MODERN BEAUTY SALON HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 919)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2018

The Board of Directors ("the Board" or "the Directors") of Modern Beauty Salon Holdings Limited ("the Company") are pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as "the Group") for the six months ended 30 September 2018 ("the period under review").

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 September 2018

		Six months ended 30 September	
		2018	2017
	Note	***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)

	Note	Six months ended 30 September **2018** **HK$'000** **(unaudited)**	2017 HK$'000 (unaudited)
(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		**—**	(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)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 September 2018

	Note	Six months ended 30 September **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)

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		**80,274**	68,760
Investment properties		**14,210**	13,900
Intangible assets		**1,906**	2,147
Goodwill		**1,070**	1,070
Deposits and prepayments	*10*	**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	*10*	**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		**167,612**	181,683
		454,673	481,632
Current liabilities			
Trade and other payables, deposits received and accrued expenses	*11*	**84,869**	92,595
Deferred revenue	*12*	**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

	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		**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

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

The interim results set out in this announcement do not constitute the Group's interim financial report for the six months ended 30 September 2018 but are extracted from the report.

The 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").

The 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.

The 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.

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.

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

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.

(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)

(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

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	2017
	HK$'000	*HK$'000*
	(unaudited)	(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	2017
	(unaudited)	(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 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	**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.

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.

11 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	**1,425**	1,425
Amounts due to related companies	**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

12 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

(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

13 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

14 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.

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 forth 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 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 Asia 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 increased 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 32 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 or 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 2017 (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 in hence to vigorously expand into a wider customer base.

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 the Group's interim results for the period under review prior to their approval by the Board.

Publication of the Interim Results and Interim Report

This results announcement is published on the website of the Hong Kong Exchanges and Clearing Limited at www.hkex.com.hk under "Latest Listed Company Information" and on the website of the Company at www.modernbeautysalon.com under "Investor Relations — Statutory Announcements". The Interim Report will be despatched to the shareholders on or about 21 December 2018 and will be available at the Stock Exchange's and the Company's websites at the same time.

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

Hong Kong, 29 November 2018

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