Note	Six months ended 30 September 2017 HK$'000 (unaudited)	2016 HK$'000 (unaudited)
Operating activities			
Cash used in operations		**(20,244)**	(1,521)
Tax paid		**(3,719)**	(7,574)
Net cash used in operating activities		**(23,963)**	(9,095)
Investing activities			
Purchase of property, plant and equipment		**(14,732)**	(1,174)
Other cash flows arising from investing activities		**(157)**	(113)
Net cash used in investing activities		**(14,889)**	(1,287)
Financing activities			
Cash flows arising from financing activities		**—**	(1,840)
Net cash used in financing activities		**—**	(1,840)
Net decrease in cash and cash equivalents		**(38,852)**	(12,222)
Cash and cash equivalents at beginning of period	15	**244,605**	366,652
Effect of foreign exchange rates changes		**(1,751)**	(87)
Cash and cash equivalents at end of period	15	**204,002**	354,343

The notes on pages 21 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 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 27 November 2017.

This 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.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the annual financial statements for the year ended 31 March 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. KPMG's independent review report to the Board of Directors is included on page 14.

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

2 Basis of preparation (Continued)

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 this 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)

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

5 Segment information (Continued)

(a) (Continued)

	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

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

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

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

8 (Loss)/profit before taxation

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

(a) Finance costs

	Six months ended 30 September 2017 HK$'000 (unaudited)	2016 HK$'000 (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 HK$'000 (unaudited)	2016 HK$'000 (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 (note 13(a))	—	1,802

9 Income tax expense

	Six months ended 30 September 2017 HK$'000 (unaudited)	2016 HK$'000 (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.

9 Income tax expense (Continued)

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 $1,702,000 (30 September 2016: profit attributable to ordinary equity shareholders of the Company of $15,620,000 (Restated)) and the weighted average number of 904,483,942 ordinary shares (30 September 2016: weighted average number of 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 $1,702,000 (30 September 2016: profit attributable to ordinary equity shareholders of the Company of $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 HK$'000 (unaudited)	2016 HK$'000 (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 (unaudited)	2016 (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 18) as at 30 September 2016 do not give rise to any dilution effect to the earnings per share.

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

11 Property, plant and equipment

Acquisitions

During the six months ended 30 September 2017, the Group acquired items of property, plant and equipment with a cost of approximately HK$14,732,000 (30 September 2016: HK$1,174,000).

12 Intangible assets

	Customer relationships $'000	Trademarks $'000	Total $'000
Cost:			
At 31 March 2017	1,328	1,203	2,531
Exchange differences	37	34	71
At 30 September 2017	1,365	1,237	2,602
Accumulated amortisation:			
At 31 March 2017	189	—	189
Charge for the period	112	—	112
Exchange difference	7	—	7
At 30 September 2017	308	—	308
Net book value:			
At 30 September 2017	1,057	1,237	2,294
At 31 March 2017	1,139	1,203	2,342

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

13 Goodwill and business combinations

	At 30 September 2017 HK$'000 (unaudited)	At 31 March 2017 HK$'000 (audited)
At 1 April 2017/2016	3,108	—
Business combinations	—	3,108
Impairment loss	(2,038)	—
At 30 September 2017/31 March 2017	1,070	3,108

13 Goodwill and business combinations (Continued)

(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. The aggregate loss on deemed disposal of the initial equity investments is HK$1,802,000, which was recognised in the Group's consolidated statement of profit or loss during the period ended 30 September 2016 (note 8(b)).

Goodwill of HK$1,070,000 was recognised during the year ended 31 March 2017 which represented the future economic benefits arising from assets acquired that are not currently individually identified and separately recognised. None of the goodwill recognised is expected to be deductible for income tax purposes.

Acquisition-related costs are included in other operating expenses in the consolidated statement of profit or loss for the period ended 30 September 2016. These totalled HK$108,000, which comprised mainly legal and professional fees.

(b) Acquisition 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.

Pursuant to the agreement, the consideration for the acquisition of the 51% equity interest comprises a cash consideration of HK$1 payable immediately and a further contingent amount to be settled in 2018 (if applicable) depending upon the fulfilment of certain pre-determined conditions. The contingent consideration was recognised as a financial liability under "purchase consideration payable for acquisitions" as at 31 March 2017. The fair value of the contingent consideration was nil as at 30 September 2017.

Goodwill of HK$2,038,000 was recognised during the year ended 31 March 2017 which represented the future economic benefits arising from assets acquired that are not currently individually identified and separately recognised. None of the goodwill recognised is expected to be deductible for income tax purposes.

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

13 Goodwill and business combinations (Continued)

(c) 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.

14 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 (note 23(c))	**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.

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

14 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 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.

15 Cash and bank balances

	At 30 September 2017 HK$'000 (unaudited)	At 31 March 2017 HK$'000 (audited)
Cash at bank and in hand	**143,549**	169,388
Short-term bank deposits with maturity less than three months	**60,453**	75,217
Cash and bank balances in the consolidated statement of financial position and cash and cash equivalents in the condensed consolidated cash flow statement	**204,002**	244,605

16 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 (note 23(c))	**1,425**	1,434
Amounts due to related companies (note 23(c))	**1,915**	886
	89,761	87,265

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

16 Trade and other payables, deposits received and accrued expenses (Continued)

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.

17 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

18 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.

18 Convertible note (Continued)

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 HK$'000 (unaudited)	At 31 March 2017 HK$'000 (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.

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

19 Capital, reserves and dividends

(a) Dividends

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

	Six months ended 30 September 2017 HK$'000 (unaudited)	2016 HK$'000 (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.

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

	Six months ended 30 September 2017 HK$'000 (unaudited)	2016 HK$'000 (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

19 Capital, reserves and dividends (Continued)

(b) Share capital

Authorised and issued share capital

	At 30 September 2017		At 31 March 2017	
	No. of shares	Amount HK$'000	No. of shares	Amount HK$'000
	(unaudited)	(unaudited)	(audited)	(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:				
At 1 April	**904,483,942**	**90,448**	873,996,190	87,400
Shares issued on conversion of convertible note (note 18)	—	—	30,487,752	3,048
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.

On 21 May 2013, the Company and two independent third parties entered into two subscription agreements in respect of the placement of 42,500,000 unlisted warrants of the Company to each subscriber at a price of HK$0.002 per warrant. Each warrant confers the right to subscribe for one ordinary share of the Company of HK$0.1 each at a subscription price of HK$1.05 at anytime during a period of 36 months commencing from the date of issue of the warrant, subject to adjustment upon occurrence of certain events. The placement was completed on 21 June 2013. No warrants had been exercised and they were expired on 20 June 2016. Upon the lapse of the warrants during the period ended 30 September 2016, the Group reversed the warrant reserve of HK$170,000.

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

20 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

	Fair value at 30 September 2017 HK$'000	Fair value measurements as at 30 September 2017 categorised into Level 3 HK$'000	Fair value at 31 March 2017 HK$'000	Fair value measurements as at 31 March 2017 categorised into Level 3 HK$'000
Recurring fair value measurement				
Financial liability:				
— Purchase consideration payable for acquisitions	—	—	1,148	1,148

(b) Information about Level 3 fair value measurements

As mentioned in note 13(b), the fair value of the contingent consideration in respect of acquisitions was nil as at 30 September 2017 (31 March 2017: the fair value of the contingent consideration of HK$1,148,000 was recognised as a financial liability under "purchase consideration payable for acquisitions").

The fair value of purchase consideration payable for acquisitions was determined by an independent external valuer based on the latest financial forecast of the subsidiaries and other relevant information.

20 Fair value measurement of financial instruments (Continued)

Financial assets and liabilities measured at fair value (Continued)

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

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

	At 30 September 2017 HK$'000 (unaudited)	At 31 March 2017 HK$'000 (audited)
Purchase consideration payable for acquisitions:		
At 1 April 2017/1 April 2016	1,148	1,259
Fair value change on purchase consideration included in profit or loss	(1,148)	(1,245)
Acquisition of subsidiaries	—	1,143
Exchange differences	—	(9)
At 30 September 2017/31 March 2017	—	1,148

21 Commitments

(a) Operating lease commitments

At 30 September 2017, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	At 30 September 2017 HK$'000 (unaudited)	At 31 March 2017 HK$'000 (audited)
Within one year	66,104	60,031
After one year but within five years	50,687	45,452
	116,791	105,483

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(Expressed in Hong Kong dollars unless otherwise indicated)

21 Commitments (Continued)

(b) Capital commitments

Capital commitments outstanding at 30 September 2017 not provided for in the consolidated financial statements were as follows:

	At 30 September 2017 HK$'000 (unaudited)	At 31 March 2017 HK$'000 (audited)
Contracted but not yet provided for:		
— Acquisition of plant and equipment	**3,543**	1,098

22 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.

23 Material related party transactions and balances

(a) Key management personnel compensation

	Six months ended 30 September	
	2017 HK'000 (unaudited)	2016 HK'000 (unaudited)
Fees	**558**	558
Salaries and allowances	**5,582**	5,585
Retirement benefit scheme contributions	**53**	55
	6,193	6,198

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars unless otherwise indicated)

23 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 2017 HK'000 (unaudited)	2016 HK'000 (unaudited and restated)
Rental expenses paid to related companies:	(ii)		
— All Link International Limited		—	184
— Chain Tech International Limited		1,275	1,612
— East Union Industries Limited		867	826
— Golden National Limited		4,335	4,498
— Joy East Limited		372	367
— Luck Elegant Industrial Limited		1,668	1,688
— Lucky Forever Limited		8,925	8,537
— United Industries Limited		4,131	4,085
— Well Faith International Enterprise Limited		6,732	6,931
— Wise World Limited		1,785	1,658
		30,090	30,386
Rental income received from a related company:	(iii)		
— Grateful Heart Charitable Foundation Limited		268	268
Interest charge on convertible note issued to an associate of the ultimate controlling party:			
— Dr. Tsang	(iv)	—	1,764

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(Expressed in Hong Kong dollars unless otherwise indicated)

23 Material related party transactions and balances (Continued)

(b) Material related party transactions (Continued)

	Note	Six months ended 30 September 2017 HK'000 (unaudited)	2016 HK'000 (unaudited and restated)
Salaries and other benefits in kind paid to related parties:			
— Related party A	(v)	**865**	867
— Related party B	(vi)	**902**	698
— Related party C	(vii)	**287**	265
		2,054	1,830

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) The amount represented interest charge on convertible note issued to an associate of Dr. Tsang. Dr. Tsang is the beneficial owner of the associate. Details of which are set out in the paragraph headed "Connected Transactions" in the Report of the Directors of the annual report for the year ended 31 March 2017.

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

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

(vii) 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.

24 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.

25 Approval of interim financial report

The interim financial report was approved and authorised for issue by the Board of Directors on 27 November 2017.

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