MODERN BEAUTY SALON HOLDINGS LIMITED

現代美容控股有限公司

Stock Code 股份代號：919

Interim Report 2014/2015

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

- 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 under review 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.
- 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 approximately 295,000 square feet.
- 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.

Chairperson's Statement

I hereby present the interim results of Modern Beauty Salon Holdings Limited (the "Company") and its subsidiaries (the "Group") for the six months ended 30 September 2014 (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, due to prolonged period of dedication and accumulation of experience for over 20 years in delivering high quality services by our professional team, the Group was able to meet different challenges in the market and achieved a satisfactory business performance. As at 30 September 2014, our clientele in Hong Kong expanded to approximately 363,000, which represents an 8.2% increase as compared to approximately 335,500 over the same period last year. Turnover of the Group increased by 5.7% to HK$458,685,000 as compared to the same period last year due to the surge in the number of customers and rising demand for prepaid beauty packages arising from the strong confidence in the Group's operations.

During the period under review, the Group's renowned reputation and customer loyalty alongside our increased marketing efforts contributed to our service revenue in Hong Kong of HK$333,180,000, representing an increase of 7.8%, as compared to the same period last year. Such results suggest that the industry outlook for the beauty and wellness services segment is encouraging with sustainable growth. It is noteworthy that turnover from our male line of beauty and facial services has grown substantially during the period under review by 21.0% to HK$32,485,000. It is reasonably foreseeable that the Group would continue exploring the male market for beauty services and products with great potential. Growth in beauty product revenue is also optimistic as it increased by 25.8% to HK$21,561,000 as compared to the same period last year, which would be further developed with our upcoming projects to enhance our product line capability.

Chairperson's Statement

Hong Kong

The Hong Kong market continues to be the Group's primary turnover contributor due to unceasing efforts of development resulting in long term rapport and trust from a gigantic customer base. Owing to higher expectations by consumers regarding standards in beauty and facial and slimming services, the Group established the Beauty Expert International College in 2002 and has nurtured many high quality staff with professional qualifications. Also, continued on-the-job training is offered to allow them to catch up with the latest market trends and new products and services. The Group has been dedicated to selling only those skincare products made from safe ingredients and in compliance with international standards, all goods are strictly controlled and imported from either Europe or Australia.

The Group adheres to the policy of consolidation and restructuring of service centres upon expiry of lease term. We hope that such policy would achieve cost control on one hand and benefit customer in the long run by dedicating more resources to product development and service upgrade.

The Group has also seen favourable consumer response to our growing wedding and family photography business with our in-house photographers and stylists which can accommodate the different needs of clients.

Mainland China

In light of the rapid changes in Mainland China's consumer marketplace and the continued risk of inflation impacting operating costs, the Group will remain cautious and adopt a prudent development strategy regarding its Mainland China business development.

During the period under review, our service revenue and receipts from prepaid beauty packages in Mainland China amounted to HK$14,706,000 and HK$14,298,000 respectively.

Our brand name has secured a prominent business presence in Mainland China with well-established foundation in Beijing, Shanghai and Guangzhou with nine service centres. During the period under review, Chairperson's Statement

we have teamed up with a partner to set up a factory in Dongguan. The factory is expected to commence operation early next year. We aim to further develop skincare and wellness products business by utilizing foreign raw materials and then filling and packaging in the factory. The Group will continue to look for other business partners to expand our market share in Mainland China.

Singapore and Malaysia

Singapore and Malaysia are good and stable markets for our business expansion demonstrating sufficient business potential with different age groups. Gradually improved economic conditions in the two markets had helped the Group's operations and further boosted the Group's high-quality beauty services. The Group operates a total of 17 beauty and wellness services in Singapore and Malaysia. During the period under review, our Singapore and Malaysia operations reported a turnover of HK$90,786,000. Receipts from sales of prepaid beauty packages and revenue from services rendered experienced steady growth and amounted to HK$58,116,000 and HK$87,859,000 respectively.

The Group will continue to carry out its local business development prudently and to ensure its service quality. The Group will remain vigilant in monitoring market development and pursue business expansion of its beauty and facial and slimming services and product sales business when appropriate opportunity arises to strengthen and enhance our brand status and brand awareness.

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.

During the period under review, the Group continued to pursue steady business growth on prudent development strategy. In July 2014, 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 paves the way for strengthening our wholesales and/or retail business in various markets

Chairperson's Statement

such as Europe, Australia, Middle-East, Mainland China and Southeast Asia and stretches the territorial sphere of our product business to yield higher returns to the shareholders of the Company.

With emphasis and top priority on quality control and safety standards in respect of our products and services upheld by the Group since inception, we managed to maintain the first-class brand recognition throughout the period under review. Despite our painstaking efforts to improve our services and products, we are fully aware of the challenging operating environment occasioned by high labor costs and escalating rental expenses particularly in Hong Kong. More business uncertainties arise due to civil defiance occupancy activities occurred in some districts in Hong Kong since late September 2014. Nonetheless, we would closely monitor the latest development and adopt suitable business strategy.

Appreciation

I strongly believe that customer-oriented service with holistic care and staff professionalism are indispensable elements to the continued growth of the Group. I would like to take this opportunity to express my gratitude to the management team and staff of the Group for their invaluable contribution to the Group, and to customers and shareholders of the Company for their long-lasting support towards the Group during the period under review. For the foreseeable future, the Group will continue to fulfill its mission in providing professional beauty services and to adopt prudent and progressive businesses development strategy to achieve long-term growth.

Ms. Tsang Yue Joyce
Chairperson and Chief Executive Officer

Hong Kong, 28 November 2014

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) of the age group from 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 group 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 centres 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 provided wedding and family photography service 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 tissues 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 tissues 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 brands, 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 revenue 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 Mainland 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 revenue and receipts from prepaid beauty packages in Mainland China amounted to HK$14,706,000 and HK$14,298,000 respectively, representing a decrease of 11.3% and 11.1% respectively, 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 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 the second and third tier cities, it is time to grasp the ample business opportunities out there. Plans to open more stores in 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 Mainland China, the factory serves to import raw materials of skincare products from Europe, Australia and other different parts of the world into Mainland China, and then carry out filling and packaging in the factory. As a result, the procedure of importing foreign skincare products into 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 service centres in Singapore and Malaysia. During the period under review, our Singapore and Malaysia operations reported a turnover of HK$90,786,000. Receipts from sales of prepaid beauty packages

Management Discussion and Analysis

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% 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 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 women 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% to HK$26,937,000 compared to the same period last year. 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 the development of varieties of products that suit our customer needs.

Management Discussion and Analysis

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 the 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 staffs' 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 for the same period 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
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 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.

Management Discussion and Analysis

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 Mainland China and 188 in other Southeast Asian regions (Singapore, Malaysia and Taiwan). Back office staff totaled 137 in Hong Kong, 22 in 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 2014, 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, 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 of the Company.

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 Mainland China, the factory serves to import raw materials of skincare products from Europe, Australia and other different parts of the world into Mainland China, and then carry out filling and packaging in the factory. As a result, the procedure of importing foreign skincare products into Mainland China will be speeded 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 renewed the ambassador contract with Champion of Miss Hong Kong Pageant Ms. 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 wants to convey to the public for years.

At the end of September 2014, 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.

Corporate Information

Board of Directors
Ms. Tsang Yue, Joyce (Chairperson)
Mr. Yip Kai Wing
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. Yip Kai Wing
Ms. Yeung See Man

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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Kowloon Bay
Kowloon
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Auditor
KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central
Hong Kong

Share Registrar and Transfer Office
Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

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

Standard Chartered Bank (Hong Kong) Limited
4-4A Des Voeux Road Central
Hong Kong

Stock Code
919

Investors Relation
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Website
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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 2014, 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 Share Capital 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 2014 (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 2014, 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 2014, 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 Share Capital 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 Elite	Custodian corporation/approved lending agent	60,764,000	–	60,764,000	6.95%

Corporate Governance and Other Information

Notes:

1. The percentage has been compiled based on the total number of shares of the Company in issue as at 30 September 2014 (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 2014.

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 fulltime 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 2014	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 2014	Date of grant	Period during which options are exercisable	Exercise price	Approximate percentage of share per issued share (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	–	–	(25,000)	1,350,000	23/10/2006	23/10/2010 to 22/10/2016	HK$1.33	0.15%
Others	1,925,000	–	–	(35,000)	1,890,000	23/10/2006	23/10/2014 to 22/10/2016	HK$1.33	0.22%
Others	2,200,000	–	–	(40,000)	2,160,000	23/10/2006	23/10/2015 to 22/10/2016	HK$1.33	0.25%
Total	6,300,000	–	–	(100,000)	6,200,000				

Note:

1. The relevant percentages are calculated by reference to the shares in issue on 30 September 2014 (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 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.

By Order of the Board
Modern Beauty Salon Holdings Limited

Tsang Yue, Joyce
Chairperson and Chief Executive Officer

Hong Kong, 28 November 2014

Review Report

KPMG

Review report to the Board of Directors of Modern Beauty Salon Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

We have reviewed the interim financial report set out on pages 23 to 42 which comprises the consolidated statement of financial position of Modern Beauty Salon Holdings Limited (the "Company") as of 30 September 2014 and the related consolidated statement of profit or loss, statement of profit or loss and other comprehensive income and statement of changes in equity and condensed consolidated cash flow statement for the six month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 September 2014 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, *Interim financial reporting.*

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

Consolidated Statement of Profit or Loss

For the six months ended 30 September 2014

	Note	**Six months ended 30 September 2014** HK$'000 (unaudited)	2013 HK$'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 profit of an associate		**55**	–
Share of loss 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

The notes on pages 29 to 42 form part of this interim financial report. Details of dividends payable to equity shareholders of the Company are set out in note 17(a).

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 September 2014

	Six months ended 30 September 2014 HK$'000 (unaudited)	2013 HK$'000 (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

The notes on pages 29 to 42 form part of this interim financial report.

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	10	**139,916**	148,986
Interest in an associate		**57**	–
Interest in a joint venture	11	**5,003**	–
Deposits	12	**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	12	**236,541**	238,818
Tax recoverable		**17,428**	16,124
Pledged bank deposits		**52,189**	52,170
Cash and bank balances	13	**448,633**	440,850
		778,892	771,364
Current liabilities			
Trade and other payables, deposits received and accrued expenses	14	**98,398**	91,955
Deferred revenue	15	**638,498**	688,451
Convertible note	16	**1,840**	3,680
Dividend payable	17(a)	**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

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 liabilities			
Convertible note	16	2,137	1,948
Deferred tax liabilities		2,691	2,231
Purchase consideration payable for an acquisition	18(b)	5,182	–
		10,010	4,179
NET ASSETS		174,421	145,305
CAPITAL AND RESERVES			
Share capital	17(b)	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

The notes on pages 29 to 42 form part of this interim financial report.

Consolidated Statement of Changes in Equity

For the six months ended 30 September 2014

		(Unaudited) Attributable to equity shareholders of the Company										
	Note	Share capital HK$'000	Share premium HK$'000	Share-based compensation reserve HK$'000	Warrants reserve HK$'000	Merger reserve HK$'000	Exchange reserve HK$'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 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 dividends paid	17(a)	–	–	–	–	–	–	–	(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
Balance at 1 April 2014		**87,400**	**289,999**	**4,384**	**170**	**(374,921)**	**1,272**	**84,870**	**52,072**	**145,246**	**59**	**145,305**
Changes in equity for the six months ended 30 September 2014:												
Profit for the period		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**45,498**	**45,498**	**(2)**	**45,496**
Other comprehensive income												
– Exchange differences on translation of subsidiaries		**-**	**-**	**-**	**-**	**-**	**1,115**	**-**	**-**	**1,115**	**-**	**1,115**
– Exchange differences on translation of a joint venture		**-**	**-**	**-**	**-**	**-**	**(247)**	**-**	**-**	**(247)**	**-**	**(247)**
Total comprehensive income		**-**	**-**	**-**	**-**	**-**	**868**	**-**	**45,498**	**46,366**	**(2)**	**46,364**
Share-based payments		**-**	**-**	**227**	**-**	**-**	**-**	**-**	**-**	**227**	**-**	**227**
Lapse of share options		**-**	**-**	**(73)**	**-**	**-**	**-**	**-**	**73**	**-**	**-**	**-**
Decrease in the Group's interests in a subsidiary		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(5)**	**(5)**	**5**	**-**
Acquisition of a subsidiary		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**5**	**5**
2014 final dividends declared	17(a)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(17,480)**	**(17,480)**	**-**	**(17,480)**
Balance at 30 September 2014		**87,400**	**289,999**	**4,538**	**170**	**(374,921)**	**2,140**	**84,870**	**80,158**	**174,354**	**67**	**174,421**

The notes on pages 29 to 42 form part of this interim financial report.

Condensed Consolidated Cash Flow Statement

For the six months ended 30 September 2014

	Note	Six months ended 30 September 2014 HK$'000 (unaudited)	2013 HK$'000 (unaudited)
Operating activities			
Cash generated from operations		**38,321**	44,269
Tax paid		**(16,296)**	(843)
Net cash generated from operating activities		**22,025**	43,426
Investing activities			
Purchase of property, plant and equipment		**(13,591)**	(27,822)
Other cash flows arising from investing activities		**(716)**	(4,985)
Net cash used in investing activities		**(14,307)**	(32,807)
Financing activities			
Cash flows arising from financing activities		**(1,840)**	(1,850)
Net cash used in financing activities		**(1,840)**	(1,850)
Net increase in cash and cash equivalents		**5,878**	8,769
Cash and cash equivalents at beginning of period	13	**440,850**	481,249
Effect of foreign exchange rates changes		**936**	(1,453)
Cash and cash equivalents at end of period	13	**447,664**	488,565

The notes on pages 29 to 42 form part of this interim financial report.

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 interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the HKICPA. KPMG's independent review report to the Board of Directors is included on page 22.

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.

Notes to the Unaudited Interim Financial Report

For the six months ended 30 September 2014

3 New and Changes in Accounting Policies (Continued)

(a) Associates and Joint Ventures (Continued)

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.

Notes to the Unaudited Interim Financial Report

For the six months ended 30 September 2014

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

Notes to the Unaudited Interim Financial Report

For the six months ended 30 September 2014

4 Segment Information (Continued)

(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 profit of an associate	**55**	–
Share of loss 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 HK$'000 (unaudited)	2013 HK$'000 (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 HK$'000 (unaudited)	2013 HK$'000 (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

Notes to the Unaudited Interim Financial Report

For the six months ended 30 September 2014

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 (note 16)	**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.

Notes to the Unaudited Interim Financial Report

For the six months ended 30 September 2014

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 under review.

(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 (note 16)	**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 Property, Plant and Equipment

During the six months ended 30 September 2014, the Group acquired property, plant and equipment with a cost of approximately HK$15,887,000 (30 September 2013: HK$31,697,000).

11 Interest in a Joint Venture

During the period under review, the Group entered into agreements with an individual ("the seller") to acquire 49% equity interest in an entity, which is incorporated in Australia, ("the joint venture") with a subsequent acquisition of an additional 2% equity interest in the joint venture in 2016.

Notes to the Unaudited Interim Financial Report

For the six months ended 30 September 2014

11 Interest in a Joint Venture (Continued)

Pursuant to the agreements, the consideration for the acquisition of the 49% equity interest comprises a cash consideration of AUD1 (equivalent to HK$7) payable immediately and a further contingent amount to be settled in 2018 (if applicable) depending upon the fulfilment of certain pre-determined conditions. In connection with the acquisition, the joint venture acquired the beauty and skincare businesses from another Australian entity, which is wholly owned by the seller. The principal activities of the joint venture are the manufacturing and trading of beauty and wellness products.

As the financial and operational processes of the entity require the unanimous consent of the Group and the individual, this investment has been accounted for as a joint venture under HKFRS 11, *Joint Arrangements*, as at 30 September 2014.

As determined by an independent valuer, the fair value of the Group's share of the acquired business (including tangible and intangible assets, and goodwill) of the joint venture was AUD733,000 (equivalent to HK$5,320,000) as at 30 July 2014, the effective date of the acquisition. The purchase price allocation is not finalised as at 30 September 2014. After adjusting the Group's share of the post-acquisition loss of HK$70,000 and exchange loss arising from currencies translation of the joint venture of HK$247,000, the interest in the joint venture was HK$5,003,000 as at 30 September 2014.

The fair value of the additional 2% equity interest in the joint venture was AUD32,000 (equivalent to HK$228,000) which has been recognised under "Trade and other receivables, deposits and prepayments".

12 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 (note 21(b))	**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.

Notes to the Unaudited Interim Financial Report

For the six months ended 30 September 2014

12 Trade and Other Receivables, Deposits and Prepayments (Continued)

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.

13 Cash and Bank Balances

	At 30 September 2014 HK$'000 (unaudited)	At 31 March 2014 HK$'000 (audited)
Cash at bank and in hand	**297,908**	290,988
Short-term bank deposits	**149,756**	149,862
Cash and cash equivalents	**447,664**	440,850
Fixed deposit with bank with maturity over three months	**969**	–
Cash and bank balances	**448,633**	440,850

14 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 (note 21(b))	**2**	2
Amounts due to related companies (note 21(b))	**89**	87
	98,398	91,955

Notes to the Unaudited Interim Financial Report

For the six months ended 30 September 2014

14 Trade and Other Payables, Deposits Received and Accrued Expenses (Continued)

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

15 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

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.

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For the six months ended 30 September 2014

16 Convertible Note (Continued)

Movements of the liability component are as follows:

	At 30 September 2014 HK$'000 (unaudited)	At 31 March 2014 HK$'000 (audited)
Liability component at 1 April 2014/1 April 2013	**5,628**	6,996
Interest charged	**189**	472
Interest paid	**(1,840)**	(1,840)
Liability component at 30 September 2014/31 March 2014	**3,977**	5,628
Less: Amount due within one year	**(1,840)**	(3,680)
Amount due more than one year but within five years	**2,137**	1,948

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.

The directors consider that the carrying amount of the liability component of the CN at 30 September 2014 of $3,977,000 (31 March 2014: $5,628,000) is not materially different from its fair value at that date.

17 Capital, Reserves and Dividends

(a) Dividends

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

	Six months ended 30 September 2014 HK$'000 (unaudited)	2013 HK$'000 (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.

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

	Six months ended 30 September 2014 HK$'000 (unaudited)	2013 HK$'000 (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

Notes to the Unaudited Interim Financial Report

For the six months ended 30 September 2014

17 Capital, Reserves and Dividends (Continued)

(b) Share Capital

	At 30 September 2014		At 31 March 2014	
	No. of shares	Amount HK$'000	No. of shares	Amount HK$'000
	(unaudited)	(unaudited)	(audited)	(audited)
Authorised:				
Ordinary shares of HK$0.1 each	**10,000,000,000**	**1,000,000**	10,000,000,000	1,000,000
Issued and fully paid:				
Ordinary shares of HK$0.1 each	**873,996,190**	**87,400**	873,996,190	87,400

On 21 May 2013, the Company and two independent third parties entered into two subscription agreements in respect of the placement of 42,500,000 unlisted warrants of the Company to each subscriber at a price of HK$0.002 per warrant. Each warrant confers the right to subscribe for one ordinary share of the Company of HK$0.1 each at a subscription price of HK$1.05 at anytime during a period of 36 months commencing from the date of issue of the warrant, subject to adjustment upon occurrence of certain events. The placement was completed on 21 June 2013 with the warrants expiring on 20 June 2016. No warrants were exercised during the period under review.

18 Fair value measurement of financial instruments

Financial assets and liabilities measured at fair value

(a) Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date

- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available

- Level 3 valuations: Fair value measured using significant unobservable inputs

	Fair value at 30 September 2014 HK$'000	Fair value measurements as at 30 September 2014 categorised into Level 3 HK$'000
Recurring fair value measurement		
Financial liability:		
Purchase consideration payable for an acquisition	**5,182**	**5,182**

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For the six months ended 30 September 2014

18 Fair value measurement of financial instruments (Continued)

Financial assets and liabilities measured at fair value (Continued)

(b) Information above Level 3 fair value measurements

As mentioned in note 11 in respect of the acquisition, the fair value of the contingent consideration was AUD765,000 (equivalent to HK$5,548,000) and is recognised as a financial liability under "Purchase consideration payable for an acquisition".

The fair value of purchase consideration payable for an acquisition is determined by an independent external valuer based on the latest financial forecast of the joint venture and other relevant information.

The movements during the period under review in the balance of Level 3 fair value measurements are as follows:

	2014 HK$'000
Purchase consideration payable for an acquisition:	
At 1 April	–
Acquisition of a joint venture	5,548
Foreign exchange difference	(366)
At 30 September	5,182
Gain for the period included in profit or loss for liability held at the end of the reporting period	366

19 Commitments

(a) Operating Lease Commitments

At 30 September 2014, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	At 30 September 2014 HK$'000 (unaudited)	At 31 March 2014 HK$'000 (audited)
Not later than one year	144,491	128,081
Later than one year and not later than five years	156,169	94,468
	300,660	222,549

(b) Capital Commitments

Capital commitments outstanding at 30 September 2014 not provided for in the consolidated financial statements are as follows:

	At 30 September 2014 HK$'000 (unaudited)	At 31 March 2014 HK$'000 (audited)
Contracted but not yet provided for:		
– Acquisition of plant and equipment	7,995	5,229

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For the six months ended 30 September 2014

20 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, tenancy dispute and personal injuries in relation to the services provided, including claims of insignificant or unspecified amounts. The directors are of the opinion that the loss or settlement for such complaints and claims have no material financial impact to the Group.

21 Material Related Party Transactions and Balances

(a) Material Related Party Transactions

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

	Note	Six months ended 30 September 2014 HK$'000 (unaudited)	2013 HK$'000 (unaudited)
Rental expenses paid to related companies:	(i)		
– All Link International Limited		**184**	336
– East Union Industries Limited		**826**	744
– Golden National Limited		**4,498**	3,900
– Joy East Limited		**367**	276
– Luck Elegant Industrial Limited		**413**	390
– Lucky Forever Limited		**8,782**	6,571
– United Industries Limited		**4,234**	1,901
– Well Faith International Enterprise Limited		**6,931**	5,551
– Wise World Limited		**918**	804
		27,153	20,473
Rental income received from a related company:	(ii)		
– Grateful Heart Charitable Foundation Limited		**268**	–
Interest charge on convertible note issued to ultimate controlling party:			
– Ms. Tsang		**189**	249
Salaries and other benefits in kind paid to related parties:			
– Related party A	(iii)	**898**	736
– Related party B	(iv)	**739**	626
– Related party C	(iv)	**–**	17
– Related party D	(v)	**243**	230
		1,880	1,609

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For the six months ended 30 September 2014

21 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. Ms. Tsang is the ultimate controlling party of the related companies.

(ii) The amount represented rental income received for area leased to a related company for use as office at a monthly rental mutually agreed by both parties. Ms. Tsang is the member of the related company.

(iii) Related party A is the spouse of a director, Ms. Tsang.

(iv) Related party B and C are the sons of a director, Ms. Tsang.

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

(b) Balances With Related Parties

The amounts due from/to related companies and the ultimate controlling party are unsecured, interest free and recoverable/repayable on demand. Ms. Tsang is the ultimate controlling party of those related companies.

(c) Key Management Personnel Compensation

	Six months ended 30 September	
	2014	2013
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Fees	**510**	510
Salaries and allowances	**5,594**	11,083
Retirement benefit scheme contributions	**51**	56
Equity-settled share-based payments	**29**	29
	6,184	11,678

22 Approval of Interim Financial Statements

The interim financial report was approved and authorised for issue by the Board of Directors on 28 November 2014.

MODERN BEAUTY SALON HOLDINGS LIMITED

現代美容控股有限公司

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