



**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 2009/10  
中期報告



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## CORPORATE INFORMATION

### BOARD OF DIRECTORS

Mr. Lee Soo Ghee (*Chairperson*)  
Mr. Yip Kai Wing  
Mr. Kwong Chi Ching  
Ms. Chu Shu Ching  
Ms. Yeung Ching Yu  
Mr. Tung Kwok Lui  
Mr. Wong Shu Pui  
Ms. Liu Mei Ling, Rhoda  
(*Independent Non-executive Director*)  
Mr. Wong Man Hin, Raymond  
(*Independent Non-executive Director*)  
Mr. Hong Po Kui, Martin  
(*Independent Non-executive Director*)

### AUTHORISED REPRESENTATIVES

Mr. Yip Kai Wing  
Mr. Tung Kwok Lui

### COMPANY SECRETARY

Mr. Tung Kwok Lui

### MEMBERS OF AUDIT COMMITTEE

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

### MEMBERS OF REMUNERATION COMMITTEE

Mr. Lee Soo Ghee (*Chairperson*)  
Ms. Liu Mei Ling, Rhoda  
Mr. Wong Man Hin, Raymond  
Mr. Hong Po Kui, Martin

### MEMBERS OF NOMINATION COMMITTEE

Mr. Lee Soo Ghee (*Chairperson*)  
Ms. Liu Mei Ling, Rhoda  
Mr. Wong Man Hin, Raymond  
Mr. Hong Po Kui, Martin

### 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

### AUDITOR

RSM Nelson Wheeler  
*Certified Public Accountants*  
29th Floor  
Caroline Centre  
Lee Gardens Two  
28 Yun Ping Road  
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](mailto:ir@modernbeautysalon.com)

### WEBSITE

[www.modernbeautysalon.com](http://www.modernbeautysalon.com)

## FINANCIAL HIGHLIGHTS

- Group's turnover decreased by 42.8% to HK\$209.5 million
- Receipts from sales of prepaid beauty packages decreased by 25.1%
- Hong Kong business decreased by 48.1%
- PRC business increased by 8.2%

## OPERATIONAL HIGHLIGHTS

- Hong Kong business comprised 35 beauty and spa service centres with a weighted average total gross floor area of 309,000 square feet
- The Group launched 4 "be Beauty Shop" retail outlets in Hong Kong, taking the total number to 15 as at 30 September 2009
- Customer number in Hong Kong reached approximately 252,900, including approximately 14,800 male customers
- Mainland China business comprised 10 service centres respectively in Guangzhou, Shanghai and Beijing, with approximately 24,400 customers in total.

## CHAIRPERSON'S STATEMENT

### Results

On behalf of the Board of Directors (the "Board"), I am pleased to present the interim results of Modern Beauty Salon Holdings Limited (the "Company") and its subsidiaries (the "Group") for the six months ended 30 September 2009. Since the outbreak of the financial crisis in September 2008, the market is gripped by the fears of recession and tightening monetary policy among the banking community. Amid all challenges, the Group had managed to achieve satisfactory revenue performance for the period under review. Turnover for the period under review reached HK\$209.5 million and a net loss of HK\$45.0 million was, however, recorded as a result of the decline in consumption during the financial tsunami. To maintain our competitive edge, we had managed to control the operating costs to be at HK\$267.8 million, representing a decline of 18.7% as compared to the same period in the last financial year.

As a market leader, we have organized various activities to explore various profiteering opportunities. A measure was implemented aka "White Knight Rescue Action" with the aim to help other beauty centres which have been affected by the financial turmoil and to support fellow members of the industry in the face of the economic crisis. During the period under review, we had managed to help and sustain the beauty industry by providing assistance to those consumers affected by some failing fellow members under interim period. At the same time, it increases our market share as well as enhances our brand recognition.

### Hong Kong Business

The Group owns 35 beauty and wellness service centres with a weighted average total gross floor area of approximately 309,000 square feet. The Group has continued to diversify its service and product offerings during the period under review. Sales of beauty products demonstrated an excellent growth at 56.4% or HK\$5.7 million to HK\$15.7 million during the period under review. As at the end of September 2009, our customer base in Hong Kong has grown by 11.3% reaching approximately 252,900, of which 14,800 are male customers.

The Group's performance in the second and third quarters of 2009 has been affected by unfavorable business environment due to the global financial turmoil in the second half year 2009. In spite of the economic downturn, the sales of beauty products segment performed well with the increasing demand for our customer care service, we believe that there is a strong potential in the segment. In the coming years, the Group will allocate more resources to promote and market the services in this area. We consider that it will become a significant source of revenue for the Group in the future.

### Mainland China Business

Backed by our reputable brand in Hong Kong and comprehensive services offered, our service centres in the PRC have achieved encouraging performance in terms of growth in customer base and consumption of services as well as achieved a net cash inflow position. At the end of the period under review, we had 10 service and wellness centres in Beijing, Shanghai and Guangzhou altogether. The performance of the Group's operation in PRC has improved with operating loss being narrowed to approximately HK\$61,000, representing a decline of 98.9% as compared to the same period last financial year. The total weighted average gross floor area for the 10 service centres is approximately 57,200 square feet.

In view of the growing demand for beauty and wellness services in the PRC, the Group plans to launch a franchised business for potential investors who are interested in participating in the beauty industry. The Group will provide supporting services, from shop renovation to staff training and products supplies. We believe that, with the Group's reputation and expertise in the industry, the franchisees will be able to operate the business successfully and it will be the most effective way to expand the Group's market share in the PRC. With the above development plans, the Group is optimistic in expanding its customer base continuously, and we are ready to tackle the challenges ahead. Amid priority will be given to sustaining the core beauty and wellness services operation, we will continue to maintain a healthy cash position for the Group.

### Awards and Market Recognition

Over the years, it has always been our motto to create a beautiful living for all walks of life. That is why the Group has committed to providing non-compromising professional beauty services through our innovative approach and constant dedication to enhancing our service quality. This is reflected by the strong presence of our brand name in both Hong Kong and Mainland China in the beauty and wellness industry.

Due to our sheer enthusiasm in the beauty industry and commitment to providing only the best services to our customers, we have proudly attained the consumer's most favorable Hong Kong brand award 2009 again.

### Outlook and Prospects

The Group has launched a new custom-blend concept store "FERRECARE" to offer more customer orientated services and products to the market since September 2009. It is founded on the belief that every human being has different need due to different skin conditions. Thus, we have decided to look in greater depth with the aim to solve the root cause of our clientele' skin problem by custom blending skin care solution specifically for their unique skin type. With the aim to serve the higher-income group, we have sought to offer top quality products to our target customers.

In the future, the Group will keep on maintaining a healthy cash status, monitoring and controlling the operating costs, by constantly tracking the consumption demand for services for expansion planning, by creating synergy between different business segments, and by enhancing brand awareness through the most professional and attentive services to our customers.

Depending on the economic conditions, we plan to launch a franchise project in PRC so as to jumpstart our growth in the vast territory, and we will seek every opportunity to diversify our retail product lines such as Be Shop and FERRECARE concept store in Hong Kong and PRC.

The Group has acquired a 12-storey commercial property located in TsimShaTsui with a gross floor area of over 13,000 square feet at an investment cost of over HK\$132.8 million. The property is located on Minden Avenue at the core of the TsimShaTsui district with MTR station in vicinity. The locality is considered to be a future shopping, dining and entertainment landmark upon the launch of the nearby Hanoi Road redevelopment project. The Group is presently in the planning and designing stage of renovating the premise in which it intends to offer one-stop personal care services such as spa and beauty treatment services.

### Appreciation

We have experienced a turbulent and challenging year. Fortunately, with the support from the counsel of the Board and our devotion to cautious financial discipline, we have come through this period with more resilience and better preparedness for new opportunities. I would like to thank my fellow directors for their invaluable contributions and guidance to management during the period under review. On behalf of the Board, I wish to express my sincere appreciation to both the management and staff for their hard work and perseverance. To all our shareholders, bankers and customers I thank them for their strong and loyal support.

LEE SOO GHEE

*Chairperson & Chief Executive Officer*

Hong Kong, 17 December 2009

**MANAGEMENT DISCUSSION AND ANALYSIS**

	Unaudited		
	1H 2009/10	1H 2008/09	Change
Receipts from sales of prepaid beauty packages (HK\$ million)	<b>261.4</b>	349.2	<b>(25.1%)</b>
Hong Kong	242.6	326.9	(25.8%)
Mainland China	18.8	22.3	(15.7%)
Revenue from services rendered (HK\$ million)	<b>193.8</b>	355.9	<b>(45.5%)</b>
Hong Kong (Note)	176.1	339.2	(48.1%)
Mainland China	17.7	16.7	6.0%
Number of service centres	<b>45</b>	45	—
Hong Kong	35	36	(2.8%)
Mainland China	10	9	11.1%
Weighted average total gross floor area (sq. ft.)	<b>366,000</b>	377,000	<b>(2.9%)</b>
Hong Kong	309,000	329,000	(6.1%)
Mainland China	57,000	48,000	18.8%
Number of customers	<b>277,300</b>	243,600	<b>13.8%</b>
Hong Kong	252,900	227,300	11.3%
Mainland China	24,400	16,300	49.7%
Number of staff	<b>1,666</b>	2,123	<b>(21.5%)</b>
Frontline beauty staff	1,505	1,703	(11.6%)
Back office staff	161	420	(61.7%)

*Note:* inclusive of “revenue recognised upon expiry of prepaid beauty packages.”

## BUSINESS REVIEW - HONG KONG BUSINESS

### Retain strong Client base, Service and Retail Network in Hong Kong

During the period under review, we retain a strong client base and its service network in Hong Kong. The Group maintain the existing operation scale. We set up one new service centre in Tsuen Wan. Two service centres respectively in Shatin and Tsuen Wan have moved to and been consolidated with another existing centre because the tenancy agreements are expired. We have retained our network coverage to 35 service centres with a weighted average total gross floor area of approximately 309,000 square feet as at 30 September 2009, representing decrease of 6.1% as compared to 329,000 square feet as at 30 September 2008.

Locations	1H 2009/10	1H 2008/09
Hong Kong Island	15	17
Kowloon	9	8
New Territories	11	11
Number of Service Centres (in total)	35	36
Number of “be Beauty Shops” (in total)	15	11

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 252,900 as at 30 September 2009, representing a satisfactory growth of 11.3% as compared to 227,300 customers as at 30 September 2008.

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 11 existing outlets in Mongkok, Kwun Tong, Sheung Wan, Causeway Bay, Kwai Chung, Fanling, Tuen Mun, Sham Shui Po, Hung Hom, To Kwa Wan and Mei Foo, we have opened 4 outlets in new and densely populated residential areas like Mid-level, Tai Po, Tai Koo and Tsuen Wan during the period under review. As a result, the total number of “be Beauty Shops” has reached 15 as at 30 September 2009. 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 SKUs.

### Extending Service and Product Lines

Among the Group’s 35 service centres in Hong Kong, those offering comprehensive beauty and wellness services and products to men have been consolidated into 2. 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 15,000 as at 30 September 2009 from 13,000 in the corresponding period last year, representing a considerable growth of 15.4%. Sales deriving from the men salon service segment amounted to HK\$11.3 million, accounting for 5.4% of the Group’s total turnover for the six months ended 30 September 2009.

In the Group’s fitness services, the market is saturated and we will explore some new markets to be niche.



## BUSINESS REVIEW FOR MAINLAND CHINA

During the period under review, the Group added one service centre in Shanghai to the existing 9 service centres that were already operating. The centres offer a comprehensive range of services including beauty and facial treatments, spa and massage as well as slimming services, and are targeted at China's growing middle class who demand high quality beauty and wellness services.

Number of Service Centres:

Locations	1H 2009/10	1H 2008/09
Beijing	4	4
Shanghai	3	2
Guangzhou	3	3
Total:	10	9

Those service centres reported an operational loss of HK\$61,000 for the period under review. The total weighted average gross floor area of the 10 service centres in Mainland China is approximately 57,000 square feet as at 30 September 2009, representing an increase of 18.8% as compared to 48,000 square feet as at 30 September 2008. The number of customers was up by 49.7% to 24,400 from 30 September 2008. Our service centres in Mainland China have maintained a steady income in sales of prepaid beauty packages during the period under review, reaching a total of HK\$18.8 million.

### Operation Highlights

#### *Service Enhancement*

The Group entered into an agreement to acquire a property in Tsim Sha Tsui at an investment cost of over HK\$132.8 million in June 2008 which was subsequently completed in June 2009. With a gross floor area of about 13,000 square feet, the property is intended to be devoted to providing one-stop personal care services such as aesthetic medicine and cosmetic dermatology services, 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 achieve satisfactory result. Revenue from provision of beauty and wellness services retained at HK\$188.9 million, representing 90.2% of total revenue compared to 93.9% for the corresponding period last year. Income from expired prepaid beauty packages further reduced to HK\$4.8 million, representing 2.3% of the Group's total revenue for the six months ended 30 September 2009, compared to HK\$12.2 million, or 3.3% of total revenue, for the corresponding period last year.

## FINANCIAL REVIEW

	(Unaudited)				
	Six months ended 30 September				
	2009		2008		Change
HK\$'000	% to turnover	HK\$'000	% to turnover		
<b>Turnover</b>					
Revenue from provision of beauty and wellness services	188,918	90.2%	343,668	93.9%	-45.0%
Revenue recognised upon expiry of prepaid beauty packages	4,842	2.3%	12,223	3.3%	-60.4%
Sales of skin care and wellness products	15,716	7.5%	10,051	2.8%	+56.4%
<b>Total turnover</b>	<b>209,476</b>	<b>100.0%</b>	<b>365,942</b>	<b>100.0%</b>	<b>-42.8%</b>

For the financial period ended 30 September 2009, the Group recorded a decline in turnover. For the period ended 30 September 2009, The Group's total revenue decreased by 42.8% to HK\$ 209.5 million for the six months ended 30 September 2009 compared to HK\$365.9 million for the corresponding period last year. The revenue from provision of beauty and wellness services have decreased by 45.0% or HK\$ 154.8 million to HK\$ 188.9 million. The decline was mainly due to the effect of economic downturn. The weighted average total gross floor area in Hong Kong reached approximately 309,000 square feet as at 30 September 2009, representing decrease of 6.1% as compared to 329,000 square feet as at 30 September 2008.

In Mainland China, the service centres have registered more than 24,400 customers as at 30 September 2009 as comparing to 16,300 recorded as at 30 September 2009. Prepaid beauty packages accounted for HK\$18.8 million while sales of services grew steadily to HK\$17.7 million.

### Turnover by Business Segment

	(Unaudited)				
	Six months ended 30 September				
	2009		2008		Change
HK\$'000	% to turnover	HK\$'000	% to turnover		
<b>Sales Mix</b>					
Beauty and facial	112,777	53.8%	165,048	45.1%	-31.7%
Spa and massage	37,132	17.7%	86,294	23.6%	-57.0%
Slimming	37,874	18.1%	78,648	21.5%	-51.8%
Fitness	5,977	2.9%	25,901	7.1%	-76.9%
Sales of skincare and wellness products	15,716	7.5%	10,051	2.7%	+56.4%
<b>Total turnover</b>	<b>209,476</b>	<b>100.0%</b>	<b>365,942</b>	<b>100.0%</b>	<b>-42.8%</b>

Among the Group's five service and product lines, sales of skincare and wellness products demonstrated an excellent growth at 56.4% or HK\$5.7 million to HK\$15.7 million during the period under review.

The decrease in turnover of approximately HK\$156.5 million during 2009 was mainly due to decrease in the revenue from beauty and facial treatment by HK\$52.3 million, decrease in the revenue from spa and massage by HK\$49.2 million and the revenue from slimming services by HK\$40.8 million. Such decreases in revenue from services were due to the global and local economic downturn commencing from continuing the effect of economic tsunami.

## Sales of New Prepaid Beauty Packages

	(Unaudited) As at 30 September 2009			(Unaudited) As at 30 September 2008		
	Mainland		Total	Mainland		Total
	Hong Kong	China		Hong Kong	China	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Movement of Deferred Revenue						
Beginning of the period	234,586	19,828	254,414	251,886	13,142	265,028
Exchange difference	—	117	117	—	197	197
Receipts from sales of prepaid beauty packages during the period	242,583	18,860	261,443	326,862	22,339	349,201
Revenue from provision of beauty and wellness services	(171,265)	(17,653)	(188,918)	(326,939)	(16,729)	(343,668)
Revenue recognised upon expiry of prepaid beauty packages	(4,842)	—	(4,842)	(12,223)	—	(12,223)
End of the period	<u>301,062</u>	<u>21,152</u>	<u>322,214</u>	<u>239,586</u>	<u>18,949</u>	<u>258,535</u>

Receipts generated from the sales of new prepaid beauty packages reached HK\$261.4 million, representing a drop of 25.1% or HK\$87.8 million for the period compared to HK\$349.2 million for the corresponding period last year. The decrease was mainly due to the decreased sales in new prepaid beauty packages in Hong Kong, which dropped by HK\$84.3 million to HK\$242.6 million as well as the decrease of HK\$3.5 million in Mainland China. Thanks to the service enhancement program and an expanded service network, and through the launch of an online booking system, and 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, revenue from new prepaid beauty packages from the ten service centres in Guangzhou, Shanghai and Beijing, representing 7.2% of the Group's total receipts.

## Analysis of Operating Expenses

	2009		2008		Change
	HK\$'000	% to turnover	HK\$'000	% to turnover	
	(Unaudited) Six months ended 30 September				
Staff costs	125,304	59.8%	166,592	45.5%	-24.8%
Occupancy costs	54,517	26.0%	51,434	14.1%	+6.0%
Depreciation & amortization	21,744	10.4%	18,660	5.1%	+16.5%
Income tax (credit)/expenses	(8,996)	-4.3%	6,029	1.6%	-249.2%
Cost of inventories sold	8,928	4.3%	11,372	3.1%	-21.5%
Other operation expenses, including	57,352	27.4%	81,539	22.3%	-29.7%
– Bank charges	12,006	5.7%	17,170	4.7%	-30.1%
– Advertising and promotion	5,361	2.6%	16,741	4.6%	-68.0%
– Utilities	7,089	3.4%	7,507	2.1%	-5.6%
– Building management fee	9,928	4.7%	10,552	2.9%	-5.9%
– Others	22,968	11.0%	29,569	8.1%	-22.3%

Due to the continuously decreasing of turnover during the period ended 30 September 2009, the total expenditure for employee benefits expenses, occupancy costs and advertising costs rose to 88.4% to turnover, a significant increase from last year's 24.2% to turnover.

Commencing from the third quarter of the year 2008, the Group has introduced certain cost saving and control measures which reduced the total headcount by 21.5% to 1,666 as at 30 September 2009, including 1,463 and 203 staff in Hong Kong and Mainland China respectively, compared to 2,123 staff for the corresponding period last year. As a result, staff costs decreased by 24.8% to HK\$125.3 million for the period. Furthermore, no discretionary bonuses for staff were paid. As a percentage to turnover, staff costs increased by 14.3% to 59.8% for the six months ended 30 September 2009 compared to 45.5% for the corresponding period last year.

The Group's occupancy costs increased by HK\$3.1 million to HK\$54.5 million, representing 26.0 % of the turnover for the six months ended 30 September 2009 compared to HK\$51.4 million or 14.1% for the corresponding period last year. 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 in the second half of the financial year 2008/09. The number of service centres remains at 45 with weighted average total gross floor area of approximately 366,000 square feet as at 30 September 2009, compared to 45 service centres with approximately 377,000 square feet as at 30 September 2008, representing the decrease in floor area by 2.9%.

Bank charges have decreased by 30.1% to HK\$12.0 million due to the decrease of the prepaid sale packages received in last 6 months. Advertising and promotional expenses decreased to HK\$5.4 million as compared to HK\$16.7 million for the corresponding period last year. In percentage term, it has decreased from 4.6% to 2.6% of the total turnover for the six months ended 30 September 2009.

### Turnover

Total turnover for the period decreased 42.8% to HK\$209.5 million for the six months ended 30 September 2009 compared to HK\$365.9 million for the corresponding period last year.

### Dividend

The board of directors does not recommend the payment of any dividend for the six months ended 30 September 2009.

### Liquidity, Financial Resources and Capital Structure

The total equity of the Company as at 30 September 2009 was HK\$254.7 million. The Group generally finances its operation with cash generated from operations. The Group had continued to maintain a strong financial position with cash and cash equivalents of HK\$105.1 million as at 30 September 2009 (31 March 2009: HK\$137.8 million) with no bank borrowing. During the period under review, 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 2009, the Group has net current liabilities of HK\$145.3 million (31 March 2009: net current assets of HK\$24.9 million).

The fall in the cash position of the Group is mainly due to a decline in the revenue of the Group for the period under review and an increase in the amount withheld by the credit card collection bankers in respect of the sales proceeds arisen from the Group's credit card sales. No final dividend for the year ended 31 March 2009 and interim dividend for the period ended 30 September 2009 were recommended by the Board. As disclosed in the relevant interim report of the Company, the Group has a cash position of approximately HK\$289 million as at 30 September 2008.

On 15 June 2009, Ms. Tsang Yue, Joyce ("Ms. Tsang"), the ultimate controlling party of the Company and All Link International Limited, a company wholly-controlled by Ms. Tsang, entered into an agreement with Joy East Limited, Wise World Limited, East Union Industries Limited, Well Faith International Enterprises Limited and Rise Luck Development Limited for the borrowing a bridging loan in the total sum of HK\$118,000,000 in order to facilitate the acquisition of a property which is completed on 30 June 2009.

On 23 September 2009, Modern Beauty Management Company Limited, a wholly owned subsidiary of the Company ("Vendor") and All Link International Limited, a company which is ultimately beneficially owned by Ms. Tsang ("Purchaser") entered into a disposal agreement at the aggregate consideration of HK\$190 million. Pursuant to the disposal agreement, the aggregate consideration shall be settled as to HK\$118 million by setting-off the bridging loan and as to HK\$72 million in cash at completion. As at 13 November 2009, the disposal was completed and the transaction brought the Group's gearing ratio back to zero and the Group has generated approximately HK\$72 million for general working capital use. Accordingly, the Group's working capital position has been strengthened.

### Capital Expenditure

The total capital expenditure of the Group during the six months ended 30 September 2009 was approximately HK\$147.2 million. The amount included HK\$137.9 million allocated for the acquisition of land and buildings and approximately HK\$9.3 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\$0.1 million was spent in the acquisition of leasehold improvements for opening new service centres in Mainland China.

### Contingent Liabilities and Capital Commitment

The Board considered no material contingent liabilities as at 30 September 2009. The Group had capital commitment of HK\$2.2 million as at 30 September 2009 (31 March 2009: HK\$120.7 million) in respect of the acquisition of property, plant and equipment.

### Charges on Assets

As at 30 September 2009, the Group had pledged bank deposits of HK\$8.9 million (31 March 2009: HK\$9.4 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. Certain level of the Group's cash and cash equivalents were denominated in Renminbi. 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 and Disposal

Save as disclosed above, there was no significant acquisition by the Group during the six months ended 30 September 2009.

### 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 0.14%. 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 1,666 staff as at 30 September 2009 (31 March 2009: 1,781 staff), including 1,328 frontline service centre staff in Hong Kong and 177 in Mainland China. Back office staff totaled 135 in Hong Kong and 26 in Mainland China. Total employee benefits expenses including directors' emoluments for the period under review amounted to HK\$125.3 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 2009, a total of 10,970,000 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.

### OUTLOOK

In future, the Group will keep on maintaining a healthy cash status, monitoring and controlling the operating costs, checking constantly on the effective consumption usages of services for expansion, creating synergy between different business segments, and enhancing brand awareness by providing the most professional and attentive services to our customers.

### Hong Kong Market

The Group's performance in the second and third quarters of 2009 have been affected by the unfavorable business environment due to the global financial turmoil in the second half of the financial year ended 31 March 2009. In spite of the economic downturn, the sales of skincare and wellness products segment performed well with the increasing demand for our customer care service, we believe there is a strong potential in the segment. In the coming years, the Group will allocate more resources to promote and market the services in this area. We consider that it will become a significant source of revenue for the Group in the future.

In view of the growing demand for beauty and wellness services in the PRC, the Group has made plans to launch a franchised business targeting at people who are interested in investing in the beauty industry. The group will provide supporting services, from shop renovation to staff training and products supplies. We believe that, with the Group's reputation and expertise in the industry, the franchisees will be able to operate the business successfully. We believe it to be the most effective way to expand the Group's market share in the PRC. With the above development plans, the Group is optimistic in expanding its customer base continuously and we are ready to tackle the challenges ahead. Priorities will be given to sustaining the core beauty and wellness services operation. At the same time, we will continue to maintain a healthy cash position for the Group.

### **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 customers. The Group will continue to execute its network expansion plan in Mainland China.

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 or 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 2009, the interests or short positions of the Directors and chief executives of the Company in the shares ("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 ("Listing Rules"), were as follows:

Name of Director	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)
Mr. Lee Soo Ghee	Beneficial owner	650,000	1,350,000	2,000,000	0.276%
	Interest of spouse	475,368,000 (Note 3)	—	475,368,000	65.702%
Ms. Yuen Siu Ping (Note 4)	Beneficial owner	400,000	1,500,000	1,900,000	0.263%
Mr. Yip Kai Wing	Beneficial owner	185,000	500,000	685,000	0.095%
Mr. Kwong Chi Ching	Beneficial owner	—	200,000	200,000	0.028%
Ms. Yeung Ching Yu (Note 4)	Beneficial owner	—	100,000	100,000	0.014%
Ms. Chu Shu Ching (Note 4)	Beneficial owner	—	100,000	100,000	0.014%

*Notes:*

- Further details of the interests of the Directors in the options under the Pre-IPO Share Option Scheme and 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 2009, ie. 723,520,000 Shares.
- Mr. Lee Soo Ghee is the husband of Ms. Tsang Yue, Joyce (a substantial shareholder of the Company) ("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.
- See the paragraph headed "Update on Directors' Information" below.

#### *Long positions in shares of the associated corporations of the Company*

Save as disclosed above, none of the Directors or chief executives of the Company had, as at 30 September 2009, 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 2009, 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 2009, 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/underlying Shares interested	Approximate percentage of issued Shares (Note 1)
Ms. Tsang Yue, Joyce (Note 2)	Interests of controlled corporations	468,000,000	64.684%
	Beneficial owner	7,368,000	1.018%
	Interest of spouse	2,000,000	0.276%
Silver Compass Holdings Corporation	Beneficial owner	367,200,000 (Note 3)	50.752%
Silver Hendon Enterprises Corporation	Beneficial owner	100,800,000 (Note 3)	13.932%

#### *Notes:*

- The relevant percentages are calculated by reference to the Shares in issue on 30 September 2009, i.e. 723,520,000 Shares.
- Ms. Tsang Yue, Joyce is the spouse of Mr. Lee Soo Ghee (Chairperson and Chief Executive Officer of the Company) ("Mr. Lee") and is deemed to be interested in the Shares in which Mr. Lee is deemed or taken to be interested for the purpose of the SFO.
- Both Silver Compass Holdings Corporation and Silver Hendon Enterprises Corporation are wholly owned by Ms. Tsang Yue, Joyce.

Save as disclosed above, as at 30 September 2009, 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 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.

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 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 Shares 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 Shares.

(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 2009	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 2009	Date of grant	Period during which options are exercisable	Exercise price per Share	Approximate percentage of issued Share (Note 1)
<i>Directors</i>										
Mr. Lee Soo Ghee	337,500	—	—	—	—	337,500	23/10/2006	23/10/2010 to 22/10/2016	HK\$1.33	0.047%
Mr. Lee Soo Ghee	472,500	—	—	—	—	472,500	23/10/2006	23/10/2014 to 22/10/2016	HK\$1.33	0.065%
Mr. Lee Soo Ghee	540,000	—	—	—	—	540,000	23/10/2006	23/10/2015 to 22/10/2016	HK\$1.33	0.075%
Ms. Yuen Siu Ping (Note 2)	375,000	—	—	—	—	375,000	23/10/2006	23/10/2010 to 22/10/2016	HK\$1.33	0.052%
Ms. Yuen Siu Ping (Note 2)	525,000	—	—	—	—	525,000	23/10/2006	23/10/2014 to 22/10/2016	HK\$1.33	0.073%
Ms. Yuen Siu Ping (Note 2)	600,000	—	—	—	—	600,000	23/10/2006	23/10/2015 to 22/10/2016	HK\$1.33	0.083%
Mr. Yip Kai Wing	125,000	—	—	—	—	125,000	23/10/2006	23/10/2010 to 22/10/2016	HK\$1.33	0.017%
Mr. Yip Kai Wing	175,000	—	—	—	—	175,000	23/10/2006	23/10/2014 to 22/10/2016	HK\$1.33	0.024%
Mr. Yip Kai Wing	200,000	—	—	—	—	200,000	23/10/2006	23/10/2015 to 22/10/2016	HK\$1.33	0.028%
Mr. Kwong Chi Ching	50,000	—	—	—	—	50,000	23/10/2006	23/10/2010 to 22/10/2016	HK\$1.33	0.007%
Mr. Kwong Chi Ching	70,000	—	—	—	—	70,000	23/10/2006	23/10/2014 to 22/10/2016	HK\$1.33	0.010%
Mr. Kwong Chi Ching	80,000	—	—	—	—	80,000	23/10/2006	23/10/2015 to 22/10/2016	HK\$1.33	0.011%
Ms. Yeung Ching Yu (Note 2)	—	—	25,000	—	—	25,000	23/10/2006	23/10/2010 to 22/10/2016	HK\$1.33	0.003%
Ms. Yeung Ching Yu (Note 2)	—	—	35,000	—	—	35,000	23/10/2006	23/10/2014 to 22/10/2016	HK\$1.33	0.005%
Ms. Yeung Ching Yu (Note 2)	—	—	40,000	—	—	40,000	23/10/2006	23/10/2015 to 22/10/2016	HK\$1.33	0.006%
Ms. Chu Shu Ching (Note 2)	—	—	25,000	—	—	25,000	23/10/2006	23/10/2010 to 22/10/2016	HK\$1.33	0.003%
Ms. Chu Shu Ching (Note 2)	—	—	35,000	—	—	35,000	23/10/2006	23/10/2014 to 22/10/2016	HK\$1.33	0.005%
Ms. Chu Shu Ching (Note 2)	—	—	40,000	—	—	40,000	23/10/2006	23/10/2015 to 22/10/2016	HK\$1.33	0.006%
Others	2,192,500	—	(200,000)	(337,500)	—	1,655,000	23/10/2006	23/10/2010 to 22/10/2016	HK\$1.33	0.229%
Others	3,069,500	—	—	(472,500)	—	2,597,000	23/10/2006	23/10/2014 to 22/10/2016	HK\$1.33	0.359%
Others	3,508,000	—	—	(540,000)	—	2,968,000	23/10/2006	23/10/2015 to 22/10/2016	HK\$1.33	0.410%
<b>Total</b>	<b>12,320,000</b>	<b>—</b>	<b>—</b>	<b>(1,350,000)</b>	<b>—</b>	<b>10,970,000</b>				

*Note:*

1. The relevant percentages are calculated by reference to the Shares in issue on 30 September 2009, i.e. 723,520,000 Shares.
2. See the paragraph headed “Update on Directors’ Information” below.

### **Purchases, Sale or Redemption of the Company’s Listed Securities**

During the six months ended 30 September 2009, 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 2009, 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 2009.

### **Change of Auditor**

PricewaterhouseCoopers resigned as the auditor of the Company with effect from 9 November 2009. Thereafter, RSM Nelson Wheeler was appointed as the new auditor of the Company for the financial year commencing on 25 November 2009 and to hold office until the conclusion of the next annual general meeting of the Company.

## Update on Directors' Information Under Rule 13.51B(1) of the Listing Rules

### **Yuen Siu Ping ("Ms. Yuen")**

*(Executive Director up to 15 December 2009)*

Ms. Yuen was originally appointed as Executive Director of the Company on 9 February 2006. Subsequently, on 15 December 2009, she was removed as Director of the Company by notice in writing served upon her signed by not less than three-fourths in number of the directors in office (including herself) pursuant to Article 130 of the Company's Articles of Association. Immediately after such removal, Ms. Yuen will not hold any position in the Group.

### **Mok Hin Yuk ("Ms. Mok")**

*(Executive Director up to 10 September 2009)*

On 10 September 2009, Ms. Mok resigned as Executive Director of the Company due to health reason.

### **Yeung Ching Yu ("Ms. Yeung")**

*(Executive Director since 10 September 2009)*

On 10 September 2009, Ms. Yeung has been appointed as director of the Company. There is no service contract between the Company and Ms. Yeung in respect of her appointment of Executive Director. Ms. Yeung is entitled to receive a monthly salary of HK\$16,000. There will be no director's fee payable to Ms. Yeung by the Company.

### **Chu Shu Ching ("Ms. Chu")**

*(Executive Director since 10 September 2009)*

On 10 September 2009, Ms. Chu has been appointed as director of the Company. There is no service contract between the Company and Ms. Chu in respect of her appointment of Executive Director. Ms. Chu is entitled to receive a monthly salary of HK\$16,000. There will be no director's fee payable to Ms. Chu by the Company.

### **Tung Kwok Lui ("Mr. Tung")**

*(Executive Director since 10 September 2009)*

On 10 September 2009, Mr. Tung has been appointed as director of the Company. There is no service contract between the Company and Mr. Tung in respect of his appointment of Executive Director. Mr. Tung is entitled to receive a monthly salary of HK\$65,000. There will be no director's fee payable to Mr. Tung by the Company.

### **Wong Shu Pui ("Mr. Wong")**

*(Executive Director since 10 September 2009)*

On 10 September 2009, Mr. Wong has been appointed as director of the Company. There is no service contract between the Company and Mr. Wong in respect of his appointment of Executive Director. Mr. Wong is entitled to receive a monthly salary of HK\$65,000. There will be no director's fee payable to Mr. Wong by the Company.

### **Cheng Kai Tai, Allen ("Mr. Cheng")**

*(Independent Non-Executive Director up to 8 December 2009)*

In respect of the six months ended 30 September 2009, Mr. Cheng was entitled to total director's emoluments of HK\$94,500.

### **Soo SK Sean ("Mr. Soo")**

*(Independent Non-Executive Director up to 9 December 2009)*

In respect of the six months ended 30 September 2009, Mr. Soo was entitled to total director's emoluments of HK\$94,500.

### **Yip Ki Chi Luke ("Mr. Yip")**

*(Independent Non-Executive Director up to 10 December 2009)*

In respect of the six months ended 30 September 2009, Mr. Yip was entitled to total director's emoluments of HK\$94,500.

**Wong Man Hin, Raymond (“Mr. Raymond Wong”)**

*(Independent Non-Executive Director since 7 December 2009)*

Mr. Raymond Wong, was appointed as Independent Non-Executive Director of the Company on 7 December 2009. Mr. Raymond Wong is entitled to a monthly director’s emoluments of HK\$15,000.

**Hong Po Kui, Martin (“Mr. Hong”)**

*(Independent Non-Executive Director since 7 December 2009)*

Mr. Hong, was appointed as Independent Non-Executive Director of the Company on 7 December 2009. Mr. Hong is entitled to a monthly director’s emoluments of HK\$15,000.

**Liu Mei Ling, Rhoda (“Ms. Liu”)**

*(Independent Non-Executive Director since 10 December 2009)*

Ms. Liu, was appointed as Independent Non-Executive Director of the Company on 10 December 2009. Ms. Liu is entitled to a monthly director’s emoluments of HK\$20,000.

**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. 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. 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 2009 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 2009

# RSM Nelson Wheeler

中瑞岳華(香港)會計師事務所

Certified Public Accountants

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

*(incorporated in the Cayman Islands with limited liability)*

### **Introduction**

We have reviewed the interim financial information set out on pages 23 to 36, which comprises the condensed consolidated statement of financial position of Modern Beauty Salon Holdings Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) as at 30 September 2009 and the related condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of 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” (“HKAS 34”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). The Directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. 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 HKICPA. 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 HKAS 34.

RSM Nelson Wheeler  
*Certified Public Accountants*

Hong Kong  
17 December 2009

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2009**

		Six months ended 30 September	
	<i>Note</i>	2009 HK\$'000 (unaudited)	2008 HK\$'000 (unaudited)
Turnover	5	209,476	365,942
Other gains, net	6	4,332	6,580
Cost of inventories sold		(8,928)	(11,372)
Employee benefits expenses		(125,304)	(166,592)
Depreciation and amortisation		(21,744)	(18,660)
Occupancy costs		(54,517)	(51,434)
Other operating expenses		(55,559)	(81,539)
Operating (loss)/profit		(52,244)	42,925
Interest income		91	3,122
Finance cost	7	(1,793)	—
(Loss)/profit before tax		(53,946)	46,047
Income tax credit/(expense)	8	8,996	(6,029)
(Loss)/profit for the period attributable to owners of the Company	9	(44,950)	40,018
Other comprehensive income after tax:			
Exchange differences on translating foreign operations		41	87
Other comprehensive income for the period, net of tax		41	87
Total comprehensive (loss)/income for the period attributable to owners of the Company		(44,909)	40,105
(Loss)/earnings per share (HK cents)			
– Basic	11	(6.21)	5.53
– Diluted	11	N/A	5.48



**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS AT 30 SEPTEMBER 2009**

	<i>Note</i>	30 September 2009 HK\$'000 (unaudited)	31 March 2009 HK\$'000 (audited)
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	12	126,410	127,897
Leasehold land prepayments	13	242,059	115,884
Deposits	14	13,862	21,578
Deferred tax assets		18,712	9,701
		<u>401,043</u>	<u>275,060</u>
<b>Current assets</b>			
Inventories		7,308	9,403
Trade and other receivables, deposits and prepayments	14	188,205	138,180
Current tax assets		39,866	39,866
Pledged bank deposits		8,925	9,412
Cash and cash equivalents		105,143	137,826
		<u>349,447</u>	<u>334,687</u>
<b>Total assets</b>		<u><u>750,490</u></u>	<u><u>609,747</u></u>
<b>EQUITY</b>			
<b>Capital and reserves</b>			
Share capital	15	72,352	72,352
Share premium and reserves		182,319	226,560
		<u>254,671</u>	<u>298,912</u>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Deferred tax liabilities		1,055	1,055
<b>Current liabilities</b>			
Trade and other payables, deposits received and accrued expenses	16	50,947	53,556
Loan from the ultimate controlling party	20(c)	119,793	—
Deferred revenue	17	322,214	254,414
Current tax liabilities		1,810	1,810
		<u>494,764</u>	<u>309,780</u>
<b>Total liabilities</b>		<u>495,819</u>	<u>310,835</u>
<b>Total equity and liabilities</b>		<u><u>750,490</u></u>	<u><u>609,747</u></u>
<b>Net current (liabilities)/assets</b>		<u><u>(145,317)</u></u>	<u><u>24,907</u></u>
<b>Total assets less current liabilities</b>		<u><u>255,726</u></u>	<u><u>299,967</u></u>

Approved by the Board of Directors on 17 December 2009

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
AS AT 30 SEPTEMBER 2009**

	(Unaudited)						
	Attributable to owners of the Company						
	Share capital	Share premium	Share-based compensation reserve	Merger reserve	Exchange reserve	Retained earnings	Total
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1 April 2008	72,352	146,875	2,053	(53,982)	1,684	205,697	374,679
Total comprehensive income for the period	—	—	—	—	87	40,018	40,105
Share-based payments	—	—	715	—	—	—	715
Dividends paid	—	—	—	—	—	(63,669)	(63,669)
Balance at 30 September 2008	<u>72,352</u>	<u>146,875</u>	<u>2,768</u>	<u>(53,982)</u>	<u>1,771</u>	<u>182,046</u>	<u>351,830</u>
Balance at 1 April 2009	72,352	146,875	3,248	(53,982)	2,046	128,373	298,912
Total comprehensive income for the period	—	—	—	—	41	(44,950)	(44,909)
Share-based payments	—	—	668	—	—	—	668
Lapse of share options	—	—	(429)	—	—	429	—
Balance at 30 September 2009	<u>72,352</u>	<u>146,875</u>	<u>3,487</u>	<u>(53,982)</u>	<u>2,087</u>	<u>83,852</u>	<u>254,671</u>

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2009**

	Six months ended 30 September	
	2009 HK\$'000 (unaudited)	2008 HK\$'000 (unaudited)
Net cash (used in)/generated from operating activities	(4,069)	35,608
Net cash used in investing activities	(146,711)	(32,965)
Net cash generated from/(used in) financing activities	118,000	(63,669)
Net decrease in cash and cash equivalents	(32,780)	(61,026)
Cash and cash equivalents at beginning of the period	137,826	349,811
Exchange differences	97	183
Cash and cash equivalents at end of the period	<u>105,143</u>	<u>288,968</u>

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2009

### 1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands with limited liability. The address of its registered office is M&C Corporate Services Limited, PO Box 309 GT, Ugland House, South Church Street, George Town, Grand Cayman, Cayman Islands. The address of its principal place of business is 6th Floor, Sino Industrial Plaza, 9 Kai Cheung Road, Kowloon Bay, Kowloon. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited.

The Company and its subsidiaries are principally engaged in the provision of beauty and wellness services and sales of skincare and wellness products.

In the opinion of the directors of the Company, Silver Compass Holdings Corporation, a company incorporated in the British Virgin Islands, is the immediate and ultimate parent and Ms. Tsang Yue, Joyce is the ultimate controlling party of the Company.

### 2. BASIS OF PREPARATION

These condensed financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

These condensed financial statements should be read in conjunction with the annual financial statements for the year ended 31 March 2009. The accounting policies and methods of computation used in the preparation of these condensed financial statements are consistent with those used in the annual financial statements for the year ended 31 March 2009 except as stated below.

### 3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current period, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA that are relevant to its operations and effective for its accounting year beginning on 1 April 2009. HKFRSs comprise Hong Kong Financial Reporting Standards ("HKFRS"); Hong Kong Accounting Standards ("HKAS"); and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's financial statements and amounts reported for the current period and prior years except as stated below.

#### *a. Presentation of Financial Statements*

HKAS 1 (Revised) "Presentation of Financial Statements" affects certain disclosures and presentation of the financial statements. The balance sheet is renamed as the statement of financial position and the cash flow statement is renamed as the statement of cash flows. All income and expenses arising from transactions with non-owners are presented in the statement of comprehensive income, and the total carried to the statement of changes in equity. The owner changes in equity are presented in the statement of changes in equity. These presentation requirements have been applied retrospectively in these condensed financial statements.

#### *b. Operating Segments*

HKFRS 8 "Operating Segments" requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. Previously, HKAS 14 "Segment Reporting" required an entity to identify two sets of segments (business and geographical), using a risks and rewards approach, with the entity's 'system of internal financial reporting to key management personnel' serving as the starting point for the identification of such segments. The primary segments reported under HKAS 14 are the same as the segments reported under HKFRS 8. HKFRS 8 has been applied retrospectively.

### 3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

#### b. Operating Segments (Continued)

The segment accounting policies under HKFRS 8 are stated in note 4 to the condensed financial statements.

The Group has not applied the new HKFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a material impact on its results of operations and financial position.

### 4. SEGMENT INFORMATION

The Group has two reportable segments as follows:

- Beauty and wellness services – Provision of beauty and wellness services
- Skincare and wellness products – Sales of skincare and wellness products

The Group's reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology and marketing strategies.

The accounting policies of the operating segments are the same as those described in the Group's financial statements for the year ended 31 March 2009. Segment profits or losses do not include other gains or losses, interest income, finance costs, unallocated costs, which comprise corporate administrative expense, and income tax credit or expense. Segment assets do not include property held for corporate uses, current tax assets and deferred tax assets. Segment liabilities do not include loan from ultimate controlling party, current tax liabilities and deferred tax liabilities.

The Group accounts for intersegment sales and transfers as if the sales or transfers were to third parties, i.e. at current market prices.

	Beauty and wellness services HK\$'000 (unaudited)	Skincare and wellness products HK\$'000 (unaudited)	Total HK\$'000 (unaudited)
Six months ended 30 September 2009:			
Revenue from external customers	193,760	15,716	209,476
Intersegment revenue	—	4,485	4,485
Segment (loss)/profit	(46,982)	6,244	(40,738)
As at 30 September 2009:			
Segment assets	<u>650,147</u>	<u>6,750</u>	<u>656,897</u>
Six months ended 30 September 2008:			
Revenue from external customers	355,891	10,051	365,942
Intersegment revenue	—	5,861	5,861
Segment profit	59,868	3,859	63,727
	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>
As at 31 March 2009:			
Segment assets	<u>351,950</u>	<u>7,505</u>	<u>359,455</u>

#### 4. SEGMENT INFORMATION (Continued)

	Six months ended 30 September	
	2009 HK\$'000 (unaudited)	2008 HK\$'000 (unaudited)
<b>Reconciliations of segment profit or loss:</b>		
Total profit or loss of reportable segments	(40,738)	63,727
Other gains, net	4,332	6,580
Interest income	91	3,122
Finance costs	(1,793)	—
Unallocated costs	(15,838)	(27,382)
Income tax credit/(expense)	8,996	(6,029)
Consolidated (loss)/profit for the period	<u>(44,950)</u>	<u>40,018</u>

#### 5. TURNOVER

The Group's turnover which represents provision of beauty and wellness services and sales of skincare and wellness products are as follows:

	Six months ended 30 September	
	2009 HK\$'000 (unaudited)	2008 HK\$'000 (unaudited)
Revenue from provision of beauty and wellness services	188,918	343,668
Revenue recognised upon expiry of prepaid beauty packages	<u>4,842</u>	<u>12,223</u>
Sales of skincare and wellness products	193,760	355,891
	<u>15,716</u>	<u>10,051</u>
	<u>209,476</u>	<u>365,942</u>
Total gross receipts for sales of prepaid beauty packages	<u>261,443</u>	<u>349,201</u>

## 6. OTHER GAINS - NET

	Six months ended 30 September	
	2009 HK\$'000 (unaudited)	2008 HK\$'000 (unaudited)
Gross rental income	318	366
Magazine subscription income	1,702	3,202
Food income	—	1,625
Commission income	592	1,071
Other income	1,720	316
	<u>4,332</u>	<u>6,580</u>

## 7. FINANCE COST

	Six months ended 30 September	
	2009 HK\$'000 (unaudited)	2008 HK\$'000 (unaudited)
Interest on loan from ultimate controlling party	1,793	—
	<u>1,793</u>	<u>—</u>

## 8. INCOMETAX (CREDIT)/EXPENSE

	Six months ended 30 September	
	2009 HK\$'000 (unaudited)	2008 HK\$'000 (unaudited)
Current income taxation:		
– Hong Kong profits tax	—	7,975
– Over provision in prior years	—	(481)
	<u>—</u>	<u>7,494</u>
Deferred tax	(8,996)	(1,465)
	<u>(8,996)</u>	<u>6,029</u>

No provision for Hong Kong Profits Tax and PRC Enterprise Income Tax is required since the Group has no assessable profit in Hong Kong and the PRC for the period.

## 9. (LOSS)/PROFIT FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE COMPANY

(Loss)/profit for the period attributable to owners of the Company is stated after charging/(crediting) the following items:

	Six months ended 30 September	
	2009 HK\$'000 (unaudited)	2008 HK\$'000 (unaudited)
Directors' remuneration	4,494	8,326
Auditors' remuneration – current period	992	1,495
Loss/(gain) on disposal of property, plant and equipment	<u>814</u>	<u>(95)</u>

## 10. DIVIDENDS

	Six months ended 30 September	
	2009 HK\$'000 (unaudited)	2008 HK\$'000 (unaudited)
Proposed interim dividend of HK4.3 cents per ordinary share for the six months ended 30 September 2008	<u>—</u>	<u>31,111</u>

## 11. (LOSS)/EARNINGS PER SHARE

### *Basic (loss)/earnings per share*

The calculation of basic loss (2008: earnings) per share attributable to owners of the Company is based on the loss for the six months ended 30 September 2009 attributable to owners of the Company of approximately HK\$44,950,000 (2008: profit of approximately HK\$40,018,000) and the weighted average number of ordinary shares of 723,520,000 (2008: 723,520,000) in issue during the period.

### *Diluted (loss)/earnings per share*

The effects of all potential ordinary shares are anti-dilutive for the six months ended 30 September 2009.

The calculation of diluted earnings per share for the six months ended 30 September 2008 attributable to owners of the Company is based on the profit attributable to owners of the Company of approximately HK\$40,018,000 and the weighted average number of ordinary shares of 729,954,241, being the weighted average number of ordinary shares of 723,520,000 in issue during the period used in the basic earnings per share calculation plus the weighted average number of ordinary shares of 6,434,241 assumed to have been issued at no consideration on the deemed exercise of the share options outstanding during the six months ended 30 September 2008.

## 12. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 September 2009, the Group acquired property, plant and equipment of approximately HK\$19,922,000.



### 13. LEASEHOLD LAND PREPAYMENTS

During the six months ended 30 September 2009, the Group acquired leasehold land prepayments of approximately HK\$127,276,000.

### 14. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	30 September 2009 HK\$'000 (unaudited)	31 March 2009 HK\$'000 (audited)
<b>Non-current assets</b>		
Rental and other deposits	13,862	21,578
<b>Current assets</b>		
Trade receivables	153,824	91,197
Rental and other deposits, prepayments and other receivables	33,944	46,467
Amounts due from related companies ( <i>Note 20(b)</i> )	437	516
	<u>188,205</u>	<u>138,180</u>
	<u>202,067</u>	<u>159,758</u>

An ageing analysis of trade receivables as at 30 September 2009, based on the date of the recognition of beauty packages and products sold, is as follows:

	30 September 2009 HK\$'000 (unaudited)	31 March 2009 HK\$'000 (audited)
0-30 days	29,185	29,155
31-60 days	20,025	29,249
61-90 days	23,483	27,255
91-120 days	16,161	5,538
Over 120 days	64,970	—
	<u>153,824</u>	<u>91,197</u>

### 15. SHARE CAPITAL

	Number of shares	HK\$'000
Authorised and issued capital		
Authorised:		
As at 31 March 2009 and 30 September 2009	<u>10,000,000,000</u>	<u>1,000,000</u>
Issued and fully paid:		
As at 31 March 2009 and 30 September 2009	<u>723,520,000</u>	<u>72,352</u>

## 16. TRADE AND OTHER PAYABLES, DEPOSITS RECEIVED AND ACCRUED EXPENSES

	30 September 2009 HK\$'000 (unaudited)	31 March 2009 HK\$'000 (audited)
Amounts due to related companies ( <i>Note 20(b)</i> )	1,189	—
Trade payables	617	918
Other payables, deposits received and accrued expenses	49,141	52,638
	<u>50,947</u>	<u>53,556</u>

Trade payables as at 30 September 2009 are aged within 120 days.

## 17. DEFERRED REVENUE

An ageing analysis of the deferred revenue is as follows:

	30 September 2009 HK\$'000 (unaudited)	31 March 2009 HK\$'000 (audited)
Within 1 year	232,526	170,602
More than 1 year but within 2 years	59,232	43,883
More than 2 years but within 3 years	30,456	39,929
	<u>322,214</u>	<u>254,414</u>

## 18. COMMITMENTS

### (a) Lease commitments

At 30 September 2009, the total future minimum lease payments under non-cancelable operating leases as follows:

	30 September 2009 HK\$'000 (unaudited)	31 March 2009 HK\$'000 (audited)
Not later than one year	82,114	95,630
Later than one year and not later than five years	78,950	108,456
Later than five years	684	1,399
	<u>161,748</u>	<u>205,485</u>

### (b) Capital commitments

Capital commitments at 30 September 2009 are as follows:

	30 September 2009 HK\$'000 (unaudited)	31 March 2009 HK\$'000 (audited)
Contracted for but not provided for in respect of acquisition of:		
– Land and building	—	119,520
– Plant and equipment	2,200	1,151
	<u>2,200</u>	<u>120,671</u>

## 19. CONTINGENT LIABILITIES

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

## 20. RELATED PARTY BALANCES AND TRANSACTIONS

### (a) Related party transactions

The Group had the following material transactions with related parties during the period:

	Note	Six months ended 30 September	
		2009 HK\$'000 (unaudited)	2008 HK\$'000 (unaudited)
Rental paid to related companies:			
All Link International Limited	(i)	480	—
Golden National Limited	(i)	4,800	—
Chain Tech International Limited	(i)	168	216
Luck Elegant Industrial Limited	(i)	840	840
		<u>6,288</u>	<u>1,056</u>
License fee paid to a related company:			
Grateful Heart Charitable Foundation Limited	(ii)	480	480
Sales of products to related companies:			
Euro King Limited	(iii)	—	667
Most Glory Limited	(iii)	55	—
		<u>55</u>	<u>667</u>
Purchase of products from a related company:			
Euro King Limited	(iii)	395	—
Interest paid to ultimate controlling party			
	20(c)	<u>1,793</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 the ultimate controlling party, 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 the ultimate controlling party, Ms. Tsang Yue, Joyce.
- (iii) The amounts represented sales/purchase of products to/from related companies at a price mutually agreed by both parties. The related companies are controlled by the ultimate controlling party, Ms. Tsang Yue, Joyce.

### (b) Balances with related companies

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

### (c) Loan from the ultimate controlling party

The loan from the ultimate controlling party, Ms. Tsang Yue, Joyce, is unsecured, bears interest at the best lending rate quoted by the Standard Chartered Bank and is repayable on demand.

## 20. RELATED PARTY BALANCES AND TRANSACTIONS (Continued)

### (d) Guarantee

As at 30 September 2009, the ultimate controlling party, Ms. Tsang Yue, Joyce has indemnified certain companies within the Group against any loss resulting from any litigation and claims occurred prior to the listing of the Company's share on the Main Board of the Stock Exchange of Hong Kong Limited on 9 February 2006.

### (e) Key management compensation

	Six months ended 30 September	
	2009 HK\$'000 (unaudited)	2008 HK\$'000 (unaudited)
Salaries	4,260	8,010
Employer's contribution to pension scheme	42	50
Share-based compensation	192	266
	<u>4,494</u>	<u>8,326</u>

## 21. EVENTS AFTER THE REPORTING PERIOD

On 13 November 2009, the Group has completed the disposal of the entire equity interests in certain wholly-owned subsidiaries and all amounts due by these wholly-owned subsidiaries to the Group as at 13 November 2009 to All Link International Limited, which is ultimately beneficially owned by the ultimate controlling party, Ms. Tsang Yue, Joyce, at a consideration of HK\$190 million in aggregate. Details of the above are set out in the Company's circular dated 14 October 2009.



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