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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 or registered institution in securities, a 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 registered institution in securities, 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)

**CONTINUING CONNECTED TRANSACTIONS
AND NOTICE OF EGM**

**Independent Financial Adviser to the Independent Board Committee and
the Independent Shareholders**



REORIENT Financial Markets Limited

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 3 to 10 of this circular.

A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on page 11 of this circular. A letter from the Independent Financial Adviser which contains its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 12 to 21 of this circular.

A notice convening the EGM to be held at 3/F., Nexxus Building, 77 Des Voeux Road Central, Hong Kong, on Monday, 19 December 2011 at 11:00 a.m. is set out on page EGM-1 of this circular. A proxy form for the EGM is also enclosed with this circular.

Whether or not you intend to attend and vote at the EGM or any adjourned meetings in person, you are requested to complete and return the accompanying proxy form in accordance with the instructions printed thereon and return it to the Company's share registrar in Hong Kong, Tricor Investor Services Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong 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 adjourned meeting. Completion and return of the proxy form will not preclude you from attending and voting in person at the EGM or any adjourned meeting if you so wish.

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DEFINITIONS

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

“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 8 November 2011 to 31 March 2012 and each of the two years ending 31 March 2013 and 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 at 3/F., Nexxus Building, 77 Des Voeux Road Central, Hong Kong on Monday, 19 December 2011 at 11:00 a.m. to consider, and if thought fit, approve 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 in respect of the Leasing Arrangements pursuant to the Master Leasing Agreement and the Annual Caps
“Independent Financial Adviser”	REORIENT Financial Markets Limited, a licensed corporation under the SFO to carry out business in type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance), type 7 (providing automated trading services) and type 9 (asset management) regulated activities, being the independent financial adviser to the Independent Board Committee and Independent Shareholders regarding the Master Leasing Agreement and the Annual Caps
“Independent Shareholder(s)”	Shareholders other than the Ms. Tsang and her associates

DEFINITIONS

“Latest Practicable Date”	29 November 2011, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“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
“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 that may be covered under the Master Leasing Agreement
“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
“Shareholders”	shareholders of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong

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:

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:*

6/F Sino Industrial Plaza
9 Kai Cheung Road
Kowloon Bay Kowloon
Hong Kong

2 December 2011

To the Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

On 8 November 2011, the Company announced that it had entered into the Master Leasing Agreement with the Lessor in relation to the leasing of the Premises by the Group from the Owners.

The purpose of this circular is to provide you with, among other things, details regarding (i) the Master Leasing Agreement (including the Annual Caps) and the transactions contemplated thereunder; (ii) the recommendation from the Independent Board Committee in respect of the Master Leasing Agreement and the transactions contemplated thereunder; (iii) the advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders; (iv) a notice convening the EGM; and (v) other information as required under the Listing Rules.

LETTER FROM THE BOARD

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 these Premises under the arrangement contemplated under the Master Leasing Agreement. The rental expenses in respect of the leasing of properties then owned by the Owners according to the Group’s relevant financial records are summarised as follows:

				For the year ended 31 March <i>(Note 1)</i>			Appraised monthly rental value <i>HK\$'000</i> <i>(Note 6)</i>
Premises under the Existing Leasing Agreements and terminated leases		Expiry Date	Tenure	2009 <i>HK\$'000</i>	2010 <i>HK\$'000</i>	2011 <i>HK\$'000</i>	
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 <i>(Note 3)</i>	12 November 2012	3 years	—	915.4	2,106.0*	730.0
2.	1st Floor, 2nd Floor (including the staircase entrance on Ground Floor appertaining to and exclusively leading to the said 1st Floor and 2nd Floor), Main Roof and the Exterior of the Eastern and Western Side Walls of Wai Lun Building, Nos. 78–84A, Hennessy Road, Wan Chai <i>(Notes 2, 3)</i>	12 November 2012	3 years	—	657.8	143.0	N/A
Kowloon							
3.	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 <i>(Note 3)</i>	12 November 2012	3 years	—	956.8	2,201.2*	380.0
New Territories							
4.	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 <i>(Note 3)</i>	12 November 2012	3 years	—	299.0	687.9*	148.0
5.	Workshop Units 2 and 3 on 4th Floor and Car Parking Space No. G11 on Ground Floor, Hong Kong Worsted Mills Industrial Building, Nos. 31–39, Wo Tong Tsui Street, Kwai Chung <i>(Notes 2, 3)</i>	12 November 2012	3 years	—	96.6	222.2*	N/A
6.	18/F Hou Feng Industrial Building, Nos.1–5 Wing Kin Road, Kwai Chung <i>(Note 3)</i>	12 November 2012	3 years	—	87.4	201.1*	55.0
7.	Shop 1 on Ground Floor and 1st Floor (with flat roof adjacent thereto), Len Fat Mansion, 56–60 & 64–86 Kin Yip Street, Yuen Long <i>(Note 3)</i>	12 November 2012	3 years	—	368.0	846.6*	160.0

LETTER FROM THE BOARD

Premises under the Existing Leasing Agreements and terminated leases	Expiry Date	Tenure	For the year ended 31 March (Note 1)			Appraised monthly rental value HK\$'000 (Note 6)
			2009 HK\$'000	2010 HK\$'000	2011 HK\$'000	
8. 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 & 307/313, Sha Tsui Road, Tsuen Wan, together with Flat 1 and Flat Roof on 1st Floor, Kwong Yick Building, 315-323 Sha Tsui Road, Tsuen Wan (Note 4)	30 September 2011	3 years	4,800.0	9,600.0	9,600.0	667.0

Notes:

- Inclusive of government rates, government rent and management charges.
- The leasing arrangements of these Premises have been terminated and as at the Latest Practicable Date, the management of the Company did not expect to continue to lease these properties.
- The Group entered into leasing arrangements with the Owners of the Premises numbered 1 to 7 for the leasing of such Premises for a term of three years commencing from 13 November 2009 to 12 November 2012. As disclosed in the announcement of the Company dated 23 September 2009, it is estimated that the rent payable by the Group for each of the five months ended 31 March 2010 and the year ended 31 March 2011 were approximately HK\$3.68 million and HK\$8.82 million, respectively. Based on the above, the rental expenses during the corresponding periods therefore represented an utilisation rate of approximately 91.9% and 72.7%, respectively.
- The Group entered into a leasing agreement dated 30 September 2008 with the Owner of Premises numbered 8 for a term of three years commencing from 1 October 2008 to 30 September 2011. As disclosed in the Company's announcement dated 30 September 2008, the annual caps in respect of such Premises were HK\$4.8 million and HK\$9.6 million and HK\$9.6 million for each of the three years ended 31 March 2009, 31 March 2010 and 31 March 2011, respectively (representing a 100% utilisation rate). Upon the expiry of such leasing agreement on 30 September 2011, the relevant Owner has granted a free-of-charge licence to the Group to use this Premises for a period from 30 September 2011 up to the earlier of (i) the conclusion and signing of a new tenancy agreement for this Premises under the Master Leasing Agreement or (ii) 31 December 2011. Details of such leasing agreement and the annual caps were disclosed in the Company's announcement dated 30 September 2008.
- Premises numbered 1, 7 and 8 are used by the Group as its beauty and wellness services centres, Premises numbered 3 is used by the Group as its office premise and Premises numbered 4 and 6 are used by the Group as its warehouse.
- Balances represented the monthly market rental value as at 15 September 2011 based on a market rental valuation report performed by an independent property valuer.
- The amount of the annual caps stated in items numbered 3 and 4 above have not included the rental expenses of certain leasing arrangements between the Group and some Owners. As detailed in the Company's annual report for the year ended 31 March 2011, these leasing arrangements were either terminated or expired during 2010 and 2011.

* Balances represented the rental expenses after taking into account the rent-free period from 1 October 2010 to 31 March 2011.

Since the Company intends to continue to lease Premises numbered 1, 3, 4, 6, 7 and 8 (the "Existing 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 Arrangements in the future.

LETTER FROM THE BOARD

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 Company 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 thereunder 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

LETTER FROM THE BOARD

and permitted use. It is expected that the monthly rents payable by the Group for the Existing Premises and other potential Premises that may be leased by the Group under the Leasing Arrangements will be at or lower than the monthly market rental value as appraised by an independent property valuer.

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 directly.

The Annual Caps

The aggregate amount of rental expenses under the Existing Leasing Agreements for April to November 2011 according to the Group's relevant financial records was approximately HK\$8.3 million. The Group has from time to time leased operating premises from the Owners for reasons including opening of new shops and/or relocation some of its existing shops. It is anticipated that, in particular, following the completion of the acquisition of Zegna Management Limited, a company wholly-owned by Ms. Tsang principally engaged in beauty and wellness services in Republic of Singapore ("Singapore") and Malaysia (as detailed in the Company's circular dated 30 September 2011), during the term of the Master Leasing Agreement, the Group may lease up to 14 additional Premises (including 6 Premises in Hong Kong with aggregate gross floor area of approximately 50,000 square feet that are available for leasing by the Group with a total appraised monthly market rental value of approximately HK\$1.6 million) from the Owners in locations including Hong Kong, Singapore and Malaysia, which amount to an aggregate gross floor area of over 100,000 square feet. In order to allow for a greater flexibility for the Group to capture the potential opportunities to lease such Premises from the Owners, in considering the Annual Caps, the Directors have taken into a number of factors including, (i) the business plan of the Group; (ii) the market rents of the Existing Premises and the additional Premises that are available to the Group in, among others, Hong Kong, Singapore and Malaysia; and (iii) the additional buffer required for the potential acquisition of Premises by the Owner in locations including Hong Kong, Singapore and Malaysia which are available for leasing to the Group in the future. Based on the above, it is estimated that the Annual Caps during the period from 8 November 2011 to 31 March 2012 and each of the two years ending 31 March 2013 and 31 March 2014 are HK\$19 million, HK\$55 million and HK\$55 million, respectively.

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 skincare and wellness 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 Existing Premises to carry on its beauty and wellness business and it may also lease other properties from the Owners in the future, the Company has considered that the entering into of the Master Leasing Agreement will not only 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, but will also provide the Group with opportunities to lease new Premises from the Owners at or lower than market prices in which the Company considers suitable for the expansion of its network of beauty and wellness centres. However, given the growth in the market rents in Hong Kong during the recent years, upon the entering into of the relevant Leasing Arrangements for the Premises, the Group may incur more rental expenses.

LETTER FROM THE BOARD

Prior to entering into any Leasing Arrangement, the management of the Company will assess the suitability of the Premises and the terms of the Leasing Arrangements. The Company will also engage an independent property valuer to assess the market rents of the underlying Premises and compare with the rents offered by the Owners. The independent non-executive Directors will also review, among other things, the relevant market rental valuation report and the Leasing Arrangements to ensure the terms of the Leasing Arrangements are (i) entered into in the ordinary and usual course of business of the Company; (ii) either on normal commercial terms, or on terms that are no less favourable to the Company than terms available from independent third parties; and (iii) in accordance with the Master Leasing Agreement.

Having considered the above, the Directors 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, the 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 Latest Practicable Date, the Lessor is thus a connected person of the Company and the Leasing Arrangements under the Master Leasing Agreement 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. REORIENT Financial Markets Limited has been appointed as Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

Since the Lessor is wholly-owned by a family trust set up by Ms. Tsang, she is considered as having a material interest in the Master Leasing Agreement and has abstained from voting on the relevant resolutions of the Board relating to the Master Leasing Agreement.

LETTER FROM THE BOARD

The EGM will be convened at which a resolution 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. As mentioned above, Ms. Tsang is materially interested in the Master Leasing Agreement, she and her associates will be required to abstain from voting on the resolution to be proposed at the EGM to approve the Master Leasing Agreement and the proposed Annual Caps.

EGM

A notice convening the EGM to be held at 3/F., Nexxus Building, 77 Des Voeux Road Central, Hong Kong, on Monday, 19 December 2011 at 11:00 a.m. is set out on pages EGM-1 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.

The EGM will be convened at which a resolution will be proposed to seek the Independent Shareholders' approval of, among other things, the transactions contemplated under the Master Leasing Agreement and the proposed Annual Caps.

To the best of Director's knowledge, information and belief, after making all reasonable enquiries, as at the Latest Practicable Date:

- (a) (i) there were no voting trust or other agreements or arrangements or understandings (other than outright sale) entered into by or binding upon Ms. Tsang and her associates; and

- (ii) there were no obligations or entitlement of Ms. Tsang and her associates,

whereby Ms. Tsang and her associates had or might have temporarily or permanently passed control over the exercise of the voting right in respect of their Shares to a third party, either generally or on a case-by-case basis; and

- (b) there were no discrepancy between the beneficial shareholding interests of the Lessor and Ms. Tsang and their respective associates and the number of Shares in respect of which they would control or would be entitled to exercise control over the voting right at the EGM.

RECOMMENDATION

The Independent Board Committee, having taken into account the advice of the Independent Financial Adviser, consider that the Master Leasing Agreement and transactions contemplated thereunder are 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 be proposed at the EGM to approve the Master Leasing Agreement (including the Annual Caps) and the transactions contemplated thereunder. The text of the letter from the Independent Board Committee is set out on page 11 of this circular.

LETTER FROM THE BOARD

Having considered the above-mentioned benefits to the Group's future business development, the Directors consider that the terms of the Master Leasing Agreement (including 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 and recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Master Leasing Agreement (including the Annual Caps) and the transactions contemplated thereunder.

By the order of the Board of
Modern Beauty Salon Holdings 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)

2 December 2011

To the Independent Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

This Independent Board Committee has been established to advise you on the terms of the Master Leasing 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 2 December 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 Master Leasing Agreement and the advice of the Independent Financial Adviser in relation thereto as set out on pages 12 to 21 of the Circular, we are of the opinion that the terms of the Master Leasing Agreement (including the Annual Caps) are fair and reasonable, on normal commercial terms and are in the interest of the Company and the 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 Master Leasing Agreement (including the Annual Caps) 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 THE INDEPENDENT FINANCIAL ADVISER

The following is the text of the letter of advice from REORIENT Financial Markets Limited, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, for the purpose of inclusion into this circular.



Suites 1102-03
Far East Finance Centre
16 Harcourt Road, Admiralty
Hong Kong

2 December 2011

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

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Master Leasing Agreement, details of which are set out in the circular of the Company dated 2 December 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 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 by the Master Leasing Agreement.

Ms. Tsang is a controlling Shareholder, an executive Director and the chairperson of the Board. The Lessor is wholly-owned by a family trust set up by Ms. Tsang and is thus a connected person of the Company. The Owners of the Premises are subsidiaries of the Lessor and therefore are associates of Ms. Tsang. The Leasing Arrangements under the Master Leasing Agreement will constitute continuing connected transactions 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 Annual Caps are less than 25% but the annual consideration is more than HK\$10 million, the Master Leasing Agreement (and the Leasing Arrangements contemplated thereunder) are subject to the reporting, annual review, announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

Since Ms. Tsang is materially interested in the Leasing Arrangements under the Master Leasing Agreement, she and her associates will be required to abstain from voting on the resolution to be proposed at the EGM to approve the Master Leasing Agreement and the Annual Caps.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee comprising all the independent 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 Master Leasing Agreement and the Leasing Arrangements.

REORIENT Financial Markets 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 Master Leasing Agreement (including the Annual Caps) are fair and reasonable, on normal commercial terms, in the ordinary and usual course of business of the Company 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 8 November 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, the Lessor and the Owners nor have we carried out any in-depth research on the Group, the Lessor and the Owners.

PRINCIPAL FACTORS CONSIDERED

In formulating our opinion on the Leasing Arrangements pursuant to the Master Leasing Agreement, we have taken into consideration the following principal factors:

Business of the Group

The Group is principally engaged in the provision of beauty and wellness services and sale of skincare and wellness products in Hong Kong and China and the sales of the Group are mainly derived from the provision of beauty services and sale of beauty products through the Group's beauty and wellness centre network.

For the year ended 31 March 2011, the Group's turnover grew to approximately HK\$586.5 million, representing an increase of approximately 36.2%, which was mainly contributed by the improvement of economy and appropriate positioning of the Group in the beauty industry in Hong Kong. Despite a decrease in the number of the Group's beauty and wellness centres in Hong Kong from 32 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. As at the Latest Practicable Date, the Group had 29 beauty and wellness centres and 16 retail shops in Hong Kong with a total weighted average gross floor area of 272,000 square feet.

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On 5 July 2011, the Group entered into an agreement to acquire a group of companies (the “S&M Group”) which are 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 from Ms. Tsang (the “S&M Acquisition”). The S&M Acquisition was approved by the Independent Shareholders at the extraordinary general meeting of the Group held on 27 October 2011 and shall be completed on or before the end of 2011. Upon completion of the S&M Acquisition, the Group’s business network will extend to Singapore and Malaysia.

As at the Latest Practicable Date, the S&M Group had a total of 9 beauty and wellness centres in Singapore and 3 beauty and wellness centres in Malaysia, with a total weighted average gross floor area of approximately 22,000 square feet and 8,900 square feet, respectively.

Revenue of the S&M Group increased from HK\$63.9 million for the year ended 31 March 2009 to HK\$122.5 million for the year ended 31 March 2010 and further to HK\$133.0 million for the year ended 31 March 2011.

Reasons for the Leasing Arrangements

As stated above, the operations of beauty and wellness centres in Hong Kong and China are, and after completion of the acquisition of the S&M Group as detailed above, in Singapore and Malaysia will form an integral part of the Group’s business.

All the beauty and wellness centres currently operated by the Group are being rented by the Group from independent third parties or the Owners (which are associates of Ms. Tsang).

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We set out below the rental expenses in respect of the Existing Premises under the Existing Leasing Agreements which are expected to continue under the Master Leasing Agreement.

			For the year ended 31 March			Appraised	
Premises under the			2009	2010	2011	monthly	
Existing Leasing Agreements	Expiry Date	Tenure	HK\$'000	HK\$'000	HK\$'000	rental	
			(Note 1)	(Note 1)	(Note 1)	value	
						HK\$'000	
						(Note 5)	
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 (Note 2)	12 November 2012	3 years	—	915.4	2,106.0	730.0
Kowloon							
2.	Workshop 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, 9 Kai Cheung Road, Kowloon Bay (Note 2)	12 November 2012	3 years	—	956.8	2,201.2	380.0
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 (Note 2)	12 November 2012	3 years	—	299.0	687.9	148.0
4.	18th Floor Hou Feng Industrial Building, Nos.1–5 Wing Kin Road, Kwai Chung, New Territories (Note 2)	12 November 2012	3 years	—	87.4	201.1	55.0
5.	Shop 1 on Ground Floor and 1st Floor (with flat roof adjacent thereto), Len Fat Mansion, 56–60 & 64–86 Kin Yip Street, Yuen Long, New Territories (Note 2)	12 November 2012	3 years	—	368.0	846.6	160.0

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Premises under the Existing Leasing Agreements	Expiry Date	Tenure	For the year ended 31 March			Appraised monthly rental value
			2009	2010	2011	
			HK\$'000	HK\$'000	HK\$'000	HK\$'000
			(Note 1)	(Note 1)	(Note 1)	(Note 5)
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 Sha Tsui Road, Tsuen Wan together with Flat 1 and Flat Roof on 1st Floor, Kwong Yick Building, 315-323 Sha Tsui Road, Tsuen Wan, New Territories (Note 3)	30 September 2011	3 years	4,800.0	9,600.0	9,600.0	667.0

Notes:

1. Inclusive of government rates, government rent and management charges.
2. As described in the Company's announcement dated 23 September 2009, the Group entered into leasing arrangements with companies controlled by Ms. Tsang for a number of Premises (including Premises numbered 1 to 5 but excluding Premises numbered 6) for a term of three years commencing from 13 November 2009. Details of these leasing arrangements and the annual caps were also disclosed in the aforesaid announcement dated 23 September 2009.
3. The Group entered into a leasing agreement dated 30 September 2008 with the Owner of the Premises for a term of three years commencing from 1 October 2008 to 30 September 2011. Upon the expiry of such leasing arrangement on 30 September 2011, the relevant Owner has granted a free-of-charge licence to the Group to use this Premises for a period from 30 September 2011 up to the earlier of (i) the conclusion and signing of a new tenancy agreement for this Premises under the Master Leasing Agreement or (ii) 31 December 2011. Details of such leasing agreement and the annual caps were disclosed in the Company's announcement dated 30 September 2008.
4. Premises numbered 1, 5 and 6 are used by the Group as its beauty and wellness 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.
5. Balances represent the market rental value as at 15 September 2011 based on a market rental valuation report issued by an independent property valuer.
6. There were two other Premises that the Group leased from the Owners during the three years ended 31 March 2011. We understand that such leases have been terminated.

Save for Premises numbered 2, 3 and 4, the other three Premises set out above are rented for use as beauty and wellness centres of the Group. Premises numbered 2 is being used by the Group as its office premises while Premises 3 and 4 are used as the Group's warehouse. All the above Premises are used in the ordinary and usual course of the Group's business. While the Existing Leasing Agreements were entered into 2 to 3 years ago, we note that the monthly rental payments for most of the Premises under the Existing Leasing Agreements are lower than the recent market monthly rental values of the related Premises as appraised by an independent property valuer, except for the rental payment in respect of one of the Premises which was above the recently appraised market rental value. Such lease agreement was entered into in September 2008. It was

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stated in the Company's announcement regarding such lease agreement that the terms of such lease agreement were on normal commercial terms with reference to the then prevailing market rental value as assessed by an independent property valuer. We understand from the Company that the rents for leasing this Premises would be adjusted downward at or below the appraised market rental value if the Group continues to rent such Premises under the Master Leasing Agreement. As stated in the Letter from the Board, it is expected by the Company that the monthly rents payable by the Group for the Existing Premises and other potential Premises that may be leased by the Group under the Leasing Arrangements will be at or lower than the above appraised monthly rental values.

We understand from the Company that it will continue to establish its beauty and wellness centre and retail shop network in Hong Kong and extend its network to Singapore and Malaysia following the completion of the S&M Acquisition. Subject to approval of the Independent Shareholders at the EGM, the Company intends to continue to lease the Premises under some of the Existing Leasing Agreements and, if appropriate, it may also lease other premises from the Owners subject to the principal terms under the Master Leasing Agreement and other factors including the locations of the Premises. The purpose of entering into the Master Leasing Agreement is to set out the principal terms and conditions governing such Leasing Arrangements in future as described above. The Company considers that continuing to lease the Premises by entering into 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 any of the Existing Leasing Agreements are not renewed upon their respective expiry and also save administrative costs for the Group. In addition, the Company is of the view that the Master Leasing Agreement will provide the Group with flexibility to lease new Premises from the Owners based on market prices or lower in which the Company considers suitable for the continuous expansion of its network of beauty and wellness centres.

Based on the above, we agree with the Company that the entering into of the Master Leasing Agreement is in the ordinary and usual course of business of the Company and in the interests of the Company and the Shareholders as a whole.

Principal terms of the Master Leasing Agreement

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. 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. Each Leasing Arrangement 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.

The Master Leasing Agreement may be terminated by the Company by giving the Lessor at least a sixty days' written notice of termination.

The Master Leasing Agreement and the Leasing Arrangements thereunder are conditional upon (i) the passing of the relevant ordinary resolution(s) by the Independent Shareholders at the EGM; and (ii) (if required) all requisite waivers, consents and approvals from any relevant

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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.

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 with reference to the prevailing market rents at the time when the leasing agreement concerned is entered into, 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 the management companies (as the case may be) by the Group directly. Based on our review of some other listed issuers' announcements, we note that the in-principle terms of the Master Leasing Agreement are similar to those under many master agreements regarding other listed issuers' continuing connected transactions in compliance with the Listing Rules. We consider this terms and structure of the Master Leasing Agreement are quite commonly used in the market. For any Leasing Arrangement to be entered into pursuant to the Master Leasing Agreement, the Company will engage an independent valuer to assess the market rents for the related Premises to be leased with a view to ensuring that the terms of the lease are on normal commercial terms or better. The independent non-executive Directors will also review the Leasing Arrangements to ensure that the Leasing Arrangements are (i) entered into in the ordinary and usual course of business of the Company; (ii) either on normal commercial terms, or on terms that are no less favourable to the Company than terms available from independent third parties; and (iii) in accordance with the Master Leasing Agreement. We consider that the above procedures allow the Company to comply with the terms of the Master Leasing Agreement in respect of any Leasing Arrangement to be entered into.

Whilst it has been agreed under the Master Leasing Agreement that the terms of the Leasing Arrangements have to be on normal commercial terms with reference to the then prevailing market rents, we understand from the Company that it is likely that the Lessor would be willing to lease the Premises at rents which are more favourable (to the Group) than the market rates.

As stated above, we note that the monthly rental payments for most of the Premises under the Existing Leasing Agreements are lower than the current market monthly rental values as appraised by an independent property valuer. We understand from the Company that in respect of the Premises for which the monthly rental under the Existing Leasing Agreements is higher than the current market rental appraised by the independent property valuer. Going forwards, if the Group continues to lease such Premises under the Master Leasing Agreement, the related rents will be adjusted so that they would be at least no less favourable than the prevailing market rent.

Based on the above, we agree with the Company that the terms of the Master Leasing Agreement are fair and reasonable.

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Annual Caps

The Company did not enter into any master agreement in respect of the Existing Leasing Agreements. The related annual caps in respect of the rents for the Existing Leasing Agreements as well as some other leases entered into at the same time (but were terminated early) as referred to in the table (the “Leases Table”) set out on pages 4 and 5 of the Letter from the Board were fixed based on the contracted rental payments under the related lease agreements entered into.

The actual rental expenses of the Group in respect of the leases stated in the Leases Table for the year ended 31 March 2010 and 2011 represented 97.7% and 86.9% of the aggregated related annual caps. This is because (i) many of the leases commenced in mid November 2009 whilst the annual caps for the financial year ended 31 March 2010 were fixed based on rental expenses for a whole month; (ii) two of the leases were terminated early during the year ended 31 March 2011; and (iii) the Owners granted the related lessees of the Premises rent-free period during the year ended 31 March 2011 which was not anticipated when the leases were entered into and the annual caps were fixed.

The absence of a master leasing agreement and an annual cap bigger than the contracted lease payments would hinder the ability of the Group to rent additional Premises from the Owners from time to time as and when the Company considers appropriate without going through all the related Listing Rules compliance procedure for each additional lease repeatedly. One major benefit of the Master Leasing Agreement is that the Group can have the flexibility in leasing additional appropriate Premises from the Owners at market terms without the need of going through repeated compliance procedures as in many other cases of continuing connected transactions allowed under the Listing Rules. Accordingly, the Annual Caps are proposed to be larger than the aggregate amount of the rents for those Premises that the Group is currently leasing from the Owners, which in turn is partly likely a result of the surging retail rental market in Hong Kong. It is proposed that the Annual Caps (representing the maximum annual rental excluding government rates, land rent and management fees) for the period from 8 November 2011 to 31 March 2012, the years ending 31 March 2013 and 31 March 2014 be HK\$19 million, HK\$55 million and HK\$55 million, respectively.

The proposed Annual Caps were determined by the Company after taking into account, among other factors, (i) the Group’s business plan, as detailed below; (ii) the number of leasing agreements that are expected to be entered into by the Group under the Master Leasing Agreement; and (iii) the prevailing market rents of the Premises expected to be leased by the Group under the Master Leasing Agreement.

As stated above in this letter, subject to approval of the Independent Shareholders at the EGM, the Group intends to continue to lease the six Existing Premises that it is currently leasing from the Owners. We note that the proposed Annual Caps have reflected the current market rentals of such six Existing Premises based on the independent property valuer’s appraised rental values as mentioned above in this letter.

We understand from the Company that for expansion or potential relocation needs, whilst the Group can purchase properties for these purposes, the Group may lease up to about 14 Premises for beauty and wellness centres and/or retail shops in Hong Kong, Singapore and Malaysia (following completion of the S&M Acquisition) (or other places depending on the development

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plan and opportunities which may arise from time to time) with an aggregate gross floor area of over 100,000 square feet. We understand from the Company that it has discussed with Ms. Tsang the Group's potential business needs and Ms. Tsang has indicated to the Company that she, through her associates, may acquire additional premises in Hong Kong, Singapore and/or Malaysia in the next few years which may be suitable to be leased to the Group to cater for its business plans. As such, in considering the amount of the Annual Caps, the management of the Company has also taken into account the potential opportunities that the Group may lease additional Premises from the Owners as considered appropriate (depending on the locations and the then market terms) in connection with the Group's business needs. We understand from the Company that there are six potential locations which the Group may consider leasing from the Owners and the Company has taken into consideration the current market rents in respect of these potential locations in determining the Annual Caps. Whilst the Group has reflected these potential leases in the Annual Caps, the Group is not obligated to lease such places from the Owners. Under the current proposal, the Group can have the flexibility to buy or lease appropriate premises for its present operation and/or expansion. The Master Leasing Agreement gives the Company an option to lease additional Premises from the Owners if it considers appropriate. The Company may or may not lease these six potential properties and may also lease other properties from the Owners depending on among other things the terms and conditions of the relevant leases as well as the suitability of the relevant locations.

The proposed Annual Caps are significantly higher than the existing annual rental payments in respect of the Existing Leasing Agreements. However, one of the Existing Premises have been used by the Group free of charge since 30 September 2011. Such free licence will expire the earlier of (i) upon the conclusion and signing of a new tenancy agreement for these Premises under the Master Leasing Agreement or (ii) on 31 December 2011. The Owners also granted the Group extra rent-free period during the term of the Existing Leasing Agreements which lowered the rental expenses incurred by the Group for leasing such Premises from the Owners. The difference between the proposed Annual Caps and the rents for the Existing Leasing Agreements is partly a result of the higher current market rental value as appraised by the independent property valuer as compared with the current rents under the Existing Leasing Agreements.

In addition to the rents for the six Premises currently being leased/used by the Group, the Group has built into the proposed Annual Caps room for renting additional places from the Owners during the term of the Master Leasing Agreement to cope with the Group's expansion plan as explained above. This additional part of the Annual Caps is determined by the Company based on (1) the market rents for some identified Premises that the Group may rent as appraised by an independent property valuer and (2) the possibility to rent more Premises based on estimated market rental yields. We have discussed with the Company its expansion plan and reviewed the appraisal report of the independent property valuer and some recent market research on market rental yields of retail shops in Hong Kong, Singapore and Malaysia.

Given that (1) the terms of the Master Leasing Agreement require the terms of each Lease Arrangement to be on normal commercial terms, (2) the expansion plan of the Group as briefly described above, and (3) the Leasing Arrangements are in the ordinary and usual course of business of the Group, we agree with the Company that the proposed Annual Caps are fair and reasonable.

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Conclusion

Having considered the above principal factors and reasons, we are of the opinion that the terms of the Master Leasing Agreement (including the Annual Caps) are on normal commercial terms, in the ordinary and usual course of business of the Company and in the interests of the Company and the Shareholders as a whole. We also consider that the terms of the Master Leasing Agreement (including the Annual Caps) are fair and reasonable so far as the Independent Shareholders are concerned.

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 the Master Leasing Agreement and the related proposed Annual Caps for the Leasing Arrangements.

Yours faithfully,
For and on behalf of
REORIENT Financial Markets Limited
John Maquire
Head of Corporate Finance

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 (i) 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 and short positions which they have taken or were deemed to have under such provisions of the SFO); (ii) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required, 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
					(Note 1)
Ms. Tsang	Interests of controlled corporations (Note 2)	468,000,000	—	468,000,000	64.68%
	Founder of discretionary trust	28,284,000	—	28,284,000	3.91%
	Interest of spouse (Note 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.
3. Ms. Tsang 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	Silver Compass Holdings Corp. <i>(Note)</i>	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
			(Note 1)
Mr. Lee Soo Ghee	Beneficial owner	650,000	0.09%
	Interest of spouse (Note 2)	496,284,000	68.59%
Silver Compass Holdings Corp.	Beneficial owner (Note 3)	367,200,000	50.75%
Silver Hendon Enterprises Corp.	Beneficial owner (Note 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 and is deemed to be interested in the Shares in which Ms. Tsang 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. Ms. Tsang 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 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 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.

5. COMPETING INTERESTS

Subject to the completion of the sale and purchase agreement (the “Sale and Purchase Agreement”) dated 5 July 2011 entered into between the Group and Ms. Tsang (as amended and supplemented by a supplemental agreement (“Supplemental Agreement”) dated 30 September 2011 entered into between the Group and Ms. Tsang) pursuant to which the Group would acquire from Ms. Tsang the entire issued share capital of Zegna Management Limited and its subsidiaries (excluding one subsidiary incorporated in Hong Kong) which are principally engaged in the provision of beauty and wellness services in Singapore and Malaysia, details of which were disclosed in the Company’s circular dated 30 September 2011, 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 Master Leasing Agreement (and the Leasing Arrangements contemplated thereunder) as disclosed in the section headed “Letter from the Board” of this circular the following agreements have been entered into between the Group and the Directors or companies in which the Directors are materially interested which are subsisting as at the Latest Practicable Date:

A. The Sale and Purchase Agreement (as amended and supplemented by the Supplemental Agreement)

On 5 July 2011, the Group and Ms. Tsang entered into the Sale and Purchase Agreement (as amended and supplemented by the Supplemental Agreement) pursuant to which the Group would acquire from Ms. Tsang the entire issued share capital of Zegna Management Limited and its subsidiaries (excluding one subsidiary incorporated in Hong Kong) which are principally engaged in the provision of beauty and wellness services in Singapore and Malaysia. The consideration for the said acquisition was HK\$250,000,000 which would be satisfied by in full by the issue of convertible note by the Company with a 2% coupon per annum. Details of the terms of the Sale and Purchase Agreement (as amended and supplemented by the Supplemental Agreement) were set out in the Company’s circular dated 30 September 2011;

B. Tenancy Agreement in respect of Premises numbered 1

On 13 November 2009, the Group entered into a tenancy agreement with Well Faith International Enterprise Limited (“Well Faith”), a subsidiary of the Lessor which is wholly-owned by a family trust set up by Ms. Tsang, pursuant to which the Group leased from Well Faith the premises situate at 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 for a term of three years commencing from 13 November 2009 to 12 November 2012 at a monthly rental of HK\$199,000;

C. Tenancy Agreement in respect of Premises numbered 3

On 13 November 2009, the Group entered into a tenancy agreement with Well Faith pursuant to which the Group leased from Well Faith the premises situate at 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, Kowloon for a term of three years commencing from 13 November 2009 to 12 November 2012 at a monthly rental of HK\$208,000;

D. Tenancy Agreement in respect of Premises numbered 4

On 13 November 2009, the Group entered into a tenancy agreement with East Union Industries Limited (“East Union”), a subsidiary of the Lessor which is wholly-owned by a family trust set up by Ms. Tsang, pursuant to which the Group leased from East Union the premises situate at 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 for a term of three years commencing from 13 November 2009 to 12 November 2012 at a monthly rental of HK\$65,000;

E. Tenancy Agreement in respect of Premises numbered 6

On 13 November 2009, the Group entered into a tenancy agreement with Joy East Limited (“Joy East”), a subsidiary of the Lessor which is wholly-owned by a family trust set up by Ms. Tsang, pursuant to which the Group leased from Joy East the premises situate at 18/F Hou Feng Industrial Building, Nos.1–5 Wing Kin Road, Kwai Chung, New Territories for a term of three years commencing from 13 November 2009 to 12 November 2012 at a monthly rental of HK\$19,000;

F. Tenancy Agreement in respect of Premises numbered 7

On 13 November 2009, the Group entered into a tenancy agreement with Wise World Limited (“Wise World”), a subsidiary of the Lessor which is wholly-owned by a family trust set up by Ms. Tsang, pursuant to which the Group leased from Wise World the premises situate at Shop 1 on Ground Floor and 1st Floor (with flat roof adjacent thereto), Len Fat Mansion, 56–60 & 64–86 Kin Yip Street, Yuen Long, New Territories for a term of three years commencing from 13 November 2009 to 12 November 2012 at a monthly rental of HK\$80,000; and

G. Tenancy Agreement in respect of Premises numbered 8

On 30 September 2008, the Group entered into a tenancy agreement with Golden National Limited (“Golden National”), a subsidiary of the Lessor which is wholly-owned by a family trust set up by Ms. Tsang, pursuant to which the Group leased from Golden National the premises situate at 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 & 307/313, Sha Tsui Road, Tsuen Wan, together with Flat 1 and Flat Roof on 1st Floor, Kwong Yick Building, 315–323 Sha Tsui Road, Tsuen Wan, New Territories for a term of three years commencing from 1 October 2008 to 30 September 2011 at a monthly rental of HK\$800,000. The said tenancy agreement expired on 30 September 2011 and since 30 September 2011, Golden National has granted a free-of-charge licence to the Group to use this premises for a period from 30 September 2011 up to the earlier of (i) the conclusion and signing of a new tenancy agreement for this premises under the Master Leasing Agreement or (ii) 31 December 2011.

Save as disclosed above, as at the Latest Practicable Date, 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 Group or proposed to be acquired, disposed of by or leased to any member of the Group.

7. SHARE CAPITAL

As at the Latest Practicable Date, the authorized and issued share capital of the Company, together with changes proposed in the Circular dated 30 September 2011, 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 to be issued pursuant to the Sale and Purchase Agreement in full (<i>Note 1</i>)	23,809,524
<u>961,615,238</u>	<u>96,161,524</u>

Note 1: Details of the Sale and Purchase Agreement were disclosed in the Company's circular dated 30 September 2011.

8. NO MATERIAL ADVERSE CHANGE

The Directors confirm that as at the Latest Practicable Date, they were not aware of any material adverse change in the financial or trading position of the 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 EXPERT

The following are the qualifications of the expert who has given opinions or advice which are contained or mentioned in this circular:

Name	Qualifications
REORIENT Financial Markets Limited	REORIENT Financial Markets Limited, a licensed corporation under the SFO to carry out business in type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance), type 7 (providing automated trading services) and type 9 (asset management) regulated activities, being the independent financial adviser to the Independent Board Committee and Independent Shareholders regarding the Master Leasing Agreement and the Annual Caps

The Independent Financial Adviser has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and/or reference to its name or opinion in the form and context in which it appears.

The Independent Financial Adviser 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 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. 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 annual reports of the Company for the years ended 31 March 2010 and 2011;
- (c) The letter from the Independent Financial Adviser which forms part of this circular; and
- (d) the copy of the Master Leasing Agreement.

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 3/F., Nexxus Building, 77 Des Voeux Road Central, Hong Kong, on Monday, 19 December 2011 at 11:00 a.m., to consider and, if thought fit, pass the following resolution as an ordinary resolution:

ORDINARY RESOLUTION

“THAT:

- (A) the (i) transactions as contemplated under the Master Leasing Agreement (as defined in the circular of the Company dated 2 December 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) dated 8 November 2011 entered into between the Company and Asia Power Global Limited; and (ii) the relevant caps for such transactions for the period from 8 November 2011 to 31 March 2012 and each of the two years ending 31 March 2013 and 31 March 2014 as set out in the Circular be and are hereby approved; and
- (B) 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 Master Leasing Agreement 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 Master Leasing 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 Holdings Limited
Leung Man Kit
Executive Director

Hong Kong, 2 December 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