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If you are in doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Modern Beauty Salon Holdings Limited, you should at once hand this circular, together with the accompanying proxy form to the purchaser(s) or transferee(s) or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

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MODERN BEAUTY SALON HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 919)

**MAJOR AND CONNECTED TRANSACTION
INVOLVING THE ISSUE OF CONVERTIBLE NOTE**

**Independent financial adviser to the Independent Board Committee and
the Independent Shareholders**



Capitalised terms defined in this circular shall have the same meanings when used in this cover.

A letter from the Board is set out on pages 5 to 20 of this circular.

A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on page 21 of this circular. A letter from OSK Capital Hong Kong Limited, the independent financial adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 22 to 50 of this circular.

A notice convening the EGM to be held at Lower G/F, Far East Finance Centre, No. 16 Harcourt Road, Admiralty, Hong Kong, on Thursday, 27 October 2011 at 11:00 a.m. is set out on pages EGM-1 to EGM-2 of this circular. A proxy form for the EGM is also enclosed with this circular.

Whether or not you intend to attend the EGM, you are requested to complete and return the accompanying proxy form in accordance with the instructions set out therein to the Company's share registrar in Hong Kong, namely Tricor Investor Services Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending, and voting in person at the EGM or any adjournment thereof if you so wish.

30 September 2011

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DEFINITIONS

In this circular, the following expressions shall have the meanings set out below unless the context requires otherwise:

“Acquisition”	the acquisition of the Sale Share by the Purchaser from the Vendor pursuant to the Sale and Purchase Agreement (as supplemented by the Supplemental Sale and Purchase Agreement)
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Company”	Modern Beauty Salon Holdings Limited, a company incorporated under the laws of the Cayman Islands with limited liability and the shares of which are listed on the Stock Exchange
“Completion”	completion of the Acquisition as contemplated under the Sale and Purchase Agreement (as supplemented by the Supplemental Sale and Purchase Agreement)
“Consideration”	the aggregate consideration of HK\$250 million for the Acquisition
“Conversion Price”	the initial conversion price of HK\$1.05 per Conversion Share (subject to adjustment as a result of consolidation, subdivision or reclassification of the Share only)
“Conversion Shares”	the new shares of the Company to be issued upon the exercise of the conversion right attached to the Convertible Note
“Convertible Note”	the Convertible Note with a 2% coupon per annum proposed to be issued by the Company to settle the entire Consideration, which entitles the holder(s) thereof to convert the principal amount outstanding into the Conversion Shares at the Conversion Price.
“Cut Off Date”	the date for ascertaining the financial positions of each of the Reorganized Entities (which initially was 1 August 2011 under the Sale and Purchase Agreement and was revised to 1 November 2011 pursuant to the Supplemental Sale and Purchase Agreement)

DEFINITIONS

“Deed of Undertaking”	a deed of undertaking dated 26 January 2006 executed by JFH and the Vendor in favour of the Group setting out, among other things, the non-competition undertakings given by JFH and the Vendor in favour of the Group and the option granted to the Company to purchase the business of JFH
“Director(s)”	director(s) of the Company
“EGM”	the extraordinary general meeting (and any adjournment thereof) of the Company to be convened at Lower G/F, Far East Finance Centre, No. 16 Harcourt Road, Admiralty, Hong Kong on Thursday, 27 October 2011 at 11:00 a.m. to consider and, if thought fit, approve the transactions contemplated under the Sale and Purchase Agreement (as supplemented by the Sale and Purchase Agreement), the notice of which is set out in the section headed “Notice of EGM” in this circular
“Enlarged Group”	the Group immediately after the Completion
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Hong Kong Subsidiary”	Euro King Limited, a company incorporated in Hong Kong with limited liability and as at the Latest Practicable Date, wholly owned by the Target Company
“Independent Board Committee”	the independent board committee comprising all of the independent non-executive Directors, namely, Ms. Liu Mei Ling, Rhoda, Mr. Wong Man Hin, Raymond and Mr. Hong Po Kui, Martin established to advise the Independent Shareholders on the terms of the Sale and Purchase Agreement
“Independent Shareholders”	the Shareholders other than the Vendor and her associates
“JFH”	JF Holdings (S) Pte Limited, a company incorporated in Singapore with limited liability and wholly and beneficially owned by the Vendor

DEFINITIONS

“Latest Practicable Date”	28 September 2011, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Maturity Date”	the maturity date of the Convertible Note, being the date falling on the fifth anniversary of the date of the issue of the Convertible Note
“OSK”	OSK Capital Hong Kong Limited, a corporation licensed under the SFO to carry out business in type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities, being the independent financial adviser to the Independent Board Committee and Independent Shareholders regarding the Acquisition
“Prospectus”	the Company’s prospectus dated 27 January 2006 in connection with the initial listing of the Shares on the Main Board of the Stock Exchange
“Purchaser”	Be Universal Limited, a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of the Company
“Sale and Purchase Agreement”	the agreement dated 5 July 2011 entered into between the Purchaser and the Vendor in respect of the Acquisition and where the context so requires, such agreement as amended and supplemented by the Supplemental Sale and Purchase Agreement
“Sale Share”	the 1 share of HK\$1.00 in the share capital of the Target Company, representing the entire issued share capital of the Target Company
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	share(s) of HK\$0.10 each of the Company
“Shareholder(s)”	shareholder(s) of the Company
“Singapore”	Republic of Singapore
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

DEFINITIONS

“Supplemental Sale and Purchase Agreement”	the supplemental agreement dated 30 September 2011 entered into between the Purchaser and the Vendor to amend and supplement the Sale and Purchase Agreement
“Target Company”	Zegna Management Limited, a company incorporated in Hong Kong with limited liability and wholly and beneficially owned by the Vendor
“Target Group”	the Target Company and its subsidiaries from time to time, but will not include the Hong Kong Subsidiary prior to the Completion (but after the Latest Practicable Date)
“Valuation Report”	the valuation report on the Target Group prepared by the Valuer as contained in appendix IV to this circular
“Valuer”	Greater China Appraisal Limited, an independent valuer engaged by the Company to prepare the valuation report on the Target Group
“Vendor”	Ms. Tsang Yue, Joyce, an executive Director and a controlling Shareholder
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RM”	Ringgit Malaysia, the lawful currency of Malaysia
“S\$”	Singapore dollars, the lawful currency of Singapore
“sq.ft.”	square feet

LETTER FROM THE BOARD



MODERN BEAUTY SALON HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 919)

Executive Directors

Ms. Tsang Yue, Joyce

Mr. Yip Kai Wing

Mr. Leung Man Kit

Mr. Wong Shu Pui

Independent Non-Executive Directors

Ms. Liu Mei Ling, Rhoda

Mr. Wong Man Hin, Raymond

Mr. Hong Po Kui, Martin

Registered Office:

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Cayman Islands

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in Hong Kong:*

6/F Sino Industrial Plaza

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Kowloon Bay Kowloon

Hong Kong

30 September 2011

To the Shareholders

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION INVOLVING THE ISSUE OF CONVERTIBLE NOTE

The Company announced in its announcement ("Announcement") dated 5 July 2011, the Purchaser, a wholly-owned subsidiary of the Company, and the Vendor entered into the Sale and Purchase Agreement, pursuant to which the Purchaser has conditionally agreed to acquire and the Vendor, as the sole beneficial owner of the Sale Share, has conditionally agreed to sell or procure the sale of the Sale Share (representing the entire issued share capital of the Target Company) at the Consideration of HK\$250 million, which will be satisfied by the issue of the Convertible Note to the Vendor.

LETTER FROM THE BOARD

The Company further announced on 30 September 2011 that the Purchaser and the Vendor entered into the Supplemental Sale and Purchase Agreement which has amended and supplemented certain terms of the Acquisition, including:

1. the change of the “Cut Off Date” from 1 August 2011 to 1 November 2011;
2. the change of the long stop date under the Sale and Purchase Agreement from 31 October to 31 December 2011; and
3. the modification of the manner of the Reorganisation so that:
 - (a) the businesses of two of the Singaporean Subsidiaries (“Reorganised Entities”) shall be taken up by another newly set-up Singapore Subsidiary on the Cut Off Date;
 - (b) one of the Reorganised Entities shall execute a deed of waiver in favour of Euro King Limited (the “Hong Kong Subsidiary”) to discharge and release the latter fully and absolutely from its obligations to settle any amounts due from it as ascertained in the Special Audit up to a maximum of approximately HK\$70 million; and
 - (c) the entire issued share capital of the Hong Kong Subsidiary shall be transferred by the Target Company to the Vendor (or her nominee) at nil consideration so that the Hong Kong Subsidiary shall not form part of the Target Group.

Items (b) and (c) above form part of condition (x) as referred to in the Announcement and the fulfillment of such condition can be waived by the Vendor. Conditions (iv), (v), (vii), (viii), (vi), (xi) and (xii) as referred to in the paragraph headed “Conditions Precedent” in the Announcement are still capable of being waived by the Purchaser.

Further, under the Supplemental Sale and Purchase Agreement, one of the conditions of the Convertible Note as originally agreed has been amended so that if on the Maturity Date, following the mandatory conversion provision contained in the conditions of the Convertible Note becomes operative, the public float of the Company as prescribed under the Listing Rules cannot be maintained, the Company shall redeem such portion of the outstanding Convertible Note at 100 per cent. of its face value on the Maturity Date so as to enable the Company to comply with the minimum public float requirement.

In addition, under the Supplemental Sale and Purchase Agreement, the Vendor has also undertaken to, upon request of the newly set-up Singapore Subsidiary, provide funds gratuitously to such company so as to ensure sufficient level of working capital is maintained by it for carrying out the business of the Target Group during a period of three years after Completion.

LETTER FROM THE BOARD

Details of the Sale and Purchase Agreement, as supplemented by the Supplemental Sale and Purchase Agreement, is detailed in the section headed "Sale and Purchase Agreement" below.

The purpose of this circular is to provide you with, among other things, details regarding (i) the Sale and Purchase Agreement and the transactions contemplated thereunder (including the Acquisition, the issue of the Convertible Note, the allotment and issue of the Conversion Shares); (ii) the recommendation from the Independent Board Committee in respect of the Sale and Purchase Agreement and the transactions contemplated thereunder; (iii) the advice from OSK to the Independent Board Committee and the Independent Shareholders; (iv) the accountants' report on the Target Group; (v) the unaudited pro forma financial information of the Enlarged Group; (vi) the valuation report on the Target Group (excluding the Hong Kong Subsidiary for this purpose); (vii) a notice convening the EGM; and (viii) other information as required under the Listing Rules.

THE SALE AND PURCHASE AGREEMENT

Date

5 July 2011 (with the date of the Supplemental Sale and Purchase Agreement being 30 September 2011)

Parties

- (i) Be Universal Limited, a wholly-owned subsidiary of the Company, as the purchaser; and
- (ii) Ms. Tsang Yue, Joyce, as the vendor.

The Vendor, an executive Director and a controlling Shareholder, is interested in 496,934,000 Shares (representing approximately 68.68% of the issued share capital of the Company) as at the Latest Practicable Date. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, as at the Latest Practicable Date, the Company has no prior transactions required to be aggregated with the Acquisition under Rules 14.22 and 14.23 of the Listing Rules.

Subject matters involved under the Sale and Purchase Agreement

Pursuant to the Sale and Purchase Agreement, the Purchaser will acquire the Sale Share (representing the entire issued share capital of the Target Company) from the Vendor and procure the issue of the Convertible Note to the Vendor.

LETTER FROM THE BOARD

Conditions Precedent

Completion is subject to, among others, the following conditions being fulfilled or waived (as the case may be):

- (i) the passing of an ordinary resolution by the Independent Shareholders at the EGM for the approval of the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder, including the Acquisition, the issue of the Convertible Note and the allotment and issue of the Conversion Shares;
- (ii) (if required) all requisite waivers, consents and approvals from any relevant governments or regulatory authorities or other relevant third parties in connection with the transactions contemplated under the Sale and Purchase Agreement required to be obtained on the part of the purchaser having been obtained by the Purchaser;
- (iii) the obtaining by the Group of a valuation on the business of the Target Group (excluding the Hong Kong Subsidiary) ("Business Valuation") from an independent professional valuer approved by the Group and such valuation showing that the Business Valuation as at a date being not earlier than 90 days prior to the date of this circular having a value of not less than HK\$250 million;
- (iv) in respect of each subsidiary ("Singaporean Subsidiaries") of the Target Company incorporated in Singapore, the receipt by the Group of a legal opinion (in such form and substance to its satisfaction) on the laws of Singapore issued by a law firm practising in Singapore approved by the Group covering matters including the business, ownership and the operations of the Singaporean Subsidiaries;
- (v) in respect of the subsidiary ("Malaysian Subsidiary") of the Target Company incorporated in Malaysia, the receipt by the Group of a legal opinion (in such form and substance to its satisfaction) on the laws of Malaysia issued by a law firm practising in Malaysia approved by the Group covering matters including the business, ownership and the operations of the Malaysian Subsidiary;
- (vi) the Stock Exchange having granted the listing of and the permission to deal in the Conversion Shares falling to be issued pursuant to the terms and conditions of the Convertible Note upon the exercise of the conversion rights attached to the Convertible Note;
- (vii) the Group being satisfied, from the date of the Sale and Purchase Agreement and at any time before Completion, that the Vendor's warranties remain true, accurate and not misleading and that no events have occurred that would result in any breach of any of the warranties given by the Vendor or other provisions of the Sale and Purchase Agreement by the Vendor;

LETTER FROM THE BOARD

- (viii) the consummation of the transactions contemplated under the Sale and Purchase Agreement (as supplemented by the Supplemental Sale and Purchase Agreement) shall not have been restrained, enjoined or otherwise prohibited by any applicable laws, including any order, injunction, decree or judgment of any court or other governmental authority;
- (ix) save as a result of the Reorganisation and the Dividend Payment (as defined below), there being no material adverse change of the Target Group (including its financial position, business, property, results of operations or prospects);
- (x) the completion of a corporate reorganisation (“Reorganisation”) on the part of the Vendor to the effect that:
 - (a) the businesses of two of the Singaporean Subsidiaries (“Reorganised Entities”) shall be taken up by another newly set-up Singapore Subsidiary (“New Operating Subsidiary”) on the Cut Off Date;
 - (b) one of the Reorganised Entities shall execute a deed of waiver in favour of the Hong Kong Subsidiary to discharge and release the latter fully and absolutely from its obligations to settle any amounts due from it as ascertained in the Special Audit (as defined below) up to a maximum of approximately HK\$70 million (“Waiver”); and
 - (c) the entire issued share capital of the Hong Kong Subsidiary shall be transferred by the Target Company to the Vendor (or her nominee) at nil consideration so that the Hong Kong Subsidiary shall not form part of the Target Group;
- (xi) completion by each of the Reorganised Entities of a special audit (“Special Audit”) so as to (i) ascertain each of their financial positions immediately prior to the Cut Off Date and make necessary and appropriate provisions in the financial statements for the Special Audit for their respective tax liabilities in respect of payments received prior to the Cut Off Date from prepaid packages of beauty and wellness services despite any services treatments (“Unutilised Services”) under the relevant prepaid packages have not yet been delivered to customers as at the Cut Off Date and that the related income has not been recognized in the income statement concerned; and (ii) estimate the costs for the provision of services to customers in relation to the Unutilised Services; and
- (xii) payment of the respective sums to the New Operating Subsidiary by each of the Reorganised Entities to cover all such costs for provision of Unutilised Services as provided for in financial statements for the Special Audit.

The initially agreed Cut Off Date of 1 August 2011 as stated in the Sale and Purchase Agreement was postponed to 1 November 2011 pursuant to the Supplemental Sale and Purchase Agreement as more time was required for the completion of the Reorganisation than was originally anticipated in the Sale and Purchase Agreement.

LETTER FROM THE BOARD

As at the Latest Practicable Date, the Hong Kong Subsidiary was a wholly-owned subsidiary of the Target Company and is principally engaged in purchasing of skincare products and equipment for the Target Group.

If the conditions set out above cannot be fulfilled or as the case may be, waived (in respect of conditions numbered (iv), (v), (vii), (viii), (ix), (x)(a), (xi) and (xii) by the Purchaser and (x)(b) and (x)(c) by the Vendor) on or before 31 December 2011 (or such other date as the Purchaser and the Vendor may agree from time to time), all rights and obligations of the parties to the Sale and Purchase Agreement shall cease and terminate, and neither party to the Sale and Purchase Agreement shall have any claims under the Sale and Purchase Agreement against the other party in respect of some continuing provisions such as those in relation to costs and expenses and governing law or any antecedent breaches of the Sale and Purchase Agreement.

As at the Latest Practicable Date, none of the conditions have been fulfilled and the Purchaser does not have any intention to waive any of the above conditions precedent which is capable of being waived by it. The Purchaser will only waive any condition that is capable of being waived by it in circumstances where the interest of the Shareholders will not be prejudiced and the waiver would not constitute a change in the material terms of the Sale and Purchase Agreement.

Completion

Completion shall take place on the fifth business day after all conditions precedent set out above having been fulfilled or, as the case may be, waived (to the extent they are capable of being waived) or such later date as may be agreed between the Purchaser and the Vendor. Furthermore, as part of the Reorganisation, it is expected that the Target Group (excluding the Hong Kong Subsidiary) will, subject to the then financial positions of the members of the Target Group (excluding the Malaysian Subsidiary and the Hong Kong Subsidiary), declare and pay dividends, in aggregate, to the Vendor in the maximum amount of approximately HK\$41 million (the “Dividend Payment”) prior to Completion.

Upon Completion, each member of the Target Group (excluding the Hong Kong Subsidiary) will become a wholly-owned subsidiary of the Company and the consolidated financial results and position of the Target Company will be included in the Company’s consolidated financial statements.

The Reorganisation

The Hong Kong Subsidiary is a wholly-owned subsidiary of the Target Company incorporated in 2005 and it is established mainly for the purpose of purchasing skincare and wellness products and equipment for members of the Target Group. Based on the audited financial statements of Hong Kong Subsidiary for the ended 31 March 2009 and 2010, and unaudited financial statements of the Hong Kong Subsidiary for the year ended 31 March 2011, for each of the year ended 31 March 2009, 2010, and 2011, the Hong Kong Subsidiary recorded (i) revenue of approximately HK\$3.9 million, HK\$2.8 million and HK\$3.7 million, respectively which was mainly derived from selling skincare and wellness products and equipments to members of the Target Group; and (ii) loss before and after tax of approximately HK\$0.09 million, HK\$0.2 million and profit before and after tax of approximately HK\$4 million, respectively. Given such administrative function of the Hong Kong Subsidiary will be taken up by other existing member(s) of the Group after the Completion, it is expected that the exclusion of the Hong Kong Subsidiary will streamline the business structure of the Enlarged Group after the Completion.

LETTER FROM THE BOARD

According to the Vendor, the principal asset of the Hong Kong Subsidiary is cash in the amount of approximately HK\$70 million and such cash represented the cash reserve of the Subject Operating Subsidiaries maintained by JFH and its subsidiaries prior to the reorganisation of JFH and the Vendor (as referred to in page 17 under the paragraph headed “Relationship between the Company, the Target Company and the Vendor” of this circular) and does not relate to the Unutilised Services to be provided by the Target Group to its customers. Given such background, the Directors consider that it is reasonable for the Vendor to retain the Hong Kong Subsidiary for her own benefits.

In addition, since the business prospects of the Target Group (excluding the Hong Kong Subsidiary) and its contribution to the Group’s future business and financials (rather than the size of the assets owned by the Target Group) are the key factors in considering the Acquisition. Having considered that (i) the Consideration represents a discount of approximately 20.5% to the Business Valuation on the basis after the deduction of the proposed dividend to be declared and paid by the Target Group; (ii) the administrative nature of the Hong Kong Subsidiary and (iii) the undertaking given by the Vendor in relation to the gratuitous financing of the business operation of the Target Group for the three years after the Completion (where required) (excluding the Hong Kong Subsidiary), the Directors consider that the Dividend Payment and the proposed Waiver before the Completion are not expected to have any material adverse impact on the future business operations of the Enlarged Group.

Post-Completion

As a result of the Reorganisation, in case there remains any Unutilised Services with the validity period of the relevant prepaid packages not yet expired as at Completion, the New Operating Subsidiary shall continue to provide the relevant beauty and wellness services treatments in respect of such Unutilised Services to the relevant customers for the residue of the validity periods of the relevant prepaid packages. The Vendor undertakes to, upon request of the New Operating Subsidiary, provide funds gratuitously to the New Operating Subsidiary so as to ensure that, after the Dividend Payment and the Waiver, sufficient level of working capital is maintained by the New Operating Subsidiary for carrying out its businesses during a period of three years after Completion as may determined by the Company from time to time. Since no arrangements have been made to the Malaysian Subsidiary similar to the Dividend Payment and the Waiver, no similar undertaking relating to the level working capital has been provided by the Vendor.

The Consideration

The Consideration of HK\$250,000,000 was determined after arm’s length negotiations between the Purchaser and the Vendor with reference to, among other things, the business prospects of the Target Group (excluding the Hong Kong Subsidiary for this purpose) and the potential synergy with the Group’s existing beauty and related business as well as the Business Valuation as at 31 August 2011 as stated in the Valuation Report of approximately HK\$314.3 million. The Consideration will be satisfied in full by the issue of the Convertible Note.

LETTER FROM THE BOARD

Given that (i) the Consideration represents a discount of approximately 20.5% to the Business Valuation; (ii) the prospects of the business of the Target Group (excluding the Hong Kong Subsidiary for this purpose) (as detailed below); and (iii) the geographical expansion of the Group's business to Singapore and Malaysia and the potential synergies to be created with the Group's existing beauty and beauty related business after Completion, the Directors consider that the terms of the Sale and Purchase Agreement, (including the Consideration) are fair and reasonable and the entering into of the Sale and Purchase Agreement is in the interest of the Company and the Shareholders as a whole.

Principal terms of the Convertible Note

Principal amount	:	HK\$250,000,000
Maturity Date	:	the date falling on the fifth anniversary of the date of issue of the Convertible Note
Interest	:	interest on the outstanding principal amount shall accrue at a rate of 2% per annum on a daily basis and shall be paid annually on 31 March of each year after the issue until conversion or redemption. The interest rate is determined with reference to, among other things, the prevailing lending rate of banks in Hong Kong
Conversion right	:	holder(s) of the Convertible Note will have the right to convert the Convertible Note in whole or in part (in the amount not less than a whole multiple of HK\$1,000,000 or if the remaining outstanding amount of the Convertible Note is in a lesser amount, such lesser amount) into the Conversion Shares at the Conversion Price and no conversion right attached to the Convertible Note may be exercised if following such exercise, the public float of the Company will fall below the minimum requirement as prescribed under the Listing Rules
Mandatory conversion and redemption on Maturity Date	:	the principal amount of the Convertible Note which remains outstanding on the Maturity Date shall be automatically converted into the Conversion Shares at the then prevailing Conversion Price. However, in the event that such conversion would result in the Company's failure to comply with the public float requirement as prescribed under the Listing Rules, there shall not be any conversion in respect of such principal amount of the Convertible Note the conversion of which would result in the said non-compliance and in that event the balance of the Convertible Note not converted into Conversion Shares, shall be redeemed by the Company at a redemption amount equals to 100% of the principal amount of the said balance of the Convertible Note.
Conversion Price	:	the initial Conversion Price of HK\$1.05 per Conversion Share, is determined based on the average closing of the Share on the Stock Exchange on five trading days before the date of the Sale and Purchase Agreement (subject to adjustment as a result of consolidation, subdivision or reclassification of the Shares only)

LETTER FROM THE BOARD

- Ranking of the Convertible Note : the Convertible Note shall at all times rank pari passu with all the Company's other present and future unsecured and unsubordinated obligations
- Ranking of the Conversion Shares : the Conversion Shares will rank pari passu in all respects with the Shares in issue on the date of their allotment and issue
- Transferability : the Convertible Note may be assigned or transferred in whole or in part (in the amount not less than a whole multiple of HK\$1,000,000 or if the remaining outstanding amount of the Convertible Note is in a lesser amount, such lesser amount) to any person. Any transfer of the Convertible Note to a connected person of the Company shall be made in compliance with the requirement of the Stock Exchange may impose from time to time (if applicable)
- Redemption Rights : The Company shall have the right at any time during the period commencing from the date immediately following the issue date of the Convertible Note and prior to the Maturity Date, to redeem the whole of the outstanding Convertible Note at 100% of the principal amount of the Convertible Note by serving on the holder of the Convertible Note a notice to redeem which shall be effective on the third business day after its service ("Redemption Effective Date"). Notwithstanding the aforesaid, the holder(s) of the Convertible Note may exercise the right to convert all (but not part only) the outstanding Convertible Note by depositing a conversion notice at least two business days immediately before the Redemption Effective Date, and in such case, the notice to redeem given by the Company shall be treated as revoked and cease to have effect
- Mandatory redemption : the conditions to the Convertible Note contain an event of default provision which provides that on the occurrence of certain events of default, the holders of the Convertible Note may, unless such event of default has been waived in writing by them, by notice in writing require the Company to redeem the whole (but not part) of the outstanding principal amount of the Convertible Note at 100% of the principal amount of the outstanding Convertible Note

LETTER FROM THE BOARD

The Vendor will monitor her shareholding interest in the Company and has confirmed that the conversion of the outstanding principal amount of the Convertible Note on the Maturity Date would not result in the then public float of the Company being less than the minimum requirement as prescribed under the Listing Rules.

The Conversion Price

The Conversion Price of HK\$1.05 per Conversion Share is determined with reference to the market price of the Shares prior to the date of the Sale and Purchase Agreement, and represents:

- (i) a premium of 75% over the closing price of the Shares on the Stock Exchange on the Latest Practicable Date;
- (ii) a premium of approximately 10.5% over the closing price of the Shares on the Stock Exchange on 4 July 2011, the last trading day before the date of the Sale and Purchase Agreement;
- (iii) neither premium nor discount to the average closing price of the Shares on the Stock Exchange on five trading days before the date of the Sale and Purchase Agreement;
- (iv) a discount of approximately 0.1% to the average closing price of the Shares on the Stock Exchange on ten trading days before the date of the Sale and Purchase Agreement; and
- (v) a premium of approximately 150.0% over the net asset value per Share as at 31 March 2011 of approximately HK\$0.42 (based on the audited consolidated net asset value attributable to the Shareholders of approximately HK\$304.2 million as stated in the Company's annual report for the year ended 31 March 2011 and the total number of 723,520,000 Shares as at the Latest Practicable Date).

The Conversion Shares

As at the Latest Practicable Date, there are 723,520,000 Shares in issue, assuming the conversion rights attached to the Convertible Note are exercised in full without having regard the public float requirement as described above, the 238,095,238 Conversion Shares represent (i) approximately 32.9% of the existing issued share capital of the Company; and (ii) approximately 24.8% of the issued share capital of the Company as enlarged by the allotment and issue of the Conversion Shares.

The Conversion Shares will, upon exercise (if so exercised) of the conversion rights attached to the Convertible Note, be allotted and issued pursuant to a specific mandate proposed to be granted to the Directors in relation to the allotment and issue of the Conversion Shares by the Shareholders at the EGM.

LETTER FROM THE BOARD

Listing Application

Application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in the Conversion Shares upon the exercise of the conversion rights attached to the Convertible Note. No application will be made by the Company for the listing of the Convertible Note on the Stock Exchange or any other stock exchanges.

To the best knowledge of the Directors based on the shareholding structure of the Company as at the Latest Practicable Date, the exercise of the conversion rights attached to the Convertible Note will not result in a change in control of the Company.

THE SHAREHOLDING STRUCTURE

Set out below is the shareholding structure of the Company as at the Latest Practicable Date and immediately after the conversion rights attached to the Convertible Note having been exercised in full:

	As at the Latest Practicable Date		Immediately after the exercise of the conversion rights attached to the Convertible Note			
	<i>Number of Shares</i>	<i>%</i>	<i>Number of Shares (Note 1)</i>	<i>%</i>	<i>Number of Shares (Note 2)</i>	<i>%</i>
The Vendor and her associates	496,934,000	68.68	735,029,238	76.44	678,838,761	74.98
Mr. Yip Kai Wing (Note 3)	185,000	0.03	185,000	0.02	185,000	0.02
Sub-total	497,119,000	68.71	735,214,238	76.46	679,023,761	75.00
Public Shareholders	226,401,000	31.29	226,401,000	23.54	226,401,000	25.00
	723,520,000	100.00	961,615,238	100.00	905,424,761	100.00
			(Note 4)		(Note 4)	

Notes:

- Pursuant to the terms and conditions of the Convertible Note, no conversion right attached to the Convertible Note can be exercised by the Vendor if the public float of the Company fall below the minimum requirement of 25% as prescribed under the Listing Rules and the Vendor will monitor her shareholding interest in the Company so as to ensure that mandatory conversion of any outstanding principal amount of the Convertible Note on Maturity Date would not result in the then public float of the Company being less than the minimum requirement as prescribed under the Listing Rules. The figures shown in this column are for illustrative purpose only.
- The figures shown in this column illustrate the shareholding structure of the Company assuming that the minimum public float of 25% as required under the Listing Rules is maintained taking into account the conversion rights attached to the Convertible Note must be exercised in the integral multiples of HK\$1,000,000.
- Mr. Yip Kai Wing is an executive Director.
- Assuming that there will be no changes on the total number of Shares from the Latest Practicable Date until the conversion rights attached to the Convertible Note are exercised in full.

LETTER FROM THE BOARD

INFORMATION OF THE TARGET GROUP

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. Through its wholly-owned subsidiaries, the Target Group (excluding the Hong Kong Subsidiary) is principally engaged in a wide range of beauty care services in Singapore and Malaysia including facial treatment, body slimming programs as well as spa under the brandname "Giman". As at the Latest Practicable Date, the Target Company had a total of 9 and 3 beauty service centres with an aggregate gross floor area of 22,000 sq.ft and 8,900 sq.ft in Singapore and Malaysia, respectively. As at 31 March 2011, the Target Company had total customers of over 76,000 and 19,000 for its beauty shops in Singapore and Malaysia, respectively. Furthermore, the Target Company has formulated 39 natural and herbal-based skincare and body products under the brand name "Giman" and the associated risk between the business models of the existing business of the Group and the Target Group. As noted from above, although the Target Group currently operates a similar business as the Group (including the product sold and services offered), the Directors have considered that due to the different in geographical location, the business performance and operating results of the Target Group may be affected by including, among other things, the economic condition, customers preferences and consumption pattern, etc.

As one of the Singaporean Subsidiaries has introduced one category of skincare products into the Singapore market, it is required to notify the Health Sciences Authority ("HSA") of Singapore of the introduction of such product and whereupon the HSA will inform the relevant Singaporean Subsidiary that the product is allowed to be sold subject to compliance with the Health Products (Cosmetic Products – ASEAN Cosmetic Directive) Regulations 2007 ("Regulations"). The relevant Singaporean Subsidiary has submitted the notification to the HSA and has received a letter form HSA confirming that the notification was successfully submitted and the relevant Singaporean Subsidiary was allowed to sell the products in the Singapore market. The Vendor has also confirmed that the Target Group only sells the above-mentioned one category skincare products which require authorisation from the HSA (the authorisation of which will expire on 29 December 2011). Save as disclosed, no licence or permit is required to be obtained for the Target Group to conduct its businesses in Singapore.

In carrying out the businesses of the Target Group (excluding the Hong Kong Subsidiary) in Malaysia, the following licences are required to be obtained by the relevant Malaysian Subsidiary:

1. a beauty centre and health care licence in respect of the facial, massage, body slimming and spa services and display of advertisement;
2. an advertising and premise licence in respect of the provision of body slimming, makeup salon and facial beauty centre and displaying of signboard;
3. a premise licence in respect of the conducting of business as a beauty salon; and
4. an advertising licence in respect of the displaying of illuminated advertisement.

LETTER FROM THE BOARD

In addition, a notification to be issued by the Director of Pharmaceutical Services for authorizing the Malaysian Subsidiary to import and sell some cosmetic products in the Malaysian market is required to be obtained.

At the Latest Practicable Date, all the abovementioned licences and notification has been obtained by the Malaysian Subsidiary and remained valid.

Based on the audited consolidated financial information of the Target Group (including the Hong Kong Subsidiary) as disclosed in appendix II to this circular, the Target Group (including the 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.

The Target Group is established by the Vendor, and her original purchase cost of the Target Company is represented by the historical cost of her investment in the Target Group which amounted to approximately HK\$2.9 million. The Directors have considered that in assessing the Consideration, it is more important to take into account the prospect and the business performance of the Target Group and its future contribution to the development of the Group after the Completion rather than making reference to the historical investment cost incurred by the Vendor.

RELATIONSHIP BETWEEN THE COMPANY, THE TARGET COMPANY AND THE VENDOR

The Vendor is an executive Director and a controlling Shareholder who, as at the Latest Practicable Date, is interested in 496,934,000 Shares (representing approximately 68.68% of the issued share capital of the Company).

The Target Company was incorporated on 20 October 2008. Since then the issued share capital of the Target Company has been wholly and beneficially owned by the Vendor.

As disclosed in the Prospectus, JFH and the Vendor had entered into the Deed of Undertaking pursuant to which JFH irrevocably granted to the Company an option to purchase the whole of the business of JFH at a fair market value to be determined by an independent valuer nominated by the Company at any time after the Company's listing on the Stock Exchange. At the time of entering into the Deed of Undertaking, the business of JFH in providing beauty and healthcare services in Singapore and Malaysia was mostly operated by two of its wholly-owned subsidiaries, one being a company incorporated in Singapore and the other being a company incorporated in Malaysia (together, the "Subject Operating Companies") respectively. As a result of a corporate reorganisation undertaken by the Vendor, JFH and its subsidiaries, the issued share capital of the Subject Operating Companies (hence the then business of JFH) were transferred to the Target Company and the remaining JFH group only comprises of defunct companies pending dissolution. In light of the above, the Directors are of the view that the Acquisition is in line with the spirit of the Deed of Undertaking.

LETTER FROM THE BOARD

FINANCIAL IMPACT OF THE TRANSACTIONS UNDER THE SALE AND PURCHASE AGREEMENT

Upon Completion, each member of the Target Group (excluding the Hong Kong Subsidiary) will become a wholly-owned subsidiary of the Company and the assets, liabilities and results of the Target Group (excluding the Hong Kong Subsidiary) will be consolidated into the Group's consolidated financial statements.

As described in the pro forma financial information of the Enlarged Group contained in appendix III to this circular, as a result of the Acquisition the Group's consolidated total assets and liabilities will be increased by approximately HK\$113.7 million and HK\$203.7 million, respectively. The increase in total asset value is mainly due to the inclusion of the cash and bank balance of the Target Group (but excluding the Hong Kong Subsidiary after the Completion). The increase in total liabilities was mainly due to the inclusion of (i) the fair value of the Convertible Note and (ii) the deferred revenue of the Target Group after the Completion.

FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

As stated in the annual report of the Company for the year ended 31 March 2011, it is the Group's intention to strengthen and develop the skincare and wellness product business by expanding the Group's sales network. It is expected that following the Completion, not only will the Group be able to expand its sale network for the sales of its skincare and wellness products through the beauty centres in Singapore and Malaysia of the Target Group but the financial performance of the Group's core beauty and wellness services (the revenue of which accounted for over 90% of the Group's consolidated revenue for the years ended 31 March 2010 and 2011) will also be improved by the established business of the Target Group in Singapore and Malaysia, which recorded a consolidated revenue of approximately HK\$122.5 million and HK\$133.0 million for each of the two years ended 31 March 2010 and 2011. The Directors expect that following the Completion, the Enlarged Group will (i) strengthen and develop the skincare and wellness product business by expanding its sales network spanning across Hong Kong, Singapore and Malaysia; (ii) continue to open more beauty care service centers and enhancing its brand awareness; and (iii) continue implementing various cost control measures, to enhance the Enlarged Group's revenue and profit growth in the future.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Group is a renowned beauty salon group in Hong Kong offering a comprehensive beauty and wellness services ranging from beauty and facial, spa and massage, slimming, fitness to sale of beauty products at its network of service centres in Hong Kong and China. The Group's beauty and healthcare services are marketed under different trade names, including "Modern Beauty Salon" (for beauty and facial services), "be Sanctuary Spa" (for spa and massage services), "Slim Express" (for slimming service) and "Modern Fitness" (for fitness service) whereas the Group's skincare and wellness products are sold through its service centres and retail network comprising "be Beauty Shop", "FERRECCARE Concept Store" and "p.e.n Shop". As at 31 March 2011, the Group had 29 and 10 beauty service centres located in Hong Kong and China (i.e. Beijing, Guangzhou and Shanghai), respectively with gross floor area amounting to approximately 258,000 square feet and 57,000 square feet. In addition, during the year ended 31 March 2011, the Group also recorded approximately 278,000 customers and 31,300 customers in Hong Kong and China respectively (representing an increase of approximately 6.1% and 15.9% from the same period in the previous year, respectively). With the combined products/services from the Target Group after the Completion (i.e. excluding the Hong Kong Subsidiary), it is targeted that the Group will develop to become one of the leading regional beauty groups with business network covering some of the most affluent cities in the Asia-Pacific region, including Hong Kong, Guangzhou, Shanghai and Beijing of China, Kuala Lumpur of Malaysia and Singapore, offering multiple brands of products and beauty and wellness services. Furthermore, leveraged on its regional network in the Asia-Pacific region following the Acquisition, it is expected that the Group will be able to formulate strategic development plans to promote its beauty products/services more efficiently and effectively which will in turn, enhance its market presence in the region.

In addition to the above, the economies of both Singapore and Malaysia have recorded significant growth in recent years. According to the Singapore Department of Statistics, during 2005 to 2010, the annual gross domestic product of Singapore increased from approximately S\$208,763.7 million to S\$303,652.2 million (representing a compound annual growth rate ("CAGR") of approximately 7.8%) and the average monthly household income from work among resident employed households of Singapore also increased from approximately S\$6,052 to S\$8,058 (representing a CAGR of approximately 5.9%). According to the Department of Statistics of Malaysia, private consumption expenditure also experienced a strong growth of approximately 57% from 2005 to approximately RM368,275 million in 2010 (representing a CAGR of approximately 9.5%). As such, it is expected that the future financial and business performance of the Group following the Acquisition will be benefited from the growing consumption power of the general public in Singapore and Malaysia and allow the Group to capture the growth opportunities in these countries and formulate a more effective and efficient strategic development plans to promote its beauty business in the Southeast Asia regions and in turn enhance its market presence within the region.

LETTER FROM THE BOARD

All of these, together with the Target Group's proven profitable track record of profit after tax of over HK\$38 million and HK\$45 million for each of the year ended 31 March 2010 and 2011, respectively, the Directors are of the view that the Acquisition is beneficial to the Group and the entering into of the Sale and Purchase Agreement (as supplemented by the Supplemental Sale and Purchase Agreement) is in the interest of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

Since the Vendor is an executive Director and a controlling Shareholder, the Acquisition constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. As the relevant percentage ratios (as defined under the Listing Rules) in respect of the Acquisition are more than 25% but less than 100%, the Acquisition also constitutes a major transaction of the Company under Chapter 14 of the Listing Rules. Accordingly, the transactions contemplated under the Sale and Purchase Agreement (as supplemented by the Supplemental Sale and Purchase Agreement) (including the Acquisition, the issue of the Convertible Note, the allotment and issue of the Conversion Shares) are subject to the reporting, announcement and independent shareholders' approval requirements under the Listing Rules.

GENERAL

The Independent Board Committee comprising all of the independent non-executive Directors has been established to advise the Independent Shareholders in relation to transactions contemplated under the Sale and Purchase Agreement (including the Acquisition, the issue of the convertible Note, the allotment and issue of the Conversion Shares). OSK has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Acquisition and the issue of the Convertible Note.

Since the Vendor is a controlling Shareholder and an executive Director, she is considered as having a material interest in the Sale and Purchase Agreement and has abstained from voting on the relevant board resolution of the Company relating to the entering into of the Sale and Purchase Agreement.

EGM

A notice convening the EGM to be held at Lower G/F, Far East Finance Centre, No. 16 Harcourt Road, Admiralty, Hong Kong, on Thursday, 27 October 2011 at 11:00 a.m. is set out on pages EGM-1 to EGM-2 of this circular. A proxy form for the EGM is enclosed. Whether or not you intend to attend the EGM, you are requested to complete the enclosed proxy form in accordance with the instructions printed thereon and return the same to the Company's share registrar in Hong Kong, Tricor Investor Services Limited, situated at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding of the EGM or any adjournments thereof. Completion and return of the proxy form will not preclude you from attending and voting at the EGM or any adjournments thereof should you so wish.

LETTER FROM THE BOARD

The EGM will be convened at which resolutions will be proposed to seek the Independent Shareholders' approval of, among other things, the transactions contemplated under the Sale and Purchase Agreement (including the Acquisition, the issue of the Convertible Note, the allotment and issue of the Conversion Shares). Since the Vendor is a controlling Shareholder and holds 496,934,000 Shares as at the Latest Practicable Date, the Vendor is considered as having a material interest in the Acquisition and therefore the Vendor and her associates will be required to abstain from voting at the EGM regarding the relevant resolutions.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, as at the date of this circular, save for the Vendor, none of the Directors has any material interest in the transaction and arrangements contemplated under the Sale and Purchase Agreement.

RECOMMENDATION

The Independent Board Committee, having taken into account the advice of OSK, consider that the Acquisition is fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote for the resolution to approve the Sale and Purchase Agreement (as supplemented by the Supplemental Sale and Purchase Agreement) and the transactions contemplated thereunder. The text of the letter from the Independent Board Committee is set out on page 22 of this circular.

Having considered the above-mentioned benefits to the Group's future business development, the Directors consider that the entering into of the Sale and Purchase Agreement (as supplemented by the Supplemental Sale and Purchase Agreement) and the transactions contemplated thereunder (including the Acquisition, the issue of the Convertible Note, the allotment and issue of the Conversion Shares) are fair and reasonable and in the interests of the Group and the Shareholders as a whole and recommend the Independent Shareholders to vote for the resolution to be proposed at the EGM to approve the Sale and Purchase Agreement and the transactions contemplated thereunder (including the Acquisition, the issue of the Convertible Note, the allotment and issue of the Conversion Shares).

Your attention is drawn to the further information set out in the appendices of this circular.

By the order of the Board of
Modern Beauty Salon Holding Limited
Leung Man Kit
Executive Director

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



MODERN BEAUTY SALON HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 919)

30 September 2011

To the Independent Shareholders

Dear Sir or Madam,

**MAJOR AND CONNECTED TRANSACTION
INVOLVING THE ISSUE OF CONVERTIBLE NOTE**

This independent board committee has been appointed to advise you on the terms of the Sale and Purchase Agreement and transactions contemplated thereunder, details of which are set out in the letter from the Board contained in the circular to the Shareholders dated 30 September 2011 ("Circular") of which this letter forms part. Terms defined in the Circular shall have the same meanings when used in this letter unless the context otherwise requires.

Having considered the terms of the Sale and Purchase Agreement (together with the Supplemental Sale and Purchase Agreement) and the advice of OSK in relation thereto as set out on pages 5 to 21 of the Circular, we are of the opinion that the terms of the Sale and Purchase Agreement (as supplemented by the Supplemental Sale and Purchase Agreement) are fair and reasonable, on normal commercial terms and are in the interest of the Company and the Independent Shareholders as a whole. We therefore recommend the Independent Shareholders to vote for the ordinary resolution to be proposed at the EGM to approve the Sale and Purchase Agreement and the transactions contemplated thereunder.

Yours faithfully,

For and on behalf of the Independent Board Committee

Ms. Liu Mei Ling, Rhoda

Independent

Non-executive director

Mr. Wong Man Hin, Raymond

Independent

Non-executive director

Mr. Hong Po Kui, Martin

Independent

Non-executive director

LETTER FROM OSK

The following is the text of the letter of advice from OSK Capital Hong Kong Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders, for the purpose of incorporation into this circular.

OSK Capital Hong Kong Limited
僑豐融資有限公司
Subsidiary of OSK Investment Bank Berhad, Malaysia

12/F., World-Wide House,
19 Des Voeux Road Central,
Hong Kong

30 September 2011

The Independent Board Committee and the Independent Shareholders
Modern Beauty Salon Holdings Limited

Dear Sirs,

MAJOR AND CONNECTED TRANSACTION INVOLVING THE ISSUE OF CONVERTIBLE NOTE

INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Acquisition, details of which are set out in the circular of the Company dated 30 September 2011 (the “Circular”) of which this letter forms part. Capitalised terms used in this letter have the same meanings as defined in the Circular, unless the context requires otherwise.

As set out in the letter from the Board in the Circular (the “Letter from the Board”), on 5 July 2011, the Purchaser, a wholly-owned subsidiary of the Company, and the Vendor, an executive Director and a controlling Shareholder, entered into the Sale and Purchase Agreement (as amended and supplemented by the Supplemental Sale and Purchase Agreement dated 30 September 2011), pursuant to which, the Purchaser will acquire from the Vendor the entire issued share capital of the Target Company at the Consideration of HK\$250 million, which will be satisfied by the issue of the Convertible Note to the Vendor. Since the Vendor is an executive Director and a controlling Shareholder, the Acquisition constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. As the relevant percentage ratios (as defined under the Listing Rules) in respect of the Acquisition are more than 25% but less than 100%, the Acquisition also constitutes a major transaction for the Company under Chapter 14 of the Listing Rules. Accordingly, the transactions contemplated under the Sale and Purchase Agreement (including the Acquisition, the issue of the Convertible Note, the allotment and issue of the Conversion Shares) are subject to the reporting, announcement and independent shareholders’ approval requirements. Since the Vendor is the controlling Shareholder and holds 496,934,000 Shares as at the Latest Practicable Date, she is considered as having a material interest in the Acquisition and therefore the Vendor and her associates will be required to abstain from voting at the EGM in respect of the resolution approving the Acquisition. The Independent Board Committee comprising all the independent

LETTER FROM OSK

non-executive Directors, namely Ms. Liu Mei Ling, Rhoda, Mr. Wong Man Hin, Raymond and Mr. Hong Po Kui, Martin, has been established to give advice and recommendation to the Independent Shareholders in relation to the transactions contemplated under the Sale and Purchase Agreement including the Acquisition, the issue of the Convertible Note and the allotment and issue of the Conversion Shares.

OSK Capital Hong Kong Limited has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the Acquisition are fair and reasonable and whether the Acquisition is on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

In formulating our opinion, we have relied upon the information, facts and representations contained in the announcement of the Company dated 5 July 2011, the Circular and those supplied or made available by the management of the Company to us. We have assumed that all such information, facts and representations were true and accurate in all respects at the time they were supplied or made and continue to be true and accurate at the date of the Circular and can be relied upon. We have no reason to doubt the truth, accuracy and completeness of such information and representations and have confirmed with the management of the Company that no material facts have been withheld or omitted from such information and representations.

We have taken all reasonable and necessary steps to comply with the requirements set out in Rule 13.80 of the Listing Rules. We consider that we have been provided with sufficient information to enable us to reach an informed view. We have not, however, conducted any independent verification of such information or any independent in-depth investigation into the business, affairs, financial position or prospects of the Group and the Target Group nor have we carried out any in-depth research on the Group and the Target Group.

PRINCIPAL FACTORS CONSIDERED

In formulating our opinion on the Acquisition, we have taken into consideration the following principal factors:

Business of the Group and its development strategy

Information on the Group

The Group is principally engaged in the provision of beauty and wellness services and sale of skincare and wellness products.

LETTER FROM OSK

The Group's revenue and results by business segments for the years ended 31 March 2009, 2010 and 2011 are summarised below, which are extracted from the respective annual reports.

	For the year ended 31 March								
	2011			2010			2009		
	HK\$'000	% of total revenue	% change to the last financial year	HK\$'000	% of total revenue	% change to the last financial year	HK\$'000	% of total revenue	
Revenue									
Beauty and facial	381,058	65%	46.9%	259,347	60%	(21.4%)	329,840	50%	
Slimming	109,112	19%	43.7%	75,937	18%	(34.5%)	115,971	18%	
Spa and massage	53,696	9%	(6.2%)	57,233	13%	(61.9%)	150,266	22%	
Fitness	7,074	1%	(25.5%)	9,499	2%	(79.2%)	45,716	7%	
Provision of beauty and wellness services and expiry of prepaid beauty packages	550,940	94%	37.0%	402,016	93%	(37.4%)	641,793	97%	
Sales of skincare and wellness products	35,587	6%	23.8%	28,734	7%	43.7%	20,002	3%	
	<u>586,527</u>	<u>100%</u>		<u>430,750</u>	<u>100%</u>		<u>661,795</u>	<u>100%</u>	
Segment results									
Provision of beauty and wellness services and expiry of prepaid beauty packages	35,204			(81,817)			27,203		
Sales of skincare and wellness products	<u>18,612</u>			<u>11,838</u>			<u>13,363</u>		

As stated in the annual report of the Company for the year ended 31 March 2011 (the "2011 Annual Report"), the Group's turnover grew to approximately HK\$586.5 million, representing an increase of approximately 36.2%.

LETTER FROM OSK

The growth in the Group's turnover for the year ended 31 March 2011 was mainly contributed by the growth in both beauty and facial and slimming service lines. As set out in the 2011 Annual Report, this was due to an improvement of economy and an appropriate positioning of the Group in the beauty industry in Hong Kong. The sales of the beauty and facial service line grew from HK\$259.3 million for the year ended 31 March 2010 to HK\$381.1 million for the year ended 31 March 2011, representing an increase of approximately 46.9%. Sales of slimming services, being the most essential service complementing the beauty and facial service line also grew by approximately 43.7% to HK\$109.1 million for the year ended 31 March 2011 from HK\$75.9 million for the year ended 31 March 2010.

The following is a breakdown of the Group's revenue by geographical segments for the years ended 31 March 2009, 2010 and 2011, which is extracted from the respective annual reports.

	For the year ended 31 March					
	2011		2010		2009	
	HK\$'000		HK\$'000		HK\$'000	
Revenue						
Hong Kong	553,597	94%	398,139	92%	626,046	95%
Mainland China	32,930	6%	32,611	8%	35,749	5%
	<u>586,527</u>	<u>100%</u>	<u>430,750</u>	<u>100%</u>	<u>661,795</u>	<u>100%</u>

The revenue of the Group generated in Hong Kong increased from HK\$398.1 million for the year ended 31 March 2010 to HK\$553.6 million for the year ended in 31 March 2011, representing an increase of approximately 39.1%. According to the Company, the increase was mainly attributable to i) an appropriate and consistent strategy in customer segmentation, where emphasis was placed on identifying customers who were keen in consuming beauty and wellness services; ii) a gradual improvement in the economy of Hong Kong which increased the willingness of customers to spend more on beauty and wellness services and products; and iii) an increasing effort to enhance the sale of skincare and wellness products through the Group's service centres, as well as the Group's retail network comprising "be Beauty Shop" and "FERRECARE Concept Store". Despite the number of the Group's service centres in Hong Kong having decreased by 3 to 29 during the year ended 31 March 2011, the total number of customers of the Group's Hong Kong operations as at 31 March 2011 reached about 278,000, representing an increase of 6.1%, comparing with 262,000 customers as at 31 March 2010.

The Group's Mainland China operations are conducted through three wholly foreign owned enterprises established in Beijing, Shanghai and Guangzhou. These three wholly foreign owned enterprises operate a total of 10 service centres at the three cities mentioned above. The revenue of the Group's Mainland China operations increased slightly from HK\$32.6 million to HK\$32.9 million. The Group is still in the process of optimising and modifying its existing business model to solicit more customers in Mainland China.

LETTER FROM OSK

In view of the rapid urbanisation of many cities in Mainland China, the Group is currently seeking joint-venture development opportunities for opening service centres in second tiered cities in order to expand the Group's market share in Mainland China.

The Group is aiming at, in the next five years, strengthening and developing its beauty product business by expanding its sales network, increasing brands and products representation, and/or acquiring new beauty products brands with a view to achieving business diversification.

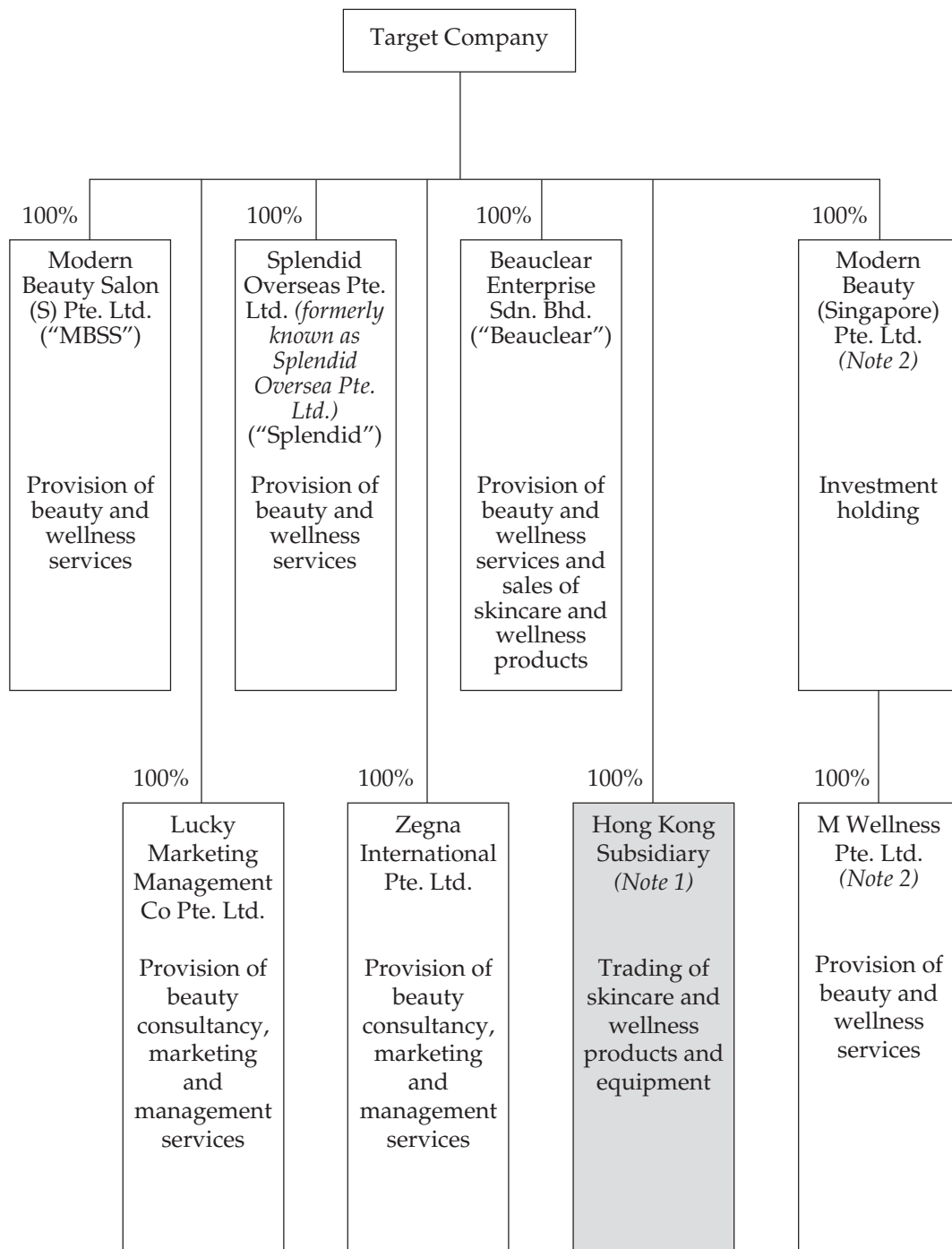
Business of the Target Group

Principal business of the Target Group

The Target Group is principally engaged in the provision of 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 brand name "Giman".

LETTER FROM OSK

The corporate structure of the Target Group as at the date of this letter is as follows:



Notes:

1. Pursuant to the terms of the Sale and Purchase Agreement, a corporate reorganisation will be undertaken on the part of the Vendor so that prior to the completion of the Acquisition, the Hong Kong Subsidiary will be excluded from the Target Group. The Hong Kong Subsidiary is principally engaged in the purchase of skincare products and equipment for the Target Group.
2. Modern Beauty (Singapore) Pte. Ltd. and M Wellness Pte. Ltd. were incorporated on 11 August 2011. As of the date of this letter, they have not commenced operation.

LETTER FROM OSK

We understand from the Company that MBSS and Splendid are the main operating subsidiaries handling the operations in Singapore whilst Beauclear operates the business in Malaysia. As at the Latest Practicable Date, the Target Group had a total of 9 beauty service centres in Singapore and 3 beauty service centres in Malaysia, 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 over 76,000 and 19,000 customers for its beauty service 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”.

General review of the Target Group’s results for the past three years

Set out below are highlights of the latest audited financial results of the Target Group:

	For the year ended 31 March		
	2009	2010	2011
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
Revenue	63,889	122,492	133,000
(Loss)/Profit before tax	(32,758)	46,410	55,680
(Loss)/Profit after tax	(28,008)	38,150	45,288

As at 31 March 2011, the Target Group had audited consolidated net assets of approximately HK\$48.7 million, and the Hong Kong Subsidiary had audited consolidated net assets of approximately HK\$5.0 million after warning, a net amount of HK\$67 million due to other members of the Target Group as part of the corporate reorganisation before Completion. The Company confirms that a dividend of HK\$41 million was declared and to be paid to the Vendor (as the shareholder of the Target Company) which will be paid before Completion.

Revenue of the Target Group for the financial year ended 31 March 2011 (“FY2011”) increased by approximately 8.6% from that in the financial year ended 31 March 2010 (“FY2010”) mainly due to a number of factors, including the increase in advertising, and recruitment of more staff to improve and strengthen the Target Group’s service quality.

The increase in the Target Group’s profit before tax by approximately 20.0% from HK\$46.4 million in FY2010 to HK\$55.7 million in FY2011 was attributable to the increase in revenue as explained above and an increase in other income of approximately HK\$2.7 million. Other income mainly comprised government grant income from the Jobs Credit Scheme a Singapore government assistance scheme, and foreign exchange net gains, arising from fluctuations between the Singapore dollars and Hong Kong dollars. Furthermore, for cost control purpose, the Target Group relocated one of its service centres in Singapore to premises with a lower rental expense which resulted in a decrease of approximately 31.0% in the Target Group’s occupancy cost.

LETTER FROM OSK

The Target Group recorded a loss after tax of approximately HK\$28.0 million for the financial year ended 31 March 2009 (“FY2009”) which was mainly attributable to the downturn in global economic conditions as a result of the financial turmoil which occurred in late 2008 with its adverse impact extended to early 2009. However, with the general recovery of the world’s economy in late 2009, the Target Group experienced an increase in the number of customers and at the same time, was able to increase the prices of its beauty and wellness services. As such, the Target Group’s turnover improved significantly by over 90% from HK\$63.9 million for FY2009 to HK\$122.5 million in FY2010. Furthermore, with the implementation of various cost control measures by the management of the Target Group, major operating expenses including staff’s wages and salaries, occupancy costs and other operating expenses reduced significantly from an aggregate of approximately HK\$82.9 million to HK\$66.7 million for the years ended 31 March 2009 and 2010, respectively (representing a decrease of approximately 19.5%).

As shown above, during the three years ended 31 March 2011, the Target Group’s profit after tax continued to improve. The Target Group turned around from recording an operating loss for FY2009 to making an operating profit in FY2010. The operating profit margin for FY2010 is 37.8% and improved to 41.7% in FY2011. Furthermore, the Target Group had a steady increasing cash flow from operating activities approximating HK\$37 million, HK\$32 million and HK\$63 million for FY2009, FY2010 and FY2011 respectively. The Target Group has a strong profit track record.

After the Completion, the Target Group will continue to engage in the provision of beauty care services in Singapore and Malaysia and depending on the financial position of the Target Company, the Target Group plans to open more beauty care service centres in Singapore and Malaysia with the cash flow generated from its operations.

Reasons for the Acquisition

The Group is a renowned beauty salon group in Hong Kong offering beauty and wellness services including beauty and facial, spa and massage, slimming, fitness and sale of beauty products through its network of service centres in Hong Kong and China. As at 31 March 2011, the Group had 29 and 10 beauty service centres located in Hong Kong and China (i.e. Beijing, Guangzhou and Shanghai) respectively, and recorded a total of approximately 278,000 customers and 31,300 customers in Hong Kong and China respectively.

The Target Group is a profitable and established business, having recorded profits after tax of more than HK\$20 million in the past two years and having operated beauty service centres in the Southeast Asia region for more than 5 years. With the proven profitable track record, the Group’s income and earnings base would be enhanced following the completion of the Acquisition.

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As stated in the Letter from the Board, the Company believes that with the combined products/services from the Target Group, the Group will become one of the leading regional beauty groups with business network covering some of the most affluent cities in the Asia-Pacific region, including Hong Kong, Guangzhou, Shanghai and Beijing of China, Kuala Lumpur of Malaysia and Singapore. According to the Department of Statistics of Singapore, the annual gross domestic product of Singapore recorded a CAGR of approximately 7.8% from the year 2005 to 2010 whilst the monthly household income from work among resident employed households of Singapore recorded a CAGR of approximately 5.9% over the same period. According to the Department of Statistics of Malaysia, private consumption expenditure recorded a CAGR of approximately 9.5% from 2005 to 2010. As such, the Company is of the view that with the significant economic growth recorded by both Singapore and Malaysia in recent years, it is expected that following the Acquisition, the financial and business performance of the Group will benefit from the growing consumption power of the general public in Singapore and Malaysia and therefore allow the Group to capture the growth opportunities in these countries and promote its business in the Southeast Asia region.

Given that the present network of the Group is focused in Hong Kong and China, we agree with the Company that the Acquisition would allow the Group to expand its reach to the Southeast Asia region and capture the growth opportunities in Singapore and Malaysia. Further, we note that the Target Group presently only has 3 beauty service centres in Malaysia. As such, there appears to be an opportunity for the Group to expand its business in Malaysia. Furthermore, the Target Group has been under the management of the Vendor who is also an executive Director and the controlling Shareholder. We understand that the Vendor actively participates in the management of the Group's operations. The business model and operations of the Target Group are similar to those of the Group. These would, to a certain extent, ease the business integration and management of the Target Group post completion of the Acquisition. Having considered the above, we agree that the Acquisition is in the interests of the Company and Shareholders and that the Acquisition is incidental to the development of the Group's business.

Principal terms of the Acquisition

The Consideration

The Group is a leading operator of beauty salons in Hong Kong. Apart from Hong Kong, it is also operating beauty salons in China. Since listing of the Shares on the Stock Exchange, JFH, a company wholly and beneficially owned by the Vendor, has been running its beauty salon business in Singapore and Malaysia through the Subject Operating Companies. The business of the Subject Operating Companies and that of the Group are differentiated based on their respective locations. The Group has principally been carrying out its business in Hong Kong and China whilst the Subject Operating Companies have been carrying out its business in Singapore and Malaysia. There is no competition between the two groups of beauty salon business. As part of the listing of the Company on the Stock Exchange, JFH has irrevocably granted to the Company an option (the "Purchase Option") to purchase the whole business of JFH at a fair market value to be determined by an independent valuer nominated by the Company at any time after the

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Company's listing on the Stock Exchange. As a result of a corporate reorganisation undertaken by the Vendor, JFH and its subsidiaries, the issued share capital of the Subject Operating Companies (the then business of JFH) was transferred to the Target Company and therefore the Target Group represents the entire beauty salon business operated by JFH. After considering, among other factors as described in the benefits and reasons for the Acquisition, the economy of Singapore and Malaysia and the track record and perceived prospects of the Target Group, the Company considers it the appropriate time to expand into the Singapore and Malaysia markets through the acquisition and consolidation of the Target Group.

As previously agreed under the terms of the Purchase Option, the Company shall acquire the Target Group (excluding the Hong Kong Subsidiary) based on the valuation to be done by an independent valuer. As stated in the Letter from the Board, the Consideration for the Acquisition was agreed between the Purchaser and the Vendor after arm's length negotiations with reference to, among other things, the Business Valuation (which was done based on the exclusion of the Hong Kong Subsidiary, the Waiver and the Dividend Payment). It is one of the conditions precedent that the Business Valuation to be prepared by an independent professional valuer showing the business value of the Target Group (excluding the Hong Kong Subsidiary) of not less than HK\$250 million (being the amount of the Consideration) at a date being not earlier than 90 days prior to the date of the Circular shall be obtained by the Group prior to Completion. The Business Valuation is included in Appendix IV to the Circular and shows the business value of the Target Group (excluding the Hong Kong Subsidiary and after taking into account the Waiver and the Dividend Payment of HK\$41 million) as at 31 August 2011 was HK\$314.3 million. The Consideration represents a discount of 20.5% to the Business Valuation.

We have reviewed the Business Valuation and have discussed it with the Valuer. The Valuer is independent from the Company and its connected persons. We understand that the key members of the valuation team of the Valuer have relevant experience in carrying out valuations of different businesses in Singapore. We also understand that the Business Valuation was carried out using market approach. The Valuer considers it the most appropriate method as there is a sufficient number of comparable public companies available to facilitate a meaningful comparison. The Valuer is also of the view that the market approach is an appropriate method to use in valuing the Target Group as information of existing public companies which operate in a similar industry and market as that of the Target Group are readily available and the market approach involves less assumptions and estimations and hence less uncertainty as compared to the income approach. We note that there are different valuation methods in deriving a business value, and the market approach and income approach are two commonly used methods. We note the reasons of the Valuer for using the market approach and agree that it is a reasonable market accepted valuation method in the present circumstance where close comparables are available. When selecting the comparable companies, we understand from the Valuer that it had chosen listed companies which provide beauty services and products such as beauty and facial, spa and massage, with operations mainly in the Asia Pacific region.

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We also understand that the Valuer has adopted the enterprise value to earnings-before-interest-tax-depreciation-and-amortisation multiple ("EV/EBITDA") to value the 100% equity stake in the Target Group (excluding the Hong Kong Subsidiary). The Valuer is of the view that EV/EBITDA is an appropriate valuation multiple for the valuation of a controlling equity interest because it measures the amount of enterprise value which can be created by a unit of earnings-before-interest-tax-depreciation-and-amortisation ("EBITDA") and the EBITDA measures the operating performance of a company, excluding accounting treatments such as depreciation and amortisation which may be subject to manipulation. We note that the EV/EBITDA is a commonly adopted way for business valuations.

As the equity interest to be acquired by the Company represents the entire equity stake in the Target Group (excluding the Hong Kong Subsidiary), and the Company will, as a result of the Acquisition, obtain control of the Target Group (excluding the Hong Kong Subsidiary), the Valuer considered it reasonable to apply a premium for control of 30% to reflect this advantage. The Valuer further applied a discount of 20% to the valuation of the Target Group to reflect the lack of marketability in the shares of the Target Company, which is a private entity. The Valuer considers it reasonable to adopt such discount rate as the equity interest in the Target Group is not publicly traded nor is there an established active market for such equity interest. We understand from the Valuer that the premium for control of 30% and the discount for lack of marketability of 20% were determined based on empirical studies and past researches as detailed in the valuation report.

As another reference to assess the fairness and reasonableness of the Consideration, we have compared the implied price-earnings ratio of the Target Group of 5.5 times (the "Acquisition PER") (calculated based on the Consideration of HK\$250 million and the net profit of the Target Group for the year ended 31 March 2011 of HK\$45.3 million) with the historical price-earnings ratio ("PER") of the Company and of other companies listed on the Stock Exchange which are principally engaged in the beauty salon business. As at the Latest Practicable Date, the PER of the Company was approximately 9.9 times, which was higher than the Acquisition PER.

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Based on our searches, we have identified the following companies listed on the Stock Exchange (i) with 10% or more of their respective revenue (based on their respective latest published audited financial statements) generated from the provision of health and beauty services; (ii) with operations mainly in the East Asian region; and (iii) were profitable as reported in their respective latest published annual reports. We note the differences in terms of size, geographical location and product/services mix of the comparable companies we have identified as compared with those of the Target Group. Based on our findings, in terms of firm size, Water Oasis Group Limited and the Company are the closer comparables than Bonjour Holdings Limited. If we further look at the business model, the Company is the closest comparable. The selection criteria adopted by the Valuer which is broadly based on the geographical location and product/services mix differ slightly from those used by us as we have included a quantitative threshold in respect of the revenue contribution from the provision of health and beauty services as stated above. Accordingly, our resulting comparable companies are slightly different from those selected by the Valuer.

Company	Stock Code	Percentage of revenue from the operation of beauty salons ⁽¹⁾ %	Cash and cash equivalents (net of debt) ⁽¹⁾ HK\$ million	Market Capitalisation ⁽²⁾ HK\$ million	PER times	EV/EBITDA times	Percentage of cash and cash equivalents to Market Capitalisation/ Consideration %
Bonjour Holdings Limited	653	12.5	160.98	3,354.08	17.6	12.3	4.8
Water Oasis Group Limited	1161	36.0	174.78	450.73	7.6	2.8	38.8
The Company	919	93.9	323.16	434.11	9.9	1.2	74.4
				Average	11.7	5.4	
				High	17.6	12.3	
				Low	7.6	1.2	
The Target Group/Acquisition			85.33 ⁽³⁾	250.00 ⁽⁴⁾	5.5	2.7	34.1

Source: Bloomberg and the respective comparable companies' annual and interim reports.

Notes:

- (1) Based on the respective latest published annual and/or interim reports.
- (2) As at the Latest Practicable Date.
- (3) Being the cash and cash equivalents of the Target Group (excluding the Hong Kong Subsidiary) based on the audited financial information as at 31 March 2011 less HK\$41 million expected to be paid as dividends by the Target Group prior to completion of the Acquisition.
- (4) Being the amount of the Consideration.

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- (5) The EV/EBITDA ratio calculated by the Valuer was based on the market capitalisation of the Company as at 31 August 2011 and the 3-year median EBITDA of the Company whilst our calculation of the EV/EBITDA ratio was based on the Company's market capitalisation as at the Latest Practicable Date and the EBITDA of the Company for the year ended 31 March 2011. Due to these factors, the EV/EBITDA ratio calculated by the Valuer differs from that calculated by us. We consider that this provides another reference to the Independent Shareholders based on the latest information.
- (6) When calculating the EBITDA of the Target Group, we have not excluded the contribution from the Hong Kong Subsidiary as we consider that as the operations of the Hong Kong Subsidiary will be taken up by other members of the Enlarged Group after Completion, the contribution from that function should be counted as continuing. The exclusion of the Hong Kong Subsidiary from the Acquisition is only a way to return a part of the Target Group's cash reserve to the Vendor prior to Completion.

Based on the above table, the PER of the comparable companies ranged from 7.6 times to 17.6 times, with an average of 11.7 times, whilst the EV/EBITDA of the comparable companies ranged from 1.2 times to 12.3 times, with an average of 5.4 times.

The Acquisition PER of 5.5 times is lower than the range of that of the comparable companies and the EV/EBITDA for the Acquisition (calculated based on the Consideration, cash and cash equivalents of the Target Group as at 31 March 2011 of approximately HK\$145.62 million after netting off dividends of HK\$41 million to be paid by the Target Group prior to the completion of the Acquisition, and the consolidated EBITDA of the Target Group for the year ended 31 March 2011 of HK\$61.1 million) of 2.7 times is within the range of EV/EBITDA of the comparable companies. For the purpose of the Business Valuation, the Valuer has excluded the Hong Kong Subsidiary. We understand that the functions of the Hong Kong Subsidiary will be absorbed by the other members of the Enlarged Group. As such, for the purposes of our analysis we have not excluded the contributions from the Hong Kong Subsidiary from the earnings and EBITDA of the Target Group.

As explained above, we consider Water Oasis Group Limited and the Company are closer comparables to Target Group with the Company being the closest comparable company to the Target Group. The operations, business model and management of the Company and the Target Group are similar and in terms of market, both the Group and Target Group operate in the Hong Kong and Southeast Asian region.

Based on the above table, the Acquisition PER is lower than the PER of Water Oasis Group Limited and the Company whilst the EV/EBITDA of the Acquisition is lower than the said ratio of Water Oasis Group Limited but is higher than that of the Company. Enterprise value (being the total equity and debt value, net of cash) can materially be affected by the level of cash reserve owned by a company. We consider that the higher EV/EBITDA ratio of the Acquisition than that of the Company is a result of the relatively high level of cash reserve of the Group. The cash and cash equivalents of the Group account for approximately 74.4% of the Company's market capitalization. On the other hand, the level of cash reserve of the Target Group is much lower and is very close to the level of Water Oasis Group Limited. As compared to Water Oasis Group Limited, the

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Acquisition has a lower EV/EBDITA. Based on the above, we consider that the Acquisition PER and EV/EBITDA are comparable to other market players.

Since the Target Group is a group of service companies with its key assets being its human resources, market position and brand name, the valuation of the Target Group and the consideration for the Acquisition are determined based on the Target Group's track record and prospect. Net assets value is not a significant determinant.

Based on the above, including the Business Valuation (which represents a significant premium over the Consideration) and our own comparison, we consider that the Consideration is fair and reasonable.

The Convertible Note

Issue of the Convertible Note

The Consideration is to be satisfied by the Company issuing the Convertible Note with an aggregate principal amount of HK\$250 million. The Convertible Note has a term of five years and is not redeemable in cash (unless they are redeemed prior to maturity at the option of the Company or upon default of the Convertible Note or if the conversion of any part of the Convertible Note will result in the Company's failing to meet the minimum public float requirement under the Listing Rules, then such part of the convertible Note will be redeemed in cash at par). Save for the above circumstances, at maturity, all the outstanding Convertible Note will mandatorily be converted in full into new Shares at the Conversion Price. The Company and we consider that this will help the Group reduce its cash outlay in connection with the Acquisition and thus preserve cash for the development of the Group, as well as the Target Group after the Acquisition.

Conversion rights and conversion price

The Conversion Price of HK\$1.05 per Conversion Share represents:

- (i) a premium of approximately 10.5% over the closing price of the Shares on the Stock Exchange as at 4 July 2011, being the last trading date before the date of the Sale and Purchase Agreement;
- (ii) the average closing price of the Shares on the Stock Exchange on the five trading days before the date of the Sale and Purchase Agreement;
- (iii) a discount of approximately 0.1% to the average closing price of the Shares on the Stock Exchange on the ten trading days before the date of the Sale and Purchase Agreement; and
- (iv) a premium of approximately 150.0% over the net asset value per Share as at 31 March 2011 of approximately HK\$0.42 (based on the net asset value attributable to the Shareholders of approximately HK\$304.2 million as disclosed in the Company's Annual Report for the year ended 31 March 2011 and the total number of 723,520,000 Shares as at the date of the Sale and Purchase Agreement).

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The chart below shows the closing price of the Shares for the twelve months prior to the date of the Sale and Purchase Agreement.

Closing price of the Shares



Source: Infocast

The Conversion Price represents a premium of 23.5% over the average closing price per Share for the twelve months prior to the date of the Sale and Purchase Agreement.

We understand from the Company that the Conversion Price was fixed with reference to the average closing price per Share for the five trading days immediately prior to the date of the Sale and Purchase Agreement. As mentioned above, unless upon the occurrence of an event of default or at the option of the Company or if the conversion of any part of the Convertible Note will result in the Company's failing to meet the minimum public float requirement under the Listing Rules, then such part of the convertible Note will be redeemed in cash at par), the Convertible Note is not redeemable in cash at the option of the holder. It has to be converted into new Shares upon maturity unless the Company opts to redeem at par in cash. As no option is actually granted to the holder of the Convertible Note to opt for a cash redemption instead of a conversion, the Convertible Note is effectively a means to defer the issue of the Conversion Shares to the Vendor and do not confer any significant option value to the holder. Accordingly, we agree with the Company that it is reasonable to fix the Conversion Price based on the recent trading price of the Shares on market as in the case of placing of new shares and we consider the Conversion Price fair and reasonable.

Interest payment

The Convertible Note shall bear annual interest of 2% payable to its holder(s) once every year during the term of the Convertible Note whilst it is outstanding.

As mentioned above, the issue of the Convertible Note is effectively a means to defer the issue of the Conversion Shares. Prior to conversion, a holder of the Convertible Note is not entitled to any rights attaching to the Shares. The interest payment of 2% represents a compensation payable to the holder of the Convertible Note for the deferred payment.

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As a reference to the Independent Shareholders, we have reviewed the terms of other convertible notes/bonds issued by companies listed on the Stock Exchange in the twelve months prior to the date of the Sale and Purchase Agreement as consideration for acquisitions.

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Convertible Bond Issue as consideration for acquisition cases from 5 July 2010 to 4 July 2011

Announcement Date	Stock Code	Company Name	Description of transaction	Interest	Maturity	Terms of convertible bonds	
						Premium/(discount) of the conversion price over the average closing price for the five trading days immediately prior to the date of the agreement	Redemption Premium
13-Jun-11	3918	Nagacorp Ltd.	Acquisition of the entire issued share capital of a group which was engaged in projects involving the development of an integrated retail complex, a pedestrian walkway with retail facilities and a landscaped park in Cambodia.	<i>Note 1</i>	Perpetual with no maturity date	(8.39%)	N/A
6-Jun-11	67	China Lumena New Materials Corp.	Acquisition of a group principally engaged in the mining and production of thenardite products.	1% per annum	The first anniversary of the date of issue of the convertible notes	3.63%	Nil
16-May-11	986	China Environmental Energy Investment Limited	Acquisition of 80% of the issued share capital of a group of companies which was engaged in the business of waste paper and consumable wastes recycling in the PRC.	Nil	24 months from the date of issue of the convertible notes	28.79%	Nil
3-May-11	164	China Gamma Group Limited	Acquisition of a vanadium mining project.	1% per annum	The third anniversary of the date of issue of the convertible notes	45.63%	Nil
28-Apr-11	8022	TLT Lottotainment Group Limited	Acquisition of 25% of the issued share capital of a company in the entertainment and media industry.	Nil	The third anniversary of the date of issue of the convertible notes	4.08%	<i>Note 2</i>

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Announcement Date	Stock Code	Company Name	Description of transaction	Interest	Maturity	Premium/(discount) of the conversion price over the average closing price for the five trading days immediately prior to the date of the agreement	Redemption Premium
14-Apr-11	8041	China Post E-Commerce (Holdings) Limited	Acquisition of 51% of the issued share capital of a company principally engaged in the trading and retail sales of apparel and related accessories under the brand name of "Tonino Lamborghini".	Nil	The first anniversary of the date of issue of the convertible bonds	0.00%	Nil
25-Feb-11	145	The Hong Kong Building and Loan Agency Limited	Acquisition of the entire share capital of a company principally involved in the provision of energy monitoring and energy saving solutions for commercial buildings, industrial buildings, shopping arcades, hospitals and urban facilities to reduce energy consumption.	First 3 years: Nil; 4th to 10th years: 3% per annum	The tenth anniversary of the date of issue of the convertible notes	(20.48%)	Note 3
18-Feb-11	8202	Inno-Tech Holdings Limited	Acquisition of 19% of the issued share capital of a company principally engaged in outdoor advertising in Hong Kong, specialising in advertising spaces in lifts and outer walls of buildings.	Note 4	18 months from the date of issue of the convertible bonds	Note 5	Nil
31-Jan-11	162	China Golden Development Holdings Limited	Acquisition of the entire share capital of a group which was principally engaged in the operation of department stores in the PRC.	1.5% per annum	The third anniversary of the date of issue of the convertible bonds	(41.00%)	Note 6

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Announcement Stock		Company Name	Description of transaction	Interest	Maturity	Terms of convertible bonds	
Date	Code					Premium/(discount) of the conversion price over the average closing price for the five trading days immediately prior to the date of the agreement	Redemption Premium
25-Jan-11	630	Guojin Resources Holdings Limited	Acquisition of the entire issued share capital of a group which was engaged in OEM manufacturing business and medical device manufacturing business.	Note 7	31-Dec-15	(23.08%)	Nil
7-Jan-11	8171	China Trends Holdings Limited	Acquisition of the entire issued share capital of a company principally engaged in the business applications of LED low-carbon energy technology solutions and computer architecture technologies.	Nil	The fifth anniversary of the date of issue of the convertible bonds	9.89%	Nil
27-Dec-10	8019	Hao Wen Holdings Limited	Acquisition of the entire issued share capital of a group which planned to engage principally in the development, manufacturing and sale of, inter alia, bio-degradable food containers and disposable industrial packaging for consumer products to multi-national corporations, supermarket chains and restaurants located in North America, Europe and Asia.	3% per annum	The second anniversary of the date of issue of the convertible bonds	(15.25%)	Nil

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Announcement Stock		Company Name	Description of transaction	Interest	Maturity	Terms of convertible bonds	
Date	Code					Premium/(discount) of the conversion price over the average closing price for the five trading days immediately prior to the date of the agreement	Redemption Premium
17-Dec-10 21-Sep-10	307	Tidetime Sun (Group) Limited	Acquisition of no less than 99.19% of the effective equity interest in a group which was principally engaged in the exploration of coal mines; construction of mines within the approved mining area and sale of coal produced during such construction; coal washing and selection; sale of coke; and industrial water processing and recycling.	Nil	The fifth anniversary of the date of issue of the convertible notes	(51.64%)	Nil
14-Dec-10	1031	Golden Resorts Group Limited	Acquisition of the entire issued share capital of a group based in Hong Kong which was principally engaged in the provision of financial services including securities underwriting and placements, margin and IPO financing, securities brokerage, corporate finance advisory services, futures brokerage and asset management services.	2% per annum	The fifth anniversary of the date of issue of the convertible notes	14.61%	Nil
5-Dec-10	161	CATIC Shenzhen Holdings Limited	Acquisition of various equity interests in several companies which were principally engaged in trading and logistics, manufacturing and the real estate sector.	1% per annum	Perpetual with no maturity date	11.39%	N/A

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Announcement Stock		Terms of convertible bonds		Premium/(discount) of the conversion price over the average closing price for the five trading days immediately prior to the date of the agreement		Redemption Premium
Date	Code	Company Name	Description of transaction	Interest	Maturity	
5-Nov-10	909	Zhongda International Holdings Limited	Acquisition of a 65% equity interest in a company which was the exclusive distribution agent for electric power systems (including battery and control system) used in electrical vehicles of a manufacturer in markets other than the PRC.	Nil	18 months from the date of issue of the convertible bonds	Nil
19-Oct-10	1208	Minmetals Resources Limited	Acquisition of the entire issued share capital of a company which held a portfolio of international mining assets.	1% per annum	Perpetual with no maturity date	N/A
8-Oct-10	724	Sino-Tech International Holdings Limited	Acquisition of a 90% equity interest in a company which was principally engaged in the provision of logistics and related services including chemical logistics, engineering logistics, freight forwarding and logistics project management.	Nil	5 years from the date of issue of the convertible notes	Nil
24-Sep-10	767	Pacific Plywood Holdings Limited	Acquisition of 51% of the issued share capital of a company which was principally engaged in the business of money lending and the provision of credit.	Nil	31-Dec-11	Nil

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Announcement Date	Stock Code	Company Name	Description of transaction	Interest	Maturity	Terms of convertible bonds	
						Premium/(discount) of the conversion price over the average closing price for the five trading days immediately prior to the date of the agreement	Redemption Premium
21-Sep-10	582	Greenfield Chemical Holdings Limited	Acquisition of the entire issued share capital of company which would (after completion of a reorganisation) through its subsidiaries be principally engaged in the design, manufacturing and sale of light emitting diodes and semi-conductor lighting related products.	3% per annum	The third anniversary of the date of issue of the convertible bonds	(7.08%)	Nil (Note 8)
22-Aug-10	381	Kiu Hung Energy Holdings Ltd.	Acquisition of the entire issued share capital of a group which would (after completion of a reorganisation) be principally engaged in exploration, refining and sale of anthracite coal and whose principal assets would be seven mining licenses covering seven mines located in Guizhou Province, the PRC.	Nil	The third anniversary of the date of issue of the convertible notes	(6.32%)	Nil (Note 9)
16-Aug-10	195	Vitar International Holdings Ltd.	Acquisition of the entire issued share capital of a group principally engaged in tin mining in Tasmania, Australia.	Nil	5 years from the date of issue of the convertible bonds	21.09%	Nil

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Announcement Stock		Company Name	Description of transaction	Interest	Maturity	Terms of convertible bonds	
Date	Code					Premium/(discount) of the conversion price over the average closing price for the five trading days immediately prior to the date of the agreement	Redemption Premium
29-Jul-10	8186	China Asean Resources Limited	Acquisition of the entire issued share capital of a company which would (after completion of a reorganisation) through its subsidiary hold a 70-year exclusive exploitation right in respect of a forest located in Cambodia.	Nil	The fifth anniversary of the date of issue of the convertible bonds	(22.81%)	Nil
27-Jul-10	1073	China Agrotech Holdings Limited	Acquisition of the entire issued share capital of a group which was principally engaged in research and development, nursing, planting and sales of landscaping seedlings.	Nil	The fifth anniversary of the date of issue of the convertible bonds	32.98%	Nil
21-Jul-10	8202	Inno-Tech Holdings Limited	Acquisition of the entire issued share capital of a group whose principal businesses include design, production and publication of outdoor advertisements in the PRC.	Nil	The second anniversary of the date of issue of the convertible notes	(11.60%)	Nil
20-Jul-10	702	Sino Oil and Gas Holdings Limited	Acquisition of the entire issued share capital of a group whose principal activities comprise the exploration, development and production of coalbed methane in the PRC.	Nil	The third anniversary of the date of issue of the convertible bonds	2.46%	Nil

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Announcement Stock		Company Name	Description of transaction	Interest	Maturity	Terms of convertible bonds	
Date	Code					Premium/(discount) of the conversion price over the average closing price for the five trading days immediately prior to the date of the agreement	Redemption Premium
19-Jul-10	686	Time Infrastructure Holdings Limited	Acquisition of the entire issued share capital of a group which was principally engaged in the manufacturing and sale of solar silicon cells in the PRC.	Nil (<i>Note 10</i>)	The fifth anniversary of the date of issue of the convertible notes	(2.18%)	Nil
19-Jul-10	760	Tomorrow International Holdings Limited	Acquisition of the entire equity interest in a group which was principally engaged in real estate development and property investment in the PRC.	Nil	The fifth anniversary of the date of issue of the convertible notes	(5.17%)	Nil
19-Jul-10	986	China Environmental Energy Investment Limited	Acquisition of 9.9% of the issued share capital of a company whose principal asset was an exclusive licence relating to the technology of manufacturing electric vehicle batteries.	3% per annum	The third anniversary of the date of issue of the convertible notes	(2.44%)	N/A
16-Apr-10 27-May-10 16-Jul-10	661	China Daye Non-Ferrous Metals Mining Limited	Acquisition of an 80% equity interest in a company whose principal businesses were exploration and exploitation of copper in the PRC.	1% per annum	The second anniversary of the date of issue of the convertible notes	0.00%	Nil

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Notes:

1. Interest is payable on an “as converted” basis i.e. interest on the convertible bonds would equal to the dividend that would otherwise have been paid on the conversion shares into which the convertible bonds were convertible had the relevant conversion right been exercised prior to the record date applicable to the dividend declaration. Interest on the convertible bonds would be paid at the same time the issuer of the convertible bonds pays the relevant dividend to its shareholders.
2. Upon maturity, the convertible notes shall be redeemed at its principal amount outstanding; if the convertible notes are redeemed prior to the maturity date, the convertible notes shall be redeemed at 103% of the outstanding amount; upon the occurrence of an event of default, the holder of the convertible notes may require the issuer to redeem the whole (but not part) of the outstanding principal amount outstanding together with the default interest at 5% per annum above the Hong Kong Interbank Offered Rate.
3. The convertible notes are non-redeemable except (i) in the event the target fails to meet the pre-determined cumulative profit guarantee, the issuer is entitled to redeem a pre-agreed principal amount of convertible notes placed under an escrow arrangement, at a consideration of HK\$1.00; and (ii) where claims had been made against the vendors by the purchaser prior to 31 July 2012, the issuer shall be entitled to redeem the relevant convertible notes at 100% of the principal amount, payment of which shall be made by setting off against an equivalent amount of such claim.
4. If the initial conversion price (i) is less than HK\$0.06 per conversion share, the convertible bonds shall not bear any interest; (ii) is equal to or more than HK\$0.06 but less than HK\$0.12 per conversion share, the convertible bonds shall bear interest at the rate of 3% per annum; and (iii) is equal to or more than HK\$0.12 per conversion share, the convertible bonds shall bear interest at the rate of 6% per annum.
5. The initial conversion price would be based on the average closing price per share for the last 5 full trading days of the shares immediately before the date of completion of the acquisition, subject to the maximum price of HK\$0.18 per conversion share and the minimum price of HK\$0.03 per conversion share.
6. Subject to fulfillment of the pre-determined profit guarantee or payment of the compensation in the event such profit guarantee is not met, the issuer may redeem in full (and not part) the convertible bonds at any time after 1 January 2012 at 100% of the outstanding principal amount plus any accrued but unpaid interest, provided the bondholder does not exercise the conversion rights attached to the convertible bonds 3 months from the date the target’s results for the year ending 31 December 2011 is approved by its board of directors.
7. The convertible notes would be entitled to a payment equivalent to the amount of any cash dividends declared by the issuer as if they were fully converted into ordinary shares payable at the same time as any such dividend payment.
8. The issuer or its subsidiaries may at any time purchase the convertible bonds at 100% of the principal amount outstanding or at any price as agreed between the issuer or its subsidiaries and the holders of the convertible bonds.
9. The issuer may redeem all (and not some) of the convertible notes which have not been converted, redeemed, purchased or cancelled on the maturity date at a redemption price of HK\$1.00.
10. In the event of default, interest at the rate of 15% per annum over the principal in respect of the convertible notes will be accrued from the payment due date or the maturity date (as the case may be) up to the date of actual payment (both dates inclusive) of the full amount (both before and after judgement).

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As you may notice from the terms of the convertible bonds/notes as announced by other companies listed on the Stock Exchange for acquisitions in the past twelve months, the interest rates borne by the convertible bonds/notes ranged from nil to 6% per annum. Some of the convertible bonds/notes carried interest calculated based on dividend payments on the basis as if the convertible bonds/notes have been converted. The interest rate of each convertible bond/note was determined based on negotiations between the related parties and was generally affected by (1) the default risk of the issuer; (2) the level of the conversion price as compared with the market price; (3) the conversion and redemption terms; and (4) the market environment. It may be difficult to draw any conclusion based on the reference transactions above. The above information is set out in this letter for reference only.

As mentioned above, the interest payment to the holder of the Convertible Note represents a compensation for the deferred payments. Save for the year ended 31 March 2010, the Group was profitable for the past five completed financial years ended 31 March 2011. The Company has also maintained a healthy dividend payment history. The table below summarises the dividend history of the Company in the past five financial years.

Financial year ended 31 March	Total dividend per Share (including final, interim and other special dividend)
2011	HK\$0.0428
2010	HK\$0.028
2009	HK\$0.043
2008	HK\$0.188
2007	HK\$0.208

Based on Bloomberg, we note that the historical dividend yield per annum of the Shares as at the Latest Practicable Date was 7.13% and the indicated (expected) dividend yield was 7.13%, both of which are higher than the interest rate of the Convertible Note. The dividend yield shall represent the opportunity cost that the holder(s) of the Convertible Note will forgo before conversion. It shall also represent the Company's cost had new Shares been issued immediately as consideration for the Acquisition.

Based on the term that the Convertible Note is not redeemable at the option of the holder and the dividend yield which the holder would have to forgo before conversion, we consider that the interest rate is fair and reasonable in this situation when the interests of the Company and the Shareholders as a whole are concerned.

Redemption rights

The holder of the Convertible Note has no right to require the Company to redeem the Convertible Note in cash. The Convertible will be redeemed in the case of the occurrence of an event of default or if the conversion of any part of the Convertible Note will result in the Company's failing to meet the minimum public float requirement under the Listing Rules, then such part of the convertible Note will be redeemed in cash at par).

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The Company is also given the right to opt for redemption in cash of the outstanding Convertible Note at any time during the period commencing from the date immediately following the issue date of the Convertible Note and prior to the Maturity Date at 100% of the principal amount of the outstanding Convertible Note subject to the terms of the Convertible Note. We consider that this option will give the Company flexibility in reassessing its cost of capital and redeeming the Convertible Note if it is considered cheaper to do so then. If the holder of the Convertible Note remains to be the Vendor or another connected person of the Company, the exercise of the redemption option will be subject to the relevant connected transaction provisions under Chapter 14A of the Listing Rules.

We consider that the Company having the option to redeem the Convertible Note at par value is beneficial to the Company and is fair and reasonable.

Financial effects of the Acquisition on the Group

Upon Completion, the then members of the Target Group will become wholly-owned subsidiaries of the Company and the financial results and positions of such members of the Target Group which the Group will acquire will be combined with the Group's consolidated financial statements using merger accounting method.

Earnings

For the year ended 31 March 2011, the Target Group recorded a net profit of approximately HK\$45.3 million. As stated above upon Completion, members of the Target Group will become wholly-owned subsidiaries of the Company and their respective earnings will be combined with that of the Group. As the Target Group is a profitable and established business, it is expected that the income and earnings base of the Group will be enhanced following the completion of the Acquisition. The Company expects the Acquisition to have a long-term positive impact on the Enlarged Group due to the expected synergy between the Target Group and the Group. With the combined products and services from the Target Group, the Directors believe that the Group will become one of the leading regional beauty groups with a business network covering some of the most affluent cities in the Asia-Pacific region, including Hong Kong, Guangzhou, Shanghai, and Beijing, Kuala Lumpur and Singapore, offering multiple brands of products and beauty and wellness services. Furthermore, leveraging on its regional network in the Asia-Pacific region following the Acquisition, it is expected that the Group will be able to formulate strategic development plans to promote its beauty products and services more efficiently and effectively which will in turn, enhance its market presence in the region under the management of the Company. We agree with the view of the Company's management based on the information provided to us by the Company.

Net asset value

The Group had a net asset value of approximately HK\$304.3 million as at 31 March 2011 whilst the Target Group had a net asset value of approximately HK\$48.7 million as at 31 March 2011 before the exclusion of the Hong Kong Subsidiary, the Waiver and the Dividend Payment of HK\$41 million to the Vendor. Following the Completion of the

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Acquisition, the assets and liabilities of those members of the Target Group acquired by the Group will be combined with those of the Group. We understand from the Company that under Hong Kong Financial Accounting Standards, the Convertible Note will comprise two elements, a liability component and an equity component, as the conversion of the Convertible Note will be settled by the exchange for a fixed number of the Company's own equity instruments at a fixed conversion price. As described in the pro forma financial information of the Enlarged Group, set out in Appendix III to the Circular, the liability component and equity component of the Convertible Note are determined as if the Acquisition and the issuance of the Convertible Note had taken place at 31 March 2011; and the impact of the relevant issuing cost was not significant. For the purpose of compiling the pro forma statement of the assets and liabilities of the Enlarged Group, the fair value of the liability component of the Convertible Note amounts to approximately HK\$19,636,000, comprising a non-current portion of HK\$14,636,000 and a current portion of HK\$5,000,000, which represents coupon interest payables calculated by using the effective interest method with an effective interest rate at 8.63% based on the cost of capital of the Company. The difference between the principal amount of the Convertible Note and the interest payables of approximately HK\$230,364,000, representing the value of the equity component, is included in the reserve of the Company.

On Completion of the Acquisition, the values of the liability component and equity component of the Convertible Note will have to be reassessed. As a result of the reassessment, their respective values may be different from the estimated figures used in the pro forma financial information of the Enlarged Group.

As listed in the pro forma financial information of the Enlarged Group, contained in Appendix III to the Circular, the net assets of the Enlarged Group before pro forma adjustments approximate HK\$353.0 million. The net assets of the Enlarged Group after pro forma adjustments decreased to approximately HK\$214.3 million. The decrease in the pro forma net asset value is mainly due to i) the issue of the Convertible Note with an accrued interest payable (as represented by the liability portion) of HK\$19.6 million, ii) the exclusion of the Hong Kong Subsidiary with net asset value of HK\$75.0 million after the waiver pursuant to the corporate reorganisation as stated in the section headed "Business of the Target Group" of this letter, (whilst a large portion of net assets of the Hong Kong Subsidiary after the Waiver are cash and cash equivalent of HK\$60.3 million), and iii) the Dividend Payment of HK\$41 million by the Target Group.

Since the Target Group is a group of service companies with its key assets being its human resources, market position and brand name, the valuation of the Target Group and the consideration for the Acquisition are determined based on the Target Group's track record and prospect. Net assets value is not a significant determinant. During the past three years, the Target Group had a strong cash flow position from its operations and generated a total net cash inflow of HK\$132 million during the three years. In addition, the Company has estimated the working capital requirements of the Enlarged Group for the next 12 months and considers that the Enlarged Group will have sufficient working capital for its operations.

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Based on the above and that the Consideration represents a discount of 20.5% to the Business Valuation (which has taken into account the impact of the exclusion of the Hong Kong Subsidiary, the Waiver and the Dividend Payment of HK\$41 million pursuant to the corporate reorganisation before the Completion), we consider that the decrease in the pro forma net assets value of the Group as a result of Acquisition acceptable.

Working capital

As at 31 March 2011, the Target Group had cash of HK\$186.6 million and net current assets of HK\$35.2 million. The Consideration will be satisfied by the issue of the Convertible Note which are not redeemable upon maturity subject to the meeting of the minimum public float requirement under the Listing Rules. The Acquisition is not expected to have any material adverse impact on the Group's working capital.

Gearing

Based on information from the 2011 Annual Report, as at 31 March 2011, the Group was debt-free. Upon the issuance of the Convertible Note but before full conversion of the Convertible Note, assuming the transaction costs relating to the liability component was not significant, the gearing ratio would be 9.2% calculated on the basis of borrowings (not including deferred revenue, tax liabilities, finance lease payables, and trade and other payables, and accrued expenses that are not borrowing in nature) divided by total equity. This gearing is only a result of the recognition of the interest element of the Convertible Note. As the interest rate of the Convertible Note is on normal commercial terms and the Group is currently debt-free, the increase in the Group's gearing is acceptable.

Effect on the shareholding structure of the Company

Reference is made to the shareholding structure of the Company as set out in the section headed "The Shareholding Structure" in the Letter from the Board. Upon full conversion of the Convertible Note, the shareholding of the existing public Shareholders will be diluted from approximately 31.29% to approximately 23.54% (this figure is for illustrative purposes only). As stated in the paragraph headed "Earnings" above, it is expected that the income and earnings base of the Group will be enhanced following the Completion of the Acquisition due to the expected synergy between the Target Group and the Group. As such, although the shareholding of the existing public Shareholders will be diluted upon conversion of the Convertible Note, the negative impact may, to a certain extent, be offset by a larger earnings base. Pursuant to the terms and conditions of the Convertible Note, no conversion right attached to the Convertible Note can be exercised by its holder if the public float of the Company will fall below the minimum requirement of 25% as prescribed under the Listing Rules as a result of such conversion.

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CONCLUSION

Having considered the above principal factors and reasons, we are of the opinion that the terms of the Acquisition are fair and reasonable and the Acquisition is on normal commercial terms and in the interests of the Company and the Shareholders as a whole. Although the Acquisition is not in the Group's ordinary and usual course of business, it is incidental to the business development of the Group. Accordingly, we advise the Independent Board Committee to recommend that the Independent Shareholders vote in favour of the ordinary resolution to be proposed at the EGM to approve, among other things, the Acquisition.

Yours faithfully,
For and on behalf of
OSK Capital Hong Kong Limited
Allen Tze
Executive Director

A. FINANCIAL INFORMATION OF THE GROUP FOR THE THREE YEARS ENDED 31 MARCH 2011

The financial information of the Group for (i) the year ended 31 March 2011 is disclosed in the annual report (the “2011 Annual Report”) of the Company for the year ended 31 March 2011 published on 18 July 2011, from pages 51 to 96; (ii) the year ended 31 March 2010 is disclosed in the annual report of the Company for the year ended 31 March 2010 published on 25 July 2010, from pages 69 to 116; and (iii) the year ended 31 March 2009 is disclosed in the annual report of the Company for the year ended 31 March 2009 published on 23 July 2009, from pages 69 to 120. The management discussion on the financial information relating to the year ended 31 March 2009, 2010 and 2011 was contained in pages 24 to 35, 24 to 33 and 16 to 27 of the relevant annual reports of the Company. All of which have been published on the website of the Stock Exchange (www.hkex.com.hk) and the website of the Company (www.Modernbeautysalon.com).

B. MANAGEMENT DISCUSSION AND ANALYSIS OF THE TARGET GROUP

Upon completion, the each member of the Target Company (excluding the Hong Kong Subsidiary) will be wholly-owned by the Company and its financial results will be consolidated into the Company’s consolidated financial statements. A summary of the Target Group’s financials for the three years ended 31 March 2011 (the “Relevant Period”) is set out as below:

Results

Turnover of the Target Group is principally derived from (i) the provision of beauty and wellness services and (ii) sale of skincare and wellness products in Singapore and Malaysia. For each of the three years ended 31 March 2011, the Target Group recorded a consolidated turnover of approximately HK\$63.9 million, HK\$122.5 million and HK\$133.0 million of which approximately 88.3%, 93.4% and 95.0% were derived from the provision of beauty and wellness services. For each of the three years ended 31 March 2011, the Target Group recorded (i) consolidated audited loss before tax of approximately HK\$32.8 million, consolidated audited profit before tax of HK\$46.4 million and HK\$55.7 million, respectively; and (ii) consolidated audited loss after tax of approximately HK\$28.0 million, consolidated audited profit after tax of HK\$38.2 million and HK\$45.3 million, respectively. The Target Group has not introduced any new products after the Relevant Period ended 31 March 2011.

The Target Group recorded a net loss after taxation of approximately HK\$28.0 million for the year ended 31 March 2009 which was mainly attributable to the downturn in global economic conditions as a result of the financial turmoil occurred during late 2008 with its adverse impact extended to early 2009. However, with the general recovery of the world’s economy in late 2009, the Target Group experienced an increase of customers and at the same time, was able to increase the prices of its beauty and wellness services. As such, the Target Group’s turnover improved significantly by over 90% from HK\$63.9 million to HK\$122.5 million for the year ended 31 March 2009 and 2010, respectively. Furthermore, with the implementation of various cost control measures by the management of the Target Group, major operating expenses including staff’s wages and salaries, occupancy costs and other

operating expenses have reduced significantly by approximately HK\$16.2 million from an aggregate of approximately HK\$82.9 million to HK\$66.7 million for the year ended 31 March 2009 and 2010, respectively (representing a decrease of approximately 19.5%). All of these have enable the Target Group to turn from a loss after taxation of approximately HK\$28.0 million to profit after taxation of approximately HK\$38.2 million for the year ended 31 March 2009 and 2010, respectively.

During the year ended 31 March 2011, the Target Group recorded an increase in turnover by approximately 8.6% to approximately HK\$133.0 million as compared to the previous year, which was mainly attributable to a number of factors, including the increase in advertising costs and employee benefit expenses (such as recruiting more staff and increase the staff's salary to improve and strengthen the Target Group's service quality) from the previous year. Furthermore, for cost control purpose, the Target Group relocated one of its service centers in Singapore to premises with a lower rental expense which resulted in an overall decrease in the Target Group's occupancy cost by approximately 31.0% from the year ended 31 March 2010. Given the above, the Target Group has record an increase in operating profit by approximately HK\$9.3 million to HK\$55.5 million for the year ended 31 March 2011 from the previous year, representing an increase in operating profit margin by approximately 4.0% from 37.8% for the year ended 31 March 2010 to 41.7% for the year ended 31 March 2011.

Unutilized Services and relevant potential tax liabilities

The Unutilized Services (represented by the deferred revenue in the accountants' report contained in appendix II to this circular) for each of the year ended 31 March 2009, 2010 and 2011 amounted to approximately HK\$140 million and HK\$138.4 million and HK\$153.9 million respectively.

For the Malaysian Subsidiary, pre-tax had been charged on the gross receipts from sales of prepaid beauty packages and the relevant tax was recorded in deferred tax assets in each of the Relevant Periods ended.

For the Singaporean Subsidiaries, no pre-tax had been charged on the gross receipts from sales of prepaid beauty packages. Tax will be charged on assessable profits and have been calculated at the rates of tax prevailing in Singapore, based on existing legislation, interpretation and practices in respect thereof.

Deferred Revenue

Deferred revenue represents customers' prepayment for beauty and wellness services, being the Unutilized Services. Over the three years ended 31 March 2011, the gross receipts from sales of prepaid beauty packages decreased from approximately HK\$113.0 million in the year ended 31 March 2009 to approximately HK\$105.7 million in the year ended 31 March 2010 and increased to approximately HK\$135.1 million in the year ended 31 March 2011.

Deferred revenue is recognised as turnover when services treatments are delivered to customers or when the packages expired.

The decrease in the deferred revenue for the year ended 31 March 2010 was mainly due to the aftermath of the financial turmoil occurred during late 2008 with its adverse impact extended to early 2009 which has continued to undermine the consumer sentiment and the customers' buying attitude. This led to the decrease of gross receipts from sales of prepaid beauty packages decreased from approximately HK\$113.0 million in the year ended 31 March 2009 to approximately HK\$105.7 million in the year ended 31 March 2010. Since consumer's consumption pattern was not affected, during, the revenue recognised for provision of beauty and wellness services and expiry of prepaid beauty packages improved significantly from approximately HK\$56.4 million in the year ended 31 March 2009 to approximately HK\$114.3 million during the year ended 31 March 2010.

However, with the general recovery of the world's economy in late 2009, the Target Group experienced an increase of customers and at the same time, was able to increase the prices of its beauty and wellness services. As such, the gross receipts from sales of prepaid beauty packages increased by HK\$29.4 million to HK\$135.1 million for the year ended 31 March 2011 from 2010, and the amount of revenue recognised for provision of beauty and wellness services and expiry of prepaid beauty packages was further increased to approximately HK\$126.4 million in 2011.

Liquidity and financial resources

The operations and investments of the Target Group are mainly financed by its cash inflow generated from operations. The Target Group has adopted a policy to regularly monitor the current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirement in the short and longer term.

As at 31 March 2009, 2010 and 2011, the Target Group had consolidated net liability value of approximately HK\$23.0 million, consolidated net asset value of approximately HK\$8.3 million and HK\$48.8 million respectively. As at 31 March 2009, 2010 and 2011, the Target Group had cash and cash equivalents of approximately HK\$83.2 million, HK\$124.7 million and HK\$186.6 million respectively, and did not have any bank borrowings. Accordingly, the gearing ratio of the Target Group for each of the three years ended 31 March 2009, 2010 and 2011 was 0%.

As at 31 March 2009, 2010 and 2011, the Target Group has no capital commitments.

Significant investment held

As mentioned above, the Target Group's principal investments comprises its wholly-owned subsidiary which engaged in beauty and wellness services in Malaysia and Singapore.

Material acquisitions and disposals

Save for the incorporation of Zegna International Pte. Ltd. on 8 August 2008, a wholly-owned subsidiary of the Target Company, the Target Group has no acquisitions nor disposals during the three years ended 31 March 2011.

Employees

Remunerations are commensurate with individual job nature, work experience and market conditions, and performance. The total number of employees of the Target Group as at 31 March 2009, 2010 and 2011 amounted to 286, 239 and 245 respectively. The Target Group recorded total staff costs of approximately HK\$46.8 million, HK\$37.2 million and HK\$45.3 million for each of the three years ended 31 March 2009, 2010 and 2011, respectively. The decrease in employee benefit expenses of approximately 20.5% during the year ended 31 March 2010 as compared to the previous year was mainly attributable to the decrease in number of staff during the year ended 31 March 2010. The increase in employee benefit expenses of approximately 21.8% during the year ended 31 March 2011 as compared to the previous year mainly attributable to recruiting more staff and increases the staff's salary to improve and strengthen the Target Group's service quality.

The Target Group's remuneration policies are in line with the prevailing market practices and are determined on the basis of the performance and experience of the individual. The Target Group's has been constantly reviewing staff remuneration incentive to ensure that it is competitive within the industry. For the purpose of motivating and rewarding our staff, discretionary bonus is granted to eligible employees based on individual and the Target Group's performance. Various of in-house learning programs were organized during the Relevant Periods. Our programs are designed to be practical and closely linked to our business. Throughout the Relevant Periods and as at the Latest Practicable Date, the Target Group has no share option schemes.

Occupancy cost and building management fees

Occupancy cost and building management fees decreased by HK\$6.6 million, represented a decrease of approximately 26.0% to HK\$18.7 million during the year ended 31 March 2010 as a result of the decrease in number of shops from 14 to 12.

Furthermore, for cost control purpose, the Target Group relocated one of its service centers in Singapore to premises with a lower rental expense which resulted in a decrease by approximately 31.0% in the Target Group's occupancy cost. As a result, the occupancy cost and building management fees decreased by HK\$5.8 million to HK\$13.0 million during the year ended 31 March 2011.

Charges on assets

The Target Group's pledged bank deposits represented deposits pledged to banks to secure banking facilities granted to the Target Group. The deposits are in HK\$ and S\$ and at floating interest rate of 0.125% to 2.825%, 0.01% to 0.125% and 0.01% to 0.1% per annum in 2009, 2010 and 2011 respectively.

Save as disclosed above, the Target Group does not have any charge on asset as at 31 March 2009, 2010 and 2011.

Foreign currency risks and hedging

Most of the Group's business transactions, assets and liabilities are principally denominated in either S\$, RM and HK\$. The Target Group does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Target Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

As at 31 March 2009, 2010 and 2011, the carrying amounts of the Target Group's cash and cash equivalents are denominated in the following currencies:

	As at 31 March		
	2009	2010	2011
	HK\$'000	HK\$'000	HK\$'000
HK\$	10,571	22,363	19,010
Singapore dollars	63,160	88,407	148,402
Ringgit	9,447	13,881	19,211
	<u>83,178</u>	<u>124,651</u>	<u>186,623</u>

Contingent liabilities

As disclosed in the accountants' report of the Target Group contained in Appendix II to this circular, during the Relevant Period, the Target Group has received complaints and claims concerned with the provision of beauty services in respect of breach of contract, content of advertisement, tenancy dispute and personal injuries in relation to the services provided, including claims of insignificant or unspecified amounts. The director is of the opinion that such complaints and claims are remote and have no material financial impact and the contingent liabilities in aggregate are insignificant to the Target Group.

Future Plans

After the Completion, the Target Group (excluding the Hong Kong Subsidiary) will continue to engage in its beauty care services in Singapore and Malaysia and depending on their financial position of the Target Company, plans to open more beauty care service centers in Singapore and Malaysia with its cash flow generated from its operations.

C. STATEMENT OF INDEBTEDNESS

As at the close of business on 31 August 2011, being the latest practicable date for the purpose of ascertaining the indebtedness of the Enlarged Group prior to the printing of this circular, the Enlarged Group had total outstanding borrowings of approximately HK\$1,124,000, comprising finance lease payables of approximately HK\$62,000, amount due to a director of the Target Company, namely Mr. Kwong Chi Ching, of approximately HK\$835,000, amount due to the ultimate controlling party, Ms. Tsang Yue, Joyce of approximately HK\$2,000; and amount due to a related company, namely Most Glory Limited, of approximately HK\$225,000.

As at the close of business on 31 August 2011, being the latest practicable date, the Enlarged Group has total banking facilities of approximately HK\$6.0 million in respect of documentary credit and trust receipt loan that was secured by the Enlarged Group's pledged bank deposits of approximately HK\$7.2 million to a bank.

Save as aforesaid and apart from intra-group liabilities and normal trade payables in the ordinary course of the business, as at the close of business on 31 August 2011, the Enlarged Group did not have other outstanding mortgages, charges, debentures or other loan capital, bank overdrafts or loans, other similar indebtedness, finance lease or hire purchase commitments, liabilities under acceptance or acceptance credits, guarantees or other material contingent liabilities.

D. WORKING CAPITAL SUFFICIENCY

The Directors, after due and careful consideration have confirmed that, after taking into account the available borrowing facilities and internal resources, the Enlarged Group has sufficient working capital for its present requirements, that is for at least the next 12 months from the Latest Practicable Date, in the absence of any unforeseeable circumstances.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, from the independent reporting accountants, RSM Nelson Wheeler, Certified Public Accountants, Hong Kong.

RSM Nelson Wheeler
中瑞岳華(香港)會計師事務所
Certified Public Accountants

29th Floor,
Caroline Centre,
Lee Gardens Two,
28 Yun Ping Road,
Hong Kong

30 September 2011

The Board of Directors
Modern Beauty Salon Holdings Limited

Dear Sirs,

We set out below our report on the financial information (the “Financial Information”) of Zegna Management Limited (the “Target Company”) and its subsidiaries (hereinafter collectively referred to as the “Target Group”) for the three years ended 31 March 2009, 2010 and 2011 (the “Relevant Periods”) for inclusion in the circular dated 30 September 2011 issued by Modern Beauty Salon Holdings Limited (the “Company”) in connection with the proposed acquisition of the entire equity interest in the Target Company (the “Circular”).

The Target Company was incorporated on 20 October 2008 in Hong Kong with limited liability under the Hong Kong Companies Ordinance and acts as an investment holding company. As at the date of this report, the Target Company has the following subsidiaries:

Name of subsidiary	Place and date of incorporation/ establishment	Issued and paid up capital	Attributable equity interest of the Target Group <u>Direct</u>	Principal activities
Modern Beauty Salon (S) Pte. Limited (“MBSS”)	Singapore 2 November 2005	150,000 ordinary shares of S\$1 each	100%	Provision of beauty and wellness services
Lucky Marketing Management Co. Pte. Limited (“Lucky Marketing”)	Singapore 31 January 2002	100,000 ordinary shares of S\$1 each	100%	Provision of beauty consultancy, marketing and management services
Splendid Overseas Pte. Limited (“Splendid”)	Singapore 7 July 2007	150,000 ordinary shares of S\$1 each	100%	Provision of beauty and wellness services

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

Name of subsidiary	Place and date of incorporation/ establishment	Issued and paid up capital	Attributable equity interest of the Target Group <u>Direct</u>	Principal activities
Zegna International Pte. Limited ("Zegna International")	Singapore 8 August 2008	10 ordinary shares of S\$1 each	100%	Provision of beauty consultancy, marketing and management services
Euro King Limited ("Euro King")	Hong Kong 25 February 2005	1 ordinary share of HK\$1	100%	Trading of skincare and wellness products and equipments
Beauclear Enterprise Sdn. Bhd. ("Beauclear")	Malaysia 4 April 2005	500,000 ordinary shares of RM1 each	100%	Provision of beauty and wellness services and sales of skincare and wellness products

All the companies of the Target Group have adopted 31 March as the financial year end date.

The statutory financial statements of MBSS, Lucky Marketing, Splendid and Zegna International (collectively referred to as the "Singapore Companies") for the Relevant Periods have been prepared in accordance with the relevant accounting principles and financial regulations applicable to companies established in Singapore. The statutory financial statements of the Singapore Companies for the year ended 31 March 2009 were audited in accordance with Singapore Standards on Auditing by K.C. Chan & Co., Certified Public Accountants registered in Singapore. RSM Chio Lim LLP, Certified Public Accountants registered in Singapore acted as auditor of the Singapore Companies and audited their statutory financial statements for the years ended 31 March 2010 and 2011 in accordance with Singapore Standards on Auditing.

The statutory financial statements of Beauclear for the Relevant Periods have been prepared in accordance with the relevant accounting principles and financial regulations applicable to companies established in Malaysia. The statutory financial statements of Beauclear for the year ended 31 March 2009 were audited in accordance with the approved standards on auditing in Malaysia by Cheng & Co., Certified Public Accountants registered in Malaysia. RSM Robert Teo, Kuan & Co., Certified Public Accountants registered in Malaysia acted as auditor of Beauclear and audited its statutory financial statements for the years ended 31 March 2010 and 2011 in accordance with the approved standards on auditing in Malaysia.

The statutory financial statements of Euro King for the Relevant Periods have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKAS") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The statutory financial statements of Euro King for the year ended 31 March 2009 were audited by Douglas CPA & Co., Certified Public Accountants registered in Hong Kong, in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the HKICPA. We have audited the statutory financial statements of Euro King for the years ended 31 March 2010 and 2011, in accordance with HKSA.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

The statutory financial statements of the Target Company for the Relevant Periods have been prepared in accordance with HKFRSs. We act as auditor of the Target Company and audit its statutory financial statements in accordance with HKSA since the date of its incorporation. In connection with the statutory financial statements of the Target Company for the period from 20 October 2008 (date of incorporation) to 31 March 2010, we have expressed a qualified opinion as a result of the failure to prepare group financial statements to include the financial statements of the Target Company and its subsidiaries that constituted a departure from the requirements of section 124(1) of the Hong Kong Companies Ordinance and HKAS 27 “Consolidated and Separate Financial Statements” issued by the HKICPA.

For the purpose of this report, the director of the Target Company has prepared the consolidated financial statements of the Target Group for the Relevant Periods in accordance with HKFRSs issued by the HKICPA (the “HKFRS Financial Statements”).

We have performed our independent audit on the HKFRS Financial Statements in accordance with HKSA and have examined the HKFRS Financial Statements in accordance with Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” issued by the HKICPA.

The Financial Information has been prepared from the HKFRS Financial Statements in accordance with HKFRSs. No adjustments were considered necessary for the purpose of preparing our report for inclusion in the Circular.

The director of the Target Company is responsible for the preparation of the HKFRS Financial Statements. The directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the HKFRS Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, for the purpose of this report, the Financial Information gives a true and fair view of the state of affairs of the Target Company and of the Target Group as at 31 March 2009, 2010, and 2011 and of the Target Group’s results and cash flows for the Relevant Periods.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

FINANCIAL INFORMATION

A. CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	<i>Note</i>	Year ended 31 March		
		2009	2010	2011
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	7	63,889	122,492	133,000
Other income	8	571	1,684	4,426
Cost of inventories sold		(3,986)	(3,414)	(2,281)
Advertising costs		(2,542)	(223)	(1,258)
Bank charges		(4,012)	(3,262)	(3,964)
Employee benefit expenses	9	(46,761)	(37,172)	(45,267)
Depreciation		(4,318)	(4,314)	(5,401)
Occupancy costs and building management fees		(25,332)	(18,746)	(12,971)
Other operating expenses		<u>(10,767)</u>	<u>(10,771)</u>	<u>(10,793)</u>
Operating (loss)/profit		(33,258)	46,274	55,491
Interest income		504	140	192
Finance costs	10	<u>(4)</u>	<u>(4)</u>	<u>(3)</u>
(Loss)/profit before tax		(32,758)	46,410	55,680
Income tax credit/(expense)	11	<u>4,750</u>	<u>(8,260)</u>	<u>(10,392)</u>
(Loss)/profit for the year	12	(28,008)	38,150	45,288
Other comprehensive income after tax for the year:				
Exchange differences on translating foreign operations		<u>8,273</u>	<u>(6,879)</u>	<u>(4,850)</u>
Total comprehensive (loss)/income for the year		<u><u>(19,735)</u></u>	<u><u>31,271</u></u>	<u><u>40,438</u></u>

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

B. CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		At 31 March		
		2009	2010	2011
	Note	HK\$'000	HK\$'000	HK\$'000
ASSETS				
Non-current assets				
Property, plant and equipment	14	11,402	11,390	9,650
Deferred tax assets	16	3,857	2,831	3,938
		<u>15,259</u>	<u>14,221</u>	<u>13,588</u>
Current assets				
Inventories	17	4,601	3,269	2,582
Trade and other receivables, deposits and prepayments	18	9,706	10,854	9,480
Current tax assets		275	–	4,940
Pledged bank deposits	19	23,021	10,000	10,003
Cash and cash equivalents	20	83,178	124,651	186,623
		<u>120,781</u>	<u>148,774</u>	<u>213,628</u>
Total assets		<u>136,040</u>	<u>162,995</u>	<u>227,216</u>
EQUITY				
Capital and reserves				
Share capital	21	–	–	–
Reserves	22	<u>(22,975)</u>	<u>8,296</u>	<u>48,734</u>
(Capital deficiency)/total equity		<u>(22,975)</u>	<u>8,296</u>	<u>48,734</u>
LIABILITIES				
Non-current liabilities				
Finance lease payables	23	<u>64</u>	<u>53</u>	<u>37</u>

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP
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		At 31 March		
		2009	2010	2011
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Current liabilities				
Trade and other payables, deposits received and accrued expenses	24	18,072	12,034	13,345
Deferred revenue	25	140,002	138,427	153,932
Amount due to a director	26	835	835	835
Amount due to ultimate controlling party	26	2	5	5
Finance lease payables	23	16	18	20
Current tax liabilities		24	3,327	10,308
		<u>158,951</u>	<u>154,646</u>	<u>178,445</u>
Total liabilities		<u>159,015</u>	<u>154,699</u>	<u>178,482</u>
Total equity and liabilities		<u><u>136,040</u></u>	<u><u>162,995</u></u>	<u><u>227,216</u></u>
Net current (liabilities)/assets		<u><u>(38,170)</u></u>	<u><u>(5,872)</u></u>	<u><u>35,183</u></u>
Total assets less current liabilities		<u><u>(22,911)</u></u>	<u><u>8,349</u></u>	<u><u>48,771</u></u>

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

C. STATEMENTS OF FINANCIAL POSITION

		At 31 March		
		2009	2010	2011
	Note	HK\$'000	HK\$'000	HK\$'000
ASSETS				
Non-current assets				
Investments in subsidiaries	15	<u>2,273</u>	<u>2,033</u>	<u>2,033</u>
Current assets				
Amounts due from subsidiaries	15	<u>–</u>	<u>–</u>	<u>42,958</u>
Total assets		<u>2,273</u>	<u>2,033</u>	<u>44,991</u>
EQUITY				
Capital and reserve				
Share capital	21	–	–	–
(Accumulated losses)/ retained profits	22	<u>(2)</u>	<u>(846)</u>	<u>41,876</u>
(Capital deficiency)/total equity		<u>(2)</u>	<u>(846)</u>	<u>41,876</u>
LIABILITIES				
Current liabilities				
Other payables and accrued expenses		1,438	8	18
Amounts due to subsidiaries	15	–	2,034	2,260
Amount due to a director	26	835	835	835
Amount due to ultimate controlling party	26	<u>2</u>	<u>2</u>	<u>2</u>
		<u>2,275</u>	<u>2,879</u>	<u>3,115</u>
Total liabilities		<u>2,275</u>	<u>2,879</u>	<u>3,115</u>
Total equity and liabilities		<u>2,273</u>	<u>2,033</u>	<u>44,991</u>
Net current (liabilities)/assets		<u>(2,275)</u>	<u>(2,879)</u>	<u>39,843</u>
Total assets less current liabilities		<u>(2)</u>	<u>(846)</u>	<u>41,876</u>

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

D. CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share capital <i>HK\$'000</i>	Merger reserve <i>HK\$'000</i>	Foreign currency translation reserve <i>HK\$'000</i>	(Accumulated losses)/ retained profits <i>HK\$'000</i>	Total equity <i>HK\$'000</i>
At 1 April 2008	—	2,822	64	6,333	9,219
2009 special dividends paid (Note 13)	—	—	—	(10,186)	(10,186)
Issue of share on incorporation (Note 21)	—*	—	—	—	—*
Effect of business combination under common control (Note 3(b))	—	(2,273)	—	—	(2,273)
Total comprehensive loss for the year	—	—	8,273	(28,008)	(19,735)
Changes in equity for the year	—*	(2,273)	8,273	(38,194)	(32,194)
At 31 March 2009 and 1 April 2009	—*	549	8,337	(31,861)	(22,975)
Total comprehensive income and changes in equity for the year	—	—	(6,879)	38,150	31,271
At 31 March 2010 and 1 April 2010	—*	549	1,458	6,289	8,296
Total comprehensive income and changes in equity for the year	—	—	(4,850)	45,288	40,438
At 31 March 2011	—*	549	(3,392)	51,577	48,734

* Represents amount less than HK\$1,000

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

E. CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended 31 March		
	2009	2010	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss)/profit before tax	(32,758)	46,410	55,680
Adjustments for:			
Depreciation	4,318	4,314	5,401
Interest income	(504)	(140)	(192)
Finance costs	4	4	3
Impairment loss on amounts due from related companies	–	3,179	375
Loss on disposals of property, plant and equipment	1,078	318	–
	<u> </u>	<u> </u>	<u> </u>
Operating (loss)/profit before working capital changes	(27,862)	54,085	61,267
Decrease in inventories	664	1,505	867
Decrease/(increase) in trade and other receivables, deposits and prepayments	49,853	(4,327)	998
(Decrease)/increase in trade and other payables, deposits received and accrued expenses	(41,755)	(6,946)	1,287
Increase in amount due to a director	835	–	–
Increase in amount due to ultimate controlling party	2	3	–
Increase/(decrease) in deferred revenue	56,595	(8,669)	8,761
	<u> </u>	<u> </u>	<u> </u>
Cash generated from operations	38,332	35,651	73,180
Interest received	504	140	192
Finance lease charges paid	(4)	(4)	(3)
Income tax paid	(1,823)	(3,703)	(10,205)
	<u> </u>	<u> </u>	<u> </u>
Net cash generated from operating activities	<u>37,009</u>	<u>32,084</u>	<u>63,164</u>

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP
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	Year ended 31 March		
	2009	2010	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	(5,784)	(3,617)	(2,589)
Net cash outflow arising from consideration paid to the then equity holder for acquisition of subsidiaries under common control	(2,273)	–	–
(Increase)/decrease in pledged bank deposits	(15,021)	13,021	(3)
Proceeds from disposals of property, plant and equipment	<u>98</u>	<u>–</u>	<u>–</u>
Net cash (used in)/generated from investing activities	<u>(22,980)</u>	<u>9,404</u>	<u>(2,592)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of finance lease payables	<u>(16)</u>	<u>(18)</u>	<u>(20)</u>
Net cash used in financing activities	<u>(16)</u>	<u>(18)</u>	<u>(20)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	14,013	41,470	60,552
Effect of foreign exchange rate changes	8,924	3	1,420
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>60,241</u>	<u>83,178</u>	<u>124,651</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>83,178</u></u>	<u><u>124,651</u></u>	<u><u>186,623</u></u>

F. NOTES TO THE FINANCIAL INFORMATION**1. GENERAL INFORMATION**

The Target Company was incorporated on 20 October 2008 in Hong Kong with limited liability under the Hong Kong Companies Ordinance. The address of its registered office is 6th Floor, Sino Industrial Plaza, 9 Kai Cheung Road, Kowloon Bay, Kowloon, Hong Kong. The director of the Target Company regarded Ms. Tsang Yue, Joyce (“Ms. Tsang”) to be the ultimate controlling party of the Target Company.

The Target Company is engaged in investment holding. The principal activities of its subsidiaries are set out in note 15 to the Financial Information.

The Financial Information is presented in Hong Kong dollars (“HK\$”), which is the same as the functional currency of the Target Company.

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

During the Relevant Periods, the Target Group has adopted all the new and revised HKFRSs issued by the HKICPA that are relevant to its operations and effective for its accounting year beginning on 1 April 2010. HKFRSs comprise Hong Kong Financial Reporting Standards; Hong Kong Accounting Standards; and Interpretations.

The Target Group has not applied the new and revised HKFRSs that have been issued but are not yet effective. The Target 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 financial impact on its results of operations and financial position.

3. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared in accordance with HKFRSs, accounting principles generally accepted in Hong Kong and the applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The Financial Information has been prepared under the historical cost convention.

The preparation of Financial Information in conformity with HKFRSs requires the use of certain key assumptions and estimates. It also requires the director to exercise its judgements in the process of applying the accounting policies. The areas involving critical judgements and areas where assumptions and estimates are significant to the Financial Information, are disclosed in note 4 to the Financial Information.

The significant accounting policies applied in the preparation of the Financial Information are set out below.

(a) Consolidation

The Financial Information includes the financial statements of the Target Company and its subsidiaries made up to 31 March. Subsidiaries are entities over which the Target Group has control. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Target Group has control.

Subsidiaries are consolidated from the date on which control is transferred to the Target Group. They are de-consolidated from the date the control ceases.

Intragroup transactions, balances and unrealised profits are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Target Group.

In the Target Company's statement of financial position the investments in subsidiaries are stated at cost less allowance for impairment losses. The results of subsidiaries are accounted for by the Target Company on the basis of dividends received and receivable.

(b) Merger accounting for business combination under common control

JF Holding (S) Pte. Limited ("JF Holding"), a company incorporated in Singapore with limited liability on 21 November 2003 had acted as the holding company of Zegna International, MBSS, Splendid, Lucky Marketing, Euro King and Beauclear (collectively referred to as the "Acquired Companies"), of which Ms. Tsang is the ultimate controlling party.

On 12 November 2008, the Target Company entered into an equity transfer agreement with JF Holding to acquire the entire interest in Zegna International at a consideration of HK\$56.

On 12 December 2008, the Target Company entered into equity transfer agreements with JF Holding to acquire the entire interests in MBSS, Splendid and Lucky Marketing at an aggregated consideration of HK\$1,677,704.

On 18 December 2008, the Target Company entered into an equity transfer agreement with JF Holding to acquire the entire interest in Euro King at a consideration of HK\$1.

On 19 December 2008, the Target Company entered into an equity transfer agreement with JF Holding to acquire the entire interest in Beauclear at a consideration of HK\$595,250.

Following to the above acquisitions, the Acquired Companies became wholly-owned subsidiaries of the Target Company.

As the Target Company and the Acquired Companies were all controlled by Ms. Tsang before and after the above acquisitions, consequently there was a continuation of the risks and benefits to Ms. Tsang. As a result, the acquisitions were accounted for as a business combination of entities under common control. The Financial Information of the Target Group have been prepared based on the principles and procedures of merger accounting in accordance with Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the HKICPA, as if the acquisitions had occurred from the date when the combining entities first came under the control of Ms. Tsang.

The consolidated statements of comprehensive income and consolidated statements of cash flows include the results and cash flows of the combining entities from the earliest date presented or since the date when the combining entities first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

The consolidated statements of financial position have been prepared to present the assets and liabilities of the combining entities at the end of each reporting period. The net assets or liabilities of the combining entities are combined using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or gain on bargain purchase at the time of common control combination, to the extent of the continuation of the controlling party's interest.

There was no adjustment made to the net assets or liabilities nor the net profit or loss of any combining entities in order to achieve consistency of the Target Group's accounting policies.

(c) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Target Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The Financial Information are presented in HK\$, which is the Target Company's functional and presentation currency.

(ii) Transactions and balances in each entity's financial statements

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in profit or loss.

(iii) Translation on consolidation

The results and financial position of all the Target Group entities that have a functional currency different from the Target Company's presentation currency are translated into the Target Company's presentation currency as follows:

- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- Income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and
- All resulting exchange differences are recognised in the foreign currency translation reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings are recognised in the foreign currency translation reserve. When a foreign operation is sold, such exchange differences are recognised in the consolidated profit or loss as part of the gain or loss on disposal.

(d) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Target Group and the cost of the item can be measured reliably. All other repairs and maintenance are recognised in the profit or loss during the period in which they are incurred.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their costs less their residual values over the estimated useful lives on a straight-line basis. The principal useful lives are as follows:

Leasehold improvements	5 years
Equipment and machinery	1 to 5 years
Furniture and fixtures	5 years
Motor vehicles	5 years
Computers	1 year

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at the end of each reporting period.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss.

(e) Leases

(i) Operating leases

Leases that do not substantially transfer to the Target Group all the risks and rewards of ownership of assets are accounted for as operating leases. Lease payments (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the lease term.

(ii) Finance leases

Leases that substantially transfer to the Target Group all the risks and rewards of ownership of assets are accounted for as finance leases. At the commencement of the lease term, a finance lease is capitalised at the lower of the fair value of the leased asset and the present value of the minimum lease payments, each determined at the inception of the lease.

The corresponding liability to the lessor is included in the statement of financial position as finance lease payable. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Assets under finance leases are depreciated the same as owned assets over the shorter of the lease term and their estimated useful lives.

(f) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average basis. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale.

(g) Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position when the Target Group becomes a party to the contractual provisions of the instruments.

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; the Target Group transfers substantially all the risks and rewards of ownership of the assets; or the Target Group neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount

and the sum of the consideration received and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

(h) Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. An allowance for impairment of trade and other receivables is established when there is objective evidence that the Target Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the allowance is the difference between the receivables' carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate computed at initial recognition. The amount of the allowance is recognised in profit or loss.

Impairment losses are reversed in subsequent periods and recognised in profit or loss when an increase in the receivables' recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the receivables at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

(i) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. Bank overdrafts which are repayable on demand and form an integral part of the Target Group's cash management are also included as a component of cash and cash equivalents.

(j) Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under HKFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Target Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

(k) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Target Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

(l) Trade and other payables

Trade and other payables are stated initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

(m) Equity instruments

Equity instruments issued by the Target Company are recorded at the proceeds received, net of direct issue costs.

(n) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and is recognised when it is probable that the economic benefits will flow to the Target Group and the amount of revenue can be measured reliably.

Revenue from provision of beauty and wellness services is recognised when services treatments are delivered to customers. Payments that are related to services not yet rendered are deferred and shown as deferred revenue in the statement of financial position. Upon expiry of prepaid packages of beauty and wellness services, the corresponding deferred revenue is fully recognised in profit or loss.

Revenue from the sales of skincare and wellness products and equipment is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the skincare and wellness products and equipment are delivered to customers.

Interest income is recognised on a time proportion basis using the effective interest method.

(o) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the end of the reporting period.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) Bonus plans

The expected cost of bonus payments are recognised as a liability when the Target Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Liabilities for bonus plans are expected to be settled within twelve months and are measured at the amounts expected to be paid when they are settled.

(iii) Pension obligations

The Target Group's subsidiaries established in Singapore are required to make contributions to defined contribution retirement benefit plans are recognised as an expense as they fall due. The entity's legal or constructive obligation is limited to the amount that it agrees to contribute to an independently administered fund which is the Central Provident Fund in Singapore (a government managed retirement benefit plan).

As required by law, the Target Group's subsidiary established in Malaysia makes contributions to the Employees Provident Fund (EPF). Such contributions are recognised as an expense in the profit or loss as incurred.

The retirement benefit scheme cost charged to profit or loss represents contributions payable by the Target Group to the funds.

(iv) *Termination benefits*

Termination benefits are recognised when, and only when, the Target Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(p) **Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Target Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(q) **Government grants**

A government grant is recognised when there is reasonable assurance that the Target Group will comply with the conditions attaching to it and that the grant will be received.

Government grants that become receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Target Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

(r) **Taxation**

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit recognised in profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Target Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the Financial Information and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Target Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Target Group intends to settle its current tax assets and liabilities on a net basis.

(s) Related parties

A party is related to the Target Group if:

- (i) directly or indirectly through one or more intermediaries, the party controls, is controlled by, or is under common control with, the Target Group; has an interest in the Target Group that gives it significant influence over the Target Group; or has joint control over the Target Group;
- (ii) the party is an associate;
- (iii) the party is a joint venture;
- (iv) the party is a member of the key management personnel of the Target Group or its parent;
- (v) the party is a close member of the family of any individual referred to in (i) or (iv);
- (vi) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or
- (vii) the party is a post-employment benefit plan for the benefit of employees of the Target Group, or of any entity that is a related party of the Target Group.

(t) Impairment of assets

At the end of each reporting period, the Target Group reviews the carrying amounts of its tangible assets except deferred tax assets, inventories and receivables to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Target Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

(u) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Target Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

(v) Events after the reporting period

Events after the reporting period that provide additional information about the Target Group's position at the end of the reporting period or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the Financial Information. Events after the reporting period that are not adjusting events are disclosed in the notes to the Financial Information when material.

4. CRITICAL JUDGEMENTS AND KEY ESTIMATES

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Property, plant and equipment and depreciation

The Target Group determines the estimated useful lives and related depreciation charges for the Target Group's property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. The Target Group will revise the depreciation charge where useful lives and residual values are different to those previously estimated or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

Income taxes

The Target Group is subject to income taxes in several jurisdictions. Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Impairment of property, plant and equipment

The Target Group conducts impairment reviews of property, plant and equipment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. Determining whether an asset is impaired requires an estimation of the value in use, which requires the Target Group to estimate the future cash flows and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise.

Impairment loss for bad and doubtful debts

The Target Group makes impairment loss for bad and doubtful debts based on assessments of the recoverability of the trade and other receivables, including the current creditworthiness and the past collection history of each debtor. Impairments arise where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts requires the use of judgement and estimates. Where the actual result is different from the original estimate, such difference will impact the carrying value of the trade and other receivables and doubtful debt expenses in the year in which such estimate has been changed.

5. FINANCIAL RISK MANAGEMENT

The Target Group's activities expose it to a variety of financial risks: foreign currency risk, credit risk, liquidity risk and interest rate risk. The Target Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Target Group's financial performance.

(a) Foreign currency risk

Most of the Target Group's business transactions, assets and liabilities are principally denominated in Singapore dollars ("S\$"), Malaysian ringgit ("RM") and HK\$. The Target Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Target Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

At 31 March 2009, if S\$ had weakened 10 per cent against HK\$ with all other variables held constant, consolidated loss after tax for the year would have been approximately HK\$3,673,000 higher, arising mainly as a result of the foreign exchange loss on bank deposits denominated in S\$. If S\$ had strengthened 10 per cent against HK\$ with all other variables held constant, consolidated loss after tax for the year would have been approximately HK\$3,673,000 lower, arising mainly as a result of the foreign exchange gain on bank deposits denominated in S\$.

At 31 March 2010, if S\$ had weakened 10 per cent against HK\$ with all other variables held constant, consolidated profits after tax for the year would have been approximately HK\$3,998,000 lower, arising mainly as a result of the foreign exchange loss on bank deposits denominated in S\$. If S\$ had strengthened 10 per cent against HK\$ with all other variables held constant, consolidated profits after tax for the year would have been approximately HK\$3,998,000 higher, arising mainly as a result of the foreign exchange gain on bank deposits denominated in S\$.

At 31 March 2011, if S\$ had weakened 10 per cent against HK\$ with all other variables held constant, consolidated profits after tax for the year would have been approximately HK\$4,128,000 lower, arising mainly as a result of the foreign exchange loss on bank deposits denominated in S\$. If S\$ had strengthened 10 per cent against HK\$ with all other variables held constant, consolidated profits after tax for the year would have been approximately HK\$4,128,000 higher, arising mainly as a result of the foreign exchange gain on bank deposits denominated in S\$.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

(b) Credit risk

The Target Group's maximum exposure to credit risk in the event that counterparties fail to perform their obligations at the end of each reporting period in relation to each class of recognised financial assets is the carrying amounts of those assets as included in the consolidated statement of financial position. The Target Group's credit risk is primarily attributable to its deposits with banks and trade receivables. The Target Group has credit policies in place and the exposures to these credit risks are monitored on an ongoing basis.

The credit risk on deposits with banks is limited as the counterparties are reputable banks with sound credit ratings.

Sales to customers are made in cash or via credit cards. The credit risk on trade receivables is limited as the counterparties are reputable banks with sound credit ratings.

(c) Liquidity risk

The Target Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

As at 31 March 2009, 2010 and 2011, the maturity of the Target Company's financial liabilities is less than one year.

The maturity analysis of the Target Group's financial liabilities is as follows:

	Less than 1 year HK\$'000	Between 1 and 2 years HK\$'000	Between 2 and 5 years HK\$'000	Over 5 years HK\$'000
At 31 March 2011				
Finance lease payables	24	24	23	–
Trade and other payables, deposits received and accrued expenses	13,345	–	–	–
Amount due to a director	835	–	–	–
Amount due to ultimate controlling party	5	–	–	–
	<u>24</u>	<u>24</u>	<u>23</u>	<u>–</u>
At 31 March 2010				
Finance lease payables	22	22	44	–
Trade and other payables, deposits received and accrued expenses	12,034	–	–	–
Amount due to a director	835	–	–	–
Amount due to ultimate controlling party	5	–	–	–
	<u>22</u>	<u>22</u>	<u>44</u>	<u>–</u>
At 31 March 2009				
Finance lease payables	20	20	59	–
Trade and other payables, deposits received and accrued expenses	18,072	–	–	–
Amount due to a director	835	–	–	–
Amount due to ultimate controlling party	2	–	–	–
	<u>20</u>	<u>20</u>	<u>59</u>	<u>–</u>

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

(d) **Interest rate risk**

As the Target Group has no significant interest bearing assets and liabilities, the Target Group's operating cash flows are substantially independent of changes in market interest rates.

(e) **Categories of financial instruments**

	Target Group As at 31 March			Target Company As at 31 March		
	2009	2010	2011	2009	2010	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Financial assets:						
Loans and receivables (including cash and cash equivalents)	<u>115,905</u>	<u>145,505</u>	<u>206,106</u>	<u>–</u>	<u>–</u>	<u>42,958</u>
Financial liabilities:						
Financial liabilities at amortised cost	<u>18,909</u>	<u>12,874</u>	<u>14,185</u>	<u>2,275</u>	<u>2,879</u>	<u>3,115</u>

(f) **Fair values**

The carrying amounts of the Target Group's financial assets and financial liabilities as reflected in the consolidated statements of financial position approximate their respective fair values.

6. SEGMENT INFORMATION

The Target 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 Target 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 note 3 to the Financial Information. Segment profits or losses do not include other income, interest income, unallocated costs, which comprise corporate administrative expenses, and income tax credit or expense. Segment assets do not include current tax assets and deferred tax assets. Segment liabilities do not include current tax liabilities, amount due to a director, amount due to ultimate controlling party and amounts due to related companies.

The Target Group accounts for intersegment sales and transfers as if the sales or transfers were to third parties, i.e. at current market prices.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

Information about reportable segment profit or loss, assets and liabilities:

	Beauty and wellness services <i>HK\$'000</i>	Skincare and wellness products <i>HK\$'000</i>	Total <i>HK\$'000</i>
Year ended 31 March 2009			
Revenue from external customers	56,443	7,446	63,889
Inter-segment revenue	–	3,138	3,138
Segment loss	(25,046)	(2,734)	(27,780)
<i>Other segment information:</i>			
Additions to non-current assets	5,784	–	5,784
Depreciation	4,318	–	4,318
As at 31 March 2009			
Segment assets	131,467	441	131,908
Segment liabilities	<u>150,205</u>	<u>543</u>	<u>150,748</u>
Year ended 31 March 2010			
Revenue from external customers	114,348	8,144	122,492
Inter-segment revenue	–	2,252	2,252
Segment profit	49,003	3,797	52,800
<i>Other segment information:</i>			
Additions to non-current assets	3,617	–	3,617
Depreciation	4,314	–	4,314
As at 31 March 2010			
Segment assets	159,823	341	160,164
Segment liabilities	<u>150,136</u>	<u>396</u>	<u>150,532</u>
Year ended 31 March 2011			
Revenue from external customers	126,353	6,647	133,000
Inter-segment revenue	–	3,215	3,215
Segment profit	55,761	3,225	58,986
<i>Other segment information:</i>			
Additions to non-current assets	2,589	–	2,589
Depreciation	5,401	–	5,401
As at 31 March 2011			
Segment assets	218,140	198	218,338
Segment liabilities	<u>167,117</u>	<u>217</u>	<u>167,334</u>

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Reconciliations of reportable segment profit or loss, assets and liabilities:

	2009 HK\$'000	2010 HK\$'000	2011 HK\$'000
Profit or loss:			
Total (loss)/profit of reportable segments	(27,780)	52,800	58,986
Other income	571	1,684	4,426
Interest income	504	140	192
Corporate administrative expenses	(6,053)	(8,214)	(7,924)
Income tax credit/(expense)	4,750	(8,260)	(10,392)
	<u> </u>	<u> </u>	<u> </u>
Consolidated (loss)/profit for the year	<u>(28,008)</u>	<u>38,150</u>	<u>45,288</u>
Assets:			
Total assets of reportable segments	131,908	160,164	218,338
Deferred tax assets	3,857	2,831	3,938
Current tax assets	275	–	4,940
	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>136,040</u>	<u>162,995</u>	<u>227,216</u>
Liabilities:			
Total liabilities of reportable segments	150,748	150,532	167,334
Amount due to a director	835	835	835
Amount due to ultimate controlling party	2	5	5
Amounts due to related companies	7,406	–	–
Current tax liabilities	24	3,327	10,308
	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>159,015</u>	<u>154,699</u>	<u>178,482</u>
Other information:			
Total additions to non-current assets of reportable segments	<u>5,784</u>	<u>3,617</u>	<u>2,589</u>
	<u> </u>	<u> </u>	<u> </u>
Total depreciation of reportable segments	<u>4,318</u>	<u>4,314</u>	<u>5,401</u>
	<u> </u>	<u> </u>	<u> </u>

Geographical information:

	Revenue Year ended 31 March			Non-current assets As at 31 March		
	2009 HK\$'000	2010 HK\$'000	2011 HK\$'000	2009 HK\$'000	2010 HK\$'000	2011 HK\$'000
Singapore	49,806	108,261	119,648	9,742	10,197	8,909
Malaysia	12,620	12,842	12,861	1,660	1,193	741
Hong Kong	1,463	1,389	491	–	–	–
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Consolidated total	<u>63,889</u>	<u>122,492</u>	<u>133,000</u>	<u>11,402</u>	<u>11,390</u>	<u>9,650</u>

In presenting the geographical information, revenue is based on the locations of the customers and non-current assets do not include deferred tax assets.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

7. TURNOVER

	Year ended 31 March		
	2009	2010	2011
	HK\$'000	HK\$'000	HK\$'000
Revenue from provision of beauty and wellness services and expiry of prepaid beauty packages	56,443	114,348	126,353
Sales of skincare and wellness products	7,446	8,144	6,647
	<u>63,889</u>	<u>122,492</u>	<u>133,000</u>

8. OTHER INCOME

	Year ended 31 March		
	2009	2010	2011
	HK\$'000	HK\$'000	HK\$'000
Government grant income from Jobs Credit Scheme	471	1,116	97
Foreign exchange gains, net	–	117	4,229
Others	100	451	100
	<u>571</u>	<u>1,684</u>	<u>4,426</u>

9. EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTOR'S EMOLUMENTS)

	Year ended 31 March		
	2009	2010	2011
	HK\$'000	HK\$'000	HK\$'000
Wages and salaries	42,020	33,762	41,238
Retirement benefit scheme contributions	4,741	3,410	4,029
	<u>46,761</u>	<u>37,172</u>	<u>45,267</u>

10. FINANCE COSTS

	Year ended 31 March		
	2009	2010	2011
	HK\$'000	HK\$'000	HK\$'000
Finance leases charges	4	4	3
	<u>4</u>	<u>4</u>	<u>3</u>

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

11. INCOME TAX (CREDIT)/EXPENSE

	Year ended 31 March		
	2009	2010	2011
	HK\$'000	HK\$'000	HK\$'000
Current tax – Overseas			
Provision for the year	85	6,933	11,256
Over-provision in prior years	–	–	(29)
	<u>85</u>	<u>6,933</u>	<u>11,227</u>
Deferred tax (<i>Note 16</i>)	(4,835)	1,327	(835)
	<u>(4,750)</u>	<u>8,260</u>	<u>10,392</u>

No provision for Hong Kong Profits Tax is required since the Target Group did not generate any assessable profits arising in Hong Kong during the Relevant Periods.

During the Relevant Periods, tax charge on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Target Group operates, based on existing legislation, interpretation and practices in respect thereof.

The reconciliation between the income tax (credit)/expense and the product of (loss)/profit before tax multiplied by the Hong Kong Profits Tax rate of the Target Group is as follows:

	Year ended 31 March		
	2009	2010	2011
	HK\$'000	HK\$'000	HK\$'000
(Loss)/profit before tax	(32,758)	46,410	55,680
Tax at the domestic tax rate of 16.5%	(5,405)	7,658	9,187
Tax effect of tax exemption	(57)	(256)	(274)
Tax effect of income that is not taxable	(1,341)	(1,272)	(601)
Tax effect of expenses that are not deductible	2,515	1,925	1,440
Tax effect of temporary differences not recognised	80	83	83
Tax effect of utilisation of tax losses not previously recognised	(738)	–	(26)
Tax effect of tax losses not recognised	83	37	–
Tax effect of tax losses previously recognised and reversed	–	(557)	–
Effect of different tax rate of subsidiaries	113	642	612
Over-provision in prior years	–	–	(29)
	<u>(4,750)</u>	<u>8,260</u>	<u>10,392</u>
Income tax (credit)/expense	<u>(4,750)</u>	<u>8,260</u>	<u>10,392</u>

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

12. (LOSS)/PROFIT FOR THE YEAR

The Target Group's (loss)/profit for the year is stated after charging the following:

	Year ended 31 March		
	2009 HK\$'000	2010 HK\$'000	2011 HK\$'000
Auditors' remuneration	135	285	407
Depreciation	4,318	4,314	5,401
Director's emoluments			
– As director	–	–	–
– For management	11	42	42
	11	42	42
Impairment loss on amounts due from related companies	–	3,179	375
Loss on disposals of property, plant and equipment	1,078	318	–
	1,078	318	–

13. DIVIDENDS

	Year ended 31 March		
	2009 HK\$'000	2010 HK\$'000	2011 HK\$'000
Special dividends paid (<i>Note 27</i>)	10,186	–	–
Proposed final dividend of HK\$41,000,000 per ordinary share	–	–	41,000
	10,186	–	41,000

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

14. PROPERTY, PLANT AND EQUIPMENT

Target Group

	Leasehold improvements <i>HK\$'000</i>	Equipment and machinery <i>HK\$'000</i>	Furniture and fixtures <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Computers <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost						
At 1 April 2008	6,281	9,167	2,712	394	356	18,910
Additions	3,797	1,237	669	–	81	5,784
Disposals/write off	(1,265)	(442)	(694)	–	–	(2,401)
Exchange differences	(790)	(947)	(264)	(42)	(43)	(2,086)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31 March 2009 and 1 April 2009	8,023	9,015	2,423	352	394	20,207
Additions	3,318	94	157	–	48	3,617
Disposals/write off	(545)	(18)	(187)	–	–	(750)
Exchange differences	817	577	167	27	31	1,619
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31 March 2010 and 1 April 2010	11,613	9,668	2,560	379	473	24,693
Additions	1,155	1,326	100	–	8	2,589
Exchange differences	1,132	567	172	19	21	1,911
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31 March 2011	<u>13,900</u>	<u>11,561</u>	<u>2,832</u>	<u>398</u>	<u>502</u>	<u>29,193</u>
Accumulated depreciation						
At 1 April 2008	2,039	3,186	879	123	307	6,534
Charge for the year	1,633	1,901	601	75	108	4,318
Disposals/write off	(641)	(224)	(360)	–	–	(1,225)
Exchange differences	(269)	(399)	(98)	(17)	(39)	(822)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31 March 2009 and 1 April 2009	2,762	4,464	1,022	181	376	8,805
Charge for the year	1,845	1,884	480	74	31	4,314
Disposals/write off	(318)	(4)	(110)	–	–	(432)
Exchange differences	266	250	60	13	27	616
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31 March 2010 and 1 April 2010	4,555	6,594	1,452	268	434	13,303
Charge for the year	2,517	2,205	553	80	46	5,401
Exchange differences	445	281	80	13	20	839
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31 March 2011	<u>7,517</u>	<u>9,080</u>	<u>2,085</u>	<u>361</u>	<u>500</u>	<u>19,543</u>
Carrying amount						
At 31 March 2009	<u>5,261</u>	<u>4,551</u>	<u>1,401</u>	<u>171</u>	<u>18</u>	<u>11,402</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31 March 2010	<u>7,058</u>	<u>3,074</u>	<u>1,108</u>	<u>111</u>	<u>39</u>	<u>11,390</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31 March 2011	<u>6,383</u>	<u>2,481</u>	<u>747</u>	<u>37</u>	<u>2</u>	<u>9,650</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

As at 31 March 2009, 2010 and 2011, the carrying amount of motor vehicles held by the Target Group under finance leases amounted to HK\$71,000, HK\$52,000 and HK\$27,000 respectively.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

15. INVESTMENT IN SUBSIDIARIES

Target Company

	As at 31 March		
	2009 HK\$'000	2010 HK\$'000	2011 HK\$'000
Unlisted investments, at cost	2,273	2,868	2,868
Less: Impairment losses	—	(835)	(835)
	<u>2,273</u>	<u>2,033</u>	<u>2,033</u>

The amounts due from/to subsidiaries are unsecured, interest free and repayable on demand.

The following is a list of subsidiaries of the Target Company during the Relevant Periods:

Name	Place of incorporation/ establishment	Issued and paid up capital	Percentage of ownership interest held by the Target Company			Principal activities and place of operation
			2009	2010	2011	
MBSS	Singapore	150,000 ordinary shares of S\$1 each	100%	100%	100%	Provision of beauty and wellness services, Singapore
Lucky Marketing	Singapore	100,000 ordinary shares of S\$1 each	100%	100%	100%	Provision of beauty consultancy, marketing and management services, Singapore
Splendid	Singapore	150,000 ordinary shares of S\$1 each	100%	100%	100%	Provision of beauty and wellness services, Singapore
Zegna International	Singapore	10 ordinary shares of S\$1 each	100%	100%	100%	Provision of beauty consultancy, marketing and management services, Singapore
Euro King	Hong Kong	1 ordinary share of HK\$1	100%	100%	100%	Trading of skincare and wellness products and equipments, Hong Kong
Beauclear	Malaysia	2009: 250,000 ordinary shares of RM1 each 2010: 500,000 ordinary shares of RM1 each 2011: 500,000 ordinary shares of RM1 each	100%	100%	100%	Provision of beauty and wellness services and sales of skincare and wellness products, Malaysia

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

16. DEFERRED TAX

The following are the major deferred tax assets and liabilities recognised by the Target Group.

Target Group

	Accelerated tax depreciation <i>HK\$'000</i>	Deferred revenue <i>HK\$'000</i>	Tax losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 2008	(823)	–	–	(823)
Credit to profit or loss for the year (Note 11)	(757)	–	5,592	4,835
Exchange differences	115	–	(270)	(155)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31 March 2009 and 1 April 2009	(1,465)	–	5,322	3,857
Charge to profit or loss for the year (Note 11)	1,465	2,736	(5,528)	(1,327)
Exchange differences	(59)	154	206	301
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31 March 2010 and 1 April 2010	(59)	2,890	–	2,831
Credit to profit or loss for the year (Note 11)	15	820	–	835
Exchange differences	(4)	276	–	272
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31 March 2011	<u> </u> <u> </u>	<u> </u> <u> </u>	<u> </u> <u> </u>	<u> </u> <u> </u>

As at 31 March 2009, 2010 and 2011, the Target Group had the following unused tax losses available for offset against future profits.

Target Group

	As at 31 March		
	2009 <i>HK\$'000</i>	2010 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Recognised tax losses	31,302	–	–
Unrecognised tax losses (Note)	1,293	1,516	1,361
	<u> </u>	<u> </u>	<u> </u>
	<u> </u> <u> </u>	<u> </u> <u> </u>	<u> </u> <u> </u>

Note: Deferred tax assets have not been recognised in respect of these unused tax losses due to the unpredictability of future profit streams. The unrecognised tax losses may be carried forward indefinitely.

17. INVENTORIES

As at 31 March 2009, 2010 and 2011, inventories of the Target Group represented finished goods.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

18. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

Target Group

	As at 31 March		
	2009	2010	2011
	HK\$'000	HK\$'000	HK\$'000
Trade receivables	1,805	1,855	1,373
Trade deposits retained by bank (Note)	–	–	1,544
Rental and other deposits, prepayments and other receivables	7,689	7,446	5,366
Amounts due from related companies (Note 30(b))	212	1,553	1,197
	<u>9,706</u>	<u>10,854</u>	<u>9,480</u>

Note: As at 31 March 2011 trade deposits represented receivables that were retained by the bank in reserve accounts to secure the Target Group's performance of services for whom paid for the services by the banks' credit cards, in accordance with the merchant agreements entered into between the Target Group and the bank.

The Target Group's turnover comprises mainly cash and credit card sales. During the Relevant Periods, the credit terms with banks/credit card companies are within 60 days from the date of billings.

An ageing analysis of trade receivables, based on the billing date, is as follows:

Target Group

	As at 31 March		
	2009	2010	2011
	HK\$'000	HK\$'000	HK\$'000
0 – 30 days	1,158	1,277	1,171
31 – 60 days	647	95	202
61 – 90 days	–	28	–
91 –150 days	–	455	–
	<u>1,805</u>	<u>1,855</u>	<u>1,373</u>

As of 31 March 2010, trade receivables of approximately HK\$483,000 were past due but not impaired. These balances relate to banks/credit card companies for whom there are no recent history of default, all of which had been subsequently settled. The ageing analysis of these trade receivables, based on due date, is as follows:

Target Group

	As at 31 March		
	2009	2010	2011
	HK\$'000	HK\$'000	HK\$'000
0 – 30 days	–	28	–
31 – 60 days	–	455	–
	<u>–</u>	<u>483</u>	<u>–</u>

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

The carrying amounts of the Target Group's trade receivables are denominated in the following currencies:

Target Group

	As at 31 March		
	2009	2010	2011
	HK\$'000	HK\$'000	HK\$'000
S\$	1,641	1,420	814
RM	164	435	559
	<u>1,805</u>	<u>1,855</u>	<u>1,373</u>

19. PLEDGED BANK DEPOSITS

The Target Group's pledged bank deposits represented deposits pledged to banks to secure banking facilities granted to the Target Group. The deposits are in HK\$ and S\$ and at floating interest rate of 0.125% to 2.825%, 0.01% to 0.125% and 0.01% to 0.1% per annum in 2009, 2010 and 2011 respectively and therefore are subject to foreign currency risk and cash flow interest rate risk.

The carrying amounts of the Target Group's pledged bank deposits as at 31 March 2009, 2010 and 2011 are denominated in the following currencies:

Target Group

	As at 31 March		
	2009	2010	2011
	HK\$'000	HK\$'000	HK\$'000
HK\$	21,885	10,000	10,003
S\$	1,136	–	–
	<u>23,021</u>	<u>10,000</u>	<u>10,003</u>

20. CASH AND CASH EQUIVALENTS

For the purposes of the consolidated statements of cash flows, the consolidated cash and cash equivalents comprise the following:

Target Group

	As at 31 March		
	2009	2010	2011
	HK\$'000	HK\$'000	HK\$'000
Cash at bank and cash in hand	66,966	117,449	178,628
Short-term bank deposits	16,212	7,202	7,995
	<u>83,178</u>	<u>124,651</u>	<u>186,623</u>

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

The carrying amounts of the Target Group's cash and cash equivalents are denominated in the following currencies:

Target Group

	As at 31 March		
	2009	2010	2011
	HK\$'000	HK\$'000	HK\$'000
HK\$	10,571	22,363	19,010
S\$	63,160	88,407	148,402
RM	9,447	13,881	19,211
	83,178	124,651	186,623
	83,178	124,651	186,623

21. SHARE CAPITAL

Target Group and Target Company

HK\$

Authorised:

10,000 ordinary shares of HK\$1 each

At 20 October 2008 (date of incorporation), 31 March 2009,
31 March 2010 and 31 March 2011

10,000

Issued and fully paid:

1 ordinary share of HK\$1

At 20 October 2008 (date of incorporation), 31 March 2009,
31 March 2010 and 31 March 2011

1

The Target Company was incorporated on 20 October 2008 with an authorised share capital of HK\$10,000 divided into 10,000 ordinary shares of HK\$1 each. At the time of incorporation, one ordinary share of the Target Company was allotted and issued to the subscriber.

The Target Company's objectives when managing capital are to safeguard the Target Company's ability to continue as a going concern in order to maximise the returns for shareholder and benefits for other stakeholders and to maintain an optimal capital structure to reduce cost of capital.

In order to maintain or adjust the capital structure, the Target Company may adjust the amount of dividends paid to shareholder, return capital to shareholder, issue new shares or sell assets to reduce debts.

22. RESERVES

(a) Target Group

The amounts of the Target Group's reserves and movements therein are presented in the consolidated statement of comprehensive income and consolidated statement of changes in equity.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

(b) Target Company

	(Accumulated losses)/ retained profits HK\$'000
At 20 October 2008 (date of incorporation)	–
Loss for the period	(2)
At 31 March 2009 and 1 April 2009	(2)
Loss for the year	(844)
At 31 March 2010 and 1 April 2010	(846)
Profit for the year	42,722
At 31 March 2011	41,876

(c) Nature and purpose of reserves

(i) Merger reserve

The merger reserve arose from the business combination involving entities under common control. As at 31 March 2009, 2010 and 2011, the balance of HK\$549,000 represents the difference between the aggregated amount of share capital of the Acquired Companies and investments in subsidiaries of the Target Company.

(ii) Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 3(c)(iii) to the Financial Information.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

23. FINANCE LEASE PAYABLES

	Target Group					
	Minimum lease payments			Present value of minimum lease payments		
	2009	2010	2011	2009	2010	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within one year	20	22	24	16	18	20
In the second to fifth years, inclusive	79	66	47	64	53	37
	99	88	71	80	71	57
Less: Future finance charges	(19)	(17)	(14)	N/A	N/A	N/A
Present value of lease obligations	80	71	57	80	71	57
Less: Amount due for settlement within 12 months (shown under current liabilities)				(16)	(18)	(20)
Amount due for settlement after 12 months				64	53	37

It is the Target Group's policy to lease certain of its motor vehicles under finance leases. The average lease term is 7 years. During the Relevant Periods, the average effective borrowing rate was 6.39%. Interest rates are fixed at the contract dates and thus expose the Target Group to fair value interest rate risk. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

All finance lease payables are denominated in RM.

The finance lease payables of the Target Group are secured by the lessor's title to the leased assets.

24. TRADE AND OTHER PAYABLES, DEPOSITS RECEIVED AND ACCRUED EXPENSES

Target Group

	As at 31 March		
	2009	2010	2011
	HK\$'000	HK\$'000	HK\$'000
Trade payables	502	383	204
Other payables, deposits received and accrued expenses	8,011	11,651	13,117
Amounts due to related companies (Note 30(b))	9,559	–	24
	18,072	12,034	13,345

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

An ageing analysis of trade payables based on invoice date for the Relevant Periods are as follows:

Target Group

	As at 31 March		
	2009	2010	2011
	HK\$'000	HK\$'000	HK\$'000
0 to 90 days	502	383	198
91 to 180 days	—	—	6
	<u>502</u>	<u>383</u>	<u>204</u>

The carrying amounts of the Target Group's trade payables for the Relevant Periods are denominated in the following currencies:

Target Group

	As at 31 March		
	2009	2010	2011
	HK\$'000	HK\$'000	HK\$'000
HK\$	69	63	35
S\$	384	248	140
RM	49	72	29
	<u>502</u>	<u>383</u>	<u>204</u>

25. DEFERRED REVENUE

An ageing analysis of the deferred revenue for the Relevant Periods is as follows:

Target Group

	As at 31 March		
	2009	2010	2011
	HK\$'000	HK\$'000	HK\$'000
Within 1 year	85,782	79,387	94,928
More than 1 year but within 2 years	54,220	59,040	50,872
More than 2 years but within 3 years	—	—	8,132
	<u>140,002</u>	<u>138,427</u>	<u>153,932</u>

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

Movement of deferred revenue:

	2009	Target Group	2011
	<i>HK\$'000</i>	<i>2010</i>	<i>HK\$'000</i>
		<i>HK\$'000</i>	<i>HK\$'000</i>
At beginning of year	89,297	140,002	138,427
Gross receipts for sales of prepaid beauty packages	113,038	105,679	135,114
Revenue recognised for provision of beauty and wellness services and expiry of prepaid beauty packages	(56,443)	(114,348)	(126,353)
Exchange differences	(5,890)	7,094	6,744
	<u>140,002</u>	<u>138,427</u>	<u>153,932</u>

26. AMOUNT DUE TO A DIRECTOR / ULTIMATE CONTROLLING PARTY

The amounts due are unsecured, interest free and repayable on demand.

27. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Major non-cash transaction

On 10 December 2008, MBSS, a subsidiary of the Target Company declared a special dividend of S\$12.67 per ordinary share totaling S\$1,900,000 (approximately HK\$10,186,000) to JF Holding, a former holding company of MBSS. Dividends payable of HK\$10,186,000 was settled through the current account with JF Holding.

28. COMMITMENTS

Commitments under operating leases

At 31 March 2009, 2010 and 2011, the total future minimum lease payments under non-cancelable operating leases are payable as follows:

	2009	Target Group	2011
	<i>HK\$'000</i>	<i>2010</i>	<i>HK\$'000</i>
		<i>HK\$'000</i>	<i>HK\$'000</i>
Not later than one year	17,099	11,249	10,179
Later than one year and not later than five years	4,944	9,139	8,291
	<u>22,043</u>	<u>20,388</u>	<u>18,470</u>

Operating lease payments represent rentals payable by the Target Group for certain of its beauty service centres, offices, staff quarters and warehouses. Leases are negotiated for an average term of 3 years during the Relevant Periods and rentals are fixed over the lease terms and are based on the higher of a minimum guaranteed rental or a sales level based rental. The minimum guaranteed rental has been used to compute the above commitments.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

29. CONTINGENT LIABILITIES

During the course of business, the Target Group has received complaints and claims concerned with the provision of beauty services in respect of breach of contract, content of advertisement, tenancy dispute and personal injuries in relation to the services provided, including claims of insignificant or unspecified amounts. The director is of the opinion that such complaints and claims are remote and have no material financial impact to the Target Group.

30. RELATED PARTY BALANCES AND TRANSACTIONS

(a) Related party transactions

In addition to those related party transactions disclosed elsewhere in the Financial Information, the Target Group had the following material transactions with its related parties during the Relevant Periods:

	2009	Target Group 2010	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
(i) Goods purchased from related companies			
– Beauty Expert (Logistics) Limited	882	605	807
– Most Glory Limited	1,429	426	–
	2,311	1,031	807
	2,311	1,031	807
(ii) Goods sold to related companies			
– Beauty Expert (Logistics) Limited	744	1,259	491
– Most Glory Limited	735	130	–
	1,479	1,389	491
	1,479	1,389	491

Note: The pricing of the related party transactions are mutually agreed by the Target Group and the related companies.

Ms. Tsang is the ultimate controlling party of the related companies.

(b) Balances with related parties

The amounts due from/to related companies are unsecured, interest free and repayable on demand.

Ms. Tsang is the ultimate controlling party of the related companies.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

Amounts due from related companies disclosed pursuant to section 161B of the Hong Kong Companies Ordinance are as follows:

Target Group

	Balance as 31 March		
	2009 HK\$'000	2010 HK\$'000	2011 HK\$'000
Beauty Expert (Logistics) Limited	–	1	–
CC1(S) Pte. Limited	200	–	–
CC2(S) Pte. Limited (“CC2”)*	–	333	–
Chief Lead Group Limited	6	12	–
JF Holding**	–	–	–
Kin Yue Biomedical Technology Wellness Centre (S) Pte. Limited	–	–	14
Most Glory Limited	–	1,195	1,183
Rising Gain Management Limited	6	12	–
	<u>212</u>	<u>1,553</u>	<u>1,197</u>

* Amount due from CC2 as at 31 March 2011 is stated after an allowance for impairment loss of HK\$375,000.

** Amount due from JF Holding as at 31 March 2010 is stated after an allowance for impairment loss of HK\$3,179,000.

The maximum outstanding balance of amounts due from related companies for the Relevant Periods is as follows:

Target Group

	Maximum balance outstanding during the year		
	2009 HK\$'000	2010 HK\$'000	2011 HK\$'000
Beauty Expert (Logistics) Limited	–	495	1
CC1(S) Pte. Limited	200	200	–
CC2	–	478	375
Chief Lead Group Limited	6	12	12
JF Holding	64,130	3,179	–
Kin Yue Biomedical Technology Wellness Centre (S) Pte. Limited	–	–	14
Most Glory Limited	–	1,420	1,433
Rising Gain Management Limited	6	12	12
	<u>64,342</u>	<u>3,688</u>	<u>1,837</u>

(c) Key management compensation

Target Group

	Year ended 31 March		
	2009 HK\$'000	2010 HK\$'000	2011 HK\$'000
Salaries and allowances	<u>11</u>	<u>42</u>	<u>42</u>

31. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target Company or any of its subsidiaries in respect of any period subsequent to 31 March 2011.

Yours faithfully,
RSM Nelson Wheeler
Certified Public Accountants
Hong Kong

A. UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP

The accompanying unaudited pro forma statement of assets and liabilities of the Enlarged Group (the “Statement”) has been prepared to illustrate the effect of the acquisition of the Target Company (the “Acquisition”), assuming the Acquisition had been completed as at 31 March 2011, might have affected the financial position of the Group.

The Statement is prepared based on the audited consolidated statement of financial position of the Group as at 31 March 2011 as extracted from the annual report of the Company for the year ended 31 March 2011 and the audited consolidated statement of financial position of the Target Group as at 31 March 2011 as extracted from the Accountants’ Report set out in Appendix II of the Circular after making certain proforma adjustments resulting from the Acquisition.

The Statement is prepared based on a number of assumptions, estimates, uncertainties and currently available information, and is provided for illustrative purposes only. Accordingly, as a result of the nature of the Statement, it may not give a true picture of the actual financial position of the Enlarged Group that would have been attained had the Acquisition actually occurred on 31 March 2011. Furthermore, the Statement does not purport to predict the Enlarged Group’s future financial position.

The Statement should be read in conjunction with the financial information of the Group as set out in the annual report of the Company for the year ended 31 March 2011, the financial information of the Target Group as set out in Appendix II of the Circular and other financial information included elsewhere in this Circular.

APPENDIX III
**UNAUDITED PRO FORMA FINANCIAL
INFORMATION OF THE ENLARGED GROUP**
**B. UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES OF THE
ENLARGED GROUP AS AT 31 MARCH 2011**

	The Group HK\$'000	The Target Group HK\$'000	Subtotal HK\$'000	Pro forma adjustments HK\$'000	Notes	The Enlarged Group HK\$'000
ASSETS						
Non-current assets						
Property, plant and equipment	50,588	9,650	60,238			60,238
Investment properties	175,400	–	175,400			175,400
Investment in a subsidiary	–	–	–	250,000 (250,000)	(i) (ii)	–
Trade and other receivables, deposits and prepayments	18,494	–	18,494			18,494
Deferred tax assets	18,744	3,938	22,682			22,682
	<u>263,226</u>	<u>13,588</u>	<u>276,814</u>			<u>276,814</u>
Current assets						
Inventories	9,418	2,582	12,000	(771)	(iv)	11,229
Trade and other receivables, deposits and prepayments	167,984	9,480	177,464	(18) (1,456)	(iii) (iv)	175,990
Amount due from a related company	–	–	–	67,449 (70,000) 2,551	(iv) (v) (viii)	–
Current tax assets	3,085	4,940	8,025			8,025
Pledged bank deposits	7,160	10,003	17,163	(10,003)	(iv)	7,160
Cash and cash equivalents	323,164	186,623	509,787	(60,292) (41,000)	(iv) (vi)	408,495
	<u>510,811</u>	<u>213,628</u>	<u>724,439</u>			<u>610,899</u>
Total assets	<u>774,037</u>	<u>227,216</u>	<u>1,001,253</u>			<u>887,713</u>

APPENDIX III
**UNAUDITED PRO FORMA FINANCIAL
INFORMATION OF THE ENLARGED GROUP**

	The Group HK\$'000	The Target Group HK\$'000	Subtotal HK\$'000	Pro forma adjustments HK\$'000	Notes	The Enlarged Group HK\$'000
LIABILITIES						
Non-current liabilities						
Liability component of convertible notes	-	-	-	14,636	(i)	14,636
Finance lease payables	-	37	37			37
	-	37	37			14,673
Current liabilities						
Trade and other payables, deposits received and accrued expenses	53,233	13,345	66,578	(18) (71) 3,076 3,386	(iii) (iv) (vii) (viii)	72,951
Deferred revenue	413,695	153,932	567,627			567,627
Amount due to a director	-	835	835	(835)	(viii)	-
Amount due to ultimate controlling party	-	5	5	(3)	(iv)	2
Finance lease payables	-	20	20			20
Liability component of convertible notes	-	-	-	5,000	(i)	5,000
Current tax liabilities	2,826	10,308	13,134			13,134
	469,754	178,445	648,199			658,734
Total liabilities	469,754	178,482	648,236			673,407
Net current assets/(liabilities)	41,057	35,183	76,240			(47,835)
Total assets less current liabilities	304,283	48,771	353,054			228,979
Net assets	304,283	48,734	353,017			214,306

C. NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP

- (i) The adjustment reflects, pursuant to the Sale and Purchase Agreement (the “S&P”) dated 5 July 2011, the consideration of the Acquisition amounting to HK\$250,000,000 to be satisfied by the issuance of the Convertible Note (the “CN”) to the vendor. The principal amount of the CN is HK\$250,000,000 (the “Principal”), bears interest at 2% per annum with a maturity of five years from the issue date and is convertible into ordinary shares of the Company at HK\$1.05 each. The Company has no obligation to repay the Principal.

In accordance with Hong Kong Accounting Standard 39 “Financial Instruments: Recognition and Measurement” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”), the CN contains two elements, liability component and equity component, as the conversion will be settled by the exchange for a fixed number of the Company’s own equity instruments at a fixed conversion price. The liability component and equity component of the CN are determined as if the Acquisition and the issuance of the CN had taken place on 31 March 2011; and the impact of relevant issuing cost is not significant. For the purpose of compiling this Statement, the fair values of the liability component of approximately HK\$14,636,000 and HK\$5,000,000 included in the non-current and current liabilities respectively, representing coupon interest payables, were calculated by using the effective interest method with an effective interest rate of 8.63%, being the weighted average cost of capital of the Company sourced from Bloomberg. The residual amount of approximately HK\$230,364,000, representing the value of equity component, is included in the reserve of the Company.

On completion of the Acquisition, the values of liability component and equity component of the CN will have to be reassessed. As a result of reassessment, their respective values may be different from the estimated amounts as shown above.

- (ii) The Acquisition is accounted for as a business combination under common control in accordance with Accounting Guideline 5 “Merger Accounting for Common Control Combinations” issued by the HKICPA as the Group and the Target Group are under the common control of Ms. Tsang Yue, Joyce (“Ms. Tsang”) before and after the Acquisition. The adjustment represents the recognition of merger reserve of HK\$249,999,999 arising from the elimination of the cost of Acquisition amounting to HK\$250,000,000 and the entire share capital of the Target Company of HK\$1.
- (iii) The adjustment represents the elimination of inter-company balances between the Group and the Target Group as at 31 March 2011.

- (iv) Pursuant to the Supplemental Sales and Purchase Agreement (the “Supplemental S&P”) dated 30 September 2011, Euro King Limited (“Euro King”), a subsidiary of the Target Company, shall be excluded from the Target Group for the purpose of the Acquisitions and disposed to Ms. Tsang or her nominee at nil consideration before the completion of the Acquisition. The adjustment reflects the disposal of assets and liabilities of Euro King as at 31 March 2011 as if the Acquisition had taken place and completed on 31 March 2011.
- (v) The adjustment represents the waiver of amount due from Euro King of HK\$70,000,000 to the Target Group after the disposal of Euro King as mentioned in note (iv) above, pursuant to the Supplemental S&P.
- (vi) The adjustment reflects proposed final dividends of HK\$41,000,000 of the Target Company for the year ended 31 March 2011 paid to the shareholder of the Target Company before the Acquisition.
- (vii) The adjustment represents the accrual of estimated legal and professional fees in relation to the Acquisition of approximately HK\$3,076,000.
- (viii) The adjustment represents reclassifications of accounts of the Target Group in conformity with the presentation of the Group.

**D. ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL
INFORMATION OF THE ENLARGED GROUP**

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, from the independent reporting accountants, RSM Nelson Wheeler, Certified Public Accountants, Hong Kong.

RSM Nelson Wheeler
中瑞岳華(香港)會計師事務所
Certified Public Accountants

29th Floor,
Caroline Centre,
Lee Gardens Two,
28 Yun Ping Road,
Hong Kong

30 September 2011

The Board of Directors
Modern Beauty Salon Holdings Limited

Dear Sirs,

We report on the unaudited pro forma statement of assets and liabilities (the "Statement") of Modern Beauty Salon Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), which has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the proposed acquisition of the 100% equity interest in Zegna Management Limited might have affected the assets and liabilities of the Group presented, for inclusion in Appendix III to the circular of the Company dated 30 September 2011 (the "Circular"). The basis of preparation of the Statement is set out on page III-1 to III-5 to the Circular.

Respective Responsibilities of Directors of the Company and Reporting Accountants

It is the responsibility solely of the directors of the Company to prepare the Statement in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the Statement and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Statement beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 “Accountants’ Reports on Pro Forma Financial Information in Investment Circulars” issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the Statement with the directors of the Company. The engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Statement has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Statement as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

The Statement is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Group as at 31 March 2011 or any future date.

Opinion

In our opinion:

- (a) the Statement has been properly compiled by the directors of the Company on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Statement as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Yours faithfully,
RSM Nelson Wheeler
Certified Public Accountants
Hong Kong

The following is the text of a report for the purpose of inclusion in this circular from Greater China Appraisal Limited:

GREATER CHINA APPRAISAL LIMITED
漢華評值有限公司

Room 2703-08
Shui On Centre
6-8 Harbour Road
Wanchai
Hong Kong

30 September 2011

The Board of Directors
Modern Beauty Salon Holdings Limited
6/F, Sino Industrial Plaza
9 Kai Cheung Road
Kowloon Bay
Kowloon
Hong Kong

Dear Sirs/Madams,

**RE: BUSINESS VALUATION OF ZEGNA MANAGEMENT LIMITED AND
ITS SUBSIDIARIES EXCLUDING EURO KING LIMITED**

At your request, we were engaged to assist you in the valuation analysis pertaining to the fair value of 100% equity interest of Zegna Management Limited (the "Target Company") and its subsidiaries excluding Euro King Limited (together referred to as the "Target Group") as of 31 August 2011 (the "Valuation Date").

It is our understanding that our analysis will be used by the management of Modern Beauty Salon Holdings Limited (the "Company") for investment purpose only, details of which are set out in the circular dated 30 September 2011 issued by the Company to the shareholders (the "Circular"), of which this valuation report forms part. Unless otherwise stated, terms used in this valuation report have the same meanings as those defined in the Circular. Our analysis was conducted for the above mentioned purpose only and this report should be used for no other purposes. The standard of value is fair value; while the premise of value is going concern.

The approaches and methodologies used in our work did not comprise an examination in accordance with generally accepted accounting principles, the objective of which is an expression of an opinion regarding the fair presentation of financial statements or other financial information, whether historical or prospective, presented in accordance with generally accepted accounting principles.

We express no opinion and accept no responsibility for the accuracy and completeness of the financial information or other data provided to us by others. We assume that the financial and other information provided to us is accurate and complete, and we have relied upon this information in performing our valuation.

PURPOSE OF ENGAGEMENT

As aforementioned, the purpose of this particular engagement is to provide the management of the Company a reference for investment purpose only in determination of the 100% equity interest of the Target Group as of the Valuation Date.

The premise of value is Going Concern, defined as:

“an ongoing and operating business enterprise”

Going Concern value is defined as:

“the value of a business enterprise that is expected to operate into the future. The intangible elements of Going Concern Value result from factors such as having a trained workforce, an operational plant, and the necessary licenses, systems, and procedures in place”.

BASIS OF VALUATION

We have valued the equity interest of the Target Group on the basis of fair value.

Fair Value

According to Hong Kong Financial Reporting Standard, fair value is the amount for which an asset could be exchanged, or a fair value liability settled, between knowledgeable and willing parties in an arm’s length transaction.

For the purpose of this valuation, the term fair value is similar and/or interchangeable with the valuation standards or definitions below and will be used throughout this valuation report.

Market Value

According to The Hong Kong Business Valuation Forum – Business Valuation Standards, market value is defined as the estimated amount for which an asset (a property) should exchange on the date of valuation between a willing buyer and willing seller in an arm’s length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion.

Fair Market Value

The International Valuation Glossary defines fair market value as the amount at which property would change hands between a willing buyer and a willing seller, when the former is not under any compulsion to buy and the latter is not under any compulsion to sell, both parties having reasonable knowledge of relevant facts.

Our valuation has been prepared in accordance with the HKIS Valuation Standards on Trade-related Business Assets and Business Enterprise (First Edition 2004) published by the Hong Kong Institute of Surveyors and the Business Valuation Standards (First Printed 2005) published by the Hong Kong Business Valuation Forum. Both are generally accepted valuation standards followed by relevant professional practitioners in Hong Kong. These standards contain detailed guidelines on the basis and valuation approaches in valuing assets used in the operation of a trade or business and business enterprises.

LEVELS OF VALUE

Although valuation is a range concept, current valuation theory suggests that there are three basic “levels” of value applicable to a business or business interest. The levels of value are respectively:

- **Controlling interest:** the value of the enterprise as a whole, also known as enterprise value;
- **As if freely tradable minority interest:** the value of a minority interest, lacking control, but enjoying the benefit of market liquidity; and
- **Non-marketable minority interest:** the value of a minority interest, lacking both control and market liquidity.

This valuation is prepared on controlling and non-marketable interest basis.

PREMISE OF VALUE

Premise of value relates to the concept of valuing a subject in the manner in which it would generate the greatest return to the owner of the property, taking into account what is physically possible, financially feasible, and legal. Premises of value include the following:

- **Going concern:** appropriate when the business is expected to continue operating without the intention or threat of liquidation in the foreseeable future;
- **Orderly liquidation:** appropriate for a business that is clearly going to cease operations in the near future and is allowed sufficient time to sell its assets in the open market;
- **Forced liquidation:** appropriate when time or other constraints do not allow an orderly liquidation;
- **Assembled group of assets:** appropriate when all assets of a business are sold in the market piecemeal instead of the entire business itself.

This valuation is prepared on a going concern basis.

SCOPE OF SERVICES

We were engaged by the management of the Company to assist in their estimate of the fair value of equity interest of the Target Group as of the Valuation Date. Since the Company has confirmed that the operations of Euro King Limited (the “Hong Kong Subsidiary”) will be taken up by other members of the Company after the Completion. In our valuation of the Target Group, it is considered that it will be more prudent to exclude the financial results of the Hong Kong Subsidiary (which recorded a profit of approximately HK\$4 million for the year ended 31 March 2011). Therefore, our valuation was based on such condition and excluded the operation of the Hong Kong Subsidiary as of the Valuation Date.

- We understand that management of the Company will use our analysis solely as a reference for investment purpose only.
- Our analysis and conclusion of opinion of value on the Target Group was based on our discussions with the management of the Company, as well as a review of recent financial information and company records, including:
 - Consolidated management accounts of the Target Group for the year ended 31 March 2011;
 - Announcement made by the Company in relation to the acquisition of 100% equity interest of the Target Company dated 5 July 2011;
 - Agreement (the “Sale and Purchase Agreement”) entered into between Tsang Yue, Joyce (the “Vendor”) and Be Universal Limited for the sale and purchase of 100% of the issued capital of the Target Company dated 5 July 2011; and
 - Supplemental agreement (the “Supplemental Agreement”) to amend and supplement the Agreement dated 30 September 2011.

We also relied upon publicly available information from sources on capital markets, including industry reports, and various databases of publicly traded companies and news.

COMPANY OVERVIEWS

Zegna Management Limited (the “Target Company”) and its subsidiaries excluding the Hong Kong Subsidiary (together referred to as the “Target Group”)

The Target Company is a company incorporated in Hong Kong with limited liability and is wholly and beneficially owned by Ms. Tsang Yue, Joyce. The Target Company is the sole legal and beneficial owner of 100% equity interest of the following companies as at the Valuation Date:

1. MODERN BEAUTY SALON (S) PTE. LTD., formerly known as JF LOGISTICS CO PTE. LTD., a company incorporated in Singapore with limited liability;

2. LUCKY MARKETING MANAGEMENT CO PTE. LTD., a company incorporated in Singapore with limited liability;
3. SPLENDID OVERSEAS PTE. LTD., formerly known as SPLENDID OVERSEA PTE. LTD., a company incorporated in Singapore with limited liability;
4. ZEGNA INTERNATIONAL PTE. LTD., a company incorporated in Singapore with limited liability; and
5. BEAUCLEAR ENTERPRISE SDN. BHD., a company incorporated in Malaysia with limited liability.

The Target Group is principally engaged in wide range of beauty care services including spa and body slimming programs, facial treatment and fitness services in Singapore and Malaysia under the brandname “Giman”. 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.

Modern Beauty Salon Holdings Limited (the “Company”)

The Company is a company incorporated in Cayman Islands with limited liability. The Company is principally engaged in the operation of beauty salons, which provide wide range of services including facial treatment, spas and massage, slimming and fitness services in Hong Kong and Mainland China. The Company is listed on the Main Board of the Stock Exchange of Hong Kong Limited on 9 February 2006.

Be Universal Limited (the “Purchaser”)

The Purchaser is an indirect wholly-owned subsidiary of the Company and is incorporated in Hong Kong. Purchaser entered into the Sale and Purchase Agreement with Ms. Tsang Yue, Joyce, who is an executive director of the Company and is interested in approximately 68.68% of the issued share capital of the Company as at 5 July 2011.

TRANSACTION OVERVIEWS

The Purchaser and the Vendor entered into the Sale and Purchase Agreement on 5 July 2011. In accordance with the Sale and Purchase Agreement, the Purchaser had conditionally agreed to acquire 100% of the issued capital of the Target Company at the consideration of HK\$250 million which will be satisfied by the issue of convertible note to the Vendor.

In accordance with the Supplemental Agreement, the Target Group will make reorganization and the Hong Kong Subsidiary will be excluded from the Target Group from subject matter of the Sale and Purchase Agreement.

ECONOMIC OVERVIEWS

In conjunction with the preparation of this valuation opinion, we have reviewed and analyzed the current economic conditions from where the majority of the Target Group's profits are derived and how the value of the Target Group may be impacted.

According to the consolidated financial statements of the Target Company and its subsidiaries for the year ended 31 March 2011, the percentage of revenue from Singapore, Malaysia and Hong Kong was 90.0%, 9.7% and 0.3%, respectively. Majority of the Target Group's business was derived from Singapore and only small portion was derived from Malaysia. Hence, our economic overview focuses on Singapore.

Singapore's Economic Outlook

During the financial crisis in 2009, the Singapore government introduced the "Resilience Package" for businesses and households to keep the economic recovery afloat. This credit support successfully helped Singapore's economy to rebound in 2010 with a high real GDP growth of more than 14%¹. However, after an exceptionally high growth rate in last year, Singapore's GDP growth is expected to become moderate in 2011. According to IMF's World Economic Outlook as of April 2011 and the economic forecast from the Monetary Authority of Singapore, Singapore's GDP growth is expected to come in at about 5-6% in 2011 which supported by a moderate but broad-based expansion from wide range of industries².

Economic Indicators	2007 Actual	2008 Actual	2009 Actual	2010 Actual	2011 Forecast	2012 Forecast
Real GDP (in million SGD)	246,855	250,516	248,587	284,560	–	–
Real GDP growth* (% YoY)	8.77	1.49	(0.77)	14.47	6.00	5.05
Consumer Price Inflation (% YoY)	2.09	6.61	0.62	2.83	–	–
Unemployment (%)	2.10	2.23	3.00	2.18	–	–
Current Account (% of GDP)	27.34	14.58	19.04	22.21	–	–
Interest Rate – Central Bank Rate (%)	2.38	1.00	0.69	0.44	–	–
Interest Rate – 10-Year Note (%)	2.67	2.04	2.65	2.70	2.71	3.40

* Actual figure from Singapore Department of Statistics & forecast from Bloomberg

Source: Singapore Department of Statistics & Bloomberg

Inflation rose significantly by 5.2% in first quarter in 2011 after an exceptionally high GDP growth in 2010. Price level increased as a result of tight labour market and hence labour cost pressures. However, inflation is expected to become moderate in the second half of 2011. In addition, it is reasonably expected that the Monetary Authority of Singapore will continue with its policy of a modest and gradual appreciation against the US dollar³.

¹ Recent Economic Developments in Singapore, *The Monetary Authority of Singapore*, retrieved at 5 July 2011

² World Economic Outlook: Tensions from the Two-Speed Recovery, *International Monetary Fund*, retrieved at 8 July 2011

³ Performance of the Singapore Economy, *Ministry of Trade and Industry of Singapore*, retrieved at 8 July 2011

INDUSTRY OVERVIEWS

Beauty industry provides wide range of personal services, including complex skin therapies and treatments. Most of the services provided by beauty therapists are one-to-one, therefore, demand of beauty specialists with advanced level of skills and knowledge are high.

Beauty industry is mainly made up of small and medium sized businesses in form of beauty salons or spas. Services offered include facials, waxing, massage, makeup application, nail care, tanning and other beauty treatments. In addition, there are numbers of beauty salons offering medical beauty services such as Botox treatments and body slimming programs, it shows that the beauty industry has shifted to focus on a more professional and scientific approach nowadays.

Demand in the beauty industry is sensitive to changes in household disposable income and rate of population growth. Ageing population will also increase demand for the beauty services.

Table 1: Population size and population growth of Singapore

Year	Number, (as at June) ('000)						Average Annual Growth ¹ (Per Cent)			
	Total Population ²	Singapore Residents					Singapore Residents			
		Total	Singapore			Total Population ²	Total	Singapore		
			Singapore Citizens	Permanent Residents	Non-Residents			Singapore Citizens	Permanent Residents	Non-Residents
1980	2,413.9	2,282.1	2,194.3	87.8	131.8	1.5	1.3	1.6	(4.5)	8.0
1990	3,047.1	2,735.9	2,623.7	112.1	311.3	2.3 ³	1.7 ³	1.7 ³	2.3 ³	9.0
2000	4,027.9	3,273.4	2,985.9	287.5	754.5	2.8	1.8	1.3	9.9	9.3
2005	4,265.8	3,467.8	3,081.0	386.8	797.9	2.4	1.6	0.8	8.6	5.9
2006	4,401.4	3,525.9	3,107.9	418.0	875.5	3.2	1.7	0.9	8.1	9.7
2007	4,588.6	3,583.1	3,133.8	449.2	1,005.5	4.3	1.6	0.8	7.5	14.9
2008	4,839.4	3,642.7	3,164.4	478.2	1,196.7	5.5	1.7	1.0	6.5	19.0
2009	4,987.6	3,733.9	3,200.7	533.2	1,253.7	3.1	2.5	1.1	11.5	4.8
2010	5,076.7	3,771.7	3,230.7	541.0	1,305.0	1.8	1.0	0.9	1.5	4.1

¹ For years prior to 2005, growth rate refers to average annual growth over the last ten years. For 2005-2010, growth rate refers to growth over the previous year.

² Total population comprises Singapore residents and non-residents. Resident population comprises Singapore citizens and permanent residents. Non-resident population comprises foreigners who were working, studying or living in Singapore but not granted permanent residence, excluding tourists and short-term visitors.

³ Growth rate based on 1980 and 1990 using de facto concept.

Source: Singapore Department of Statistics

Table 2: Annual Disposable Income of Singapore

	2007	2008	2009	2010
Annual Disposable Income (US\$ million)	93,177	106,632	105,074	120,022

Source: Euromonitor International

From the above tables, it shows that population growth of Singapore decreases significantly in recent decade and also there were about 28% growth in the Singaporean disposable income from 2007 to 2010. With higher level of disposable income, people may concern more on their health, lifestyle and become more and more image-conscious in the modern life cities. These factors also support demand on beauty services.

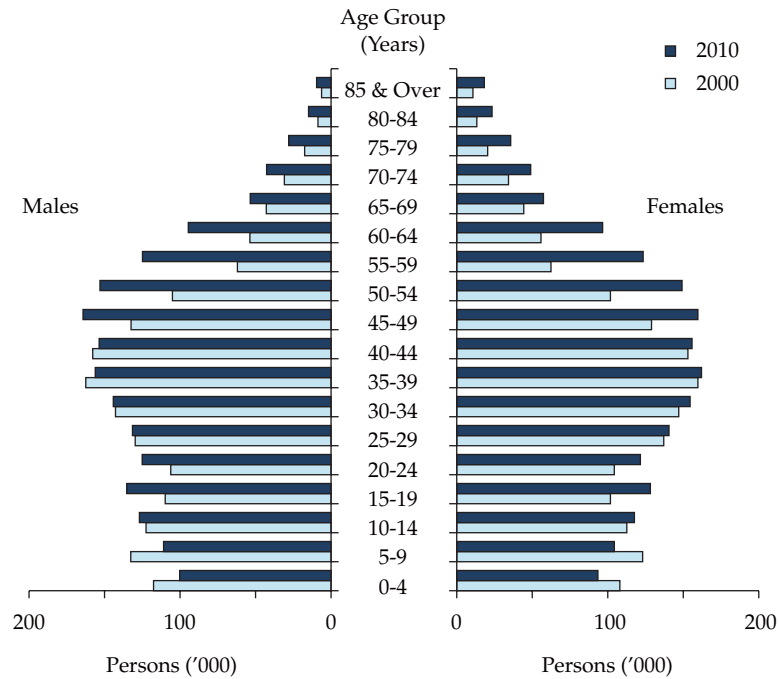
The principal target customers of the Target Group are the female population in Singapore. In accordance with the 2011 census report prepared by the Singapore Department of Statistics, there were over 30% of total resident population that were belong to the age group of 25-34 years and 35-44 years which have the largest purchasing power.

Table 3: Age Distribution of the Resident Population of Singapore

Age Group (Years)	2000	2010
Total	100.0	100.0
Below 15	21.9	17.4
15-24	12.9	13.5
25-34	17.0	15.1
35-44	19.4	16.7
45-54	14.3	16.6
55-64	7.2	11.7
65 & Over	7.2	9.0
Median Age (Years)	34.0	37.4

Source: Singapore Department of Statistics

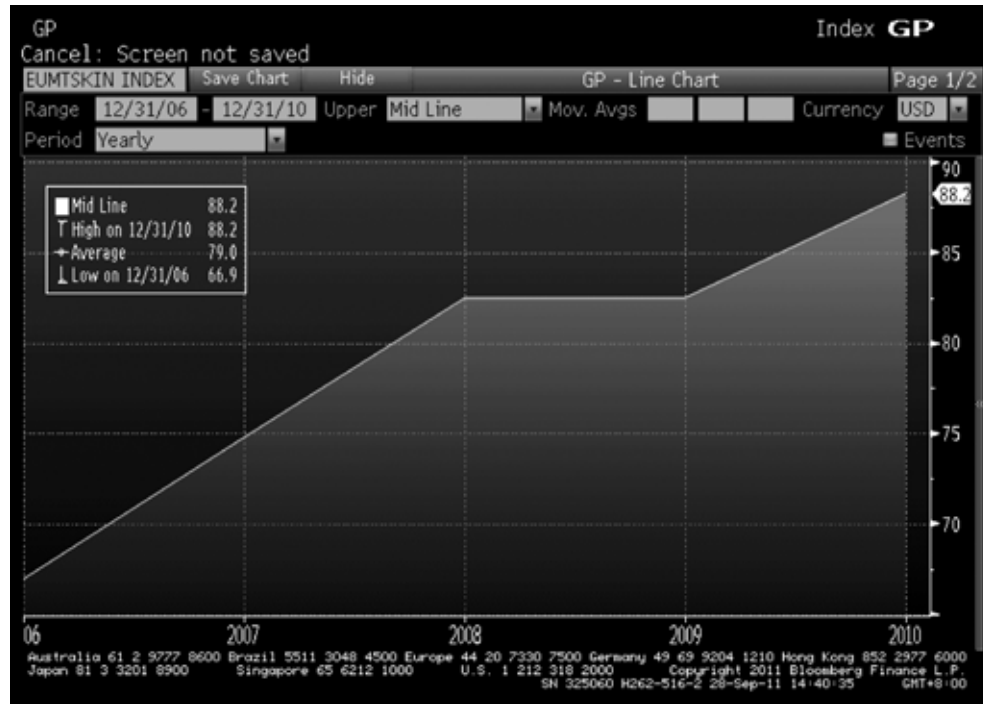
Chart 1: Age Pyramid of the Resident Population of Singapore



Source: Singapore Department of Statistics

The market size of skin care services and products is also increasing. According to the Global Skin Care Sales Index from Euromonitor International, total global spending on skin care services and products raised from US\$67 billion in 2006 to US\$88 billion in 2010, which represents a CAGR of 7% during the period.

Euromonitor Global Skin Care Sales



Source: Bloomberg

It is reasonable to expect that the Asian market becomes more important in the coming future when economies in the region develop rapidly and people in the region are more willing to consume on lifestyle expenditure.

Although beauty industry is a growing industry, it also has its specific business risks. First, it is highly sensitive to the economic condition in the region of operation since it is not an essential expenditure and customers will only consume it when they have more disposable income. Second, beauty salons and spas need a large commercial area for its business service operations and thus rental costs for beauty salons and spas are one of the major operating costs of the business. Rental expenses greatly affect the profitability of the beauty business. The Shop Space Price Index published by Singapore's Urban Redevelopment Authority ("URA") shows that there is an increasing trend of unit rental costs since 2003.

Shop Space Price Index by URA



Source: Bloomberg

VALUATION METHODOLOGIES

The valuation of any asset or business can be broadly classified into one of three approaches, namely asset approach, market approach and income approach. In any valuation analysis, all three approaches must be considered, and the approach or approaches deemed most relevant will then be selected for use in the fair value analysis of that asset.

Asset Approach

This is a general way of determining a fair value indication of a business, business ownership interest, security, or intangible asset by using one or more methods based on the value of the assets net of liabilities.

Based on the theory that the value of a business is equal to the sum of its parts, value is established based on the cost of reproducing or replacing the property, less depreciation from physical deterioration and functional and economic obsolescence, if present and measurable.

We have considered but rejected asset approach for this valuation due to:

- The fair value of the Target Group will not be reflected by the costs of replacement, instead, the fair value is depending on economic benefits generated from their operations. This means that the future economic benefit is more important in valuing the Target Group than the book value or the cost of replacement.

Income Approach

This is a general way of determining a fair value indication of a business, business ownership interest, security, or intangible asset by using one or more methods that convert anticipated benefits into a present value amount.

In income approach, an economic benefit stream of the asset under analysis is selected, usually based on historical and/or forecasted cash flow. The focus is to determine a benefit stream that is reasonably reflective of the asset's most likely future benefit stream. This selected benefit stream is then discounted to present value with an appropriate risk-adjusted discount rate. Discount rate factors often include general market rates of return at the date of valuation, business risks associated with the industry in which the company operates, and other risks specific to the asset being valued.

We have considered and rejected income approach for this valuation due to:

- Although value of the Target Group is reflected by its future economic stream generated by the operation, future performance of the Target Group is highly related to future economic condition of Singapore and Malaysia since beauty and healthcare expenditure is luxurious and the consumption is positively related to the economic environment. Therefore, a reasonable financial forecast and economic forecast of the countries in which the Target Group operates its business are both difficult to be determined accurately;
- The income approach involves many assumptions and estimations while not all of them can be easily quantified and obtained from the management of the Company; and
- An important implication of income approach assumes that cash flows generated from operation of the Target Group are reinvested with at least the discount rate. There is uncertainty that this assumption would be realised.

Market Approach

This is a general way of determining a fair value indication of a business, business ownership interest, security, or intangible asset by using one or more methods that compare the subject to similar businesses, business ownership interests, securities, or intangible assets that have been sold.

Value is established based on the principle of substitution. This simply means that if one thing is similar to another and could be used for the other, then they must be equal. Furthermore, the price of two alike and similar items should approximate one another.

We have considered and accepted market approach for this valuation due to:

- There are comparable public companies could be found in the public market and therefore appropriate valuation multiple could be reasonably derived.

APPLICATION OF MARKET APPROACH

Guideline Public Company Method

The premise behind the Guideline Public Company Method is that prices of publicly traded stocks in the same or a similar industry provide objective evidence as to values at which investors are willing to buy and sell interest of companies in that industry.

In applying the Guideline Public Company Method, we compute a valuation multiple for various benefit streams for each guideline public company. The appropriate valuation multiple is determined and adjusted for the unique aspects of the subject company being valued. This multiple is then applied to the subject company being valued to arrive at an estimate of value for the appropriate ownership interest. Since the purpose of the valuation is to determine a controlling interest of the Target Group, valuation multiples are based on enterprise value.

A valuation multiple represents a ratio that uses a comparative company's enterprise value as at the Valuation Date as the numerator and a measure of the company's operating results (or financial position) as the denominator. In this valuation, we had used Enterprise Value to Earnings-before-Interest-Tax-Depreciation-and-Amortization multiple ("EV/EBITDA"). EV/EBITDA is an appropriate valuation multiple for the valuation of the controlling equity interest because it measures the amount of enterprise value can be created by a unit of EBITDA. It is appropriate because EBITDA measures the operating performance of a company and excludes accounting treatments such as depreciation and amortization which are relatively easy to be manipulated by management. Thus EBITDA provides a closer view of company's earning ability related to its direct operation.

Once we have selected a number of guideline public companies and make the necessary adjustments to their financial information, the next step is to determine and compute the appropriate valuation multiples, and the calculation method is the same for all selected comparable companies. The process of computing the valuation multiple in this case consists of the following procedures:

1. Determination of the enterprise value for each comparative company as of the Valuation Date. First, the enterprise value for each comparative company is calculated by multiplying their share prices to the number of shares outstanding as of the Valuation Date in order to obtain the market capitalization of the comparable company. Second, adding back company's debt, minority interest and preferred equity interest. Finally, subtracting cash and cash equivalent items of the company to obtain the enterprise value.
2. Determination of the comparison measurement – ie. EBITDA for the appropriate time period. This measure represents the denominator of the multiple. In this valuation, we obtained 3-year median EBITDA from the latest three financial years in order to eliminate the fluctuation in any particular period.

The application of this method depends on the selection of publicly traded guideline companies that are similar enough to the underlying business of the Target Group so as to provide a meaningful comparison. We exercised due care in the selection of guideline public companies by using reasonable criteria in deciding whether or not a particular guideline public company is relevant. When difference is so large such that meaningful comparison cannot be made, we would then question the use of this method.

Selection of Guideline Public Companies

Due care was exercised in the selection of Guideline Public Companies by using reasonable criteria in deciding whether or not a particular company is relevant.

In selecting the appropriate Guideline Public Companies, we consider the lines of business, products, market location of business and other criteria of the Target Group, and have focused on the nature of the business as our key selection criteria. To the best of our knowledge, we have considered all the listed companies with their nature of business similar to the Target Group and have operations in the Asia Pacific region.

The following is the list of guideline public companies that we have reviewed in connection with the valuation of the Target Group which we considered appropriate for comparison:

Guideline Public Companies	Ticker	Business Activities
1. Natural Beauty Bio-Technology Limited	0157 HK	Researches, develops, manufactures and sells aroma therapeutic, beauty and skin care products. Operates beauty salons and provides skin treatments and SPA services.
2. Modern Beauty Salon Holdings Limited	0919 HK	Operates beauty salons, spas, and fitness centres. Services offered include beauty and facial, spa and massage, slimming and fitness services.
3. Water Oasis Group Limited	1161 HK	Distributes exclusively skin-care products under brandname "H2O+" in Hong Kong, Macau, Taiwan and China. Operates Spa centers under brandnames "Oasis Spa", "Oasis Beauty" and "Oasis Beauty Homme".

In addition, in valuing the Target Group, it is considered that all three Guideline Public Companies sell and provide beauty services and products in the Asia Pacific region with comparable revenue size. Despite the revenue size among these three Guideline Public Companies varies slightly, their natures of business and operating locations are considered reasonable to be considered as comparable to the Target Group. As such, we considered the above Guideline Public Companies are comparable to the Target Group in terms of sizes, geographical location and product/services mix.

Revenue of the Target Group and the Guideline Public Companies are over HK\$100 million but below HK\$1 billion. We understand that the Target Group is private entity and it is reasonable that the size would be relatively smaller than public companies. Hence, we consider that they are comparable in terms of size.

Guideline Public Companies have their operations mainly in Asia Pacific region, namely the PRC, Singapore and Hong Kong. This is comparable to the Target Group's operating environment.

Guideline Public Companies provide beauty services and products such as beauty and facial, spa and massage. We concluded that the natures of business are similar to the Target Group.

All in all, after consideration of size, geographical location and product/services mix, we believe the Guideline Public Companies are comparable to the Target Group.

We believe that the selected listed companies are sufficiently comparable to the operations of the Target Group and permit a meaningful comparison. Details of the calculation of enterprise value multiples for the comparable companies are as follows:

Ticker	Enterprise Value (in millions)	3-Year Median EBITDA (in millions)	EV/EBITDA
0157 HK	HK\$2,167.54	HK\$192.87	11.24x
0919 HK	HK\$190.61	HK\$89.79	2.12x
1161 HK	HK\$484.73	HK\$125.85	3.85x
Median			3.85x

Source: Bloomberg

Valuation multiple ranges 2.12x to 11.24x. We have also noticed that except one valuation multiple showed a higher value, two of the valuation multiples are relatively close to each other. Therefore, to eliminate the effect from outliers, we have applied the selection of median valuation multiple and the selected multiple is also close to the valuation multiples of the two comparable companies. Hence, we considered that the effect caused by own firm specific risk is addressed.

Based on the above selection criteria, we have researched extensively on listed companies which are in the operation of beauty services, with operations focus on Asia Pacific region, and are profitable. Based on the selection criteria, we have narrowed down to the above three Guideline Public Companies. After a prudent consideration and selection, we have concluded that the selected three Guideline Public Companies are the most appropriate ones to compare to the Target Group in terms of the nature of business, size, geographic location, business segment and valuation multiple calculated.

The median values are selected for each of the valuation multiples for the valuation of the equity interest of the Target Group to minimise the effect of possible outliers. Selected multiple for the valuation is listed as below:

Selected Multiple	Median
EV/EBITDA	3.85x

Premium for Control

Premium for control is generally regarded as the amount in excess of the current traded market price that a buyer is willing to pay to acquire the control of a publicly traded company. A buyer is willing to pay a premium for control when obtaining the controlling advantages they would not receive if only a minority interest was purchased.

Estimating the value of premium for control is necessary when valuing large blocks of shares. The size of the premium for control varies from industry to industry, with the size of the company.

In our valuation analysis, the equity interest acquired by the Company represents entire issued share capital of the Target Company as well as its subsidiaries. Therefore, the Company obtains the advantage of controlling after the acquisition and it is reasonable to apply a premium for control to reflect this advantage. We relied on Mergerstat® studies in the determination of control premium. According to Mergerstat®/Shannon Pratt's Control Premium Study™, the premium paid each year in those transactions averaged between 29.0% and 53.9% from 1998 through 2006¹. Another publication regarding the control premium study research from Mergerstat® also showed that the average control premium was around 35% – 50%, and the median was around 28% – 45%².

Based on the above study results, it is reasonable and prudent to select a control premium of 30% for the valuation.

Discount for Lack of Marketability ("DLOM")

Private companies generally do not have a ready market for their stocks, a discount for lack of marketability/illiquidity is applicable in this valuation. The discount for lack

¹ Association of Insolvency & Restructuring Advisors Journal, Vol. 24 No. 4 October/November 2010

² Control Premium from Recent M & A Transactions in Taiwan, China Credit Information Service, Ltd., 9 October 2009

of marketability/illiquidity recognizes the fact that an investment is worth more if the interest is readily marketable, or conversely, worth less if it is not.

In selecting the appropriate discount for lack of marketability/illiquidity, we considered the length of time and effort expended by management necessary to sell a controlling interest in the company. This typically would take at least three to nine months if a transaction could be consummated at all. A controlling interest does enjoy the benefit of controlling the cash flow stream of the company during this time period and we considered this fact as well. Finally, we considered the expenses that are typically incurred to sell a business which are substantial and include legal fees, accounting fees, and intermediary fees.

In our valuation analysis, the equity interest of the Target Group is not publicly traded nor does an established active market exist for it. Moreover, the size of the Target Group is relatively small as compared with that of listed and publicly traded companies. After considering that the valuation of the equity interest of the Target Group is on a controlling and non-marketable interest basis and the above factors mentioned, prudent investors would apply a discount to reflect its lack of marketability/liquidity. From the research of DLOM conducted by FMV Opinions, Inc., it shows that the median DLOM is 19.45%³. Therefore, we believe that 20% is an appropriate level to be applied in this case.

Determination of Value

We referred to the consolidated financial statements of the Target Company and its subsidiaries to derive EBITDA of the Target Group and also cash held by the Target Group, with calculation as shown below:

	Consolidated figures HK\$	the Hong Kong Subsidiary HK\$	Adjustment for the Hong Kong Subsidiary transaction HK\$	Consolidated figures excluding the Hong Kong Subsidiary HK\$
EBIT	55,680,346	(3,964,287)	64,768	51,780,827
Depreciation	5,401,255	–	–	5,401,255
EBITDA	61,081,601	(3,964,287)	64,768	57,182,082
Cash at bank	186,623,088	(60,292,274)	–	126,330,814

³ Determining Discounts for Lack of Marketability, A Companion Guide to the FMV Restricted Stock Study, FMV Opinions, Inc., 2007

APPENDIX IV	VALUATION REPORT ON THE TARGET GROUP
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Based on the investigation and analysis stated above and on the valuation method employed, it is our opinion that the 100% equity interest of the Target Group is as follows:

	EV/EBITDA	
Selected Multiple		3.85x
Subject Financial Performance (Consolidated EBITDA) for the period from 1 April 2010 to 31 March 2011	HK\$	57,182,082
Implied Enterprise Value		220,151,016
Add: Premium for Control	30%	66,045,305
Implied Enterprise Value after Premium for Control	HK\$	286,196,321
Less: Discount for Lack of Marketability (DLOM)	(20%)	(57,239,264)
Implied Enterprise Value after Premium for Control & DLOM	HK\$	228,957,057
Add: Cash and Cash Equivalents* (after dividend paid)	HK\$	85,330,814
Fair value of the 100% equity interest of the Target Group (rounded)		314,300,000

* Management of the Company confirmed that the Target Group will pay out dividend of HK\$41 million from the cash balance of HK\$126 million. The remaining cash balance will be around HK\$85 million upon completion for use of operation of the Target Group.

VALUATION ASSUMPTIONS

Equity value is an economic measure reflecting the fair value of the whole business to the equity owners. Our valuation on equity interest of the Target Group will be performed by using comparable public company methodology. There are a few assumptions that have to be established in order to sufficiently support our concluded value of equity interest of the Target Group.

- there will be no material changes in the existing political, legal, fiscal, foreign trade and economic conditions in Hong Kong, Singapore, Malaysia and other worldwide places where the Target Group is carrying on its businesses;
- there will be no significant deviation in the industry trends and market conditions from the current market expectation;
- there will be no material changes in interest rates or foreign currency exchange rates from those currently prevailing;
- there will be no major changes in the current taxation law in Hong Kong, Singapore, Malaysia and countries of origin of our comparable companies;

- all relevant legal approvals, business certificates or licenses for the normal course of operation are formally obtained, in good standing and that no additional costs or fees are needed to procure such during the application; and
- The Target Group will retain competent management, key personnel, and technical staff to support the ongoing business operations.

LIMITING CONDITIONS

We have made no investigation of and assumed no responsibility for the title to or any liabilities against the Target Group.

The opinions expressed in this report have been based on the information supplied to us by the Company and its staff, as well as from various institutes and government bureaus without verification. All information and advice related to this valuation are provided by the management of the Company. Readers of this report may perform due diligence themselves. We have exercised all due care in reviewing the supplied information. Although we have compared key supplied data with expected values, the accuracy of the results and conclusions from the review are reliant on the accuracy of the supplied data. We have relied on this information and have no reason to believe that any material facts have been withheld, or that a more detailed analysis may reveal additional information. We do not accept responsibility for any errors or omissions in the supplied information and do not accept any consequential liability arising from commercial decision or actions resulting from them.

This valuation reflects facts and conditions existing at the Valuation Date. Subsequent events have not been considered, and we have no obligation to update our report for such events and conditions.

SYNTHESIS AND RECONCILIATION

The following comparative data summarizes the various methods that we have accepted or considered and rejected, along with their respective final values. Each method is rated relative to the applicability of the method relative to the facts and circumstances of the Target Group, and strengths/weaknesses are discussed.

Asset Approach

Replacement, Liquidation or Book Value Method	N/A
Application	Rejected

Income Approach

Discounted Cash Flow Method	N/A
Application	Rejected

Market Approach

Guideline Public Company Method	HK\$314,300,000
Application	Accepted

CONCLUSION OF VALUE

In conclusion, based on the investigation and analysis stated above and on the valuation method employed, it is our opinion that 100% equity interest of ZEGNA Management Limited and its subsidiaries excluding Euro King Limited as of the Valuation Date was as follows:

Our Opinion of Value

Fair Value
(HK\$)

100% equity interest of ZEGNA Management Limited and its subsidiaries excluding Euro King Limited	314,300,000
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The opinion of value was based on generally accepted valuation procedures and practices that rely extensively on the use of numerous assumptions and consideration of many uncertainties, not all of which can be easily quantified or ascertained.

We hereby certify that we have neither present nor prospective interests in the Company and the Target Group. Moreover, we have neither personal interests nor bias with respect to the parties involved.

This valuation report is issued subject to our general service conditions.

Yours faithfully,

GREATER CHINA APPRAISAL LIMITED

Rachel S.K. Au, CVA, CPA

Head of Business Advisory

Ms. Rachel S.K. Au, CPA, Certified Valuation Analyst (CVA) of the International Association of Consultants, Valuators and Analysts (IACVA), is experienced in performing business and intangible asset valuation & advisory for both private and public companies for various purposes, including financial reporting, merger and acquisition, restructuring, disposal, liquidation and litigation. Her experience covers diverse industries, including healthcare, financial services, mining, toll road, information technology, manufacturing and retail.

Kevin K.S. Kwong

Senior Consultant

Mr. Kevin K. S. Kwong is experienced in performing business and intangible asset valuation for private and public companies in various industries, including mining, equipment manufacturing, ship manufacturing, Information technology, industrial water supply, retail and real estate industries.

Kenneth H.M. Ng

Consultant

Mr. Kenneth H.M. Ng has substantial experience in valuation of business and intangible assets including operating licenses, mining licenses, trading contracts, customer bases, tradename and trademark. His experience covers wide range of industries including healthcare, financial services, mining, toll road, information technology, manufacturing and retail.

Ms. Rachel S.K. Au, Mr. Kevin K.S. Kwong and Mr. Kenneth H.M. Ng have extensive business and intangible asset valuation experience for listed companies in beauty industry including China Au Group Holdings Limited (8176.HK), Water Oasis Group Limited (1161.HK) and Jinchuan Group International Resources Co. Ltd (2362.HK).

GENERAL SERVICE CONDITIONS

The service(s) provided by Greater China Appraisal Limited will be performed in accordance with professional appraisal standards. Our compensation is not contingent in any way upon our conclusions of value. We assume, without independent verification, the accuracy of all data provided to us. We will act as an independent contractor and reserve the right to use subcontractors. All files, workpapers or documents developed by us during the course of the engagement will be our property. We will retain this data for at least five years.

Our report is to be used only for the specific purposes stated herein and any other use is invalid. No reliance may be made by any third party without our prior written consent. You may show our report in its entirety to those third parties who need to review the information contained herein. No one should rely on our report as a substitute for his or her own due diligence. No reference to our name or our report, in whole or in part, in any document you prepare and/or distribute to third parties may be made without our written consent.

You agree to indemnify and hold us harmless against and from any and all losses, claims, actions, damages, expenses or liabilities, including reasonable attorneys' fees, to which we may become subjects in connection with this engagement. You will not be liable for our negligence. Your obligation for indemnification and reimbursement shall extend to any controlling person of Greater China Appraisal Limited, including any director, officer, employee, subcontractor, affiliate or agent. In the event we are subject to any liability in connection with this engagement, regardless of legal theory advanced, such liability will be limited to the amount of fees we received for this engagement.

We reserve the right to include your company/firm name in our client list, but we will maintain the confidentiality of all conversations, documents provided to us, and the contents of our reports, subject to legal or administrative process or proceedings. These conditions can only be modified by written documents executed by both parties.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

(a) Directors' and Chief Executives' Interests and Short Positions in the Shares, Underlying shares or Debentures

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they have taken or were deemed to have under such provisions of the SFO); (ii) pursuant to section 352 of the SFO to be entered in the register referred to therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

(i) Long positions in Shares and underlying Shares in the Company

Name of Director	Capacity in which interests are held	Interests in Shares	Equity Derivatives (Share Options)	Total Interests	Approximate Percentage of Issued Share Capital of the Company
Ms. Tsang Yue, Joyce	Interests of controlled corporations ²	468,000,000	–	468,000,000	64.68%
	Founder of discretionary trust	28,284,000	–	28,284,000	3.91%
	Interest of spouse ³	650,000	–	650,000	0.09%
Mr. Yip Kai Wing	Beneficial owner	185,000	500,000	685,000	0.09%

Notes:

1. The percentage has been compiled based on the total number of shares of the Company in issue as at the Latest Practicable Date (i.e. 723,520,000 shares).
2. Both Silver Compass Holdings Corp. and Silver Hendon Enterprises Corp. (each holding 367,200,000 shares and 100,800,000 shares, respectively) are wholly owned by Ms. Tsang Yue, Joyce.
3. Ms. Tsang Yue, Joyce is the spouse of Mr. Lee Soo Ghee and is deemed to be interested in the Shares in which Mr. Lee Soo Ghee is deemed or taken to be interested for the purpose of the SFO.

(ii) Long position in associated corporations

Name of Director	Name of associated corporation	Capacity	Number of Shares held	Percentage of holding
Ms. Tsang Yue Joyce	Silver Compass Holdings Corp. (Note)	Beneficial owner	100 Shares of US\$1 each	100%

Note: Silver Compass Holdings Corp. is the holding company of the Company and is thus an associated corporation of the Company.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and the chief executive of the Company had any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or pursuant to section 352 of the SFO, to be entered in the register referred to therein, or notified to the Company and the Stock Exchange pursuant to the Model Code.

(b) Substantial shareholders' and other persons' interests and short positions in shares and underlying shares of the Company

As at the Latest Practicable Date, the interests or short positions of each person other than a Director or chief executive of the Company in shares or underlying shares of the Company which would fall to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept under section 336 of the SFO, or who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group were as follows:

Long positions of substantial shareholders in the shares and underlying shares of the Company

Name	Capacity	Number of Shares Held	Percentage of Issued Share Capital of the Company ¹
Mr. Lee Soo Ghee	Beneficial owner	650,000	0.09%
	Interest of spouse ²	496,284,000	68.59%
Silver Compass Holdings Corp.	Beneficial owner ³	367,200,000	50.75%
Silver Hendon Enterprises Corp.	Beneficial owner ³	100,800,000	13.93%

Notes:

1. The percentage has been compiled based on the total number of shares of the Company in issue as at the Latest Practicable Date (i.e. 723,520,000 shares).
2. Mr. Lee Soo Ghee is the spouse of Ms. Tsang Yue, Joyce and is deemed to be interested in the Shares in which Ms. Tsang Yue, Joyce is deemed or taken to be interested for the purpose of the SFO.
3. Both Silver Compass Holdings Corp. and Silver Hendon Enterprises Corp. are wholly owned by Ms. Tsang Yue, Joyce. Ms. Tsang Yue, Joyce is a director of each of Silver Compass Holdings Corp. and Silver Hendon Enterprises Corp..

Apart from the above, the Directors are not aware of any other interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept under section 336 of the SFO, or who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group as at the Latest Practicable Date.

3. MATERIAL LITIGATION

So far as the Directors are aware, as at the Latest Practicable Date, no member of the Enlarged Group was engaged in any litigation or claims of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened by or against any member of the Enlarged Group.

4. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors has entered into any service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

There will be no variation in remuneration payable to and benefits is kind receivable by the directors of the Target Company as a result of the Acquisition.

5. COMPETING INTERESTS

Ms. Tsang Yue, Joyce, being the Vendor, is interested in the Target Group which are principally engaged in the provision of beauty and wellness services in Singapore and Malaysia. Details of Ms. Tsang Yue, Joyce's interest in the Target Group are set out in the "Letter from the Board". Save as disclosed above, none of the Directors and their respective associates have any interest in a business, which competes or may compete with the business of the Group.

6. DIRECTORS' INTEREST IN ASSETS AND CONTRACTS

In addition to the Sale and Purchase Agreement, the following agreement have been entered into between the Enlarged Group and its directors which are subsisting as at the Latest Practicable Date:

Tenancy agreement of Nos. 297/303 & 307/313 Sha Tsui Road, Tsuen Wan, New Territories, Hong Kong

On 1 October 2008, Golden National Limited, a company controlled by Ms. Tsang Yue, Joyce falling outside the Group, and Modern Beauty Salon (HK) Limited, a wholly-owned subsidiary of the Company, entered into a tenancy agreement (the "Sha Tsui Road Tenancy Agreement") pursuant to which Modern Beauty Salon (HK) Limited leased from Golden National Limited the premises at Chung On Building, Nos. 297/303 & 307/313 Sha Tsui Road, Tsuen Wan, New Territories, Hong Kong as a beauty and wellness service centre of the Group. The duration of the Sha Tsui Road Tenancy Agreement is three years ending on 30 September 2011.

The rental paid by the Group in relation to the premises amounted to approximately HK\$4.7 million for the period from 31 March 2011 (the date to which the latest published audited accounts of the Company were made up) to the Latest Practicable Date. The rental is calculated based on a monthly rental of HK\$800,000.

Tenancy agreement of 1st Floor, No. 46 Carnarvon Road, Tsimshatsui, Kowloon, Hong Kong

On 1 January 2009, Chain Tech International Limited and Modern Beauty Salon (HK) Limited, a wholly-owned subsidiary of the Company, entered into a tenancy agreement (the “Carnarvon Road Tenancy Agreement”) pursuant to which Modern Beauty Salon (HK) Limited leased from Chain Tech International Limited, the premises at 1st Floor, No. 46 Carnarvon Road, Tsimshatsui, Kowloon, Hong Kong as a service centre of the Group. The duration of the Carnarvon Road Tenancy Agreement is three years ending on 31 December 2011, both dates inclusive.

The rental paid by the Group in relation to the premises under the New Carnarvon Road Tenancy Agreement amounted to HK\$166,133 for the period from 31 March 2011 (the date to which the latest published audited accounts of the Company were made up) to the Latest Practicable Date.

Other tenancy agreements

The following transactions have been approved by independent shareholders at an Extraordinary General Meeting held on 30 October 2009.

On 23 September 2009, Modern Beauty Management Company Limited (“Modern Beauty Management”), a wholly-owned subsidiary of the Company and All Link International Limited (“All Link”), a company controlled by Ms. Tsang Yue, Joyce entered into a disposal agreement in which Modern Beauty Management has conditionally agreed to sell the entire issued share capital of each of East Union Industries Limited, Joy East Limited, Well Faith International Enterprise Limited and Wise World Limited (“Disposal Group”), each of which was an indirect wholly-owned subsidiary of the Company and the debt due by the Disposal Group to Modern Beauty Management of approximately HK\$144 million to All Link at the aggregate consideration of HK\$190.0 million (“the Disposal”). The principal assets of the Disposal Group were the properties in Hong Kong as follow:

Address of Properties

- (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
- (ii) 18th Floor, Hou Feng Industrial Building, Nos. 1-5 Wing Kin Road, Kwai Chung, New Territories
- (iii) Workshop Nos. 2-3 on 4th Floor and Car Parking Space No. G11 on Ground Floor, Hong Kong Worsteds Mills Industrial Building, Nos. 31-39 Wo Tong Tsui Street, Kwai Chung, New Territories

- (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
- (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
- (vi) 1st and 2nd Floor, The Grandeur, No.47 Jardine's Bazaar, Hong Kong
- (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
- (viii) Workshop Units 401, 404A, 404B and 405, 4th Floor, Hong Kong Worsted Mills Industrial Building, Nos. 31-39, Wo Tong Tsui Street, Kwai Chung, New Territories, Hong Kong

At the time of the Disposal, the above properties (i) to (vii) were used by the Group as its operating facilities.

As part of the whole arrangement in respect of the Disposal, upon the completion of this transaction, the Group (as tenant) and the relevant Disposal Group (as landlord) has entered into the lease agreements in respect of each of the above properties (i) to (vii) at an aggregate annual rental of HK\$8.82 million for a term for three years commencing from the completion date of the Disposal, which was completed on 13 November 2009.

Tenancy agreement of the above property (vii) was terminated in April 2010.

As at the Latest Practicable Date, save as disclosed above and the Vendor's interest in the Sale and Purchase Agreement, none of the Directors had any interest, whether direct or indirect, in any assets which have been, since 31 March 2011, being the date to which the latest published audited accounts of the Company were made up, acquired or disposed of by or leased to any member of the Enlarged Group or proposed to be acquired, disposed of by or leased to any member of the Enlarged Group.

7. SHARE CAPITAL

As at the Latest Practicable Date, the authorized and issued share capital of the Company, together with changes proposed in this circular, are as follows:

Authorised share capital

<i>Shares</i>	<i>HK\$</i>
<u>10,000,000,000</u> (as at the Latest Practicable Date)	<u>1,000,000,000</u>

Issued and fully paid up share capital

<i>Shares</i>	<i>HK\$</i>
723,520,000 Existing Shares	72,352,000
238,095,238 Conversion Shares which may fall to be issued upon the conversion of the Convertible Note in full	23,809,524
<u>961,615,238</u>	<u>96,161,524</u>

8. NO MATERIAL ADVERSE CHANGE

The Directors confirm that as at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Enlarged Group since 31 March 2011, being the date to which the latest published audited financial statements of the Group were made up.

9. QUALIFICATIONS CONSENTS AND NO INTEREST CONFIRMATIONS OF EXPERTS

The following are the qualifications of the experts who have given opinions or advice which are contained or mentioned in this circular (“Experts”):

Name	Qualifications
RSM Nelson Wheeler	certified public accountants
Greater China Appraisal Limited	an independent professional business valuer
OSK Capital Hong Kong Limited	the independent financial adviser to the Independent Board Committee and the Independent Shareholders. OSK is a corporation licensed under the SFO to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities

Each of the Experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its report/letter/certificate/opinion (as the case may be) and/or reference to its name or opinion in the form and context in which it appears.

Each of the Experts has confirmed that as at the Latest Practicable Date,

- (a) it was not beneficially interested in the share capital of any member of the Group nor did it have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group; and
- (b) it did not directly or indirectly, have any interest in any assets which had since 31 March 2011 (being the date to which the latest published audited financial statements of the Company were made up) been acquired or disposed of by or leased to any member of the Enlarged Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

10. GENERAL

- (a) The registered office of the Company is situated at PO Box 309 GT, Ugland House, South Church Street, George Town, Grand Cayman, Cayman Islands.
- (b) The Company’s head office and principal place of business in Hong Kong is situated at 6th Floor, Sino Industrial Plaza, 9 Kai Cheung Road, Kowloon Bay, Kowloon, Hong Kong.

- (c) The company secretary of the Company is Mr. Wong Shu Pui, a solicitor admitted in Hong Kong.
- (d) The Company's share registrar and transfer office in Hong Kong is Tricor Investor Services Limited, 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.
- (e) The English text of this circular shall prevail over the Chinese text in the event of conflict or inconsistency between the two.

11. MATERIAL CONTRACTS

Save for the Sale and Purchase Agreement and the Supplemental Sale and Purchase Agreement, no material contracts (not being contracts entered into in the ordinary course of business carried on by the Enlarged Group) have been entered into by the Enlarged Group within the two years immediately preceding the date of this circular.

12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours on any weekday (except public holidays) at the Company's principal place of business in Hong Kong at 6th Floor, Sino Industrial Plaza, 9 Kai Cheung Road, Kowloon Bay, Kowloon, Hong Kong from the date of this circular up to and including the date of the EGM:

- (a) the Memorandum and Articles of Association of the Company;
- (b) the valuation report in respect of the Target Group as set out in appendix IV to this circular;
- (c) the unaudited pro forma financial information of the Enlarged Group and the report thereon issued by RSM Nelson Wheeler as set out in appendix III to this circular;
- (d) the annual reports of the Company for the years ended 31 March 2010 and 2011;
- (e) The independent financial advisory letter from OSK which forms part of this circular; and
- (f) the material contracts as referred to in the section with the heading "Material Contracts" in this appendix V.

NOTICE OF EGM



MODERN BEAUTY SALON HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 919)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that the extraordinary general meeting (“EGM”) of Modern Beauty Salon Holdings Limited (“Company”) will be held at Lower G/F, Far East Finance Centre, No. 16 Harcourt Road, Admiralty, Hong Kong, on Thursday, 27 October 2011 at 11:00 a.m., to consider and, if thought fit, pass the following resolution as an ordinary resolution:

ORDINARY RESOLUTION

“THAT:

- (A) notwithstanding anything contained in the Deed of Undertaking (as defined in the circular of the Company dated 30 September 2011 (“**Circular**”), a copy of which is marked “**A**” and signed by the chairman of the meeting for identification purpose and has been tabled at the meeting), the Sale and Purchase Agreement (as defined in the Circular) dated 5 July 2011 (as amended by the Supplemental Sale and Purchase Agreement (as defined in the Circular)) entered into between the Vendor and the Purchaser in respect of the Acquisition (as defined in the Circular) be and is hereby approved;
- (B) subject to the Completion (as defined in the Circular), the creation and issue of the Convertible Note (as defined in the Circular), a draft of which is marked “**B**” and signed by the chairman of the meeting for identification purpose has been tabled at the meeting, on and subject to the terms and conditions of the Sale and Purchase Agreement be and are hereby approved and the allotment and issue of the Conversion Shares (as defined in the Convertible Note) upon exercise of the conversion rights attaching to the Convertible Note in accordance with the terms and conditions of the Convertible Note be and are hereby approved; and
- (C) all other transactions contemplated under the Sale and Purchase Agreement be and are hereby approved and the directors of the Company be and are hereby authorised to do all such acts and things, to sign and execute such documents or agreements or deeds on behalf of the Company and to do such other things and to take all such actions as they consider necessary, appropriate, desirable or expedient for the purposes of giving effect to or in connection with the Sale and Purchase Agreement, the creation and issue of the Convertible Note and the allotment and issue of the Conversion Shares upon exercise of the conversion rights attaching to the Convertible Note in

NOTICE OF EGM

accordance with the terms and conditions of the Convertible Note, and to agree to such variation, amendments or waivers or matters relating thereto (including any variation, amendments or waiver of such documents or any terms thereof, which are not fundamentally different from those as provided in the Agreement) as are, in the opinion of the directors of the Company, in the interest of the Company and its shareholders as a whole.”

By the order of the Board of
Modern Beauty Salon Holding Limited
Leung Man Kit
Executive Director

Hong Kong, 30 September 2011

Registered Office:

PO Box 309 GT
Ugland House
South Church Street
George Town
Grand Cayman
Cayman Islands

Head Office and Principal Place

of Business in Hong Kong:
6th Floor Sino Industrial Plaza
9 Kai Cheung Road
Kowloon Bay
Kowloon
Hong Kong

As at the date hereof, 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.

1. Any member of the Company entitled to attend and vote at the EGM is entitled to appoint another person as his proxy to attend and vote instead of him. A proxy need not be a member of the Company.
2. To be valid, the form of proxy, together with a power of attorney or other authority, if any, under which it is signed or a notarially certified copy thereof, must be lodged with the Company's share registrar, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude a member from attending and voting in person at the EGM.
3. Where there are joint holders of any share, any one of such joint holder may vote, either in person or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such joint holders be present at the EGM the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.