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MODERN BEAUTY SALON HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 919)

ISSUE OF UNLISTED WARRANTS UNDER GENERAL MANDATE

The Directors are pleased to announce that on 21 May 2013 (after trading hours), the Company entered into the Subscription Agreement A with Subscriber A and the Subscription Agreement B with Subscriber B respectively. Under the Subscription Agreement A, the Company has agreed to issue and Subscriber A has agreed to subscribe for 42,500,000 Warrants at the Issue Price of HK\$0.002 per Warrant. Under the Subscription Agreement B, the Company has agreed to issue and the Subscriber B has agreed to subscribe for 42,500,000 Warrants at the Issue Price of HK\$0.002 per Warrant. Each Warrant carries the right to subscribe at any time during a period of 36 months commencing from the date of issue of the Warrants for one Warrant Share at the Subscription Price of HK\$1.05 per Share (subject to the Adjustment Events). The Warrant Shares will be issued under the General Mandate.

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, each of (i) Subscriber A and (ii) Subscriber B and its ultimate beneficial owner is Independent Third Parties.

Application will be made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Warrant Shares which may fall to be allotted and issued upon exercise of the subscription rights attaching to the Warrants. No listing of the Warrants on the Stock Exchange or other stock exchange will be sought.

Shareholders and potential investors should note that the issue of Warrants is subject to the fulfillment of the condition(s) under the Subscription Agreements. Shareholders and potential investors are reminded to exercise caution when dealing in the Shares.

SUBSCRIPTION AGREEMENTS

The Directors are pleased to announce that on 21 May 2013 (after trading hours), the Company has entered into the Subscription Agreement A with Subscriber A and the Subscription Agreement B with Subscriber B respectively. Both the Subscription Agreement A and the Subscription Agreement B have the same principal terms which are set out as follows:

Date

21 May 2013 (after trading hours)

Parties

Subscription Agreement A

- (1) the Company; and
- (2) Subscriber A, Mr. Ko Kin Hang, who is an investor.

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, Subscriber A is an Independent Third Party.

Subscription Agreement B

- (1) the Company; and
- (2) Subscriber B, Oxley Investment Company Ltd., a company incorporated in the British Virgin Islands with limited liability and the entire share capital of which is legally and beneficially owned by Mr. Tsang Kwong Chiu, Kevin. The principal business of Subscriber B is investment holding including Hong Kong listed shares.

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, Subscriber B and its ultimate beneficial owner are Independent Third Parties.

Securities to be issued

Subject to the fulfillment of the conditions to Subscription Agreements, the Company agreed to issue in aggregate of 85,000,000 Warrants and pursuant to each of the Subscription Agreement A and the Subscription Agreement B respectively, each of the Subscriber A and the Subscriber B has agreed to subscribe for 42,500,000 Warrants at the Issue Price of HK\$0.002 per Warrant. Each of the Warrants carries the right to subscribe for one Warrant Share at the Subscription Price.

Conditions

Completion of the Subscription Agreement A and the Subscription Agreement B respectively is subject to the fulfillment of the following conditions:

- (i) if required, the Listing Committee having approved the issue of the Warrants either unconditionally or subject to such conditions to which both the Company and Subscriber A and Subscriber B shall reasonably accept;
- (ii) the Listing Committee having granted the listing of, and permission to deal in, the Warrant Shares either unconditionally or subject to such conditions to which both the Company and Subscriber A and Subscriber B shall reasonably accept, and such permission and listing not subsequently being revoked or withdrawn prior to Completion; and
- (iii) the Company having obtained, without prejudice to conditions (i) and (ii) above, all necessary consent and approval in respect of the issue of the Warrants.

Completion of the Subscription Agreement A and the Subscription Agreement B respectively shall take place on or before 5:00 p.m. of the Long Stop Date subject to the above conditions being fulfilled or waived (to the extent they are capable of being waived).

In the event that any of the above conditions is not fulfilled or waived (to the extent they are capable of being waived) on or before 5:00 p.m. of the Long Stop Date, the Subscription Agreement A and all rights and obligations thereunder will lapse and become null and void and the parties to Subscription Agreement A shall be released from all obligations hereunder except for any antecedent breach.

In the event that any of the above conditions is not fulfilled or waived (to the extent they are capable of being waived) on or before 5:00 p.m. of the Long Stop Date, the Subscription Agreement B and all rights and obligations thereunder will lapse and become null and void and the parties to Subscription Agreement B shall be released from all obligations hereunder except for any antecedent breach.

PRINCIPAL TERMS OF THE WARRANTS

Number of Warrants

Pursuant to Subscription Agreement A, the Company has agreed to issue 42,500,000 Warrants to Subscriber A and pursuant to Subscription Agreement B, the Company agreed to issue 42,500,000 Warrants to Subscriber B; all such Warrants shall be in registered form and constituted by the Instrument on Completion. The Warrants will rank pari passu in all respects among themselves.

Issue Price

The Issue Price (not including legal expenses) is HK\$0.002 per Warrant. The net issue price, after deduction of relevant expenses, is approximately HK\$0.0005 per Warrant.

Number of Warrant Shares issuable

As at the date of this announcement, the Company has a total of 873,996,190 Shares in issue. Assuming there is no further issue or repurchase of the Shares and there is no adjustment to the Subscription Price, upon the full exercise of the subscription rights attaching to the Warrants, 85,000,000 Warrant Shares will be issued, which represent approximately 9.73% of the existing issued share capital of the Company and approximately 8.86% of the issued share capital as enlarged by the issue of the Warrant Shares.

Subscription Price

The Subscription Price is HK\$1.05 per Warrant Share, subject to adjustment upon the occurrence of any of the Adjustment Events and other dilutive events which may have adverse effects on the rights of the holders of the Warrants.

The Subscription Price represents:

- (i) a premium of approximately 101.92% over the closing price of HK\$0.52 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a premium of approximately 111.27% over the average of the closing price of Shares as quoted on the Stock Exchange for the last five consecutive trading days including the Last Trading Day of approximately HK\$0.497; and
- (iii) a premium of approximately 111.27% over the average of the closing price of Shares as quoted on the Stock Exchange for the last ten consecutive trading days including the Last Trading Day of approximately HK\$0.497.

The aggregate of the Issue Price and the Subscription Price represents:

- (i) a premium of approximately 102.31% over the closing price of HK\$0.52 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a premium of approximately 111.67% over the average of the closing price of Shares as quoted on the Stock Exchange for the last five consecutive trading days including the Last Trading Day of approximately HK\$0.497; and
- (iii) a premium of approximately 111.67% over the average of the closing price of Shares as quoted on the Stock Exchange for the last ten consecutive trading days including the Last Trading Day of approximately HK\$0.497.

The Subscription Price is subject to adjustments in the event of, among others, share consolidation and subdivision of the Company and such adjustments will be certified by the auditors of the Company or an approved merchant bank.

The Subscription Price and the aggregation of it with the Issue Price were determined after arm's length negotiations between the Company, Subscriber A and Subscriber B, taking into account the recent trading prices of the Shares. The Directors are of the opinion that the Issue Price and the Subscription Price are fair and reasonable and in the best interest of the Company.

Exercise period and lot size

The subscription rights attaching to the Warrants can be exercised at any time during a period of 36 months commencing from the date of issue of the Warrants in integral multiples of 4,000,000 Warrants.

Application for listing

Application will be made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Warrant Shares which may fall to be allotted and issued upon exercise of the subscription rights attaching to the Warrants. No listing of the Warrants will be sought on the Stock Exchange or other stock exchange.

Ranking of the Warrant Shares

The Warrant Shares, when issued and fully paid, will rank pari passu in all respects with the existing issued Shares as at the date of allotment.

Transferability

The Warrants shall be in registered form and shall be transferable in integral multiples of 1,000,000 Warrants (or if at the time of transfer, the outstanding number of Warrants are less than 1,000,000 units, the whole but not in part of the outstanding Warrants) by instrument of transfer in any usual or common form or such other form as may be approved by the Directors provided that no transfer of the Warrants can be made to connected persons (as defined in the Listing Rules).

Voting rights of the Warrants

The holder(s) of the Warrants will not have any right to attend or vote at any meeting of the Company by virtue of them being the holders of the Warrants. The holder(s) of the Warrants shall not have the right to participate in any distributions and/or offers of further securities made by the Company.

GENERAL MANDATE TO ISSUE THE WARRANT SHARES

The issue of the Warrant Shares upon exercise of the subscription rights attaching to the Warrants is not subject to the Shareholders' approval.

The Warrant Shares will be issued pursuant to the General Mandate. The maximum number of new Shares which could be issued under the General Mandate is 174,799,238 Shares. The 85,000,000 Warrant Shares, to be allotted and issued upon full exercise of the subscription rights attaching to the Warrants, will utilize approximately 48.63% of the General Mandate.

As at the date of this announcement, save for the proposed issue of the Warrant Shares upon exercise of the subscription rights attaching to the Warrants, the Company has not utilized the General Mandate.

REASONS FOR THE ISSUE OF WARRANTS AND USE OF PROCEEDS

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

The Board considers that the issue of Warrants, with a subscription price at a substantial premium, represents an opportunity to raise additional funds for the Company to cater for its future needs while broadening the Shareholder and capital base of the Company. In addition, the Warrants is not interest bearing and will not result in any immediate dilution effect on the shareholding of the existing Shareholders. The net proceeds from the Warrant Subscriptions are approximately HK\$50,000 which will be applied as the general working capital of the Group.

Assuming the full exercise of the subscription rights attaching to the Warrants, the total net funds to be raised, including the funds raised by the Warrant Subscriptions, are approximately HK\$89.3 million. The net proceeds of approximately HK\$89.3 million from the exercise of the subscription rights attaching to the Warrants shall be applied as the general working capital of the Group.

Assuming the full exercise of the subscription rights attaching to the Warrants, the net price to the Company of each Warrant, which is calculated by dividing the aggregate net proceeds from the Warrant Subscriptions and the exercise of the subscription rights attaching to the Warrants by the total number of the Warrants, is approximately HK\$1.05.

The Directors also consider that Subscription Agreements were entered into on normal commercial terms after arm's length negotiations between the Company, Subscriber A and Subscriber B respectively and that the terms of the Subscription Agreements (including the Issue Price and the Subscription Price) are fair and reasonable so far as the interests of the Company and its Shareholders as a whole are concerned.

SHAREHOLDING STRUCTURE

As at the date of this announcement, the Company has 873,996,190 Shares in issue. The shareholding structure of the Company (i) as at the date of this announcement; and (ii) immediately after the full exercise of the subscription rights attaching to the Warrants (assuming that there will be no further changes in the issued share capital of the Company prior to such exercise and no adjustment to the Subscription Price) are as follows:

	As at the date of this announcement		Immediately after the full exercise of the subscription rights attaching to the Warrants	
	No. of Shares	Approximate %	No. of Shares	Approximate %
Tsang Yue, Joyce (<i>Note</i>)	647,410,190	74.07	647,410,190	67.51
Subscriber A	—	—	42,500,000	4.43
Subscriber B	—	—	42,500,000	4.43
Public Shareholders	<u>226,586,000</u>	<u>25.93</u>	<u>226,586,000</u>	<u>23.63</u>
Total	<u><u>873,996,190</u></u>	<u><u>100.00</u></u>	<u><u>958,996,190</u></u>	<u><u>100.00</u></u>

Note:

1. The interests in the 647,410,190 is held as to (i) 646,760,190 by Tsang Yue, Joyce, an executive Director and chief executive officer of the Company, by way of a founder of a discretionary trust; and (ii) 650,000 by Mr. Lee Soo Ghee. Ms. Tsang Yue, Joyce is the spouse of Mr. Lee Soo Chee and is deemed to be interested in the shares in which Mr. Lee Soo Ghee is deemed or taken to be interested for the purpose of the SFO.

FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS

The Company has not conducted any fund raising activity in the past twelve months from the date of this announcement.

IMPLICATIONS UNDER THE LISTING RULES

Pursuant to Rule 15.02(1) of the Listing Rules, the Warrant Shares to be issued on exercise of the Warrants must not, when aggregated with all other equity securities remain to be issued on exercise of any other subscription rights, if all such rights were immediately exercised, whether or not such exercise is permissible, exceed 20% of the issued share capital of the Company at the time the Warrants are issued. Options granted under share option schemes which comply with Chapter 17 of the Listing Rules are excluded for the purpose of such limit. As at the date of this announcement, save for (i) share options granted under the share option scheme of the Company and (ii) an outstanding convertible note (“**Convertible Note**”) in the principal amount of HK\$92,000,000 which may be convertible into 87,619,047 Shares at an initial conversion price of HK\$1.05 under this convertible note (subject to adjustment provisions contained therein as a result of consolidation, subdivision or reclassification of the Shares), there are no securities with subscription rights outstanding and not yet exercised.

Assuming (i) full exercise of the subscription rights attaching to the Warrants at the Subscription Price of HK\$1.05; (ii) full exercise of the conversion rights under the Convertible Note as at the initial conversion price of HK\$1.05 contained therein; and (iii) no Shares are further issued and repurchased, an aggregate of 172,619,047 Shares (consisting of 85,000,000 Warrant Shares and 87,619,047 Shares converted from the Convertible Note) will be issued, which represent approximately 19.75% of the existing issued share capital of the Company and approximately 16.49% of the issued share capital as enlarged by the issue of the Warrant Shares as at the date of this announcement. Accordingly, the issue of the Warrants is in compliance with Rule 15.02(1) of the Listing Rules.

GENERAL

Shareholders and potential investors should note that the issue of Warrants is subject to the fulfillment of the condition(s) under the Subscription Agreements. Shareholders and potential investors are reminded to exercise caution when dealing in the Shares.

DEFINITIONS

In this announcement, the following expressions shall have the following meanings, unless the context requires otherwise:

“Adjustment Events”	(1) alteration to the nominal amount of each of the Shares by reason of any subdivision or consolidation of Shares; or (2) issue of Shares by way of capitalization of profit or reserves; or (3) capital distribution to Shareholders or grant to Shareholders rights to acquire for cash assets of the Company or any of its subsidiaries; or (4) offer to the Shareholders new Shares for subscription by way of rights; or grant of any options or warrants to Shareholders to subscribe for new Shares, at a price which is less than 80% per cent of the market price; or (5) issue for cash any securities which are convertible into or exchangeable for or carry rights of subscription for new Shares and the total effective consideration per Share initially received for such securities is less than 80% of the market price; or (6) the repurchase of any Shares or securities convertible into Shares or any rights to acquire Shares by the Company and the Directors cancel such Shares, securities convertible into Shares or any rights to acquire Shares
“Business Day”	a day (excluding Saturday, Sunday and public or statutory holiday) on which licensed banks in Hong Kong are generally open for business throughout their normal business hours
“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 Stock Exchange
“Completion”	completion of Subscription Agreement A or Subscription Agreement B, as the case may be
“Director(s)”	director(s) of the Company
“General Mandate”	the general mandate granted to the Directors by the resolution of the Shareholders passed at the annual general meeting of the Company held on 28 August 2012
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Independent Third Party(ies)”	third party(ies) independent of the Company and connected person(s) of the Company and is/are not connected person(s) of the Company

“Instrument”	the deed poll constituting the Warrants to be executed by the Company on Completion
“Issue Price”	a price of HK\$0.002 per Warrant
“Last Trading Day”	21 May 2013, being the last trading day of the Shares and on the date of this announcement
“Listing Committee”	the Listing Committee of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	21 June 2013, or such later date as the Company, Subscriber A and Subscriber B may agree in writing
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary shares of HK\$0.1 each in the share capital of the Company
“Shareholder(s)”	holders of the Shares
“Stock Exchange”	the Stock Exchange of Hong Kong Limited
“Subscriber A”	Mr. Ko Kin Hang
“Subscriber B”	Oxley Investment Company Ltd., a company incorporated in the British Virgin Islands with limited liability, the entire share capital of which is legally and beneficially owned by Mr. Tsang Kwong Chiu, Kevin
“Subscription Agreement A”	the conditional warrant subscription agreement dated 21 May 2013 entered into between Subscriber A and the Company in relation to the Warrant Subscriptions by Subscriber A
“Subscription Agreement B”	the conditional warrant subscription agreement dated 21 May 2013 entered into between Subscriber B and the Company in relation to the Warrant Subscriptions by Subscriber B
“Subscription Agreements”	Subscription Agreement A and Subscription Agreement B and the term “Subscription Agreement” shall mean any one of them as the context requires

“Subscription Form”	the form in respect of the exercise of the subscription rights attaching to the Warrants contained in the Warrant certificate to be issued to the holders of the Warrants, which may be obtained from the Company at its head office and principal place of business in Hong Kong
“Subscription Price”	a price of HK\$1.05 per Warrant Share (subject to the Adjustment Events) at which holder(s) of the Warrants may subscribe for the Warrant Shares
“Warrant(s)”	the total of 85,000,000 unlisted warrants conferring rights to subscribe up to HK\$89,250,000 for Shares, on the basis of a subscription price of HK\$1.05 per Share (subject to the Adjustment Events), during a period of 36 months commencing from the date of issue in accordance with the terms of the Subscription Agreements
“Warrant Share(s)”	the new Shares to be issued by the Company upon the exercise of the subscription rights attaching to the Warrants
“Warrant Subscriptions”	subscriptions of Warrants by the Subscriber A and the Subscriber B under the Subscription Agreement A and the Subscription Agreement B respectively
“%”	per cent

By order of the Board
Modern Beauty Salon Holdings Limited
Tsang Yue, Joyce
Chairperson Chief Executive Officer

Hong Kong, 21 May 2013

As at the date of this announcement, the Board consists of Four Executive Directors, Ms. Tsang Yue, Joyce, Mr. Yip Kai Wing, Mr. Leung Man Kit and Ms. Yeung See Man and Four Independent Non-executive Directors, Ms. Liu Mei Ling, Rhoda, Mr. Wong Man Hin, Raymond, Mr. Hong Po Kui, Martin and Mr. Lam Tak Leung.