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MODERN BEAUTY SALON HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 919)

CONTINUING CONNECTED TRANSACTIONS MASTER LEASING AGREEMENT

THE MASTER LEASING AGREEMENT

The Company is pleased to announce that on 8 November 2011, the Company entered into the Master Leasing Agreement with the Lessor in relation to the leasing of the Premises by the Group from the Owners and to set out the principal terms and conditions governing the leasing agreements to be entered into between the Owners and the Group as contemplated under the Master Leasing Agreement.

By virtue of the Lessor being wholly-owned by a family trust set up by Ms. Tsang, an executive Director, chairperson of the Board and a controlling Shareholder, the Lessor is a connected person of the Company and the Leasing Arrangements will constitute continuing connected transactions 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 Annual Caps are less than 25% but the annual consideration is more than HK\$10 million, the Leasing Arrangements under the Master Leasing Agreement are subject to the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of 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 the Leasing Arrangements under the Master Leasing Agreement and the Annual Caps. An independent financial adviser will be appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

The EGM will be convened at which ordinary resolution(s) will be proposed to seek the Independent Shareholders' approval of, among other things, the Leasing Arrangements under the Master Leasing Agreement and the Annual Caps. Since Ms. Tsang is materially interested in the Master Leasing Agreement, Ms. Tsang and her associates will be required to abstain from voting at the EGM regarding the relevant resolution(s).

A circular containing, among other things, (i) details of the Leasing Arrangements under the Master Leasing Agreement and the Annual Caps; (ii) the recommendation of the Independent Board Committee in respect of the Leasing Arrangements under the Master Leasing Agreement; (iii) a letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders containing its advice on the Leasing Arrangements under the Master Leasing Agreement and the Annual Caps; (iv) a notice of the EGM and (v) other information required under the Listing Rules will be despatched to the Shareholders on or before 30 November 2011.

THE MASTER LEASING AGREEMENT

Background

The Group has from time to time entered into a number of leasing agreements (the “Existing Leasing Agreements”) with the Owners for the leasing of certain Premises in the ordinary and usual course of the business of the Group as its operating facilities. The Group intends to continue to lease some of the Premises under the arrangement contemplated under the Master Leasing Agreement. Set out below is a summary of the Existing Leasing Agreements in respect of those Premises which are expected to continue under the Master Leasing Agreement:

Premises under the Existing Leasing Agreements	Expiry Date	Tenure	Consideration paid for the year ended 31 March		
			2009	2010	2011
			HK\$'000 (Note 1)	HK\$'000 (Note 1)	HK\$'000 (Note 1)
Hong Kong Island					
1. Shop and Toilet Area on 1st Floor, Shop and Toilet Area on 2nd Floor, Lift and Staircase (No. 3) and Grease Trap Room on 1st Floor, 1st Floor Staircase for 2nd Floor, Lift and Staircase on 2nd Floor, Lift Machine Room for 1st to 2nd Floors on 3rd Floor, Signage Units Nos. 1 to 8 on Ground Floor, Signage Units Nos. 9 to 14 on 1st Floor, Store and Open Store on Ground Floor, The Grandeur, 47 Jardine's Bazaar, Causeway Bay, Hong Kong	12 November 2012	3 years	—	915.4	2,106.0
Kowloon					
2. Workshop Nos. 11–31, 32B, 33B, 41–78 and Store Room No.10 on Sixth Floor and Lorry Car Parking Space Nos. L8, L10, L14 and L15 on Basement, Sino Industrial Plaza, 9 Kai Cheung Road, Kowloon Bay	12 November 2012	3 years	—	956.8	2,201.2

Premises under the Existing Leasing Agreements			Consideration paid for the year ended 31 March			
			2009	2010	2011	
			HK\$'000 (Note 1)	HK\$'000 (Note 1)	HK\$'000 (Note 1)	
New Territories						
3.	Workshops D1–D14, Third Floor, Block D and Car Parking Spaces Nos. 131 & 132, First Floor, Tsing Yi Industrial Centre Phase II, Nos 1–33, Cheung Tat Road, Tsing Yi, New Territories	12 November 2012	3 years	—	395.6	687.9
4.	18th Floor, Hou Feng Industrial Building, Nos.1–5 Wing Kin Road, Kwai Chung, New Territories	12 November 2012	3 years	—	87.4	201.1
5.	Shop 1 on Ground Floor and 1st Floor (with flat roof adjacent thereto), Len Fat Mansion, 56–60 and 64–86 Kin Yip Street, Yuen Long, New Territories	12 November 2012	3 years	—	368.0	846.6
6.	Portion A of Shop 3 on Ground Floor, Unit B on Cockloft, Whole of First Floor, Whole of Block B on Second Floor, Portion of Roof, Chung On Building, Nos. 297/303 and 307/313 together with Flat 1 and Flat Roof on 1st Floor, Kwong Yick Building, 315–323 Sha Tsui Road, Tsuen Wan, New Territories	30 September 2011	3 years	4,800.0	9,600.0	9,600
				4,800.0	12,323.2	15,642.8

Notes:

1. Inclusive of government rates, government rent and management charges.
2. Premises numbered 1, 5 and 6 are used by the Group as its beauty and wellness services centres, Premises numbered 2 is used by the Group as its office premises and Premises numbered 3 and 4 are used by the Group as its warehouse.
3. In respect of Premises numbered 6, the relevant Owner has granted a free-of-charge licence to the Group to use this Premises for a period from the expiry of the relevant leasing agreement on 30 September 2011 up to the earlier of (i) the conclusion signing of a new tenancy agreement of the same Premises or (ii) 31 December 2011.

Since the Company intends to continue to lease the abovementioned Premises and, if appropriate, other Premises as its operating facilities and anticipates that it will enter into new leases during the ordinary and usual course of the Group's business, the Company and the Lessor entered into the Master Leasing Agreement on 8 November 2011 to set out the principal terms and conditions governing the Leasing Arrangement in the future.

Date of the Master Leasing Agreement

8 November 2011

Parties to the Master Leasing Agreement

The Lessor and the Company

Subject Matter

Pursuant to the Master Leasing Agreement, the Group will enter into separate leasing agreements to lease the Premises from the respective Owners from time to time during the term of the Master Leasing Agreement. For those Existing Leasing Agreements which have not expired as at the date of the Master Leasing Agreement, subject to the transactions contemplated under the Master Leasing Agreement having been approved by the Independent Shareholders at the EGM, such Existing Leasing Agreements will be terminated and a new tenancy agreement in respect of each of such Existing Leasing Agreements will be entered into pursuant to the terms of the Master Leasing Agreement.

Conditions

The Master Leasing Agreement and the Leasing Arrangements are conditional upon:

1. the passing of ordinary resolution(s) by the Independent Shareholders at the EGM approving, among other things, the Leasing Arrangements under the Master Leasing Agreement and the Annual Caps; and
2. (if required) all requisite waivers, consents and approvals from any relevant governments or regulatory authorities in Hong Kong or other jurisdictions (if applicable) or other relevant third parties in connection with the Leasing Arrangements under the Master Leasing Agreement required to be obtained on the part of the Group having been obtained.

Duration

The Master Leasing Agreement shall be for a term commencing from 8 November 2011 to the earlier of (i) the date of the EGM if the ordinary resolution approving the Leasing Arrangements under the Master Leasing Agreement (including the Annual Caps) is not obtained or (ii) 31 March 2014. In addition, the Master Leasing Agreement may be terminated by the Company by giving the Lessor at least sixty days' written notice of termination. In addition, each of the Leasing Arrangements to be entered into between the Company and the relevant Owner pursuant to the Master Leasing Agreement will have a term expiring on or before 31 March 2014.

Consideration and other terms

Pursuant to the Master Leasing Agreement, each Leasing Arrangement shall be on normal commercial terms and shall be on terms which are no less favourable than those offered by the Owners to other independent third parties and the amount of rental (exclusive of rates, land rent and management fees) under each Leasing Arrangement shall be determined by the parties to each Leasing Arrangement with reference to the then prevailing market rents on

premises comparable in location, area and permitted use. The government rent, rates and management fee under each Leasing Arrangement will be paid to the government or, as the case may be, the management companies by the relevant tenant direct.

The Annual Caps

The aggregate amount of rents paid to the Owners under the Existing Leasing Agreements for the period from 1 April 2011 up to the date of this announcement was approximately HK\$8.3 million. It is expected that the Annual Cap for the period from the date of the Master Leasing Agreement to 31 March 2012, the year ending 31 March 2013 and the year ending 31 March 2014 will not exceed HK\$19 million, HK\$55 million and HK\$55 million, respectively. These Annual Caps were determined after taking into account (i) the number of leasing agreements that are expected to be entered into by the Group under the Master Leasing Agreement; and (ii) the prevailing market rents of the Premises.

REASONS FOR AND BENEFITS OF ENTERING INTO THE CONTINUING CONNECTED TRANSACTIONS

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 beauty product sales at its network of service centres in Hong Kong and China. As mentioned above, given that it is the intention of the Group to continue to lease the Premises under some of the Existing Leasing Agreements to carry on its beauty and wellness business and it may lease other properties from the Owners, the Company has considered that the entering into of the Master Leasing Agreement will shelter the Group from any potential loss due to relocation of its existing beauty and wellness centres in the event the relevant Existing Leasing Agreements are not being renewed upon their expiry and save the administrative costs of the Group. In addition, the Master Leasing Agreement will also provide the Group with opportunities to lease new Premises from the Owners based on market prices in which the Company considers suitable for the continuous expansion of its network of beauty and wellness centres.

Having considered the above, the Directors (excluding the independent non-executive Directors whose opinion will be rendered and stated in the circular to be despatched after taking into account the advice from the Independent Financial Adviser) are of the view that the terms of the Master Leasing Agreement and the Annual Caps are fair and reasonable and the entering into of the Master Leasing Agreement is in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

By virtue of the Lessor being wholly-owned by a family trust set up by Ms. Tsang, an executive Director, chairperson of the Board and a controlling Shareholder interested in 496,934,000 issued Shares (representing approximately 68.68% of the issued share capital of the Company) as at the date of this announcement, the Lessor is a connected person of the Company and the Leasing Arrangements will constitute continuing connected transactions 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 Annual Caps are less than 25% but the annual consideration is more than HK\$10 million, the Leasing

Arrangements under the Master Leasing Agreement are subject to the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

GENERAL

The Lessor is an investment holding company incorporated under the laws of the British Virgin Islands with limited liability and is principally engaged in investment holding.

The Independent Board Committee comprising all of the independent non-executive Directors has been established to advise the Independent Shareholders in relation to the Leasing Arrangements under the Master Leasing Agreement and the Annual Caps. An Independent Financial Adviser will be appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

The EGM will be convened at which resolution(s) will be proposed to seek the Independent Shareholders' approval of, among other things, the Leasing Arrangements under the Master Leasing Agreement and the Annual Caps. Since Ms. Tsang is materially interested in the Master Leasing Agreement, she and her associates will be required to abstain from voting on the resolution(s) to be proposed at the EGM to approve the Master Leasing Agreement and the Annual Caps.

A circular containing, among other things, (i) details of the Master Leasing Agreement and the Annual Caps; (ii) the recommendation of the Independent Board Committee in respect of the Leasing Arrangements under the Master Leasing Agreement; (iii) a letter from the independent financial adviser to the Independent Board Committee and the Independent Shareholders containing its advice on the Leasing Arrangements and the Annual Caps; (iv) a notice of the EGM and (v) other information required under the Listing Rules will be despatched to the Shareholders on or before 30 November 2011.

DEFINITIONS

Unless the context requires otherwise, the following terms have the following meanings in this announcement:

“Annual Caps”	the maximum aggregate consideration payable by the Group to the Lessor and/or the Owners (as the case may be) under the Leasing Arrangements pursuant to the Master Leasing Agreement for the period from the date of the Master Leasing Agreement to 31 March 2012, the year ending 31 March 2013 and the year ending 31 March 2014 in the amount of HK\$19 million, HK\$55 million and HK\$55 million, respectively
“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
“Director(s)”	the director(s) of the Company

“EGM”	the extraordinary general meeting of the Company to be convened to consider, if thought fit, among other matters, the Leasing Arrangements pursuant to the Master Leasing Agreement and the Annual Caps
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“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
“Independent Financial Adviser”	an independent financial adviser to be appointed by the Company to advise the Independent Board Committee and the Independent Shareholders on the Leasing Arrangements under the Master Leasing Agreement and the Annual Caps
“Independent Shareholder(s)”	Shareholder(s) other than Ms. Tsang and her associates
“Leasing Arrangements”	the leasing of the Premises by the Group from the Owners pursuant to the Master Leasing Agreement by the entering into a tenancy or leasing agreement in respect of each of the Premises between the Group and the relevant Owner
“Lessor”	Asia Power Global Limited, a company with limited liability incorporated under the laws of British Virgin Island and is wholly-owned by a family trust set up by Ms. Tsang
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Master Leasing Agreement”	the agreement dated 8 November 2011 entered into between the Company and the Lessor in respect of the Leasing Arrangements
“Ms. Tsang”	Ms. Tsang Yue, Joyce, an executive Director, chairperson of the Board and a controlling Shareholder (within the meaning of the Listing Rules)
“Owners”	subsidiaries of the Lessor from time to time which are or may become the legal and beneficial owners of the Premises and “Owner” shall mean any of them
“Premises”	the properties owned/to be owned by the Owners from time to time in Hong Kong and/or other place(s) in the world which may be covered under the Master Leasing Agreement

“Share(s)”	share(s) of HK\$0.10 each of the Company
“Shareholder(s)”	shareholder(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong

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

Hong Kong, 8 November 2011

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.