



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 2008/09
中期報告



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CORPORATE INFORMATION

BOARD OF DIRECTORS

Mr. Lee Soo Ghee (*Chairperson*)
Ms. Yuen Siu Ping
Mr. Yip Kai Wing
Mr. Kwong Chi Ching
Ms. Mok Hin Yuk
Mr. Cheng Kai Tai, Allen
(*Independent Non-executive Director*)
Mr. Yip Ki Chi, Luke (*Independent Non-executive Director*)
Mr. Soo SK Sean (*Independent Non-executive Director*)

AUTHORISED REPRESENTATIVES

Mr. Yip Kai Wing
Mr. Ma Nam Shing

COMPANY SECRETARY

Mr. Ma Nam Shing

QUALIFIED ACCOUNTANT

Ms. Yeung See Man

MEMBERS OF AUDIT COMMITTEE

Mr. Cheng Kai Tai, Allen (*Chairperson*)
Mr. Yip Ki Chi, Luke
Mr. Soo SK Sean

MEMBERS OF REMUNERATION COMMITTEE

Mr. Lee Soo Ghee (*Chairperson*)
Mr. Cheng Kai Tai, Allen
Mr. Yip Ki Chi, Luke
Mr. Soo SK Sean

MEMBERS OF NOMINATION COMMITTEE

Mr. Lee Soo Ghee (*Chairperson*)
Mr. Cheng Kai Tai, Allen
Mr. Yip Ki Chi, Luke
Mr. Soo SK Sean

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

STOCK CODE

919

INVESTOR RELATIONS

E-mail address: ir@modernbeautysalon.com

WEBSITE

www.modernbeautysalon.com

FINANCIAL HIGHLIGHTS

- Group's turnover grew by 5.2% to HK\$365.9 million
- Prepaid receipts grew by 18.5%
- Hong Kong business increased by 1.1%
- Mainland China business increased by 591.6%
- Net profit margin declined to 10.9% due to the increased operating costs
- Basic earnings per share was HK5.53 cents
- Interim dividend per share was HK4.30 cents, representing a dividend payout ratio of approximately 78% of the current period profit

OPERATION HIGHLIGHTS

- Hong Kong business comprised 36 beauty and spa service centres with a weighted average total gross floor area of 329,000 square feet
- The Group launched 4 "be Beauty Shop" retail outlets in Hong Kong, taking the total number to 11 as at 30 September 2008
- Customer number in Hong Kong reached approximately 227,300, including approximately 12,800 male customers
- Mainland China business comprised 9 service centres respectively in Guangzhou, Shanghai and Beijing, with approximately 16,300 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 2008. Although the market was gripped by recession fears and a global financial crisis led by a credit freeze, the Group was able to maintain satisfactory results for the period under review. Turnover for the period under review reached HK\$365.9 million, representing a satisfactory growth of 5.2%. Net profits for the period under review was HK\$40.0 million, representing a drop of 57.6%, as a result of a significant increase in operating costs.

With the continued expansion of our service and retail network, the success of men salon service and "Soo Yoga", coupled with our diversified and quality services, our customer base has increased to 243,600 in the first half of this fiscal year. Sales generated during the period has also recorded a satisfactory growth, albeit the escalating operating costs due to the opening of new service centres according to our expansion plan as we delineated last year.

Hong Kong Business

The Group continued to expand its service and retail network in Hong Kong by opening new beauty and wellness service centres in different strategic locations. At the same time the Group continued to develop its retail outlets under the "be Beauty Shop" brand to offer a wide range of beauty products. The Group owns 36 beauty and wellness service centres with a weighted average total gross floor area of approximately 329,000 square feet. As at the end of September 2008, there are eleven "be Beauty Shop" outlets operating in Hong Kong. The Group continued to diversify its service and product offerings during the period under review. For instance, the Group has successfully targeted the male population with its comprehensive and quality products. Sales for men's beauty packages have grown substantially by 58.5% despite the economic atmosphere. We have continued to introduce new fitness courses to target different customer segments. As at the end of September 2008, our customer base in Hong Kong grew by 17.6% to reach approximately 227,300, of which 12,800 are male customers.

Mainland China Business

Backed by our reputable brand in Hong Kong and the comprehensive services offered, our service centres in Mainland China have achieved encouraging performance in terms of growth in customer base, consumption of services, as well as achieving a net cash inflow position during the period under review. After the end of the corresponding period, we opened 6 new service centres in Guangzhou, Shanghai and Beijing, and one more service centre was opened after the end of the period under review, taking the total number of service centres in Mainland China to 9. The expansion of business in Mainland China's market was achieved with encouraging results despite a small operating loss of approximately HK\$5.4 million due to set-up costs and initial investment. The newly opened service centres performed well and contributed to the growth in our customer base in Mainland China, reaching 16,300 as at 30 September 2008. The total weighted average gross floor area for the 9 service centres is approximately 48,000 square feet.

Awards and Market Recognition

Over the years, the Group has established a strong brand in both Hong Kong and Mainland China with quality services and products that lead the beauty and wellness industry. With consistent growth in both sales and profits over the past 12 months, the Group was accredited, as "Asia's 200 Best Under A Billion" by Forbes Magazine, the renowned international business publication, for two consecutive years. This honour signifies the Group's top-of-the-class brand and recognizes our commitment in providing professional beauty services as well as our innovative approach and constant dedication in enhancing our service quality.

Outlook and Prospects

To keep the momentum of profit growth, the Group will pursue ways to extend our business horizontally and vertically, to create synergy between different business segments, and to enhance brand awareness by providing the most professional and attentive services to our customers. Depending on economic conditions, we plan to open 6 service centres in the coming year in Hong Kong in addition to the 2 new service centers opened in October and December 2008. We will seek every opportunity to diversify our retail product lines and expand our service network in Mainland China.

In June 2008, the Group acquired a 12-storey commercial property located in Tsim Sha Tsui with a gross floor area of over 13,000 square feet at an investment cost of over HK\$132.8 million. The premise will be developed into a “Spa Villa” to provide one-stop service for spa and beauty treatment. This will be another milestone in Group history.

Appreciation

Finally, I would like to extend our sincere gratitude to our management team and employees for their painstaking effort and invaluable dedication to our development throughout the period. I would be deeply indebted to our customers and shareholders for their continuous support and trust in us.

LEE SOO GHEE

Chairperson & Chief Executive Officer

Hong Kong, 17 December 2008

MANAGEMENT DISCUSSION AND ANALYSIS

(Unaudited)			
Six months ended 30 September			
	2008	2007	Growth
Prepaid beauty package (HK\$ million)	349.2	294.7	18.5%
Hong Kong	326.9	286.5	14.1%
Mainland China	22.3	8.2	171.9%
Sales of services (HK\$ million)	355.8	337.5	5.4%
Hong Kong (note)	339.1	334.4	1.4%
Mainland China	16.7	3.1	438.7%

As at 30 September			
	2008	2007	Growth
Number of service centres	45	31	45.2%
Hong Kong	36	28	28.6%
Mainland China	9	3	200.0%
Weighted average total gross floor area (sq. ft.)	377,000	309,000	22.0%
Hong Kong	329,000	291,000	13.1%
Mainland China	48,000	18,000	166.7%
Number of customers	243,600	198,300	22.8%
Hong Kong	227,300	193,200	17.6%
Mainland China	16,300	5,100	219.6%
Number of staff	2,123	1,694	25.3%
Frontline beauty staff	1,703	1,324	28.6%
Back office staff	420	370	13.5%

Note: inclusive of "sales recognized upon expiry of prepaid beauty packages".

BUSINESS REVIEW – HONG KONG

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 12 new service centres respectively at Wanchai, Causeway Bay, Happy Valley, Tsim Sha Tsui, Tai Po, Kwai Chung, Mei Foo, North Point and Kwun Tong. One centre in Tsim Sha Tsui was consolidated with another existing centre due to expiry of tenancy agreement; another three centres were closed. We have expanded our network coverage to 36 services centres with a weighted average total gross floor area of approximately 329,000 square feet as at 30 September 2008, representing an increase of 13.1% as compared to 291,000 square feet as at 30 September 2007.

Locations	As at 30 September	
	2008	2007
Hong Kong Island	17	13
Kowloon	8	7
New Territories	11	8
Number of Service Centres	36	28
Number of “be Beauty Shops”	11	7

With continuous expansion of its network coverage and introduction of new beauty and wellness services, the Group’s total customer base in Hong Kong reached approximately 227,300 as at 30 September 2008, representing a satisfactory growth of 17.6% as compared to 193,200 customers as at 30 September 2007.

To expand the retail network for its line “be” products, the Group began to set up more retail outlets in Hong Kong under its “be Beauty Shop” brand last year. In addition to the 7 existing outlets in Mongkok, Kwun Tong, Sheung Wan, Causeway Bay, Kwai Chung, Fanling and Tuen Mun, we opened 4 outlets in new and densely populated residential areas like Shum Shui Po, To Kwa Wan, Mei Foo and Hung Hom during the period under review. As a result, the total number of “be Beauty Shops” has reached 11 as at 30 September 2008. Various types of beauty and wellness products under seven 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, Self Blending Serum Concentrate, Deep Ocean Skin Series and “Magic Essence” which are tailor-made to suit all skin types. Each shop provides more than 80 commodity types.

Extending Service and Product Lines

These are 12 stores offering comprehensive beauty and wellness services and products to male customers. Nonetheless, with our effort to expand the men salon service network and promote our brand “Hey Man”, the Group’s men salon service has achieved satisfactory performance, with the number of male customers increased to approximately 12,800 as at 30 September 2008 from 9,200 in the corresponding period last year, representing a considerable growth of 39.1%. Sales deriving from the men salon service segment amounted to HK\$14.4 million, accounting for 3.9% of the Group’s total turnover for the six months ended 30 September 2008.

In the Group’s fitness services, we have continued to strengthen the brand “Soo Yoga” brand by launching various types of yoga services such as yoga dance, jazz dance, hip hop dance and belly dance. Other fitness services that helped broaden our customer base were introduced, including family-oriented programs such as ballet and drama courses for children. In addition, our “Dance Square” program provided a range of dance classes such as Hip-hop, funky dance and Latin dance to help customers lose weight and keep in shape. The diverse range of fitness services has improved the Group’s performance in this business segment, lifting sales by 8.2%, or HK\$1.9 million, to HK\$25.9 million, representing 7.1% of the Group’s total turnover for the six months ended 30 September 2008 (For the six months ended 30 September 2007: HK\$23.9 million, 6.9%).

BUSINESS REVIEW – MAINLAND CHINA

From December last year to April this year, the Group added a total of 6 service centres in Guangzhou, Shanghai and Beijing to the existing 3 service centres that had already been operating in those cities. The centres offer a comprehensive range of services including beauty and facial treatments, spa and massage as well as slimming services, to target customers in the middle to high income bracket who demand quality beauty and wellness services.

Number of Service Centres:

Locations	As at 30 September	
	2008	2007
Beijing	4	1
Shanghai	2	1
Guangzhou	3	1
Total	9	3

These service centres reported an operational loss of HK\$5.4 million for the period under review because of initial capital investment and set-up costs, as well as rental expenses and other overheads. Nonetheless, the performance of the Group's service centres operation in China has been encouraging since the opening of its first centre in Guangzhou in fiscal year 2006/07. Prepaid beauty package was grown by 171.9% while sales of services was up by 438.7%; number of customers was up by 219.6%, and weighted average total gross floor area was risen by 166.7%. In view of that, after the end of the period under review, the Group will open one new service centres in Shanghai. It will further enhance our business presence in China and broaden our revenue base.

Backed by the Group's renowned brand in Hong Kong, our services are well received in Mainland China's market. The Group has approximately 16,300 customers in China as at the end of the period under review compared to 11,000 customers as at 31 March 2008, reflecting a growth of 48.2%. Our service centres in Mainland China have achieved excellent month-on-month growth in the sales of prepaid beauty packages during the period under review, reaching a total of HK\$22.3 million.

Operation Highlights

Service Enhancement

The Group acquired a property in Tsim Sha Tsui at an investment cost of over HK\$132.8 million in June 2008 for the introduction of a New Concept Store "Spa Villa". With a gross floor area of about 13,000 square feet, the property will be devoted to providing one-stop personal care services such as spa and beauty treatment. When launching, the new store is expected to help the Group accommodate future growth in business.

In order to further enhance customer satisfaction and encourage a more efficient use of our services and facilities, the Group has launched a service enhancement program since 2006 through the introduction of real-time online booking system on its website. That effort continues to pay off as evidenced by increased year-on-year sales. Sales of beauty and wellness services grew to HK\$343.7 million, representing 93.9% of total revenue compared to 92.7% for the corresponding period last year. Income from expired prepaid beauty packages further reduced to HK\$12.2 million, representing 3.3% of the Group's total revenue for the six months ended 30 September 2008, compared to HK\$15.1 million, or 4.3% of total revenue, for the corresponding period last year.

FINANCIAL REVIEW

	(Unaudited)				
	Six months ended 30 September				
	2008		2007		Change
HK\$'000	% to turnover	HK\$'000	% to turnover		
Turnover					
Sales of beauty and wellness services	343,668	93.9%	322,441	92.7%	+6.6%
Sales recognised upon expiry of prepaid beauty packages	12,223	3.3%	15,104	4.3%	-19.1%
Sales of beauty products	10,051	2.8%	10,271	3.0%	-2.1%
	<u>365,942</u>	<u>100.0%</u>	<u>347,816</u>	<u>100.0%</u>	<u>+5.2%</u>

The Group's total turnover increased by 5.2% to HK\$365.9 million for the six months ended 30 September 2008 compared to HK\$347.8 million for the corresponding period last year. The sales of beauty and wellness services have surged by 6.6% or HK\$21.2 million to HK\$343.7 million. The growth was mainly attributable to the continued expansion of the Group's service network in Hong Kong. The weighted average total gross floor area in Hong Kong reached approximately 329,000 square feet as at 30 September 2008, representing an increase of 13.1% as compared to 291,000 square feet as at 30 September 2007. Furthermore, an improved performance in beauty and facial, fitness as well as spa and massage services also contributed to the growth in revenue.

In Mainland China, the service centres were well received by local customers with registered customers of more than 16,300 as at 30 September 2008 as comparing to 11,000 registered customers at the end of March 2008. Prepaid beauty packages accounted for HK\$22.3 million while sales of services grew steadily to HK\$16.7 million.

Turnover by Business Segment

	(Unaudited)				
	Six months ended 30 September				
	2008		2007		Change
HK\$'000	% to turnover	HK\$'000	% to turnover		
Sales Mix					
Beauty and facial	165,048	45.1%	151,879	43.6%	+8.7%
Spa and massage	86,294	23.6%	83,811	24.1%	+2.9%
Slimming	78,648	21.5%	77,906	22.4%	+1.0%
Fitness	25,901	7.1%	23,949	6.9%	+8.2%
Sales of beauty products	10,051	2.7%	10,271	3.0%	-2.1%
	<u>365,942</u>	<u>100.0%</u>	<u>347,816</u>	<u>100.0%</u>	<u>+5.2%</u>

Among the Group's five service and product lines, beauty and facial service demonstrated a satisfactory growth at 8.7% or HK\$13.2 million to HK\$165.0 million during the period under review, representing 45.1% of the Group's total turnover for the period under review.

Fitness service is another business segment that performed well. Revenue from this segment was up by 8.2% or HK\$1.9 million to HK\$25.9 million. Fitness service accounted for 7.1% of the Group's total revenue. Slimming services has increased by 1.0% or HK\$0.7 million. The Group's sales in beauty products have dropped by 2.1% or HK\$0.2 million.

Sales of New Prepaid Beauty Packages

	(Unaudited)			(Unaudited)
	As at 30 September 2008			As at 30 September 2007
	Hong Kong	Mainland China	Total	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Movement of Deferred Revenue				
Beginning of the period	251,886	13,142	265,028	420,007
Exchange differences	—	197	197	—
Receipts from sales of new prepaid Beauty packages during the period	326,862	22,339	349,201	294,743
Sales of beauty and wellness services	(326,939)	(16,729)	(343,668)	(322,441)
Sales recognized upon expiry of prepaid beauty packages	(12,223)	—	(12,223)	(15,104)
End of the period	<u>239,586</u>	<u>18,949</u>	<u>258,535</u>	<u>377,205</u>

Receipts generated from the sales of new prepaid beauty packages reached HK\$349.2 million, representing a rise of 18.5% or HK\$54.5 million for the period under review compared to HK\$294.7 million for the corresponding period last year. The growth was mainly driven by the increased sales in new prepaid beauty packages in Hong Kong, which grew by HK\$40.3 million to HK\$326.8 million as well as the increased sales of HK\$14.0 million in Mainland China. Thanks to the service enhancement program and an expanded service network, together with the launch of an online booking system, as well as a more intensive marketing program, the Group was able to achieve encouraging results in its new prepaid beauty packages and customers' consumption of services.

In Mainland China, receipts generated from new prepaid beauty packages by the nine service centres in Guangzhou, Shanghai and Beijing represented 6.4% of the Group's total receipts. While in their investment stage, these service centres reported an operational loss of HK\$5.4 million for the period under review due to the capital investment including the initial company set-up costs, rental expenses and other overheads. Nevertheless, these service centres have reported encouraging performance in terms of growth in customer base, sales of new prepaid beauty packages and consumption of beauty services and recorded net cash inflow position within two to three months since their operation.

Analysis of Operating Expenses

(Unaudited)

Six months ended 30 September

	2008		2007		Change
	HK\$'000	% to turnover	HK\$'000	% to turnover	
Staff costs	166,592	45.5%	130,064	37.4%	+28.1%
Occupancy costs	51,434	14.1%	36,418	10.5%	+41.2%
Depreciation & amortization	18,660	5.1%	15,732	4.5%	+18.6%
Income tax expenses	6,029	1.6%	17,153	4.9%	-64.8%
Cost of inventories sold	11,372	3.1%	10,089	2.9%	+12.7%
Other operating expenses, including	81,539	22.3%	59,632	17.1%	+36.7%
– Bank charges	17,170	4.7%	13,519	3.9%	+27.0%
– Advertising and promotion	16,741	4.6%	10,545	3.0%	+58.8%
– Utilities	7,507	2.1%	5,597	1.6%	+34.1%
– Building management fee	10,552	2.9%	8,187	2.4%	+28.9%
– Others	29,569	8.1%	21,784	6.2%	+35.7%

To support the continued expansion of the Group's business in Hong Kong and Mainland China, we have employed additional staff during the period under review. Total headcount increased by 25.3% to 2,123 as at 30 September 2008, including 1,850 and 273 staff in Hong Kong and Mainland China respectively, compared to 1,694 staff for the corresponding period last year. As a result, staff costs increased by 28.1% to HK\$166.6 million for the period under review. Furthermore, discretionary bonuses were paid to the staff in recognition of their contribution. As a percentage to turnover, staff costs increased by 8.1% to 45.5% for the six months ended 30 September 2008 compared to 37.4% for the corresponding period last year.

The Group's occupancy costs increased by HK\$15.0 million to HK\$51.4 million, representing 14.1% of the turnover for the six months ended 30 September 2008 compared to HK\$36.4 million or 10.5% 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. The number of service centres increased to 45 with weighted average total gross floor area of approximately 377,000 square feet as at 30 September 2008, compared to 31 service centres with approximately 309,000 square feet as at 30 September 2007, representing an expansion in floor area by 22.0%. The increase in occupancy costs was due to rental increment in the renewal of tenancies for several existing service centres during the period under review and second half of the financial year ended 31 March 2008.

Bank charges have increased by 27.0% to HK\$17.2 million as a result of increase in the prepaid sale packages. Advertising and promotional expenses rose to HK\$16.7 million as compared to HK\$10.5 million for the corresponding period last year. In percentage term, it has increased from 3.0% to 4.6% of the total turnover for the six months ended 30 September 2008.

Net Profit and Margin

Net profit for the period decreased 57.6% to HK\$40.0 million for the six months ended 30 September 2008 compared to HK\$94.4 million for the corresponding period last year. Net profit margin of the Group fell 16.2% to 10.9% due to an increased operating costs. Excluding the Mainland China business, the Group achieved a net profit of HK\$45.4 million with a net profit margin of 13.0%, representing a year-on-year decline in net profit of 15.8%. Basic earnings per share was HK5.53 cents compared to HK13.05 cents for the corresponding period last year.

Interim Dividend

The Directors have declared to pay an interim dividend of HK4.3 cents (2007: an interim dividend of HK10.0 cents) per share, amounting to a total dividend payment of approximately HK\$31.1 million (2007: approximately HK\$72.4 million) which represents a payout ratio of approximately 78% (2007: 77%) of the Group's net profit for the six months ended 30 September 2008. The interim dividend of HK4.3 cents per share will be paid on around Wednesday 11 February 2009 to the shareholders whose names appear on the register of members of the Company on Thursday 22 January, 2009.

Closure of Register of Members

The register of members of the Company will be closed from Tuesday, 20 January 2009 to Thursday, 22 January, 2009, 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 4:30 p.m. on Monday, 19 January 2009.

Liquidity, Financial Resources and Capital Structure

The total equity of the Company as at 30 September 2008 was HK\$351.8 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\$288.9 million as at 30 September 2008 (31 March 2008: HK\$349.8 million) with no bank borrowing. During the period, the majority of the Group's cash was held in fixed and savings deposits as in line with the Group's prudent treasury policy. As at 30 September 2008, the Group had net current assets of HK\$78.7 million (31 March 2008: HK\$115.2 million).

Capital Expenditure

The total capital expenditure of the Group during the six months ended 30 September 2008 was HK\$33.0 million. The amount included HK\$31.9 million allocated for the acquisition of leasehold improvements, equipment and machinery in connection with the expansion of the service and retail network in Hong Kong. The remaining approximately HK\$1.1 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 2008. The Group had capital commitment of HK\$128.1 million as at 30 September 2008 (31 March 2008: HK\$8.3 million) in respect of the acquisition of property, plant and equipment.

Charges on Assets

As at 30 September 2008, the Group had pledged bank deposits of HK\$9.4 million (31 March 2008: HK\$9.3 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 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 2008.

Treasury Policies

The Group adopts a prudent approach in its treasury policy. The Group's surplus funds are held under fixed and savings deposits in reputable banks to earn interest income at an annualized yield of approximately 2%. During the period under review, the Group did not have any other security or capital investments, derivative investments, or hedging for foreign currencies.

Human Resources

The Group had a work force of 2,123 staff as at 30 September 2008 (31 March 2008: 1,694 staff), including 1,703 frontline service centre staff and 420 back office staff. Back office staff totaled 380 in Hong Kong and 40 in Mainland China. Total employee benefits expenses including directors' emoluments for the period under review amounted to HK\$166.6 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 2008, certain directors, senior management and employees of the Group are entitled to a total of 13,200,000 share options. 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 2008, 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

For the second half of the year ending 31 March 2009, the Group remain confident about our growth in providing high quality and professional beauty and wellness services in Hong Kong and Mainland China despite the recent economic slowdown. We have continued to expand our network coverage in Hong Kong and Mainland China to consolidate our leadership in the beauty and wellness service industry. The Group will pursue its strategy to diversify its range of service and product lines in order to meet different demand. We will also continue to put greater emphasis on staff training to enhance service quality and operational efficiency.

Hong Kong Market

In short and medium term, our Hong Kong business will continue to be the key contributor to the Group's business growth. Depending on the economic condition going forward, we will continue to open more service centres in new locations to extend our network coverage strategically. In the second half of the financial year ending 31 March 2009, apart from two new service centres that have opened respectively in October and December of 2008, the Group will open additionally 6 centres, and recruit about 150 more frontline staff in the coming year.

Besides sale of service, we have been developing the retail market by opening "be Beauty Shop" outlets to expand our retail network. Since March 2008, we have opened 4 stores in addition to the 7 existing stores as at 31 March 2008. The Group will seek opportunity to diversify its product lines to reach target customers. The Group will continue to deepen its market penetration and broaden its customer base through expansion.

Mainland China Market

The Group remains optimistic towards the Group's business in Mainland China. Proven with the stellar track record of receipts from prepaid beauty packages and their subsequent sales, as well as the growth in customer base, coupled with the Group's experience in operating beauty service network in Hong Kong and continued training of its frontline beauty staff, all of the beauty service centres in Guangzhou, Shanghai and Beijing respectively are well received by local customers. The Group will continue to execute its network expansion plan in Mainland China.

Our Strength

Amid the signs for global economic slowdown, our Group will remain confident in getting through any tough times because our Group has solid foundation with strong finance, proven track record, reputable brand, extended service network, comprehensive range of quality service as well as experienced management team, sales force and well-trained beauticians. We do not have any bank borrowings, nor any investments in derivatives, bonds or structured financial products. We will continue to identify any opportunities for business expansion, and to maximize our return through the execution of stringent cost control.

CORPORATE GOVERNANCE AND OTHER INFORMATION

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

As at 30 September 2008, 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 he is 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 (“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. 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:

1. 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.
 2. The relevant percentages are calculated by reference to the shares in issue on 30 September 2008; ie. 723,520,000 shares.
 3. 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.
 4. 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.
 5. 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.
- * Resigned on 26 November 2008 (please see "other information")

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 (Note)	100%
	Beneficial owner	Silver Hendon Enterprises Corp.	100 (Note)	100%

* Resigned on 26 November 2008 (please see "other information")

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 2008, 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 he was 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 2008, 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 2008, 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:

1. The relevant percentages are calculated by reference to the shares in issue on 30 September 2008, i.e. 723,520,000 shares.
2. 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 2008, 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

On 20 January 2006, the Company has established a share option scheme (“Share Option Scheme”) whereby the Board is authorised to, grant options to Directors and employees of the Group.

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.

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 and directors, 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.

(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 were as follows:

Grantee	No. of options as at 1 April 2008	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 2008	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. 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 2008	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 2008	Date of grant	Period during which options are exercisable	Exercise price per share	Approximate percentage of issued shares (Note)
<i>Directors</i>										
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	2,075,000	—	—	—	—	2,075,000	23/10/2006	23/10/2010 to 22/10/2016	HK\$1.33	0.29%
Employees	2,905,000	—	—	—	—	2,905,000	23/10/2006	23/10/2014 to 22/10/2016	HK\$1.33	0.40%
Employees	3,320,000	—	—	—	—	3,320,000	23/10/2006	23/10/2015 to 22/10/2016	HK\$1.33	0.46%
Total	13,200,000	—	—	—	—	13,200,000				

* Resigned on 26 November 2008 (please see "other information")

Note: The relevant percentages are calculated by reference to the shares in issue on 30 September 2008, i.e. 723,520,000 shares.

Information on the accounting policy for options granted under the 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.

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

During the six months ended 30 September 2008, 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 applied the principles of all applicable code provisions of the Code on Corporate Governance Practice (the “Code”) as set out in 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 2008, 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. Mr. Lee Soo Ghee 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 2008.

Other information

On 26 November 2008, due to health reasons, Ms. Tsang Yue, Joyce has resigned as Chief Executive Officer (the “CEO”), executive director, each of the Chairperson of the Board, Remuneration Committee and Nomination Committee of the Company and members of each of the Remuneration Committee and Nomination Committee of the Company. Since 26 November 2008, Mr. Lee Soo Ghee has been re-designated and appointed as the CEO, each of the Chairperson of the Board, Remuneration Committee and Nomination Committee, and members of each of the Remuneration Committee and Nomination Committee 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, Mr. Lee Soo Ghee and three Independent non-executive Directors, Mr. Cheng Kai Tai, Allen, Mr. Yip Ki Chi, Luke and Mr. Soo SK Sean. Mr. Lee Soo Ghee 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, Mr. Lee Soo Ghee and three Independent non-executive Directors, Mr. Cheng Kai Tai, Allen, Mr. Yip Ki Chi, Luke and Mr. Soo SK Sean. Mr. Lee Soo Ghee 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 2008 have been reviewed and approved by the Audit Committee, prior to their approval by the Board.

On behalf of the Board,

LEE SOO GHEE

Chairperson & Chief Executive Officer

Hong Kong, 17 December 2008

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 Islands 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 2008 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, 17 December 2008

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

	<i>Notes</i>	Unaudited Six months ended 30 September	
		2008 HK\$'000	2007 HK\$'000
Turnover	4	365,942	347,816
Other gains - net	5	6,580	1,748
Cost of inventories sold		(11,372)	(10,089)
Employee benefits expenses		(166,592)	(130,064)
Depreciation and amortisation		(18,660)	(15,732)
Occupancy costs		(51,434)	(36,418)
Other operating expenses		(81,539)	(59,632)
Operating profit		42,925	97,629
Interest income		3,122	13,947
Profit before income tax	6	46,047	111,576
Income tax expense	7	(6,029)	(17,153)
Profit for the period		40,018	94,423
Dividends	8	31,111	72,352
Earnings per share (HK cents)			
– Basic	9	5.53	13.05
– Diluted	9	5.48	12.88

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 2008 HK\$'000	Audited 31 March 2008 HK\$'000
ASSETS			
Non-current assets			
Property, plant and equipment	10	124,968	109,456
Leasehold land prepayments	11	116,990	118,088
Deposits	12	23,432	25,710
Deferred income tax assets		8,100	6,477
		<u>273,490</u>	<u>259,731</u>
Current assets			
Inventories		11,491	12,583
Trade and other receivables, deposits and prepayments	12	103,438	72,514
Current income tax assets		10,020	9,462
Pledged bank deposits	13	9,350	9,264
Cash and cash equivalents		288,968	349,811
		<u>423,267</u>	<u>453,634</u>
Total assets		<u><u>696,757</u></u>	<u><u>713,365</u></u>
EQUITY			
Capital and reserves			
Share capital	14	72,352	72,352
Share premium and reserves		279,478	302,327
		<u>351,830</u>	<u>374,679</u>
Total equity		<u><u>351,830</u></u>	<u><u>374,679</u></u>
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		363	209
		<u>363</u>	<u>209</u>
Current liabilities			
Trade and other payables, deposits received and accrued expenses	15	52,444	47,489
Deferred revenue	16	258,535	265,028
Current income tax liabilities		33,585	25,960
		<u>344,564</u>	<u>338,477</u>
Total liabilities		<u><u>344,927</u></u>	<u><u>338,686</u></u>
Total equity and liabilities		<u><u>696,757</u></u>	<u><u>713,365</u></u>
Net current assets		<u><u>78,703</u></u>	<u><u>115,157</u></u>
Total assets less current liabilities		<u><u>352,193</u></u>	<u><u>374,888</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 HK\$'000	Share premium HK\$'000	Share-based compensation reserve HK\$'000	Merger reserve HK\$'000	Exchange reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
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
Balance at 1 April 2008	72,352	146,875	2,053	(53,982)	1,684	205,697	374,679
Exchange differences	—	—	—	—	87	—	87
Employee share option reserve							
– value of employee services	—	—	715	—	—	—	715
Profit for the period	—	—	—	—	—	40,018	40,018
Dividends paid	—	—	—	—	—	(63,669)	(63,669)
Balance at 30 September 2008	72,352	146,875	2,768	(53,982)	1,771	182,046	351,830

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	
	2008 HK\$'000	2007 HK\$'000
Net cash generated from operating activities	35,608	64,033
Net cash used in investing activities	(32,965)	(11,158)
Net cash used in financing activities	(63,669)	(92,534)
Net decrease in cash and cash equivalents	(61,026)	(39,659)
Cash and cash equivalents at beginning of the period	349,811	584,953
Exchange differences	183	—
Cash and cash equivalents at end of the period	<u>288,968</u>	<u>545,294</u>

The notes on pages 28 to 40 form an integral part of this condensed consolidated interim financial information.

NOTES TO THE 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 wellness 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 Corporation (“SCHC”) (incorporated in the British Virgin Islands), which owns 51% of the Company’s shares. The remaining approximately 14% of the shares are held by Silver Hendon Enterprises Corporation (“SHEC”) and 35% are widely held. The Directors regard SCHC as being the immediate and ultimate holding company. The Company has its listing on The Stock Exchange of Hong Kong Limited.

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 17 December 2008.

2 Basis of preparation

This condensed consolidated interim financial information for the half year ended 30 September 2008 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 2008, which have been prepared in accordance with Hong Kong Financial Reporting Standards.

3 Accounting policies

Except as described below, the accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 March 2008, as described in those annual financial statements.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to the expected total annual earnings.

The following new standards, amendments to standards or interpretations are mandatory for the first time for the financial year beginning 1 April 2008 but are not currently relevant for the Group.

HK(IFRIC) – Int 11	‘HKFRS 2 – Group and treasury share transactions’
HK(IFRIC) – Int 12	‘Service concession arrangements’
HK(IFRIC) – Int 14	‘HKAS 19 – the limit on a defined benefit asset, minimum funding requirements and their interaction’

The following new standards, amendments to standards and interpretations have been issued but are not effective for the financial year beginning 1 April 2008 and have not been early adopted:

- HKAS 1 (Revised), ‘Presentation of financial statements’, effective for annual periods beginning on or after 1 January 2009. The Group will apply HKAS 1(Revised) from 1 April 2009.
- HKAS 23 (Revised), ‘Borrowing costs’, effective for annual periods beginning on or after 1 January 2009. The Group will apply HKAS 23 (Revised) from 1 April 2009 but is currently not applicable to the Group as there are no qualifying assets.
- HKAS 32 (Amendment), ‘Financial instruments: presentation’, and consequential amendments to HKAS 1, ‘Presentation of financial statements’, effective for annual periods beginning on or after 1 January 2009. The Group will apply HKAS 32(Amendment) from 1 April 2009, but it is not expected to have any impact on the Group’s financial statements.
- HKFRS 2 (Amendment) ‘Share-based payment’ effective for annual periods beginning on or after 1 January 2009. The Group will apply HKFRS 2 (Amendment) from 1 April 2009, but it is not expected to have any impact on the Group’s financial statements
- HKFRS 3 (Revised), ‘Business combinations’ and consequential amendments to HKAS 27, ‘Consolidated and separate financial statements’, HKAS 28, ‘Investments in associates’ and HKAS 31, ‘Interests in joint ventures’, effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. The Group will apply HKFRS 3 (Revised) from 1 April 2010, but it is not expected to have any impact on the Group’s financial statements.
- HKFRS 8, ‘Operating segments’, effective for annual periods beginning on or after 1 January 2009. HKFRS 8 replaces HKAS 14, ‘Segment reporting’, and requires ‘management approach’ under which segment information is presented on the same basis as that used for internal reporting purposes. The Group will apply HKFRS 8 from 1 April 2009. The expected impact is still being assessed in detail, but it appears likely that the number of reportable segments, as well as the manner in which the segments are reported, will change in a manner that is consistent with the internal reporting provided to the chief operating decision-maker.
- HK(IFRIC)-Int 13, ‘Customer loyalty programmes’, effective for annual periods beginning on or after 1 July 2008. HK(IFRIC) – Int 13 is not relevant to the Group’s operations because none of the Group’s companies operate any loyalty programmes.
- HK(IFRIC)-Int 15, ‘Agreements for the construction of real estate’, effective for annual periods beginning on or after 1 January 2009. HK (IFRIC) – Int 15 is not relevant to the Group’s operations.
- HK(IFRIC)-Int 16, ‘Hedges of a net investment in a foreign operation’, effective for annual periods beginning on or after 1 October 2008. HK(IFRIC) – Int 16 is not relevant to the Group as there are no hedges arrangements on its overseas investment.

4 Segment information

(a) *Primary reporting format – business segments*

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

- (i) Sales of beauty and wellness services; and
- (ii) Sales of beauty products

Turnover consists of sales of beauty and wellness services and sales of beauty products.

	Unaudited Six months ended 30 September	
	2008 HK\$'000	2007 HK\$'000
Turnover:		
Sales of beauty and wellness services	343,668	322,441
Sales recognised upon expiry of prepaid beauty packages	12,223	15,104
Total gross sales of beauty and wellness services	<u>355,891</u>	<u>337,545</u>
Total gross sales of sales of beauty products	15,912	15,834
Inter-segment sales	(5,861)	(5,563)
	<u>10,051</u>	<u>10,271</u>
Total	<u><u>365,942</u></u>	<u><u>347,816</u></u>

	Unaudited Six months ended 30 September	
	2008 HK\$'000	2007 HK\$'000
Segment results:		
Beauty and wellness services	59,868	111,350
Beauty products	3,859	4,612
	<u>63,727</u>	<u>115,962</u>
Other gains - net	6,580	1,748
Unallocated costs	(27,382)	(20,081)
	<u>42,925</u>	<u>97,629</u>
Operating profit	42,925	97,629
Interest income	3,122	13,947
	<u>46,047</u>	<u>111,576</u>
Profit before income tax	46,047	111,576
Income tax expense	(6,029)	(17,153)
	<u>40,018</u>	<u>94,423</u>
Profit for the period	<u><u>40,018</u></u>	<u><u>94,423</u></u>

4 Segment information (Continued)

(a) Primary reporting format – business segments (Continued)

	Unaudited 30 September 2008 HK\$'000	Audited 31 March 2008 HK\$'000
Segment assets:		
Beauty and wellness services	469,187	487,089
Beauty products	8,259	8,681
	<u>477,446</u>	<u>495,770</u>
Unallocated assets	219,311	217,595
Total assets	<u><u>696,757</u></u>	<u><u>713,365</u></u>
	Unaudited 30 September 2008 HK\$'000	Audited 31 March 2008 HK\$'000
Segment liabilities:		
Beauty and wellness services	(306,207)	(307,205)
Beauty products	(4,772)	(5,312)
	<u>(310,979)</u>	<u>(312,517)</u>
Unallocated liabilities	(33,948)	(26,169)
Total liabilities	<u><u>(344,927)</u></u>	<u><u>(338,686)</u></u>
	Unaudited Six months ended 30 September 2008 HK\$'000	2007 HK\$'000
Other information:		
Capital expenditure		
Beauty and wellness services	<u>32,977</u>	<u>14,854</u>
	Unaudited Six months ended 30 September 2008 HK\$'000	2007 HK\$'000
Depreciation and amortization		
Beauty and wellness services	18,138	15,447
Beauty products	58	58
Unallocated depreciation and amortisation	465	227
	<u>18,661</u>	<u>15,732</u>

4 Segment information (Continued)

(b) Secondary reporting format – geographical segments

The Group operated in two geographical segments during the period:

- (i) Hong Kong; and
- (ii) Mainland China

Turnover consists of sales of beauty and wellness services and sales of beauty products.

	Unaudited Six months ended 30 September	
	2008 HK\$'000	2007 HK\$'000
Turnover:		
Hong Kong	349,213	345,397
Mainland China	16,729	2,419
Total turnover	<u>365,942</u>	<u>347,816</u>

	Unaudited 30 September 2008 HK\$'000	Audited 31 March 2008 HK\$'000
Segment assets:		
Hong Kong	655,903	672,895
Mainland China	40,854	40,470
Total assets	<u>696,757</u>	<u>713,365</u>

	Unaudited Six months ended 30 September	
	2008 HK\$'000	2007 HK\$'000
Other information:		
Capital expenditure		
Hong Kong	31,882	10,038
Mainland China	1,095	4,816
	<u>32,977</u>	<u>14,854</u>

5 Other gains - net

	Unaudited Six months ended 30 September	
	2008 HK\$'000	2007 HK\$'000
Gross rental income	366	366
Magazine subscription income	3,202	—
Food income	1,625	—
Commission income	1,071	—
Other income	316	1,382
	<u>6,580</u>	<u>1,748</u>

6 Profit before income tax

Profit before income tax is stated after charging / (crediting) the following items:

	Unaudited Six months ended 30 September	
	2008 HK\$'000	2007 HK\$'000
Auditors' remuneration		
– current period	1,495	1,200
Gain on disposal of property, plant and equipment	(95)	(1,251)
	<u>1,400</u>	<u>(51)</u>

7 Income tax expense

Hong Kong profits tax has been provided at the rate of 16.5% (2007: 17.5%) on the estimated assessable profit for the period.

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

	Unaudited Six months ended 30 September	
	2008 HK\$'000	2007 HK\$'000
Current income taxation:		
– Hong Kong profits tax	7,975	17,086
– Over provision in prior years	(481)	(523)
	<u>7,494</u>	<u>16,563</u>
Deferred taxation	(1,465)	590
	<u>6,029</u>	<u>17,153</u>

8 Dividends

	Unaudited Six months ended 30 September	
	2008 HK\$'000	2007 HK\$'000
Proposed interim dividend of HK4.3 cents per ordinary share (six months ended 30 September 2007: HK10.0 cents) (<i>note</i>)	<u>31,111</u>	<u>72,352</u>

Note: An interim dividend of HK4.3 cents per share, amounting to total dividend of HK\$31,111,360 was approved on 17 December 2008. This condensed consolidated interim financial information does not reflect this dividend payable.

9 Earnings per share

The calculation of basic and diluted earnings per share is based on the Group's net profit attributable to the shareholders for the six months ended 30 September 2008 of HK\$40,018,000 (2007: HK\$94,423,000).

The calculation of basic earnings per share is based on the weighted average of 723,520,000 (2007: 723,476,284) shares in issue during the period.

The calculation of diluted earnings per share is based on the weighted average of 723,520,000 (2007: 723,476,284) shares in issue during the period plus the weighted average of 6,434,241 (2007: 9,656,409) 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	
	2008 HK\$'000	2007 HK\$'000
Net book amount at beginning of the period	109,456	77,216
Additions, at cost	32,977	14,854
Disposals	(2)	(1,459)
Depreciation	(17,563)	(15,400)
Exchange differences	100	—
Net book amount at end of the period	<u>124,968</u>	<u>75,211</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	
	2008 HK\$'000	2007 HK\$'000
At beginning of the period	118,088	26,661
Amortisation	(1,098)	(332)
At end of the period	<u>116,990</u>	<u>26,329</u>

12 Trade and other receivables, deposits and prepayments

	Unaudited 30 September 2008 HK\$'000	Audited 31 March 2008 HK\$'000
Non-current assets		
Rental and other deposits	<u>23,432</u>	<u>25,710</u>
Current assets		
Trade receivables	50,713	48,075
Rental and other deposits, prepayments and other receivables	46,535	23,989
Amounts due from a related company (<i>Note 19(b)</i>)	6,190	450
	<u>103,438</u>	<u>72,514</u>
	<u>126,870</u>	<u>98,224</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 2008 HK\$'000	Audited 31 March 2008 HK\$'000
0 - 30 days	49,348	39,767
31 - 60 days	1,353	8,296
61 - 90 days	12	12
	<u>50,713</u>	<u>48,075</u>

13 Pledged bank deposits

As at 30 September 2008, the Group pledged bank deposits of approximately HK\$9,350,000 (31 March 2008: HK\$9,264,000) 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 2008 and 30 September 2008	10,000,000,000	1,000,000
Issued and fully paid:		
As at 31 March 2008 and 30 September 2008	723,520,000	72,352

(b) Share options

On 20 January 2006, the Company has established a share option scheme and the Board of Directors (the "Board") may, at their discretion, grant options to Directors and employees of the Group.

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 2008	Number of options cancelled /lapsed during the period	Number of options as at 30 September 2008
Directors	4,900,000	—	4,900,000
Senior management	750,000	—	750,000
Other employees	7,550,000	—	7,550,000
	<u>13,200,000</u>	<u>—</u>	<u>13,200,000</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 2008 HK\$'000	Audited 31 March 2008 HK\$'000
Trade payables	1,112	1,651
Other payables, deposits received and accrued expenses	51,332	45,838
	<u>52,444</u>	<u>47,489</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 2008 and 31 March 2008, the ageing analysis of the deferred revenue is as follows:

	Unaudited 30 September 2008 HK\$'000	Audited 31 March 2008 HK\$'000
Within 1 year	152,592	125,713
More than 1 year but within 2 years	50,123	72,286
More than 2 years but within 3 years	55,820	67,029
	<u>258,535</u>	<u>265,028</u>

Movement of deferred revenue:

	Unaudited Six months ended 30 September	
	2008 HK\$'000	2007 HK\$'000
Beginning of the period	265,028	420,007
Exchange differences	197	—
Receipts during the period	349,201	294,743
Sales of beauty and wellness services	(343,668)	(322,441)
Sales recognised upon expiry of prepaid beauty packages	(12,223)	(15,104)
End of the period	<u>258,535</u>	<u>377,205</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 2008 HK\$'000	Audited 31 March 2008 HK\$'000
Not later than one year	111,909	97,849
Later than one year and not later than five years	148,005	130,809
Later than five years	—	5,207
	<u>259,914</u>	<u>233,865</u>

(b) Other commitments

Other commitments at the balance sheet dates are as follows:

	Unaudited 30 September 2008 HK\$'000	Audited 31 March 2008 HK\$'000
Capital expenditure contracted for but not yet incurred in the financial statements in respect of acquisition of:		
– Land and building	119,520	—
– Plant and equipment	8,569	8,275
	<u>128,089</u>	<u>8,275</u>

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	2008 HK\$'000	2007 HK\$'000
Lease of properties:			
Rental paid to related companies:			
Chain Tech International Limited	(i)	216	216
Luck Elegant Industrial Limited	(i)	840	840
		<u>1,056</u>	<u>1,056</u>
License fee paid to a related company:			
Grateful Heart Charitable Foundation Limited	(ii)	480	—
		<u>480</u>	<u>—</u>
Sales of products to a related company:			
Euro King Limited	(iii)	667	—
		<u>667</u>	<u>—</u>

Notes:

- (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.
- (ii) The amount represented license fee paid for the use of trademark to a related company at a monthly license fee mutually agreed by both parties. The related company is controlled by Ms. Tsang Yue, Joyce.
- (iii) The amounts represented sales of products to a related company at a price mutually agreed by both parties. The related company is controlled by Ms. Tsang Yue, Joyce.

19 Related party balances and transactions (Continued)

(b) Balances with related parties

Amounts due from related companies

	Balance ended 30 September 2008 HK\$'000	Balance ended 31 March 2008 HK\$'000	Maximum outstanding balance for the six months ended 30 September 2008 HK\$'000	Maximum outstanding balance for the year ended 31 March 2008 HK\$'000
Grateful Heart Charitable Foundation Limited	5,523	—	5,523	—
JF Holdings (S) Pte Limited	—	450	450	450
Euro King Limited	667	—	667	—
	<u>6,190</u>	<u>450</u>	<u>6,640</u>	<u>450</u>

The amounts due from the related companies are unsecured, interest-free and repayable on demand. The related companies are controlled by Ms. Tsang Yue, Joyce.

(c) Director guarantee

As at 30 September 2008, 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	
	2008 HK\$'000	2007 HK\$'000
Salaries	8,010	6,905
Employer's contribution to pension scheme	50	42
Share-based compensation	266	315
	<u>8,326</u>	<u>7,262</u>



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