

# MODERN BEAUTY

11/12  
Interim Report

中期報告



MODERN BEAUTY



**MODERN**  
BEAUTY SALON  
HOLDINGS LIMITED

現代美容控股有限公司

Stock Code 股份代號 : 919

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# TRUE BEAUTY

# OUR VISION

*At Modern Beauty, we strive to deliver beauty and wellness services to the highest standards at all times, strengthen our presence in Hong Kong and further extend our reach to Mainland China to enhance corporate value for our shareholders.*

*Our Shareholders: We aim to optimise every opportunity to expedite our business development in the China beauty service market with a view to maximise return and create long-term value to our shareholders.*

*Our Customers: We strive to offer comprehensive beauty and wellness services of the highest quality at all times to provide ample choices and deliver the best value to our customers.*

*Our People: We place great emphasis on team work and continuously offer staff training and development program so as to provide a prosperous future for our people.*



# FINANCIAL & OPERATIONAL HIGHLIGHTS

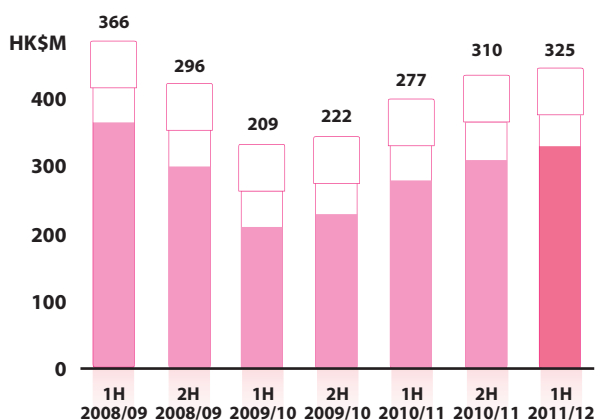
## FINANCIAL HIGHLIGHTS

- Group's turnover increased by 17.5% to HK\$325.5 million.
- Receipts from sales of prepaid beauty packages increased by 14.4% to HK\$334.5 million.
- Profit for the period attributable to owners of the Company increased by 381.9% to HK\$32.7 million.
- Interim dividend of HK3.38 cents per share.

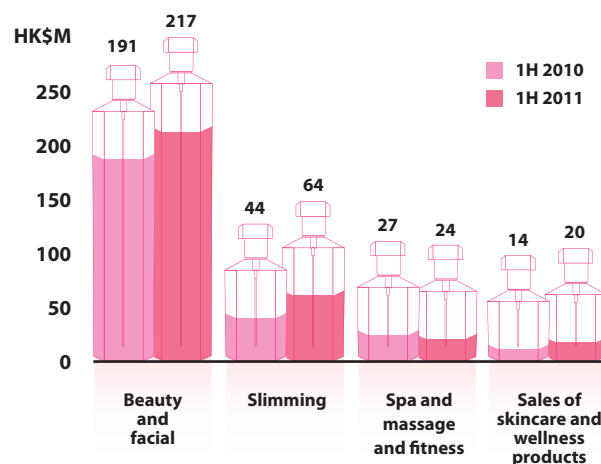
## OPERATIONAL HIGHLIGHTS

- Hong Kong business comprised 29 beauty and spa service centres with a total gross floor area of approximately 257,000 square feet.
- Mainland China business comprised 9 service centres in Guangzhou, Shanghai and Beijing, with a total gross floor area of approximately 46,000 square feet.

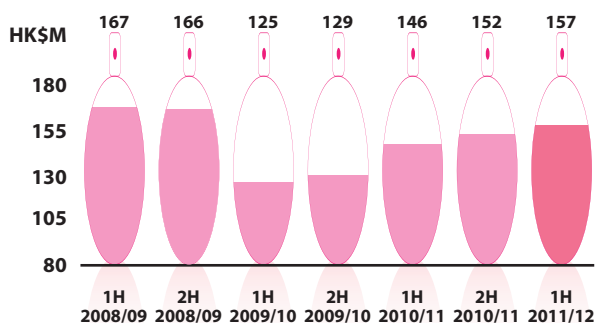
## TURNOVER



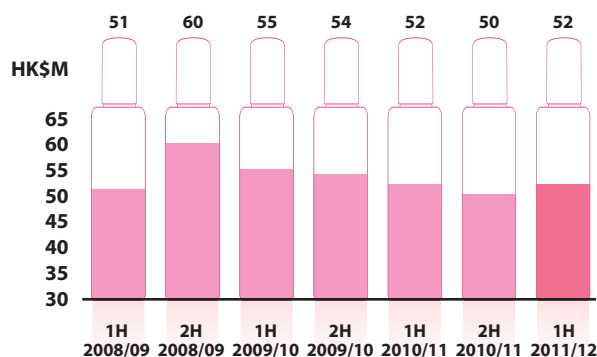
## PRODUCT MIX



## EMPLOYEE BENEFITS EXPENSES



## OCCUPANCY COSTS

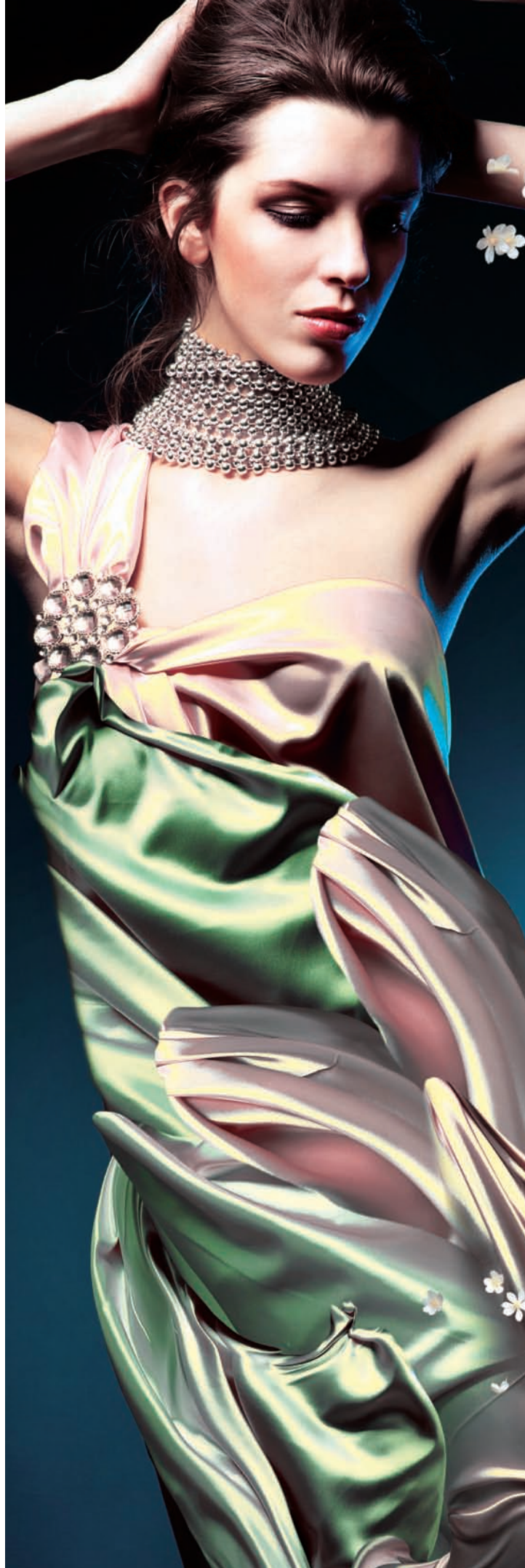


## CHAIRPERSON'S STATEMENT



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 2011 on behalf of the Board of Directors (the "Board").

Thanks to the strong economic growth in China, the domestic consumption and consumer spending maintain a continual growth. Driven by this positive factor from Mainland China, Hong Kong consumer sentiment is trending up with an increasing demand for high-quality beauty and wellness services. During the period under review, the Group has performed positively and reported a turnover of HK\$325,466,000, representing a growth of HK\$48,529,000 or 17.5% when compared to the figure for the same period last year and recorded a profit of HK\$32,663,000.





Notwithstanding such encouraging results, we persist in adhering to a prudent financial management during the review period. Our operating costs is controlled at HK\$287,242,000, which represents a slight increase of 6.5% over the same period of 2010/2011.

### **HONG KONG BUSINESS**

During the period under review, in light of the enhancement of services and product marketing efforts with encouraging results, the sales continued growing. Revenue from provision of beauty and wellness services and expiry of prepaid beauty packages increased by 16.4% amounting to HK\$287,807,000.

As at 30 September 2011, the Group had 29 beauty and spa service centres, with a total gross floor area of approximately 257,000 square feet. In addition the group operates a retail network and has 13 retail outlets selling skincare and wellness products.

### **MAINLAND CHINA BUSINESS**

The performance of the business in Mainland China is steady. Despite swift changes in the PRC consumer market and ferocious competition amongst peer industry players, during the period under review, the Group's business in certain service centres of Mainland China continued to be profitable.

We have a total of 9 service centres in Beijing, Shanghai and Guangzhou, with a total gross floor area of approximately 46,000 square feet. During the period under review, the sales continued growing. Facing rising wages and increased competition, we were exposed to immense pressure of escalating operating costs.

### **ACQUISITION OF SINGAPOREAN & MALAYSIAN BUSINESSES**

As a market leader in the beauty industry, we always look out for market development opportunity and if under favourable condition will expand our market share. On 5 July 2011, we announced an acquisition of beauty care services business in Singapore and Malaysia for a consideration of HK\$250,000,000 which was a major and connected transaction and involved an issuance of convertible note. This acquisition was approved in a shareholder extraordinary general meeting held on 27 October 2011.

### **OUTLOOK**

Although Hong Kong's retail sector continues to thrive vibrantly in the first three quarters, the overseas economic outlook remains uncertain. Our Group's performance may be affected under this inflationary environment, and slowdown in export and the labour employment market. The Group will make incessant efforts to practice a prudent financial management by implementing cost control initiatives, and make a strategic move to strive for steady growth. Looking ahead, upon the completion of the Singaporean and Malaysian businesses acquisition, we would expect the enlarged Group to (i) further expand our retail network in Hong Kong, Singapore and Malaysia, and enhance our skincare and wellness product lines; (ii) continue expanding our service centres and improving our brand awareness; (iii) continue implementing cost control for improvement of the future incomes and enhancement of profit growth.



## CHAIRPERSON'S STATEMENT (continued)

Our Group's self-owned brands of high-quality skincare products, "p.e.n", "be" and "FERRE CARE" have tapped into leading market position in Hong Kong and secured widespread market awareness and acceptance amongst our customers. The Group will also take great steps in fostering a multi-brand strategy and secure distribution rights of more foreign brands of high quality skincare products in order to target on customers from different age groups, workplaces



and social classes. We believe that a new trend in beauty and skincare is to accomplish optimal results and everlasting effects through balancing the body both externally and internally. In addition, we will position our resources in development of two business segments, namely anti-aging and aesthetic beauty services, in line with our market position strategy.





To capture the growing customer demand for beauty and wellness services in Mainland China, we will continue to bolster the existing services in order to provide high-quality beauty services and skincare products for customers. To keep ahead of the changes in the consumption behaviours in Mainland China, we will make great leaps in launching different marketing strategies and measures, so as to capture business opportunities and meet future challenges.



Our Group believes that the recent uncertain factors in the European market will bring along opportunity. To seize business opportunities in Mainland China, the Group considers expanding its business through mergers and acquisitions of other beauty service centres in order to enlarge its market share and to deliver the best returns to the shareholders of the Group.

#### **SOCIAL RESPONSIBILITY**

Since the implementation of the electronic verification system developed by our own technology research department two years ago, the processing efficiency of the booking services of the guests has been improved. At the same time paper consumption has been reduced which helps to raise environmental awareness, reduces logging of trees, and enhances customers' concerns for immediate problems of global warming.





#### AWARDS

With the Group's enthusiasm for the beauty industry and commitment to provide the best services to customers, we are always dedicated to the research and development of high-quality skincare products. Coupled with effective marketing tactics, we have attained a remarkable success and are highly respected and recognized by the industry. During the period under review, the Group is proud of being a winner of the "My Most Favourite Hong Kong Brand ranked by consumers in the PRC 2011" presented by China Enterprise Reputation and Credibility Association (Overseas) Limited, "Best of the Best for Executives 2011" organized by "Capital Magazine", "JESSICACODE Beauty Awards 2011" and "Hottest Award 2011" jointly organized by "JESSICACODE" and "JESSICA Women Complete Manual". I am proud of being awarded the "Women Entrepreneur of the Year" in the "Asia Pacific Entrepreneurship Awards 2011" awards ceremony by Enterprise Asia. During the World Chinese Entrepreneur Conference held in October, I am proud of being awarded the "The 4th Excellence in Achievement of World Chinese Youth Entrepreneurs".

#### APPRECIATION

Last but not least, on behalf of the Board, I would like to take this opportunity to express my sincere thanks to the colleague for their efforts, professionalism and contributions during the period. I would also like to extend grateful appreciation to our shareholders, customers, business partners and investors for their enduring support to us.

**Ms. Tsang Yue Joyce**  
*Chairperson and Chief Executive Officer*

Hong Kong, 23 November 2011

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW — HONG KONG BUSINESS

### Sales rise on strong consumer demand

Benefiting from the robust economic growth in China, the mainland's GDP grew by 9.1% in the third-quarter of 2011 with the Hong Kong's GDP in the same period increased by 4.3% in real terms comparing to last year. On the consumption side, more than 30 million visitors flocked to Hong Kong in the first nine months of this year, up 16%, amongst which the growth of Mainland China visitors exceed 20%. A tremendous growth compares with last year's figures. Under strong purchasing power from individual mainland visitors, Hong Kong retail sales continue to be robust. According to the Government published figures, the total retail sales amount increased by 25.6% in the first eight months of 2011, comparing to a year earlier, while the total retail sales volume increased by 19.7%. Thanks to China's strong economic growth which has become an important driving force to the local economy, the unemployment rate has been pushing down to 3.2% for the period from June to August 2011. This helps the employment figure to rise reaching 3.6 million, which is a record high, in the first six months of this year. During the period under review, under high employment rates, rising incomes and strong retail consumption, the Group's turnover continues to grow, especially in its beauty and facial services, slimming services and retail sales of skincare and wellness products.

### Opportunity arises on account of uncertainty in European markets

The recent European uncertainty may hit the consumer confidence. The Group, as always, maintain a conservative management policy and backed with an ample pool of cash. During the period under review, the turnover continues to grow which is a clear evidence of the confidence and recognition of our services. The Group holds a strong cash reserve which enhances the Group's ability to deal with the financial market turmoil and related risks. At the same time, the management believes that the beauty industry is going through a period of survival of the fittest and eliminates the weak. Under reasonable condition, we will take advantage of the opportunity to expand our market share and improve the return to our shareholders.

### Branding effect

In order to satisfy our customer demands and to excel in the beauty salon industry, the Group will continue improving its professional beauty knowledge, acquiring advance beauty equipment. Our core value is to provide quality and personal beauty services which will enhance our branding effect.

In the period under review, the Group has 29 beauty and spa service centres with a total gross floor area of approximately 257,000 square feet.

As of 30 September 2011, the Group has a total of 13 retail outlets under the names of "p.e.n", "be Beauty Shop" and "FERRECARE Concept Store", scattering across Hong Kong, Kowloon and New Territories. Those outlets primary sells high-quality skincare and wellness products under self-owned brands of "p.e.n", "be" and "FERRECARE". We also sell high-quality brands of skincare and wellness products which we have distribution rights.

The Group employs a very strict quality control on its skincare and wellness products and offers a diverse mix of skincare products which are tailor-made to suit different skin types. We have seven targeted skincare lines, 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. Our customer is highly satisfied with our products and our employees in "p.e.n", "be Beauty Shop" and "FERRECARE Concept Store" are well trained to provide professional skincare advice to customers. We now offer more than 80 varieties of products to customers.

As the Hong Kong's population is aging fast in the coming years, the customer demand of anti-aging services is on the rising trend. The management will work to meet this demand by providing our customers with anti-aging and aesthetics services uplifting our market share in this market.

**BUSINESS REVIEW — MAINLAND CHINA BUSINESS**

Although the Mainland China market is huge, it comes with a ferocious competition. The competition is turning from a price war and competition on services quality to a branding preference war as customer put more emphasis on brands. This growing trend now becomes obvious. Despite under arduous business environment, as at 30 September 2011, the Group's business in Mainland China reported a turnover of HK\$18,178,000 and a loss of HK\$724,000.

During the period under review, the Group had 9 service centres in Beijing, Shanghai and Guangzhou, with a total gross floor area of about 46,000 square feet. These centres provide customers with professional and quality integrated services, including beauty and facial care, spa, massage and slimming services, which are targeted on high-consumption professionals and more affluent middle-class with continuous growth, with a view to increase our luxury customer base.

During the period under review, the service centres in Mainland China recorded steady income stream from prepaid beauty packages, amounting to HK\$15,838,000, increased by 5.3% when compared with the same period last year. Revenue from provision of beauty and wellness services and expiry of prepaid beauty packages of HK\$17,560,000 was reported, representing an increase of 13.9% when compared with the same period last year.

**Operational Highlights****Project in Tsim Sha Tsui**

Regarding the en-block building property at No. 5 Minden Avenue, Tsim Sha Tsui acquired by the Group in 2009, the future plan is now being re-considered by the management due to the recent uncertainty factors caused by the European market. The management does not rule out the possibility of disposal of the property if being offered a reasonable price.

**FINANCIAL REVIEW****Turnover**

Turnover	(Unaudited)				Change
	For the six months ended 30 September				
	2011		2010		
	HK\$'000	Percentage of turnover	HK\$'000	Percentage of turnover	
Revenue from provision of beauty and wellness services and expiry of prepaid beauty packages	305,367	93.8%	262,769	94.9%	16.2%
Sales of skincare and wellness products	20,099	6.2%	14,168	5.1%	41.9%
Total turnover	325,466	100.0%	276,937	100.0%	17.5%

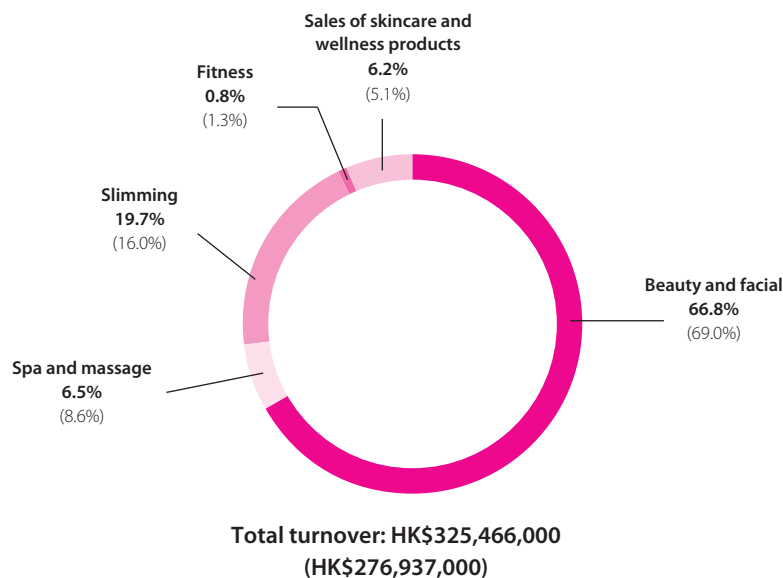
As at 30 September 2011, the Group attained promising results. Turnover steadily grew to HK\$325,466,000, up by 17.5% when compared with the figure of HK\$276,937,000 for the same period last year. Revenue from the provision of beauty and wellness services and expiry of prepaid beauty packages, accounting for the largest share of the Group's total turnover, also rose by HK\$42,598,000 to HK\$305,367,000, up by 16.2%. This notable success was mainly attributable to the economic environment and the strong consumer demand in Hong Kong, and the rising customer demand for high-quality beauty and wellness services; on the other hand, this achievement was also due to the management's unswerving dedication and persistent implementation of cost control measures.

In relation to Mainland China, receipts from sales of prepaid beauty packages increased to HK\$15,838,000. The service centres in Mainland China recorded revenue from provision of beauty and wellness services and expiry of prepaid beauty packages of HK\$17,560,000, an increase of 13.9% when compared with the figure of the same period of the previous year.

**Turnover by Business Segment**

Product Mix	(Unaudited)		For the six months ended 30 September		Change
	2011	2010	2011	2010	
	HK\$'000	Percentage of turnover	HK\$'000	Percentage of turnover	
Beauty and facial	217,317	66.8%	191,097	69.0%	+13.7%
Slimming	64,153	19.7%	44,241	16.0%	+45.0%
Spa and massage	21,352	6.5%	23,914	8.6%	-10.7%
Fitness	2,545	0.8%	3,517	1.3%	-27.6%
Sales of skincare and wellness products	20,099	6.2%	14,168	5.1%	+41.9%
<b>Total turnover</b>	<b>325,466</b>	<b>100.0%</b>	<b>276,937</b>	<b>100.0%</b>	<b>+17.5%</b>

**1H2011/12**



Note: Comparable figures for six months ended 1H2010/11 are shown in brackets

Amongst the Group's five product mixes, sales amount of beauty and facial, being a business line which accounted for the largest contribution to the Group's revenue, showed an astounding growth of 13.7% or HK\$26,220,000 to HK\$217,317,000 during the period under review; in addition, slimming services business also grew by 45% to HK\$64,153,000. The inspiring result from two of our major business lines and product mixes has added growing momentum to drive an overall increase in the Group's total revenue.

## Sales of New Prepaid Beauty Packages

Movement of Deferred Revenue	(Unaudited) As at 30 September 2011			Unaudited As at 30 September 2010		
	Mainland		Total	Hong Kong	China	Total
	Hong Kong	China				
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Beginning of the period	393,662	20,033	413,695	355,376	21,189	376,565
Exchange differences	—	316	316	—	290	290
Receipts from sales of prepaid beauty packages	318,689	15,838	334,527	277,311	15,041	292,352
Revenue from provision of beauty and wellness services and expiry of prepaid beauty packages	(287,807)	(17,560)	(305,367)	(247,356)	(15,413)	(262,769)
End of the period	424,544	18,627	443,171	385,331	21,107	406,438

During the period under review, receipts from sales of new prepaid beauty packages reached HK\$334,527,000, representing an increase of 14.4% or HK\$42,175,000 when compared with revenue of HK\$292,352,000 for the same period last year. The increase was mainly driven by higher sales of new prepaid beauty packages (rose by HK\$41,378,000 to HK\$318,689,000) in Hong Kong. This achievement was attributable to the robust retail market and strong customer demand. Together with riding on effective marketing strategies, the Group attained desirable results in the areas of new prepaid beauty packages and consumption of customer services.

In connection with Mainland China, receipts from sales of new prepaid beauty packages generated by the service centres in Beijing, Shanghai and Guangzhou amounted to HK\$15,838,000, accounting for 4.5% of the Group's total receipts.

## Analysis of Operating Expenses

	(Unaudited) For the six months ended 30 September				Change
	2011		2010		
	HK\$'000	Percentage of turnover	HK\$'000	Percentage of turnover	
Employee benefits expenses	156,915	48.2%	145,781	52.6%	+7.6%
Occupancy costs	51,573	15.8%	52,262	18.9%	-1.3%
Depreciation	15,442	4.7%	18,960	6.8%	-18.6%
Cost of inventories sold	9,723	3.0%	8,705	3.1%	+11.7%
Other operating expenses, including	53,589	16.5%	44,067	15.9%	+21.6%
— bank charges	16,378	5.0%	13,482	4.9%	+21.5%
— advertising costs	3,846	1.2%	3,570	1.3%	+7.7%
— utilities	5,958	1.8%	5,780	2.1%	+3.1%
— building management fees	7,302	2.3%	6,910	2.5%	+5.7%
— others	20,105	6.2%	14,325	5.1%	+40.3%

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Employee benefits expenses, representing the largest component of the Group's operating expenses, rose by approximately 7.6% to HK\$156,915,000 comparing to HK\$145,781,000 for the same period of the previous year. The total headcount of the Group as at 30 September 2011 increased by 0.8% to 1,605 (including 1,452 and 153 staff in Hong Kong and Mainland China respectively), as compared to a headcount of 1,592 for the same period last year. In addition, the Group has launched an elite system since the first quarter of 2010 to provide comprehensive training to improve staff's customer services skills. Eminent employees with excellent performance will be entitled to discretionary bonuses offered by the management in recognition of their contribution. For the six months ended 30 September 2011, employees benefit expenses accounted for 48.2% of our turnover, comparing to 52.6% for the same period of 2010.

For the six months ended 30 September 2011, the Group's occupancy costs were decreased by HK\$689,000 to HK\$51,573,000, accounting for 15.8% of our total turnover. The occupancy costs for the same period last year amounted to HK\$52,262,000, accounting for 18.9% of our total turnover. During the period under review, the Group endeavoured to carry out resources reallocation through a comprehensive review of the performance of various service centres and optimized the usage of the existing resources. The number of service centres as at 30 September 2011 was 38, with a total gross floor area of approximately 303,000 square feet.

Bank charges rose by 21.5% to HK\$16,378,000. Such increment is due to increase in sales of new prepaid beauty packages and skincare and wellness products during the period under review. Advertising costs increased to HK\$3,846,000, comparing to HK\$3,570,000 for the same period last year. For the six months ended 30 September 2011, the percentage of advertising costs to total turnover dropped from 1.3% to 1.2%.

### Net Profit and Margin

Thanks to the considerable growth in turnover together with a tight control on operating expenses, the Group's net profit attributable to owners of the Company for the six months ended 30 September 2011 was HK\$32,667,000, as compared to profit of HK\$6,779,000 for the same period last year. The Group's net profit margin was 10.0%. Basic earnings per share was HK4.52 cents as compared to earnings per share of HK0.94 cents for the same period last year.

### Interim Dividend

The Board has approved to pay an interim dividend of HK3.38 cents per share (2010: an interim dividend of HK1.4 cents per share) for the six months ended 30 September 2011, totalling HK\$24,455,000. The interim dividend of HK3.38 cents will be paid on 5 January 2012 to the shareholders whose names appear on the register of shareholders of the Company at the close of business on 16 December 2011.

### Closure of Register of Members

The register of members of the Company will be closed from 14 December 2011 to 16 December 2011, both dates 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 share registrar in Hong Kong, Tricor Investor Services Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 13 December 2011.

### Liquidity, Financial Resources and Capital Structure

The total equity of the Company as at 30 September 2011 was HK\$316,836,000. The Group generally finances its operation through cash generated from operations. The Group continued to maintain a strong financial position with cash and cash equivalents of HK\$331,143,000 as at 30 September 2011 (31 March 2011: HK\$323,164,000) 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 2011, the Group had net current assets of HK\$50,817,000 (31 March 2011: net current assets of HK\$41,057,000).

### Capital Expenditure

The total capital expenditure of the Group during the six months ended 30 September 2011 was HK\$20,497,000. The amount was mainly used for the additions of leasehold improvements, equipment and machinery and motor vehicles in connection with the expansion of its service network in Hong Kong.

### Contingent Liabilities and Capital Commitment

The Board considered that there was no material contingent liabilities as at 30 September 2011. The Group had capital commitment of HK\$11,762,000 as at 30 September 2011 (31 March 2011: HK\$14,995,000) in respect of the acquisition of plant and equipment.

### Charges on Assets

As at 30 September 2011, the Group had pledged bank deposits of HK\$7,162,000 (31 March 2011: HK\$7,160,000) in favour of certain banks to secure banking facilities granted to certain subsidiaries in the Group.

### Exchange Risk Exposures

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 continuous appreciation of Renminbi has exerted relative pressures on the Group's operating costs. The management will closely monitor the risk exposures faced by the Group, and will take the necessary actions to ensure that such exposures are properly hedged when it considers appropriate.

### Significant Acquisition and Disposal

On 5 July 2011, a wholly-owned subsidiary of the Group (the "Purchaser"), and Ms. Tsang Yue, Joyce, an Executive Director and a controlling shareholder of the Group (the "Vendor"), entered into the sale and purchase agreement (the "Agreement"), pursuant to which the Purchaser has conditionally agreed to acquire and the Vendor, as the sole beneficial owner of the entire issued share capital of Zegna Management Limited (the "Target Company"), has conditionally agreed to sell or procure the sale of the entire issued share capital of the Target Company at a consideration of HK\$250 million, which will be satisfied by the issue of a 2% annual coupon five-year redeemable convertible note amounting to HK\$250 million (the "Convertible Note") to the Vendor. The Target Company and its subsidiaries from time to time, but will not include Euro King Limited ("Target Group") is engaged in a wide range of beauty care services including facial treatment, body slimming programs as well as spa, and fitness courses in Singapore and Malaysia. The Group announced on 30 September 2011 that after further negotiation, the Purchaser and the Vendor entered into the supplemental sale and purchase agreement which has amended and supplemented certain terms of the Agreement.

The Target Company is a company incorporated in Hong Kong with limited liability with its issued share capital being wholly and beneficially owned by the Vendor, and through its wholly-owned subsidiaries (excluding Euro King Limited, a Hong Kong subsidiary), the Target Group is principally engaged in a wide range of beauty care services including facial treatment, body slimming programs as well as spa, and fitness courses in Singapore and Malaysia under the brandname "Giman". As at 30 September 2011, the Target Group had a total of 9 and 3 beauty service centres in Singapore and Malaysia, respectively, with an aggregate total gross floor area of approximately 22,000 square feet and 8,900 square feet, respectively. As at 31 March 2011, the Target Group had total customers of over 76,000 and 19,000 for its beauty shops in Singapore and Malaysia, respectively. Furthermore, the Target Group has formulated 39 natural and herbal-based skincare and body products under the brand name "Giman".

Based on the consolidated financial information of the Target Group (including Euro King Limited, a Hong Kong subsidiary), the Target Group (including Euro King Limited, a Hong Kong subsidiary) recorded (i) consolidated profit before tax of approximately HK\$46.4 million and HK\$55.7 million for each of the years ended 31 March 2010 and 2011, respectively; (ii) consolidated profit after tax of approximately HK\$38.2 million and HK\$45.3 million during the same corresponding periods, respectively; and (iii) consolidated net asset value of approximately HK\$48.7 million as at 31 March 2011.

Details of the acquisition were set out in the announcements of the Company dated 5 July 2011, 16 August 2011 and 30 September 2011 and the circular of the Company dated 30 September 2011. The acquisition was approved by the shareholders on 27 October 2011. The acquisition is scheduled to be completed within 2011.

Upon completion of acquisition, each member of the Target Group (excluding Euro King Limited, a Hong Kong subsidiary) will become a wholly-owned subsidiary of the Company and the assets, liabilities and results of the Target Group (excluding Euro King Limited, a Hong Kong subsidiary) will be consolidated into the Group's consolidated financial statements. As described in the pro forma financial information of the Group immediately after completion of acquisition, contained in appendix III of the circular dated 30 September 2011, as a result of the acquisition the Group's consolidated total assets and liabilities will be increased by approximately HK\$113.7 million as at 31 March 2011 and HK\$203.7 million as at 31 March 2011, respectively.



## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### 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 0.2%. 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 1,605 staff as at 30 September 2011 (30 September 2010: 1,592 staff), including 1,294 frontline service centre staff in Hong Kong and 130 in Mainland China. Back office staff totaled 158 in Hong Kong and 23 in Mainland China. Total employee benefits expenses including directors' emoluments for the period under review amounted to HK\$156,915,000.

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 performance and the Group's results. In addition, the Group has brought into force the elite system since the first quarter of 2010, whereby excellent staff with outstanding performance will receive discretionary bonuses in recognition of their contribution. On 20 January 2006, the Group adopted the share option scheme. As at 30 September 2011, a total of 6,680,000 share options have been granted to certain directors, senior management and employees of the Group. To extend the warmest welcome to our customers, we have placed great emphasis on staff training and development by continuously providing the frontline beauty staff with professional training programs, so as to enhance the service skills of our employees.

### OUTLOOK

Looking ahead, under the economic uncertainty in overseas, Hong Kong and Mainland China economics are expected to grow at a slower rate. Under the current inflationary environment, decline in export growth and the deterioration of the labour employment market, the business environment may affect our Group's business performance. 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. At an appropriate time, the Group will introduce strategic high-quality skincare and wellness products to meet market needs. We will also strive to explore into high-tech-oriented aesthetics treatments, so as to provide beauty and wellness services of significant and lasting effect, and in hence to vigorously expand into a wider customer base.

### Hong Kong Market

Thanks to the increasing demand for high-quality beauty and wellness services from customers, the Group's business performance is exciting. The existing high-quality service has gained increasing customer loyalty and enhancing our staff's morale. We are cautiously optimistic about the performance of the Group in the coming year. While continuing to allocate appropriate resources to consolidate our beauty and wellness business segments, we will also actively bring in more high quality skincare and wellness products in order to meet market needs and to expand market share.

In order to capture the huge market demand on high quality products, the Group is scheduled to open five more new retail outlets selling skincare and wellness products in the next few months and to source new beauty brands for distribution to suit the demand of our different clientele. On the one hand, we plan to launch more skincare and wellness products from our house brands "p.e.n", "be" and "FERRECCARE". These will benefit our retail sales turnover of skincare and wellness products. On the other hand, we plan to allocate resources to develop a comprehensive retail network for sale and promotion of these products in Hong Kong. We believe that these new products will improve our market share in the skincare and wellness products sector.

### Mainland China Market

The management is confident of the business in Mainland China. The Group will continue to uphold its franchise business strategy in Mainland China. Endeavours will be made to provide all support to people who are enthusiastic to enter the beauty industry in order to achieve win-win results through mutual assistance and cooperation. Under the uncertain global economic environment, the Group is well-positioned to seize the right opportunities by acquiring beauty business or expanding our business network for enhancement of shareholders' return.

### Singapore and Malaysia markets

Our group will further expand our network of beauty service centres and retail outlets of skincare and wellness products through the recently acquired company operating beauty service centres in Singapore and Malaysia.

# CORPORATE INFORMATION

## BOARD OF DIRECTORS

Ms. Tsang Yue, Joyce (Chairperson)  
Mr. Yip Kai Wing  
Mr. Wong Shu Pui  
Mr. Leung Man Kit  
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. Leung Man Kit  
Mr. Yip Kai Wing

## COMPANY SECRETARY

Mr. Wong Shu Pui

## AUDIT COMMITTEE

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

## REMUNERATION COMMITTEE

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

## NOMINATION COMMITTEE

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

## REGISTERED OFFICE

M&C Corporate Services Limited  
PO Box 309 GT  
Ugland House  
South Church Street  
George Town  
Grand Cayman  
Cayman Islands

## CORPORATE INFORMATION (continued)

### **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

### **INVESTORS RELATION**

Email address: [ir@modernbeautysalon.com](mailto:ir@modernbeautysalon.com)

### **WEBSITE**

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

# CORPORATE GOVERNANCE AND OTHER INFORMATION

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES OR DEBENTURES

As at 30 September 2011, the interests and short positions of the Directors and the Chief Executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") as recorded in the register kept by the Company pursuant to Section 352 of the SFO or otherwise notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code contained in the Listing Rules, were as follows:

### Long positions in Shares and underlying Shares in the Company

Name of Director	Capacity in which interests are held	Interests in Shares	Equity Derivatives (Share Options)	Total Interests	Approximate Percentage of Issued Share Capital of the Company <sup>1</sup>
Ms. Tsang Yue, Joyce	Interests of controlled corporations <sup>2</sup>	468,000,000	—	468,000,000	64.68%
	Founder of discretionary trust	28,284,000	—	28,284,000	3.91%
	Interest of spouse <sup>3</sup>	650,000	—	650,000	0.09%
Mr. Yip Kai Wing	Beneficial owner	185,000	500,000 <sup>4</sup>	685,000	0.09%

Notes:

- The percentage has been compiled based on the total number of shares of the Company in issue as at 30 September 2011 (i.e. 723,520,000 shares).
- 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.
- Ms. Tsang Yue, Joyce is the spouse of Mr. Lee Soo Ghee and is deemed to be interested in the Shares in which Mr. Lee Soo Ghee is deemed or taken to be interested for the purpose of the SFO.
- The period during which the equity derivatives (share options) under the name of Mr. Yip Kai Wing is exercisable is set out in the section headed "Share Option Scheme" below.

Save as disclosed above, as at 30 September 2011, none of the Directors and the Chief Executive of the Company nor their respective associates had any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or pursuant to section 352 of the SFO, to be entered in the register referred to therein, or notified to the Company and the Stock Exchange pursuant to the Model Code.

**DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES**

Save as disclosed above and in the section headed "Share Option Scheme", at no time during the period under review was the Company, any of its holding companies, subsidiaries or fellow subsidiaries a party to any arrangements to enable the Directors or the Chief Executives of the Company or any of their respective spouses or children under 18 years of age to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

**SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES**

As at 30 September 2011, the interests or short positions of substantial shareholders and other persons of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO, or as otherwise notified to the Company, were as follows:

**Long positions of substantial shareholders in the shares and underlying shares of the Company**

<b>Name</b>	<b>Capacity in which interests are held</b>	<b>Interests in Shares</b>	<b>Approximate Percentage of Issued Share Capital of the Company<sup>1</sup></b>
Ms. Tsang Yue, Joyce	Interests of controlled corporations <sup>2</sup>	468,000,000	64.68%
	Founder of discretionary trust	28,284,000	3.91%
	Interest of spouse <sup>3</sup>	650,000	0.09%
Mr. Lee Soo Ghee	Beneficial owner	650,000	0.09%
	Interest of spouse <sup>4</sup>	496,284,000	68.59%
Silver Compass Holdings Corp.	Beneficial owner <sup>5</sup>	367,200,000	50.75%
Silver Hendon Enterprises Corp.	Beneficial owner <sup>5</sup>	100,800,000	13.93%

Notes:

- The percentage has been compiled based on the total number of shares of the Company in issue as at 30 September 2011 (i.e. 723,520,000 shares).
- 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.
- Ms. Tsang Yue, Joyce is the spouse of Mr. Lee Soo Ghee and is deemed to be interested in the Shares in which Mr. Lee Soo Ghee is deemed or taken to be interested for the purpose of the SFO.
- Mr. Lee Soo Ghee is the spouse of Ms. Tsang Yue, Joyce and is deemed to be interested in the Shares in which Ms. Tsang Yue, Joyce is deemed or taken to be interested for the purpose of the SFO.
- Both Silver Compass Holdings Corp. and Silver Hendon Enterprises Corp. are wholly owned by Ms. Tsang Yue, Joyce.

Apart from the above, no other interest or short position in the shares or underlying shares of the Company were recorded in the register required to be kept under section 336 of the SFO as at 30 September 2011.

## SHARE OPTION SCHEME

On 20 January 2006, the Company has established a share option scheme ("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 one to six years after the vesting period of four to nine years commencing from the date of grant. The life of options is ten years.

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 optimise their performance and efficiency and attract and retain them whose contributions are important to the long-term growth and profitability of the Group.

### (b) Participants of the Share Option Scheme

The Board may, at its absolute discretion and on such terms as it may think fit, offer any employee (whether fulltime or part-time) and director 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 options 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 quotations sheet on the date of grant, which must be a business day; (ii) the average of the closing price of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of a Share.

CORPORATE GOVERNANCE AND OTHER INFORMATION (continued)

(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 during the period under review were as follows:

Name	Balance as at 1 April 2011	No. of options granted during the period under review	No. of options cancelled/lapsed during the period under review	No. of options as at 30 September 2011	Date of grant	Period during which options are exercisable	Exercise price	Approximate percentage of share per issued share (Note 1)
<i>Executive Director</i>								
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%
Others	1,582,500	—	(37,500)	1,545,000	23/10/2006	23/10/2010 to 22/10/2016	HK\$1.33	0.21%
Others	2,215,500	—	(52,500)	2,163,000	23/10/2006	23/10/2014 to 22/10/2016	HK\$1.33	0.30%
Others	2,532,000	—	(60,000)	2,472,000	23/10/2006	23/10/2015 to 22/10/2016	HK\$1.33	0.34%
Total	6,830,000	—	(150,000)	6,680,000				

Note:

- The relevant percentages are calculated by reference to the Shares in issue on 30 September 2011, i.e. 723,520,000 shares.

### **PURCHASES, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

During the six months ended 30 September 2011, the Company had not redeemed, and neither the Company nor any of its subsidiaries had purchased or sold, any of the Company's listed securities.

### **CORPORATE GOVERNANCE PRACTICES**

The Company is committed to principles of good corporate governance consistent with prudent management and enhancement of shareholder value, which emphasize transparency, accountability and independence. During the six months ended 30 September 2011, the Company has complied with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules, except for the deviation from Code provision A.2.1 as discussed in the section headed "Chairman and Chief Executive Officer" below.

### **CHAIRMAN AND CHIEF EXECUTIVE OFFICER**

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. Currently, Ms. Tsang is both 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 senior 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 2011.

### **UPDATE ON DIRECTORS' INFORMATION UNDER RULE 13.51B(1) OF THE LISTING RULES**

**Tung Kwok Lui ("Mr. Tung")** (*Executive Director up to 20 May 2011*)

On 20 May 2011, Mr. Tung resigned as an executive director, company secretary and authorised representative of the Company due to his pursuit of other career commitments.

### **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 Company and three Independent Non-executive Directors. Ms. Tsang Yue, Joyce is currently 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/her own remuneration.



## CORPORATE GOVERNANCE AND OTHER INFORMATION (continued)

### **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 Company and three Independent Non-executive Directors. Ms. Tsang Yue, Joyce is currently 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 Board has established an audit committee ("Audit Committee") with defined terms of reference, which are on no less exacting terms than those set out in the Code on Corporate Governance Practices of the Listing Rules.

The Audit Committee reviews the Group's financial reporting, internal controls and corporate governance issues and makes relevant recommendations to the Board. The Audit Committee is chaired by Ms. Liu Mei Ling, Rhoda, an Independent Non-executive Director and all Audit Committee members are Independent Non-executive Directors.

The Audit Committee has reviewed and approved the Group's interim results for the six months ended 30 September 2011 in conjunction with the Company's auditors prior to their approval by the Board.

On behalf of the Board,

**Ms. TSANG YUE, JOYCE**

*Chairperson & Chief Executive Officer*

Hong Kong, 23 November 2011

# Independent Review Report

## 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 of Modern Beauty Salon Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 25 to 39 which comprises the condensed consolidated statement of financial position of the Company as at 30 September 2011 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 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

23 November 2011

# Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 September 2011

	Note	Six months ended 30 September	
		2011 HK\$'000 (unaudited)	2010 HK\$'000 (unaudited)
Turnover	5	325,466	276,937
Other income	6	1,718	1,945
Cost of inventories sold		(9,723)	(8,705)
Advertising costs		(3,846)	(3,570)
Building management fees		(7,302)	(6,910)
Bank charges		(16,378)	(13,482)
Employee benefits expenses		(156,915)	(145,781)
Depreciation		(15,442)	(18,960)
Occupancy costs		(51,573)	(52,262)
Other operating expenses		(26,063)	(20,105)
Operating profit		39,942	9,107
Interest income		301	169
Profit before tax		40,243	9,276
Income tax expense	7	(7,580)	(2,497)
Profit for the period	8	32,663	6,779
Other comprehensive income for the period, net of tax:			
Exchange differences on translating foreign operations		357	401
Total comprehensive income for the period		33,020	7,180
Profit for the period attributable to:			
Owners of the Company		32,667	6,779
Non-controlling interests		(4)	—
		32,663	6,779
Total comprehensive income for the period attributable to:			
Owners of the Company		33,024	7,180
Non-controlling interests		(4)	—
		33,020	7,180
Earnings per share (HK cents)			
— Basic	10	4.52	0.94
— Diluted	10	N/A	N/A

# Condensed Consolidated Statement of Financial Position

At 30 September 2011

	Note	30 September 2011 HK\$'000 (unaudited)	31 March 2011 HK\$'000 (audited)
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	11	55,694	50,588
Investment properties		176,100	175,400
Trade and other receivables, deposits and prepayments	12	21,853	18,494
Deferred tax assets		12,372	18,744
		<b>266,019</b>	263,226
<b>Current assets</b>			
Inventories		9,801	9,418
Trade and other receivables, deposits and prepayments	12	213,067	167,984
Current tax assets		—	3,085
Pledged bank deposits		7,162	7,160
Cash and cash equivalents		331,143	323,164
		<b>561,173</b>	510,811
<b>Total assets</b>		<b>827,192</b>	774,037
<b>EQUITY</b>			
<b>Capital and reserves</b>			
Share capital	13	72,352	72,352
Reserves		244,409	231,852
Equity attributable to owners of the Company		<b>316,761</b>	304,204
Non-controlling interests		75	79
<b>Total equity</b>		<b>316,836</b>	304,283
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables, deposits received and accrued expenses	14	63,189	53,233
Deferred revenue	15	443,171	413,695
Current tax liabilities		3,996	2,826
		<b>510,356</b>	469,754
<b>Total liabilities</b>		<b>510,356</b>	469,754

Condensed Consolidated Statement of  
Financial Position (continued)

At 30 September 2011

	<b>30 September 2011 HK\$'000 (unaudited)</b>	31 March 2011 HK\$'000 (audited)
<b>Total equity and liabilities</b>	<b>827,192</b>	774,037
<b>Net current assets</b>	<b>50,817</b>	41,057
<b>Total assets less current liabilities</b>	<b>316,836</b>	304,283

Approved by the Board of Directors on 23 November 2011

# Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 September 2011

	(unaudited)									
	Attributable to owners of the Company									
	Share capital	Share premium	Share-based compensation reserve	Merger reserve	Foreign currency translation reserve	Property revaluation reserve	Retained earnings	Total	Non-controlling interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1 April 2010	72,352	146,875	3,264	(53,982)	2,246	—	88,444	259,199	—	259,199
Total comprehensive income for the period	—	—	—	—	401	—	6,779	7,180	—	7,180
Partial disposal of a subsidiary	—	—	—	—	—	—	(17)	(17)	22	5
Share-based payments	—	—	949	—	—	—	—	949	—	949
Lapse of share options	—	—	(936)	—	—	—	936	—	—	—
2010 special dividends paid	—	—	—	—	—	—	(20,256)	(20,256)	—	(20,256)
Changes in equity for the period	—	—	13	—	401	—	(12,558)	(12,144)	22	(12,122)
Balance at 30 September 2010	72,352	146,875	3,277	(53,982)	2,647	—	75,886	247,055	22	247,077
<b>Balance at 1 April 2011</b>	<b>72,352</b>	<b>146,875</b>	<b>3,277</b>	<b>(53,982)</b>	<b>2,991</b>	<b>29,798</b>	<b>102,893</b>	<b>304,204</b>	<b>79</b>	<b>304,283</b>
Total comprehensive income for the period	—	—	—	—	357	—	32,667	33,024	(4)	33,020
Share-based payments	—	—	370	—	—	—	—	370	—	370
Lapse of share options	—	—	(80)	—	—	—	80	—	—	—
2011 final dividends paid	—	—	—	—	—	—	(20,837)	(20,837)	—	(20,837)
Changes in equity for the period	—	—	290	—	357	—	11,910	12,557	(4)	12,553
<b>Balance at 30 September 2011</b>	<b>72,352</b>	<b>146,875</b>	<b>3,567</b>	<b>(53,982)</b>	<b>3,348</b>	<b>29,798</b>	<b>114,803</b>	<b>316,761</b>	<b>75</b>	<b>316,836</b>

# Condensed Consolidated Statement of Cash Flows

For the six months ended 30 September 2011

	Six months ended 30 September	
	2011	2010
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Net cash generated from operating activities	44,895	71,430
Net cash used in investing activities	(16,651)	(12,332)
Net cash used in financing activities	(20,837)	(20,256)
Net increase in cash and cash equivalents	7,407	38,842
Cash and cash equivalents at beginning of the period	323,164	244,905
Effect of foreign exchange rate changes	572	323
Cash and cash equivalents at end of the period	331,143	284,070

# Notes to the Condensed Financial Statements

For the six months ended 30 September 2011

## 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, Uglund House, South Church Street, George Town, Grand Cayman, Cayman Islands. The address of its principal place of business is 6th Floor, Sino Industrial Plaza, 9 Kai Cheung Road, Kowloon Bay, Kowloon, Hong Kong. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

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

The Group is controlled by Silver Compass Holdings Corp. ("SCHC"), a company incorporated in the British Virgin Islands, which owns 51% of the Company's shares. The remaining 14% of the shares are held by Silver Hendon Enterprises Corp. ("SHEC") and 35% are widely held. Both SCHC and SHEC are wholly owned by Ms. Tsang Yue, Joyce ("Ms. Tsang"). In the opinion of the directors of the Company, SCHC is the ultimate holding company; and Ms. Tsang, who is also a director of the Company, 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.

These condensed financial statements should be read in conjunction with the annual financial statements for the year ended 31 March 2011. 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 2011.

## 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 2011. HKFRSs comprise Hong Kong Financial Reporting Standards; Hong Kong Accounting Standards; 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.

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 2011. Segment profits do not include other income, interest income, unallocated costs of corporate administrative expenses, and income tax expense. Segment assets do not include investment properties, current tax assets and deferred tax assets.



Notes to the  
Condensed Financial Statements (continued)  
For the six months ended 30 September 2011

**4. SEGMENT INFORMATION (Continued)**

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

	<b>Beauty and wellness services HK\$'000 (unaudited)</b>	<b>Skincare and wellness products HK\$'000 (unaudited)</b>	<b>Total HK\$'000 (unaudited)</b>
Six months ended 30 September 2011:			
Revenue from external customers	305,367	20,099	325,466
Inter-segment revenue	—	14,464	14,464
Segment profit	46,665	9,596	56,261
As at 30 September 2011:			
Segment assets	631,385	7,335	638,720
Six months ended 30 September 2010:			
Revenue from external customers	262,769	14,168	276,937
Inter-segment revenue	—	9,979	9,979
Segment profit	12,459	7,087	19,546
	(audited)	(audited)	(audited)
As at 31 March 2011:			
Segment assets	573,669	3,139	576,808

Notes to the  
Condensed Financial Statements (continued)  
For the six months ended 30 September 2011

**4. SEGMENT INFORMATION (Continued)**

	<b>Six months ended 30 September</b>	
	<b>2011</b>	2010
	<b>HK\$'000</b>	HK\$'000
	<b>(unaudited)</b>	(unaudited)
<b>Reconciliations of segment profit:</b>		
Total profit of reportable segments	<b>56,261</b>	19,546
Other income	<b>1,718</b>	1,945
Interest income	<b>301</b>	169
Corporate administrative expenses	<b>(18,037)</b>	(12,384)
Income tax expense	<b>(7,580)</b>	(2,497)
Consolidated profit for the period	<b>32,663</b>	6,779

**5. TURNOVER**

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

	<b>Six months ended 30 September</b>	
	<b>2011</b>	2010
	<b>HK\$'000</b>	HK\$'000
	<b>(unaudited)</b>	(unaudited)
Total receipts for sales of prepaid beauty packages	<b>334,527</b>	292,352
Revenue from provision of beauty and wellness services and expiry of prepaid beauty packages	<b>305,367</b>	262,769
Sales of skincare and wellness products	<b>20,099</b>	14,168
	<b>325,466</b>	276,937

Notes to the  
Condensed Financial Statements (continued)  
For the six months ended 30 September 2011

**6. OTHER INCOME**

	<b>Six months ended 30 September</b>	
	<b>2011</b>	2010
	<b>HK\$'000</b>	HK\$'000
	<b>(unaudited)</b>	(unaudited)
Commission income	<b>795</b>	1,625
Magazine subscription income	<b>28</b>	129
Gain on revaluation of investment properties	<b>700</b>	—
Gain on disposal of property, plant and equipment	<b>107</b>	—
Other income	<b>88</b>	191
	<b>1,718</b>	1,945

**7. INCOME TAX EXPENSE**

	<b>Six months ended 30 September</b>	
	<b>2011</b>	2010
	<b>HK\$'000</b>	HK\$'000
	<b>(unaudited)</b>	(unaudited)
Current tax — Hong Kong Profits Tax		
— Provision for the period	<b>(1,170)</b>	—
Deferred tax	<b>(6,410)</b>	(2,497)
	<b>(7,580)</b>	(2,497)

Hong Kong Profits Tax is provided at 16.5% (2010: 16.5%) based on the estimated assessable profits for the period.

No provision for PRC enterprise income tax has been made for the six months ended 30 September 2011 (2010: Nil) as the PRC subsidiaries of the Company either did not generate any estimated assessable profits for the period or have available tax losses brought forward from prior years to offset against any estimated assessable profits generated during the period.

Notes to the  
Condensed Financial Statements (continued)  
For the six months ended 30 September 2011

## 8. PROFIT FOR THE PERIOD

Profit for the period is stated after charging the following:

	Six months ended 30 September	
	2011 HK\$'000 (unaudited)	2010 HK\$'000 (unaudited)
Auditors' remuneration		
Current period	870	954
Over-provision in prior year	—	(300)
	870	654
Direct operating expenses of investment properties that did not generate rental income	186	—
Directors' remuneration	5,372	6,228

## 9. DIVIDENDS

On 23 November 2011, the Board has approved the payment of an interim dividend of HK3.38 cents (2010: HK1.4 cents) per ordinary share for the six months ended 30 September 2011.

## 10. EARNINGS PER SHARE

### Basic earnings per share

The calculation of basic earnings per share attributable to owners of the Company is based on the profit for the six months ended 30 September 2011 attributable to owners of the Company of approximately HK\$32,667,000 (2010: HK\$6,779,000) and the weighted average number of ordinary shares of 723,520,000 (2010: 723,520,000) in issue during the period.

### Diluted earnings per share

The calculation of diluted earnings per share for the six months ended 30 September 2011 and 2010 did not assume the exercise of the Company's outstanding share options as the exercise price of these outstanding options were higher than the average market price of the shares of the Company. Accordingly, the share options had no potential dilutive effect for the six months ended 30 September 2011 and 2010.

## 11. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 September 2011, the Group acquired property, plant and equipment of approximately HK\$20,497,000 (2010: HK\$12,331,000).

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

	30 September 2011 HK\$'000 (unaudited)	31 March 2011 HK\$'000 (audited)
<b>Non-current assets</b>		
Rental and other deposits	21,853	18,494
<b>Current assets</b>		
Trade receivables	52,291	45,822
Trade deposits retained by banks and credit card companies (Note)	124,408	86,408
Rental and other deposits, prepayments and other receivables	36,223	35,677
Amounts due from related companies (Note 18(b))	145	77
	213,067	167,984
	234,920	186,478

Note: Trade deposits represent trade receivables that were retained by the banks/credit card companies in reserve accounts to secure the Group's performance of services to customers who paid for the services by the banks' credit cards, in accordance with the merchant agreements entered into between the Group and the banks/credit card companies.

The Group's turnover comprises mainly cash and credit card sales. The credit terms with banks/credit card companies are within 150 days (31 March 2011: 150 days) from the date of billings.

An ageing analysis of trade receivables, based on the billing date, is as follows:

	30 September 2011 HK\$'000 (unaudited)	31 March 2011 HK\$'000 (audited)
0-30 days	21,278	21,747
31-60 days	11,709	8,593
61-90 days	10,986	10,621
91-150 days	7,234	4,021
Over 150 days	1,084	840
	52,291	45,822

Notes to the  
Condensed Financial Statements (continued)  
For the six months ended 30 September 2011

### 13. SHARE CAPITAL

	Number of shares	Amount HK\$'000
Authorised:		
Ordinary shares of HK\$0.1 each		
As at 31 March 2011 and 30 September 2011	10,000,000,000	1,000,000
Issued and fully paid:		
Ordinary shares of HK\$0.1 each		
As at 31 March 2011 and 30 September 2011	723,520,000	72,352

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

	30 September 2011 HK\$'000 (unaudited)	31 March 2011 HK\$'000 (audited)
Trade payables	727	471
Other payables, deposits received and accrued expenses	61,865	52,633
Amounts due to related companies (Note 18(b))	597	129
	<b>63,189</b>	53,233

Trade payables as at 30 September 2011 are aged within 90 days (31 March 2011: 90 days).

### 15. DEFERRED REVENUE

An ageing analysis of the deferred revenue is as follows:

	30 September 2011 HK\$'000 (unaudited)	31 March 2011 HK\$'000 (audited)
Within 1 year	376,025	312,438
More than 1 year but within 2 years	539	52,155
More than 2 years but within 3 years	66,607	49,102
	<b>443,171</b>	413,695

## 16. COMMITMENTS

### (a) Commitments under operating leases

At 30 September 2011, the total future minimum lease payments under non-cancelable operating leases are payable as follows:

	<b>30 September 2011 HK\$'000 (unaudited)</b>	31 March 2011 HK\$'000 (audited)
Not later than one year	<b>88,528</b>	80,706
Later than one year and not later than five years	<b>80,443</b>	74,503
	<b>168,971</b>	155,209

### (b) Capital commitments

Capital commitments at the end of the reporting period are as follows:

	<b>30 September 2011 HK\$'000 (unaudited)</b>	31 March 2011 HK\$'000 (audited)
Contracted but not yet provided for — Acquisition of plant and equipment	<b>11,762</b>	14,995

## 17. CONTINGENT LIABILITIES

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

## 18. RELATED PARTY BALANCES AND TRANSACTIONS

### (a) Related party transactions

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

		Six months ended 30 September	
		2011	2010
		HK\$'000	HK\$'000
		(unaudited)	(unaudited)
(i)	Rental expenses paid to related companies:		
	All Link International Limited	—	160
	Chain Tech International Limited	—	168
	East Union Industries Limited	275	516
	Golden National Limited	4,800	4,800
	Joy East Limited	87	114
	Luck Elegant Industrial Limited	210	840
	United Industries Limited	275	—
	Well Faith International Enterprise Limited	1,865	2,585
	Wise World Limited	367	480
		<b>7,879</b>	9,663
(ii)	Sales of products to a related company:		
	Euro King Limited	305	271
(iii)	Purchase of products and equipments from a related company:		
	Euro King Limited	2,415	—

*Note:* The pricing of the related party transactions are mutually agreed by the Group and the related companies. Ms. Tsang is the ultimate controlling party of the related companies.

### (b) Balances with related companies

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

### (c) Guarantee

As at 30 September 2011, Ms. Tsang has guaranteed to indemnify certain companies within the Group of HK\$10,000,000 against any loss resulting from any litigation and claims occurred prior to the listing of the Company's shares on the Main Board of the Stock Exchange.



**18. RELATED PARTY BALANCES AND TRANSACTIONS (Continued)**  
**(d) Key management compensation**

	<b>Six months ended 30 September</b>	
	<b>2011</b>	2010
	<b>HK\$'000</b>	HK\$'000
	<b>(unaudited)</b>	(unaudited)
Fees	<b>345</b>	300
Salaries and allowances	<b>4,974</b>	5,669
Retirement benefit scheme contribution	<b>26</b>	37
Share-based payments	<b>27</b>	222
	<b>5,372</b>	6,228

**19. EVENTS AFTER THE REPORTING PERIOD**

On 5 July 2011, Be Universal Limited ("Purchaser"), a wholly-owned subsidiary of the Company, and Ms. Tsang entered into a sale and purchase agreement ("Agreement") in connection with the acquisition ("Acquisition") of entire equity interest of Zegna Management Limited ("Target Company"), a company ultimately controlled by Ms. Tsang, at a consideration of HK\$250 million which will be satisfied by the issuance of the convertible note of the Company.

On 27 October 2011, an ordinary resolution for approving the Acquisition has been passed by the independent shareholders at the extraordinary general meeting of the Company. The successful completion of the Acquisition is subject to the fulfillment of the conditions stated in the Agreement. The directors of the Company regard that the Acquisition will be completed within 2011.

Details of the Acquisition are set out in the Company's announcement and circular dated 5 July 2011 and 30 September 2011 respectively.

**20. APPROVAL OF INTERIM FINANCIAL STATEMENTS**

The interim financial statements was approved and authorised for issue by the Board of Directors on 23 November 2011.

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Stock Code 股份代號：919

## **MODERN BEAUTY SALON HOLDINGS LIMITED**

6/F, Sino Industrial Plaza,

9 Kai Cheung Road, Kowloon Bay,

Kowloon, Hong Kong

Tel: (852) 2866 2377

Fax: (852) 2804 6607

Email: [ir@modernbeautysalon.com](mailto:ir@modernbeautysalon.com)

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

## **現代美容控股有限公司**

香港九龍九龍灣啟祥道9號信和工商中心6樓

電話：(852) 2866 2377

傳真：(852) 2804 6607

電郵：[ir@modernbeautysalon.com](mailto:ir@modernbeautysalon.com)

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