MODERN BEAUTY SALON HOLDINGS LIMITED
現代美容控股有限公司
Stock Code股份代號:919

Modern Beauty Interim Report 13/14

中期報告

Mission

Modern Beauty aims to bring to its customers an unique beauty and wellness adventure. We furbish allure and esteem either through the services delivered from our service centres or through the products delivered from our retail network. At Modern Beauty, people is the cornerstone to ensure that productivity is sustainable in the pipeline. Building on our successes achieved in Hong Kong, we will explore further opportunities to expand our operations in Mainland China and Asia, and will deliver more promising return to our shareholders in the coming future.

Content

Financial and Operational Highlights

- Gross receipts from sales of prepaid beauty packages increased by 1.7% to approximately HK$394,125,000.
- The Board recommended payment of an interim dividend of HK2.5 cents per share.
- 43 service centres in Mainland China, Taiwan and Hong Kong.
- 14 and 3 service centres in Singapore and Malaysia respectively.
- Customer number in Hong Kong and Singapore reached approximately 335,500 and 99,300 respectively.

Chairperson's Statement

I hereby present the interim results report of Modern Beauty Salon Holdings Limited (the "Company") and its subsidiaries (the "Group") for the six months ended 30 September 2013 (the "period under review") on behalf of the Company's directors (singly "Director" or collectively "Directors" or "the Board").

Business Review

During the period under review, the external economic environment displayed a stabilizing trend, though the pace of recovery slowed down. EU leaders made concerted efforts to resolve the region's sovereign debt woes and the US government shutdown ended amicably with the risk of default averted for the meantime. But a resumption of stable growth in both the EU and the US remains elusive for now. At home, sentiment in Hong Kong's financial realm was buoyed thanks to the benchmark Hang Seng Index surged over 20% between July and September. Meanwhile, Mainland China's economy improved in the second half and is once again on target to achieve a full-year GDP growth of 7.5%. However, headwinds for the beauty and wellness services and products sector continue.

The quality and safety incidents in Hong Kong (none of which involved the Group) that cast a shadow over the beauty treatment industry had largely been addressed and the frequency of their occurrence had declined precipitously during the period under review, thus helping to boost the reputation of the sector in the eyes of consumers and the general public. Nevertheless, the Group fully recognizes that the business environment remains challenging, continuous labor cost rises are increasingly burdensome and surging shop rental costs – most notably in the Group's home market of Hong Kong – are an ongoing concern.

During the period under review, the Group recorded a turnover amounting to HK$433,964,000, representing a decrease of 0.5% from HK$436,099,000 in the previous corresponding period.

In terms of earnings, the Group's net profit declined 16.5% to HK$36,560,000 as compared to the corresponding period last year. The Group's sound reputation and customer loyalty alongside our increased marketing efforts contributed to receipts from prepaid beauty packages of approximately HK$394,125,000 during the period under review, up 1.7% year-on-year. Such results suggest that the industry outlook – especially for the beauty and wellness services segment – remains relatively stable, and we believe that our turnover will ultimately return to earlier strong levels. However, revenue from the sales of skincare and wellness products during the period under review fell 20.7% year-on-year to HK$17,144,000, suggesting continuing challenges in the industry.

Chairperson's Statement

Hong Kong

The Hong Kong market continues to be the Group's top contributor to turnover. Thanks to years of hard work, the Group has established a solid reputation and earned trust and loyalty from an ever-expanding customer base. Incidents in Hong Kong in quality and service (none of which involved the Group) that impacted the sector in the recent past have shown some signs of abating, with the result being higher expectations by consumers regarding standards in beauty and facial and slimming services. This has left the Group in a stronger market position as we have been able to leverage on our broad experience in providing quality services over the years, and the Group's beauty, facial and slimming businesses have remained unaffected while we continue to earn trust and support from our customers. The expiration of various leases during the period under review has allowed the Group to undergo a healthy process of consolidation and restructuring. During the period under review, the Group's services businesses in Hong Kong recorded a turnover of HK$309,192,000 with receipts from sales of prepaid beauty packages amounting to HK$315,376,000 (representing a decrease of 8.6% and an increase of 4.0% respectively, as compared to the same period last year).

As for product sales, the Group opened two new product points of sale in Hong Kong during the period under review in order to broaden its local coverage and further stimulate demand for self-owned brands "p.e.n", "be" and "FERRECARE" as well as other brands for which we are the distributor. The Group has been religiously dedicated to selling only those skincare products made from safe ingredients and in compliance with demanding production standards. Thus, in order to fully reassure our customers that they can confidently and safely use our products and services over the long term, we primarily rely on imported goods from either Europe or Australia. The product sales business of the Group endured a decline during the period under review amid relatively tepid consumer demand in Hong Kong due to ongoing economic uncertainty. Revenue from our product sales business in Hong Kong recorded a decrease of 15.6% to HK$14,432,000 as compared to the same period last year.

Chairperson's Statement

Thanks to our brand building exercise and the Group's ongoing plan to expand the business – in part by launching new product brand "Bioline" – the Group is cautiously optimistic on prospects for its product sales business. Another important element to the Hong Kong market is that men there are increasingly paying attention to beauty treatment procedures and the importance of staying fit and looking good, and customers are beginning to pay attention to beauty issues at an earlier age. The Group has also seen encouraging consumer response to our growing wedding photo package business in which our in-house photographers and stylists are used. Finally, on the marketing side, we are seeing our advertising campaign effectively bringing in new customers as well as a fair amount of clients hearing positive things about the Group on a word of mouth basis.

Mainland China

Mainland China is the world's largest country and second biggest economy. In addition, recent economic data is once again boosting consumer confidence in the country with the full-year GDP on track to hit the 7.5% objective. However, with swift changes in Mainland China's consumer marketplace and the ever-present risk of inflation impacting operating costs, the Group will adopt a prudent and stable strategy regarding its Mainland China business development. During the period under review, our Mainland China business recorded a turnover of HK$17,208,000, down 18.5% from the same period last year. The results in Mainland China 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. The Group will continue to look for M&A candidates that suit our expansion needs, and we will focus on opening one store at a time in Mainland China. As of 30 September 2013, the Group had a total of eight service centres in Mainland China which are located in Beijing, Shanghai, Guangzhou and now in the Southwestern city of Chengdu for the first time.

Chairperson's Statement

Singapore and Malaysia

The Group began successfully tapping into the Singapore and Malaysia markets in FY2012 via acquisitions. Malaysia in particular remains a good and stable market for expansion while Singapore (like Hong Kong) is showing an increasing interest among men for beauty treatment and a widening demographic age-wise also seeking our services. During the period under review, the Group decreased its number of service centres in Singapore by one to a total of 14, while the number of service centres in Malaysia remained unchanged at three. Gradually improved economic conditions in the two markets had helped the Group's operations there and due to the Group's high-quality beauty services, we achieved steady development. The Group will remain ever vigilant on local market developments and grow our business accordingly in order to enhance our position in the local beauty service market.

Outlook

During the period under review, the Group continued to pursue steady business growth on a store-by-store, year-by-year strategy. The series of recent beauty treatment incidents within the industry in Hong Kong – none of which involved the Group – have abated somewhat, with the net effect being enhanced public awareness towards the safety and effectiveness of beauty treatments. However, the events still cast a shadow over the industry's prospects for now. But thanks to the rigorous quality and safety standards upheld by the Group, we managed to keep our brand name pristinely clean throughout the period under review and emerged stronger and with a more enviable market and brand cachet position. The Group has always placed customer safety and satisfaction atop its list of priorities. The quality of all skincare and wellness products used and sold by the Group has been internationally recognized. The Group also regularly provides technical training for its service team so as to guarantee the highest and most effective professional standards among its staff. Despite the numerous steps taken by the Group to confront difficulties facing the beauty treatment industry, we are fully cognizant of the reality that the operating climate remains somewhat difficult, repeated labor wage hikes are more and more burdensome and fast-rising point-of sale rental costs – especially in our home market of Hong Kong – are still continuing issues.

Appreciation

I strongly believe that premium service and staff professionalism are instrumental to the success of the Group. I would like to express my sincere gratitude to the management team and staff of the Group for their dedication and invaluable contribution to the sustainable development of the Group, and to customers and shareholders for their support and trust towards the Group during the period under review. Looking ahead, the Group will continue to pay effort in providing professional beauty services and to develop its various businesses steadily, in order to strive for outstanding financial performance and promising return to maximize the shareholder value of the Group.

Ms. Tsang Yue Joyce
Chairperson and Chief Executive Officer

Hong Kong, 25 November 2013

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 had been 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 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 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 established two new points of sale for products to expand our local coverage to further promote our products and to consolidate our market position. As of 30 September 2013, the Group had 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 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 established eight services centres in Mainland China, with a total weighted average gross floor area of approximately 34,000 square feet. The robust economic growth in Mainland China 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 Mainland China. In face of the intensifying

Management Discussion and Analysis

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 recorded a turnover of HK$17,208,000, down 18.5% from the same period last year. The results in Mainland China 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 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 to 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 established its first two 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

Management Discussion and Analysis

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 in Hong Kong regarding quality standards of the beauty 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 in Hong Kong (none of which involved the Group) during the period under review, 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 discretionary 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 improving 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 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.

Management Discussion and Analysis

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 down. 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 dividend 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 on 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.

Management Discussion and Analysis

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 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$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 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 2013, a total of 6,300,000 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

Management Discussion and Analysis

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, and 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 has launched a new skincare and slimming product brand "Bioline". 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.

Corporate Information

Board of Directors
Ms. Tsang Yue, Joyce (Chairperson)
Mr. Yip Kai Wing
Mr. Leung Man Kit
Ms. Yeung See Man
Ms. Liu Mei Ling, Rhoda *(Independent Non-executive Director)*
Mr. Wong Man Hin, Raymond *(Independent Non-executive Director)*
Mr. Hong Po Kui, Martin *(Independent Non-executive Director)*
Mr. Lam Tak Leung *(Independent Non-executive Director)*

Authorised Representatives
Mr. Leung Man Kit
Mr. Yip Kai Wing

Company Secretary
Mr. Wong Shu Pui

Audit Committee
Ms. Liu Mei Ling, Rhoda (Chairperson)
Mr. Wong Man Hin, Raymond
Mr. Hong Po Kui, Martin

Nomination Committee
Ms. Tsang Yue, Joyce (Chairperson)
Mr. Wong Man Hin, Raymond
Mr. Hong Po Kui, Martin
Ms. Liu Mei Ling, Rhoda

Remuneration Committee
Mr. Wong Man Hin, Raymond (Chairperson)
Ms. Tsang Yue, Joyce
Mr. Hong Po Kui, Martin
Ms. Liu Mei Ling, Rhoda

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KPMG
Certified Public Accountants
23rd Floor, Hysan Place
500 Hennessy Road
Causeway Bay
Hong Kong

Share Registrar and Transfer Office
Tricor Investor Services Limited
26th Floor
Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

Principal Bankers
The Hongkong and Shanghai Banking Corporation Limited
1 Queen's Road Central
Hong Kong

Standard Chartered Bank (Hong Kong) Limited
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Corporate Governance and Other Information

Directors' and Chief Executives' Interests and Short Positions in the Shares, Underlying Shares and Debentures

As at 30 September 2013, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") as recorded in the register kept by the Company pursuant to Section 352 of the SFO or otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 to the Listing Rules, were as follows:

Long positions in Shares, underlying Shares and Debentures of the Company

Name	Capacity in which interests are held	Interests in Shares	Equity Derivatives (Share Options)	Equity Derivatives (Convertible Note)	Total Interests	Approximate Percentage of Issued Shares of the Company[1]
Ms. Tsang Yue, Joyce	Founder of a discretionary trust	646,760,190	–	87,619,048	734,379,238	84.03%
	Interest of spouse[2]	650,000	–	–	650,000	0.07%
Mr. Yip Kai Wing	Beneficial Owner	185,000	500,000[3]	–	685,000	0.08%
	Interest of spouse[4]	–	200,000	–	200,000	0.02%
Ms. Yeung See Man	Beneficial Owner	172,000	300,000[5]	–	472,000	0.05%

Notes:

1. The percentage has been compiled based on the total number of shares of the Company in issue as at 30 September 2013 (i.e. 873,996,190 shares).

2. Ms. Tsang Yue, Joyce is the spouse of Mr. Lee Soo Ghee and is deemed to be interested in the shares in which Mr. Lee Soo Ghee is deemed or taken to be interested for the purpose of the SFO.

3. The period during which the equity derivatives (share options) under the name of Mr. Yip Kai Wing are exercisable is set out in the section headed "Share Option Scheme" below.

4. Mr. Yip Kai Wing is the spouse of Ms. Ng Kwai Ho and is deemed to be interested in the derivative shares in which Ms. Ng Kwai Ho is deemed or taken to be interested for the purpose of the SFO (Ms. Ng Kwai Ho is the grantee of an option in respect of 200,000 shares of HK$0.10 each of the Company under the Share Option Scheme adopted by the shareholders of the Company on 20 January 2006).

5. The period during which the equity derivatives (share options) under the name of Ms. Yeung See Man are exercisable is set out in the section headed "Share Option Scheme" below.

Save as disclosed above, as at 30 September 2013, none of the Directors and chief executives of the Company nor their respective associates had any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or pursuant to section 352 of the SFO, to be entered in the register referred to therein, or notified to the Company and the Stock Exchange pursuant to the Model Code.

Corporate Governance and Other Information

Directors' Rights to Acquire Shares or Debentures

Save as disclosed above and in the section headed "Share Option Scheme" below, at no time during the period under review was the Company, any of its holding companies, subsidiaries or fellow subsidiaries a party to any arrangements to enable the Directors or chief executives of the Company or any of their respective spouses or children under 18 years of age to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Substantial Shareholders' and Other Persons' Interests and Short Positions in the Shares and Underlying Shares

As at 30 September 2013, the interests or short positions of substantial shareholders and other persons of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO, or as otherwise notified to the Company, were as follows:

Long positions of substantial shareholders and other persons in the Shares and underlying Shares of the Company

Name	Capacity in which interests are held	Interests in Shares	Equity Derivatives (Convertible Note)	Total Interests	Approximate Percentage of Issued Shares of the Company[1]
Ms. Tsang Yue, Joyce	Founder of a discretionary trust	646,760,190	87,619,048	734,379,238[4]	84.03%
	Interest of spouse[2]	650,000	–	650,000	0.07%
Mr. Lee Soo Ghee	Beneficial owner	650,000	–	650,000	0.07%
	Interest of spouse[3]	646,760,190	87,619,048	734,379,238[4]	84.03%
TMF (Cayman) Ltd.[5]	Trustee (other than a bare trustee)	646,760,190	87,619,048	734,379,238[4]	84.03%
Kelday International Limited[5]	Nominee for another person (other than a bare trustee)	646,760,190	87,619,048	734,379,238[4]	84.03%
Allied Chance Management Limited[5]	Interest of corporation controlled by it	646,760,190	87,619,048	734,379,238[4]	84.03%
Allied Wealth Limited[5]	Beneficial owner	178,760,190	87,619,048	266,379,238[6]	30.48%
Silver Compass Holdings Corp.[5]	Beneficial owner	367,200,000	–	367,200,000[6]	42.01%
Silver Hendon Enterprises Corp.[5]	Beneficial owner	100,800,000	–	100,800,000[6]	11.53%
Mutual Fund Populus	Custodian corporation/approved lending agent	70,164,000	–	70,164,000	8.03%

Notes:

1. The percentage has been compiled based on the total number of shares of the Company in issue as at 30 September 2013 (i.e. 873,996,190 shares).

2. Ms. Tsang Yue, Joyce is the spouse of Mr. Lee Soo Ghee and is deemed to be interested in the shares in which Mr. Lee Soo Ghee is deemed or taken to be interested for the purpose of the SFO.

3. Mr. Lee Soo Ghee is the spouse of Ms. Tsang Yue, Joyce and is deemed to be interested in the shares in which Ms. Tsang Yue, Joyce is deemed or taken to be interested for the purpose of the SFO.

4. These shares were the same parcel of shares held by a trust of which Ms. Tsang Yue, Joyce was the founder. TMF (Cayman) Ltd. was the trustee of the trust. See Note 5.

5. Allied Wealth Limited, Silver Compass Holdings Corp. and Silver Hendon Enterprises Corp. are indirect wholly-owned subsidiaries of Allied Chance Management Limited. Allied Chance Management Limited is in turn a direct wholly-owned subsidiary of Kelday International Limited. TMF (Cayman) Ltd. is the ultimate holding company of Allied Chance Management Limited and Kelday International Limited.

6. These shares were included in the above-mentioned total interest in shares and underlying shares of 734,379,238. See note 4 and note 5.

Apart from the above, no other interest or short position in the shares or underlying shares of the Company was recorded in the register required to be kept under section 336 of the SFO as at 30 September 2013.

Share Option Scheme

On 20 January 2006, the Shareholders adopted a share option scheme ("2006 Scheme").

On 23 October 2006, the Board resolved to grant 15,640,000 share options to certain Directors and employees of the Group pursuant to the 2006 Scheme, to take up option to subscribe for shares of the Company ("Shares") at an exercise price of HK$1.33 per option and exercisable for a period of one to six years after the vesting period of four to nine years commencing from the date of grant. The life of options is ten years.

Summary of the 2006 Scheme is set out as follows:

(a) Purpose of the 2006 Scheme

The purpose of the 2006 Scheme is to give Participants (as defined in sub-paragraph (b) herein below) an opportunity to have a personal stake in the Company and help motivate Participants to optimise their performance and efficiency and attract and retain them whose contributions are important to the long-term growth and profitability of the Group.

(b) Participants of the 2006 Scheme

Any directors (including executive directors, non-executive directors and independent non-executive directors) and employees (whether full-time or part-time) of the Group and any advisors, consultants, of any member of the Group who the Board considers, in its sole discretion, have contributed or will contribute to the Group.

(c) Total Number of Shares Available for Issue under the 2006 Scheme

The maximum number of shares of HK$0.10 each of the Company ("Shares") which may be issued upon exercise of all options to be granted under the 2006 Scheme and any other share option schemes of the Company shall not in aggregate exceed ten (10) per cent of the relevant class of Shares in issue on 9 February 2006, the date of listing of the Shares on the Stock Exchange (the "Listing Date") (without taking into account any Shares which may be issued pursuant to the exercise of the Over-allotment Option (as defined in the 2006 Scheme) (the "Scheme Mandate Limit"). Option lapsed in accordance with the terms of the 2006 Scheme and any other share option scheme of the Company will not be counted for the purpose of calculating the Scheme Mandate Limit.

The maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2006 Scheme and other share option schemes of the Company shall not exceed thirty (30) per cent of the relevant class of Shares in issue from time to time. No options shall be granted under share option scheme of the Company (including the 2006 Scheme) if this will result in the thirty (30) per cent. limit being exceeded.

The total number of Shares available for issue under the 2006 Scheme is 62,180,000 which represents 7.1% of the issued shares of the Company as at the date of this interim report.

(d) Maximum Entitlement of Each Participant under the 2006 Scheme

Except with the approval of the Shareholders in general meeting, the maximum number of Shares to a specifically identified single Participant who accepts the offer of an option in accordance with the 2006 Scheme ("Grantee"), issued and to be issued upon exercise of options granted under the 2006 Scheme and any other share option scheme of the Company shall not in any twelve (12)-month period exceed one (1) per cent of the Shares in issue.

(e) The period within which the Shares must be taken up under an option

An option may be exercised by the Grantee at any time during the period to be notified by the Board to each Grantee at the time of making an offer which shall commence on the date falling six (6) months after the date of grant and expiring not later than ten (10) years from the date of grant.

(f) The minimum period, if any, for which an option must be held before it can be exercised

Six (6) months after the date of grant.

(g) The amount, if any, payable on application or acceptance of the option

HK$1.00

(h) Basis of Determining the Exercise Price

The price per Share at which a grantee may subscribe for Shares on the exercise of an option pursuant to the 2006 Scheme shall be determined by the Board in its absolute discretion but in any event shall at least be the higher of:

(i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant;

(ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five (5) business days immediately preceding the date of grant (provided that the new issue price shall be used as the closing price for any business day falling within the period before the listing of the Shares, where the Company has been listed for less than five (5) business days as at the date of grant); and

(iii) the nominal value of the Shares.

(i) The remaining life of the 2006 Scheme

The Company by ordinary resolution in general meeting or the Board may at any time terminate the operation of the 2006 Scheme and in such event no further options will be offered or granted. Subject to the aforesaid, the 2006 Scheme shall be valid and effective for a period of ten (10) years commencing on 20 January 2006 (i.e. until 19 January 2016).

Corporate Governance and Other Information

(j) Movements of the options granted under the 2006 Scheme during the period under review were as follows:

Name	Balance as at 1 April 2013	No. of options granted during the period under review	Reclassification	No. of options exercised/ cancelled/ lapsed during the period under review	No. of options as at 30 September 2013	Date of grant	Period during which options are exercisable	Exercise price	Approximate percentage of issued shares of the Company (Note 1)
Executive Director									
Mr. Yip Kai Wing	125,000	–	–	–	125,000	23/10/2006	23/10/2010 to 22/10/2016	HK$1.33	0.01%
Mr. Yip Kai Wing	175,000	–	–	–	175,000	23/10/2006	23/10/2014 to 22/10/2016	HK$1.33	0.02%
Mr. Yip Kai Wing	200,000	–	–	–	200,000	23/10/2006	23/10/2015 to 22/10/2016	HK$1.33	0.02%
Ms. Yeung See Man	75,000	–	–	–	75,000	23/10/2006	23/10/2010 to 22/10/2016	HK$1.33	0.01%
Ms. Yeung See Man	105,000	–	–	–	105,000	23/10/2006	23/10/2014 to 22/10/2016	HK$1.33	0.01%
Ms. Yeung See Man	120,000	–	–	–	120,000	23/10/2006	23/10/2015 to 22/10/2016	HK$1.33	0.01%
Others	1,375,000	–	–	–	1,375,000	23/10/2006	23/10/2010 to 22/10/2016	HK$1.33	0.16%
Others	1,925,000	–	–	–	1,925,000	23/10/2006	23/10/2014 to 22/10/2016	HK$1.33	0.22%
Others	2,200,000	–	–	–	2,200,000	23/10/2006	23/10/2015 to 22/10/2016	HK$1.33	0.25%
Total	6,300,000	–	–	–	6,300,000				

Note:

1. The relevant percentages are calculated by reference to the Shares in issue on 30 September 2013 i.e. 873,996,190 shares.

Corporate Governance and Other Information

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.

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.

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

Corporate Governance and Other Information

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.

By Order of the Board
Modern Beauty Salon Holdings Limited

Tsang Yue, Joyce
Chairperson and Chief Executive Officer

Hong Kong, 25 November 2013

Condensed Consolidated Income Statement

For the six months ended 30 September 2013

	Note	Six months ended 30 September 2013 HK$'000 (unaudited)	2012 HK$'000 (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

The accompanying notes form part of this interim financial report. Details of dividends payable to equity shareholders of the Company are set out in note 10.

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 September 2013

	Six months ended 30 September 2013 HK$'000 (unaudited)	2012 HK$'000 (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

The accompanying notes form part of this interim financial report.

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	12	**145,448**	133,724
Deposits	13	**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	13	**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	14	**86,474**	83,973
Deferred revenue	15	**721,909**	747,614
Finance leases payable		**8**	18
Convertible note	16	**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

	Note	At 30 September 2013 HK$'000 (unaudited)	At 31 March 2013 HK$'000 (audited)
Non-current liability			
Convertible note	16	3,565	3,316
NET ASSETS		148,577	145,443
CAPITAL AND RESERVES			
Share capital	17	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

The accompanying notes form part of this interim financial report.

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 September 2013

	(unaudited) Attributable to equity shareholders of the Company										
	Share capital HK$'000	Share premium HK$'000	Share-based compensation reserve HK$'000	Merger reserve HK$'000	Exchange reserve HK$'000	Property revaluation reserve HK$'000	Convertible note reserve HK$'000	Retained earnings HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
Balance at 1 April 2012	87,400	289,999	3,687	(374,921)	833	29,798	84,870	150,412	272,078	65	272,143
Changes in equity for the six months ended 30 September 2012:											
Profit for the period	–	–	–	–	–	–	–	43,785	43,785	(2)	43,783
Other comprehensive income	–	–	–	–	(949)	–	–	–	(949)	–	(949)
Total comprehensive income	–	–	–	–	(949)	–	–	43,785	42,836	(2)	42,834
Share-based payments	–	–	241	–	–	–	–	–	241	–	241
Lapse of share options	–	–	(223)	–	–	–	–	223	–	–	–
2012 final dividend paid (note 10 (ii))	–	–	–	–	–	–	–	(37,145)	(37,145)	–	(37,145)
Balance at 30 September 2012	87,400	289,999	3,705	(374,921)	(116)	29,798	84,870	157,275	278,010	63	278,073
Balance at 1 April 2013	**87,400**	**289,999**	**3,931**	**(374,921)**	**64**	**–**	**84,870**	**54,038**	**145,381**	**62**	**145,443**
Changes in equity for the six months ended 30 September 2013:											
Profit for the period	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**36,562**	**36,562**	**(2)**	**36,560**
Other comprehensive income	**–**	**–**	**–**	**–**	**1,307**	**–**	**–**	**–**	**1,307**	**–**	**1,307**
Total comprehensive income	**–**	**–**	**–**	**–**	**1,307**	**–**	**–**	**36,562**	**37,869**	**(2)**	**37,867**
Share-based payments	**–**	**–**	**227**	**–**	**–**	**–**	**–**	**–**	**227**	**–**	**227**
2013 special dividend declared (note 10 (iii))	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(34,960)**	**(34,960)**	**–**	**(34,960)**
Balance at 30 September 2013	**87,400**	**289,999**	**4,158**	**(374,921)**	**1,371**	**–**	**84,870**	**55,640**	**148,517**	**60**	**148,577**

The accompanying notes form part of this interim financial report.

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 September 2013

	Six months ended 30 September 2013 HK$'000 (unaudited)	2012 HK$'000 (unaudited)
Net cash generated from operating activities	**43,426**	39,754
Net cash used in investing activities	**(32,807)**	(62,017)
Net cash used in financing activities	**(1,850)**	(37,726)
Net increase/(decrease) in cash and cash equivalents	**8,769**	(59,989)
Cash and cash equivalents at beginning of the period	**481,249**	478,242
Effect of foreign exchange rates changes	**(1,453)**	2,010
Cash and cash equivalents at end of the period	**488,565**	420,263

The accompanying notes form part of this interim financial report.

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").

Notes to the Condensed Financial Statements

For the six months ended 30 September 2013

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.

Notes to the Condensed Financial Statements

For the six months ended 30 September 2013

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

Notes to the Condensed Financial Statements

For the six months ended 30 September 2013

4 Segment Information (Continued)

	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 HK$'000 (unaudited)	2012 HK$'000 (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

Notes to the Condensed Financial Statements

For the six months ended 30 September 2013

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 (note 16)	**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

Notes to the Condensed Financial Statements

For the six months ended 30 September 2013

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.

Notes to the Condensed Financial Statements

For the six months ended 30 September 2013

10 Dividends

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

	Six months ended 30 September 2013 HK$'000 (unaudited)	2012 HK$'000 (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 HK$'000 (unaudited)	2012 HK$'000 (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 HK$'000 (unaudited)	2012 HK$'000 (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.

Notes to the Condensed Financial Statements

For the six months ended 30 September 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 Property, Plant and Equipment

During the six months ended 30 September 2013, the Group acquired property, plant and equipment with a cost of approximately HK$31,697,000 (30 September 2012: HK$22,013,000).

Notes to the Condensed Financial Statements

For the six months ended 30 September 2013

13 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 (note 20(b))	**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

Notes to the Condensed Financial Statements

For the six months ended 30 September 2013

14 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 (note 20(b))	**2**	2
Amounts due to related companies (note 20(b))	**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

15 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

Notes to the Condensed Financial Statements

For the six months ended 30 September 2013

16 Convertible Note

The Company has issued convertible note ("CN") with face value of HK$250,000,000 to Ms. Tsang on 10 January 2012 to settle the consideration for the Company's acquisition of the entire equity interest in Zegna Management Limited. Ms. Tsang is entitled to convert the CN in whole or in part (in the amount not less than a whole multiple of HK$1,000,000 or if the remaining outstanding amount of the CN is in a lesser amount, such lesser amount) into new ordinary shares of the Company at the conversion price of HK$1.05 per share at any time between the date of issue of the CN and 9 January 2017. No conversion right attached to the CN may be exercised if following such exercise, the public float of the Company will fall below the minimum requirement as prescribed under the Listing Rules. The value of the CN which remains outstanding on the maturity date shall be automatically converted into the new ordinary shares of the Company at the then prevailing conversion price. However, in the event that such conversion would result in the Company's failure to comply with the public float requirement as prescribed under the Listing Rules, there shall not be any conversion in respect of such value of the CN and the balance of the CN not converted into the shares of the Company, shall be redeemed by the Company at a redemption amount equals to 100% of the value of the said balance of the CN.

The CN bears interest at 2% per annum and shall be payable annually on each 31 March.

Upon the issuance, the value of the CN has been split into the liability component and the equity component of HK$19,374,000 and HK$230,626,000 respectively.

On 6 March 2012, CN with face value of HK$158,000,000 were converted into 150,476,190 ordinary shares of the Company. The equity component of the CN was decreased to HK$84,870,000 upon the conversion.

Movements of the liability component are as follows:

	At 30 September 2013 HK$'000 (unaudited)	At 31 March 2013 HK$'000 (audited)
Liability component at 1 April 2013/1 April 2012	**6,996**	7,276
Interest charged	**249**	618
Interest paid	**(1,840)**	(898)
Liability component at 30 September 2013/ 31 March 2013	**5,405**	6,996
Less: Amount due within one year	**(1,840)**	(3,680)
Amount due over one year	**3,565**	3,316

The interest charged for the six months ended is calculated by applying an effective interest rate of 9.15% to the liability component of the CN.

Notes to the Condensed Financial Statements

For the six months ended 30 September 2013

17 Share Capital

	At 30 September 2013		At 31 March 2013	
	No. of shares (unaudited)	**HK$'000 (unaudited)**	No. of shares (audited)	HK$'000 (audited)
Authorised:				
Ordinary shares of $0.1 each	**10,000,000,000**	**1,000,000**	10,000,000,000	1,000,000
Issued and fully paid:				
Ordinary shares of $0.1 each	**873,996,190**	**87,400**	873,996,190	87,400

18 Commitments

(a) Operating Lease Commitments

At 30 September 2013, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	At 30 September 2013 HK$'000 (unaudited)	At 31 March 2013 HK$'000 (audited)
Not later than one year	**176,164**	151,678
Later than one year and not later than five years	**122,082**	91,800
Over five years	**35**	404
	298,281	243,882

(b) Capital Commitments

Capital commitments outstanding at the end of the reporting period not provided for in the condensed financial statements are as follows:

	At 30 September 2013 HK$'000 (unaudited)	At 31 March 2013 HK$'000 (audited)
Contracted but not yet provided for:		
– Acquisition of plant and equipment	**6,457**	13,370

19 Contingent Liabilities

During the course of business, the Group has received complaints and claims concerned with the provision of beauty services in respect of breach of contract, content of advertisement and personal injuries in relation to the services provided, including claims of insignificant or unspecified amounts. The directors are of the opinion that such complaints and claims are remote and have no material financial impact to the Group.

Notes to the Condensed Financial Statements

For the six months ended 30 September 2013

20 Material Related Party Transactions and Balances

(a) Material Related Party Transactions

In addition to those related party transactions disclosed elsewhere in the condensed financial statements, the Group had the following material transactions with its related parties during the period:

	Note	Six months ended 30 September 2013 HK$'000 (unaudited)	2012 HK$'000 (unaudited)
Rental expenses paid to related companies:			
All Link International Limited	(i)	**336**	53
East Union Industries Limited	(i)	**744**	744
Golden National Limited	(i)	**3,900**	3,900
Joy East Limited	(i)	**276**	276
Luck Elegant Industrial Limited	(i)	**390**	390
Lucky Forever Limited	(i)	**6,571**	2,300
United Industries Limited	(i)	**1,901**	1,406
Well Faith International Enterprise Limited	(i)	**5,551**	5,551
Wise World Limited	(i)	**804**	804
		20,473	15,424
Interest charge on convertible note issued to ultimate controlling party:			
Ms. Tsang		**249**	327
Salaries and other benefits in kind paid to related parties:			
Related party A	(ii)	**736**	794
Related party B	(iii)	**626**	626
Related party C	(iii)	**17**	76
Related party D	(iv)	**230**	223
		1,609	1,719

Notes to the Condensed Financial Statements

For the six months ended 30 September 2013

20 Material Related Party Transactions and Balances (Continued)

(a) Material Related Party Transactions (Continued)

Notes:

(i) The amounts represented rental expenses paid for areas leased from related companies for use as office, retail shops, beauty service centres, warehouses and staff quarters at a monthly rental mutually agreed by both parties. The related companies are controlled by Ms. Tsang.

(ii) Related party A is the spouse of Ms. Tsang.

(iii) Related party B and C are the sons of Ms. Tsang.

(iv) Related party D is the spouse of a director, Mr. Yip Kai Wing.

(b) Balances With Related Parties

The amounts are unsecured, interest free and repayable on demand. The related companies are controlled by Ms. Tsang.

(c) Key Management Personnel Compensation

	Six months ended 30 September	
	2013	2012
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Fees	**510**	390
Salaries and allowances	**11,083**	10,100
Retirement benefit scheme contributions	**56**	51
Equity-settled share-based payments	**29**	18
	11,678	10,559

21 Approval of Interim Financial Statements

The interim financial report was approved and authorised for issue by the Board of Directors on 25 November 2013.

MODERN BEAUTY SALON HOLDINGS LIMITED

現代美容控股有限公司

Stock Code 股份代號:919

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