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 2011

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.

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 results of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 30 September 2011 (the "period under review").

The interim results of the Group for the six months ended 30 September 2011 have been reviewed and with no disagreement by the Company's auditor, RSM Nelson Wheeler, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. The auditor's independent review report will be included in the condensed consolidated interim financial information to the Company's shareholders.

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)*
ASSETS			
Non-current assets			
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
		266,019	263,226
Current assets			
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
		561,173	510,811
Total assets		**827,192**	774,037
EQUITY			
Capital and reserves			
Share capital		**72,352**	72,352
Reserves		**244,409**	231,852
Equity attributable to owners of the Company		**316,761**	304,204
Non-controlling interests		**75**	79
Total equity		**316,836**	304,283
LIABILITIES			
Current liabilities			
Trade and other payables, deposits received and accrued expenses	*13*	**63,189**	53,233
Deferred revenue	*14*	**443,171**	413,695
Current tax liabilities		**3,996**	2,826
		510,356	469,754
Total liabilities		**510,356**	469,754

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 30 SEPTEMBER 2011

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

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, Ugland House, South Church Street, George Town, Grand Cayman, Cayman Islands. The address of its principal place of business is 6th Floor, Sino Industrial Plaza, 9 Kai Cheung Road, Kowloon Bay, Kowloon, 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.

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.

	Beauty and wellness services *HK$'000* *(unaudited)*	**Skincare and wellness products** *HK$'000* *(unaudited)*	**Total** *HK$'000* *(unaudited)*
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

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

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

6. OTHER INCOME

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

7. INCOME TAX EXPENSE

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

8. PROFIT FOR THE PERIOD

Profit for the period is stated after charging the following:

	Six months ended 30 September	
	2011	2010
	HK$'000	*HK$'000*
	(unaudited)	*(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	31 March 2011
	HK$'000	*HK$'000*
	(unaudited)	*(audited)*
Non-current assets		
Rental and other deposits	**21,853**	18,494
Current assets		
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	**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

13. 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	**597**	129
	63,189	53,233

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

14. 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
	443,171	413,695

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 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 sells 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) For the six months ended 30 September 2011 HK$'000	2011 Percentage of turnover	2010 HK$'000	2010 Percentage of turnover	Change
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 pervious year.

Turnover by Business Segment

Product Mix	(Unaudited) For the six months ended 30 September 2011 HK$'000	2011 Percentage of turnover	2010 HK$'000	2010 Percentage of turnover	Change
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%
Total turnover	**325,466**	**100.0%**	276,937	100.0%	+17.5%

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

	(Unaudited) As at 30 September 2011			Unaudited As at 30 September 2010		
	Hong Kong	**Mainland China**	**Total**	Hong Kong	Mainland China	Total
Movement of Deferred Revenue	***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 9 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				
	2011		2010		
	HK$'000	**Percentage of turnover**	*HK$'000*	Percentage of turnover	**Change**
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%

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 the 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.

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 "FERRECARE". 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.

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.

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.

PUBLICATION OF THE INTERIM RESULTS AND INTERIM REPORT

This results announcement is published on the website of the Hong Kong Exchanges and Clearing Limited at www.hkex.com.hk under "Latest Listed Company Information" and on the website of the Company at www.modernbeautysalon.com under "Investor Relations — Statutory Announcements". The Interim Report will be despatched to the shareholders on or about 9 December 2011 and will be available at the Stock Exchange's and the Company's websites at the same time.

On behalf of the Board,
TSANG YUE, JOYCE
Chairperson & Chief Executive Officer

Hong Kong, 23 November 2011

As at the date of this announcement, the Board consists of four Executive Directors, Ms. Tsang Yue, Joyce, Mr. Yip Kai Wing, Mr. Leung Man Kit and Mr. Wong Shu Pui and three Independent Non-Executive Directors, Ms. Liu Mei Ling, Rhoda, Mr. Wong Man Hin, Raymond and Mr. Hong Po Kui, Martin.