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 2013

FINANCIAL HIGHLIGHTS

- Gross receipts from sales of prepaid beauty packages increased by 1.7% to approximately HK$394,125,000.
- Group's turnover edged down 0.5% to approximately HK$433,964,000.
- Profit for the period attributable to owners of the Company decreased by 16.5% to approximately HK$36,560,000.
- The Board recommended the payment of an interim dividend of HK2.5 cents per ordinary share for the period under review.

OPERATIONAL HIGHLIGHTS

- The Group operated a total of 43 service centres in Mainland China, Taiwan and Hong Kong with a total weighted average gross floor area of approximately 296,000 square feet.
- In Southeast Asian region, the Group had 14 and 3 beauty service centres in Singapore and Malaysia respectively, with a total weighted average gross floor area of approximately 25,000 square feet and approximately 8,900 square feet respectively.
- Customer number in Hong Kong and Singapore reached approximately 335,500 and 99,300 respectively.

The Board of Directors (the “Board” or the “Directors”) of Modern Beauty Salon Holdings Limited (the “Company”) are pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the six months ended 30 September 2013 (the “period under review”).

CONDENSED CONSOLIDATED INCOME STATEMENT
for the six months ended 30 September 2013

		Six months ended 30 September	
		2013	2012
	Note	***HK$’000***	*HK$’000*
		(unaudited)	(unaudited)
Turnover	*5*	**433,964**	436,099
Other income	*6*	**2,814**	655
Cost of inventories sold		**(13,376)**	(12,726)
Advertising costs		**(5,293)**	(6,585)
Building management fees		**(9,005)**	(9,290)
Bank charges		**(18,813)**	(18,024)
Employee benefit expenses		**(208,178)**	(196,368)
Depreciation		**(19,835)**	(14,734)
Occupancy costs		**(79,684)**	(72,817)
Other operating expenses		**(39,925)**	(35,074)
Operating profit		**42,669**	71,136
Interest income		**1,019**	1,016
Finance costs	*7*	**(250)**	(328)
Fair value changes of investment properties		**–**	(14,300)
Profit before tax	*8*	**43,438**	57,524
Income tax expense	*9*	**(6,878)**	(13,741)
Profit for the period		**36,560**	43,783
Attributable to:			
Equity shareholders of the Company		**36,562**	43,785
Non-controlling interests		**(2)**	(2)
Profit for the period		**36,560**	43,783
Earnings per share (HK cents)	*11*		
– Basic		**4.18**	5.01
– Diluted		**3.83**	4.59

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the six months ended 30 September 2013

	Six months ended 30 September	
	2013	2012
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Profit for the period	**36,560**	43,783
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	**1,307**	(949)
Other comprehensive income for the period	**1,307**	(949)
Total comprehensive income for the period	**37,867**	42,834
Attributable to:		
Equity shareholders of the Company	**37,869**	42,836
Non-controlling interests	**(2)**	(2)
Total comprehensive income for the period	**37,867**	42,834

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
at 30 September 2013

	Note	At 30 September 2013 HK$'000 (unaudited)	At 31 March 2013 HK$'000 (audited)
Non-current assets			
Property, plant and equipment		**145,448**	133,724
Deposits	*12*	**26,248**	22,264
Deferred tax assets		**24,748**	24,191
		196,444	180,179
Current assets			
Inventories		**20,255**	19,293
Trade and other receivables, deposits and prepayments	*12*	**235,848**	245,390
Tax recoverable		**17,873**	17,992
Pledged bank deposits		**52,158**	47,162
Cash and bank balances		**488,565**	481,249
		814,699	811,086
Current liabilities			
Trade and other payables, deposits received and accrued expenses	*13*	**86,474**	83,973
Deferred revenue	*14*	**721,909**	747,614
Finance leases payable		**8**	18
Convertible note		**1,840**	3,680
Dividend payable	*10(iii)*	**34,960**	–
Tax payable		**13,810**	7,221
		859,001	842,506
Net current liabilities		**(44,302)**	(31,420)
Total assets less current liabilities		**152,142**	148,759

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
at 30 September 2013

	At 30 September 2013 *HK$'000* (unaudited)	At 31 March 2013 *HK$'000* (audited)
Non-current liability		
Convertible note	**3,565**	3,316
NET ASSETS	**148,577**	145,443
CAPITAL AND RESERVES		
Share capital	**87,400**	87,400
Reserves	**61,117**	57,981
Total equity attributable to equity shareholders of the Company	**148,517**	145,381
Non-controlling interests	**60**	62
TOTAL EQUITY	**148,577**	145,443

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

for the six months ended 30 September 2013

1 GENERAL INFORMATION

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 Island. 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 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, Ms. Tsang Yue, Joyce ("Ms. Tsang"), who is a director of the Company, is the ultimate controlling party of the Company.

2 BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange, including compliance with Hong Kong Accounting Standard ("HKAS") 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The interim financial report has been prepared in accordance with the same accounting policies adopted in the annual financial statements for the year ended 31 March 2013, except for the accounting policy changes that are expected to be reflected in the annual financial statements for the year ending 31 March 2014. Details of these 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 2013. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

3 CHANGES IN ACCOUNTING POLICIES

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 and the Company. Of these, the following developments are relevant to the Group's financial statements:

– Amendments to HKAS 1, *Presentation of financial statements – Presentation of items of other comprehensive income*

– HKFRS 10, *Consolidated financial statements*

– HKFRS 12, *Disclosure of interests in other entities*

– HKFRS 13, *Fair value measurement*

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

Amendments to HKAS 1, Presentation of financial statements – Presentation of items of other comprehensive income

The amendments to HKAS 1 require entities to present the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met separately from those that would never be reclassified to profit or loss. The Group's presentation of other comprehensive income in these financial statements has been modified accordingly.

HKFRS 10, Consolidated financial statements

HKFRS 10 replaces the requirements in HKAS 27, *Consolidated and separate financial statements* relating to the preparation of consolidated financial statements and HK-SIC 12 *Consolidation – Special purpose entities*. It introduces a single control model to determine whether an investee should be consolidated, by focusing on whether the entity has power over the investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect the amount of those returns.

As a result of the adoption of HKFRS 10, the Group has changed its accounting policy with respect to determining whether it has control over an investee. The adoption does not change any of the control conclusions reached by the Group in respect of its involvement with other entities as at 1 April 2013.

HKFRS 12, Disclosure of interests in other entities

HKFRS 12 brings together into a single standard all the disclosure requirements relevant to an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The disclosures required by HKFRS 12 are generally more extensive than those previously required by the respective standards. Since those disclosure requirements only apply to a full set of financial statements, the Group has not made additional disclosures in this interim financial report as a result of adopting HKFRS 12.

HKFRS 13, Fair value measurement

HKFRS 13 replaces existing guidance in individual HKFRSs with a single source of fair value measurement guidance. HKFRS 13 also contains extensive disclosure requirements about fair value measurements for both financial instruments and non-financial instruments. The adoption of HKFRS 13 does not have any material impact on the fair value measurements of the Group's assets and liabilities.

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 2013. Segment profits or losses do not include other income, interest income, finance costs, fair value changes of investment properties, unallocated costs, which comprise corporate administrative expenses, and income tax expense. Segment assets do not include properties held for corporate uses, tax recoverable and deferred tax assets.

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 period 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 2013:			
Revenue from external customers	**416,820**	**17,144**	**433,964**
Inter-segment revenue	**–**	**8,032**	**8,032**
Reportable segment profit	**53,559**	**5,116**	**58,675**
As at 30 September 2013:			
Reportable segment assets	**930,142**	**13,697**	**943,839**
For the six months ended 30 September 2012:			
Revenue from external customers	414,477	21,622	436,099
Inter-segment revenue	–	9,374	9,374
Reportable segment profit	78,194	9,256	87,450
As at 31 March 2013:			
Reportable segment assets	917,969	6,431	924,400

	Six months ended 30 September	
	2013 *HK$'000* **(unaudited)**	2012 *HK$'000* (unaudited)
Reconciliations of reportable segment profit or loss:		
Reportable segment profit	**58,675**	87,450
Other income	**2,814**	655
Interest income	**1,019**	1,016
Finance costs	**(250)**	(328)
Fair value changes of investment properties	**–**	(14,300)
Unallocated costs	**(18,820)**	(16,969)
Income tax expense	**(6,878)**	(13,741)
Consolidated profit for the period	**36,560**	43,783

5 TURNOVER

	Six months ended 30 September	
	2013	2012
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Revenue from provision of beauty and wellness services and expiry of prepaid beauty packages	**416,820**	414,477
Sales of skincare and wellness products	**17,144**	21,622
	433,964	436,099

6 OTHER INCOME

	Six months ended 30 September	
	2013	2012
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Commission income	**682**	368
Magazine subscription income	**1**	24
Exchange gains	**735**	–
Other income	**1,396**	263
	2,814	655

7 FINANCE COSTS

	Six months ended 30 September	
	2013	2012
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Finance leases charges	**1**	1
Interest on convertible note wholly repayable within five years	**249**	327
	250	328

8 PROFIT BEFORE TAX

Profit before tax is arrived after charging:

	Six months ended 30 September	
	2013	2012
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Auditors' remuneration		
– current period	**1,480**	982
Directors' remuneration	**11,678**	10,559

9 INCOME TAX EXPENSE

	Six months ended 30 September	
	2013	2012
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Current tax – Hong Kong Profits Tax		
Provision for the period	**–**	10,297
Current tax – Overseas		
Provision for the period	**7,531**	2,970
	7,531	13,267
Deferred taxation	**(653)**	474
	6,878	13,741

Hong Kong Profits Tax is provided at 16.5% (30 September 2012: 16.5%) based on the assessable profits for the period.

Tax charge on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretation and practices in respect thereof.

10 DIVIDENDS

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

	Six months ended 30 September	
	2013	2012
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Interim dividend declared and paid after the interim period of HK2.5 cents per share (30 September 2012: HK3 cents per share)	**21,850**	26,219
Special dividend declared and paid after the interim period of HK1.1 cents per share	**–**	9,614

The interim dividends have not been recognised as a liability at the end of the interim reporting period.

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

	Six months ended 30 September	
	2013	2012
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Special dividend in respect of the previous financial year, approved and paid during the following interim period, of HK$Nil per share (30 September 2012: final dividend of HK4.25 cents per share)	**–**	37,145

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

	Six months ended 30 September	
	2013	2012
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Special dividend in respect of the previous financial year, approved during the following interim period, of HK4 cents per share	**34,960**	–

The special dividend of HK$34,960,000 for the year ended 31 March 2013 was paid in October 2013.

11 EARNINGS PER SHARE

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

	Six months ended 30 September	
	2013	2012
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Profit attributable to ordinary equity shareholders of the Company		
Earnings for the purpose of calculating basic earnings per share	**36,562**	43,785
Finance costs saving on conversion of convertible note outstanding	**249**	327
Earnings for the purpose of calculating diluted earnings per share	**36,811**	44,112
	No. of shares	*No. of shares*
Weighted average number of ordinary shares		
Issued ordinary shares at 1 April and weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**873,996,190**	873,996,190
Effect of dilutive potential ordinary shares arising from convertible note outstanding	**87,619,048**	87,619,048
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	**961,615,238**	961,615,238

The Company's share options as at 30 September 2012 and 2013 do not give rise to any dilution effect to the earnings per share.

12 TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	At 30 September 2013 *HK$'000* (unaudited)	At 31 March 2013 *HK$'000* (audited)
Non-current asset		
Rental and other deposits	**26,248**	22,264
Current assets		
Trade receivables	**55,732**	60,462
Trade deposits retained by banks and credit card companies *(note)*	**134,597**	134,738
Rental and other deposits, prepayments and other receivables	**45,481**	49,954
Amounts due from related companies	**38**	236
	235,848	245,390
	262,096	267,654

Note: Trade deposits 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 the banks' credit cards, in accordance with the merchant agreements entered into between the Group and the banks/credit card companies.

The Group's turnover comprises mainly cash and credit card sales. The credit terms with banks/credit card companies are within 180 days (31 March 2013: 180 days) from the date of billings.

The ageing analysis of trade receivables based on the billing date is as follows:

	At 30 September 2013 *HK$'000* (unaudited)	At 31 March 2013 *HK$'000* (audited)
0–30 days	**24,244**	26,953
31–60 days	**10,508**	9,226
61–90 days	**9,243**	10,396
91 –180 days	**9,802**	12,197
Over 180 days	**1,935**	1,690
	55,732	60,462

13 TRADE AND OTHER PAYABLES, DEPOSITS RECEIVED AND ACCRUED EXPENSES

	At 30 September 2013 *HK$'000* **(unaudited)**	At 31 March 2013 *HK$'000* (audited)
Trade payables	**1,050**	911
Other payables, deposits received and accrued expenses	**85,335**	82,973
Amount due to the ultimate controlling party	**2**	2
Amounts due to related companies	**87**	87
	86,474	83,973

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

	At 30 September 2013 *HK$'000* **(unaudited)**	At 31 March 2013 *HK$'000* (audited)
Within 90 days	**1,043**	886
Over 90 days	**7**	25
	1,050	911

14 DEFERRED REVENUE

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

	At 30 September 2013 *HK$'000* **(unaudited)**	At 31 March 2013 *HK$'000* (audited)
Within 1 year	**666,970**	665,884
More than 1 year but within 2 years	**9,520**	42,424
More than 2 years but within 3 years	**45,419**	39,306
	721,909	747,614

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Hong Kong

With the Group's beauty and facial and slimming services still primarily focused on the female market, inroads were made into expanding our reach into a broader demographic, including more male customers and a wider overall age bracket. That being said, with an increase in the female working population in Hong Kong, beauty and facial and slimming services are becoming increasingly popular. Customers nowadays have higher expectations towards the product and service quality as well as the effectiveness of the treatments. With extensive years of experience in beauty and wellness services, the Group is committed towards providing our customers with safe and effective beauty and wellness services. Our customers in Hong Kong have increased to approximately 335,500 as at 30 September 2013. This represents an 8.7% increase as compared to approximately 308,700 over the same corresponding period last year. This is a testimony of the success that the Group's brand has enjoyed in attracting new clienteles in a mature market.

Keeping our professional staff up-to-date on the latest techniques and trends is crucial to the Group's continued success. Therefore, we have provided our service team with relevant training in order to deliver safe and highly effective beauty and facial and slimming services to our customers. Due to the rapid development in beauty and facial and slimming technology, other small-medium sized beauty centres are unable to afford expensive high quality beauty equipment on a long-term basis. This has given us a competitive advantage vis-à-vis our competitors in the industry. Professional beauty equipment is conducive to raising the capability of the Group, thus boosting our brand status as well as our customers' confidence in the Group. Moreover, the charge for such highly effective services is higher, resulting in a greater rate of return. In the long run, such a business strategy will have a positive effect on the Group's operations and development. During the period under review, our service income and receipts from prepaid beauty packages in Hong Kong amounted to HK$309,192,000 and HK$315,376,000, respectively, representing a decrease of 8.6% and an increase of 4.0%, as compared to the same period last year.

Regarding the sales of skincare and wellness products, during the period under review, the revenue from product sales in Hong Kong amounted to HK$14,432,000 (for the same period last year: HK$17,097,000). The Group has been implementing a number of brand strategies with an aim of targeting customers from different ages and social groups. The products of our self-owned brands, including "be", "p.e.n" and "FERRECARE" and of other brands of which we are the distributor are mainly made in Europe and Australia. These products contain safe and reliable ingredients — the quality of which has been internationally recognized. And coupled with the skincare advice provided by our professional staff, our products have garnered great support from our customers. This is a critical advantage for the Group especially during a time for the industry when questions of quality and product authenticity have been issues. In order to keep up with the business development of product sales, during the period under review, the Group has established two new points of sale for products to expand our local coverage and further promote our products as well as consolidate our market position. As of 30 September 2013, the Group has 24 stores under the names of "p.e.n" shops, "be Beauty Shop" and "Ferrecare Concept Store" in Hong Kong.

Mainland China

The Group operates its beauty services centres in Mainland China through four wholly-owned subsidiaries established in Beijing, Shanghai, Guangzhou and now Chengdu for the first time. As at 30 September 2013, the Group has established eight beauty services centres in Mainland China, with a total weighted average gross floor area of approximately 34,000 square feet. The robust economic growth in the PRC has accelerated market development of beauty and facial and slimming services and has resulted in increasingly keen competition.

The key to a brand's success lies in its service quality and the experience of its team. In order to strengthen the Group's brand position in the Mainland China market, the Group continue to provide quality services and build up the local customers' confidence in us. We will also keep a close eye on the development of the beauty and facial and slimming markets in Mainland China with the goal of setting a solid foundation for the Group's future business expansion in China. In face of the intensifying inflation and market volatility, the Group will continue to implement cost control measures and prudently consider various business opportunities with the goal of progressing with solid steps. Effective cost control measures coupled with our dedicated efforts in the Group's operations over the years have paved the way for gradual success of our Mainland China business.

During the period under review, our Mainland China business has recorded a turnover of HK$17,208,000, down 18.5% from the same period last year. The bottom line in the PRC during the period under review swung to a net loss of HK$1,666,000 compared to a net profit of HK$3,344,000 in the same period last year.

Singapore and Malaysia

The Group continues to see some encouraging trends following the recent launches for its beauty, facial and slimming services businesses in Singapore and Malaysia, and has successfully expanded its market coverage in these countries.

During the period under review, the local business has contributed HK$92,891,000 in turnover to the Group. The Group takes this region as another emerging market with great potential apart from Mainland China and it is expected to bring more opportunities for our business growth in the future. Accordingly, the Group will proceed with its local business development in a steady manner and will prudently consider every expansion opportunity. Meanwhile, the Group will continue to ensure its service quality, and expand its beauty and facial and slimming services and product sales businesses in Singapore and Malaysia when appropriate opportunities arise in order to strengthen and enhance our brand status and brand awareness in the local markets and to bring more fruitful long term returns to the Group.

Taiwan

The Group has established its first two beauty service centres in Taiwan in the first half of FY2013, and will continue to maintain a prudent approach in developing the local business.

FINANCIAL REVIEW

Turnover

Turnover of the Group was mainly contributed by the beauty, facial and slimming services. For the six months ended 30 September 2013, turnover of the Group edged down 0.5% to HK$433,964,000 as compared to the same period last year due to headwinds on the products side despite higher overall revenue for the beauty, facial and slimming services businesses.

Set out below is a breakdown of the turnover of the Group by service lines and product sales during the period under review:

	For six months ended 30 September				
	2013		2012		
Sales Mix	***HK$'000***	***% of Turnover***	*HK$'000*	*% of Turnover*	*Change (%)*
Beauty and Facial	**320,266**	**73.8**	326,895	74.9	–2.0
Slimming	**69,796**	**16.1**	68,632	15.7	+1.7
Spa and Massage	**26,652**	**6.1**	17,824	4.1	+49.5
Fitness	**106**	**0**	1,126	0.3	–90.6
Beauty & Wellness Services	**416,820**	**96.0**	414,477	95.0	+0.6
Revenue from Sales of Skincare and Wellness Products	**17,144**	**4.0**	21,622	5.0	–20.7
Total	**433,964**	**100.0**	436,099	100.0	–0.5

Our Group's brand "Modern Beauty" has gained trust and support from customers across Asia. During the period under review, although the industry was challenged by lingering doubts within the general public regarding quality standards of the beauty, facial and slimming services, the Group maintained a relatively stable top-line performance by leveraging on its good reputation and high value-added services. The Group's turnover from beauty and facial services decreased by 2.0% to HK$320,266,000 (2012: HK$326,895,000) as compared to the same period last year while turnover from the slimming service increased to HK$69,796,000 in the period under review, up by approximately 1.7% from approximately HK$68,632,000 in the same period of 2012.

Meanwhile, spa and massage revenue for the Group in the period under review surged 49.5% year-on-year to HK$26,652,000.

In order to promote the services and products of the Group more effectively and further strengthen our market position, the Group added two product sales points in total during the period under review, so as to expand the customer coverage. Meanwhile, the Group also kept pace with the market by making continuous efforts in identifying the latest beauty technologies for customers and introducing effective, safe and reliable beauty, facial and slimming services. With advantageous brand positioning and diversified services, the Group gained long-term support from customers. Despite the effect of the series of beauty treatment incidents within the industry during the period, the Group's sales of prepaid beauty packages enjoyed a slight increase of 1.7% during the period under review to HK$394,125,000, as compared to HK$387,440,000 for the same period last year.

Employee benefit expenses

In order to attract and retain the talents to enhance the competitive advantages of the Group, employee benefit expenses (including staff's salaries and bonuses as well as directors' remunerations) represented the largest component of the Group's operating expenses. The Group's remuneration policies are in line with prevailing market practices and are determined based on individual performance and experience. For the purpose of motivating and rewarding our staff, discretionary bonus and share options are granted to eligible employees based on individual performance and the Group's results.

During the period under review, employee benefit expenses increased by about 6.0% from HK$196,368,000 for the same period last year to approximately HK$208,178,000, which was attributable to the continuous growth of our operations and our dedication to improve the remuneration of the staff so as to attract and retain top talent. Employee benefits expenses accounted for 48.0% of our turnover, as compared to 45.0% for the same period last year.

Occupancy costs

During the period under review, the Group's occupancy costs were approximately HK$79,684,000 (for the same period in 2012: HK$72,817,000), accounting for approximately 18.4% of our turnover (for the same period in 2012: 16.7%).

As of 30 September 2013, the Group operated a total of 43 service centres in Mainland China, Taiwan and Hong Kong with a total weighted average gross floor area of 296,000 square feet, representing a decrease of 0.3% as compared to 297,000 square feet last year.

As of 30 September 2013, the Group had 14 and three beauty service centres in Singapore and Malaysia, respectively, with a total weighted average gross floor area of approximately 25,000 square feet and approximately 8,900 square feet respectively.

Other operating expenses

Other operating expenses mainly include bank charges, depreciation, advertising costs, utilities and building management fees.

Bank charges rose by 4.4% to HK$18,813,000 during the period under review. Depreciation increased to HK$19,835,000 or by 34.6% with some new shops opening and some older ones closing. Advertising costs decreased to HK$5,293,000, as compared to HK$6,585,000 for the same period last year.

During the period under review, the percentage of advertising costs to total turnover decreased by a small extent from 1.5% for the same period last year to 1.2%, while turnover and profit were both lower with a lower profit margin given the challenging business environment.

Net profit and net profit margin

For the six months ended 30 September 2013, the net profit was approximately HK$36,560,000, representing a decrease of 16.5% as compared to HK$43,783,000 for the same period last year. Net profit margin declined to 8.4% for the period under review from 10.0% for the same period last year. There were no fair value changes of investment properties during the period under review. 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 earnings per share for the period under review was HK4.18 cents as compared to the earnings per share of HK5.01 cents for the same period last year.

Interim dividend and special dividend

The Board has approved to pay an interim dividend of HK2.5 cents per share for the six months ended 30 September 2013, totaling HK$21,850,000 (interim dividend for 2012: HK3 cents and special dividend for 2012: HK1.1 cents, totaling HK$35,834,000).

The total interim dividends of HK2.5 cents will be paid on or around 10 January 2014 to the shareholders whose names appear on the register of shareholders of the Company at the close of business on 20 December 2013.

Closure of register of members

The register of members of the Company will be closed from 18 December 2013 to 20 December 2013, both days inclusive, during which period no transfer of share will be effected. In order to qualify for the interim dividend, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Company's share registrar, Tricor Investor Services Limited, at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on 17 December 2013.

Liquidity, capital structure and treasury policies

During the period under review, we maintained a strong financial position. The total equity of the Company as at 30 September 2013 was HK$148,517,000. Cash and bank balances as at 30 September 2013 amounted to HK$488,565,000 (31 March 2013: HK$481,249,000) 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 annualized yield of approximately 0.4%. During the period under review, the Group did not have any other security or capital investments, derivative investments, or hedging for foreign currencies.

Capital expenditure

The total capital expenditure of the Group during the six months ended 30 September 2013 was approximately HK$31,697,000, which was mainly used for the addition of leasehold improvements, motor vehicles 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$22,013,000.

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 2013. The Group had capital commitment of HK$6,457,000 as at 30 September 2013 (31 March 2013: HK$13,370,000) in respect of the acquisition of plant and equipment.

Charges on assets

As of 30 September 2013, the Group had pledged bank deposits of HK$52,158,000 (31 March 2013: HK$47,162,000) 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 China and Southeast Asian regions. 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$208,178,000, representing a 6.0% increase as compared to HK$196,368,000 for the same period last year. The Group had a workforce of 1,906 staff as of 30 September 2013 (the same period last year: 1,981 staff), including 1,375 front-line service centre staff in Hong Kong, 104 in Mainland China and 206 in other Southeast Asian regions (Singapore, Malaysia and Taiwan). Back office staff totaled 152 in Hong Kong, 22 in Mainland China and 47 in Southeast Asian regions, respectively.

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 even 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. Share options and discretionary bonus are also granted to eligible employees based on the Group's results and individual performance of the employees. The Group has adopted the share option scheme since 20 January 2006. As at 30 September 2013, a total of 6,300,000 share options have been granted to certain directors, senior management and employees of the Group.

CORPORATE SOCIAL RESPONSIBILITY

The Group has been providing beauty and facial and slimming services over the years and such extensive experience have 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 certified to be up to international standards. 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 has 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 recognized 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 our 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 minimize the use of air conditioning and reduce our water consumption at service centres.

OUTLOOK

The Group is committed to ensuring the safety and quality of its services and products. Such commitment not only boosted customers' confidence in the Group, but also brought along sound reputation which laid a solid foundation for the future development of the Group and thus deliver better potential returns to our shareholders.

The Group is keeping pace with time by continuously identifying and introducing safe and advanced beauty and facial and slimming equipments and products in order to meet the customers' expectations for highly efficient services. With an aim to expand our customer coverage, after in-depth understanding of the target brands and upon prudent consideration, the Group decided to launch a new skincare and slimming product brand "Bioline" in the coming season. We planned to sell the products in all "p.e.n" shops as well as designated service centres in the initial phrase of its launch to test the market reaction before gradually promoting and developing the brand. "Bioline" is positioned to be a high-end brand, with its products made in Italy and its quality has attained international standards. It is believed that the brand will be well received by the customers after its launch and draw in new clienteles for the Group as well as contribute to the growth of our profit.

In recent years, the status and purchasing power of women in Asia have been substantially enhanced with a growing demand for beauty and facial and slimming services. The Group has seized this opportunity to tap into the Mainland China, Singapore and Malaysia markets, and our business has developed smoothly so far. Aside from our ongoing development in these newly expanded markets and the consolidation of our position in local markets, the Group intends to expand the beauty and facial and slimming markets in Taiwan and Macau, so as to expand our operating territory and enhance our market share in the industry.

While the Group continues to be prudently optimistic on future prospects, the operating environment nevertheless remains challenging, labour costs continue to rise and rental expenses are seeing ongoing rises.

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

During the period under review, the Company had not redeemed, and neither the Company nor any of its subsidiaries had 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 emphasize transparency, accountability and independence.

The Company has adopted the code provisions ("Code Provisions") set out in the Corporate Governance Code (taking effect from 1 April 2012) (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 has 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.

Chairperson and Chief Executive Officer

During the period under review, Ms. Tsang Yue, Joyce ("Ms. Tsang") has been both the Chairperson and CEO 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.

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

Ms. Tsang Yue, Joyce

The responsibilities of Remuneration Committee as 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

Ms. 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 emphasize 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 30 December 2013 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, 25 November 2013

As at the date of this announcement, the Board consists of Four Executive Directors, Ms Tsang Yue, Joyce, Mr Yip Kai Wing, Mr Leung Man Kit 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.