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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, 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 enclosed form of proxy to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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MODERN BEAUTY SALON HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 919)

MAJOR AND CONNECTED TRANSACTION IN RELATION TO THE DISPOSAL AND NOTICE OF EXTRAORDINARY GENERAL MEETING

Financial Adviser



CIMB Securities (HK) Limited

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



Shenyin Wanguo Capital (H.K.) Limited

A letter from the Board is set out on pages 4 to 10 of this circular. A letter from the Independent Board Committee is set out on page 11 of this circular. A letter from Shenyin Wanguo containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 12 to 29 of this circular.

A notice convening the EGM to be held at 11:00 a.m. on Friday, 30 October 2009 at Lower G/F, Far East Finance Centre, No. 16 Harcourt Road, Admiralty, Hong Kong, is set out on pages N-1 to N-2 of this circular.

A proxy form for use at the EGM is enclosed with this circular. Whether or not you intend to attend the EGM in person, you are requested to complete the proxy form in accordance with the instructions printed thereon and return the same to the Company's branch share registrar, Tricor Investor Services Limited 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 adjournment thereof. Completion and return of the proxy form will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

14 October 2009

CONTENTS

	<i>Page</i>
Definitions	1
Letter from the Board	4
Letter from the Independent Board Committee	11
Letter from Shenyin Wanguo	12
Appendix I — Financial Information on the Group	I-1
Appendix II — Valuation Report on the Properties	II-1
Appendix III — General Information	III-1
Notice of EGM	N-1

DEFINITIONS

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

“Aggregate Consideration”	the aggregate consideration of HK\$190 million for the disposal of the entire issued share capital of each of the Sale Companies and the Sale Loan pursuant to the Disposal Agreement
“associates”	has the same meaning as ascribed to it in the Listing Rules
“Board”	the board of the Directors
“Company”	Modern Beauty Salon Holdings Limited, a company incorporated in the Cayman Islands with limited liability and the shares of which are listed on the main board of the Stock Exchange (stock code: 919)
“Completion”	the completion of the sale and purchase of the Sale Companies and the Sale Loan under the Disposal Agreement pursuant to the terms and conditions thereof
“Completion Date”	the third business day (or such other date as may be agreed by the Vendor and the Purchaser) after the day on which the Purchaser being notified by the Vendor as to the fulfillment of condition (a) of the Conditions, at which Completion will take place
“Conditions”	the conditions precedent to Completion, particulars of which are set out in the paragraph headed “Conditions precedent for Completion” in the section headed “Letter from the Board” of this circular
“connected person”	has the meaning as ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“Disposal”	the sale of the Sale Companies and the Sale Loan by the Vendor to the Purchaser pursuant to the Disposal Agreement
“Disposal Agreement”	the sale and purchase agreement dated 23 September 2009 entered into between the Vendor and the Purchaser in relation to the Disposal
“EGM”	an extraordinary general meeting of the Company convened to be held on 30 October 2009 for the purpose of considering, and if thought fit, approving the Disposal Agreement and the transactions contemplated thereunder
“Group”	the Company and its subsidiaries

DEFINITIONS

“Group A Properties”	the properties owned by the Sale Companies, which are currently used by the Group as its operating facilities
“Group B Properties”	the properties situated at Workshop Units 401, 404A, 404B and 405 on 4th Floor, Hong Kong Worsted Mills Industrial Building, Nos. 31-39 Wo Tong Tsui Street, Kwai Chung, New Territories, Hong Kong, which are currently owned by East Union Industries Limited, one of the Sale Companies, and are currently leased to an independent third party for rental income
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Board Committee”	an independent board committee of the Company comprising all the independent non-executive Directors to advise the Independent Shareholders on the Disposal
“Independent Shareholders”	Shareholders who are not prohibited under the Listing Rules from voting at the EGM to approve the Disposal Agreement and the transactions contemplated thereunder
“Latest Practicable Date”	12 October 2009, being the latest practicable date for ascertaining certain information referred to herein prior to the printing of this circular
“Lease Agreement(s)”	various lease agreements to be entered into between the Group (as tenant) and the relevant Sale Company (as landlord) concurrently with the Completion in relation to the lease of the Group A Properties
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Ms. Tsang”	Ms. Tsang Yue, Joyce, the controlling Shareholder
“Properties”	the Group A Properties and the Group B Properties
“Purchaser”	All Link International Limited, a company which is ultimately beneficially owned by Ms. Tsang
“PRC”	The People’s Republic of China which for the purpose of this circular excludes Hong Kong, the Macau Special Administrative Region and Taiwan

DEFINITIONS

“Sale Companies”	East Union Industries Limited, Joy East Limited, Well Faith International Enterprise Limited and Wise World Limited, each of which is an indirect wholly owned subsidiary of the Company as at the Latest Practicable Date
“Sale Loan”	all amounts due by the Sale Companies to the Vendor as at the Completion Date, which amounted to approximately HK\$144.1 million as at 31 July 2009
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended from time to time
“Share(s)”	the ordinary share(s) of HK\$0.10 each in the issued share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Shareholder’s Loan”	the amount of HK\$118 million due to Ms. Tsang by the Company
“Shenyin Wanguo”	Shenyin Wanguo Capital (H.K.) Limited, a licensed corporation to carry on type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities (as defined in the SFO) and the independent financial adviser to the Independent Board Committee and the Independent Shareholders regarding the Disposal
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiaries”	has the meaning as ascribed thereto under the Listing Rules
“Vendor”	Modern Beauty Management Company Limited, a wholly owned subsidiary of the Company
“%”	per cent.

LETTER FROM THE BOARD



MODERN BEAUTY SALON HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 919)

Executive Directors:

Mr. Lee Soo Ghee

(Chairperson and Chief Executive Officer)

Ms. Yuen Siu Ping

Mr. Yip Kai Wing

Mr. Kwong Chi Ching

Ms. Chu Shu Ching

Ms. Yeung Ching Yu

Mr. Tung Kwok Lui

Mr. Wong Shu Pui

Independent non-executive Directors:

Mr. Cheng Kai Tai, Allen

Mr. Yip Ki Chi Luke

Mr. Soo SK Sean

Company Secretary:

Mr. Tung Kwok Lui

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

14 October 2009

To the Shareholders

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION IN RELATION TO THE DISPOSAL

I. INTRODUCTION

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

LETTER FROM THE BOARD

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

As a result of the Disposal, the Group and the relevant Sale Companies will enter into the Lease Agreements in respect of the Group A Properties concurrently with the Completion pursuant to which the Sale Companies will agree to lease the Group A Properties to the Group at an aggregate annual rental of HK\$8.82 million for the period commencing from the day following the Completion Date and expiring on the third anniversary of the Completion Date. The transactions contemplated under the Lease Agreements will constitute continuing connected transactions for the Company and will be subject to reporting and announcement requirements under Chapter 14A of the Listing Rules. Details of the Lease Agreements have been set out in the announcement of the Company dated 23 September 2009.

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

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

The Independent Board Committee has been formed to advise the Independent Shareholders on the Disposal. Shenyin Wanguo has been appointed to advise the Independent Board Committee and the Independent Shareholders on the Disposal. The text of the letter of advice from Shenyin Wanguo to the Independent Board Committee and the Independent Shareholders containing its recommendation and the principal factors it has taken into account in arriving at its recommendations are set out on pages 12 to 29 of this circular.

The purpose of this circular is to provide you with details of the Disposal and the Group as required under the Listing Rules, the letter from Independent Board Committee and the letter from Shenyin Wanguo and to give you the notice of the EGM at which an ordinary resolution will be proposed and, if thought fit, passed to approve the Disposal Agreement and the transactions contemplated thereunder.

II. THE DISPOSAL

The principal terms of the Disposal Agreement are as follows:

Date

23 September 2009

LETTER FROM THE BOARD

Parties

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

Assets to be disposed of

The entire issued share capital of each of the Sale Companies and the Sale Loan constitutes the assets to be disposed of. As at 31 July 2009, the Sale Loan, in aggregate, amounted to approximately HK\$144.1 million.

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

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

Consideration

The Aggregate Consideration of HK\$190 million was arrived at after arm's length negotiations between the Vendor and the Purchaser taking into account (i) the aggregate net assets value of the Sale Companies as at 31 March 2009 of approximately HK\$3.3 million (comprising principally the Properties with an aggregate book value of approximately HK\$153.4 million and the Sale Loan), (ii) the market value of the Properties of HK\$196 million as of 31 August 2009 as valued by Jones Lang LaSalle Sallmanns Limited ("**Jones Lang LaSalle**"), an independent valuer, and (iii) the face value of the Sale Loan as at 31 July 2009 of approximately HK\$144.1 million.

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

Conditions precedent for Completion

Completion shall be conditional upon the following:

- (a) the transactions contemplated under the Disposal Agreement having been approved by the Independent Shareholders at the EGM; and

LETTER FROM THE BOARD

- (b) there is no breach of any representations, warranties or undertakings of the Vendor set out in the Disposal Agreement.

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

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

Completion

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

Financial effects of the Disposal on the Company

Upon Completion, the Company will cease to have any interest in each of the Sale Companies and each of the Sale Companies will cease to be a subsidiary of the Company. Pursuant to the Disposal Agreement, the Aggregate Consideration shall be settled as to HK\$118 million by setting-off the Shareholder's Loan and as to HK\$72 million in cash, in each case, upon Completion.

Upon Completion, the Company expects to record a gain on Disposal of approximately HK\$36 million (being the difference between the Aggregate Consideration and the net assets value of the Sale Companies and the face value of the Sale Loan as at 31 March 2009, after deducting the cost incurred in relation to the Disposal). Shareholders should note that the actual gain on Disposal to be recorded by the Company will depend on the net assets value of the Sale Companies as at the date of Completion. Upon Completion, the Company will not have any shareholding interest in the Sale Companies and each of the Sale Companies will cease to be accounted for as a subsidiary of the Company.

Based on the Group's audited consolidated balance sheet as at 31 March 2009, the Group's total assets and total liabilities were approximately HK\$609.7 million and HK\$310.8 million, respectively. Before deducting the cost incurred in relation to the Disposal, the Disposal would result in a decrease in the total assets of the Group of approximately HK\$82.7 million, and a decrease in total liabilities of approximately HK\$120.6 million.

LETTER FROM THE BOARD

III. INFORMATION ON THE SALE COMPANIES

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

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

The unaudited combined net assets value of the Sale Companies and the aggregate book value of the Sale Loan as at 31 March 2009 were approximately HK\$3.3 million and approximately HK\$148.8 million respectively.

The aggregated market value of the Properties as at 31 August 2009 as valued by Jones Lang LaSalle was approximately HK\$196 million.

IV. REASONS AND BENEFITS FOR THE DISPOSAL AND THE USE OF PROCEEDS

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

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

Taking into consideration that (i) the Disposal will allow the Group to realize its investment in the Properties at a gain; (ii) the net proceeds from the Disposal will provide additional resources to the Group as working capital of its principal activities; and (iii) the Lease Agreements, which are part and parcel of the Disposal, allows the Group's continued use of the Group A Properties, the Directors consider the Disposal are on normal commercial terms and the terms of the Disposal are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

V. LISTING RULES IMPLICATIONS

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

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

LETTER FROM THE BOARD

VI. THE EGM

The EGM will be held to consider and, if thought fit, pass the resolution to approve the Disposal Agreement and the transactions contemplated thereunder. As at the Latest Practicable Date, Ms. Tsang and her associates held an aggregate of 476,018,000 Shares, representing approximately 65.79% of the total issued share capital of the Company. Ms. Tsang and her associates will abstain from voting in favour of the resolution to approve the Disposal Agreement and the transactions contemplated thereunder at the EGM. Save for Ms. Tsang and her associates, no Shareholder is required to abstain from voting in favour of the resolution to approve the Disposal Agreement and the transactions contemplated thereunder at the EGM.

A proxy form for use at the EGM is enclosed with this circular. Whether or not you intend to attend the EGM in person, you are requested to complete the proxy form in accordance with the instructions printed thereon and return the same to the Company's share registrar, Tricor Investor Services Limited 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 adjournment thereof. Completion and return of the proxy form will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

The votes at the EGM shall be taken by poll and the results of the poll will be published on the websites of the Stock Exchange and the Company as soon as possible in accordance with Rule 13.39 of the Listing Rules.

VII. RECOMMENDATIONS

The Independent Board Committee, having taken into account the advice of Shenyin Wanguo, consider that the Disposal is fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the resolution to approve the Disposal Agreement and the transactions contemplated thereunder. The text of the letter from the Independent Board Committee is set out on page 11 of this circular.

The Shareholders who are eligible to vote at the EGM are urged to read the letters from Shenyin Wanguo and the Independent Board Committee before making a decision as to how to vote at the EGM. The Directors consider that the Disposal is fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Independent Shareholders to vote in favour of the relevant resolution to be proposed at the EGM.

LETTER FROM THE BOARD

VIII. FURTHER INFORMATION

Your attention is drawn to the texts of the letters from the Independent Board Committee and Shenyin Wanguo containing their respective recommendations and opinions regarding the Disposal. Your attention is also drawn to the information set out in the appendices to this circular.

Yours faithfully,
For and on behalf of the Board
Modern Beauty Salon Holdings Limited
Yip Kai Wing
Director

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



MODERN BEAUTY SALON HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 919)

14 October 2009

To the Independent Shareholders

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION IN RELATION TO THE DISPOSAL

We refer to the circular issued by the Company to its Shareholders and dated 14 October 2009 (“**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.

As the Independent Board Committee, we have been appointed to advise you in connection with the Disposal and to advise you as to whether, in our opinion, the terms of the Disposal are fair and reasonable so far as the Independent Shareholders are concerned. Details of the Disposal are set out in the letter from the Board contained in the Circular. Shenyin Wanguo has been appointed as the independent financial adviser to advise you and us in respect of the terms of the Disposal. Details of its advice and the principal factors taken into consideration in arriving at its recommendations are set out in the letter from Shenyin Wanguo on pages 12 to 29 of this Circular.

Having considered the terms of the Disposal, taking into account the information contained in this Circular and the advice of Shenyin Wanguo, we are of the opinion that the terms of the Disposal are fair and reasonable and are in the interest of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to approve the Disposal Agreement and the transactions contemplated thereunder at the EGM.

Yours faithfully,

For and on behalf of the Independent Board Committee

Mr. Cheng Kai Tai, Allen

Independent

non-executive Director

Mr. Yip Ki Chi Luke

Independent

non-executive Director

Mr. Soo SK Sean

Independent

non-executive Director

LETTER FROM SHENYIN WANGUO

The following is the full text of the letter of independent advice from Shenyin Wanguo Capital (H.K.) Limited regarding the Disposal for the purpose of inclusion in this circular:



Shenyin Wanguo Capital (H.K.) Limited

28th Floor, Citibank Tower

Citibank Plaza

3 Garden Road

Hong Kong

14 October 2009

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

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION IN RELATION TO THE DISPOSAL

INTRODUCTION

We refer to the circular of Modern Beauty Salon Holdings Limited dated 14 October 2009 (the “**Circular**”), of which this letter forms part, regarding the proposed disposal of the Sale Companies and the Sale Loan by the Group to the Purchaser (the “**Transaction**”). Unless the context otherwise requires, terms used in this letter shall have the same meanings as defined in the Circular.

The Transaction constitutes a major transaction for the Company under Chapter 14 of the Listing Rules. Given the Purchaser is ultimately beneficially owned by Ms. Tsang, the controlling Shareholder (which has the meaning ascribed thereto under the Listing Rules), the Purchaser is a connected person of the Company under the Listing Rules. As such, the Transaction also constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. The Transaction requires the approval of the Independent Shareholders at the EGM by way of poll. Details regarding the EGM are set out in the Circular. Ms. Tsang and her associates shall abstain from voting in respect of the Transaction at the EGM.

We, Shenyin Wanguo Capital (H.K.) Limited, have been appointed by the Company as the independent financial adviser to advise you on the Transaction, details of which are set out in the Circular. In this letter, we will make recommendations to you as to whether the Transaction is on normal commercial terms and in the ordinary and usual course of business of the Group, the terms of the Transaction are fair and reasonable and in the interests of the Company and the Shareholders as a whole as well as to advise the Independent Shareholders on how to vote at the EGM in respect of the Transaction.

The Independent Board Committee, comprising all of the three independent non-executive Directors, namely Mr. Cheng Kai Tai, Allen, Mr. Yip Ki Chi Luke and Mr. Soo SK Sean, has been

LETTER FROM SHENYIN WANGUO

established to advise the Independent Shareholders, taking into account our recommendations set out in this letter, as to whether the terms of the Transaction are fair and reasonable and whether the Transaction is in the interests of the Company and the Shareholders as a whole as well as to advise the Independent Shareholders on how to vote at the EGM in respect of the Transaction. The advice of the Independent Board Committee as regards the Transaction is contained in its letter included in the Circular.

BASIS OF OUR OPINION

In formulating our opinion, we have relied on the information and statements supplied, opinions and representations expressed by the Company and the Directors and have assumed that all such information and statements supplied, opinions and representations expressed to us were true, accurate and complete in all material aspects at the time they were provided and continue to be true up to the date of the EGM. We have also sought and obtained confirmation from the Company that no material facts have been omitted from the information and statements supplied as well as opinions and representations expressed to us.

We consider that we have been provided with sufficient information to enable us to reach our advice and recommendations as set out in this letter and to justify our reliance on the accuracy of such information. We have no reason to suspect that any material facts or information (which are known to the Company) have been omitted or withheld from the information or statements supplied, or opinions or representations expressed to us nor to doubt the truth and accuracy of the information and statements supplied, or the reasonableness of the opinions and representations expressed to us. We have not, however, carried out any independent verification on the information provided to us by the Company and the Directors, nor have we conducted an independent in-depth investigation into the business or affairs or future prospects of the Group.

PRINCIPAL FACTORS AND REASONS CONSIDERED

We have taken into account the following principal factors and reasons in arriving at our recommendations with regard to the Transaction:

Principal terms of the Transaction

On 23 September 2009, the Board announced that on the same day, the Disposal Agreement was entered into between the Vendor (a wholly-owned subsidiary of the Company) and the Purchaser (an investment holding company ultimately beneficially owned by Ms. Tsang, the controlling Shareholder, founder, former chief executive officer and chairperson of the Group) whereby the entire issued share capital of each of the Sale Companies and the Sale Loan shall be conditionally disposed of by the Vendor to the Purchaser for the Aggregate Consideration of HK\$190 million. The Sale Companies comprise four investment holding companies which are all wholly owned by the Company. The principal assets of the Sale Companies are the Properties, which are located in Hong Kong. The Sale Loan represents the aggregate amount due to the Vendor by the Sale Companies immediately prior to Completion. The principal terms of the Transaction are as follows:

LETTER FROM SHENYIN WANGUO

- (i) The entire issued share capital of each of the Sale Companies and the Sale Loan shall be disposed of by the Group to the Purchaser.
- (ii) The Aggregate Consideration amounts to HK\$190 million, HK\$118 million of which shall be set off by the Shareholder's Loan due to Ms. Tsang and the Purchaser by the Group and HK\$72 million of which shall be settled in cash at Completion. The Aggregate Consideration will remain HK\$190 million at Completion and is not expected to be subject to any adjustment.
- (iii) Completion shall take place at the Completion Date, which is conditional upon: (a) the transactions contemplated under the Disposal Agreement having been approved by the Independent Shareholders at the EGM; and (b) there is no breach of any representations, warranties or undertakings of the Vendor set out in the Disposal Agreement. Pursuant to the Disposal Agreement, the Purchaser may waive condition (b) by written notice to the Vendor.

The Properties comprise Group A Properties and Group B Properties. Group A Properties are currently used by the Group as its operating facilities in various locations in Hong Kong. Group B Properties in Kwai Chung, New Territories are currently leased by one of the Sale Companies to an independent third party for a total of approximately HK\$57,000 per month. Pursuant to the Disposal Agreement, the Purchaser shall procure the Sale Companies to enter into the Lease Agreements with the nominee(s) of the Vendor at Completion in respect of the leasing back of Group A Properties by the Group at an aggregate annual rental of HK\$8.82 million for a term commencing on the day following the Completion Date and expiring on the third anniversary of the Completion Date. The Directors have advised that the entering into of the Lease Agreements is expected to take place at Completion albeit it is not a condition precedent to Completion. Pursuant to the Disposal Agreement, the Vendor shall not be obliged to complete the Transaction (without prejudice to any further legal remedies) in the event that the Lease Agreements are not entered into at Completion.

Business of the Group

The Group is a leading beauty salon group in Hong Kong offering a comprehensive range of beauty and wellness services to mid- and high-income customer groups who pursue quality living. The Group adopts a multi-brand strategy to capture different customer segments. The Group offers a comprehensive array of beauty and wellness services which are marketed under different brand names including:

- (i) beauty and facial services under “*Modern Beauty Salon*”;
- (ii) spa and massage services under “*be Sanctuary spa*”, “*Yue Spa*” and “*Moment of Serenity*”;
- (iii) slimming services under “*Slim Express*”, “*Global Slim*” and “*Well Nutrition*”;
- (iv) fitness services under “*Modern Fitness*”, “*Soo Yoga*” and “*Dance Square*”;
- (v) male salon services under “*HEYMAN*” and “*be homme*”;

LETTER FROM SHENYIN WANGUO

- (vi) a healthcare centre under “*Kin Yue*”;
- (vii) a beauty college under “*Beauty Expert International College*”; and
- (viii) distribution of its own label “*be*” products at “*be Beauty Shops*”.

As at 31 March 2009, the Group operated 36 service centres and 13 “*be Beauty Shops*” in Hong Kong, as well as 10 service centres in Mainland China with four in Beijing, three in Shanghai and three in Guangzhou. For the year ended 31 March 2009, over 94.5% of the Group’s revenue was generated from its business in Hong Kong. The shares of the Company were listed on the Main Board of the Stock Exchange on 9 February 2006 (“**Listing**”).

Information on the Sale Companies and the Sale Loan

The Sale Companies comprise four wholly-owned subsidiaries of the Company which are all incorporated in Hong Kong with limited liability. The principal activities of the Sale Companies are investment holdings and their principal assets are the Properties, which are located in Hong Kong.

Set out below is the unaudited financial information relating to the Sale Companies, as provided by the Company:

(i) Combined income statement

	Year ended 31 March	
	2009	2008
	HK\$ million	HK\$ million
Profit before income tax	11.6	3.8
Income tax	<u>(2.8)</u>	<u>(0.2)</u>
Profit for the year	<u>8.8</u>	<u>3.6</u>
Dividends	<u>11.9</u>	<u>—</u>

Income of the Sale Companies is mainly derived from the rental income generated from the leasing of the Properties to the other Group companies and an independent third party taking into account the depreciation and amortisation charges on the Properties. Dividends of a total of HK\$11.9 million were distributed to the Group during the year ended 31 March 2009.

LETTER FROM SHENYIN WANGUO

(ii) Combined assets and liabilities

	As at 31 March	
	2009	2008
	<i>HK\$ million</i>	<i>HK\$ million</i>
Properties	153.4	156.5
Deferred tax assets	0.8	0.7
Other receivables	0.4	0.9
Cash	<u>0.1</u>	<u>0.2</u>
	<u>154.7</u>	<u>158.3</u>
 Sale Loan	 148.8	 151.0
Tax liabilities	2.4	0.7
Other payables	<u>0.2</u>	<u>0.2</u>
	<u>151.4</u>	<u>151.9</u>
 Net asset value	 <u>3.3</u>	 <u>6.4</u>

The book value of the Properties and the Sale Loan and the net asset value of the Sale Companies as at 31 March 2009 are shown above. As advised by the Directors, the Sale Loan is unsecured, interest-free and repayable on demand. As far as the consolidation adjustments are concerned, all the intercompany transactions such as the relevant rental income and the dividends, and the intercompany balances including the Sale Loan are eliminated for the purposes of the consolidated financial statements of the Company.

Information on the Properties

The Properties including both Group A Properties and Group B Properties have been valued by Jones Lang LaSalle Sallmanns Limited, an independent property valuer (“**Property Valuer**”), as at 31 August 2009. The valuation report is set out in Appendix II to the Circular (the “**Valuation Report**”).

LETTER FROM SHENYIN WANGUO

Set out below is the information on the Properties:

Premises	Approximate gross floor area (square feet)	Usage	Annual rental under the proposed Lease Agreements (HK\$)	Valuation as at 31 August 2009 (HK\$)	Valuation as at 31 October 2005 (Note 1) (HK\$)
(i) 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 No. 9 Kai Cheung Road Kowloon Bay Kowloon	45,000	For industrial and ancillary office purposes, and parking	2,496,000	45,200,000	26,000,000
(ii) 18th Floor Hou Feng Industrial Building Nos. 1-5 Wing Kin Road Kwai Chung New Territories	10,376	Storage	228,000	4,300,000	2,300,000
(iii) Workshop Nos. 1-5 on 4th Floor and Car Parking Space No. G11 on Ground Floor Hong Kong Worsted Mills Industrial Building Nos. 31-39 Wo Tong Tsui Street Kwai Chung New Territories	23,542	Storage and parking	252,000 (exclusive of the total monthly rental income of approximately HK\$57,000 in respect of Group B Properties)	17,800,000	10,800,000

(Group B Properties are included)

LETTER FROM SHENYIN WANGUO

Premises	Approximate gross floor area (square feet)	Usage	Annual rental under the proposed Lease Agreements (HK\$)	Valuation as at 31 August 2009 (HK\$)	Valuation as at 31 October 2005 (Note 1) (HK\$)
(iv) Workshop Nos. D1-D14 on 3rd Floor, Block D and Car Parking Space Nos. 131-132 on 1st Floor Tsing Yi Industrial Centre Phase II Nos. 1-33 Cheung Tat Road Tsing Yi New Territories	28,676	Storage and parking	780,000	13,700,000	Not applicable (Note 2)
(v) Shop 1 on Ground Floor and 1st Floor (with flat roof adjacent thereto) including the staircases and landings on and leading from Ground Floor to 1st Floor and Covered Air-Conditioned Plant Shelter on 2nd Floor Len Fat Mansion Nos. 56-60 and 64-86 Kin Yip Street Yuen Long New Territories	6,974	For providing foot massage, gym, spa and beauty treatment services to customers	960,000	20,000,000	18,000,000
(vi) 1st Floor Shop, Toilet Area on 1st Floor, 2nd Floor Shop and Toilet Area on 2nd Floor The Grandeur No. 47 Jardine's Bazaar Causeway Bay Hong Kong	11,678	For providing spa and beauty treatment services to customers	2,388,000	55,000,000	Not applicable (Note 3)

LETTER FROM SHENYIN WANGUO

Premises	Approximate gross floor area (square feet)	Usage	Annual rental under the proposed Lease Agreements (HK\$)	Valuation as at 31 August 2009 (HK\$)	Valuation as at 31 October 2005 (Note 1) (HK\$)
(vii) 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 Hong Kong	4,416	For providing spa and beauty treatment services to customers	1,716,000	40,000,000	Not applicable (Note 4)
			<u>8,820,000</u>	<u>196,000,000</u>	

Notes:

1. Certain Properties that were the Group's properties as at 31 October 2005 were valued by Sallmanns (Far East) Limited, a former firm of Jones Lang LaSalle Sallmanns Limited, on the same day for the purposes of the Listing. The relevant valuation report is set out in Appendix III to the prospectus of the Company dated 27 January 2006 (the "**Prospectus**").
2. As advised by the Directors, the property was acquired by the Group on 28 January 2008 for approximately HK\$18 million, which is higher than the market value of HK\$13.7 million as at 31 August 2009 as provided by the Property Valuer. We further discuss in this regard in the sub-section headed "Financial effects of the Transaction on the Group" in this letter.
3. The property was acquired by the Group on 25 October 2007 for HK\$50 million, details of which are set out in the announcement and the circular of the Company dated 15 October 2007 and 5 November 2007 respectively.
4. The property was acquired by the Group on 29 February 2008 for HK\$46 million, details of which are set out in the announcement and the circular of the Company dated 17 December 2007 and 28 December 2007 respectively. The acquisition cost of such property of HK\$46 million is higher than the market value of HK\$40 million as at 31 August 2009 as provided by the Property Valuer. We further discuss in this regard in the sub-section headed "Financial effects of the Transaction on the Group" in this letter.

LETTER FROM SHENYIN WANGUO

5. Set out below is the grouping of the Properties according to each of the Sale Companies:

Sale Companies	Properties
Well Faith International Enterprise Limited	Properties (i), (vi) and (vii)
Joy East Limited	Property (ii)
East Union Industries Limited	Properties (iii) and (iv)
Wise World Limited	Property (v)

We have discussed with the Property Valuer the Valuation Report and reviewed the methodology of and the basis and assumptions adopted for the valuation of the Properties. The Property Valuer adopted the direct comparison approach to value the Properties assuming sale of the property interests in their existing state with the benefit of immediate vacant possession and by making reference to comparable sale transactions as available in the relevant market. In our opinion, such valuation method is reasonable in respect of establishing the market value of the Properties.

Evaluation of the Consideration

The Directors have advised that the Aggregate Consideration of HK\$190 million was arrived at after arm's length negotiations between the Vendor and the Purchaser taking into account:

- (i) the aggregate net asset value of the Sale Companies of approximately HK\$3.3 million as at 31 March 2009 (comprising principally the Properties with an aggregate book value of approximately HK\$153.4 million, and the Sale Loan);
- (ii) the market value of the Properties of HK\$196 million as at 31 August 2009 as valued by the Property Valuer; and
- (iii) the face value of the Sale Loan of approximately HK\$144.1 million as at 31 July 2009.

In light of the subject assets of the Transaction being the net asset value of the Sale Companies and the face value of the Sale Loan, the Aggregate Consideration was determined primarily with reference to the recent market value of the Properties as opposed to their book value and the face value of the Sale Loan as at 31 July 2009.

We consider the basis of the Aggregate Consideration is fair and reasonable as it takes into account and represents the sum of (i) the net asset value of the Sale Companies of HK\$3.3 million as at 31 March 2009 adjusted for the difference between the Properties' market value of HK\$196 million as at 31 August 2009 and their book value of approximately HK\$153.4 million as at 31 March 2009 (i.e. adjusted for the recent market value of the Properties as valued by the Property Valuer on a mark-to-market basis); and (ii) the face value of the Sale Loan of approximately HK\$144.1 million as at 31 July 2009.

LETTER FROM SHENYIN WANGUO

Information on the Shareholder's Loan

In June 2008, the Board announced that the Group had entered into a provisional agreement with Ching Ming International Development Limited (“**Ching Ming International**”), an independent third party, whereby the Group agreed to acquire a 12-storey commercial building (“**Minden Property**”) from Ching Ming International for a consideration of HK\$132.8 million.

The Minden Property is currently vacant with a total gross floor area of approximately 13,355 square feet and is located at No. 5 Minden Avenue, Tsim Sha Tsui, being one of the major shopping and entertainment areas for locals and tourists on the Kowloon side. Further details relating to the acquisition of the Minden Property are set out in the announcement and the circular of the Company dated 12 June 2008 and 23 June 2008 respectively. As disclosed in the 2008/09 annual report of the Company, the Group intended to develop the Minden Property into a spa villa with a view to providing one-stop spa and beauty treatment service to its customers.

We have noted from the 2008/09 annual report of the Company that as at 31 March 2009, the Group had a capital commitment of HK\$119,520,000 in relation to the unpaid portion (being 90%) of the consideration of HK\$132.8 million for the acquisition of the Minden Property.

On 16 June 2009, the Group entered into a loan agreement with Ms. Tsang and the Purchaser whereby Ms. Tsang and the Purchaser granted the Shareholder's Loan in the principal amount of HK\$118 million to the Group for satisfying a substantial part of the consideration for the acquisition of the Minden Property. The Shareholder's Loan is unsecured, bearing interest at the best lending rate quoted by Standard Chartered Bank (Hong Kong) Limited and repayable in installments over five years or on demand. The remaining part of the consideration has been financed by the Group's internal resources. According to the 2008/09 annual report of the Company, the acquisition was completed on 30 June 2009.

Financial performance and position of the Group

Set out below is the audited financial information of the Group extracted from the annual reports of the Company and the Prospectus:

(i) Consolidated income statement

	Year ended 31 March						
	2009	2008	2007	2006	2005	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	<u>661,795</u>	<u>786,002</u>	<u>614,064</u>	<u>498,265</u>	<u>456,932</u>	<u>381,656</u>	<u>334,042</u>
Profit before taxation	22,215	273,833	210,468	143,477	126,743	72,944	46,264
Income tax	<u>(4,990)</u>	<u>(47,060)</u>	<u>(33,050)</u>	<u>(20,966)</u>	<u>(21,572)</u>	<u>(11,453)</u>	<u>(7,269)</u>
Profit for the year	<u>17,225</u>	<u>226,773</u>	<u>177,418</u>	<u>122,511</u>	<u>105,171</u>	<u>61,491</u>	<u>38,995</u>

LETTER FROM SHENYIN WANGUO

During the year ended 31 March 2009, the Group's performance was adversely affected by the declined consumer spending power as a result of the global financial turmoil in 2008 and tightened credit available in the market. The Group recorded a year-on-year decline in its turnover (first time since 1 April 2002 based on the Prospectus and its subsequent annual reports) of 15.8% to HK\$661.8 million, while its customer base increased by 19.0% to approximately 263,000. The net growth of the service centres during the year was six from 40 to 46, with a net increase of four in Hong Kong and an increase of two in Mainland China. For the same year, the Group's net profit decreased by 92.4% to HK\$17.2 million mainly due to the decline in its turnover and an increase in operating costs such as employee benefit expenses, occupancy costs and advertising and promotion expenses which altogether represented approximately 71.4% of the Group's turnover as compared to 48.1% for the year ended 31 March 2008. Such increase in the operating costs was in line with the increase in the number of new service centres set up during the year.

For the year ended 31 March 2008, the Group's turnover and net profit for the year reached HK\$786.0 million and HK\$226.8 million, representing a considerable year-on-year growth of approximately 28.0% and 27.8% respectively. With the continuous expansion of the Group's service network, launch of a new fitness service line "*Soo Yoga*", extension of the retail network for the Group's own label "*be*" products, and the expansion into a men salon service, the Group's customer base increased from approximately 178,800 in 2007 to 221,000 in 2008. The number of service centres grew from 27 to 40, with an increase of six in Hong Kong and seven in Mainland China. The expansion of the Group's service capacity facilitated more customers' consumption of the Group's services during the year. For the same year, the employee benefit expenses, occupancy costs and advertising and promotion expenses altogether represented approximately 48.1% of the Group's turnover as compared to 49.2% for the year ended 31 March 2007. The Group managed to maintain a net profit margin at the level of approximately 29% for the two years ended 31 March 2007 and 2008.

LETTER FROM SHENYIN WANGUO

(ii) **Consolidated assets and liabilities**

	As at 31 March	
	2009	2008
	<i>HK\$ million</i>	<i>HK\$ million</i>
Non-current assets		
Property, plant and equipment	127.9	109.4
Leasehold land prepayments	115.9	118.1
Trade and other receivables, deposits and prepayments	21.6	25.7
Deferred income tax assets	9.6	6.5
	<u>275.0</u>	<u>259.7</u>
Current assets		
Inventories	9.4	12.6
Trade and other receivables, deposits and prepayments	138.2	72.5
Current income tax assets	39.9	9.5
Pledged bank deposits	9.4	9.3
Cash and cash equivalents	137.8	349.8
	<u>334.7</u>	<u>453.7</u>
Total assets	<u><u>609.7</u></u>	<u><u>713.4</u></u>
Non-current liabilities		
Deferred income tax liabilities	1.0	0.2
Current liabilities		
Trade and other payables, deposits received and accrued expenses	53.6	47.5
Deferred revenue	254.4	265.0
Current income tax liabilities	1.8	26.0
	<u>309.8</u>	<u>338.5</u>
Total liabilities	<u><u>310.8</u></u>	<u><u>338.7</u></u>
Net current assets	<u><u>24.9</u></u>	<u><u>115.2</u></u>
Net assets	<u><u>298.9</u></u>	<u><u>374.7</u></u>

LETTER FROM SHENYIN WANGUO

Property, plant and equipment

The balance comprises the Group's leasehold buildings, leasehold improvements, equipment and machinery, furniture and fixtures, motor vehicles and computers. Increase in the balance is primarily due to the capital expenditure for the expansion of the Group's service network in Hong Kong and Mainland China during the year.

Leasehold land prepayments

The balance represents the up-front payment made by the Group to acquire the long-term interest in the Properties i.e. the portion of the land costs relating to the Properties, which is amortised on a straight-line basis over the period of the leases.

Trade and other receivables, deposits and prepayments

Increase in the balance under the current assets is mainly due to the increase in the amount withheld by the credit card collection bankers that the Group employs to collect the sale proceeds arisen from its credit card sales.

Cash position

The fall in the cash position of the Group is mainly due to (i) the decline in the revenue of the Group for the year; (ii) the capital expenditure for the expansion of the Group's service network in Hong Kong and Mainland China; (iii) an increase in the amount withheld by the credit card collection bankers for the sale proceeds arisen from the Group's credit card sales; and (iv) the payment of the 2008 final dividend and 2009 interim dividend to the Shareholders amounting to an aggregate of HK\$94.8 million. No final dividend for the year ended 31 March 2009 was recommended by the Board. As disclosed in the relevant interim report of the Company, the Group had a cash position of approximately HK\$289 million as at 30 September 2008.

Deferred revenue

At the point of sales, the prepayment received from customers for their purchase of the Group's beauty service packages is recognised as deferred revenue in the balance sheet. The balance of deferred revenue in the Group's balance sheet represents the amount of prepayment relating to the Group's services which were not yet rendered at the balance sheet date.

Gearing

As at 31 March 2009 and 31 August 2009 (being the latest practicable date for the purposes of ascertaining the Group's indebtedness included in the Circular), the Group did not have any external bank borrowings. As at 31 August 2009, the Group owed Ms. Tsang and the Purchaser the Shareholder's Loan and the interest accrued thereon.

LETTER FROM SHENYIN WANGUO

Capital commitment

As at 31 March 2009, the Group had a capital commitment of HK\$119,520,000 in relation to the unpaid portion (being 90%) of the consideration of HK\$132.8 million for the acquisition of the Minden Property which was completed in June 2009.

Related party transactions

Set out below are the related party transactions of the Group as disclosed in the 2008/09 annual report of the Company relating to the leasing of properties from Ms. Tsang or companies controlled by her as the Group's service centres in various locations in Hong Kong:

Premises	Lease term	Rental for the year ended 31 March 2009
First Floor No. 46 Carnarvon Road Tsim Sha Tsui Kowloon	Current lease of three years expiring on 31 December 2011. This service centre was opened in December 1992 and is the Group's second service centre in its history according to the Prospectus.	HK\$408,000 (HK\$36,000 per month under the last lease and HK\$28,000 per month under the current lease)
Portion A of Shop 3 on Ground Floor, Unit B on Cockloft, Whole of First Floor, Whole of Block B on Second Floor and Portion of Roof Chung On Building Nos. 297/303 and 307/313 Sha Tsui Road Tsuen Wan New Territories	First lease of three years expiring on 30 September 2011.	HK\$4,800,000 (for six months commenced on 1 October 2008)
First Floor together with the landing on the Ground Floor and the Staircase appertaining thereto, Peace Tower 6 Peace Avenue Mong Kok Kowloon	First lease of three years expiring on 9 October 2011.	HK\$456,774 (commenced on 10 October 2008)

LETTER FROM SHENYIN WANGUO

Premises	Lease term	Rental for the year ended 31 March 2009
Shops Nos. 11-13 Ground Floor Kam Shan Building Tai Wai, Shatin New Territories	First lease of three years expired on 17 September 2009 and the current lease of three years is expiring on 17 September 2012 as announced by the Company on 16 September 2009.	HK\$1,680,000 (same monthly rental under the last and current leases)

In compliance with the relevant requirements of the Listing Rules, the independent non-executive Directors reviewed and the auditors of the Company (PricewaterhouseCoopers) performed certain agreed upon procedures on the above related party transactions on an annual basis, details of which are disclosed in the relevant annual reports of the Company.

Financial effects of the Transaction on the Group

Upon Completion, the Sale Companies shall cease to be subsidiaries of the Company. Therefore, the financial statements of the Sale Companies shall no longer be consolidated into the financial statements of the Group after Completion. The Directors anticipate that there are no material changes to the net asset value of the Sale Companies and the face value of the Sale Loan from 1 September 2009 to the Completion Date and the professional fees and other expenses incurred by the Company in connection with the Transaction are not significant.

(i) Gearing

As at 31 March 2009 and 31 August 2009 (being the latest practicable date for the purposes of ascertaining the Group's indebtedness included in the Circular), the Group did not have any external bank borrowings. As at 31 August 2009, the Group owed Ms. Tsang and the Purchaser the Shareholder's Loan and the interest accrued thereon. Since part of the Aggregate Consideration shall be set off by the Shareholder's Loan at Completion, the Directors anticipate that the Transaction will bring the Group's gearing ratio back to zero (the accrued interest on the Shareholder's Loan up to 31 August 2009 of approximately HK\$1.3 million as advised by the Directors is excluded from the calculation of the gearing ratio).

(ii) Working capital

The Directors have advised that the cash proceeds from the Transaction of approximately HK\$72 million shall be used as general working capital of the Group. In view of the availability of such proceeds, we consider that the working capital position of the Group would be strengthened accordingly.

LETTER FROM SHENYIN WANGUO

(iii) **Net asset value**

Based on the Aggregate Consideration of HK\$190 million, the net asset value of the Sale Companies and the face value of the Sale Loan as at 31 March 2009 of HK\$3.3 million and HK\$148.8 million respectively, the net asset value of the Group would increase by approximately HK\$37.9 million as if the Transaction were completed on 31 March 2009. Based on the Aggregate Consideration of HK\$190 million, the net asset value of the Sale Companies and the face value of the Sale Loan as at 31 August 2009 of HK\$8.2 million and HK\$142.9 million respectively as advised by the Directors, the net asset value of the Group would increase by approximately HK\$38.9 million as if the Transaction were completed on 31 August 2009.

(iv) **Earnings**

Based on the Aggregate Consideration of HK\$190 million, the net asset value of the Sale Companies and the face value of the Sale Loan as at 31 March 2009 of HK\$3.3 million and HK\$148.8 million respectively, the Group would record a gain of approximately HK\$37.9 million as if the Transaction were completed on 31 March 2009. Based on the Aggregate Consideration of HK\$190 million, the net asset value of the Sale Companies and the face value of the Sale Loan as at 31 August 2009 of HK\$8.2 million and HK\$142.9 million respectively as advised by the Directors, the Group would record a gain of approximately HK\$38.9 million as if the Transaction were completed on 31 August 2009.

After Completion, the Group will no longer receive the monthly rental income of approximately HK\$57,000 with respect to Group B Properties currently leased to an independent third party. It is expected that at Completion, the Group will lease back Group A Properties from the Sale Companies at an aggregate annual rental of HK\$8.82 million. Based on the Aggregate Consideration of HK\$190 million, the Properties would carry a rental yield of 5% per annum ("**Rental Yield**") which is lower than the best lending rate currently charged on the Shareholder's Loan of 5.25% per annum ("**Loan Interest Rate**") quoted by Standard Chartered Bank (Hong Kong) Limited as at the Latest Practicable Date. Therefore, the Directors anticipate that the Transaction together with the entering into of the Lease Agreements would have a positive effect on the financial performance of the Group for so long as the Loan Interest Rate stays above the Rental Yield.

Based on the market values of properties (iv) and (vii) as at 31 August 2009 as shown in the sub-section headed "Information on the Properties" in this letter, the same properties would be disposed of at market values lower than their respective acquisition costs. Currently, these two properties are respectively held by two Sale Companies, each of which holds other Property(ies) and these two Sale Companies are being disposed of to the Purchaser as part of the Transaction. Pursuant to the Disposal Agreement, the Purchaser has agreed to acquire the entire issued share capital of each of the Sale Companies and the Sale Loan conditional upon, *inter alia*, the approval of the Independent Shareholders for the Disposal Agreement and the transactions contemplated thereunder at the EGM. Taking into account the zero gearing ratio of the Group, an overall gain on Disposal (albeit two of the Properties are valued below their acquisition costs), an improvement in the net assets and working

LETTER FROM SHENYIN WANGUO

capital position of the Group as a result of the Transaction, and a positive effect on the Group's financial performance posed by the Rental Yield being lower than the Loan Interest Rate, we consider that from the financial perspective, the Transaction is in the interests of the Company and the Shareholders as a whole.

DISCUSSION AND ANALYSIS

The Group is a leading beauty salon group in Hong Kong operating a number of service centres and “*be Beauty Shops*” in Hong Kong. In recent years, the Group has expanded its presence in Mainland China. Currently, the Group leases all of its operating premises from third parties and Ms. Tsang or companies controlled by her except for Group A Properties. After Completion, the Group is expected to hold the Minden Property only. Taking into account the market value of the Properties, we consider that the Transaction represents an opportunity for the Group to streamline its property portfolio by realising the Properties at market rate with an overall gain to be recorded and the Group's net asset value improved accordingly. The cash position of the Group is also expected to be strengthened as a result of the receipt of the cash proceeds from the Transaction which are intended to be used as general working capital of the Group.

For the year ended 31 March 2009, the Group suffered from the global financial maelstrom in 2008 and its performance was adversely affected accordingly. Its cash position as at 31 March 2009 was tightened as compared to both 31 March 2008 and 30 September 2008. With Ms. Tsang's support, the Group was granted the Shareholder's Loan to complete the acquisition of the Minden Property. We consider that the Transaction facilitates the Group to repay the Shareholder's Loan and to bring back the Group's gearing ratio to zero.

Further, we have noted that pursuant to the Disposal Agreement, the Purchaser shall procure the Sale Companies to enter into the Lease Agreements with the Group at Completion which enables the Group to continue to use Group A Properties without interruption of its business after Completion, and that the Rental Yield of 5% per annum is below the Loan Interest Rate of 5.25% per annum.

We consider the basis of the Aggregate Consideration is fair and reasonable as it takes into account and represents (i) the net asset value of the Sale Companies adjusted for the recent market value of the Properties as valued by the Property Valuer on a mark-to-market basis; and (ii) the recent face value of the Sale Loan.

The Transaction is expected to bring back the gearing ratio of the Group to zero, provide the Group with additional working capital and to result in an overall gain on Disposal and an improvement in the net assets of the Group. The set-off of the Shareholder's Loan and the entering into of the Lease Agreements would also have a positive effect on the Group's financial performance for so long as the Loan Interest Rate stays above the Rental Yield. As a result, we consider that from the financial perspective, the Transaction is in the interests of the Company and the Shareholders as a whole.

LETTER FROM SHENYIN WANGUO

OPINION

Having taken into account the principal factors and reasons set out above, we are of the view that the Transaction, which is not in the ordinary and usual course of business of the Group, is on normal commercial terms, and the terms of the Transaction are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Board Committee to advise, and we ourselves advise, the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Transaction.

Yours faithfully,
for and on behalf of
Shenyin Wanguo Capital (H.K.) Limited
Willis Ting **Felix Chan**
Managing Director *Associate Director*

INDEBTEDNESS

As at the close of business on 31 August 2009, being the latest practicable date for the purpose of ascertaining the indebtedness of the Group prior to the printing of this circular, the Group had outstanding unsecured borrowings of approximately HK\$119.3 million, representing a shareholder's loan of HK\$118 million plus accrued interest of HK\$1.3 million due to a controlling Shareholder, Ms. Tsang.

As at the close of business on 31 August 2009, the Group pledged bank deposits of approximately HK\$8.9 million to banks as security for banking facilities granted to the Group.

Save as aforesaid and apart from intra-group liabilities and normal trade payables in the ordinary course of the business, as at the close of business on 31 August 2009, the Group did not have other outstanding mortgages, charges, debentures or other loan capital, bank overdrafts or loans, other similar indebtedness, finance lease or hire purchase commitments, liabilities under acceptance or acceptance credits, guarantees or other material contingent liabilities.

FINANCIAL AND TRADING PROSPECTS OF THE GROUP

The Group's performance in the second and third quarters of 2009 have been affected by the unfavourable business environment due to the global financial turmoil in the second half of the financial year ended 31 March 2009.

In spite of the economic downturn, the men's care segment performed well, recording a growth of 38.7% for the year ended 31 March 2009. With the increasing demand for men's care service, the Directors believe there is a strong potential in the segment. In the coming years, the Group will allocate more resources to promote and market the services in this area. The Directors consider that it will become a significant source of revenue for the Group in the future.

Apart from providing various types of beauty and wellness products under its own-label, 'be Beauty Shop' also provides beauty services such as 'Be Nail'. Surveys have shown that Hong Kong females enjoy pampering their fingernails. The Directors believe that the demand for nail service will increase in the coming years. In the meantime, the Group will continue to look out for new services to meet the needs of customers.

A growing awareness for health among the people of Hong Kong has driven more customers to practice yoga. To meet that demand, the Group plans to recruit more professional trainers and offer more yoga and dance classes in the future.

In view of the growing demand for beauty and wellness services in the PRC, the Group has made plans to launch a franchised business targeting at people who are interested in investing in the beauty industry. The Group will provide supporting services, from shop renovation to staff training and products supplies. The Directors believe that, with the Group's reputation and expertise in the industry, the franchisees will be able to operate the business successfully. The Directors believe it to be the most effective way to expand the Group's market share in the PRC. With the above development

plans, the Group is optimistic in expanding its customer base continuously and the Directors are ready to tackle the challenges ahead. Priorities will be given to sustaining the core beauty and wellness services operation. At the same time, the Directors will continue to maintain a healthy cash position for the Group.

WORKING CAPITAL

The Directors are of the opinion that, upon Completion of the Disposal and after taking into account the present available facilities and internal resources of the Group and the expected net proceeds to be received from the Disposal, the Group has sufficient working capital for the 12 months from the date of publication of this circular in the absence of unforeseeable circumstances.

MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 March 2009, being the date to which the latest audited financial statements of the Group were made up.

The following is the text of a letter, summary of values and valuation certificates, prepared for the purpose of incorporation in this circular received from Jones Lang LaSalle Sallmanns Limited, an independent valuer, in connection with its valuation as at 31 August 2009 of the property interests of the Group.



Jones Lang LaSalle Sallmanns Limited
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tel +852 2169 6000 fax +852 2169 6001
Licence No: C-030171

14 October 2009

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

Dear Sirs,

In accordance with your instructions to value the properties in which Modern Beauty Salon Holdings Limited (the “Company”) and its subsidiaries (hereinafter together referred to as the “Group”) have interests in Hong Kong, we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the capital values of the property interests as at 31 August 2009 (the “date of valuation”).

Our valuation of the property interests represents the market value which we would define as intended to mean “the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion”.

We have valued the property interests by direct comparison approach assuming sale of the property interest in its existing state with the benefit of immediate vacant possession and by making reference to comparable sales transactions as available in the relevant market.

Our valuation has been made on the assumption that the seller sells the property interests in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the values of the property interests.

No allowance has been made in our report for any charge, mortgage or amount owing on any of the property interests valued nor for any expense or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoing of an onerous nature, which could affect their values.

In valuing the property interests of the Group in Hong Kong held under the Government Leases expiring before 30th June, 1997, we have taken into account the stipulations contained in Annex III of the Joint Declaration of the Government of the United Kingdom and the Government of the People's Republic of China on the question of Hong Kong and the New Territories Leases (Extension) Ordinance 1988 that such leases have been extended without premium until 30th June, 2047 and that a rent of three per cent of the then ratable value is charged per annum from the date of extension.

In valuing the property interests, we have complied with all requirements contained in Chapter 5 of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited; the RICS Valuation Standards (6th Edition) published by the Royal Institution of Chartered Surveyors; and the HKIS Valuation Standards on Properties (1st Edition 2005) published by the Hong Kong Institute of Surveyors.

We have relied to a very considerable extent on the information given by the Group and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, lettings, and all other relevant matters.

We have been provided with copies of title documents and tenancy agreements relating to the property interests and have caused searches to be made at the Hong Kong Land Registries. However, we have not searched the original documents to verify the ownership or to ascertain any amendment.

We have not carried out detailed measurements to verify the correctness of the areas in respect of the properties but have assumed that the areas shown on the title documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the properties. However, we have not carried out investigation to determine the suitability of the ground conditions and services for any development thereon. Our valuation has been prepared on the assumption that these aspects are satisfactory. Moreover, no structural survey has been made, but in the course of our inspection, we did not note any serious defect. We are not, however, able to report whether the properties are free of rot, infestation or any other structural defect. No tests were carried out on any of the services.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We have also sought confirmation from the Group that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to arrive an informed view, and we have no reason to suspect that any material information has been withheld.

Our valuation is summarized below and the valuation certificates are attached.

Yours faithfully,
for and on behalf of
Jones Lang LaSalle Sallmanns Limited
Paul L. Brown
B.Sc. FRICS FHKIS
Director

Note: Paul L. Brown is a Chartered Surveyor who has 26 years' experience in the valuation of properties in the PRC and 29 years of property valuation experience in Hong Kong, the United Kingdom and the Asia-Pacific region.

SUMMARY OF VALUES

Property interests owned and occupied by the Group in Hong Kong

No.	Property	Capital value in existing state as at 31 August 2009 HK\$	Interest attributable to the Group	Capital value attributable to the Group as at 31 August 2009 HK\$
1.	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 No. 9 Kai Cheung Road Kowloon Bay Kowloon	45,200,000	100%	45,200,000
2	18th Floor Hou Feng Industrial Building Nos. 1-5 Wing Kin Road Kwai Chung New Territories	4,300,000	100%	4,300,000
3	Workshop Units 1-5 on 4th Floor and Car Parking Space No.G11 on Ground Floor Hong Kong Worsted Mills Industrial Building Nos. 31-39 Wo Tong Tsui Street Kwai Chung New Territories	17,800,000	100%	17,800,000

APPENDIX II**VALUATION REPORT ON THE PROPERTIES**

No.	Property	Capital value in existing state as at 31 August 2009 HK\$	Interest attributable to the Group	Capital value attributable to the Group as at 31 August 2009 HK\$
4	Workshop Nos. D1-D14 on 3rd Floor Block D and Car Parking Space Nos. 131 & 132 on 1st Floor Tsing Yi Industrial Centre Phase II Nos. 1-33 Cheung Tat Road Tsing Yi New Territories	13,700,000	100%	13,700,000
5	Shop 1 on Ground Floor and 1st Floor (with flat roof adjacent thereto) including the staircases and landings on and leading from the Ground Floor to the 1st Floor and Covered Air-Conditioned Plant Shelter on 2nd Floor Len Fat Mansion Nos. 50-60 and 64-86 Kin Yip Street Yuen Long New Territories	20,000,000	100%	20,000,000
6	1st Floor Shop, Toilet Area on 1st Floor, 2nd Floor Shop and Toilet Area on 2nd Floor The Grandeur No.47 Jardine's Bazaar Causeway Bay Hong Kong	55,000,000	100%	55,000,000

APPENDIX II

VALUATION REPORT ON THE PROPERTIES

No.	Property	Capital value in existing	Interest	Capital value
		state as at 31 August 2009	attributable	attributable to
		HK\$	to the	the Group as at
			Group	31 August 2009
				HK\$
7	1st Floor, 2nd Floor (including the stairs entrance on Ground Floor appertaining to and exclusively leading to the said 1st 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 Hong Kong	40,000,000	100%	40,000,000
Total:		<u>196,000,000</u>		<u>196,000,000</u>

VALUATION CERTIFICATE

Property interests owned and occupied by the Group in Hong Kong

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 August 2009 HK\$
1.	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 No. 9 Kai Cheung Road Kowloon Bay Kowloon	The property comprises 62 units on the 6th floor of a 10-storey (plus 1 basement level) industrial building completed in about 1987. The property has a total gross floor area of approximately 4,181 sq.m. (or 45,000 sq.ft.). The property is held under Conditions of Sale No. 11660 for a term of 99 years commencing from 1st July, 1898 and thereafter statutorily extended until 30th June, 2047 without premium but subject to a payment of Government Rent which equals to 3% of the rateable value for the time being of the lot.	The workshops are currently occupied by the Group for industrial and ancillary office purposes whilst the lorry parking spaces are occupied by the Group for parking purposes.	45,200,000
	322/6018th and 7589/10000th of 4/6018th shares of and in New Kowloon Inland Lot No.5847			

Note:

The registered owner of the property is Well Faith International Enterprise Limited, a wholly-owned subsidiary of the Company, vide Memorial Nos. UB8931815 and UB8927610 both dated 30 April, 2003 at a total consideration of HK\$18,800,000.

VALUATION CERTIFICATE

Property interests owned and occupied by the Group in Hong Kong

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 August 2009 HK\$
2.	18th Floor Hou Feng Industrial Building, Nos. 1-5 Wing Kin Road Kwai Chung New Territories	The property comprises a whole of 18th floor of a 23-storey industrial building completed in about 1988. The property has a total gross floor area of approximately 964 sq.m. (10,376 sq.ft.).	The property is currently occupied by the Group for storage purposes.	4,300,000
	40/2414th shares of and in Kwai Chung Town Lot No.305	The property is held under New Grant No. 5375 for a term of 99 years commencing from 1st July, 1898 and thereafter statutorily extended until 30th June, 2047 without premium but subject to a payment of Government Rent which equals to 3% of the rateable value for the time being of the lot.		

Note:

The registered owner of the property is Joy East Limited, a wholly-owned subsidiary of the Company, vide Memorial No. 05072801000178 dated 30th June, 2005 at a consideration of HK\$2,200,000.

VALUATION CERTIFICATE

Property interests owned and occupied by the Group in Hong Kong

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 August 2009 HK\$
3.	Workshop Units 1-5 on 4th Floor and Car Parking Space No.G11 on Ground Floor Hong Kong Worsted Mills Industrial Building, Nos. 31-39 Wo Tong Tsui Street Kwai Chung New Territories 124/3223rd shares of and in Lot No.730 in D.D.450	The property comprises 5 workshop units on the 4th floor and a car parking space on ground floor of a 26-storey industrial building completed in about 1983. The property has a total gross floor area of approximately 2,187.1 sq.m. (23,542 sq.ft.). Workshop units 1, 4 and 5 are leased to Lo Hong Ka Birdnests Wholesale Limited (an independent third party) under 2 leases, the terms and conditions are stated as follow:. Workshop unit.1: Gross floor area approximately 378 sq.m. (or 4,074 sq.ft.) for a term of 1 year expiring on 30 April 2010 with an option to renew for a further term of 1 year at monthly rent of HK\$16,352 inclusive of Rates and Government Rent. Workshop units 4 and 5: Total gross floor area (approximately) 943.5 sq.m. (or 10,156 sq.ft.) for a term of 1 year and 1 month expiring on 30 April 2010 with an option to renew for a further term of 1 year at an monthly rent of HK\$40,624 inclusive of Rates and Government Rent. The property is held under New Grant No. 3612 for a term of 75 years commencing from 1st July, 1898 renewable for 24 years and thereafter statutorily extended until 30th June, 2047 without premium but subject to a payment of Government Rent which equals to 3% of the rateable value for the time being of the lot.	Workshop units 2 and 3 are currently occupied by the Group for storage purposes, the car parking space is occupied by the Group for parking purposes whilst workshop units 1, 4 and 5 are currently leased to an independent third party.	17,800,000

Note:

The registered owner of the property is East Union Industries Limited, a wholly-owned subsidiary of the Company, vide Memorial No. TW1423251 dated 24th August, 2001 at a consideration of HK\$7,900,000.

VALUATION CERTIFICATE

Property interests owned and occupied by the Group in Hong Kong

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 August 2009 HK\$
4.	Workshop Nos. D1-D14 on 3rd Floor Block D and Car Parking Space Nos. 131 & 132 on 1st Floor Tsing Yi Industrial Centre Phase II Nos. 1-33 Cheung Tat Road, Tsing Yi New Territories 120/10000th shares of and in Tsing Yi Town Lot No. 65	The property comprises 14 workshops on the 3rd floor and 2 car parking spaces on the 1st floor of a 16-storey industrial building completed in about 1985. The property has a total gross floor area of approximately 2,664 sq.m. (28,676 sq.ft.). The property is held under New Grant No. 5478 for a term of 99 years commencing from 1st July, 1898 and thereafter statutorily extended until 30th June, 2047 without premium but subject to a payment of Government Rent which equals to 3% of the rateable value for the time being of the lot.	The property is currently occupied by the Group for storage purposes and the car parking spaces are occupied by the Group for parking purposes.	13,700,000

Note:

The registered owner of the property is East Union Industries Limited, a wholly-owned subsidiary of the Company, vide Memorial No.08021900540140 dated 28th January 2008 at a consideration of HK\$18,098,000.

VALUATION CERTIFICATE

Property interests owned and occupied by the Group in Hong Kong

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 August 2009 HK\$								
5.	Shop 1 on Ground Floor and 1st Floor (with flat roof adjacent thereto) including the staircases and landings on and leading from the Ground Floor to the 1st Floor and Covered Air-Conditioned Plant Shelter on 2nd Floor, Len Fat Mansion Nos. 50-60, 64-86 Kin Yip Street Yuen Long New Territories	The property comprises a shop on the ground floor, the whole of 1st floor including the staircases and landings on and leading from ground floor to 1st floor and a covered air-conditioned plant shelter on the 2nd floor of a 17-storey composite building completed in about 1980. The ground floor shop and 1st floor have a total gross floor area of approximately 647.9 sq.m. (6,974 sq.ft.), plus a covered air-conditioned plant shelter of approximately 55.5 sq.m. (597 sq.ft.). The detail breakdown of the property is set out as follows: <table><tr><th>Unit</th><th>Gross Floor Area (sq.ft.)</th></tr><tr><td>Shop 1 on G/F</td><td>549</td></tr><tr><td>1/F</td><td><u>6,425</u></td></tr><tr><td>Total:</td><td><u>6,974</u></td></tr></table>	Unit	Gross Floor Area (sq.ft.)	Shop 1 on G/F	549	1/F	<u>6,425</u>	Total:	<u>6,974</u>	The property is currently occupied by the Group for foot massage, gym, spa and beauty treatment purposes.	20,000,000
Unit	Gross Floor Area (sq.ft.)											
Shop 1 on G/F	549											
1/F	<u>6,425</u>											
Total:	<u>6,974</u>											
	50/398th shares of and in Yuen Long Town Lot No.275	The property is held under New Grant No. 2594 for a term of 99 years commencing from 1st July, 1898 and thereafter statutorily extended until 30th June, 2047 without premium but subject to a payment of Government Rent which equals to 3% of the rateable value for the time being of the lot.										

Note:

The registered owner of the property is Wise World Limited, a wholly-owned subsidiary of the Company, vide Memorial No. 05082601300115 dated 27th July 2005 at a consideration of HK\$17,000,000.

VALUATION CERTIFICATE

Property interests owned and occupied by the Group in Hong Kong

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 August 2009 HK\$								
6.	1st Floor Shop, Toilet Area on 1st Floor, 2nd Floor Shop and Toilet Area on 2nd Floor The Grandeur No.47 Jardine's Bazaar Causeway Bay Hong Kong	The property comprises 2 shops and toilet areas on the 1st and 2nd floor of a 25-storey composite building completed in about 2002. The property has a total gross floor area of approximately 1,084.9 sq.m. (11,678sq.ft.). The detail breakdown of the property is set out as follows: <table><tr><td>Unit</td><td>Gross Floor Area (sq.ft.)</td></tr><tr><td>1/F Shop & Toilet Area</td><td>3,641</td></tr><tr><td>2/F Shop & Toilet Area</td><td><u>8,037</u></td></tr><tr><td>Total:</td><td><u>11,678</u></td></tr></table> The property is held under Conditions of Exchange No.12565 for a term of 50 years commencing from 12th April, 2000.	Unit	Gross Floor Area (sq.ft.)	1/F Shop & Toilet Area	3,641	2/F Shop & Toilet Area	<u>8,037</u>	Total:	<u>11,678</u>	The property is currently occupied by the Group for spa and beauty treatment purposes.	55,000,000
Unit	Gross Floor Area (sq.ft.)											
1/F Shop & Toilet Area	3,641											
2/F Shop & Toilet Area	<u>8,037</u>											
Total:	<u>11,678</u>											

Note:

The registered owner of the property is Well Faith International Enterprise Limited, a wholly-owned subsidiary of the Company, vide Memorial No.07111600940013 dated 25th October 2007 at a consideration of HK\$50,000,000.

VALUATION CERTIFICATE

Property interests owned and occupied by the Group in Hong Kong

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 August 2009 HK\$										
7.	1st Floor, 2nd Floor (including the stairs entrance on Ground Floor appertaining to and exclusively leading to the said 1st 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 Hong Kong	The property comprises shop area on the ground, 1st and 2nd floor, the eastern and western side walls and roof area of a 17-storey composite building completed in about 1968. The property has a total saleable area of approximately 410.3 sq.m. (4,416 sq.ft.). The detail breakdown of the property is set out as follows: <table><tr><td>Unit</td><td>Saleable Area (sq.ft.)</td></tr><tr><td>Ground Floor</td><td>100</td></tr><tr><td>1/F</td><td>2,158</td></tr><tr><td>2/F</td><td><u>2,158</u></td></tr><tr><td>Total:</td><td><u>4,416</u></td></tr></table> The property is held under Government Lease for a term of 99 years commencing from 25th May, 1929.	Unit	Saleable Area (sq.ft.)	Ground Floor	100	1/F	2,158	2/F	<u>2,158</u>	Total:	<u>4,416</u>	The property is currently occupied by the Group for spa and beauty treatment purposes.	40,000,000
Unit	Saleable Area (sq.ft.)													
Ground Floor	100													
1/F	2,158													
2/F	<u>2,158</u>													
Total:	<u>4,416</u>													
	13/100th shares of and in the Remaining Portion of Inland Lot Nos.3448, 3449 and 3444													

Note:

The registered owner of the property is Well Faith International Enterprise Limited, a wholly-owned subsidiary of the Company, vide Memorial No.08031200370031 dated 29th February 2008 at a consideration of HK\$46,000,000.

RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquires, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading.

DISCLOSURE OF INTERESTS**(a) Directors' and Chief Executive's Interests or Short Positions in Shares, Underlying Shares or Debentures**

As at the Latest Practicable Date, the interests or short positions of the Directors and chief executives of the Company 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 and short positions which he was taken or deemed to have under such provisions of the SFO), or were required pursuant to section 352 of the SFO, to be entered in the register referred to therein, or were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") in the Listing Rules, were as follows:

Long positions in Shares/underlying Shares of the Company

Name of Director	Capacity/Nature of interest	Number of Shares held	Number of Shares subject to options granted under the share option scheme of the Company	Total number of Shares	Approximate percentage of issued Shares (Note 1)
Mr. Lee Soo Ghee	Beneficial owner	650,000	1,350,000	2,000,000	0.28%
	Interest of spouse	475,368,000 (Note 2)	—	475,368,000	65.70%
Ms. Yuen Siu Ping	Beneficial owner	—	1,500,000	1,500,000	0.21%
Mr. Yip Kai Wing	Beneficial owner	185,000	500,000	685,000	0.09%
Mr. Kwong Chi Ching	Beneficial owner	—	200,000	200,000	0.03%
Ms. Chu Shu Ching	Beneficial owner	—	100,000	100,000	0.015%
Ms. Yeung Ching Yu	Beneficial owner	—	100,000	100,000	0.015%

Notes:

1. The relevant percentages are calculated by reference to the Shares in issue as at the Latest Practicable Date, i.e. 723,520,000 Shares.
2. Mr. Lee Soo Ghee is the spouse of Ms. Tsang Yue, Joyce and is deemed to be interested in the Shares held by Ms. Tsang under the SFO.

(b) Director's interest in assets and/or arrangement

Save as disclosed in this circular, as at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which have been since 31 March 2009 (being the date to which the latest published audited consolidated accounts of the Group were made up) acquired or disposed of by or leased to any members of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group. Save as disclosed herein, as at the Latest Practicable Date, there were no contract or arrangement subsisting in which a Director was materially interested and which was significant in relation to the business of the Group as a whole.

Save as disclosed above, none of the Directors or chief executives of the Company had, as at the Latest Practicable Date, any interests or short positions 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 would have 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 he was taken or deemed to have under such provisions of the SFO), or which would have to be, pursuant to section 352 of the SFO, entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

(c) **Interests and Short Positions of Substantial Shareholders**

So far as is known to any Directors or chief executives of the Company, as at the Latest Practicable Date, Shareholders (other than Directors or chief executives of the Company) who had interests or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Long positions of substantial Shareholders in the Shares and underlying Shares of the Company

Name	Capacity	Number of Shares	Approximate percentage of issued Shares (Note 1)
Ms. Tsang Yue, Joyce	Interests of controlled corporations	468,000,000 (Note 2)	64.68%
	Beneficial owner	7,368,000	1.02%
	Interest of spouse	2,000,000	0.28%
		(Note 3)	
Silver Compass Holdings Corp.	Beneficial owner	367,200,000 (Note 2)	50.76%
Silver Hendon Enterprises Corp.	Beneficial owner	100,800,000	13.93%
		(Note 2)	

Notes:

1. The relevant percentages are calculated by reference to the Shares 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. are companies wholly owned by Ms. Tsang Yue, Joyce and Ms. Tsang is deemed to be interested in the Shares held by them under the SFO.
3. Ms. Tsang Yue, Joyce is the spouse of the Chairperson and Chief Executive Officer of the Company, Mr. Lee Soo Ghee and she is deemed to be interested in the Shares held by Mr. Lee and options granted to Mr. Lee under the share option scheme of the Company under the SFO.

Save as disclosed above, as at the Latest Practicable Date, the Company has not been notified by any persons (other than Directors or chief executives of the Company) who had interests or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

COMPETING INTERESTS

JF (Singapore) Group (comprising JF Holdings (S) Pte Limited and its subsidiaries) is principally engaged in the provision of beauty and healthcare services at its network of beauty centres in Singapore and engaged in the provision of beauty services in Malaysia while the Group is principally engaged in the provision of beauty and healthcare services and sale of skincare products and equipment in Hong Kong.

Ms. Tsang Yue, Joyce is the beneficial owner of JF (Singapore) Group. Given that JF (Singapore) Group is principally engaged in the provision of beauty services in Singapore and Malaysia, which is in a different geographical location from that of the Group, the Directors consider that the business activities of JF (Singapore) Group do not compete with those of the Group.

Nevertheless, each of JF Holdings (S) Pte Limited and Ms. Tsang Yue, Joyce has entered into a deed of undertaking in favour of the Group to the effect that each of them will not, and will procure that none of its subsidiaries (other than the Group) and the companies controlled by her (other than the Group), respectively, will engage or otherwise be involved in any business which competes or is likely to compete with any of the business carried on by any member of the Group in relation to the provision of (i) beauty and facial services, (ii) spa and massage services, (iii) slimming services, (iv) fitness services and sales of skincare products and equipment, as at 9 February 2006 in any of the regions in the world (but exclude Singapore and Malaysia).

Save as disclosed herein, none of the Directors or their respective associates (as defined in the Listing Rules) had an interest in a business, which competes or may compete with the business of the Group.

SERVICE CONTRACTS

Each of Mr. Lee Soo Ghee, Ms. Yuen Siu Ping and Mr. Yip Kai Wing had entered into a service contract with the Company dated 20 January 2006 under which they each agreed to act as an executive Director for a term of three years commencing from 9 February 2006. There is no service contract entered between the Company and Mr. Lee Soo Ghee, Ms. Yuen Siu Ping and Mr. Yip Kai Wing respectively after their service contracts dated 9 February 2006 had expired on 8 February 2009. There is no service contract between the Company and Mr. Kwong Chi Ching, Mr. Tung Kwok Lui, Mr. Wong Shu Pui, Ms. Chu Shu Ching and Ms. Yeung Ching Yu in respect of their appointment of executive Director; whereas all independent non-executive Director have been appointed for a term of three years commencing from 22 August 2008.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors has entered into or proposed to enter into any service contract with the Company which will not expire or may not be terminated by the Company within a year without payment of any compensation (other than statutory compensation).

LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or claim of material importance and, so far as the Directors are aware, no litigation or claim of material importance are pending or threatened by or against any member of the Group.

QUALIFICATIONS AND CONSENTS

The names and qualifications of the experts who have given opinion or advice in this circular are set out below:

Name	Qualification
Shenyin Wanguo	a licensed corporation to carry on type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities (as defined in the SFO)
Jones Lang LaSalle	Professional Property Valuers

Each of Shenyin Wanguo and Jones Lang LaSalle has given, and has not withdrawn, its written consent to the issue of this circular with the inclusion herein of its letter and/or references to its name, in the form and context in which it appears, respectively.

As at the Latest Practicable Date, each of Shenyin Wanguo and Jones Lang LaSalle had no direct or indirect interest in any asset which had been, since 31 March 2009, being the date to which the latest published audited consolidated financial statements of the Group were made up, 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.

As at the Latest Practicable Date, each of Shenyin Wanguo and Jones Lang LaSalle had not had any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

MATERIAL CONTRACTS

Save for the Disposal Agreement, there is no contract (not being contracts in the ordinary course of business) having been entered into by the Company or any of its subsidiaries within two years immediately preceding the date of this circular and which are or may be material.

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. The head office and principal place of business of the Company is at 6th Floor, Sino Industrial Plaza, 9 Kai Cheung Road, Kowloon Bay, Kowloon, Hong Kong.
- (b) The company secretary of the Company is Mr. Tung Kwok Lui. Mr. Tung is an attorney and counselor at law of Supreme Court of the State of California (USA), a Certified Public Accountant in the State of North Dakota (U.S.A.) and a solicitor of the High Court of Hong Kong.
- (c) The English version of this circular shall prevail over the Chinese text.

DOCUMENTS AVAILABLE FOR INSPECTION

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

- (a) the memorandum and articles of association of the Company;
- (b) the service contracts as set out under the section headed “Service Contracts” in this Appendix;
- (c) the valuation report on the Properties by Jones Lang LaSalle as set out in Appendix II of this circular;
- (d) the letter from the Independent Board Committee, the text of which is set out on page 11 of this circular;
- (e) the letter from Shenyin Wanguo, the text of which is set out on pages 12 to 29 of this circular;
- (f) annual reports of the Company for the two financial years ended 31 March 2008 and 31 March 2009;
- (g) the written consents referred to in this section headed “Qualifications and Consents” in this Appendix; and
- (h) the Disposal 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 11:00 a.m. on Friday, 30 October 2009 at Lower G/F, Far East Finance Centre, No. 16 Harcourt Road, Admiralty, Hong Kong, to consider and, if thought fit, pass the following resolution as an ordinary resolution:

ORDINARY RESOLUTION

“**THAT:**

- (A) the conditional sale and purchase agreement dated 23 September 2009 entered into between Modern Beauty Management Company Limited (“**Vendor**”), a wholly-owned subsidiary of the Company, as vendor and All Link International Limited as purchaser (“**SP Agreement**”) in relation to the sale of the entire issued share capital of each of East Union Industries Limited, Joy East Limited, Well Faith International Enterprise Limited and Wise World Limited (collectively, as “**Sale Companies**”) and all amounts due by the Sale Companies to the Vendor as at the date of completion of the SP Agreement and all the transactions contemplated under the SP Agreement be and are approved; and
- (B) the directors of the Company (“**Directors**”) be and are 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 SP Agreement and all transactions contemplated thereunder, and to agree to such variation, amendments or waiver or matters relating thereto (including any variation, amendments or waiver of such documents, which are not fundamentally different from those as provided in the SP Agreement) as are, in the opinion of the Directors, in the interest of the Company and its shareholders as a whole.”

By order of the Board
Modern Beauty Salon Holdings Limited
Yip Kai Wing
Director

Hong Kong, 14 October 2009

NOTICE OF EGM

Registered office:

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

Head office and principal place of business in Hong Kong:

6th Floor
Sino Industrial Plaza
9 Kai Cheung Road
Kowloon Bay
Kowloon
Hong Kong

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

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