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 2014

FINANCIAL HIGHLIGHTS

- The Group's turnover reached approximately HK$458,685,000, representing an increase of 5.7%, as compared to the same period last year.
- Profit for the period attributable to owners of the Company increased by 24.4% to approximately HK$45,498,000.
- The Board recommended the payment of an interim dividend of HK3.4 cents per ordinary share for the period under review.

OPERATIONAL HIGHLIGHTS

- The Group operated a total of 44 service centres in the Mainland China, Taiwan and Hong Kong with a total weighted average gross floor area of approximately 295,000 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 25,500 square feet and approximately 8,900 square feet respectively.
- Customer number in Hong Kong and Singapore reached approximately 363,000 and 102,000 respectively.

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 2014 (the "period under review").

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 September 2014

	Note	**Six months ended 30 September 2014 HK$'000 (unaudited)**	Six months ended 30 September 2013 HK$'000 (unaudited)
Turnover	*5*	**458,685**	433,964
Other income	*6*	**842**	2,814
Cost of inventories sold		**(13,734)**	(13,376)
Advertising costs		**(4,460)**	(5,293)
Building management fees		**(8,128)**	(9,005)
Bank charges		**(19,083)**	(18,813)
Employee benefit expenses		**(206,594)**	(208,178)
Depreciation		**(24,568)**	(19,835)
Occupancy costs		**(82,463)**	(79,684)
Other operating expenses		**(41,713)**	(39,925)
Profit from operations		**58,784**	42,669
Interest income		**1,407**	1,019
Finance costs	*7(a)*	**(189)**	(250)
Share of profits of an associate		**55**	–
Share of losses of a joint venture		**(70)**	–
Profit before taxation	*7*	**59,987**	43,438
Income tax expense	*8*	**(14,491)**	(6,878)
Profit for the period		**45,496**	36,560
Attributable to:			
Equity shareholders of the Company		**45,498**	36,562
Non-controlling interests		**(2)**	(2)
Profit for the period		**45,496**	36,560
Earnings per share (HK cents)	*9*		
– Basic		**5.21**	4.18
– Diluted		**4.75**	3.83

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 September 2014

	Six months ended 30 September	
	2014	2013
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Profit for the period	**45,496**	36,560
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	**868**	1,307
Other comprehensive income for the period	**868**	1,307
Total comprehensive income for the period	**46,364**	37,867
Attributable to:		
Equity shareholders of the Company	**46,366**	37,869
Non-controlling interests	**(2)**	(2)
Total comprehensive income for the period	**46,364**	37,867

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 September 2014

	Note	At 30 September 2014 HK$'000 (unaudited)	At 31 March 2014 HK$'000 (audited)
Non-current assets			
Property, plant and equipment		**139,916**	148,986
Interest in an associate		**57**	–
Interest in a joint venture		**5,003**	–
Deposits	*10*	**22,610**	20,053
Deferred tax assets		**13,560**	14,473
		181,146	183,512
Current assets			
Inventories		**24,101**	23,402
Trade and other receivables, deposits and prepayments	*10*	**236,541**	238,818
Tax recoverable		**17,428**	16,124
Pledged bank deposits		**52,189**	52,170
Cash and bank balances		**448,633**	440,850
		778,892	771,364
Current liabilities			
Trade and other payables, deposits received and accrued expenses	*11*	**98,398**	91,955
Deferred revenue	*12*	**638,498**	688,451
Convertible note		**1,840**	3,680
Dividend payable	*13*	**17,480**	–
Tax payable		**19,391**	21,306
		775,607	805,392
Net current assets/(liabilities)		**3,285**	(34,028)
Total assets less current liabilities		**184,431**	149,484

	Note	At 30 September 2014 HK$'000 (unaudited)	At 31 March 2014 HK$'000 (audited)
Non-current liabilities			
Convertible note		**2,137**	1,948
Deferred tax liabilities		**2,691**	2,231
Purchase consideration payable for an acquisition		**5,182**	–
		10,010	4,179
NET ASSETS		**174,421**	145,305
CAPITAL AND RESERVES			
Share capital		**87,400**	87,400
Reserves		**86,954**	57,846
Total equity attributable to equity shareholders of the Company		**174,354**	145,246
Non-controlling interests		**67**	59
TOTAL EQUITY		**174,421**	145,305

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

For the six months ended 30 September 2014

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, 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 of Hong Kong Limited, including compliance with Hong Kong Accounting Standard ("HKAS") 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The 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 2014, except for the new and changes in accounting policy that are expected to be reflected in the annual financial statements for the year ending 31 March 2015. Details of the new and 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 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 2014. The 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").

The financial information relating to the financial year ended 31 March 2014 that is included in the interim financial report as being previously reported information does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 March 2014 are available from the Company's registered office. The auditors have expressed a qualified opinion on those financial statements in their report dated 30 June 2014.

3 NEW AND CHANGES IN ACCOUNTING POLICIES

(a) Associates and Joint Ventures

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A joint venture is an arrangement whereby the Group or Company and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in an associate or a joint venture is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment. Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the period are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income.

When the Group's share of losses exceeds its interest in the associate or the joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate or the joint venture.

Unrealised profits and losses resulting from transactions between the Group and its associates and joint venture are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

(b) Derivative Financial Instruments

Derivative financial instruments are recognised initially at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss.

(c) The HKICPA has issued the following amendments to HKFRSs and one new Interpretation that are first effective for the current accounting period of the Group and the Company:

- Amendments to HKAS 32, *Offsetting financial assets and financial liabilities*

- Amendments to HKAS 36, *Recoverable amount disclosures for non-financial assets*

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

Amendments to HKAS 32, Offsetting financial assets and financial liabilities

The amendments to HKAS 32 clarify the offsetting criteria in HKAS 32. The amendments do not have an impact on the Group's interim financial report as they are consistent with the policies already adopted by the Group.

Amendments to HKAS 36, Recoverable amount disclosures for non-financial assets

The amendments to HKAS 36 modify the disclosure requirements for impaired non-financial assets. Among them, the amendments expand the disclosures required for an impaired asset or cash generating unit ("CGU") whose recoverable amount is based on fair value less costs of disposal. The amendments do not have any material impact on the Group's interim financial report.

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 2014. Segment profits or losses do not include other income, interest income, finance costs, share of profits of an associate, share of losses of a joint venture, unallocated costs, which comprise corporate administrative expenses, and income tax expense. Segment assets do not include properties held for corporate uses, interest in an associate, interest in a joint venture, deferred tax assets and tax recoverable. Segment liabilities do not include dividend payable, tax payable, convertible note, deferred tax liabilities, amounts due to related companies and amount due to 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$'000* **(unaudited)**	**Skincare and wellness products** *HK$'000* **(unaudited)**	**Total** *HK$'000* **(unaudited)**
For the six months ended 30 September 2014			
Revenue from external customers	**437,124**	**21,561**	**458,685**
Reportable segment profit	**72,692**	**4,170**	**76,862**
As at 30 September 2014			
Reportable segment assets	**889,116**	**10,353**	**899,469**
Reportable segment liabilities	**724,691**	**29,595**	**754,286**
For the six months ended 30 September 2013			
Revenue from external customers	416,820	17,144	433,964
Reportable segment profit	53,559	5,116	58,675
As at 31 March 2014			
Reportable segment assets	887,754	11,843	899,597
Reportable segment liabilities	766,426	13,891	780,317

(b) Reconciliations of Reportable Segment Profit or Loss

	Six months ended 30 September	
	2014 *HK$'000* **(unaudited)**	2013 *HK$'000* (unaudited)
Reportable segment profit	**76,862**	58,675
Other income	**842**	2,814
Interest income	**1,407**	1,019
Finance costs	**(189)**	(250)
Share of profits of an associate	**55**	–
Share of losses of a joint venture	**(70)**	–
Unallocated costs	**(18,920)**	(18,820)
Income tax expense	**(14,491)**	(6,878)
Consolidated profit for the period	**45,496**	36,560

5 TURNOVER

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 in turnover during the period is as follows:

	Six months ended 30 September	
	2014	2013
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Revenue recognised from provision of beauty and wellness services and expiry of prepaid beauty packages	**437,124**	416,820
Sales of skincare and wellness products	**21,561**	17,144
	458,685	433,964

6 OTHER INCOME

	Six months ended 30 September	
	2014	2013
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Commission income	**94**	682
Government grants	**39**	108
Magazine subscription income	**–**	1
Foreign exchange gains, net	**–**	735
Rental income from properties under operating leases	**268**	–
Net gain on disposals of property, plant and equipment	**4**	12
Others	**437**	1,276
	842	2,814

7 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Finance Costs

	Six months ended 30 September	
	2014	2013
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Finance lease charges	**–**	1
Interest on convertible note wholly repayable within five years	**189**	249
	189	250

(b) Other Items

	Six months ended 30 September	
	2014	2013
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Foreign exchange loss, net	**1,537**	–
Auditor's remuneration		
– Current	**1,499**	1,480
Directors' remuneration	**6,184**	11,678
Loss on disposal of a subsidiary	**47**	–

8 INCOME TAX EXPENSE

	Six months ended 30 September	
	2014	2013
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Current tax – Hong Kong Profits Tax	**5,487**	–
Current tax – Overseas	**7,605**	7,531
Deferred taxation	**1,399**	(653)
	14,491	6,878

Hong Kong Profits Tax is calculated at 16.5% (30 September 2013: 16.5%) of the estimated 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.

9 EARNINGS PER SHARE

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

(a) Basic Earnings Per Share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of $45,498,000 (30 September 2013: $36,562,000) and 873,996,190 (30 September 2013: 873,996,190) ordinary shares in issue during the period.

(b) Diluted Earnings Per Share

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of $45,687,000 (30 September 2013: $36,811,000) and the weighted average number of ordinary shares of 961,615,238 (30 September 2013: 961,615,238) ordinary shares, calculated as follows:

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

	Six months ended 30 September	
	2014	2013
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Profit attributable to ordinary equity shareholders	**45,498**	36,562
After tax effect of effective interest on the liability component of convertible note	**189**	249
Profit attributable to ordinary equity shareholders (diluted)	**45,687**	36,811

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

	Six months ended 30 September	
	2014	2013
	(unaudited)	(unaudited)
Weighted average number of ordinary shares	**873,996,190**	873,996,190
Effect of conversion of convertible note	**87,619,048**	87,619,048
Weighted average number of ordinary shares (diluted)	**961,615,238**	961,615,238

The Company's share options and unlisted warrants as at 30 September 2014 and 2013 do not give rise to any dilution effect to the earnings per share.

10 TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	At 30 September 2014 *HK$'000* **(unaudited)**	At 31 March 2014 *HK$'000* (audited)
Non-current assets		
Rental and other deposits	**22,610**	20,053
Current assets		
Trade receivables	**58,290**	55,790
Trade deposits retained by banks/credit card companies *(note)*	**136,410**	134,587
Rental and other deposits, prepayments and other receivables	**41,731**	48,167
Amounts due from related companies	**110**	274
	236,541	238,818
	259,151	258,871

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, based on the invoice date, is as follows:

	At 30 September 2014 *HK$'000* **(unaudited)**	At 31 March 2014 *HK$'000* (audited)
0 – 30 days	**23,802**	23,711
31 – 60 days	**11,882**	9,366
61 – 90 days	**10,357**	9,834
91 – 180 days	**10,083**	9,480
Over 180 days	**2,166**	3,399
	58,290	55,790

The Group's turnover comprises mainly cash and credit card sales. Trade receivables are due within 7 – 180 days (31 March 2014: 7 – 180 days), from the date of billing.

11 TRADE AND OTHER PAYABLES, DEPOSITS RECEIVED AND ACCRUED EXPENSES

	At 30 September 2014 *HK$'000* (unaudited)	At 31 March 2014 *HK$'000* (audited)
Trade payables	**809**	2,471
Other payables, deposits received and accrued expenses	**97,498**	89,395
Amount due to the ultimate controlling party	**2**	2
Amounts due to related companies	**89**	87
	98,398	91,955

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

	At 30 September 2014 *HK$'000* (unaudited)	At 31 March 2014 *HK$'000* (audited)
Within 90 days	**799**	2,461
Over 90 days	**10**	10
	809	2,471

12 DEFERRED REVENUE

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

	At 30 September 2014 *HK$'000* (unaudited)	At 31 March 2014 *HK$'000* (audited)
Within 1 year	**630,219**	655,843
More than 1 year but within 2 years	**4,395**	4,578
More than 2 years but within 3 years	**3,884**	28,030
	638,498	688,451

13 DIVIDENDS

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

	Six months ended 30 September	
	2014	2013
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Interim dividend declared and paid after the interim period of HK3.4 cents per ordinary share (30 September 2013: HK2.5 cents per ordinary share)	**29,716**	21,850

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

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

	Six months ended 30 September	
	2014	2013
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Final dividend in respect of the previous financial year, approved during the following interim period, of HK2.0 cents per ordinary share (30 September 2013: Nil)	**17,480**	–
Special dividend in respect of the previous financial year, approved during the following interim period, of Nil (30 September 2013: HK4.0 cents per ordinary share)	**–**	34,960

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Hong Kong

As revealed by the Hong Kong Census and Statistics Department, the female population in Hong Kong (excluding foreign domestic helpers) between the ages of 20 to 59 in 2013 reached 2,195,900, and this population is said to be ever increasing in the coming decades. We have long been targeting on this customer age and as at 30 September 2014, our customers in Hong Kong increased to approximately 363,000, which represents an 8.2% increase as compared to approximately 335,500 over the same period last year.

The Group is currently operating 33 beauty and spa service centers with a total gross floor area of approximately 262,800 square feet, increased by 1.5% when compared with the figure of 258,900 square feet as at 30 September 2013. Multifarious high quality beauty, facial and slimming services are offered to the general public including, inter alia, skincare, slimming, hairstyling, cosmetics, manicures, pedicures, electrology, and aesthetics services. Since 2013, we have also engaged in wedding photography business to suit customer needs.

To create and unleash the most beautiful aspects for our customers, we offer a number of innovative and sophisticated beauty, slimming and anti-aging treatments and machineries, which can be exemplified by some technologies such as "HIFU Beauty System Treatment" to release high-intensity focused ultrasound to penetrate into the deep SMAS fascia skin tissue and dermis to stimulate the skin to produce more collagen and thus tighten the skin and lessen the wrinkles; "Thermage Treatment" to use microneedles and generate radiofrequency energy to increase metabolic rate of subcutaneous tissue and stimulate new collagen growth to make the skin look sleeker, smoother and younger and also to contour the body; "High-Speed integrated vacuum-assist technology Treatment" to provide extremely effective and long lasting result for removing unwanted hair. There are many other technologies not mentioned above being utilized to serve the best to our customers.

In terms of the sales of skincare and wellness products, as of 30 September 2014, the Group had a total of 19 stores under the names of "p.e.n.", "be Beauty Shop" and "FERRECARE Concept Store", locating across Hong Kong, Kowloon and 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$333,180,000 and HK$313,331,000 respectively, representing an increase of 7.8% and a decrease of 0.6%, as compared to the same period last year.

Mainland China

Our Mainland China Operations are conducted through three wholly foreign owned enterprises established in Beijing, Shanghai and Guangzhou in the People's Republic of China. These three wholly foreign owned enterprises operate a total of nine service centres at the three cities referred. During the period under review, our service income and receipts from prepaid beauty packages in the Mainland China amounted to HK$14,706,000 and HK$14,298,000 respectively, representing a decrease of 11.3% and a decrease of 11.1%, as compared to the same period last year.

The Mainland China market is full of opportunities and challenges. Our brand name has secured a presence in the Mainland China with a solid foundation that we have established for years in Beijing, Shanghai and Guangzhou. With the ever increasing consumption power of people in second and third tier cities, it is time to grasp the ample business opportunities out there. Plans to open more stores in the Mainland China is afoot.

We have teamed up with a partner to set up a factory in Dongguan. The factory is scheduled to come into operation early next year. The factory serves two main purposes to the Group. Firstly, the factory serves to develop and manufacture skincare and wellness products for our customers in Mainland China. Secondly, to cope with the ever increasing byzantine complexity of the import product licensing regulations in the Mainland China, the factory serves to import raw materials of skincare products from Europe, Australia and different parts of the world to the Mainland China, and then carry out filling and packaging in the factory. As a result, the procedure of importing foreign skincare products to the Mainland China will be tremendously expedited to suit the increasing need of our customers in Mainland China.

Singapore and Malaysia

The Group operates a total of 17 beauty and wellness services in Singapore and Malaysia. During the year under review, our Singapore and Malaysia Operations reported a turnover of HK$90,786,000. Receipts from sales of prepaid beauty packages amounted to HK$58,116,000, decreased by 6.5% when compared with the same period last year. Revenue from services rendered amounted to HK$87,859,000, representing a decrease of 3.2% when compared with the same period last year.

The Group will continue to carry out its local business development prudently and to ensure its service quality. Endeavors are used to pursue the business expansion of its beauty and facial and slimming services and product sales business in Singapore and Malaysia when appropriate opportunity arises in order to strengthen and enhance our brand status and brand awareness in the local market and to bring more fruitful long term return to the Group.

Taiwan

Currently, the Group is operating two service centres in Taiwan. We 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 2014, turnover of the Group increased by 5.7% to HK$458,685,000 as compared to the same period last year due to the increase in the number of customers and rising demand for prepaid beauty packages building from the strong confidence in the Group's operations on an ongoing basis.

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

	For the six months ended 30 September				
	2014		2013		
Sales mix	***HK$'000***	***Percentage of turnover***	*HK$'000*	*Percentage of turnover*	Change
Beauty and facial	**333,168**	**72.6%**	320,266	73.8%	+4.0%
Slimming	**76,935**	**16.8%**	69,796	16.1%	+10.2%
Spa and massage	**26,937**	**5.9%**	26,652	6.1%	+1.1%
Fitness	**84**	**0.0%**	106	0.0%	-20.8%
Beauty and wellness services	**437,124**	**95.3%**	416,820	96.0%	+4.9%
Sales of skincare and wellness products	**21,561**	**4.7%**	17,144	4.0%	+25.8%
Total	**458,685**	**100.0%**	433,964	100.0%	+5.7%

During the period under review, although some medical beauty accidents happened occasionally in Hong Kong (none of which involved the Group), the Group's performance in turnover remained intact with decent growth due to our good reputation and high value-added services, as well as our ever increasing number of customers. Compared to the same period last year, the Group's turnover from beauty and facial services for ladies increased by 2.5% to HK$300,683,000 (2013: HK$293,416,000), while turnover from beauty and facial services for men increased by 21.0% to HK$32,485,000 (2013: HK$26,850,000). With the ever increasing attention being put on beauty and care from male customers, it is axiomatic that services for men is one of the important growth engine for our business ahead.

Turnover from the slimming service increased to HK$76,935,000 in the period under review, up by approximately 10.2% from approximately HK$69,796,000 in the same period of 2013. Meanwhile, spa and massage revenue for the Group in the period under review increased by 1.1% year-on-year to HK$26,937,000. As for the product revenue, it increased by 25.8% to HK$21,561,000 as compared to the same period last year, which was mainly attributed to the rising customer demand for high quality beauty products and our persistent dedication to development of varieties of products that suit the customer needs.

Employee benefit expenses

Employee benefit expenses represent the largest component of the Group's operating expenses, decreased by approximately 0.8% to HK$206,594,000 comparing to HK$208,178,000 for the same period last year. The total headcount of the Group as at 30 September 2014 decreased by 2.9% to 1,850, as compared to a headcount of 1,906 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 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 45.0% of our turnover, as compared to 48.0% for the same period last year.

Occupancy costs

During the period under review, the Group's occupancy costs were approximately HK$82,463,000 (for the same period in 2013: HK$79,684,000), accounting for approximately 18.0% of our turnover (for the same period in 2013: 18.4%).

As of 30 September 2014, the Group operated a total of 44 service centres in Mainland China, Taiwan and Hong Kong with a total weighted average gross floor area of 295,000 square feet, representing a decrease of 0.3% as compared to 296,000 square feet last year.

As of 30 September 2014, the Group had 14 and three service centres in Singapore and Malaysia respectively, with a total weighted average gross floor area of approximately 25,500 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 1.4% to HK$19,083,000 during the period under review. Depreciation increased to HK$24,568,000 or by 23.9% with some new shops opening and some older ones closing down. Advertising costs decreased to HK$4,460,000, as compared to HK$5,293,000 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 1.2% for the same period last year to 1.0%.

Net profit and net profit margin

For the six months ended 30 September 2014, the net profit was approximately HK$45,496,000, representing an increase of 24.4% as compared to HK$36,560,000 for the same period last year. Net profit margin improved from 8.4% for the same period last year to 9.9% for 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 HK5.21 cents as compared to the earnings per share of HK4.18 cents for the same period last year.

Interim dividend and special dividend

The Board has approved to pay an interim dividend of HK3.4 cents per share for the six months ended 30 September 2014, totaling HK$29,716,000 (interim dividend for 2013: HK2.5 cents, totaling HK$21,850,000).

The total interim dividend of HK3.4 cents will be paid on or around 9 January 2015 to the shareholders whose names appear on the register of shareholders of the Company at the close of business on 19 December 2014.

Closure of register of members

The register of members of the Company will be closed from 17 December 2014 to 19 December 2014, 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 Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on 16 December 2014.

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 2014 was HK$174,421,000. Cash and bank balances as at 30 September 2014 amounted to HK$448,633,000 (31 March 2014: HK$440,850,000) 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 0.6%. 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 2014 was approximately HK$15,887,000, 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$31,697,000.

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 2014. The Group had capital commitment of HK$7,995,000 as at 30 September 2014 (31 March 2014: HK$5,229,000) in respect of the acquisition of plant and equipment.

Charges on assets

As of 30 September 2014, the Group had pledged bank deposits of HK$52,189,000 (31 March 2014: HK$52,170,000) in favour of certain banks to secure banking facilities granted to certain subsidiaries in the Group.

Foreign exchange risk exposures

The Group's transactions were mainly denominated in Hong Kong Dollars. However, the exchange rates of Hong Kong Dollars against foreign currencies also affected the operating costs as the Group expanded its business to Mainland China 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$206,594,000, representing a 0.8% decrease as compared to HK$208,178,000 for the same period last year. The Group had a workforce of 1,850 staff as of 30 September 2014 (the same period last year: 1,906 staff), including 1,355 front-line service centre staff in Hong Kong, 107 in the Mainland China and 188 in other Southeast Asian regions (Singapore, Malaysia and Taiwan). Back office staff totaled 137 in Hong Kong, 22 in the Mainland China and 41 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 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. 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 2014, a total of 6,200,000 share options had 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 recognized 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 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 dedicated to offer the best and safest services and products to our customers, and will invest more on its beauty and wellness business. The Group will also endeavor to improve the operational efficiency of beauty and wellness business so as to enhance its market competitiveness and profitability.

In July of the period under review, we formed a joint venture with an Australian partner. The joint venture operates a factory in Melbourne and owns the brand called "Advanced Natural" in Australia. The joint venture engages not only in the manufacture of the "Advanced Natural" beauty and skincare products, but also wholesales and/or retails of these products internationally in Europe, Australia, Middle-East, the Mainland China and Southeast Asia. This allows the Group to extend tremendously in geographical scope of the product business and leverage the profound experience of our partner in the said areas to tap into opportunities in bringing greater returns to the Shareholders.

We have teamed up with a partner to set up a factory in Dongguan. The factory is scheduled to come into operation early next year. The factory serves two main purposes to the group. Firstly, the factory serves to develop and manufacture skincare and wellness products for our customers in Mainland China. Secondly, to cope with the ever increasing byzantine complexity of the import product licensing regulations in China, the factory serves to import raw materials of skincare products from Europe, Australia and different parts of the world to Mainland China, and then carry out filling and packaging in the factory. As a result, the procedure of importing foreign skincare products to Mainland China will be sped up tremendously to suit the increasing need of our consumers in Mainland China.

The above two newly orchestrated operations herald a new era to our Group and will offer momentous impetus to our product business in future.

During the period under review, the Group has renewed the ambassador contract with Champion of Miss Hong Kong Pageant Shirley Yeung Sze Ki, not only because of her external beauty, but also because of her pertinacity to face her difficulties bravely. This kind of positive mentality of embracing the future optimistically are in line with one of the aspirations our Group's wants to convey to the public for years.

At the end of September of the period under review, civil defiance occupancy activities occurred in some districts in Hong Kong. The rising crescendo of violence wreaked havoc to the society and cast shadow on Hong Kong economy. We are keeping close attention to the development of this social activity and would take proactive measures to deal with any possible circumstances.

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 had 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 A.6.7 as set out in the section headed “Non-Compliance with Code Provision A.6.7” below.

Chairperson and Chief Executive Officer

During the period under review, Ms. Tsang Yue, Joyce (“Ms. Tsang”) had been 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 A.6.7

Code Provision A.6.7 provides that Independent Non-executive Directors and other Non-executive Directors of the Company should attend general meetings and develop a balanced understanding of the views of the shareholders.

Mr. Hong Po Kui, Martin, an Independent Non-executive Director of the Company, was absent from the Annual General Meeting of the Company held on 29 August 2014 due to personal reason.

Mr. Wong Man Hin, Raymond, an Independent Non-executive Director of the Company, was absent from the Annual General Meeting of the Company held on 29 August 2014 due to personal reason.

Mr. Lam Tak Leung, an Independent Non-executive Director of the Company, was absent from the Annual General Meeting of the Company held on 29 August 2014 due to personal reason.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the directors of the Company (the "Directors"). Having made specific enquiry of all Directors, all Directors confirmed that they had complied with, and there had been no non-compliance with, the required standard set out in the Model Code and its code of conduct regarding the Directors' securities transactions during the period under review.

Board Committees

The Board has established the following committees with defined terms of reference, which are on no less exacting terms than those set out in the Code:

- Remuneration Committee
- Nomination Committee
- Audit Committee

Each Committee has authority to engage outside consultants or experts as it considers necessary to discharge the Committee's responsibilities. Minutes of all committees meetings are circulated to their members. To further reinforce independence and effectiveness, all Audit Committee members are Independent Non-executive Directors ("INEDs"), and the Nomination and Remuneration Committees have been structured with a majority of INEDs as members.

Remuneration Committee

The composition of the Remuneration Committee is as follows:

Independent Non-executive Directors

Mr. Wong Man Hin, Raymond *(Chairman)*

Ms. Liu Mei Ling, Rhoda

Mr. Hong Po Kui, Martin

Executive Director

Ms. 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

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 2014 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 and Chief Executive Officer

Hong Kong, 28 November 2014

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