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MODERN BEAUTY SALON HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 919)

MAJOR AND CONNECTED TRANSACTION IN RELATION TO THE DISPOSAL AND CONTINUING CONNECTED TRANSACTIONS IN RELATION TO THE LEASE ARRANGEMENT

THE DISPOSAL

On 23 September 2009, the Vendor and the Purchaser entered into the Disposal Agreement pursuant to which the Vendor has conditionally agreed to sell the entire issued share capital of each of the Sale Companies and the Sale Loan to the Purchaser at the Aggregate Consideration of HK\$190 million. The Sale Companies are investment holding companies wholly owned by the Group. The principal assets of the Sale Companies are the Properties.

All of the Properties are located in Hong Kong. The Group A Properties are currently used by the Group and the Group B Properties are currently leased to a third party independent of and not connected with the Company and its connected persons for rental income.

THE LEASE ARRANGEMENT

As a result of the Disposal, the Group and the relevant Sale Companies will enter into the Lease Agreements in respect of the Group A Properties concurrently with the Completion pursuant to which the Sale Companies will agree to lease the Group A Properties to the Group at an aggregate annual rental of HK\$8.82 million for the period commencing from the day following the Completion Date and expiring on the third anniversary of the Completion Date.

It is estimated that the rental payable by the Group to the Purchaser under the Lease Agreements would be HK\$3.68 million for the 5-month period ending 31 March 2010, HK\$8.82 million for each of the two financial years ending 31 March 2012, and HK\$5.15 million for the 7-month period ending 31 October 2012.

LISTING RULES IMPLICATIONS

As at the date of this announcement, the Purchaser is ultimately beneficially owned by Ms. Tsang, who is a controlling Shareholder. The Purchaser is therefore a connected person of the Company under the Listing Rules. Accordingly, the Disposal constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules and is subject to the reporting, announcement and Independent Shareholders' approval requirements under the Listing Rules.

The Disposal also constitutes a major transaction of the Company under Chapter 14 of the Listing Rules, and is subject to reporting, announcement and Shareholders' approval under Rule 14.40 of the Listing Rules.

The Lease Arrangement constitutes a continuing connected transaction for the Company under Rule 14A.34 of the Listing Rules, and is subject to reporting and announcement, but exempted from the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Company will convene the EGM for the purpose of seeking approval from the Independent Shareholders of the Disposal. Save for Ms. Tsang and her associates, no Shareholder is required to abstain from voting in respect of the Disposal.

GENERAL

A circular containing, amongst others matters, further information on (i) details of the Disposal (ii) a letter of recommendation from the Independent Board Committee to the Independent Shareholders, (iii) a letter of advice from the independent financial adviser to the Independent Board Committee and the Independent Shareholders, and (iv) the notice of the EGM will be despatched to the Shareholders as soon as practicable in accordance with the Listing Rules.

THE DISPOSAL AGREEMENT

Date

23 September 2009

Parties

- (a) Seller : Modern Beauty Management Company Limited, a wholly-owned subsidiary of the Company
- (b) Buyer : All Link International Limited, an investment holding company, ultimately beneficially owned by Ms. Tsang, the controlling Shareholder

Assets to be disposed of

The entire issued share capital of each of the Sale Companies and the Sale Loan constitutes the assets to be disposed of. As at 31 July 2009, the Sale Loan, in aggregate, amounted to approximately HK\$144 million.

The Sale Companies are all investment holding companies wholly owned by the Group. The principal assets of the Sale Companies are the Properties, which are held by the respective Sale Companies for a period of more than 12 months.

All the Properties are located in Hong Kong. The Group A Properties are currently used by the Group as its operating facilities and the Group B Properties are currently leased to a third party independent of and not connected with the Company and its connected persons for rental purpose at an aggregate monthly rental of approximately HK\$57,000 (inclusive of rates and government rent but exclusive of management fees).

As a result of the Disposal, the Group and the relevant Sale Companies will enter into the Lease Agreements. Details of the Lease Arrangement are set out in the paragraph headed “The Lease Arrangement” below.

Consideration

The Aggregate Consideration of HK\$190 million was arrived at after arm’s length negotiations between the Vendor and the Purchaser taking into account (i) the aggregate net assets value of the Sale Companies as at 31 March 2009 of approximately HK\$3.3 million (comprising principally the Properties with an aggregate book value of approximately HK\$153.4 million, and the Sale Loan), (ii) the market value of the Properties of HK\$196 million as of 31 August 2009 as valued by an independent valuer, and (iii) the face value of the Sale Loan as at 31 July 2009 of approximately HK\$144 million.

Pursuant to the Disposal Agreement, the Aggregate Consideration shall be settled as to HK\$118 million by setting-off the Shareholder’s Loan and as to HK\$72 million in cash, in each case, upon Completion.

Conditions precedent for Completion

Completion shall be conditional upon the following:

- (a) the transactions contemplated under the Disposal Agreement having been approved by the Independent Shareholders at the EGM; and
- (b) there is no breach of any representations, warranties or undertakings of the Vendor set out in the Disposal Agreement.

The Purchaser may waive condition (b) by written notice to the Vendor.

If any of the Conditions is not fulfilled or waived on or before 5:00 p.m. on 31 December 2009, the Disposal Agreement shall terminate and no party to the Disposal Agreement shall have any claim against the other party save for any antecedent breaches of the Disposal Agreement.

Completion

Subject to the fulfillment or waiver of the Conditions, Completion shall take place on the Completion Date. Upon Completion, the Company will cease to have any interest in each of the Sale Companies and each of the Sale Companies will cease to be a subsidiary of the Company.

THE LEASE ARRANGEMENT

As part of the whole arrangement in respect of the Disposal, it is proposed that at Completion, the Group (as tenant) and the relevant Sale Companies (as landlord) will enter into the Lease Agreements in respect of each of the Group A Properties at an aggregate annual rental of HK\$8.82 million for a term commencing from the day following the Completion Date and expiring on the third anniversary of the Completion Date. The annual rental is determined by the parties with reference to prevailing market rent of properties similar in size and location.

Details of Group A Properties are set out below:

	Address of Group A Properties	Approximate gross floor area “sq.ft.”	Usage	Annual Rental (HK\$)
(i)	Workshops Nos. 11-31, 32B, 33B, 41-78 and Store Room No. 10 on 6th Floor and Lorry Car Parking Space Nos. L8, L10, L14 and L15 on Basement Sino Industrial Plaza No. 9 Kai Cheung Road, Kowloon Bay, Kowloon	45,000	Industrial and ancillary office	2,496,000
(ii)	18th Floor, Hou Feng Industrial Building, Nos. 1-5 Wing Kin Road, Kwai Chung, New Territories	10,376	Storage	228,000
(iii)	Workshop Nos. 2-3 on 4th Floor and Car Parking Space No. G11 on Ground Floor, Hong Kong Worsted Mills Industrial Building, Nos. 31-39 Wo Tong Tsui Street, Kwai Chung, New Territories	23,542	Storage	252,000
(iv)	D1-D14, 3rd Floor, Block D and Car Parking Space Nos. 131-132 on 1st Floor, Tsing Yi Industrial Centre Phase II, Nos. 1-33 Cheung Tat Road, Tsing Yi, New Territories	28,676	Storage	780,000
(v)	Shop 1 on Ground Floor, Len Fat Mansion, Nos. 56-60, 64-86 Kin Yip Street, Yuen Long, New Territories and 1st Floor (with flat roof adjacent thereto) including the staircases and landings on and leading from the Ground Floor to the First Floor and Covered Air-Conditioned Plant Shelter on 2nd Floor, Len Fat Mansion, Nos. 56-60, 64-86 Kin Yip Street, Yuen Long, New Territories	6,974	Foot massage Gym, spa and beauty treatment	960,000

Address of Group A Properties	Approximate gross floor area “sq.ft.”	Usage	Annual Rental (HK\$)
(vi) 1st and 2nd Floor, The Grandeur, No. 47 Jardine’s Bazaar, Hong Kong	11,678	Spa and beauty treatment	2,388,000
(vii) 1st Floor, 2nd Floor (including the staircase entrance on the Ground Floor appertaining to and exclusively leading to the said First Floor and Second Floor), Main Roof and the Exterior of the Eastern and Western Side Walls of Wai Lun Building, Nos. 78-84A Hennessy Road, Hong Kong	4,416	Spa and beauty treatment	1,716,000

It is estimated that the rental payable by the Group to the Purchaser for each of the 5-month period ending 31 March 2010, two financial years ending 31 March 2012, and 7-month period ending 31 October 2012 will be as follows:-

For the 5-month period ending 31 March 2010	HK\$3.68 million
Financial year ending 31 March 2011	HK\$8.82 million
Financial year ending 31 March 2012	HK\$8.82 million
For the 7-month period ending 31 October 2012	HK\$5.15 million

The annual rental cap for each of the 5-month period ending 31 March 2010, two financial years ending 31 March 2012, and 7-month period ending 31 October 2012 is determined with reference to the aggregate annual rental of HK\$8.82 million and the anticipated commencement date of the Lease Agreements of 1 November 2009.

Pursuant to the Lease Agreements, the Group has the right to terminate the Lease Arrangement at any time by giving to the Purchaser one month’s prior written notice to that effect or by paying the Purchaser one month rental in lieu of such notice.

INFORMATION ON THE SALE COMPANIES

The principal activity of the Purchaser is investment holding.

The table below sets out the unaudited combined profit before and after taxation of the Sale Companies for the two financial years ended 31 March 2009.

	Year ended 31 March	
	2009	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Net profit before tax	11,638	3,835
Net profit after tax	8,839	3,649

The unaudited combined net assets value of the Sale Companies and the aggregate book value of the Sale Loan as at 31 March 2009 were approximately HK\$3.3 million and HK\$148 million respectively.

The aggregated market value of the Properties as at 31 August 2009 as valued by an independent valuer were approximately HK\$196 million.

REASONS AND BENEFITS OF THE DISPOSAL, THE LEASE AND USE OF PROCEEDS

The principal activity of the Company is investment holding and its principal subsidiaries are principally engaged in the provision of beauty and wellness services and sales of beauty products.

Upon Completion, the Company expects to record a gain on Disposal of approximately HK\$36 million (being the difference between the Aggregate Consideration and the net asset values of the Sale Companies and the face value of the Sale Loan as at 31 March 2009). Shareholders should note that the actual gain on Disposal to be recorded by the Company will depend on the net asset values of the Sale Companies as at the date of Completion. Upon Completion, the Company will not have any shareholding interest in the Sale Companies and each of the Sale Companies will cease to be accounted for as a subsidiary of the Company. The Directors are of the view that the Lease Agreements are part of the whole arrangement in respect of the Disposal which ensure that the Group can continue to use the Group A Properties.

The Company currently intends to apply the net proceeds from the Disposal (after setting off of the Shareholder's Loan) as general working capital of the Group.

Taking into consideration that (i) the Disposal will allow the Group to realize its investment in the Properties at a gain; (ii) the net proceeds from the Disposal will provide additional resources to the Group as working capital of its principal activities; and (iii) the Lease Agreements, which are part and parcel of the Disposal, allows the Group's continued use of the Group A Properties, the Directors (excluding the independent non-executive Directors who will express their opinions on the

Disposal after taking into account the advice from the independent financial adviser) consider the Disposal are on normal commercial terms and the terms of the Disposal are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

LISTING RULES IMPLICATIONS

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The Disposal also constitutes a major transaction of the Company under Chapter 14 of the Listing Rules, and is subject to reporting, announcement and Shareholders' approval under Rule 14.40 of the Listing Rules.

The Lease Agreement constitutes a continuing connected transaction for the Company under Rule 14A.34 of the Listing Rules and is subject to reporting and announcement, but exempted from the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Company will convene the EGM for the purpose of seeking approval from the Independent Shareholders of the Disposal. Save for Ms. Tsang and her associates, no Shareholder is required to abstain from voting in respect of the Disposal.

GENERAL

A circular containing, amongst other matters, further information on (i) details of the Disposal (ii) a letter of recommendation from the Independent Board Committee to the Independent Shareholders, (iii) a letter of advice from the independent financial adviser to the Independent Board Committee and the Independent Shareholders, and (iv) the notice of the EGM will be despatched to the Shareholders as soon as practicable in accordance with the Listing Rules.

DEFINITIONS

In this announcement, the following expressions have the meanings set out below unless the context otherwise requires.

“Aggregate Consideration”	the aggregate consideration of approximately HK\$190 million for the disposal of the entire issued share capital of each of the Sale Companies and the Sale Loan pursuant to the Disposal Agreement
“Board”	the board of the Directors
“Company”	Modern Beauty Salon Holdings Limited, a company incorporated in the Cayman Islands with limited liability and the shares of which are listed on the Main Board of the Stock Exchange (stock code: 919)
“Completion”	the completion of the sale and purchase of the Sale Companies and the Sale Loan under the Disposal Agreement pursuant to the terms and conditions thereof
“Completion Date”	the third business day (or such other date as may be agreed by the Vendor and the Purchaser) after the day on which the Purchaser being notified by the Vendor as to the fulfillment of condition (a) of the Conditions, at which Completion will take place
“Conditions”	the conditions precedent to Completion, particulars of which are set out in the section headed “Conditions precedents for Completion” in this announcement
“connected person”	shall have the meaning as ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“Disposal”	the sale of the Sale Companies and the Sale Loan by the Vendor to the Purchaser pursuant to the Disposal Agreement
“Disposal Agreement”	the sale and purchase agreement dated 23 September 2009 entered into between the Vendor and the Purchaser in relation to the Disposal

“EGM”	an extraordinary general meeting of the Company to be convened and held for the purpose of considering, and if thought fit, approving the Disposal
“Group”	the Company and its subsidiaries
“Group A Properties”	the properties owned by the Sale Companies, which are currently used by the Group as its operating facilities
“Group B Properties”	the properties situated at Workshop Units 401, 404A, 404B and 405 on 4th Floor, Hong Kong Worsted Mills Industrial Building, Nos. 31-39 Wo Tong Tsui Street, Kwai Chung, New Territories, Hong Kong, which are currently owned by East Union Industries Limited, one of the Sale Companies, and are currently leased to an independent third party for rental purpose
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Board Committee”	an independent board committee of the Company comprising all the independent non-executive Directors to advise the Independent Shareholders on the Disposal
“Independent Shareholders”	Shareholders who are not prohibited under the Listing Rules from voting at the EGM of the Company to approve the Disposal
“Lease Arrangement”	the lease transactions as contemplated under the Lease Agreements
“Lease Agreement(s)”	various lease agreements to be entered into between the Group (as tenant) and the relevant Sale Company (as landlord) concurrently with the Completion in relation to the lease of the Group A Properties
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Ms. Tsang”	Ms. Tsang Yue, Joyce, the controlling Shareholder
“Properties”	the Group A Properties and the Group B Properties

“Purchaser”	All Link International Limited, a company which is ultimately beneficially owned by Ms. Tsang
“Sale Companies”	East Union Industries Limited, Joy East Limited, Well Faith International Enterprise Limited and Wise World Limited, each of which is an indirect wholly owned subsidiary of the Company as at the date of this announcement
“Sale Loan”	all amounts due by the Sale Companies to the Vendor as at the Completion Date, which amounted to approximately HK\$144 million as at 31 July 2009
“Share(s)”	the ordinary share(s) of HK\$0.10 each in the issued share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Shareholder’s Loan”	the amount of HK\$118 million due to Ms. Tsang by the Company
“Stock Exchange”	the Stock Exchange of Hong Kong Limited
“subsidiaries”	has the meaning as ascribed thereto under the Listing Rules
“Vendor”	Modern Beauty Management Company Limited, a wholly owned subsidiary of the Company
“%”	per cent.

By Order of the Board
Modern Beauty Salon Holdings Limited
Lee Soo Ghee
Chairperson

Hong Kong, 23 September 2009

As at the date of this announcement, the Board consists of eight executive Directors, Mr. Lee Soo Ghee, Ms. Yuen Siu Ping, Mr. Yip Kai Wing, Mr. Kwong Chi Ching, Ms. Chu Shu Ching, Ms. Yeung Ching Yu, Mr. Tung Kwok Lui and Mr. Wong Shu Pui and three independent non-executive Directors, Mr. Cheng Kai Tai, Allen, Mr. Yip Ki Chi Luke and Mr. Soo SK Sean.