



MODERN
BEAUTY SALON
HOLDINGS LIMITED

現代美容控股有限公司

(HKSE Stock Code 香港聯交所上市編號：919)

Interim Report 2006/07 中期報告



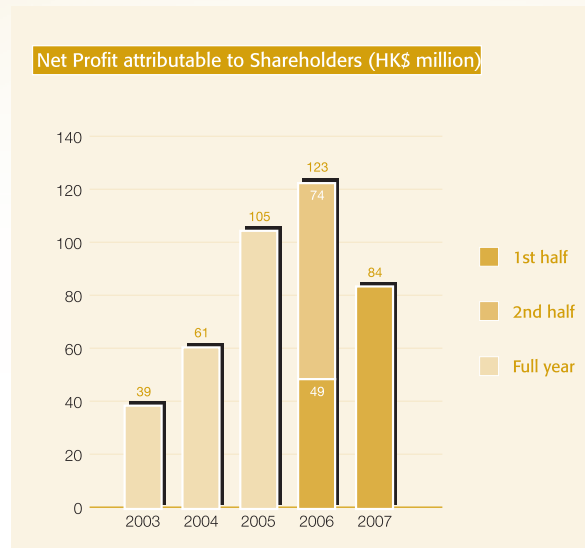
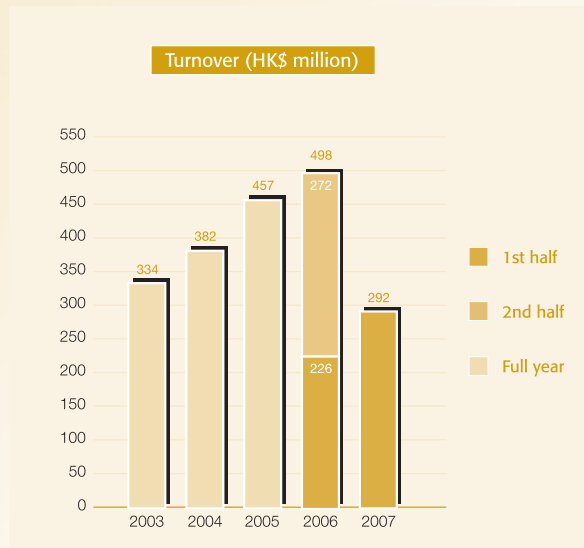


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FINANCIAL AND OPERATION HIGHLIGHTS



Operating Results

Turnover	291,696	225,849	↑29.2%
Profit before taxation	99,225	58,967	↑68.3%
Net profit attributable to shareholders	83,923	49,086	↑71.0%
Net profit margin	28.8%	21.7%	↑7.1% points

(Unaudited)
For the six months ended
30 September

2006 HK\$'000	2005 HK\$'000	Change
291,696	225,849	↑29.2%
99,225	58,967	↑68.3%
83,923	49,086	↑71.0%
28.8%	21.7%	↑7.1% points

Financial Position

Net cash generated from operating activities	53,883	75,529	↓28.7%
Net cash outflow for capital expenditure	24,743	29,698	↓16.7%
Cash and cash equivalents	609,026	273,231	↑122.9%

(Unaudited)
For the six months ended
30 September

2006 HK\$'000	2005 HK\$'000	Change
53,883	75,529	↓28.7%
24,743	29,698	↓16.7%
609,026	273,231	↑122.9%

2006	2005	Change
HK11.66 cents	HK9.09 cents	↑28.3%
HK8.0 cents	N/A	N/A

2006	2005	Change
245,000	215,000	↑14.0%
22	13	↑69.2%
166,000	142,000	↑16.9%

Per Share Data

Basic earnings per share	HK11.66 cents	HK9.09 cents	↑28.3%
Interim and special dividend per share	HK8.0 cents	N/A	N/A

Operation Information

Average total gross floor area (square feet)	245,000	215,000	↑14.0%
Number of service centres	22	13	↑69.2%
Number of customers	166,000	142,000	↑16.9%



CORPORATE INFORMATION

BOARD OF DIRECTORS

Ms. Tsang Yue, Joyce (*Chairperson*)
Mr. Lee Soo Ghee (*Vice Chairperson*)
Ms. Yuen Siu Ping
Mr. Hung Fan Kwan
Mr. Yip Kai Wing
Mr. Wong See Hong (*Independent Non-executive Director*)
Mr. Yu How Yuen (*Independent Non-executive Director*)
Mr. Cheng Kai Tai, Allen (*Independent Non-executive Director*)

AUTHORISED REPRESENTATIVES

Mr. Hung Fan Kwan
Mr. Hui Hon Wa

COMPANY SECRETARY

Mr. Hui Hon Wa, LL.B.

QUALIFIED ACCOUNTANT

Mr. Hung Fan Kwan, FCPA, FCCA

MEMBERS OF AUDIT COMMITTEE

Mr. Yu How Yuen (*Chairperson*)
Mr. Wong See Hong
Mr. Cheng Kai Tai, Allen

MEMBERS OF REMUNERATION COMMITTEE

Ms. Tsang Yue, Joyce (*Chairperson*)
Mr. Yu How Yuen
Mr. Wong See Hong
Mr. Cheng Kai Tai, Allen

MEMBERS OF NOMINATION COMMITTEE

Ms. Tsang Yue, Joyce (*Chairperson*)
Mr. Yu How Yuen
Mr. Wong See Hong
Mr. Cheng Kai Tai, Allen

REGISTERED OFFICE

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PO Box 309 GT
Ugland House
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George Town
Grand Cayman
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

6th Floor
Sino Industrial Plaza
9 Kai Cheung Road
Kowloon Bay
Kowloon
Hong Kong

AUDITORS

PricewaterhouseCoopers
Certified Public Accountants
22nd Floor
Prince's Building
Central
Hong Kong

SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
26th Floor
Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
1 Queen's Road Central
Hong Kong
American Express Bank
One Pacific Place
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STOCK CODE

The Stock Exchange of Hong Kong Limited: 919

INVESTOR RELATIONS

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CHAIRPERSON'S STATEMENT

On behalf of the Board of Directors (the "Board" or the "Directors"), I am pleased to present the interim results of Modern Beauty Salon Holdings Limited and its subsidiaries (the "Group") for the six months ended 30 September 2006.

Financial Performance

The Group recorded satisfactory performance for the first half of the year 2006/2007. The Group's total turnover reached HK\$291.7 million for the six month ended 30 September 2006, a significant increase of 29.2% compared to HK\$225.8 million in the corresponding period last year. Net profit attributable to shareholders increased to HK\$83.9 million, representing a remarkable growth of 71.0% compared to HK\$49.1 million in the previous corresponding period.

Basic earnings per share for the six months ended 30 September 2006 increased by 28.3% to HK11.66 cents. In view of our strong cash flow and as an appreciation to our shareholders for their continuous support, the Board has declared to pay a dividend of HK8.0 cents per share which includes the interim dividend of HK7.0 cents and the special dividend of HK1.0 cent, representing a dividend payout ratio of approximately 69%.

Business Review

The Group further expanded its service network to the newly-developed and populated residential districts in Hong Kong during the period. Five new service centres located in Tseung Kwan O, Aberdeen, Happy Valley, Sha Tin, and Mongkok commenced operations during the period, bringing the Group's total number of service centres to 22 as at 30 September 2006 with average total gross floor area of approximately 245,000 square feet. The extension of our service network towards these new locations not only provided added convenience to our existing customers who reside nearby these new centres, but also attracted new customers from the residential district segment.

Our customer base recorded a satisfactory growth of 16.9% with 166,000 customers as of 30 September 2006 compared to 142,000 customers for the same period last year. With the increasing popularity of men's salon services and our increased efforts to promote the men's salon services in the second quarter of 2006, we have registered approximately 6,300 male customers as at 30 September 2006.

The Group continues its efforts to establish its presence in the Mainland China market. We have also kick-started the set up of our own service centres in major cities in Mainland China including two locations in Beijing and one each in Guangzhou and Shanghai during the period under review. Total gross floor area will be approximately 32,800 square feet.

During the first half of the financial year 2006/07, we have initiated the service enhancement program to upgrade our service quality. Subsequent to the launch of the online real-time booking system and IVRS customer service hotline together with the support of our reinforced customer services team, we are pleased to report overall improvement of our operational efficiency and increased customer consumption of our different services. We will continue to strive to boost customer loyalty and satisfaction.

After our successful listing on the Main Board of the Stock Exchange of Hong Kong on 9 February 2006, we have placed continuous efforts to enhance corporate transparency and maintain regular communications with the investing community to keep them abreast of the Group's latest development. It is encouraging that our efforts have recently been recognised with the Group being highly commended for the "Best Investor Relations for an IPO in the Hong Kong market" in 2006 organised by IR Magazine.



Outlook

The quick pace and intense pressure of city life has attributed to a continual demand for quality beauty and healthcare services in Hong Kong as well as in Mainland China. We also witness a growing trend for the demand of men's beauty treatment which is being viewed as a trendy lifestyle for those who are conscious of their look and appearance. On the back of this demand, the Group is confident of a promising outlook of the growth of the beauty and healthcare services market. The Group is well positioned to capture the huge potential of the burgeoning men's beauty and healthcare segment.

The Group will continue to execute its network expansion plan targeting to open more service centres in prime commercial and residential districts in Hong Kong. Over the next two years, we plan to set up 20 spa and beauty centres in major cities in Mainland China including Beijing, Shanghai, Guangzhou and Shenzhen. Modern Beauty, leveraging on its strong brand recognition, expertise in developing quality beauty and healthcare services and experienced management team, is poised to seize this valuable opportunity to expedite its business development in the China's beauty services market.

Appreciation

I would like to express my sincere gratitude to our management team and our employees for their commitment and diligent work and to our customers and shareholders for their continuous support. We will make our best effort to expand our service network towards the Mainland China and even the region, with a view to maximise return for our shareholders.

TSANG YUE, JOYCE

Chairperson & Chief Executive Officer

Hong Kong, 13 December 2006



MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Hong Kong network expansion

The Group had made good progress in expanding its service network in the newly developed and highly-populated residential districts in Hong Kong during the six months ended 30 September 2006. We opened five new service centres at Tseung Kwan O, Sha Tin, Aberdeen, Happy Valley and Mongkok, expanding our service network to 22 service centres with average total gross floor area of approximately 245,000 square feet as of 30 September 2006. At the same time, we relocated our service centre at Admiralty Centre in Admiralty upon expiry of the tenancy agreement to Far East Financial Centre in the same district during the period.

To capture the growing demand for men's beauty services, the Group revamped four existing service centres to set up exclusive areas for serving male customers during the period. The Group has also established a new brand "Hey Man" to promote our men's salon services along with our existing "be homme" brand for men's skincare products.

The Group continued to record satisfactory growth in its customer base which reached 166,000 customers as of 30 September 2006, representing an increase of 16.9% compared to 142,000 customers as of 30 September 2005. With the launch of our men's salon services, the Group has registered approximately 6,300 male customers as of 30 September 2006.

	As at 30 September	
	2006	2005
Number of service centres	22	13
Average total gross floor area (sq. ft.)	245,000	215,000
Number of customers	166,000	142,000
Number of Staff		
➢ Frontline beauty staff	966	828
➢ Back office staff	267	154
Total:	<u>1,233</u>	<u>982</u>

Progress in China development

We have commenced the China expansion plan during the first half of the financial year 2006/07. Renovation of our Guangzhou service centre has been completed and operation will commence pending the final approval of the business license from relevant government authority. The Group has engaged a team of local frontline beauty staff who are being trained by our beauty instructors seconded from our Hong Kong service centres. In addition, the Group has rented two locations in Beijing and one location in Shanghai for the beauty service centre operations. Applications of the respective licenses are underway.

Service enhancement

With the introduction of our service enhancement program in early 2006, the Group has reinforced the customer service team and launched the online real-time booking system at the Modern Beauty website since June 2006. Our efforts were well received by our customers. Currently, over 6,700 customers have registered to use the online booking system and approximately 7% of the customers' bookings are made via the online booking system. There is an increasing trend of our customers using this booking channel. Additional booking channels backed by our customer service team will facilitate and encourage customers' booking and consumption of our services as well as enhancing the efficiency of the Group's operations. To further enhance the professional knowledge of our staff, the Company opened a new training centre during the period under review. The Company's two training centres offer continuous professional training programs to both our staff and the public.



Corporate image

The Group has placed much effort to enhance the corporate transparency and maintain continued communications with both the investing community and the media since our listing in February 2006. During the period under review, we have incorporated the most updated corporate information and operational progress on our website and we have also conducted regular communications with investors and the public through active participation in meetings, telephone conferences and road shows in Hong Kong, Mainland China and Singapore. Our efforts have gained recognition and the Group is highly commended for the “Best Investor Relations for an IPO in the Hong Kong market” in 2006 by the prestigious IR Magazine, a globally recognised investor relations magazine.

The Group continues to take part in different social and community services. In August 2006, we have donated HK\$200,000 to CSDCU Education Fund for the reconstruction of a school in Mainland China. In addition, we have collaborated with Joyful (Mental Health) Foundation to organise a series of charitable and fund-raising activities including the large-scale yoga exercise led by our spokesperson Ms. Choi Siu Fan Ada in a shopping plaza in Tsuen Wan, Hong Kong in November 2006.

FINANCIAL REVIEW

During the first half of the financial year 2006/07, the Group had a sound financial performance with a considerable growth in turnover, profit attributable to shareholders and net profit margin. The financial results for the six months ended 30 September 2006 are highlighted as follows:

	(Unaudited)		
	Six months ended		
	30 September		
	2006	2005	Change
	HK\$'000	HK\$'000	
Turnover	291,696	225,849	+29.2%
Other gains – net	16,331	10,215	+59.9%
Staff costs	(112,942)	(85,622)	+31.9%
Occupancy costs	(22,657)	(21,572)	+5.0%
Other operating expenses	(50,542)	(51,808)	-2.4%
Profit for the period attributable to shareholders	83,923	49,086	+71.0%
Dividends	57,741	118,000	-51.1%
Basic earnings per share	HK11.66 cents	HK9.09 cents	+28.3%
Net profit margin	28.8%	21.7%	+7.1% points



Turnover

	(Unaudited)				Change
	Six months ended				
	2006		2005		
	HK\$'000	% to turnover	HK\$'000	% to turnover	
Sales of beauty and healthcare services	262,075	89.9%	190,781	84.5%	+37.4%
Sales recognised upon expiry of prepaid beauty packages	20,768	7.1%	21,978	9.7%	-5.5%
Sales of skincare products and equipment	8,853	3.0%	13,090	5.8%	-32.4%
Total turnover	291,696	100%	225,849	100%	+29.2%

The Group's total turnover increased to HK\$291.7 million for the six months ended 30 September 2006, representing a considerable growth of 29.2% as compared to HK\$225.8 million for the same period last year. The increase in turnover of approximately HK\$65.8 million was attributable to the expansion of the Group's service network with the average total gross floor area increased from approximately 215,000 square feet as at 30 September 2005 to 245,000 square feet as at 30 September 2006 as well as the surge in spending of the spa and massage service customers.

The continuous increase in service capacity together with the launching of internet booking system expedited the customers' consumption of the Group's services during the period, resulting in a considerable growth in sales of beauty and healthcare services by 37.4% to HK\$262.1 million. With the Group's greater emphasis on service quality to encourage customers' consumption, the sales upon expiring of prepaid beauty packages further reduced to HK\$20.8 million, representing 7.1% of the Group's total turnover for the first half of the financial year 2006/07 as compared to HK\$22.0 million or 9.7% of its total turnover for the same period last year.



Segment Performance

The performance of our major service lines and product sales for the six months ended 30 September 2006 is summarised as follows:

	(Unaudited)				Change
	Six months ended				
	2006		2005		
Sales Mix	HK\$'000	% to turnover	HK\$'000	% to turnover	
Beauty and facial	113,171	38.8%	86,283	38.2%	+31.2%
Spa and massage	74,979	25.7%	46,708	20.7%	+60.5%
Slimming	84,258	28.9%	67,587	29.9%	+24.7%
Fitness	10,435	3.6%	12,180	5.4%	-14.3%
Sales of skincare products and equipment	8,853	3.0%	13,091	5.8%	-32.4%
Total turnover	<u>291,696</u>	<u>100%</u>	<u>225,849</u>	<u>100%</u>	+29.2%

The increase in turnover of approximately HK\$65.8 million or 29.2% during the six months ended 30 September 2006 was mainly attributable to the boost in the sales of spa and massage services by HK\$28.3 million to HK\$75.0 million, representing a considerable growth of 60.5% as compared to HK\$46.7 million recorded for the same period last year. Such increase was resulted from the stronger demands for spa and massage services together with the Group's greater efforts placed in promoting these services. The growth in turnover for the period was also contributed by the increase in sales of beauty and facial services as well as slimming services by HK\$26.9 million or 31.2% and HK\$16.7 million or 24.7% respectively.

The Group ceased selling skincare products and equipment to a related company in Singapore following its listing in February 2006 which led to the decrease in the sales of skincare products and equipment by HK\$4.2 million or 32.4% to HK\$8.9 million during the first half of the financial year 2006/07. Excluding the related company sales to Singapore of HK\$8.1 million for the first half last year, there was a considerable growth in sales of skincare products in Hong Kong by 78.4% to HK\$8.9 million during the six months ended 30 September 2006 as compared to HK\$5.0 million for the same period last year, resulting from the expansion of the Group's retail sales network to various renowned personal care chain stores.

In terms of segment spread, the spa and massage services represented 25.7% of the Group's total turnover for the first half of the financial year 2006/07, which was higher than that of 20.7% for the same period last year. There was no material change in the proportion of beauty and facial services as well as slimming services during the period. Fitness services and sales of skincare products and equipment accounted for an insignificant portion of the Group's total turnover, representing 3.6% and 3.0% respectively for the first half of 2006/07.

Other Gains – net

Other gains increased to HK\$16.3 million for the first half of the financial year 2006/07, representing a growth of 59.9% as compared to HK\$10.2 million for the same period last year. Such increase was mainly attributable to more interest income earned which amounted to HK\$11.8 million as compared to HK\$5.2 million for the same period last year, resulting from the surge in average bank balance during the period.



Major Expenses

The Group's major expenses principally included staff costs, other operating expenses and occupancy costs. The breakdown is set out as follows:

	(Unaudited)				
	Six months ended				
	2006		2005		Change
	HK\$'000	% to turnover	HK\$'000	% to turnover	
Major Expenses					
Staff costs	112,942	38.7%	85,622	37.9%	+31.9%
Other operating expenses	50,542	17.3%	51,808	22.9%	-2.4%
Occupancy costs	22,657	7.8%	21,572	9.6%	+5.0%
Depreciation & amortisation	11,900	4.1%	11,231	5.0%	+6.0%
Taxation	15,302	5.2%	9,881	4.4%	+54.9%

Staff costs increased by 31.9% to HK\$112.9 million during the first half of the financial year 2006/07 as a result of employment of more staff to support the expansion of the Group's service network, with total headcount increased from 982 as at 30 September 2005 to 1,233 as at 30 September 2006. To recognise the good performance of the frontline staff in achieving a considerable growth in both the turnover from customers' consumption and sales of new prepaid beauty packages for the first half of the financial year 2006/07, more discretionary bonus were paid to the frontline staff during the period.

The Group has been exercising an effective control on occupancy costs while expanding its service network, mainly through relocation of service centres and cautious search for new centre locations to set up the service centres. The average total gross floor area of the Group's service centres increased by 14% from 215,000 square feet as at 30 September 2005 to 245,000 square feet as at 30 September 2006 with the occupancy cost slightly rose by 5% to HK\$22.7 million, representing 7.8% of its total turnover for the first half of 2006/07, as compared to HK\$21.6 million or 9.6% of its total turnover for the same period last year.

Other operating expenses mainly comprised the following expenses:

	(Unaudited)				
	Six months ended				
	2006		2005		Change
	HK\$'000	% to turnover	HK\$'000	% to turnover	
Major items					
Advertising	9,368	3.2%	14,623	6.5%	-35.9%
Bank charges	10,965	3.8%	9,851	4.4%	+11.3%
Building management fee	6,975	2.4%	6,426	2.8%	+8.5%
Utilities	4,936	1.7%	5,161	2.3%	-4.4%
Others	18,298	6.2%	15,747	6.9%	+16.2%
Total other operating expenses	<u>50,542</u>	<u>17.3%</u>	<u>51,808</u>	<u>22.9%</u>	-2.4%



Other operating expenses decreased by 2.4% to HK\$50.5 million for the first half of the financial year 2006/07 which was mainly due to the reduction in advertising spending by 35.9% to HK\$9.4 million, representing 3.2% of the Group's total turnover. To take advantage of the increase in media exposure resulting from the Company's listing in the Hong Kong Stock Exchange, the Group has launched fewer advertising campaign during the period. The increase in bank charges by 11.3% to HK\$11.0 million was in line with the increase in new prepaid beauty packages sold during the first half of 2006/07.

Net Profit and Margin

By the considerable growth in turnover together with a good control on operating expenses, the Group's net profit attributable to shareholders for the six months ended 30 September 2006 reached HK\$83.9 million, posting a remarkable increase of 71.0% as compared to HK\$49.1 million for the same period last year. The Group's net profit margin also improved to 28.8% for the first half of 2006/07. Basic earnings per share was HK11.66 cents as compared to HK9.09 cents for the same period last year.

Dividend

The Board has declared to pay the interim dividend and special dividend of HK7.0 cents and HK1.0 cent per share respectively, totaling approximately HK\$57.7 million which represented a payout ratio of approximately 69% of the Group's net profit for the six months ended 30 September 2006. The total interim and special dividends of HK8.0 cents per share will be paid on around 31 January 2007 to the shareholders whose names appear on the Register of Members of the Company on 19 January 2007.

Closure of Register of Members

The register of members of the Company will be closed from Wednesday, 17 January 2007 to Friday, 19 January 2007, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the interim and special dividends, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at Level 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:00 p.m. on Tuesday, 16 January 2007.

Liquidity, Financial Resources and Capital Structure

The total equity of the Company as at 30 September 2006 was HK\$270.8 million. The Group generally finances its operation with internal generated cash flows. The Group had cash and cash equivalents of approximately HK\$609.0 million as at 30 September 2006 (31 March 2006: HK\$565.7 million), which were mainly placed as short-term bank deposits, with no external bank borrowing. As at 30 September 2006, the Group had net current assets of approximately HK\$161.4 million (31 March 2006: HK\$121.7 million).

Capital Expenditure

The total capital expenditure incurred by the Group during the six months ended 30 September 2006 amounted to HK\$24.7 million, which were mainly used in the acquisition of leasehold improvements, equipment and machinery in connection with the expansion of its service network in Hong Kong.



Deferred Revenue

The movement of deferred revenue during the six months ended 30 September 2006 is summarised below:

	(Unaudited) As at 30 September 2006 HK\$'000	(Audited) As at 31 March 2006 HK\$'000
Beginning of the period/year	526,412	549,932
Receipts during the period/year	243,960	454,555
Sales of beauty and healthcare services	(262,075)	(427,918)
Sales recognised upon expiry of prepaid beauty packages	(20,768)	(50,157)
End of the period/year	<u>487,529</u>	<u>526,412</u>

With the expansion of the Group's service network as well as continuous upgrading of service quality backed by additional booking channels, the customers' consumption has been increasing at a greater pace than the increase in sales of new prepaid beauty packages during the first half of the financial year 2006/07. This resulted in the deferred revenue as at 30 September 2006 decreased by 7.4% to HK\$487.5 million as compared to the balance of HK\$526.4 million as at 31 March 2006.

Contingent Liabilities and Capital Commitment

The Board considered no material contingent liabilities as at 30 September 2006. The Group had capital commitment of approximately HK\$8.5 million as at 30 September 2006 (31 March 2006: HK\$3.0 million) in respect of the acquisition of property, plant and equipment.

Charges on Assets

As at 30 September 2006, the Group had pledged bank deposits of HK\$10.6 million (31 March 2006: HK\$52.3 million) in favour of certain banks to secure banking facilities granted to certain subsidiaries in the Group.

Exchange Risk Exposure

The Group's sales and purchases were mainly denominated in Hong Kong Dollars. The financial assets and certain level of the Group's cash and cash equivalents are denominated in United States Dollars. In view of the relative stability of the exchange rate between Hong Kong Dollars and United States Dollars, the Group does not foresee significant risk in exchange rate fluctuations and no financial instruments have been used for hedging purposes. However, the Group will closely monitor the exposure and, when considered appropriate, will take the necessary actions to ensure that such exposure is properly hedged.

Significant Acquisition

There was no significant acquisition by the Group during the first half of the financial year 2006/07.

Treasury Policies

The Group adopts a prudent approach in the treasury policy. The Group's surplus funds are held under fixed and saving deposits in renowned banks. The financial assets of the Group amounted to HK\$68.0 million as at 31 March 2006 have been disposed of during the first half of the financial year 2006/07 with a net gain of HK\$1.3 million. All the cash proceeds are then placed as bank deposits.



Human Resources

The Group had a total work force of 1,233 staff as at 30 September 2006 (31 March 2006: 1,173 staffs). Total staff costs including directors' emoluments for the period under review amounted to HK\$112.9 million. The Group's remuneration policies are in line with the prevailing market practices and are determined on the basis of performance and experience of the individual. The Group has been constantly reviewing staff remuneration incentive to ensure it is competitive within the industry. For the purpose of motivating our staff, performance bonus and share options are offered to qualified employees. The Group also places great emphasis on staff training and development with professional training program continuously provided to its frontline beauty staff.

Proceeds from Initial Public Offering

The net proceeds from the Company's initial public offering in February 2006 were approximately HK\$161.6 million, after deduction of related listing expenses. During the six months ended 30 September 2006, these usage of proceeds were in accordance with the future plans and prospects set out in the Company's listing prospectus dated 27 January 2006 and within the limit of the net proceed.

OUTLOOK

The Group is optimistic that the positive outlook of the local economy and rising affluence in China will continue to drive demands for services in the beauty and healthcare services sector in both Hong Kong and the Mainland China. The Company is ready to capitalise on this growth trend to further expand its network and strengthen its leadership position.

Expanding service network in Hong Kong

Going forward, network expansion will continue to be the key to our business growth to capture the rising demands for beauty and healthcare services in Hong Kong. We will strategically identify new beauty service centre locations to maximise our network coverage. We are on track to achieve our target to open nine service centres in Hong Kong within the financial year 2006/07 to offer an additional total floor area of 70,000 square feet. Five centres commenced operations within the first half of the year while another three were opened in November 2006. Another centre is currently under renovation. The Group's service network will reach a total of 26 centres by the end of the financial year 2006/07. Through our expansion strategy, we will be able to deepen our market penetration and broaden the customer base.

Launching deluxe spa services – "YUE SPA"

With more people pursuing spa and massage services of superior quality, the Group will launch a brandnew "YUE SPA" service centre in the second half of the financial year 2006/07. This new line of service targets top-tier customers who demand for an ultimate spa experience in a tranquil and exclusive environment. The Group has planned a comprehensive advertising and promotion campaign to create the "YUE SPA" brand awareness. The Group believes that the strategy of having "YUE SPA" and the widely recognised "be Sanctuary Spa" to cater for specific customer needs will further drive business across different customer segments.

Strengthening men's salon services

The Group is of the view that the market for men's salon services is thriving and the Group is an early mover to target this segment of business. Efforts will be made to further promote the newly introduced "Hey Man" salon services as well as the existing "be homme" men's skincare products. We will add more men's salon services to our expanding service network in Hong Kong to encourage male customers' consumption.



Establishing our foothold in Mainland China

In the second half of the financial year 2006/07, we will focus our efforts in setting up our own service centres in Beijing, Shanghai and Guangzhou. With the completion of the renovation in our Guangzhou service centre, we are prepared to commence business as soon as the final approval of the business license is obtained. We will also start renovating our service centres recently leased in Beijing and Shanghai in the coming month while applying for the business license with the relevant government authority.

Looking ahead, we target to open 20 spa and beauty centres in the Mainland China over the next two years. Modern Beauty is committed to becoming one of the leading and premier beauty and healthcare services providers in the region. Leveraging our competitive strengths, we are confident of establishing a strong foothold in both first and second-tier cities and achieving a nationwide coverage in the long run.

Continuous service enhancement

We will continue to implement our service enhancement program with a series of new initiatives to meet customers' rising expectation for quality and professional beauty and healthcare services. With our stronger customer service team and additional channels to collect customers' valuable feedback, we will seek every opportunity to enhance our service quality and operations meeting different customer's needs.



CORPORATE GOVERNANCE AND OTHER INFORMATION

Director's and Chief Executive's Interests or Short Positions in Shares, Underlying Shares or Debentures

As at 30 September 2006, the interests or 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 ("SFO")), which will be required to be notified to the Company and the Stock Exchange of Hong Kong Limited ("Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or will be required pursuant to section 352 of the SFO, to be entered in the register referred to therein, or will be required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"), were as follows:

Long positions in Shares/underlying Shares of the Company

Name of Director	Capacity/Nature of interest	Number of Shares	Number of Shares subject to options granted under the Pre-IPO Share Option Scheme (Note 1)	Approximate percentage of issued Shares (Note 2)
Ms. Tsang Yue, Joyce	Interests of controlled corporations	540,000,000 (Note 3)		74.98%
	Beneficial owner		600,000 (Note 4)	0.08%
	Interest of spouse		650,000 (Note 4)	0.09%
Mr. Lee Soo Ghee	Interest of spouse	540,000,000 (Note 5)		74.98%
	Beneficial owner		650,000 (Note 4)	0.09%
	Interest of spouse		600,000 (Note 4)	0.08%
Ms. Yuen Siu Ping	Beneficial owner	Nil	700,000	0.10%
Mr. Hung Fan Kwan	Beneficial owner	Nil	300,000	0.04%
Mr. Yip Kai Wing	Beneficial owner	Nil	250,000	0.03%

Notes:

- Further details of the options under the Pre-IPO Share Option Scheme (such as exercise period, exercise price and vesting period) are set out under the paragraph headed "Share Option Schemes" below.
- The relevant percentages are calculated by reference to the Shares in issue on 30 September 2006, i.e. 720,240,000 Shares.
- Ms. Tsang Yue, Joyce owns the entire shareholding in Silver Compass Holdings Corp. and Silver Hendon Enterprises Corp., each holding 367,200,000 Shares and 172,800,000 Shares, respectively.
- Ms. Tsang Yue, Joyce has been granted an option for 600,000 Shares under the Pre-IPO Share Option Scheme and Mr. Lee Soo Ghee has been granted an option for 650,000 Shares under the Pre-IPO Share Option Scheme. Mr. Lee Soo Ghee is the husband of Ms. Tsang and, for the purposes of the SFO, Mr. Lee is deemed or taken to be interested in the share options granted to Ms. Tsang under the Pre-IPO Share Option Scheme and Ms. Tsang is deemed or taken to be interested in the share options granted to Mr. Lee under the Pre-IPO Share Option Scheme.
- Mr. Lee Soo Ghee is the husband of Ms. Tsang and is deemed to be interested in the Shares in which Ms. Tsang is deemed or taken to be interested for the purpose of the SFO.



Long positions in shares of the associated corporations of the Company

Name of Director	Capacity	Name of the associated corporation	Number of shares	Percentage of the issued shares of the associated corporation
Ms. Tsang Yue, Joyce	Beneficial owner	Silver Compass Holdings Corp.	100 <i>(Note)</i>	100%
	Beneficial owner	Silver Hendon Enterprises Corp.	100 <i>(Note)</i>	100%

Note: Both Silver Compass Holdings Corp. and Silver Hendon Enterprises Corp. (each holding 367,200,000 Shares and 172,800,000 Shares, respectively) are wholly-owned by Ms. Tsang Yue, Joyce.

Save as disclosed above, none of the Directors or chief executives of the Company had, at 30 September 2006, any interests or short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have 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 which would have to be, pursuant to section 352 of the SFO, entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

Directors' Rights to Acquire Shares

Save as disclosed in the paragraph headed "Share Option Schemes" below, at no time during the six months ended 30 September 2006, were rights to acquire benefits by means of the acquisitions of Shares in or debentures of the Company granted to any Director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, its holding company or any of the companies which have become its subsidiaries upon the Reorganisation a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

Interests and Short Positions of Shareholders

So far as is known to any Directors or chief executives of the Company, at 30 September 2006, Shareholders (other than Directors or chief executives of the Company) who had interests or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Long positions of substantial Shareholders in the Shares and underlying Shares of the Company

Name	Capacity	Number of Shares	Approximate percentage of issued Shares <i>(Note 1)</i>
Silver Compass Holdings Corp.	Beneficial owner	367,200,000 <i>(Note 2)</i>	50.98%
Silver Hendon Enterprises Corp.	Beneficial owner	172,800,000 <i>(Note 2)</i>	23.99%

Notes:

- The relevant percentages are calculated by reference to the Shares in issue on 30 September 2006, i.e. 720,240,000 Shares.
- Both Silver Compass Holdings Corp. and Silver Hendon Enterprises Corp. are wholly owned by Ms. Tsang Yue, Joyce.

Save as disclosed above, at 30 September 2006, the Company has not been notified by any persons (other than Directors or chief executives of the Company) who had interests or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.



Share Option Schemes

The Company has adopted a Pre-IPO share option scheme (“Pre-IPO Share Option Scheme”) and a share option scheme (“Scheme”) on 20 January 2006 whereby the Directors are authorised to invite any employee (whether full-time or part-time), director, consultant or adviser of the Group, to take up options to subscribe for Shares at a nominal consideration of HK\$1.00 per grant under the Pre-IPO Share Option Scheme and the Scheme. Each option gives the holder the right to subscribe for one Share.

Pursuant to the Pre-IPO Share Option Scheme, an aggregate of 3,280,000 share options were outstanding as at 30 September 2006. The Pre-IPO Share Option Scheme was terminated the day immediately before the Listing Date.

During the six months ended 30 September 2006, the Company has not granted any share option pursuant to the Scheme.

A. Pre-IPO Share Option Scheme

The purpose of the Pre-IPO Share Option Scheme is to give employees, directors, consultants and advisors of the Group an opportunity to have a personal stake in the Company and help motivate them 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.

The principal terms of the Pre-IPO Share Option Scheme, approved and adopted by written resolutions of the then Shareholders of the Company dated 20 January 2006 are similar to the terms of the Scheme (as set out below) except for the following:

- (a) the subscription price per Share shall be HK\$0.60; and
- (b) save for the options which have been granted (with details set out below), no further options will be offered or granted, as the right to do so will end upon the listing of Shares on the Stock Exchange.

As at 30 September 2006, details of the options granted were as follows:

Grantee	No. of options granted	No. of options lapsed	No. of Shares acquired on exercise of options	No. of options outstanding	Date of granted	Period during which options are exercisable	Exercise price per share	Approximate percentage of issued share capital of the Company pursuant to outstanding options (Note)
Directors								
Ms. Tsang Yue, Joyce	300,000	—	—	300,000	24 January 2006	9 August 2006 to 8 February 2011	HK\$0.60	0.04%
Ms. Tsang Yue, Joyce	300,000	—	—	300,000	24 January 2006	9 February 2007 to 8 February 2011	HK\$0.60	0.04%
Mr. Lee Soo Ghee	325,000	—	—	325,000	24 January 2006	9 August 2006 to 8 February 2011	HK\$0.60	0.05%
Mr. Lee Soo Ghee	325,000	—	—	325,000	24 January 2006	9 February 2007 to 8 February 2011	HK\$0.60	0.05%
Ms. Yuen Siu Ping	350,000	—	—	350,000	24 January 2006	9 August 2006 to 8 February 2011	HK\$0.60	0.05%
Ms. Yuen Siu Ping	350,000	—	—	350,000	24 January 2006	9 February 2007 to 8 February 2011	HK\$0.60	0.05%
Mr. Hung Fan Kwan	150,000	—	—	150,000	24 January 2006	9 August 2006 to 8 February 2011	HK\$0.60	0.02%



Grantee	No. of options granted	No. of options lapsed	No. of Shares acquired on exercise of options	No. of options outstanding	Date of granted	Period during which options are exercisable	Exercise price per share	Approximate percentage of issued share capital of the Company pursuant to outstanding options (Note)
Directors								
Mr. Hung Fan Kwan	150,000	—	—	150,000	24 January 2006	9 February 2007 to 8 February 2011	HK\$0.60	0.02%
Mr. Yip Kai Wing	125,000	—	—	125,000	24 January 2006	9 August 2006 to 8 February 2011	HK\$0.60	0.02%
Mr. Yip Kai Wing	125,000	—	—	125,000	24 January 2006	9 February 2007 to 8 February 2011	HK\$0.60	0.02%
Employees	550,000	(40,000)	(240,000)	270,000	24 January 2006	9 August 2006 to 8 February 2011	HK\$0.60	0.04%
Employees	550,000	(40,000)	—	510,000	24 January 2006	9 February 2007 to 8 February 2011	HK\$0.60	0.07%
Total	3,600,000	(80,000)	(240,000)	3,280,000				

Note:

The relevant percentages are calculated by reference to the Shares in issue on 30 September 2006, i.e. 720,240,000 Shares.

Information on the accounting policy for share options granted and the fair value of the options is provided in Note 8 (b)(i) to the Condensed Consolidated Interim Financial Information set out on page 32.

B. The Scheme

Relevant information relating to the Scheme is set out as follows:

(a) Purpose of the Scheme

The purpose of the Scheme is to give employees, directors, consultants and advisors of the Group an opportunity to have a personal stake in the Company and help motivate them 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 Scheme

The Board may, at its absolute discretion and on such terms as it may think fit, offer any employee (whether full-time or part-time), director, consultant or adviser of the Group (the "Participant") options to subscribe for Shares at the price calculated in accordance with paragraph (e) below and slight with other terms of the Scheme. The basis of eligibility of any of the Participants to the grant of options shall be determined by the Board from time to time on the basis of his contribution or potential contribution to the development and growth of the Group based on his performance and/or years of service and other relevant factors. An offer of grant of an option may be accepted by a grantee, upon acceptance of the option, the grantee shall pay HK\$1.00 to the Company on acceptance of the offer for the grant of the option as consideration for the grant.



(c) **Maximum number of Shares Available for Issue under the Scheme**

Except with the approval of the Shareholders at general meeting, the total number of Shares which may be issued upon exercise of all options to be granted under the Scheme must not in aggregate exceed 10% of the issued share capital of the Company as at Listing Date or 30% of the issued share capital of the Company from time to time. No options may be granted under the Scheme if this will result in such limit being exceeded. On 23 October 2006, the Board resolved to issue 15,640,000 share options to certain employees of the Group pursuant to the Company's share option scheme which was adopted on 20 January 2006 whereby the directors are authorised, at their discretion, to invite employees of the Group, including directors of any company in the Group, to take up option to subscribe for shares of the Company at an exercise price at HK\$1.33. Details of the options granted are disclosed in Note 8(b)(ii) of Condensed Consolidated Interim Financial Information set out on page 32.

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

Except with the approval of the Shareholders at general meeting, no option shall be granted to any participant if any further grant of options would result in the Shares issued and to be issued upon exercise of all options granted and to be granted to such person (including exercised, cancelled and outstanding options) in the 12-month period up to and including such further grant would exceed 1% of the total number of Shares in issue as at the date of this report.

(e) **Basis of Determining the Exercise Price**

The subscription price of a Share in respect of any particular option granted under the Scheme shall be a price determined by the Board and notified to the Participants and shall be at least the highest of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; (ii) the average of the closing price of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of a Share.

(f) **Period of the Scheme**

Subject to earlier termination by the Company in general meeting or by the Board, the Scheme will remain in force for a period commencing on the date falling six months after 24 January 2006 and shall not exceed the period of ten years from 24 January 2006, after which period no further option shall be granted.

Purchase, Sales or Redemption of the Company's Listed Securities

During the six months ended 30 September 2006, 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.

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 of the Listing Rules as the code of conduct regarding securities transactions by Directors. Having made specific enquiry, all Directors have confirmed that they have fully complied with the required standard set out in the Model Code during the six months ended 30 September 2006.

Corporate Governance Practices

The Company is committed to establishing and maintaining high standards of corporate governance. The Board is in the opinion that the Company has complied with the code provision as set out in the Code on Corporate Governance Practice (the "Code") under Appendix 14 of the Listing Rules throughout the six months ended 30 September 2006, except for the following deviations:



Code Provision A.2.1. stipulates that the role of chairman and chief executive officer should be separate and should not be performed by the same individual. Ms. Tsang Yue, Joyce is currently the Chairperson and Chief Executive Officer of the Company. 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 management of the Group.

Remuneration Committee

The Company established the Remuneration Committee on 20 January 2006 with written terms of reference in compliance with the Code. The Remuneration Committee comprises the Chairperson of the Group, Ms. Tsang Yue, Joyce and three Independent non-executive Directors, Mr. Wong See Hong, Mr. Yu How Yuen and Mr. Cheng Kai Tai, Allen. Ms. Tsang Yue, Joyce is the Chairperson of the Remuneration Committee.

The primary duties of the Remuneration Committee are to review and determine the terms of remuneration packages, bonuses and other compensation payable to the Directors and senior management. The Remuneration Committee shall meet at least once a year to review the remuneration policies and packages for Directors and senior management of the Company. No Director shall take part in any discussions about his own remuneration.

Nomination Committee

The Company established the Nomination Committee on 20 January 2006 with written terms of reference in compliance with the Code. The Nomination Committee comprises the Chairperson of the Group, Ms. Tsang Yue, Joyce and three Independent non-executive Directors, Mr. Wong See Hong, Mr. Yu How Yuen and Mr. Cheng Kai Tai, Allen. Ms. Tsang Yue, Joyce is the Chairperson of the Nomination committee.

The primary duty of the Nomination Committee is to make written recommendations to the Board on appointment of Directors and management of Board succession. The Nomination Committee shall meet at least once a year.

Audit Committee

The Company has established the Audit Committee on 20 January 2006 with written terms of reference in compliance with the Code. The Audit committee has three members comprising the Company's three Independent non-executive Directors, namely Mr. Wong See Hong, Mr. Yu How Yuen and Mr. Cheng Kai Tai, Allen. Mr. Yu How Yuen is the Chairman of the Audit Committee.

The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control systems of the Group.

All members of the Audit Committee possess in-depth experience in their own profession. The Chairperson of the Audit Committee, Mr. Yu How Yuen and another member, Mr. Cheng Kai Tai, Allen, possesses appropriate professional and accounting qualifications which meets the requirements of Rule 3.10(2) of the Listing Rules.

On behalf of the Board,

TSANGYUE, JOYCE

Chairperson & Chief Executive Officer

Hong Kong, 13 December 2006



羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor Prince's Building
Central, Hong Kong

INDEPENDENT REVIEW REPORT TO THE BOARD OF DIRECTORS OF MODERN BEAUTY SALON HOLDINGS LIMITED

(incorporated in Cayman Islands with limited liability)

Introduction

We have been instructed by the Company to review the condensed consolidated interim financial information set out on pages 22 to 38.

Respective responsibilities of directors and auditors

The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited require the preparation of condensed consolidated interim financial information to be in compliance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and relevant provisions thereof. The condensed consolidated interim financial information is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the condensed consolidated interim financial information 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.

Review work performed

We conducted our review in accordance with Statement of Auditing Standard 700 "Engagements to Review Interim Financial Reports" issued by the HKICPA. A review consists principally of making enquiries of management and applying analytical procedures to the condensed consolidated interim financial information and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the condensed consolidated interim financial information.

Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the condensed consolidated interim financial information for the six months ended 30 September 2006.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 13 December 2006



CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

	<i>Note</i>	Unaudited 30 September 2006 HK\$'000	Audited 31 March 2006 HK\$'000
ASSETS			
Non-current assets			
Property, plant and equipment	5	68,949	55,774
Leasehold land prepayments	6	26,993	27,325
Financial assets at fair value through profit or loss		—	67,979
Trade and other receivables, deposits and prepayments	7	10,620	9,707
Deferred tax assets		2,854	2,854
		<u>109,416</u>	<u>163,639</u>
Current assets			
Inventories		8,365	6,689
Trade and other receivables, deposits and prepayments	7	79,233	56,550
Taxation recoverable		4,692	4,638
Pledged bank deposits	18	10,582	52,286
Cash and cash equivalents		609,026	565,655
		<u>711,898</u>	<u>685,818</u>
Total assets		<u><u>821,314</u></u>	<u><u>849,457</u></u>
EQUITY			
Capital and reserves attributable to the Company's shareholders			
Share capital	8	72,024	72,000
Share premium and reserves		198,787	213,272
Total equity		<u>270,811</u>	<u>285,272</u>
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities		50	50
Current liabilities			
Trade and other payables, deposits received and accrued expenses	9	39,381	29,535
Deferred revenue	10	487,529	526,412
Taxation payable		23,543	8,188
		<u>550,453</u>	<u>564,135</u>
Total liabilities		<u>550,503</u>	<u>564,185</u>
Total equity and liabilities		<u><u>821,314</u></u>	<u><u>849,457</u></u>
Net current assets		<u>161,445</u>	<u>121,683</u>
Total assets less current liabilities		<u><u>270,861</u></u>	<u><u>285,322</u></u>

The notes on pages 22 to 38 form an integral part of this condensed consolidated interim financial information.



CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

	<i>Note</i>	Unaudited Six months ended 30 September	
		2006 HK\$'000	2005 HK\$'000
Turnover	4	291,696	225,849
Other gains - net	11	16,331	10,215
Cost of inventories sold		(10,761)	(6,864)
Staff costs		(112,942)	(85,622)
Depreciation and amortisation		(11,900)	(11,231)
Occupancy costs		(22,657)	(21,572)
Other operating expenses		(50,542)	(51,808)
Profit before taxation	12	99,225	58,967
Taxation	13	(15,302)	(9,881)
Profit for the period attributable to the Company's shareholders		83,923	49,086
Dividends	15	57,741	118,000
Earnings per share (HK cents)			
- Basic	14	11.66	9.09
- Diluted	14	11.63	N/A

The notes on pages 22 to 38 form an integral part of this condensed consolidated interim financial information.



CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

	Unaudited					
	Share capital HK\$'000	Share premium HK\$'000	Share-based compensation reserve HK\$'000	Merger reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
Balance at 1 April 2005	54,000	—	—	(53,982)	118,717	118,735
Profit for the period	—	—	—	—	49,086	49,086
Dividends paid	—	—	—	—	(118,000)	(118,000)
Balance at 30 September 2005	<u>54,000</u>	<u>—</u>	<u>—</u>	<u>(53,982)</u>	<u>49,803</u>	<u>49,821</u>
Balance at 1 April 2006	72,000	143,582	444	(53,982)	123,228	285,272
Exercise of share options	24	221	(101)	—	—	144
Employee share option reserve – value of employee services	—	—	832	—	—	832
Lapse of share option	—	—	(28)	—	28	—
Profit for the period	—	—	—	—	83,923	83,923
Dividends paid	—	—	—	—	(99,360)	(99,360)
Balance at 30 September 2006	<u>72,024</u>	<u>143,803</u>	<u>1,147</u>	<u>(53,982)</u>	<u>107,819</u>	<u>270,811</u>

The notes on pages 22 to 38 form an integral part of this condensed consolidated interim financial information.



CONDENSED CONSOLIDATED INTERIM CASH FLOW STATEMENT

	Unaudited Six months ended 30 September	
	2006 HK\$'000	2005 HK\$'000
Net cash generated from operating activities	53,883	75,529
Net cash generated from/(used in) investing activities	88,704	(116,619)
Net cash used in financing activities	(99,216)	—
Net increase/(decrease) in cash and cash equivalents	43,371	(41,090)
Cash and cash equivalents at beginning of the period	565,655	314,321
Cash and cash equivalents at end of the period	609,026	273,231

The notes on pages 22 to 38 form an integral part of this condensed consolidated interim financial information.



NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1 General information

Modern Beauty Salon Holdings Limited (the “Company”) and its subsidiaries (collectively, “the Group”) are principally engaged in the provision of beauty and healthcare services. The address of its registered office is M&C Corporate Services Limited, PO Box 309 GT, Uglund House, South Church Street, George Town, Grand Cayman, Cayman Islands.

The Company has its listing on The Stock Exchange of Hong Kong Limited.

The Group is controlled by Silver Compass Holdings Corp. (“SCHC”, incorporated in the British Virgin Islands), which owns 51% of the Company’s shares. The remaining 24% of the shares are held by Silver Hendon Enterprises Corp. (“SHEC”) and 25% are widely held. The Directors regard SCHC as being the immediate and ultimate holding company. SCHC and SHEC were wholly owned by a director of the Company, Tsang Yue, Joyce.

This condensed consolidated interim financial information is presented in thousands of units of HK dollars (HK\$’000), unless otherwise stated.

This condensed consolidated interim financial information has been approved for issue by the Board of Directors on 13 December 2006.

2 Basis of preparation

This unaudited condensed consolidated interim financial information for the half year ended 30 September 2006 has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” and other relevant Hong Kong Financial Reporting Standards (“HKFRS”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) as well as the disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”). The condensed consolidated interim financial information has not been audited, but has been reviewed by the Company’s Audit Committee.

The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 March 2006.



3 Accounting policies

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 March 2006. The following new standards, amendments to standards and interpretations are mandatory for financial year ending 31 March 2007.

HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plan and Disclosures
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 and HKFRS 4 (Amendment)	Financial Guarantee Contracts
HKFRS-Int 4	Determining whether an Arrangement contains a Lease

The adoption of the above new/revised HKFRSs, HKASs and interpretations has no material impact on the Group's results.

The following new standards, amendments to standards and interpretations have been issued but are not effective for the year ending 31 March 2007 and have not been early adopted. The adoption of such Standards or Interpretations will not result in substantial changes to the Group's accounting policies.

HK(IFRIC)-Int 8	Scope of HKFRS 2, effective for annual periods beginning on or after 1 May 2006
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives, effective for annual periods beginning on or after 1 June 2006
HK(IFRIC)-Int10	Interim Financial Reporting and Impairment, effective for annual periods beginning on or after 1 November 2006
HKFRS 7	Financial instruments: Disclosures, effective for annual periods beginning on or after 1 January 2007
HKAS 1	Amendments to capital disclosures, effective for annual periods beginning on or after 1 January 2007



4 Segment information

The Group operated two main business segments during the period:

- (a) Provision of beauty and healthcare services; and
- (b) Sales of skincare products and equipment.

Turnover consists of sales of beauty and healthcare services and sales of skincare products and equipment.

No analysis of the Group's segment information by geographical segments is presented as the Group solely transacts businesses in Hong Kong. The inter-segment sales were transacted at cost.

	Unaudited Six months ended 30 September	
	2006 HK\$'000	2005 HK\$'000
Turnover:		
Sales of beauty and healthcare services	262,075	190,781
Sales recognised upon expiry of prepaid beauty packages	20,768	21,978
Total gross sales of beauty and healthcare services	<u>282,843</u>	<u>212,759</u>
Total gross sales of sales of skincare products and equipment	16,150	17,185
Inter-segment sales	<u>(7,297)</u>	<u>(4,095)</u>
	<u>8,853</u>	<u>13,090</u>
Total	<u><u>291,696</u></u>	<u><u>225,849</u></u>
Segment results:		
Beauty and healthcare services	118,549	71,641
Skincare products and equipment	5,562	9,352
	<u>124,111</u>	<u>80,993</u>
Other gains - net	16,331	10,215
Unallocated costs	<u>(41,217)</u>	<u>(32,241)</u>
Profit before taxation	99,225	58,967
Taxation	<u>(15,302)</u>	<u>(9,881)</u>
Profit for the period	<u><u>83,923</u></u>	<u><u>49,086</u></u>



4 Segment information (Continued)

	Unaudited 30 September 2006 HK\$'000	Audited 31 March 2006 HK\$'000
Segment assets:		
Beauty and healthcare services	626,056	586,792
Skincare products and equipment	7,447	6,946
	<u>633,503</u>	<u>593,738</u>
Unallocated assets	187,811	255,719
Total assets	<u><u>821,314</u></u>	<u><u>849,457</u></u>
Segment liabilities:		
Beauty and healthcare services	(520,591)	(554,342)
Skincare products and equipment	(6,317)	(1,605)
	<u>(526,908)</u>	<u>(555,947)</u>
Unallocated liabilities	(23,595)	(8,238)
Total liabilities	<u><u>(550,503)</u></u>	<u><u>(564,185)</u></u>

	Unaudited Six months ended 30 September	
	2006 HK\$'000	2005 HK\$'000
Other information:		
Capital expenditure		
Beauty and healthcare services	24,743	27,415
Unallocated	—	2,283
	<u>24,743</u>	<u>29,698</u>
Depreciation and amortisation		
Beauty and healthcare services	11,615	10,960
Skincare products and equipment	58	58
Unallocated	227	213
	<u>11,900</u>	<u>11,231</u>



5 Property, plant and equipment

	Unaudited	
	30 September 2006 HK\$'000	30 September 2005 HK\$'000
Net book amount at beginning of the period	55,774	46,079
Additions, at cost	24,743	12,340
Disposals/written off	—	(28)
Depreciation	(11,568)	(11,002)
Net book amount at end of the period	<u>68,949</u>	<u>47,389</u>

6 Leasehold land prepayments

The movement of the Group's interests in leasehold land prepayments representing prepaid operating lease payments and their net book value are analysed as follows:

	Unaudited	
	30 September 2006 HK\$'000	30 September 2005 HK\$'000
At beginning of the period	27,325	10,528
Additions, at cost	—	17,358
Amortisation	(332)	(229)
At end of the period	<u>26,993</u>	<u>27,657</u>

7 Trade and other receivables, deposits and prepayments

	Unaudited 30 September 2006 HK\$'000	Audited 31 March 2006 HK\$'000
Non-current assets		
Rental and other deposits	10,620	9,707
Current assets		
Trade receivables	45,274	28,140
Rental and other deposits, prepayments and other receivables	33,959	28,410
	<u>79,233</u>	<u>56,550</u>
	<u>89,853</u>	<u>66,257</u>

The fair values of trade and other receivables, deposits and prepayments approximate their carrying amounts.



7 Trade and other receivables, deposits and prepayments (Continued)

An ageing analysis of trade receivables as at the balance sheets dates is as follows:

	Unaudited 30 September 2006 HK\$'000	Audited 31 March 2006 HK\$'000
0 – 30 days	24,926	11,730
31 – 60 days	15,337	14,776
61 – 90 days	5,011	1,634
	<u>45,274</u>	<u>28,140</u>

8 Share capital

(a) Authorised and issued capital

	Number of shares	HK\$'000
Authorised:		
Upon incorporation on 19 August 2005 (note (i))	3,900,000	390
Increase in authorised share capital (note (ii))	9,996,100,000	999,610
As at 31 March 2006 and 30 September 2006	<u>10,000,000,000</u>	<u>1,000,000</u>
Issued and fully paid:		
Upon incorporation on 19 August 2005 (note (i))	1	—
Allotted and issued on 8 September 2005 (note (i))	74	—
Allotted and issued on 24 January 2006 (note (iii))	539,999,925	54,000
Issue of shares for Global Offering (note (iv))	180,000,000	18,000
As at 31 March 2006	<u>720,000,000</u>	<u>72,000</u>
Issue of shares upon exercise of share options (note(v))	240,000	24
As at 30 September 2006	<u>720,240,000</u>	<u>72,024</u>

(i) The Company was incorporated on 19 August 2005 with an authorised share capital of HK\$390,000 divided into 3,900,000 shares of HK\$0.10 each. On 8 September 2005, Mapcal Limited, as initial subscriber, transferred the one issued and outstanding share to SCHC. On 8 September 2005, 50 and 24 fully-paid shares of the Company were allotted and issued to SCHC and SHEC respectively.

(ii) On 20 January 2006, the Company increased its authorised share capital from HK\$390,000 to HK\$1,000,000,000 by creating an additional 9,996,100,000 shares of HK\$0.10 each. These shares rank pari passu in all respects with the existing shares.

(iii) In preparation of the Company's listing of its shares on the Main Board of the Stock Exchange, the Company acquired the entire issued share capital of Koladen Enterprises Inc. ("KEI") on 24 January 2006 in consideration of allotment and issue of 367,199,949 and 172,799,976 shares to SCHC and SHEC respectively credited as fully paid.

(iv) On 9 February 2006, the Company completed a global offering of 180,000,000 shares with a par value of HK\$0.1 each at a price of HK\$1 per share and raised HK\$180 million share proceeds. All these share rank pari passu in all respects with the then existing shares. The Company's shares commenced trading on the Stock Exchange on 9 February 2006. The listing proceeds of the aforementioned shares, net of direct listing expenses amounted to approximately HK\$161,582,000. The resulting share premium amounted to approximately HK\$143,582,000.

(v) During the 6 months ended 30 September 2006, 240,000 ordinary shares of HK\$0.10 were issued in respect of the Pre-IPO share option exercised by senior management and other employees under the Pre-IPO Share Option Scheme (Note 8(b)(i)) at exercise price at HK\$0.60.



8 Share capital (Continued)

(b) Share options

On 20 January 2006, the Company has established two share option schemes, Pre-IPO Share Option Scheme and Share Option Scheme. Under these two share option schemes, the Board of Directors (the “Board”) may, at their discretion, grant options to Directors and employees of the Group.

(i) Pre-IPO Share Option Scheme

On 24 January 2006, the Company granted options to certain Directors and employees of the Group under the Pre-IPO Share Option Scheme, which entitle them to subscribe for a total of 3,600,000 shares at HK\$0.6 per option. The options are exercisable within a period of five years within which there is a vesting period of one year. Commencing from the six months after 9 February 2006 (the “Listing Date”) and twelve months after the Listing Date, the relevant grantee may exercise up to 50% and 100% respectively of the shares comprised in grantee’s option.

Movements in the number of share options outstanding are as follows:

	Number of options as at 1 April 2006	Number of options lapsed during the period	Number of options exercise during the period	Number of options as at 30 September 2006
Directors	2,500,000	—	—	2,500,000
Senior management	480,000	(80,000)	(200,000)	200,000
Other employees	620,000	—	(40,000)	580,000
	<u>3,600,000</u>	<u>(80,000)</u>	<u>(240,000)</u>	<u>3,280,000</u>

The fair value of options granted on 24 January 2006 determined using the Black-Scholes valuation model was HK\$1,568,000. The significant inputs into the model were share price of HK\$1 as at the grant date, exercise price shown above, standard deviation of expected share price returns of 50%, expected life of options of five years, expected dividend paid-out rate of 12.24% and annual risk-free interest rate of 4.31% and 4.38% for exercise date beginning on 9 August 2006 and 9 February 2007, respectively. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis.

(ii) Share Option Scheme

On 23 October 2006, the Board resolved to grant 15,640,000 share options to certain employees of the Group pursuant to the Company’s Share Option Scheme, to take up option to subscribe for shares of the Company at an exercise price at HK\$1.33 with exercise periods commencing four to nine years from date of grant. The life of options granted is ten years.



9 Trade and other payables, deposits received and accrued expenses

	Unaudited 30 September 2006 HK\$'000	Audited 31 March 2006 HK\$'000
Trade payables	2,334	351
Other payables, deposits received and accrued expenses	37,047	29,184
	<u>39,381</u>	<u>29,535</u>

The fair values of trade and other payables, deposits received and accrued expenses approximate their carrying amounts.

Trade payables as at the balance sheets dates are aged within 90 days.

10 Deferred revenue

At 30 September 2006 and 31 March 2006, the ageing analysis of the deferred revenue is as follows:

	Unaudited 30 September 2006 HK\$'000	Audited 31 March 2006 HK\$'000
Within 1 year	264,055	279,747
More than 1 year but within 2 years	138,335	159,070
More than 2 years but within 3 years	85,139	87,595
	<u>487,529</u>	<u>526,412</u>

Movement of deferred revenue

	Unaudited 30 September 2006 HK\$'000	Audited 31 March 2006 HK\$'000
Beginning of the period/year	526,412	549,932
Receipts during the period/year	243,960	454,555
Sales of beauty and healthcare services	(262,075)	(427,918)
Sales recognised upon expiring prepaid beauty packages	(20,768)	(50,157)
	<u>487,529</u>	<u>526,412</u>



11 Other gains - net

	Unaudited Six months ended 30 September	
	2006 HK\$'000	2005 HK\$'000
Financial assets at fair value through profit or loss:		
- fair value losses	—	(217)
- fair value gains	1,264	4,071
Interest income	11,789	5,163
Dividend income	—	167
Investment income	13,053	9,184
Gross rental income	198	293
Other income	3,080	738
	<u>16,331</u>	<u>10,215</u>

12 Profit before taxation

The following items have been included in arriving at profit before taxation:

	Unaudited Six months ended 30 September	
	2006 HK\$'000	2005 HK\$'000
Auditors' remuneration		
- current period	1,000	700
(Gain)/loss on disposal of property, plant and equipment	(2,500)	46
	<u>—</u>	<u>—</u>



13 Taxation

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profit for the period.

The amount of taxation charged to the condensed consolidated interim income statement represents:

	Unaudited Six months ended 30 September	
	2006 HK\$'000	2005 HK\$'000
Current income taxation:		
- Hong Kong profits tax	15,302	9,416
- under provision in prior years	—	11
	<u>15,302</u>	<u>9,427</u>
Deferred taxation	—	454
	<u>15,302</u>	<u>9,881</u>

14 Earnings per share

The calculation of basic and diluted earnings per share is based on the Group's net profit attributable to shareholders of the Company during the period of HK\$83,923,000 (2005: HK\$ 49,086,000)

The calculation of basic earnings per share is based on the weighted average of 720,033,443 (2005: 540,000,000) shares in issue during the period.

The calculation of diluted earnings per share is based on the weighted average of 720,033,443 (2005: 540,000,000) shares in issue during the period plus the weighted average of 1,594,742 shares deemed to be issued if all outstanding share options granted under the Pre-IPO share option scheme of the Company had been exercised.

No diluted earnings per share has been presented for the period ended 30 September 2005 as the Company has no dilutive potential shares.



15 Dividends

	Unaudited Six months ended 30 September	
	2006 HK\$'000	2005 HK\$'000
Dividends paid by subsidiaries to their then shareholders (<i>note a</i>)	—	118,000
Proposed interim dividend of HK7.0 cents per ordinary share (<i>note b</i>)	50,523	—
Proposed special dividend of HK1.0 cent per ordinary share (<i>note c</i>)	7,218	—
	<u>57,741</u>	<u>118,000</u>

Note:

- (a) Dividends totaling HK\$118,000,000 were declared and paid by the Company's subsidiaries to their then shareholders as part of a group reorganisation exercise in preparation for the listing of the shares of the Company on the Stock Exchange of Hong Kong Limited.
- (b) An interim dividend of HK7.0 cents per share, amounting to total dividend of HK\$50,523,200 was approved on 13 December 2006. This condensed consolidated interim financial information does not reflect this dividend payable.
- (c) A special dividend of HK1.0 cent per share, amounting to total dividend of HK\$7,217,600 was approved on 13 December 2006. This condensed consolidated interim financial information does not reflect this dividend payable.

16 Commitments

(a) Commitments under operating leases

The Group had future aggregate minimum lease payments under non-cancelable operating leases as follows:

	Unaudited 30 September 2006 HK\$'000	Audited 31 March 2006 HK\$'000
Not later than one year	47,005	37,769
Later than one year and not later than five years	67,172	46,299
Later than five years	—	1,711
	<u>114,177</u>	<u>85,779</u>

(b) Other commitments

Other commitments at the balance sheet date are as follows:

	Unaudited 30 September 2006 HK\$'000	Audited 31 March 2006 HK\$'000
Capital expenditure contracted in respect of acquisition of property, plant and equipment	<u>8,547</u>	<u>2,955</u>



17 Contingent liabilities

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

18 Pledged bank deposits

As at 30 September 2006 and 31 March 2006, the Group pledged bank deposits of approximately HK\$10,582,000 and HK\$52,286,000 respectively in favour of certain banks to secure banking facilities granted to certain subsidiaries of the Company.

19 Related party balances and transactions

(a) Related party transactions

The Group had the following material transactions with related parties during the period, which were entered into by the Group in the ordinary course of its business.

The following transactions were carried out with related parties:

		Unaudited Six months ended 30 September	
		2006 HK\$'000	2005 HK\$'000
(I)	Sales of products and equipment to a related company:		
	Modern Beauty Salon (South Bridge) Pte Limited	(i) —	8,128
(II)	Lease of properties:		
	Rental income received from related companies:		
	Chain Tech International Limited	(ii) —	24
	All Link International Limited	(ii) —	24
	Senex Investments Limited	(ii) —	23
	United Industries Limited	(ii) —	24
		—	95
	Rental paid to related companies:		
	All Link International Limited	(iii) —	1,800
	United Industries Limited	(iii) —	465
	Chain Tech International Limited	(iii) 216	360
		216	2,625



19 Related party balances and transactions (Continued)

- (i) The amounts represented the amounts of material/products/equipment sold to the Group's related companies at terms agreed by both parties. The related company was incorporated and located in Singapore which is controlled by Tsang Yue, Joyce.
- (ii) The amounts represented rental income received for areas leased to the related companies for use as office at a monthly rental mutually agreed by both parties. The related companies are controlled by Tsang Yue, Joyce.
- (iii) The amounts represented rental expenses paid for areas leased from related companies for use as director's quarter and shops at a monthly rental mutually agreed by both parties. The related companies are controlled by Tsang Yue, Joyce.

(b) Director guarantee

As at 30 September 2006, a director has indemnified certain companies within the Group against any loss resulting from any litigation and claims occurred prior to the Listing Date.

(c) Key management compensation:

	Unaudited Six months ended 30 September	
	2006 HK\$'000	2005 HK\$'000
Salaries	6,622	8,136
Housing allowances	—	1,800
Employer's contribution to pension scheme	39	29
Share-based compensation	578	—
	<u>7,239</u>	<u>9,965</u>



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