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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 2019

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 2019 (“the period under review”).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the six months ended 30 September 2019 — unaudited

		Six months ended	
		30 September	
		2019	2018
			<i>(Note)</i>
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	5	289,221	285,606
Other income	6	3,675	1,969
Cost of inventories sold		(9,178)	(11,820)
Advertising costs		(3,001)	(1,622)
Building management fees		(6,682)	(7,309)
Bank charges		(13,594)	(13,242)
Employee benefit expenses		(164,344)	(165,974)
Depreciation and amortisation		(33,101)	(6,223)
Occupancy costs		(23,942)	(61,564)
Other operating expenses		(31,806)	(32,508)

		Six months ended	
		30 September	
		2019	2018
			(Note)
	Note	HK\$'000	HK\$'000
Profit/(loss) from operations		7,248	(12,687)
Interest income		656	211
Fair value changes on investment properties		178	310
Finance cost	7	(1,420)	—
Net loss on disposals of subsidiaries		—	(306)
Profit/(loss) before taxation	7	6,662	(12,472)
Income tax (expense)/credit	8	(1,188)	1,917
Profit/(loss) for the period		5,474	(10,555)
Attributable to:			
Equity shareholders of the Company		5,317	(10,483)
Non-controlling interests		157	(72)
Profit/(loss) for the period		5,474	(10,555)
Earnings/(loss) per share (HK cents)	9		
Basic		0.59	(1.16)
Diluted		0.59	(1.16)

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME**

for the six months ended 30 September 2019 — unaudited

	Six months ended	
	30 September	
	2019	2018
		<i>(Note)</i>
<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit/(loss) for the period	5,474	(10,555)
Other comprehensive income for the period (after tax and reclassification adjustments):		
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Exchange differences on translation of operations outside Hong Kong	(705)	2,143
Reclassification adjustments for amounts transferred to profit or loss on disposal of subsidiaries	—	(450)
Other comprehensive income for the period	(705)	1,693
Total comprehensive income for the period	4,769	(8,862)
Attributable to:		
Equity shareholders of the Company	4,612	(8,790)
Non-controlling interests	157	(72)
Total comprehensive income for the period	4,769	(8,862)

Note: The Group has initially applied HKFRS 16 at 1 April 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 3.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 September 2019 — unaudited

		At 30 September 2019	At 31 March 2019 (Note)
	Note	HK\$'000	HK\$'000
Non-current assets			
Property, plant and equipment		86,528	80,452
Right-of-use assets		73,226	—
Investment properties		13,988	13,810
Intangible assets		1,591	1,776
Goodwill		1,070	1,070
Deposits and prepayments	10	12,206	22,256
Deferred tax assets		4,716	3,874
		<u>193,325</u>	<u>123,238</u>
Current assets			
Inventories		17,808	18,881
Trade and other receivables, deposits and prepayments	10	197,327	190,077
Tax recoverable		4,356	5,860
Pledged bank deposits		53,887	53,206
Bank deposits with original maturity over three months		5,357	5,469
Cash and bank balances		183,294	182,766
		<u>462,029</u>	<u>456,259</u>
Current liabilities			
Trade and other payables, deposits received and accrued expenses	11	85,234	86,832
Deferred revenue	12	294,436	297,621
Lease liabilities	3	45,126	—
Tax payable		7,645	7,690
		<u>432,441</u>	<u>392,143</u>
Net current assets		<u>29,588</u>	<u>64,116</u>
Total assets less current liabilities		<u>222,913</u>	<u>187,354</u>

		At 30 September 2019	At 31 March 2019 (Note)
	Note	HK\$'000	HK\$'000
Non-current liabilities			
Lease liabilities	3	30,676	—
Deferred tax liabilities		572	458
		<u>31,248</u>	<u>458</u>
NET ASSETS		<u>191,665</u>	<u>186,896</u>
CAPITAL AND RESERVES			
Share capital		90,448	90,448
Reserves		<u>95,414</u>	<u>90,802</u>
Total equity attributable to equity shareholders of the Company		185,862	181,250
Non-controlling interests		<u>5,803</u>	<u>5,646</u>
TOTAL EQUITY		<u>191,665</u>	<u>186,896</u>

Note: The Group has initially applied HKFRS 16 at 1 April 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 3.

NOTES

(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 2019 but are extracted from the Group’s unaudited interim financial report which has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange, 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 2019, except for the accounting policy changes that are expected to be reflected in the annual financial statements for the year ending 31 March 2020. 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 2019. 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 interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the HKICPA.

The financial information relating to the financial year ended 31 March 2019 that is included in this announcement of the interim results 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.

3 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a new HKFRS, HKFRS 16, *Leases*, and a number of amendments to HKFRSs that are first effective for the current accounting period of the Group.

Except for HKFRS 16, *Leases*, none of the developments have 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.

HKFRS 16, *Leases*

HKFRS 16 replaces HKAS 17, *Leases*, and the related interpretations, HK(IFRIC) 4, *Determining whether an arrangement contains a lease*, HK(SIC) 15, *Operating leases — incentives*, and HK(SIC) 27, *Evaluating the substance of transactions involving the legal form of a lease*. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("short-term leases") and leases of low value assets. The lessor accounting requirements are brought forward from HKAS 17 substantially unchanged.

The Group has initially applied HKFRS 16 as from 1 April 2019. The Group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 April 2019. Comparative information has not been restated and continues to be reported under HKAS 17.

Further details of the nature and effect of the changes to previous accounting policies and the transition options applied are set out below:

(a) *Changes in the accounting policies*

(i) *New definition of a lease*

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after 1 April 2019. For contracts entered into before 1 April 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases.

Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

(ii) *Lessee accounting*

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets. As far as the Group is concerned, these newly capitalised leases are primarily in relation to property.

When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received.

The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

(iii) *Leasehold investment property*

Under HKFRS 16, the Group is required to account for all leasehold properties as investment properties when these properties are held to earn rental income and/or for capital appreciation ("leasehold investment properties"). The adoption of HKFRS 16 does not have a significant impact on the Group's financial statements as the Group previously elected to apply HKAS 40, *Investment properties*, to account for all of its leasehold properties that were held for investment purposes as at 31 March 2019. Consequentially, these leasehold investment properties continue to be carried at fair value.

(b) Transitional impact

At the date of transition to HKFRS 16 (i.e. 1 April 2019), the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 April 2019. The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was 3.45%.

To ease the transition to HKFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of HKFRS 16:

- (i) the Group elected not to apply the requirements of HKFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of HKFRS 16, i.e. where the lease term ends on or before 31 March 2020; and
- (ii) when measuring the lease liabilities at the date of initial application of HKFRS 16, the Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment).

The following table reconciles the operating lease commitments as at 31 March 2019 to the opening balance for lease liabilities recognised as at 1 April 2019:

	1 April 2019 <i>HK\$'000</i>
Operating lease commitments at 31 March 2019	128,393
Less: commitments relating to leases exempt from capitalisation:	
— short-term leases and other leases with remaining lease term ending on or before 31 March 2020	(35,494)
	92,899
Less: total future interest expenses	(3,470)
Present value of remaining lease payments, discounted using the incremental borrowing rate at 1 April 2019	<u>89,429</u>

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the consolidated statement of financial position at 31 March 2019.

The Group presents right-of-use assets and lease liabilities as separate line items in the consolidated statement of financial position.

The following table summarises the impacts of the adoption of HKFRS 16 on the Group's consolidated statement of financial position:

	Carrying amount at 31 March 2019 <i>HK\$'000</i>	Capitalisation of operating lease contracts <i>HK\$'000</i>	Carrying amount at 1 April 2019 <i>HK\$'000</i>
Line items in the consolidated statement of financial position impacted by the adoption of HKFRS 16:			
Right-of-use assets	—	87,327	87,327
Total non-current assets	123,238	87,327	210,565
Trade and other payables, deposits received and accrued expenses	86,832	(2,102)	84,730
Lease liabilities (current)	—	44,324	44,324
Total current liabilities	392,143	42,222	434,365
Total assets less current liabilities	187,354	45,105	232,459
Lease liabilities (non-current)	—	45,105	45,105
Total non-current liabilities	458	45,105	45,563
Net assets	186,896	—	186,896

(c) Lease liabilities

The remaining contractual maturities of the Group's lease liabilities at the end of the reporting period and at the date of transition to HKFRS 16 are as follows:

	At 30 September 2019		At 1 April 2019	
	Present value of the minimum lease payments HK\$'000	Total minimum lease payments HK\$'000	Present value of the minimum lease payments HK\$'000	Total minimum lease payments HK\$'000
Within 1 year	45,126	46,956	44,324	46,637
After 1 year but within 2 years	23,323	23,903	32,640	33,569
After 2 years but within 5 years	7,353	7,447	12,465	12,693
	30,676	31,350	45,105	46,262
	75,802	78,306	89,429	92,899
Less: total future interest expenses		(2,504)		(3,470)
Present value of lease liabilities		75,802		89,429

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 2019. Segment profits do not include other income, interest income, fair value changes on investment properties, 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.

- (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	Skincare and wellness products HK\$'000	Total HK\$'000
For the six months ended 30 September 2019			
<i>(Note)</i>			
Revenue from external customers	270,920	18,301	289,221
Reportable segment profit	7,201	9,211	16,412
As at 30 September 2019 <i>(Note)</i>			
Reportable segment assets	601,127	17,019	618,146
Reportable segment liabilities	<u>(440,142)</u>	<u>(14,685)</u>	<u>(454,827)</u>
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	<u>(370,250)</u>	<u>(13,890)</u>	<u>(384,140)</u>

(b) **Reconciliations of reportable segment profit or loss**

	Six months ended 30 September	
	2019	2018
	HK\$'000	HK\$'000
Reportable segment profit	16,412	228
Other income	3,675	1,969
Interest income	656	211
Fair value changes on investment properties	178	310
Net loss on disposal of subsidiaries	—	(306)
Unallocated costs	(14,259)	(14,884)
Income tax (expense)/credit	<u>(1,188)</u>	<u>1,917</u>
Consolidated profit/(loss) for the period	<u>5,474</u>	<u>(10,555)</u>

Note: The Group has initially applied HKFRS 16 at 1 April 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 3.

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	
	2019	2018
	HK\$'000	HK\$'000
Revenue recognised from provision of beauty and wellness services and expiry of prepaid beauty packages	270,920	269,499
Sales of skincare and wellness products	18,301	16,107
	<u>289,221</u>	<u>285,606</u>

6 OTHER INCOME

	Six months ended 30 September	
	2019	2018
	HK\$'000	HK\$'000
Commission income	—	71
Net gain on disposals of property, plant and equipment	500	100
Rental income	423	508
Income from provision of domestic helper agency services	2,462	—
Others	290	1,290
	<u>3,675</u>	<u>1,969</u>

7 PROFIT/(LOSS) BEFORE TAXATION

Profit/(loss) before taxation is arrived at after charging:

	Six months ended 30 September	
	2019	2018
	HK\$'000	(Note) HK\$'000
Directors' remuneration	6,196	6,200
Depreciation and amortisation		
— Owned property, plant and equipment ("PPE")	11,022	6,223
— Right-of-use assets	22,079	—
Foreign exchange loss, net	49	1,860
Finance cost — interest on lease liabilities	1,420	—

Note: The Group has initially applied HKFRS 16 at 1 April 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 3.

8 INCOME TAX EXPENSE/(CREDIT)

	Six months ended 30 September	
	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current tax — Hong Kong Profits Tax	875	1,596
Current tax — Overseas	1,042	1,203
Deferred taxation	(729)	(4,716)
	<hr/>	<hr/>
Income tax expense/(credit)	<u>1,188</u>	<u>(1,917)</u>

The provision for Hong Kong Profits Tax is calculated by applying the estimated annual effective tax rate of 16.5% (30 September 2018: 16.5%) to the six months ended 30 September 2019, except for one subsidiary of the Group which is a qualifying corporation under the two-tiered Profits Tax rate regime.

For this subsidiary, the first HK\$2 million of assessable profits are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. The provision for Hong Kong Profits Tax for this subsidiary was calculated at the same basis in 2018.

Taxation for overseas subsidiaries is similarly calculated using the estimated annual effective rates of taxation that are expected to be applicable in the relevant jurisdictions.

9 EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share is based on the earnings attributable to ordinary equity shareholders of the Company of HK\$5,317,000 (2018: loss attributable to ordinary equity shareholders of the Company of HK\$10,483,000) and the weighted average number of 904,483,942 ordinary shares (2018: weighted average number of 904,483,942 ordinary shares) in issue during the year. Diluted earnings/(loss) per share is the same as basic earnings/(loss) per share as there were no dilutive potential shares in issue throughout the periods ended 30 September 2019 and 2018.

10 TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	At 30 September 2019 HK\$'000	At 31 March 2019 HK\$'000
Non-current assets		
Deposits and prepayments	12,206	22,256
Current assets		
Trade receivables, net of loss allowance	31,687	31,033
Trade deposits retained by banks/credit card companies (<i>note</i>)	133,878	133,959
Rental and other deposits, prepayments and other receivables	31,180	24,501
Amounts due from related companies	582	584
	197,327	190,077
	209,533	212,333

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 loss allowance), based on the invoice date, is as follows:

	At 30 September 2019 HK\$'000	At 31 March 2019 HK\$'000
0–30 days	14,439	15,678
31–60 days	5,572	5,332
61–90 days	4,913	4,779
91–180 days	6,288	4,853
Over 180 days	475	391
	31,687	31,033

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 2019: 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 2019 <i>HK\$'000</i>	At 31 March 2019 <i>HK\$'000</i>
Trade payables	807	861
Other payables, deposits received and accrued expenses	84,000	85,882
Amount due to the ultimate controlling party	2	2
Amounts due to related companies	425	87
	<u>85,234</u>	<u>86,832</u>

At the end of the reporting period, the ageing analysis of trade payables, based on the invoice date, is as follows:

	At 30 September 2019 <i>HK\$'000</i>	At 31 March 2019 <i>HK\$'000</i>
Within 90 days	277	851
Over 90 days	530	10
	<u>807</u>	<u>861</u>

On the date of transition to HKFRS 16, accrued lease payments of HK\$2,102,000 previously included in “other payables, deposits received and accrued expenses” were adjusted to right-of-use assets recognised at 1 April 2019. See note 3.

12 DEFERRED REVENUE

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

	At 30 September 2019 <i>HK\$'000</i>	At 31 March 2019 <i>HK\$'000</i>
Within 1 year	<u>294,436</u>	<u>297,621</u>

(b) Movement of deferred revenue:

	At 30 September 2019 <i>HK\$'000</i>	At 31 March 2019 <i>HK\$'000</i>
At the beginning of the period/year	297,621	301,139
Gross receipts from sales of prepaid beauty packages	268,410	543,181
Revenue recognised for provision of beauty and wellness services and expiry of prepaid beauty packages	(270,920)	(543,147)
Adjustment on disposal of subsidiaries	—	(1,826)
Exchange differences	<u>(675)</u>	<u>(1,726)</u>
At the end of the period/year	<u>294,436</u>	<u>297,621</u>

13 DIVIDENDS

The Board has resolved not to declare an interim dividend for the six months ended 30 September 2019 (2018: Nil).

14 COMPARATIVE FIGURES

The Group has initially applied HKFRS 16 at 1 April 2019 using the modified retrospective method. Under this approach, comparative information is not restated. Further details of the changes in accounting policies are disclosed in note 3.

BUSINESS REVIEW

Hong Kong

Both Hong Kong and China economy faced difficulties during the period under review. The trade war between US and China, the social events in Hong Kong, together with other negative factors such as increasing costs of sales, rising salaries and inflating rentals, 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 34 beauty and spa service centers with a total gross floor area of approximately 192,000 square feet, decreased by 9.4% when compared with the figure of 212,000 square feet as at 30 September 2018. 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.

With regard to the sales of skincare and wellness products, as of 30 September 2019, the Group had a total of 11 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\$239,779,000 and HK\$239,810,000 respectively, representing a increase of 3.6% and 1.4% respectively, as compared to the same period last year.

Mainland China

Our Mainland China operations are conducted through 2 wholly owned foreign enterprises established in Shanghai and Guangzhou in the People’s Republic of China. 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\$6,031,000 and HK\$5,418,000 respectively, representing a decrease of 31.6% and 24.1% respectively, as compared to the same period last year.

Singapore

The Group operates a total of 11 beauty and wellness service centres in Singapore, remained the same compared with the same period last year. During the period under review, our Singapore operations reported a revenue of HK\$27,808,000. Receipts from

sales of prepaid beauty packages amounted to HK\$23,182,000, while revenue from services rendered amounted to HK\$25,110,000, decreased by 17.5% and 11.2% respectively when compared with the same period last year.

FINANCIAL REVIEW

Revenue

Revenue of the Group was mainly contributed by the beauty, facial and slimming services. For the six months ended 30 September 2019, revenue of the Group increased by 1.3% to HK\$289,221,000 as compared to the same period last year due to our efforts to pursue business growth.

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 2019		2018		Change
	<i>HK\$'000</i>	<i>Percentage of revenue</i>	<i>HK\$'000</i>	<i>Percentage of revenue</i>	
Sales mix					
Beauty & facial	204,860	70.9%	206,259	72.2%	-0.7%
Slimming	50,981	17.6%	46,506	16.3%	+9.6%
Spa and massage	15,079	5.2%	16,734	5.9%	-9.9%
Beauty and wellness services	270,920	93.7%	269,499	94.4%	+0.5%
Sales of skincare and wellness products	18,301	6.3%	16,107	5.6%	+13.6%
Total	289,221	100%	285,606	100%	+1.3%

Compared to the same period last year, the Group's revenue from beauty and facial services for ladies increased by 10.4% to HK\$199,417,000 (2018: HK\$180,608,000), while revenue from beauty and facial services for men decreased by 78.8% to HK\$5,443,000 (2018: HK\$25,651,000). Revenue from the slimming service increased to HK\$50,981,000 in the period under review, up by approximately 9.6% from approximately HK\$46,506,000 in the same period of 2018.

Meanwhile, spa and massage revenue for the Group in the period under review decreased by 9.9% to HK\$15,079,000. As for the product revenue, it increased by 13.6% to HK\$18,301,000 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 1.0% to HK\$164,344,000, comparing to HK\$165,974,000 for the same period last year. The total headcount of the Group as at 30 September 2019 decreased by 3.4% to 1,180, as compared to a headcount of 1,222 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 56.8% of our revenue, as compared to 58.1% for the same period last year.

Occupancy costs and depreciation of right-of-use assets

During the period under review, the Group's occupancy costs and depreciation of right-of-use assets were approximately HK\$46,021,000 (2018: HK\$61,564,000), accounting for approximately 15.9% of our revenue (2018: 21.6%). As of 30 September 2019, the Group operated a total of 37 service centres in Mainland China and Hong Kong with a total weighted average gross floor area of 209,000 square feet, representing a decrease of 10.3% as compared to 233,000 square feet for the same period last year. As of 30 September 2019, the Group had 11 centres in Singapore, with a total weighted average gross floor area of approximately 20,000 square feet.

Other operating expenses

Other operating expenses and depreciation and amortization of owned PPE mainly include bank charges, depreciation and amortisation of owned PPE, advertising costs, utilities and building management fees. Bank charges increased by 2.7% to HK\$13,594,000 during the period under review. Depreciation and amortization of owned PPE and amortisation increased to HK\$11,022,000 or by 77.1% with some new shops opening. Advertising costs increased to HK\$3,001,000, as compared to HK\$1,622,000 for the same period last year. The percentage of advertising costs to total revenue was increased to 1.0%, as compared to 0.6% for the same period last year.

Net profit

For the six months ended 30 September 2019, the net profit was approximately HK\$5,474,000, as compared to the net loss of HK\$10,555,000 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 earning per share for the period under review was HK0.59 cent as compared to the loss per share of HK1.16 cents for the same period last year.

Interim dividend

No interim dividend had been approved by the Board for the six months ended 30 September 2019 (interim dividend for 2018: 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 2019 was HK\$191,665,000. Cash and bank balances as at 30 September 2019 amounted to HK\$183,294,000 (31 March 2019: HK\$182,766,000) 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 0.5%. 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 2019 was approximately HK\$16,623,000, 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\$18,110,000.

Contingent liabilities and capital commitment

The Group had capital commitment of HK\$718,000 as at 30 September 2019 (31 March 2019: HK\$4,927,000) for the acquisition of machinery, equipment and plant. The Board considered that there were no material contingent liabilities as at 30 September 2019.

Charges on assets

As of 30 September 2019, the Group had pledged bank deposits of HK\$53,887,000 (31 March 2019: HK\$53,206,000) 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 Group as it expanded business to Mainland China, Singapore and Australia. Therefore, 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\$164,344,000, representing a 1.0% decrease as compared to HK\$165,974,000 for the same period last year. The Group had a workforce of 1,180 staff as of 30 September 2019 (30 September 2018: 1,222 staff), including 970 front-line service centre staff in Hong Kong, 40 in Mainland China and 76 in Singapore. Back office staff totaled 67 in Hong Kong, 5 in Mainland China and 22 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

We encountered another challenging year for beauty industry in 2019, amid a number of negative factors such as increasing salaries and inflating rentals. Furthermore, the threat of trade war between US and China, and the social events in Hong Kong made people more conservative on their spending. Despite the factors, the Group will continue to leverage on its excellent brand visibility and solid customer base in Hong Kong, China and Southeast Asia to brave the headwind afflicting the industry.

During the period under review, the Group acquired IconX which is an apps for the social networking platform for e-business card communication. With this platform, one can integrate different kind of peers and consolidate your communication network to create business opportunities. Leveraging on the expansion of endless network of relationships and move towards a higher-ended and smarter approach to interpersonal relationship management, our Group has planned to build up a comprehensive e-commerce platform on the apps to facilitate consumer-to-consumer (C2C) retailing for small businesses and individual entrepreneurs to open online stores that mainly cater to consumers who make online payment. This, at the same time, widens our business horizon in future.

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 30 August 2019 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

Dr. 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

Dr. 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.

Audit Committee

The composition of the Audit Committee is as follows:

Independent Non-executive Directors

Ms. Liu Mei Ling, Rhoda (*Chairman*)

Dr. 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 20 December 2019 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
Dr. Tsang Yue, Joyce
Chairperson

Hong Kong, 28 November 2019

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, Dr. Wong Man Hin, Raymond, Mr. Hong Po Kui, Martin and Mr. Lam Tak Leung.