



MODERN BEAUTY SALON HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 919)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2007

FINANCIAL HIGHLIGHTS

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

OPERATION HIGHLIGHTS

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

The Board of Directors (the “Board” or the “Directors”) of Modern Beauty Salon Holdings Limited (the “Company”) are pleased to announce the unaudited condensed consolidated financial information of the Company and its subsidiaries (collectively referred to as the “Group”) for the six months ended 30 September 2007.

The interim results of the Group for the six months ended 30 September 2007 have been reviewed and with no disagreement by the Company's auditors, PricewaterhouseCoopers, in accordance with Hong Kong Standard on Review Engagement 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. The auditors' independent review report will be included in the condensed consolidated interim financial information to the Company's shareholders.

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

		Unaudited	
		Six months ended	
		30 September	
	<i>Note</i>	2007	2006
		<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	3	347,816	291,696
Other gains - net	4	1,748	4,542
Cost of inventories sold		(10,089)	(10,761)
Employee benefits expenses		(130,064)	(112,942)
Depreciation and amortisation		(15,732)	(11,900)
Occupancy costs		(36,418)	(22,657)
Other operating expenses		<u>(59,632)</u>	<u>(50,542)</u>
Operating profit		97,629	87,436
Interest income		<u>13,947</u>	<u>11,789</u>
Profit before income tax	5	111,576	99,225
Income tax expense	6	<u>(17,153)</u>	<u>(15,302)</u>
Profit for the period		<u>94,423</u>	<u>83,923</u>
Dividends	7	<u>72,352</u>	<u>57,741</u>
Earnings per share (HK cents)			
- Basic	8	<u>13.05</u>	<u>11.66</u>
- Diluted	8	<u>12.88</u>	<u>11.63</u>

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

		Unaudited 30 September 2007 HK\$'000	Audited 31 March 2007 HK\$'000
	<i>Note</i>		
ASSETS			
Non-current assets			
Property, plant and equipment		75,211	77,216
Leasehold land prepayments		26,329	26,661
Deposits	9	21,612	17,295
Deferred income tax assets		<u>2,387</u>	<u>2,977</u>
		125,539	124,149
Current assets			
Inventories		10,432	10,618
Trade and other receivables, deposits and prepayments	9	69,047	47,749
Current income tax assets		4,192	7,121
Pledged bank deposits		9,220	10,707
Cash and cash equivalents		<u>545,294</u>	<u>584,953</u>
		638,185	661,148
Total assets		<u>763,724</u>	<u>785,297</u>
EQUITY			
Capital and reserves			
Share capital		72,352	72,340
Share premium and reserves		<u>239,839</u>	<u>237,147</u>
Total equity		<u>312,191</u>	<u>309,487</u>

		Unaudited	Audited
		30 September	31 March
	<i>Note</i>	2007	2007
		<i>HK\$'000</i>	<i>HK\$'000</i>
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		79	79
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Current liabilities			
Trade and other payables, deposits received and accrued expenses	10	42,493	41,114
Deferred revenue		377,205	420,007
Current income tax liabilities		<u>31,756</u>	<u>14,610</u>
		451,454	475,731
		-----	-----
Total liabilities		<u>451,533</u>	<u>475,810</u>
		-----	-----
Total equity and liabilities		<u>763,724</u>	<u>785,297</u>
		-----	-----
Net current assets		<u>186,731</u>	<u>185,417</u>
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Total assets less current liabilities		<u>312,270</u>	<u>309,566</u>
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NOTES:

1 Basis of preparation

This unaudited condensed consolidated interim financial information for the half year ended 30 September 2007 has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” and the disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”). The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 March 2007.

2 Accounting policies

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

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

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

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

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

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

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

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

3 Segment information

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

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

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

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

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

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

4 **Other gains - net**

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

5 **Profit before income tax**

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

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

6 **Income tax expense**

Hong Kong profits tax has been provided at the rate of 17.5% (2006: 17.5%) on the estimated assessable profit for the period.

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

	Unaudited Six months ended 30 September	
	2007	2006
	HK\$'000	HK\$'000
Current income taxation:		
— Hong Kong profits tax	17,086	15,302
— Over provision in prior years	<u>(523)</u>	<u>—</u>
	16,563	15,302
Deferred taxation	<u>590</u>	<u>—</u>
	<u>17,153</u>	<u>15,302</u>

7 Dividends

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

Note:

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

8 Earnings per share

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

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

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

9 **Trade and other receivables, deposits and prepayments**

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

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

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

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

10 **Trade and other payables, deposits received and accrued expenses**

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Continuous Expansion of Services and Retail Network in Hong Kong

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

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

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

Extending Service and Products Lines

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

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

Good Progress of Business Expansion in Mainland China

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

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

Service Enhancement

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

FINANCIAL REVIEW

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

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

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

Turnover by Business Segment

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

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

Sales of New Prepaid Beauty Packages

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

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

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

Major Operating Expenses

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

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

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

Net Profit and Margin

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

Liquidity, Financial Resources and Capital Structure

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

Capital Expenditure

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

Contingent Liabilities and Capital Commitment

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

Charges on Assets

As at 30 September 2007, the Group had pledged bank deposits of HK\$9.2 million (31 March 2007: HK\$10.7 million) in favour of certain banks to secure banking facilities granted to certain subsidiaries in the Group.

Exchange Risk Exposure

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

Significant Acquisition

There was no significant acquisition by the Group during the six months ended 30 September 2007.

Treasury Policies

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

Human Resources

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

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

Proceeds from Initial Public Offering

The net proceeds from the Company's initial public offering in February 2006 were approximately HK\$161.6 million, after deduction of related listing expenses. During the six months ended 30 September 2007, these usage of proceeds were in accordance with the future plans and prospects set out in the Company's listing prospectus dated 27 January 2006.

OUTLOOK

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

Hong Kong Market

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

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

Mainland China Market

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

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

INTERIM DIVIDEND

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

CLOSURE OF REGISTER OF MEMBERS

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

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the six months ended 30 September 2007, the Company had not redeemed, and neither the Company nor any of its subsidiaries had purchased or sold, any of the Company's listed securities.

CORPORATE GOVERNANCE PRACTICES

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

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

After reviewing the management structure, the Board is of the opinion that Board decisions are collective decisions of all Directors made by way of voting and not decisions of the Chairperson of the Board alone. Further, there is a clear division of responsibilities between the management of the Board and the day-to-day management of the business of the Company, which relies on the support of the senior management.

As such, the power of management of the Company is not concentrated in any one individual. The Board considers that the present structure will not impair the balance of power and authority between the Board and the management of the Group.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 of the Listing Rules as the code of conduct regarding securities transactions by Directors. Having made specific enquiry, all Directors have confirmed that they have fully complied with the relevant standard set out in the Model Code during the six months ended 30 September 2007.

AUDIT COMMITTEE

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

PUBLICATION OF THE INTERIM RESULTS AND INTERIM REPORT

This interim results announcement is published on the website of the Hong Kong Exchanges and Clearing Limited at www.hkex.com.hk (“the Stock Exchange’s website”) under “Latest Listed Company Information” and on the website of the Company at www.modernbeautysalon.com (“the Company’s website”) under “Investor Relations — Statutory Announcements”. The Interim Report will be dispatched to the shareholders on or about 27 December 2007 and will be available at the Stock Exchange’s website and the Company’s website respectively in due course.

By order of the Board
MODERN BEAUTY SALON HOLDINGS LIMITED
Tsang Yue, Joyce
Chairperson

Hong Kong, 13 December 2007

As at the date hereof, the Board of Directors of the Company consists of six executive Directors, Ms. Tsang Yue, Joyce, Mr. Lee Soo Ghee, Ms. Yuen Siu Ping, Mr. Yip Kai Wing, Mr. Kwong Chi Ching and Ms. Mok Hin Yuk and three independent non-executive Directors, Mr. Wong See Hong, Mr. Yu How Yuen and Mr. Cheng Kai Tai, Allen.