現代美容控股有限公司

MODERN BEAUTY SALON HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 919)

ANNOUUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2008

FINANCIAL HIGHLIGHTS

➢ Group's turnover grew by 5.2% to HK$365.9 million

➢ Prepaid receipts grew by 18.5%

➢ Hong Kong business increased by 1.1%

➢ PRC business increased by 591.6%

➢ Net profit margin declined to 10.9% due to the increased operating costs

➢ Basic earnings per share was HK5.53 cents

➢ Interim dividend per share was HK4.30 cents, representing a dividend payout ratio of approximately 78% of the current period profit

OPERATION HIGHLIGHTS

➢ Hong Kong business comprised 36 beauty and spa service centres with a weighted average total gross floor area of 329,000 square feet

➢ The Group launched 4 "**be Beauty Shop**" retail outlets in Hong Kong, taking the total number to 11 as at 30 September 2008

➢ Customer number in Hong Kong reached approximately 227,300, including approximately 12,800 male customers

➢ Mainland China business comprised 9 service centres respectively in Guangzhou, Shanghai and Beijing, with approximately 16,300 customers in total.

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 2008.

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

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

	Notes	**Unaudited 30 September 2008** *HK$'000*	**Audited 31 March 2008** *HK$'000*
ASSETS			
Non-current assets			
Property, plant and equipment		124,968	109,456
Leasehold land prepayments		116,990	118,088
Deposits	9	23,432	25,710
Deferred income tax assets		8,100	6,477
		273,490	259,731
Current assets			
Inventories		11,491	12,583
Trade and other receivables, deposits and prepayments	9	103,438	72,514
Current income tax assets		10,020	9,462
Pledged bank deposits		9,350	9,264
Cash and cash equivalents		288,968	349,811
		423,267	453,634
Total assets		696,757	713,365
EQUITY			
Capital and reserves			
Share capital		72,352	72,352
Share premium and reserves		279,478	302,327
Total equity		351,830	374,679

	Notes	Unaudited 30 September 2008 *HK$'000*	Audited 31 March 2008 *HK$'000*
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		363	209
Current liabilities			
Trade and other payables, deposits received and accrued expenses	10	52,444	47,489
Deferred revenue		258,535	265,028
Current income tax liabilities		33,585	25,960
		344,564	338,477
Total liabilities		344,927	338,686
Total equity and liabilities		696,757	713,365
Net current assets		78,703	115,157
Total assets less current liabilities		352,193	374,888

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1 BASIS OF PREPARATION

This condensed consolidated interim financial information for the half year ended 30 September 2008 has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" and the disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 March 2008, which have been prepared in accordance with Hong Kong Financial Reporting Standard.

2 ACCOUNTING POLICIES

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

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

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

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

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

- HKAS 1 (Revised), 'Presentation of Financial Statements', effective for annual periods beginning on or after 1 January 2009. The Group will apply HKAS 1(Revised) from 1 April 2009.

- HKAS 23 (Revised),'Borrowing costs', effective for annual periods beginning on or after 1 January 2009. The Group will apply HKAS 23 (Revised) from 1 April 2009 but is currently not applicable to the Group as there are no qualifying assets.

- HKAS 32 (Amendment), 'Financial instruments: presentation', and consequential amendments to HKAS 1,'Presentation of financial statements', effective for annual periods beginning on or after 1 January 2009. The Group will apply HKAS 32(Amendment) from 1 April 2009, but it is not expected to have any impact on the Group's financial statements.

- HKFRS 2 (Amendment), 'Share-based Payment' effective for annual periods beginning on or after 1 January 2009. The Group will apply HKFRS 2 Amendment from 1 April 2009 but it is not expected to have any impact on the Group's financial statements

- HKFRS 3 (Revised),'Business Combinations' and consequential amendments to HKAS 27, 'Consolidated and separate financial statements', HKAS 28, 'Investments in associates' and HKAS 31,'Interests in joint ventures', effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. The Group will apply HKFRS 3 (Revised) from 1 April 2010, but it is not expected to have any impact on the Group's financial statements.

- HKFRS 8,'Operating Segments', effective for annual periods beginning on or after 1 January 2009. HKFRS 8 replaces HKAS 14, 'Segment reporting', and requires 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes. The Group will apply HKFRS 8 from 1 April 2009. The expected impact is still being assessed in detail, but it appears likely that the number of reportable segments, as well as the manner in which the segments are reported, will change in a manner that is consistent with the internal reporting provided to the chief operating decision-maker.

- HK(IFRIC)-Int 13,'Customer loyalty programmes', effective for annual periods beginning on or after 1 July 2008. HK(IFRIC) — Int 13 is not relevant to the Group's operations because none of the Group's companies operate any loyalty programmes.

- HK(IFRIC)-Int 15,'Agreements for the construction of real estate' effective for annual periods beginning on or after 1 January 2009. HK (IFRIC) — Int 15 is not relevant to the Group's operations.

- HK(IFRIC)-Int 16,'Hedges of a net investment in a foreign operation', effective for annual periods beginning on or after 1 October 2008. HK(IFRIC) — Int 16 is not relevant to the Group as there are no hedges arrangements on its overseas investment.

3 SEGMENT INFORMATION

(a) **Primary reporting format — business segments**

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

(i) Sales of beauty and wellness services; and

(ii) Sales of beauty products

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

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

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

	Unaudited 30 September 2008 *HK$'000*	Audited 31 March 2008 *HK$'000*
Segment assets:		
Beauty and wellness services	469,187	487,089
Beauty products	8,259	8,681
	477,446	495,770
Unallocated assets	219,311	217,595
Total assets	696,757	713,365
Segment liabilities:		
Beauty and wellness services	(306,207)	(307,205)
Beauty products	(4,772)	(5,312)
	(310,979)	(312,517)
Unallocated liabilities	(33,948)	(26,169)
Total liabilities	(344,927)	(338,686)

	Unaudited Six months ended 30 September 2008 *HK$'000*	2007 *HK$'000*
Other information:		
Capital expenditure		
Beauty and wellness services	32,977	14,854
Depreciation and amortization		
Beauty and wellness services	18,138	15,447
Beauty products	58	58
Unallocated depreciation and amortization	465	227
	18,661	15,732

(b) **Secondary reporting format — geographical segments**

The Group operated in two geographical segments during the period:

(i) Hong Kong; and

(ii) Mainland China

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

	Unaudited Six months ended 30 September 2008	2007
	HK$'000	*HK$'000*
Turnover:		
Hong Kong	349,213	345,397
Mainland China	16,729	2,419
	365,942	347,816

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

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

4 Other gains — net

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

5 Profit before income tax

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

	Unaudited Six months ended 30 September 2008 HK$'000	2007 HK$'000
Auditors' remuneration		
— current period	1,495	1,200
Gain on disposal of property, plant and equipment	(95)	(1,251)

6 Income tax expense

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

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

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

7 Dividends

	Unaudited Six months ended 30 September 2008 *HK$'000*	2007 *HK$'000*
Proposed interim dividend of HK$4.3 cents per ordinary share (six months ended 30 September 2007: HK$10.0 cents) (note)	31,111	72,352

Note:
An interim dividend of HK$4.30 cents per share, amounting to total dividend of HK$31,111,360 was approved on 17 December 2008. This condensed consolidated interim financial information does not reflect this dividend payable.

8 Earnings per share

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

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

The calculation of diluted earnings per share is based on the weighted average of 723,520,000 (2007: 723,476,284) shares in issue during the period plus the weighted average of 6,434,241 (2007: 9,656,409) shares deemed to be issued if all outstanding share options granted under the Share Option Scheme of the Company had been exercised.

9 Trade and other receivables, deposits and prepayments

	Unaudited 30 September 2008 *HK$'000*	Audited 31 March 2008 *HK$'000*
Non-current assets		
Rental and other deposits	23,432	25,710
Current assets		
Trade receivables	50,713	48,075
Rental and other deposits, prepayments and other receivables	46,535	23,989
Amounts due from a related company	6,190	450
	103,438	72,514
	126,870	98,224

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

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

	Unaudited 30 September 2008	**Audited 31 March 2008**
	HK$'000	*HK$'000*
0 - 30 days	49,348	39,767
31 - 60 days	1,353	8,296
61 - 90 days	12	12
	50,713	48,075

10 Trade and other payables, deposits received and accrued expenses

	Unaudited 30 September 2008	**Audited 31 March 2008**
	HK$'000	*HK$'000*
Trade payables	1,112	1,651
Other payables, deposits received and accrued expenses	51,332	45,838
	52,444	47,489

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

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

	As at 30 September 2008	2007	Growth
No. of service centres	45	31	45.2%
Hong Kong	36	28	28.6%
Mainland China	9	3	200.0%
Weighted average total gross floor area (sq. ft.)	377,000	309,000	22.0%
Hong Kong	329,000	291,000	13.1%
Mainland China	48,000	18,000	166.7%
No. of customers	243,600	198,300	22.8%
Hong Kong	227,300	193,200	17.6%
Mainland China	16,300	5,100	219.6%
Number of staff	2,123	1,694	25.3%
Frontline beauty staff	1,703	1,324	28.6%
Back office staff	420	370	13.5%

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

BUSINESS REVIEW — HONG KONG BUSINESS

Continuous Expansion of Service and Retail Network in Hong Kong

The Group continued to explore new locations to expand its service network in Hong Kong. During the period under review, we set up 12 new service centres respectively at Wanchai, Causeway Bay, Happy Valley, Tsim Sha Tsui, Tai Po, Kwai Chung, Mei Foo, North Point and Kwun Tong. One centre in Tsim Sha Tsui has moved to and been consolidated with another existing centre because the tenancy agreement expired; another three centres have been shut down. We have expanded our network coverage to 36 services centres with a weighted average total gross floor area of approximately 329,000 square feet as at 30 September 2008, representing an increase of 13.1% as compared to 291,000 square feet as at 30 September 2007.

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

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

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

Extending Service and Product Lines

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

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

BUSINESS REVIEW FOR MAINLAND CHINA

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

Number of Service Centres:

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

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

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

Operation Highlights

Service Enhancement

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

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

FINANCIAL REVIEW

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

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

Turnover by Business Segment

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

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

Sales of New Prepaid Beauty Packages

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

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

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

Analysis of Operating Expenses

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

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

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

Net Profit and Margin

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

Liquidity, Financial Resources and Capital Structure

The total equity of the Company as at 30 September 2008 was HK$351.8 million. The Group generally finances its operation with cash generated from operations. The Group continued to maintain a strong financial position with cash and cash equivalents of HK$288.9 million as at 30 September 2008 (31 March 2008: HK$349.8 million) with no bank borrowing. During the period, the majority of the Group's cash was held in fixed and savings deposits as in line with the Group's prudent treasury policy. As at 30 September 2008, the Group had net current assets of HK$78.7 million (31 March 2008: HK$115.2 million).

Capital Expenditure

The total capital expenditure of the Group during the six months ended 30 September 2008 was HK$33.0 million. The amount included HK$31.9 million allocated for the acquisition of leasehold improvements, equipment and machinery in connection with the expansion of the service and retail network in Hong Kong. The remaining approximately HK$1.1 million was spent in the acquisition of leasehold improvements, equipment and machinery for opening new service centres in Mainland China.

Contingent Liabilities and Capital Commitment

The Board considered no material contingent liabilities as at 30 September 2008. The Group had capital commitment of HK$128.1 million as at 30 September 2008 (31 March 2008: HK$8.3 million) in respect of the acquisition of property, plant and equipment.

Charges on Assets

As at 30 September 2008, the Group had pledged bank deposits of HK$9.4 million (31 March 2008: HK$9.3 million) in favour of certain banks to secure banking facilities granted to certain subsidiaries in the Group.

Exchange Risk Exposure

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

Significant Acquisition

There was no significant acquisition by the Group during the six months ended 30 September 2008.

Treasury Policies

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

Human Resources

The Group had a work force of 2,123 staff as at 30 September 2008 (31 March 2008: 1,694 staff), including 1,703 frontline service centre staff in Hong Kong and 420 in Mainland China. Back office staff totaled 380 in Hong Kong and 40 in Mainland China. Total employee benefits expenses including directors' emoluments for the period under review amounted to HK$166.6 million.

The Group's remuneration policies are in line with the prevailing market practices and are determined based on individual performance and experience. The Group has been constantly reviewing staff remuneration to ensure it is competitive within the industry. For the purpose of motivating and rewarding our staff, discretionary bonus and share options are granted to eligible employees based on individual and the Group's performance. As at 30 September 2008, certain directors, senior management and employees of the Group are entitled to a total of 13,200,000 share options. Great emphasis is also placed on staff training and development with professional training programs continuously provided to the frontline beauty staff.

Proceeds from Initial Public Offering

The net proceeds from the Company's initial public offering in February 2006 were approximately HK$161.6 million, after deduction of related listing expenses. During the six months ended 30 September 2008, these usage of proceeds were in accordance with the future plans and prospects set out in the Company's listing prospectus dated 27 January 2006.

OUTLOOK

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

Hong Kong Market

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

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

Mainland China Market

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

Our Strength

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

Interim Dividend

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

Closure of Register of Members

The register of members of the Company will be closed from Tuesday, 20 January 2009 to Thursday, 22 January 2009, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged for registration with the Company's registrar, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:00 p.m. on Wednesday, 11 February 2009.

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

During the six months ended 30 September 2008, the Company had not redeemed, and neither the Company nor any of its subsidiaries had purchased or sold, any of the Company's listed securities.

Corporate Governance Practices

The Company is committed to establishing and maintaining high standards of corporate governance. The Board is in the opinion that the Company has applied the principles of all applicable code provisions of the Code on Corporate Governance Practice (the "Code") as set out in under Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") for the six months ended 30 September 2008, except for the following deviations:

Code Provision A.2.1 of the Code stipulates that the role of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Lee Soo Ghee is currently the Chairperson and Chief Executive Officer of the Company.

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

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

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as the code of conduct regarding securities transactions by Directors. Having made specific enquiry, all Directors have confirmed that they have fully complied with the relevant standard set out in the Model Code during the six months ended 30 September 2008.

Audit Committee

The Company has established an audit committee (the "Audit Committee") in compliance with Rule 3.21 of the Listing Rules with written terms of reference in compliance with the Code to review and supervise the financial reporting process and internal control systems of the Group. The Audit Committee comprises three Independent non-executive Directors of the Company. The interim results of the Group for the six months ended 30 September 2008 have been reviewed and approved by the Audit Committee, prior to their approval by the Board.

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 30 December 2008 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
Lee Soo Ghee
Chairperson and Chief Executive Officer

Hong Kong, 17 December 2008

As at the date of this announcement, the Board consists of five executive Directors, 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. Cheng Kai Tai, Allen, Mr. Yip Ki Chi Luke and Mr. Soo SK Sean.