



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 2007/08

中期報告

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Ms. Tsang Yue, Joyce (*Chairperson*)
Mr. Lee Soo Ghee (*Vice Chairperson*)
Ms. Yuen Siu Ping
Mr. Yip Kai Wing
Mr. Kwong Chi Ching
Ms. Mok Hin Yuk
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. Yip Kai Wing
Mr. Hui Hon Wa

COMPANY SECRETARY

Mr. Hui Hon Wa, LL.B.

QUALIFIED ACCOUNTANT

Ms. Yeung See Man, CPA, 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

M&C Corporate Services Limited
PO Box 309 GT
Ugland House
South Church Street
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
88 Queensway
Hong Kong

STOCK CODE

The Stock Exchange of Hong Kong Limited : 919

INVESTOR RELATIONS

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WEBSITE

www.modernbeautysalon.com

FINANCIAL HIGHLIGHTS

- Group's turnover grew by 19.2% to HK\$347.8 million
- Hong Kong business increased by 18.2% with a net profit margin maintained at 28.8%
- Net profit for the period increased by 12.5% to HK\$94.4 million
- Basic earnings per share was HK13.05 cents
- Interim dividend per share was HK10.0 cents, representing a dividend payout ratio of approximately 77% of the current period profit

OPERATION HIGHLIGHTS

- Hong Kong business comprised 28 beauty and spa service centres with a weighted average total gross floor area of 291,000 square feet
- The Group launched 7 "be Beauty Shop" outlets in Hong Kong for product retails
- Customer base in Hong Kong reached 193,200, including 9,200 male customers
- Mainland business comprised 3 service centres respectively in Guangzhou, Shanghai and Beijing, with 5,100 local customers in total

CHAIRPERSON'S STATEMENT

Results

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 2007. Turnover and net profits for the period reached HK\$347.8 million and HK\$94.4 million respectively, representing a satisfactory growth of 19.2% and 12.5%. With the growing market demand for quality beauty and healthcare services in Hong Kong, sales generated domestically continued to post strong growth, which remained as the Group's major growth driver during the period under review. During the first half of this fiscal year, the Group further extended its retail network which further strengthened our business presence in Hong Kong. We also deployed more resources in business development of Mainland China market, in order to capture the huge potential of the burgeoning beauty market.

Hong Kong Business

The Group continued to extend the service and retail network in Hong Kong by opening new beauty and spa service centres in different locations, and at the same time establishing our own brand "be Beauty Shop" outlets to offer various types of beauty and skincare products. We own 28 beauty and healthcare service centres with a weighted average total gross floor area of 291,000 square feet. In addition, we have 7 "be Beauty Shop" outlets in Hong Kong under operations as at 30 September 2007. The Group has diversified its service and product lines by offering comprehensive beauty and healthcare services and products exclusively for men. We have also introduced new fitness courses to target different customer segments. Our customer base in Hong Kong grew by 16.4%, reaching 193,200 customers including 9,200 male customers as of 30 September 2007.

Mainland Business

Growing market demand for beauty and healthcare services as well as the strong spending power in Mainland China fuel up the business development of the Group in this market. The Group has a promising start in developing 3 self-own beauty and spa service centres in Guangzhou, Shanghai and Beijing respectively. The opening of the three centres contributed to the encouraging growth in our customer base with registered customers reached 5,100 as at 30 September 2007. Backed by the Group's reputable brandname in Hong Kong and the comprehensive services offered, our service centres in Mainland China achieved encouraging performance in terms of growth in customer base and consumption of services as well as achieving a net cash inflow position during the period under review. We are optimistic about the Mainland China market and will accelerate our business development plan in the beauty and healthcare industry in Mainland China. We expect that the business in Mainland China will be one of our major growth drivers in the foreseeable future.

Awards

We have been placing great efforts to enhance corporate transparency and maintain regular communications with the investment community in order to keep them abreast of the Group's latest development. With continued profitability and growth over the past three years, the Group was accredited as "Asia's 200 Best Under A Billion" by Forbes Magazine, a renowned international business publication. This honour reflects Modern Beauty's top-of-the-class brand and is a recognition for our commitment to giving professional beauty services as well as the innovative efforts and constant dedication we have out forth to enhance our service quality.

Appreciation

I would like to thank our dedicated management team and employees for their commitment and valuable contribution to the Group's continuous growth throughout the period. I would also like to express my sincere gratitude to our customers and shareholders for their support and trust in us. We believe service quality and professional staff are the key to our success. Looking ahead, we will continue our dedication in delivering outstanding financial performance and professional beauty services, with the view of striving to maximize value for our shareholders.

TSANG YUE, JOYCE

Chairperson & Chief Executive Officer

Hong Kong, 13 December 2007

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Continuous Expansion of Service and Retail Network in Hong Kong

The Group continued to explore new locations to expand its service network in Hong Kong. During the period under review, we set up 2 new service centres at Ma On Shan and Sheung Wan respectively, expanding our network coverage to 28 service centres with a weighted average total gross floor area of approximately 291,000 square feet as at 30 September 2007.

With continuous expansion of its network coverage and introduction of new beauty and healthcare services, the Group's total customer base in Hong Kong reached 193,200 as at 30 September 2007, representing a satisfactory growth of 16.4% as compared to 166,000 customers as at 30 September 2006.

To extend the retail network of "be" products outside the Group's service centres and various renowned personal care chain stores, the Group started to set up its own retail outlets in Hong Kong under our brand "be Beauty Shop". During the period under review, we achieved an encouraging progress and opened up 7 "be Beauty Shop" outlets in Mongkok, Kwun Tong, Sheung Wan, Causeway Bay, Kwai Chung, Fanling and Tuen Mun. Various types of beauty and skincare products under five series of skincare services are available for sale in the outlets, including Collagen Cellular Regenerating Series, Icy White Deluxe Series, Camomile Kiss Series, Problem Skin Series and Self Blending Serum Concentrate which are tailor-made to match different skin types.

Extending Service and Product Lines

Among the Group's 28 service centres in Hong Kong, 9 service centres were dedicated to offer comprehensive beauty and healthcare services and products to men. With our effort to expand the men salon service network and promote our brand "Hey Man", the Group's men salon service has been developing satisfactorily, with the number of male customers increased to 9,200 as at 30 September 2007 from 6,300 male customers as at 30 September 2006, representing a considerable growth of 46.0%. Sales derived from men salon service segment also reached HK\$9.0 million, contributing 2.6% of the Group's total turnover for the six months ended 30 September 2007.

In order to strengthen the Group's fitness services, we launched a new brand "Soo Yoga" to promote various types of yoga services during the period under review. New fitness courses such as yoga dance, jazz dance, hip hop dance, belly dance, etc. were introduced. Besides, we started offering fitness courses which are specially designed for families such as family yoga, children ballet dance and children drama courses to attract customers from different sectors. The diversification of fitness services also improved the Group's performance in this business segment with sales contributed by fitness services surged by 129.5% or HK\$13.5 million to HK\$23.9 million, contributing 6.9% to the Group's total turnover for the six months ended 30 September 2007.

Good Progress of Business Expansion in Mainland China

Following the opening of our first service centre in Guangzhou in January 2007, the Group established 2 new service centres in Shanghai and Beijing which commenced business in June and July 2007 respectively. The centres offer comprehensive services ranging from beauty and facial treatments to spa and massage as well as slimming services, targeting middle to high income group customers who demand for high quality beauty and healthcare services.

Backed by the Group's renowned brand reputation in Hong Kong, our services are well received by local customers in Mainland China. As at 30 September 2007, the Group has a total customer base of more than 5,100 customers in Mainland China as compared to 800 customers as at 31 March 2007, representing a significant growth of 5.4 times. Same as Guangzhou service centre, our service centres in Shanghai and Beijing also achieved an excellent monthly growth in the sales of new prepaid beauty packages during the period under review. The three centres generated a total receipt of HK\$8.3 million from selling prepaid beauty packages for the six months ended 30 September 2007, bringing a good cash inflow for the operations.

Operation Highlights

	As at 30 September		Growth
	2007	2006	
No. of service centres	31	22	40.9%
Hong Kong	28	22	27.3%
Mainland China	3	—	N/A
Weighted average total gross floor area (sq. ft.)	309,000	245,000	26.1%
Hong Kong	291,000	245,000	18.8%
Mainland China	18,000	—	N/A
No. of customers	198,300	166,000	19.5%
Hong Kong	193,200	166,000	16.4%
Mainland China	5,100	—	N/A
Number of staff	1,694	1,233	37.4%
Frontline beauty staff	1,324	966	37.1%
Back office staff	370	267	38.6%

Service Enhancement

With an aim to further enhance customer satisfaction and encourage a more efficient use of our services and facilities, the Group has launched the service enhancement program since 2006 to reinforce our customer service quality and introduced an online real-time booking system through our official website. Our efforts continued to pay off with customers' consumption increased from year to year. The sales from provision of beauty and healthcare services grew to HK\$322.4 million which accounted for 92.7% of the turnover, comparing to 89.9% for the corresponding period last year. Sales recognised from expired prepaid beauty packages further reduced to HK\$15.1 million, represented only 4.3% of the Group's total turnover for the six months ended 30 September 2007, as compared to HK\$20.8 million or 7.1% of its total turnover for the corresponding period last year.

FINANCIAL REVIEW

	(Unaudited)				Change
	Six months ended 30 September 2007		2006		
	HK\$'000	% to turnover	HK\$'000	% to turnover	
Turnover					
Sales of beauty and healthcare services	322,441	92.7%	262,075	89.9%	+23.0%
Sales recognised upon expiry of prepaid beauty packages	15,104	4.3%	20,768	7.1%	-27.3%
Sales of skincare products	10,271	3.0%	8,853	3.0%	+16.0%
Total	347,816	100.0%	291,696	100.0%	+19.2%

The Group's total turnover increased by 19.2% to HK\$347.8 million for the six months ended 30 September 2007 as compared to HK\$291.7 million for the corresponding period last year. The sales of beauty and healthcare services surged by 23.0% or HK\$60.3 million to HK\$322.4 million. The growth was mainly attributable to the continuous expansion of the Group's service network in Hong Kong which enhanced customers' consumption of services. The weighted average total gross floor area in Hong Kong reached 291,000 square feet as at 30 September 2007, representing an increase of 18.8% as compared to 245,000 square feet as at 30 September 2006. Furthermore, the boost in customers' spending on beauty and facial, fitness, spa and massage services as well as the sales increase of skincare products contributed to the turnover growth.

In Mainland China, the Guangzhou service centre was well received by local customers with registered customers of more than 2,600 as at 30 September 2007 as compared to 800 registered customers as at 31 March 2007. Total receipt generated from sales of new prepaid beauty packages accounted for HK\$3.5 million for the six months ended 30 September 2007. Sales recognised from customers' consumption of beauty and healthcare services grew steadily to HK\$1.6 million for the period under review.

The Group also set up 2 new service centres in Shanghai and Beijing respectively which commenced business in June and July 2007. The two service centres achieved great success with total registered customers reached approximately 2,500 as at 30 September 2007. The service centres generated a total amount of HK\$4.8 million sales of new prepaid beauty packages and recognised a total sales of HK\$1.5 million from customers' consumption of beauty and healthcare services since commencement of operations.

Turnover by Business Segment

(Unaudited)

Six months ended 30 September

	2007		2006		Change
	HK\$'000	% to turnover	HK\$'000	% to turnover	
Sales Mix					
Beauty and facial	151,879	43.6%	113,171	38.8%	+34.2%
Spa and massage	83,811	24.1%	74,979	25.7%	+11.8%
Slimming	77,906	22.4%	84,258	28.9%	-7.5%
Fitness	23,949	6.9%	10,435	3.6%	+129.5%
Sales of skincare products	10,271	3.0%	8,853	3.0%	+16.0%
Total turnover	347,816	100.0%	291,696	100.0%	+19.2%

Among the five service and product lines, beauty and facial service sales continued to demonstrate a strong growth at 34.2% or HK\$38.7 million to HK\$151.9 million during the period under review, representing 43.6% of the Group's total turnover for the period under review. The growth was attributable to the diversification of the Group's beauty services as well as launch of a new business segment - men salon. With greater efforts paid in promoting our brand "Hey Man" and introducing a wide variety of beauty and healthcare services and products specially designed for men, the Group's men salon service segment achieved a good performance in sales which accounted for approximately HK\$9.0 million or 2.6% of the Group's total turnover for the period under review as compared to less than 1% of the total turnover for the corresponding period last year.

Fitness services is another business segment posting a significant growth as a result of the launch of yoga services and various types of fitness courses. This segment generated a sales of HK\$23.9 million, representing a considerable increase of 129.5% or HK\$13.5 million. Fitness segment contributed 6.9% of the Group's total turnover during the period under review as compared to 3.6% of the total turnover for the corresponding period last year. Spa and massage services continued to grow by 11.8% or HK\$8.8 million to HK\$83.8 million, accounting for 24.1% of the total turnover. Sales in slimming services decreased by 7.5% to HK\$77.9 million due to keen competition in the slimming market. With an extended retail network and opening of "be Beauty Shop" outlets in Hong Kong during the period under review, the Group's sales in skincare products grew steadily at 16.0% to HK\$10.3 million.

Sales of New Prepaid Beauty Packages

Movement of Deferred Revenue	(Unaudited)			(Audited)
	As at 30 September 2007			As at
	Hong Kong HK\$'000	Mainland China HK\$'000	Total HK\$'000	31 March 2007 Total HK\$'000
Beginning of the period/year	419,467	540	420,007	526,412
Receipts from sales of new prepaid beauty packages during the period/year	286,488	8,255	294,743	489,489
Sales of beauty and healthcare services	(319,369)	(3,072)	(322,441)	(560,588)
Sales recognised upon expiry of prepaid beauty packages	(15,104)	—	(15,104)	(35,306)
End of the period/year	<u>371,482</u>	<u>5,723</u>	<u>377,205</u>	<u>420,007</u>

Receipts generated from the sales of new prepaid beauty packages reached HK\$294.7 million, posting a significant growth of 20.8% or HK\$50.7 million for the six months ended 30 September 2007 as compared to HK\$244.0 million new prepaid packages sold for the corresponding period last year. The growth was mainly driven by the surge in the sales of new prepaid beauty packages in Hong Kong by HK\$42.5 million to HK\$286.5 million for the period under review. Backed by the service enhancement program aiming to continuously upgrade the service quality, together with the launch of online booking system, extended service network, as well as a more intensive marketing program, the Group achieved encouraging results in sales of new prepaid beauty packages and customers' consumption of services.

In Mainland China, the receipts generated from sales of new prepaid beauty packages by the three service centres in Guangzhou, Shanghai and Beijing amounted to HK\$8.3 million for the six months ended 30 September 2007, representing 2.8% of the Group's total receipts. While in their investment stage, these service centres reported an operational loss of HK\$4.8 million for the period under review due to the capital investment including the initial company set-up costs, rental expenses and other overheads. Nevertheless, the three service centres reported encouraging performance in terms of growth in customer base, sales of new prepaid beauty packages and consumption of beauty services. All of these service centres recorded net cash inflow position within two to three months since operation. The receipts generated from sales of prepaid beauty packages were well enough to cover the overheads incurred during the period under review. With continuous growth in the customer base and further expansion of our service network in Mainland China, the Group expects that its consumption of services will be further enhanced, which will result in an even better performance in Mainland China market.

Analysis of Operating Expenses

(Unaudited)

Six months ended 30 September

	2007		2006		Change
	HK\$'000	% to turnover	HK\$'000	% to turnover	
Staff costs	130,064	37.4%	112,942	38.7%	+15.2%
Occupancy costs	36,418	10.5%	22,657	7.8%	+60.7%
Depreciation & amortisation	15,732	4.5%	11,900	4.1%	+32.2%
Income tax expenses	17,153	4.9%	15,302	5.2%	+12.1%
Cost of inventories sold	10,089	2.9%	10,761	3.7%	-6.2%
Other operating expenses, including	59,632	17.1%	50,542	17.3%	+18.0%
- Bank charges	13,519	3.9%	10,965	3.8%	+23.3%
- Advertising and promotion	10,545	3.0%	9,368	3.2%	+12.6%
- Utilities	5,597	1.6%	4,936	1.7%	+13.4%
- Building management fee	8,187	2.4%	6,975	2.4%	+17.4%
- Others	21,784	6.2%	18,298	6.2%	+19.1%

To support the continuous expansion of the Group's business in Hong Kong and Mainland China, additional staff was employed during the period under review. Total headcount increased by 461 to 1,694 as at 30 September 2007, including 1,516 and 178 staff in Hong Kong and Mainland China respectively, as compared to 1,233 staff as at 30 September 2006. Staff costs therefore increased by 15.2% to HK\$130.1 million for the period under review. Further, more discretionary bonuses were paid to staff to recognise their good performance which also led to the rise in staff costs. As a percentage to turnover, staff costs decreased by 1.3% to 37.4% for the six months ended 30 September 2007 as compared to 38.7% for the corresponding period last year.

The Group's occupancy costs increased by HK\$13.7 million to HK\$36.4 million, representing 10.5% of the total turnover for the six months ended 30 September 2007 as compared to HK\$22.7 million or 7.8% for the corresponding period last year. The increase was mainly due to the expansion of the Group's service network in Hong Kong and Mainland China. Number of service centres increased to 31 with the weighted average total gross floor area of 309,000 square feet as at 30 September 2007, as compared to 22 service centres with 245,000 square feet as at 30 September 2006, representing an expansion of the floor area by 26.1%. The increase in occupancy costs was also due to rental increment in renewal of tenancies for several existing service centres during the period under review and second half of the financial year 2006/07.

Bank charges increased by 23.3% to HK\$13.5 million as a result of the increase in sales of new prepaid beauty packages to HK\$294.7 million. Advertising and promotional expenses slightly increased to HK\$10.5 million as compared to HK\$9.4 million for the corresponding period last year. In percentage term, it slightly decreased from 3.2% to 3.0% of the total turnover for the six months ended 30 September 2007.

Net Profit and Margin

Net profit for the period increased by 12.5% to HK\$94.4 million for the six months ended 30 September 2007 as compared to HK\$83.9 million for the corresponding period last year. Net profit margin of the Group slightly dropped by 1.7% to 27.1% due to the loss incurred in Mainland China operations during the period under review. Excluding the Mainland business, the Group achieved a net profit of HK\$99.2 million with a net profit margin of 28.8%, representing a year-on-year growth in net profit of 18.2%. Basic earnings per share was HK13.05 cents as compared to HK11.66 cents for the corresponding period last year.

Interim Dividend

The Directors have declared to pay an interim dividend of HK10.0 cents (2006: an interim dividend of HK7.0 cents and a special dividend of HK1.0 cent respectively) per share, amounts to a total dividend payment of approximately HK\$72.4 million (2006: approximately HK\$57.7 million) which represents a payout ratio of 77% (2006: 69%) of the Group's net profit for the six months ended 30 September 2007. The interim dividend of HK10.0 cents per share will be paid on around 30 January 2008 to the shareholders whose names appear on the register of members of the Company on 18 January 2008.

Closure of Register of Members

The register of members of the Company will be closed from Wednesday, 16 January 2008 to Friday, 18 January 2008, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged for registration with the Company's registrar, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:00 p.m. on Tuesday, 15 January 2008.

Liquidity, Financial Resources and Capital Structure

The total equity of the Company as at 30 September 2007 was HK\$312.2 million. The Group generally finances its operation with cash generated from operations. The Group continued to maintain a strong financial position with cash and cash equivalents of HK\$545.3 million as at 30 September 2007 (31 March 2007: HK\$585.0 million) with no bank borrowing. During the period, the majority of the Group's cash was held under fixed and savings deposits as in line with the Group's prudent treasury policy. As at 30 September 2007, the Group had net current assets of HK\$186.7 million (31 March 2007: HK\$185.4 million).

Capital Expenditure

The total capital expenditure of the Group during the six months ended 30 September 2007 was HK\$14.9 million. The amount included HK\$10.1 million being used in the acquisition of leasehold improvements, equipment and machinery in connection with the expansion of the service and retail network in Hong Kong as well as renovation of 5 existing service centres. The remaining HK\$4.8 million was spent in the acquisition of leasehold improvements, equipment and machinery for opening new service centres in Mainland China.

Contingent Liabilities and Capital Commitment

The Board considered no material contingent liabilities as at 30 September 2007. The Group had capital commitment of HK\$6.8 million as at 30 September 2007 (31 March 2007: HK\$6.0 million) in respect of the acquisition of property, plant and equipment.

Charges on Assets

As at 30 September 2007, the Group had pledged bank deposits of HK\$9.2 million (31 March 2007: HK\$10.7 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 were 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 six months ended 30 September 2007.

Treasury Policies

The Group adopts a prudent approach in the treasury policy. The Group's surplus funds are held under fixed and savings deposits in renowned banks to earn interest income at an annualized yield of approximately 4.9%.

Human Resources

The Group had a total work force of 1,694 staff as at 30 September 2007 (31 March 2007: 1,265 staff), including 1,175 and 149 frontline beauty staff who located at the service centres in Hong Kong and Mainland China respectively, as well as back office staff of 341 and 29 based in Hong Kong and the Mainland respectively. The total employee benefits expenses including directors' emoluments for the period under review amounted to HK\$130.1 million.

The Group's remuneration policies are in line with the prevailing market practices and are determined based on individual performance and experience. The Group has been constantly reviewing staff remuneration to ensure it is competitive within the industry. For the purpose of motivating and rewarding our staff, discretionary bonus and share options are granted to eligible employees based on individual and the Group's performance. As at 30 September 2007, a total of 14,880,000 share options have been granted to certain directors, senior management and employees of the Group. Great emphasis is also placed on staff training and development with professional training programs continuously provided to the 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 2007, 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.

OUTLOOK

Backed by the strong economies in Hong Kong and Mainland China, demand for high quality and professional beauty and healthcare services is expected to persist strong and continuous growth. We will further expand our network coverage in Hong Kong and Mainland China to fortify our leading position in the beauty and healthcare service industry. The Group will pursue its strategy to diversify our range of service and product lines in order to meet different customer preferences. Greater emphasis will also be placed on staff training to enhance service quality and operational efficiency.

Hong Kong Market

In short to medium term, Hong Kong business will continue to be the key contributor to the Group's business growth. To capture the rising demands for beauty and healthcare services, we will open more service centres in new locations to extend our network coverage in a strategic way. In the second half of the financial year 2007/08, apart from a new service centre opened in Kwun Tong in October 2007, we have extended the floor area of our existing service centre in Tsuen Wan to expand the service capacity in this location. Furthermore, 2 new centres residing in Causeway Bay and North Point respectively are currently under renovation, which are expected to commence operation in the second half of this fiscal year.

We will also deploy more resources to develop the product retail market by opening more "be Beauty Shop" outlets to expand our retail network. The Group will seek opportunity to diversify its product lines to meet preferences of different target customers. The Group will be able to deepen market penetration and broaden its customer base through execution of its expansion strategy.

Mainland China Market

The management are optimistic towards the Group's business in Mainland China. With the Group's experience in operating beauty service network in Hong Kong and continuous training of its frontline beauty staff, the three service centres in Guangzhou, Shanghai and Beijing respectively are well received by local customers and achieved encouraging performance in terms of growth in customer base, sales of new prepaid beauty packages and consumption of beauty services. The Group will continue to execute its network expansion plan in Mainland China to achieve the target to establish 20 service centres in two years.

The Group has recently obtained the business license for opening a new service centre in Xuhui district of Shanghai which will commence operation in late 2007. Besides, 2 new service centres in Haizhu District of Guangzhou and 2 new service centres in Dongchen and Chongwen Districts of Beijing respectively are currently under renovation. Applications for business licenses of the above service centres are under the processing stage. With its continuous expanding network in Mainland China, we will pay more efforts in promoting our brands in order to enhance the brand awareness in Mainland China market. The Group is confident that the business in Mainland China will become one of the major growth drivers in medium to long term.

CORPORATE GOVERNANCE AND OTHER INFORMATION

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

As at 30 September 2007, 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:

Name of directors	Capacity/Nature of interest	Number of shares	Number of shares subject to options granted under the Share Option Scheme (Note 1)	Total number of shares	Approximate percentage of issued shares (Note 2)
Ms. Tsang Yue, Joyce	Interests of controlled corporations	468,000,000 (Note 3)	—	468,000,000	64.68%
	Beneficial owner	5,908,000	1,350,000 (Note 4)	7,258,000	1.00%
	Interest of spouse	650,000	1,350,000 (Note 4)	2,000,000	0.28%
Mr. Lee Soo Ghee	Beneficial owner	650,000	1,350,000 (Note 4)	2,000,000	0.28%
	Interest of spouse	473,908,000 (Note 5)	1,350,000 (Note 4)	475,258,000	65.69%
Ms. Yuen Siu Ping	Beneficial owner	400,000	1,500,000	1,900,000	0.26%
Mr. Hung Fan Kwan (resigned on 30 October 2007)	Beneficial owner	300,000	1,000,000	1,300,000	0.18%
Mr. Yip Kai Wing	Beneficial owner	185,000	500,000	685,000	0.09%
Mr. Kwong Chi Ching	Beneficial owner	—	200,000	200,000	0.03%

Notes:

- Further details of the interests of the Directors in the options under the Share Option Scheme 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 2007, ie. 723,520,000 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 100,800,000 shares, respectively.
- Ms. Tsang Yue, Joyce has been granted an option for 1,350,000 shares under the Share Option Scheme and Mr. Lee Soo Ghee has been granted an option for 1,350,000 shares under the 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 options granted to Ms. Tsang under the Share Option Scheme and Ms. Tsang is deemed or taken to be interested in the options granted to Mr. Lee under the 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 100,800,000 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, as at 30 September 2007, 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 and the paragraph headed "Directors' and Chief Executives' Interests or Short Positions in Shares, Underlying Shares or Debentures" above, at no time during the six months ended 30 September 2007, 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 subsidiaries, its holding companies, or any subsidiaries of its holding companies 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, as at 30 September 2007, 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 (Note 1)
Silver Compass Holdings Corp.	Beneficial owner	367,200,000 (Note 2)	50.75%
Silver Hendon Enterprises Corp.	Beneficial owner	100,800,000 (Note 2)	13.93%

Notes:

- The relevant percentages are calculated by reference to the shares in issue on 30 September 2007, i.e. 723,520,000 shares.
- Both Silver Compass Holdings Corp. and Silver Hendon Enterprises Corp. are wholly owned by Ms. Tsang Yue, Joyce.

Save as disclosed above, as at 30 September 2007, 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 (“Share Option Scheme”) on 20 January 2006 respectively 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 Share Option Scheme respectively. Each option gives the holder the right to subscribe for one share.

Pursuant to the Pre-IPO Share Option Scheme, an aggregate of 3,600,000 options were granted on 24 January 2006. Movement of the options granted under the Pre-IPO Share Option Scheme during the period ended 30 September 2007 are set out below. The Pre-IPO Share Option Scheme was terminated the day immediately before 9 February 2006.

On 23 October 2006, the Company granted 15,640,000 options pursuant to the Share Option 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 optimize 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 Share Option 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 ended upon the listing of shares on the Stock Exchange.

Movement of the options granted under the Pre-IPO Share Option Scheme during the six months ended 30 September 2007 is as follows:

Grantee	No. of options as at 1 April 2007	No. of shares acquired on exercise of options	No. of options as at 30 September 2007	Date of grant	Period during which options are exercisable	Exercise price per share
<i>Director</i>						
Mr. Yip Kai Wing	125,000	(125,000)	—	24 January 2006	9 February 2007 to 8 February 2011	HK\$0.60

Information on the accounting policy for options granted under the Pre-IPO Share Option Scheme and the fair value of the options is provided in Note 14 to the Condensed Consolidated Interim Financial Information set out on page 36.

B. The Share Option Scheme

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

(a) Purpose of the Share Option Scheme

The purpose of the 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.

(b) Participants of the Share Option 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 subject to the other terms of the Share Option 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 Share Option 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 Share Option Scheme and any other share option schemes of the Company must not in aggregate exceed 10% of the issued share capital of the Company as at 9 February 2006 or 30% of the issued share capital of the Company from time to time. No option may be granted under the Scheme if this will result in such limit being exceeded.

(d) Maximum Entitlement of Each Participant under the Share Option 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.

(e) Basis of Determining the Exercise Price

The subscription price of a share in respect of any particular option granted under the Share Option 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 quotation 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 Share Option Scheme

Subject to earlier termination by the Company in general meeting or by the Board, the Share Option Scheme shall be valid and effective for a period of ten years commencing from 20 January 2006, after which period no further option shall be granted.

Movements of the options granted under the Share Option Scheme are as follows:

Grantee	No. of options as at 1 April 2007	No. of options granted during the period	Reclassification	No. of options cancelled/lapsed during the period	No. of shares acquired on exercise of options during the period	No. of options as at 30 September 2007	Date of grant	Period during which options are exercisable	Exercise price per share	Approximate percentage of issued shares (Note)
<i>Directors</i>										
Ms. Tsang Yue, Joyce	337,500	—	—	—	—	337,500	23/10/2006	23/10/2010 to 22/10/2016	HK\$1.33	0.05%
Ms. Tsang Yue, Joyce	472,500	—	—	—	—	472,500	23/10/2006	23/10/2014 to 22/10/2016	HK\$1.33	0.07%
Ms. Tsang Yue, Joyce	540,000	—	—	—	—	540,000	23/10/2006	23/10/2015 to 22/10/2016	HK\$1.33	0.07%
Mr. Lee Soo Ghee	337,500	—	—	—	—	337,500	23/10/2006	23/10/2010 to 22/10/2016	HK\$1.33	0.05%
Mr. Lee Soo Ghee	472,500	—	—	—	—	472,500	23/10/2006	23/10/2014 to 22/10/2016	HK\$1.33	0.07%
Mr. Lee Soo Ghee	540,000	—	—	—	—	540,000	23/10/2006	23/10/2015 to 22/10/2016	HK\$1.33	0.07%
Ms. Yuen Siu Ping	375,000	—	—	—	—	375,000	23/10/2006	23/10/2010 to 22/10/2016	HK\$1.33	0.05%
Ms. Yuen Siu Ping	525,000	—	—	—	—	525,000	23/10/2006	23/10/2014 to 22/10/2016	HK\$1.33	0.07%
Ms. Yuen Siu Ping	600,000	—	—	—	—	600,000	23/10/2006	23/10/2015 to 22/10/2016	HK\$1.33	0.08%
Mr. Hung Fan Kwan*	250,000	—	—	—	—	250,000	23/10/2006	23/10/2010 to 22/10/2016	HK\$1.33	0.03%
Mr. Hung Fan Kwan*	350,000	—	—	—	—	350,000	23/10/2006	23/10/2014 to 22/10/2016	HK\$1.33	0.05%
Mr. Hung Fan Kwan*	400,000	—	—	—	—	400,000	23/10/2006	23/10/2015 to 22/10/2016	HK\$1.33	0.06%
Mr. Yip Kai Wing	125,000	—	—	—	—	125,000	23/10/2006	23/10/2010 to 22/10/2016	HK\$1.33	0.02%
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	0.03%

Grantee	No. of options as at 1 April 2007	No. of options granted during the period	Reclassification	No. of options cancelled/ lapsed during the period	No. of shares acquired on exercise of options during the period	No. of options as at 30 September 2007	Date of grant	Period during which options are exercisable	Exercise price per share	Approximate percentage of issued shares (Note)
Mr. Kwong Chi Ching	—	—	50,000	—	—	50,000	23/10/2006	23/10/2010 to 22/10/2016	HK\$1.33	0.01%
Mr. Kwong Chi Ching	—	—	70,000	—	—	70,000	23/10/2006	23/10/2014 to 22/10/2016	HK\$1.33	0.01%
Mr. Kwong Chi Ching	—	—	80,000	—	—	80,000	23/10/2006	23/10/2015 to 22/10/2016	HK\$1.33	0.01%
Employees	2,340,000	—	(50,000)	(45,000)	—	2,245,000	23/10/2006	23/10/2010 to 22/10/2016	HK\$1.33	0.31%
Employees	3,276,000	—	(70,000)	(63,000)	—	3,143,000	23/10/2006	23/10/2014 to 22/10/2016	HK\$1.33	0.43%
Employees	3,744,000	—	(80,000)	(72,000)	—	3,592,000	23/10/2006	23/10/2015 to 22/10/2016	HK\$1.33	0.50%
Total	15,060,000	—	—	(180,000)	—	14,880,000				

* resigned on 30 October 2007

Note:

The relevant percentages are calculated by reference to the shares in issue on 30 September 2007, i.e. 723,520,000 shares. Information on the accounting policy for options granted and the fair value of the options is provided in Note 14 to the Condensed Consolidated Interim Financial Information set out on page 37.

Purchases, Sale or Redemption of the Company's Listed Securities

During the six months ended 30 September 2007, 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 establishing and maintaining high standards of corporate governance. The Board is in the opinion that the Company has complied with the code provisions as set out in the Code on Corporate Governance Practice (the "Code") under Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") for the six months ended 30 September 2007, except for the following deviations:

Code Provision A.2.1 of the Code 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.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as 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 relevant standard set out in the Model Code during the six months ended 30 September 2007.

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 an audit committee (the “Audit Committee”) in compliance with Rule 3.21 of the Listing Rules with written terms of reference in compliance with the Code to review and supervise the financial reporting process and internal control systems of the Group. The Audit Committee comprises three Independent non-executive Directors of the Company. The interim results of the Group for the six months ended 30 September 2007 have been reviewed and approved by the Audit Committee, prior to their approval by the Board.

On behalf of the Board,

TSANG YUE, JOYCE
Chairperson & Chief Executive Officer

Hong Kong, 13 December 2007

羅兵咸永道會計師事務所

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

**REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION
TO THE BOARD OF DIRECTORS OF
MODERN BEAUTY SALON HOLDINGS LIMITED**

(incorporated in Cayman Island with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 24 to 40, which comprises the condensed consolidated balance sheet of Modern Beauty Salon Holdings Limited (the “Company”) and its subsidiaries (together, the “Group”) as at 30 September 2007 and the related condensed consolidated statements of income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information 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 of the Company are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting”. Our responsibility is to express a conclusion on this interim financial information based on our review 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 interim financial information consists of making inquiries, 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 information is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting”.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 13 December 2007

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

	Notes	Unaudited Six months ended 30 September	
		2007 HK\$'000	2006 HK\$'000
Turnover	4	347,816	291,696
Other gains – net	5	1,748	4,542
Cost of inventories sold		(10,089)	(10,761)
Employee benefits expenses		(130,064)	(112,942)
Depreciation and amortisation		(15,732)	(11,900)
Occupancy costs		(36,418)	(22,657)
Other operating expenses		(59,632)	(50,542)
Operating profit		97,629	87,436
Interest income		13,947	11,789
Profit before income tax	6	111,576	99,225
Income tax expense	7	(17,153)	(15,302)
Profit for the period		94,423	83,923
Dividends	8	72,352	57,741
Earnings per share (HK cents)			
– Basic	9	13.05	11.66
– Diluted	9	12.88	11.63

The notes on pages 28 to 40 form an integral part of this Condensed Consolidated Interim Financial Information.

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

	<i>Notes</i>	Unaudited 30 September 2007 HK\$'000	Audited 31 March 2007 HK\$'000
ASSETS			
Non-current assets			
Property, plant and equipment	10	75,211	77,216
Leasehold land prepayments	11	26,329	26,661
Deposits	12	21,612	17,295
Deferred income tax assets		2,387	2,977
		<u>125,539</u>	<u>124,149</u>
Current assets			
Inventories		10,432	10,618
Trade and other receivables, deposits and prepayments	12	69,047	47,749
Current income tax assets		4,192	7,121
Pledged bank deposits	13	9,220	10,707
Cash and cash equivalents		545,294	584,953
		<u>638,185</u>	<u>661,148</u>
Total assets		<u><u>763,724</u></u>	<u><u>785,297</u></u>
EQUITY			
Capital and reserves			
Share capital	14	72,352	72,340
Share premium and reserves		239,839	237,147
Total equity		<u>312,191</u>	<u>309,487</u>
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		79	79
Current liabilities			
Trade and other payables, deposits received and accrued expenses	15	42,493	41,114
Deferred revenue	16	377,205	420,007
Current income tax liabilities		31,756	14,610
		<u>451,454</u>	<u>475,731</u>
Total liabilities		<u>451,533</u>	<u>475,810</u>
Total equity and liabilities		<u><u>763,724</u></u>	<u><u>785,297</u></u>
Net current assets		<u>186,731</u>	<u>185,417</u>
Total assets less current liabilities		<u><u>312,270</u></u>	<u><u>309,566</u></u>

The notes on pages 28 to 40 form an integral part of this Condensed Consolidated Interim Financial Information.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

	Unaudited					
	Share capital	Share premium	Share-based compensation reserve	Merger reserve	Retained earnings	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
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 options	—	—	(28)	—	28	—
Profit for the period	—	—	—	—	83,923	83,923
Dividends paid	—	—	—	—	(99,360)	(99,360)
Balance at 30 September 2006	72,024	143,803	1,147	(53,982)	107,819	270,811
Balance at 1 April 2007	72,340	146,756	774	(53,982)	143,599	309,487
Exercise of share options	12	119	(56)	—	—	75
Employee share option reserve - value of employee services	—	—	816	—	—	816
Lapse of share options	—	—	(27)	—	27	—
Profit for the period	—	—	—	—	94,423	94,423
Dividends paid	—	—	—	—	(92,610)	(92,610)
Balance at 30 September 2007	72,352	146,875	1,507	(53,982)	145,439	312,191

The notes on pages 28 to 40 form an integral part of this Condensed Consolidated Interim Financial Information.

CONDENSED CONSOLIDATED INTERIM CASH FLOW STATEMENT

	Unaudited	
	Six months ended 30 September	
	2007 HK\$'000	2006 HK\$'000
Net cash generated from operating activities	64,033	53,883
Net cash (used in)/generated from investing activities	(11,158)	88,704
Net cash used in financing activities	(92,534)	(99,216)
Net (decrease)/increase in cash and cash equivalents	(39,659)	43,371
Cash and cash equivalents at beginning of the period	584,953	565,655
Cash and cash equivalents at end of the period	545,294	609,026

The notes on pages 28 to 40 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 Group is controlled by Silver Compass Holdings Corp. (“SCHC”) (incorporated in the British Virgin Islands), which owns approximately 51% of the Company’s shares. The remaining approximately 14% of the shares are held by Silver Hendon Enterprises Corp. (“SHEC”) and 35% are widely held. The Directors regard Silver Compass Holdings Corp. as being the immediate and ultimate holding company.

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 2007.

2 Basis of preparation

This unaudited condensed consolidated interim financial information for the half year ended 30 September 2007 has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” and 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 should be read in conjunction with the annual financial statements for the year ended 31 March 2007.

3 Accounting policies

The accounting policies are consistent with those of the annual financial statements for the year ended 31 March 2007.

The following new standards, amendments to standards and interpretations are mandatory for the year ending 31 March 2008:

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial instruments: Disclosures
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions

The adoption of these new standards, amendments to standards and interpretations did not have any significant financial impact to the Group.

The following new standards and interpretations have been issued by the HKICPA but are not effective for the year ending 31 March 2008 and have not been early adopted.

HKFRS 8	Operating Segments
HK(IFRIC)-Int 12	Service Concession Arrangements
HK(IFRIC)-Int 13	Customer Loyalty Programmes
HK(IFRIC)-Int 14	HKAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction
HKAS 23 (Revised)	Borrowing Costs

The Directors anticipate that the adoption of these new standards, amendments to standards and interpretations in future periods will have no significant financial impact to the Group.

Where necessary, prior period amounts have been classified to conform with changes in presentation in current period. The major reclassification for the period ended 30 September 2006 includes reclassification of certain expenses from unallocated costs to two main business segments in segment information.

4 Segment information

The Group operated in two main business segments during the period:

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

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

No analysis of the Group's segment information by geographical segments is presented as the Group mainly provides beauty and healthcare services in Hong Kong. The inter-segment sales were transacted at cost.

	Unaudited	
	Six months ended	
	30 September	
	2007	As restated
	HK\$'000	2006
		HK\$'000
Turnover:		
Sales of beauty and healthcare services	322,441	262,075
Sales recognised upon expiry of prepaid beauty packages	15,104	20,768
	<u>337,545</u>	<u>282,843</u>
Total gross sales of beauty and healthcare services	337,545	282,843
Total gross sales of skincare products	15,834	16,150
Inter-segment sales	(5,563)	(7,297)
	<u>10,271</u>	<u>8,853</u>
Total	<u>347,816</u>	<u>291,696</u>
Segment results:		
Beauty and healthcare services	111,350	97,131
Skincare products	4,612	3,916
	<u>115,962</u>	<u>101,047</u>
Other gains – net	1,748	4,542
Unallocated costs	(20,081)	(18,153)
	<u>97,629</u>	<u>87,436</u>
Operating profit	97,629	87,436
Interest income	13,947	11,789
	<u>111,576</u>	<u>99,225</u>
Profit before income tax	111,576	99,225
Income tax expense	(17,153)	(15,302)
	<u>94,423</u>	<u>83,923</u>
Profit for the period	<u>94,423</u>	<u>83,923</u>

4 Segment information (Continued)

	Unaudited 30 September 2007 HK\$'000	Audited 31 March 2007 HK\$'000
Segment assets:		
Beauty and healthcare services	565,915	583,752
Skincare products	8,021	8,141
	<u>573,936</u>	<u>591,893</u>
Unallocated assets	189,788	193,404
Total assets	<u><u>763,724</u></u>	<u><u>785,297</u></u>
Segment liabilities:		
Beauty and healthcare services	(415,252)	(457,069)
Skincare products	(4,445)	(4,052)
	<u>(419,697)</u>	<u>(461,121)</u>
Unallocated liabilities	(31,836)	(14,689)
Total liabilities	<u><u>(451,533)</u></u>	<u><u>(475,810)</u></u>
		Unaudited Six months ended 30 September
	2007 HK\$'000	2006 HK\$'000
Other information:		
Capital expenditure		
Beauty and healthcare services	14,854	24,743
	<u>14,854</u>	<u>24,743</u>
Depreciation and amortisation		
Beauty and healthcare services	15,447	11,615
Skincare products	58	58
Unallocated depreciation and amortisation	227	227
	<u>15,732</u>	<u>11,900</u>

5 Other gains - net

	Unaudited Six months ended 30 September	
	2007 HK\$'000	2006 HK\$'000
Financial assets at fair value through profit or loss:		
– fair value gains	—	1,264
Gross rental income	366	198
Other income	1,382	3,080
	<u>1,748</u>	<u>4,542</u>

6 Profit before income tax

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

	Unaudited Six months ended 30 September	
	2007 HK\$'000	2006 HK\$'000
Auditors' remuneration		
– current period	1,200	1,000
Gain on disposal of property, plant and equipment	(1,251)	(2,500)
	<u>—</u>	<u>—</u>

7 Income tax expense

Hong Kong profits tax has been provided at the rate of 17.5% (2006: 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	
	2007 HK\$'000	2006 HK\$'000
Current income taxation:		
– Hong Kong profits tax	17,086	15,302
– Over provision in prior years	(523)	—
	<u>16,563</u>	<u>15,302</u>
Deferred taxation	590	—
	<u>17,153</u>	<u>15,302</u>

8 Dividends

	Unaudited Six months ended 30 September	
	2007 HK\$'000	2006 HK\$'000
Proposed interim dividend of HK10.0 cents per ordinary share (six months ended 30 September 2006: HK7.0 cents) (<i>note a</i>)	72,352	50,523
Proposed special dividend (<i>note b</i>)	—	7,218
	<u>72,352</u>	<u>57,741</u>

Notes:

- (a) An interim dividend of HK10.0 cents per share, amounting to total dividend of HK\$72,352,000 was approved on 13 December 2007. This condensed consolidated interim financial information does not reflect this dividend payable.
- (b) For the period ended 30 September 2006, a special dividend of HK1.0 cent per share, amounting to total dividend of HK\$7,217,600 was approved on 13 December 2006.

9 Earnings per share

The calculation of basic and diluted earnings per share is based on the Group's net profit for the period of HK\$94,423,000 (2006: HK\$83,923,000).

The calculation of basic earnings per share is based on the weighted average of 723,476,284 (2006: 720,033,443) shares in issue during the period.

The calculation of diluted earnings per share is based on the weighted average of 723,476,284 (2006: 720,033,443) shares in issue during the period plus the weighted average of 9,656,409 (2006: 1,594,742) shares deemed to be issued if all outstanding share options granted under the Share Option Scheme of the Company had been exercised.

10 Property, plant and equipment

	Unaudited Six months ended 30 September	
	2007 HK\$'000	2006 HK\$'000
Net book amount at beginning of the period	77,216	55,774
Additions, at cost	14,854	24,743
Disposals	(1,459)	—
Depreciation	(15,400)	(11,568)
Net book amount at end of the period	<u>75,211</u>	<u>68,949</u>

11 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 Six months ended 30 September	
	2007 HK\$'000	2006 HK\$'000
At beginning of the period	26,661	27,325
Amortisation	(332)	(332)
At end of the period	<u>26,329</u>	<u>26,993</u>

12 Trade and other receivables, deposits and prepayments

	Unaudited 30 September 2007 HK\$'000	Audited 31 March 2007 HK\$'000
Non-current assets		
Rental and other deposits	<u>21,612</u>	<u>17,295</u>
Current assets		
Trade receivables	41,694	30,270
Rental and other deposits, prepayments and other receivables	27,353	17,094
Amounts due from a related company (<i>Note 19(b)</i>)	—	385
	<u>69,047</u>	<u>47,749</u>
	<u>90,659</u>	<u>65,044</u>

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

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

	Unaudited 30 September 2007 HK\$'000	Audited 31 March 2007 HK\$'000
0 - 30 days	24,303	24,251
31 - 60 days	17,391	5,847
61 - 90 days	—	172
	<u>41,694</u>	<u>30,270</u>

13 Pledged bank deposits

As at 30 September 2007, the Group pledged bank deposits of approximately HK\$9,220,000 (31 March 2007: HK\$10,707,000) in favour of certain banks to secure banking facilities granted to certain subsidiaries of the Company.

14 Share capital

(a) Authorised and issued capital

	Number of shares	HK\$'000
Authorised:		
As at 31 March 2007 and 30 September 2007	10,000,000,000	1,000,000
Issued and fully paid:		
As at 1 April 2006	720,000,000	72,000
Issue of shares upon exercise of share options (<i>note (i)</i>)	3,395,000	340
As at 31 March 2007	723,395,000	72,340
Issue of shares upon exercise of share options (<i>note(ii)</i>)	125,000	12
As at 30 September 2007	723,520,000	72,352

Notes:

- (i) During the year ended 31 March 2007, 3,395,000 ordinary shares of HK\$0.10 were issued in respect of the Pre-IPO share option exercised by Directors, senior management and other employees under the Pre-IPO Share Option Scheme (Note 14(b)(i)) at an exercise price at HK\$0.60.
- (ii) During the six months ended 30 September 2007, 125,000 ordinary shares of HK\$0.10 were issued in respect of the Pre-IPO share options exercised by a director under the Pre-IPO Share Option Scheme (Note 14(b)(i)) at an exercise price at HK\$0.60.

14 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\$0.60 per option. The 50% of and another 50% of 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 exercised 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>

	Number of options as at 1 April 2007	Number of options lapsed during the period	Number of options exercised during the period	Number of options as at 30 September 2007
Director	<u>125,000</u>	<u>—</u>	<u>(125,000)</u>	<u>—</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 of HK\$0.60 per option, 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.

14 Share capital (Continued)

(b) Share options (Continued)

(ii) Share Option 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 Share Option Scheme, to take up option to subscribe for shares of the Company at an exercise price of HK\$1.33 per option and exercisable for a period of four to nine years commencing from the date of grant. The life of options is ten years.

Movements in the number of share options are as follows:

	Number of options as at 1 April 2007	Reclassification	Number of options cancelled/ lapsed during the period	Number of options as at 30 September 2007
Directors	5,700,000	200,000	—	5,900,000
Senior management	1,350,000	—	—	1,350,000
Other employees	8,010,000	(200,000)	(180,000)	7,630,000
	<u>15,060,000</u>	<u>—</u>	<u>(180,000)</u>	<u>14,880,000</u>

The fair value of options granted on 23 October 2006 determined using the Black-Scholes valuation model was HK\$11,847,300. The significant inputs into the model were share price of HK\$1.33 as at the grant date, exercise price of HK\$1.33 per option, standard deviation of expected share price returns of 50%, expected life of options of ten years, expected dividend paid-out rate of 10.38% and annual risk-free interest rate of 4.13% for exercise date beginning on 23 October 2010, 2014 and 2015, respectively. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis.

15 Trade and other payables, deposits received and accrued expenses

	Unaudited 30 September 2007 HK\$'000	Audited 31 March 2007 HK\$'000
Trade payables	2,195	1,567
Other payables, deposits received and accrued expenses	40,298	39,547
	<u>42,493</u>	<u>41,114</u>

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

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

16 Deferred revenue

At 30 September 2007 and 31 March 2007, the ageing analysis of the deferred revenue is as follows:

	Unaudited 30 September 2007 HK\$'000	Audited 31 March 2007 HK\$'000
Within 1 year	200,514	220,618
More than 1 year but within 2 years	103,046	119,887
More than 2 years but within 3 years	73,645	79,502
	<u>377,205</u>	<u>420,007</u>

Movement of deferred revenue

	Unaudited Six months ended 30 September 2007 HK\$'000	Audited Year ended 31 March 2007 HK\$'000
Beginning of the period/year	420,007	526,412
Receipts during the period/year	294,743	489,489
Sales of beauty and healthcare services	(322,441)	(560,588)
Sales recognised upon expiry of prepaid beauty packages	(15,104)	(35,306)
End of the period/year	<u>377,205</u>	<u>420,007</u>

17 Commitments

(a) Commitments under operating leases

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

	Unaudited 30 September 2007 HK\$'000	Audited 31 March 2007 HK\$'000
Not later than one year	84,897	64,034
Later than one year and not later than five years	99,771	85,160
Later than five years	2,018	—
	<u>186,686</u>	<u>149,194</u>

17 Commitments (Continued)

(b) Other commitments

Other commitments at the balance sheet dates are as follows:

	Unaudited 30 September 2007 HK\$'000	Audited 31 March 2007 HK\$'000
Capital expenditure contracted for but not yet incurred in the financial statements in respect of acquisition of property, plant and equipment	6,818	5,999

18 Contingent liabilities

During the course of business, the Group has received complaints and claims concerned with the sales 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.

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	
	Note	2007 HK\$'000	2006 HK\$'000
Lease of properties:			
Rental paid to related companies:			
Chain Tech International Limited	(i)	216	216
Luck Elegant Industrial Limited	(i)	840	—
		<u>1,056</u>	<u>216</u>

Note:

- (i) The amounts represented rental expenses paid for areas leased from related companies for use as shops at a monthly rental mutually agreed by both parties. The related companies are controlled by Ms. Tsang Yue, Joyce.

19 Related party balances and transactions (Continued)

(b) Balance with a related party

Amount due from a related company

	Balance ended 30 September 2007 HK\$'000	Balance ended 31 March 2007 HK\$'000	Maximum outstanding balance for the six months ended 30 September 2007 HK\$'000	Maximum outstanding balance for the year ended 31 March 2007 HK\$'000
JF Holdings (S) Pte Limited	—	385	385	385

The amount due from a related company is unsecured, interest free and repayable on demand. The related company is controlled by Ms. Tsang Yue, Joyce.

(c) Director guarantee

As at 30 September 2007, a director has indemnified certain companies within the Group against any loss resulting from any litigation and claims occurred prior to the Listing Date.

(d) Key management compensation

	Unaudited Six months ended 30 September	
	2007 HK\$'000	2006 HK\$'000
Salaries	6,905	6,622
Employer's contribution to pension scheme	42	39
Share-based compensation	315	578
	<u>7,262</u>	<u>7,239</u>

20 Event after the balance sheet date

On 12 October 2007, Well Faith International Enterprise Limited (the "Purchaser"), a wholly-owned subsidiary of the Company, entered into an agreement (the "Agreement") with Chiyu Banking Corporation Limited (the "Vendor") for the acquisition of a property. Pursuant to the terms of the Agreement, the Purchaser will purchase the property from the Vendor at a consideration of HK\$50,000,000.



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