

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this announcement, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



MODERN BEAUTY SALON HOLDINGS LIMITED
(現代美容控股有限公司)

(incorporated in the Cayman Islands with limited liability)
(Stock code: 919)

ANNOUNCEMENT

The Company has received the Letter from the Consumer Council dated 3 February 2006. The Company made this announcement at the request of the Stock Exchange to keep the public informed of the matters referred to in the Letter.

In the Letter, the Consumer Council drew to the Company's attention of the discrepancies of the number of complaints as disclosed in the Prospectus and that under the records of the Consumer Council and the Consumer Council's concerns on the Group's business practice and the significant profits derived from expired prepaid packages.

The Company and representatives of the Consumer Council met on 4 February 2006 but no conclusion in respect of the discrepancies was reached between the Company and the Consumer Council during the meeting. Subsequent to the meeting and up to the date of this announcement, the Company had not received any further comments or request for further actions in relation to the discrepancies from the Consumer Council nor the Company had received any further comments or request for further actions in relation to the Group's business practice from the Consumer Council.

The Directors are of the view that the Prospectus is in compliance with rule 2.13 of the Listing Rules. The Letter was received after the issue of the Prospectus but before the dealing of the shares of the Company commences on the Stock Exchange. The Directors are also of the view that the Letter and the allegations set out in the Letter do not constitute (i) a significant change affecting matters contained in the Prospectus; or (ii) a significant new matter which would have been required to be included in the Prospectus if it had arisen before the date of the Prospectus, which renders the issue of a supplemental Prospectus under rule 11.13 of the Listing Rules or the Companies Ordinance.

BACKGROUND

The Company has received the Letter from the Consumer Council on 3 February 2006. The Company made this announcement at the request of the Stock Exchange to keep the public informed of the matters referred to in the Letter.

THE LETTER

In the Letter, the Consumer Council drew to the Company's attention of the discrepancies between the number of complaints filed with the Consumer Council against the Group as disclosed in the Prospectus and that under the records of the Consumer Council during the three years ended 31 March 2005 and the four months ended 31 July 2005. The Consumer Council also drew to the Company's attention of its concerns of the Group's pre-payment packages and that, as disclosed in the Prospectus, approximately HK\$44,800,000 and HK\$58,400,000 of the Group's net profits were attributable to expired prepaid beauty packages for each of the two years ended 31 March 2005 respectively, representing approximately 72.8% and 55.5% of the Group's net profits during the period respectively, and requested for rectifying action.

The discrepancies

The Letter set out the discrepancies as follows:

Period	No. of complaints as disclosed in the Prospectus	No. of complaints which the Consumer Council have drawn to the Company's attention
April 2002 — March 2003	83	94
April 2003 — March 2004	89	103
April 2004 — March 2005	61	75
April 2005 — 31 July 2005	27	31
Total:	260	303

Upon the receipt of the Letter, the Company had immediately arranged for a meeting with representatives of the Consumer Council on 4 February 2006. During the meeting, the Company and representatives of the Consumer Council discussed matters referred to in the Letter and they noted there were discrepancies in relation to the number of customers' complaints filed with the Consumer Council against the Group as stated in the Prospectus and that as under the records of the Consumer Council. During the meeting, the Company noted that the Consumer Council in general would forward the complaints from the consumers to the Group by ordinary post, of which only approximately 260 out of 303 complaints from the Consumer Council were received by the Group during the three years ended 31 March 2005 and the four months ended 31 July 2005. However, no conclusion was reached between the Company and the Consumer Council in respect of the discrepancies during the meeting. Subsequent to the meeting and up to the date of this announcement, the Company had not received any further comments or request for further actions in relation to the discrepancies from the Consumer Council.

The Directors confirmed that the figures of the customers' complaints from the Consumer Council as set out in the Prospectus were based on the Group's records of complaints received by the Group from the Consumer Council through ordinary post, categorised according to the dates of receipt and were compiled to the Directors best knowledge.

The Directors further noted that the major reasons for the complaints shown in the records of the Consumer Council fall within (i) difficulty in booking for treatment at specific time slots; (ii) dissatisfaction with quality of services; (iii) injury due to services provided by the Group; and (iv) aggressive sales attitude of staff, and which are the same major reasons for the complaints that have been disclosed in the Prospectus.

Pre-payment packages

In relation to the concerns of the Consumer Council about the Group's pre-payment packages, the Group in fact has at all times been adopting various rectifying measures to cater for customers' needs and attend to their complaints. As disclosed in the Prospectus, such measures include (i) exercising reasonable judgement in selling prepaid beauty packages to customers by considering the service capacity of the Group's network of service centre to ensure that the prepaid beauty packages sold can be utilised within a reasonable period; (ii) reviewing the capacity of the Group's service centres regularly by comparing the estimated maximum capacity in providing treatments and the total amount of unexpired prepaid beauty packages; (iii) pro-actively contacting customers and inviting them to enjoy beauty-related treatment services during the non-peak hours; and (iv) opening new service centres in the New Territories in response to the need of customers, who live or work in the New Territories, for beauty and healthcare services locally. In addition, the Group has adopted 1.80 as the maximum ratio of deferred revenue to consumption. In the event that the maximum ratio of 1.80 is met, the Group will control the sale of prepaid packages to customers.

During the meeting between the Company and representatives of the Consumer Council on 4 February 2006, the Consumer Council and the Company had not formally and specifically discussed in detail matters relating to the Company's business practice of prepaid beauty packages. Subsequent to the meeting and up to the date of this announcement, the Company had not received any further comments or request for further actions in relation to the Group's business practice from the Consumer Council. Nevertheless, the Company would continue discussion with the Consumer Council to address their concerns on the Group's business practice in the future.

LISTING RULES, COMPANIES ORDINANCE AND TIMETABLE

The Directors are of the view that the number of customers' complaint as stated in the Prospectus were based on the information shown in the records of the Group. On the basis that the Company has fully disclosed in the Prospectus the fact that the Group has received various customers' complaints filed with the Consumer Council, the major reasons for the customers' complaints and the rectifying measures taken by the Group, the Directors are of the view that the information set out in the Prospectus is accurate and complete in all material respects, not be misleading or deceptive and does not constitute material mis-statements. As such, the Directors are of the view that the Prospectus is in compliance with rule 2.13 of the Listing Rules. The Letter was received after the issue of the Prospectus but before the dealing of the shares of the Company commences on the Stock Exchange. The Directors are also of the view that the Letter and the allegations set out in the Letter do not

constitute (i) a significant change affecting matters contained in the Prospectus; or (ii) a significant new matter which would have been required to be included in the Prospectus if it had arisen before the date of the Prospectus, which renders the issue of a supplemental Prospectus under rule 11.13 of the Listing Rules or the Companies Ordinance.

The Directors confirmed that there will be no change to the listing timetable of the Company on the Stock Exchange.

DEFINITIONS

In this announcement, the following expressions shall have the following meanings unless the context requires otherwise:

“Company”	Modern Beauty Salon Holdings Limited, an exempted company incorporated in the Cayman Islands
“Companies Ordinance”	Companies Ordinance (Chapter 32 of the laws of Hong Kong)
“Directors”	the directors of the Company from time to time
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Letter”	a letter from the Consumer Council to the Company dated 3 February 2006
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Prospectus”	the prospectus of the Company in relation to the Share Offer (as defined therein) dated 27 January 2006
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

By order of the Board
Modern Beauty Salon Holdings Limited
Tsang Yue, Joyce
Chairperson

Hong Kong, 6 February, 2006

As at the date of this announcement, the Board consists of five executive Directors, Ms. Tsang Yue, Joyce, Mr. Lee Soo Ghee, Ms. Yuen Siu Ping, Mr. Hung Fan Kwan and Mr. Yip Kai Wing and three independent non-executive Directors, Mr. Wong See Hong, Mr. Yu How Yuen and Mr. Cheng Kai Tai, Allen.

Please also refer to the published version of this announcement in South China Morning Post.