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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 licensed securities dealer or registered institution in securities, a bank manager, solicitor, professional accountant or other professional adviser.

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

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MODERN BEAUTY SALON HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 919)

**CONTINUING CONNECTED TRANSACTIONS
AND
NOTICE OF EGM**

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

Nuada Limited

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

A letter from the Board is set out on pages 4 to 15 of this circular.

A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on page 16 of this circular. A letter from the Independent Financial Adviser which contains its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 17 to 30 of this circular.

A notice convening the EGM to be held at 9/F., Gloucester Tower, The Landmark, 15 Queen's Road Central, Hong Kong, on Wednesday, 29 March 2017 at 11:00 a.m. is set out on pages EGM-1 and EGM-2 of this circular. A proxy form for the EGM is also enclosed with this circular.

Whether or not you intend to attend and vote at the EGM or any adjourned meetings in person, you are requested to complete and return the accompanying proxy form in accordance with the instructions printed thereon and return it to the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong by 11:00 a.m. (Hong Kong time) on Monday, 27 March 2017 or not less than 48 hours before the time appointed for holding any adjourned meeting. Completion and return of the proxy form will not preclude you from attending and voting in person at the EGM or any adjourned meeting if you so wish.

13 March 2017

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DEFINITIONS

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

“2014 Master Lease Agreement”	the agreement dated 20 February 2014 entered into between the Company and the Lessor in respect of the leasing of the Existing Premises
“2017 Master Lease Agreement”	the agreement dated 23 February 2017 entered into between the Company and the Lessor in respect of the Leasing Arrangements for the three years ending 31 March 2020
“Annual Caps”	the maximum consideration payable by the Group to the Lessor and/or the Owners (as the case may be) under the Leasing Arrangements pursuant to the 2017 Master Lease Agreement for the year ending 31 March 2018, the year ending 31 March 2019 and the year ending 31 March 2020 in the amount of HK\$79 million, HK\$79 million and HK\$79 million, respectively
“associates”	has the meaning ascribed to it in the Listing Rules
“Board”	the board of Directors
“Company”	Modern Beauty Salon Holdings Limited, a company incorporated under the laws of the Cayman Islands with limited liability and the shares of which are listed on the Stock Exchange
“Director(s)”	the director(s) of the Company
“Dr. Tsang”	Dr. Tsang Yue, Joyce, an executive Director, chairperson of the Board and a controlling Shareholder (within the meaning of the Listing Rules)
“EGM”	the extraordinary general meeting of the Company to be held at 9/F., Gloucester Tower, The Landmark, 15 Queen’s Road Central, Hong Kong on Wednesday, 29 March 2017 at 11:00 a.m. to consider, and if thought fit, approve, among other matters (if any), the Leasing Arrangements pursuant to the 2017 Master Lease Agreement and the Annual Caps, the notice of which is set out on pages EGM-1 and EGM-2 of this circular

DEFINITIONS

“Existing Premises”	the properties owned by the Owners in Hong Kong and/or other place(s) in the world currently leased to the Group under the Existing Lease Agreements and are expected to continue to be leased by the Group, details of which are disclosed in the paragraph headed “Background” in this circular
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Board Committee”	the independent board committee comprising all of the independent non-executive Directors, namely, Ms. Liu Mei Ling, Rhoda, Mr. Wong Man Hin, Raymond, Mr. Hong Po Kui, Martin and Mr. Lam Tak Leung established to advise the Independent Shareholders in respect of the Leasing Arrangements pursuant to the 2017 Master Lease Agreement and the Annual Caps
“Independent Financial Adviser”	Nuada Limited, being a licensed corporation to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO and the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Leasing Arrangements pursuant to the 2017 Master Lease Agreement and the Annual Caps
“Independent Shareholder(s)”	Shareholder(s) other than those who are required by the Listing Rules to abstain from voting on the resolution approving the Leasing Arrangements under the 2017 Master Lease Agreement and the Annual Caps, being Dr. Tsang and her associates
“Latest Practicable Date”	9 March 2017, being the latest practicable date before the printing of this circular for the purpose of ascertaining certain information contained herein
“Leasing Arrangements”	the leasing of premises by the Group from the Owners pursuant to the 2017 Master Lease Agreement by the entering into a tenancy or lease agreement in respect of such premises between the Group and the relevant Owner

DEFINITIONS

“Lessor”	Asia Power Global Limited, a company with limited liability incorporated under the laws of the British Virgin Islands and is wholly owned by a family trust set up by Dr. Tsang
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“New Premises”	the properties owned by the Owner(s) which the Group may lease from the Owners during the term of the 2017 Master Lease Agreement
“Owner(s)”	subsidiaries of the Lessor from time to time which are or may become the legal and beneficial owners of the Existing Premises and the New Premises and “Owner” shall mean any of them
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	share(s) of HK\$0.10 each of the Company
“Shareholder(s)”	shareholder(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong

LETTER FROM THE BOARD



MODERN BEAUTY SALON HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 919)

Executive Directors:

Dr. Tsang Yue, Joyce
Mr. Yip Kai Wing
Ms. Yeung See Man

Independent Non-Executive Directors:

Ms. Liu Mei Ling, Rhoda
Mr. Wong Man Hin, Raymond
Mr. Hong Po Kui, Martin
Mr. Lam Tak Leung

Registered Office:

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

Head Office and Principal Place of

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

13 March 2017

To the Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

On 23 February 2017, the Company announced that it had entered into the 2017 Master Lease Agreement with the Lessor to regulate the lease arrangement between the Group and the Owners for the three years ending 31 March 2020.

The purpose of this circular is to provide you with, among other things, details regarding (i) the Leasing Arrangements under the 2017 Master Lease Agreement and the Annual Caps and the transactions contemplated thereunder; (ii) the recommendation from the Independent Board Committee in respect of the Leasing Arrangements under the 2017 Master Lease Agreement and the Annual Caps and the transactions contemplated thereunder; (iii) the advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders; (iv) a notice convening the EGM; and (v) other information as required under the Listing Rules.

LETTER FROM THE BOARD

THE 2017 MASTER LEASE AGREEMENT

Background

Reference is made to the announcement of the Company dated 20 February 2014 in respect of the continuing connected transactions in relation to the 2014 Master Lease Agreement, pursuant to which the Group entered into a number of separate lease agreements (“Existing Lease Agreements”) with the Owners for leasing the Existing Premises from the Owners from time to time during the term of the 2014 Master Lease Agreement for the period ending on 31 March 2017.

Given that the 2014 Master Lease Agreement will expire on 31 March 2017 and the Group expects that the continuing connected transactions contemplated under the 2014 Master Lease Agreement will continue, on 23 February 2017, the Company entered into the 2017 Master Lease Agreement with the Lessor in relation to the continuance of the lease arrangements between the Group and the Owners for the three years ending 31 March 2020.

Currently, the Existing Premises are being used in the ordinary and usual course of the business of the Group as its operating facilities (including but not limited to offices, retail shops, service centres and warehouses). The Group intends to continue to lease the Existing Premises in Hong Kong under the arrangement contemplated under the 2017 Master Lease Agreement. Set out below is a summary of the Existing Lease Agreements in respect of the Existing Premises which are expected to continue under the 2017 Master Lease Agreement:

Particulars of Existing Premises	Expiry date of relevant Existing Lease Agreement		Total rental paid for the year ended 31 March		Estimated total rental payable for the year ending 31 December	Prevailing monthly market rent as at 31 December
	Present usage		2015	2016	2017	2016
			HK\$'000	HK\$'000	HK\$'000	HK\$'000
			(Note 1)	(Note 1)	(Note 1)	(Note 1 and 4)
Hong Kong Island						
1. Shop and Toilet Area on 1st Floor, Shop and Toilet Area on 2nd Floor, Lift and Staircase (No. 3) and Grease Trap Room on 1st Floor, 1st Floor Staircase for 2nd Floor, Lift and Staircase on 2nd Floor, Lift Machine Room for 1st to 2nd Floors on 3rd Floor, Signage Units Nos. 1 to 8 on Ground Floor, Signage Units Nos. 9 to 14 on 1st Floor, Store and Open Store on Ground Floor, The Grandeur, 47 Jardine's Bazaar, Causeway Bay, Hong Kong	31 March 2017	Service centre	8,629	8,629	8,629	730

LETTER FROM THE BOARD

Particulars of Existing Premises	Expiry date of relevant Existing Lease Agreement	Present usage	Total rental paid for the year ended 31 March		Estimated total rental payable for the year ending	Prevailing monthly market rent as at	
			2015 HK\$'000 (Note 1)	2016 HK\$'000 (Note 1)	2017 HK\$'000 (Note 1)	31 December 2016 HK\$'000 (Note 1 and 4)	
2. 1/F. (including its Flat Roof and Stair-Entrance on Ground Floor), King Kwong Mansion, 8 King Kwong Street, Happy Valley, Hong Kong	31 March 2017	Service centre	826	826	826	77	
3. Shops B2B and B2C of Portion B on Ground Floor, Portion B on 1st Floor, Whole of 2nd Floor, MRT Plaza, Hang Ying House, Nos. 318-328 King's Road, North Point, Hong Kong	31 March 2017	Service centre	6,151	6,151	6,151	620	
4. Commercial Area on Upper Ground Floor, 1st Floor (excluding canopy) and 2nd Floor of V. Heun Building, No. 138 Queen's Road Central, Hong Kong	31 March 2017	Service centre	6,793	6,793	6,793	750	
5. Portion B of Shop C on Ground Floor and Shop E on Basement, King's View Court, 901-907 King's Road, Quarry Bay, Hong Kong	31 March 2017	Service centre	802 (Note 2)	2,550	2,550	250	
6. 3/F, Causeway Bay Commercial Building, No. 3 Sugar Street, Causeway Bay, Hong Kong	31 March 2017	Service centre	–	2,417 (Note 3)	3,223	250	
Kowloon							
7. Workshop Nos. 11-31, 32B, 33B, 41-78 and Store Room No.10 on 6th Floor and Lorry Car Parking Space Nos. L8, L10, L14 and L15 on Basement, Sino Industrial Plaza, 9 Kai Cheung Road, Kowloon Bay	31 March 2017	Office and warehouse	5,233	5,233	5,233	590	
8. 3rd and 4th Floor (including Flat Roof) BCC Building, Nos. 25-31 Carnarvon Road, Kowloon	31 March 2017	Service centre	3,672	3,672	3,672	380	
9. Shop no.5 on Ground Floor, 1st Floor and 2nd Floor Commercial Unit with 1st Floor and 2nd Floor Advertising Space of Paradise Square, 3 Kwong Wa Street, Kowloon	31 March 2017	Service centre	6,610	6,610	6,610	620	

LETTER FROM THE BOARD

Particulars of Existing Premises	Expiry date of relevant Existing Lease Agreement		Present usage	Total rental paid for the year ended 31 March		Estimated total rental payable for the year ending	Prevailing monthly market rent as at 31 December
				2015	2016	2017	2016
			HK\$'000	HK\$'000	HK\$'000	HK\$'000	
			(Note 1)	(Note 1)	(Note 1)	(Note 1)	(Note 1 and 4)
New Territories							
10. Workshops D1-D14 on 3rd Floor of Block D and Car Parking Spaces Nos. 131 and 132 on 1st Floor, Tsing Yi Industrial Centre Phase II, 1-33, Cheung Tat Road, Tsing Yi, New Territories	31 March		Warehouse	1,652	1,652	1,652	170
	2017						
11. 18th Floor, Hou Feng Industrial Building, Nos.1-5 Wing Kin Road, Kwai Chung, New Territories	31 March		Service centre and warehouse	734	734	734	73
	2017						
12. Shop 1 on Ground Floor and 1st Floor (with flat roof adjacent thereto), Len Fat Mansion, Nos. 56-60, 64-86 Kin Yip Street, Yuen Long, New Territories	31 March		Service centre	1,836	1,836	1,836	190
	2017						
13. Portion A of Shop 3 on Ground Floor, Unit B on Cockloft, Whole of 1st Floor, Whole of Block B on 2nd Floor and Portion of Roof, Chung On Building, 297-303, 307-313 Sha Tsui Road, Tsuen Wan, New Territories together with Flat 1 and Flat Roof on 1st Floor, Kwong Yick Building, 315-323 Sha Tsui Road, Tsuen Wan, New Territories	31 March		Service centre	8,996	8,996	8,996	850
	2017						
14. Units B74-B90, B99-B116, B132-B136, 1/F., The Commercial Accommodation of Well On Garden, 9 Yuk Nga Lane, Tseung Kwan O, New Territories	31 March		Service centre	2,020	2,020	2,020	190
	2017						
15. Units C1, C2, D1, D2, E1 & E2, 16/F, TG Place, No. 10 Shing Yip Street, Kowloon	31 March		Service centre	-	370	1,480	160
	2017				(Note 3)		
				53,954	58,489	60,405	5,900
				53,954	58,489	60,405	5,900
							per month

LETTER FROM THE BOARD

Notes:

1. Exclusive of government rates, government rent and management fees.
2. The relevant Existing Lease Agreement was entered into in the year ended 31 March 2015.
3. The relevant Existing Lease Agreements were entered into in the year ended 31 March 2016.
4. The market rent as determined by Roma Appraisals Limited, an independent property valuer.

Depending on the then operation needs of the Group and market conditions and subject to vacant possession of such premises, the Group may lease certain New Premises from the Owners under the arrangement contemplated under the 2017 Master Lease Agreement and the summary of those New Premises which have been identified as at the Latest Practicable Date are set out as follows:

New Premises	Intended usage	Prevailing monthly market rent as at 31 December 2016 HK\$'000 (Note)
Singapore		
1. 21 Kovan Road #10–15, Singapore 548192	Staff quarter	23
2. 21 Kovan Road #9–16, Singapore 548192	Staff quarter	23
	Total (per month):	46

Note: The market rent as determined by Roma Appraisals Limited, an independent property valuer.

Since the Group intends to continue to lease the above Existing Premises and may lease the above New Premises and, if appropriate, other New Premises from the Owners as its operating facilities (including but not limited to offices, retail shops, service centres and warehouses) and staff quarters and anticipates that it will enter into new leases during the ordinary and usual course of the Group's business during the three years ending 31 March 2020, the Company and the Lessor entered into the 2017 Master Lease Agreement on 23 February 2017 to set out the principal terms and conditions governing the Leasing Arrangement in the future.

In respect of each of the above Existing Premises and New Premises, the Company has obtained an opinion from an independent property valuer about the prevailing market rent of such premises. It is a term of the 2017 Master Lease Agreements that in fixing the rent for the individual leases under the 2017 Master Lease Agreement, the rent will not be higher than such prevailing market rent.

LETTER FROM THE BOARD

Date of the 2017 Master Lease Agreement

23 February 2017

Parties to the 2017 Master Lease Agreement

The Lessor and the Company

For more information about the Lessor, please refer to the paragraph headed “Listing Rules Implications” below.

Subject Matter

Pursuant to the 2017 Master Lease Agreement, the Group will enter into separate lease agreements to lease certain premises (which are expected to comprise the Existing Premises, the New Premises identified above and some other additional New Premises) from the respective Owners from time to time during the term of the 2017 Master Lease Agreement.

Conditions

The 2017 Master Lease Agreement and the Leasing Arrangements are conditional upon:

1. the passing of an ordinary resolution by the Independent Shareholders at the EGM approving the terms of the 2017 Master Lease Agreement and the transactions contemplated thereunder (including the Leasing Arrangement and the Annual Caps); and
2. (if required) all requisite waivers, consents and approvals from any relevant governments or regulatory authorities in Hong Kong or other jurisdictions (if applicable) or other relevant third parties in connection with the Leasing Arrangements under the 2017 Master Lease Agreement required to be obtained on the part of the Group having been obtained.

Duration

Subject to fulfillment of the above conditions, the 2017 Master Lease Agreement shall be for a term commencing from 1 April 2017 and ending on 31 March 2020. In addition, the 2017 Master Lease Agreement may be terminated by the Company by giving the Lessor at least sixty days’ written notice of termination.

Each of the Leasing Arrangements to be entered into between the Company and the relevant Owner pursuant to the 2017 Master Lease Agreement will have a term commencing on or after 1 April 2017 and expiring on or before 31 March 2020.

LETTER FROM THE BOARD

Consideration and other terms

Pursuant to the 2017 Master Lease Agreement, each Leasing Arrangement shall be on normal commercial terms and shall be on terms which are no less favourable than those offered by the Owners to other independent third parties and the amount of rental (exclusive of rates, land rent and management fees) under each Leasing Arrangement shall be determined by the parties to each Leasing Arrangement with reference to the then prevailing market rents on premises comparable in location, area and permitted use ("**Comparable Premises**") provided that before each Leasing Arrangement is entered into, the Group shall, at its own cost and expenses, obtain a confirmation from an independent property valuer providing its opinion of the then prevailing market rent of the premises with reference to the market rent of the Comparable Premises and the rent to be set out in the relating Leasing Arrangement shall be no more than such prevailing market rent and the effective date of the opinion shall not be more than three months. In light of such safeguard, there will not be a situation where the actual rent payable by the Group under any individual lease to be entered into pursuant to the 2017 Master Lease Agreement will be higher than the prevailing market rent of the relevant Comparable Premises.

The government rent, rates and management fee under each Leasing Arrangement will be paid to the government or, as the case may be, the management companies by the relevant tenant direct.

The Annual Caps

The amount of rents paid and/or payable to the Owners under the Existing Lease Agreements in respect of the Existing Premises as mentioned in the paragraph headed "Background" above, the leases of which are expected to continue, were approximately HK\$54.0 million and HK\$58.5 million for the year ended 31 March 2015 and the year ended 31 March 2016 respectively and is estimated to be approximately HK\$60.4 million for the year ending 31 March 2017. The annual caps for the three years ending 31 March 2017 approved for the purpose of the 2014 Master Lease Agreement are HK\$76.3 million, HK\$76.3 million and HK\$76.3 million respectively. Such annual caps have not been exceeded during the two years ended 31 March 2016 and the annual cap for the year ending 31 March 2017 is not expected to be exceeded.

Based on the opinion of the independent property valuer ("**Valuer**"), the aggregate prevailing monthly rent of the Existing Premises and the New Premises identified above is HK\$5,946,000. On such basis, the annual rent for leasing such premises is thus HK\$71,352,000.

As advised by the Valuer, the valuations are the Valuer's opinion of the market rents which is defined as intended to mean "the estimated amount for which a property would be leased on the valuation date between a willing lessor and a willing lessee on appropriate lease terms in an arm's-length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently, and without compulsion".

LETTER FROM THE BOARD

The Valuer has adopted the comparison approach by reference to comparable market rents in assessing the market rents of the properties. Appropriate adjustment have been made to account for the differences between the properties and the comparables in terms of age, time, location, floor level and other relevant factors. In addition, in the course of the Valuer's assessment, the Valuer has analyzed rental evidence of relevant developments in the vicinity and has made the following assumptions:

1. the Valuer has assumed that the subject properties have been let subject to the usual terms and conditions unless otherwise stated;
2. the Valuer has assumed that each Owner is entitled to lease the Existing Premises or, as the case may be, the New Premises to the Group;
3. the Valuer has assumed that the interior of the Existing Premises or, as the case may be, the New Premises is being kept in reasonable and decorative conditions commensurate with its building age and such Existing Premises or, as the case may be, New Premises will be let for a normal commercial term for 2 or 3 years exclusive of government rent, rates, management fee, other services charges and etc., unless otherwise stated.

The Directors have discussed the above basis and assumptions with the Valuer and find such basis and assumptions fair and reasonable.

Taking into account the fact that (i) the Group intends to continue to lease the Existing Premises mentioned above; and (ii) the Group may lease the New Premises identified above, in each case, for its own use during the three years ending 31 March 2020, it is expected that the Annual Cap in respect of the Leasing Arrangements as contemplated under the 2017 Master Lease Agreement for the year ending 31 March 2018, the year ending 31 March 2019 and the year ending 31 March 2020 will not exceed HK\$79 million, HK\$79 million and HK\$79 million, respectively. These Annual Caps were determined after taking into account (i) the prevailing market rents of the relevant Existing Premises and the New Premises identified above; and (ii) a buffer of approximately 10% for rental payments in respect of additional New Premises which may be leased from the Owners during the term of the 2017 Master Lease Agreement.

The buffer of approximately 10% of the annual prevailing market rent of the Existing Premises and the New Premises identified amounted to HK\$7,135,200 which was determined with reference to (i) the upward trend in local property market and (ii) the annual prevailing market rent of some middle-to-large-size service centres of the Group in Kowloon and Hong Kong including the one in Paradise Square in Kowloon and the one in MRT Plaza in North Point (the annual prevailing market rent of each such centre is HK\$7,440,000). As such, should the Group rent one more middle-to-large-size service centre, the Annual Cap will almost be used up.

As at the Latest Practicable Date, other than the two New Premises identified, the Group had no plan to lease more New Premises from the Owners. However, the Group cannot rule out the possibility that it may lease additional premises from the Owners during the term of the 2017 Master Lease Agreement which has a three-years term.

LETTER FROM THE BOARD

For the two New Premises identified, the Group intends to lease them from the Owners as and when the Group finds it necessary to provide long term accommodation for staff stationed or to be stationed in Singapore. As at the Latest Practicable Date, the Group has not identified such necessity.

Under the Company's internal policy, the independent non-executive Directors will review the proposed Leasing Arrangements in respect of any additional New Premises in light of the then prevailing market rent of such New Premises and other terms of the leases to ensure that the proposed Leasing Arrangements are (i) entered into in the ordinary and usual course of business of the Company; (ii) on normal commercial terms and on terms that are no less favourable than those offered by the Owners to other independent third parties; and (iii) in accordance with the provisions of the 2017 Master Lease Agreement. The interested parties, i.e. Dr. Tsang and her associates, will not be involved in such reviewing process.

REASONS FOR AND BENEFITS OF ENTERING INTO THE CONTINUING CONNECTED TRANSACTIONS

The Group is a renowned beauty salon group in Hong Kong offering a comprehensive beauty and wellness services ranging from beauty and facial, spa and massage, slimming to sales of skincare and wellness products at its network of service centres in Hong Kong, mainland China, Taiwan, Singapore and Malaysia. As mentioned above, given that it is the intention of the Group to continue to lease the Existing Premises and may lease some other premises (including the New Premises identified above) from the Owners for its own use, the Company has considered that the entering into of the 2017 Master Lease Agreement will shelter the Group from any potential loss due to relocation of its existing beauty and wellness centres in the event that the relevant Existing Lease Agreements are not being renewed upon their expiry and save the administrative costs of the Group. In addition, the 2017 Master Lease Agreement will also provide the Group with opportunities to lease New Premises from the Owners based on market prices in which the Company considers suitable for the continuous expansion of its network of beauty and wellness centres.

The absence of a master lease agreement and an annual cap more than the contracted lease payments will cause administrative inconvenience to the Group – if, during the period ending 31 March 2020, the Group wishes to lease other New Premises from the Owners, the Company will then have to comply with all applicable requirements under Chapter 14A of the Listing Rules. The Directors consider that such compliance will be unduly burdensome. On the other hand, with the 2017 Master Lease Agreement in place, the Group will be given the flexibility to lease additional New Premises from the Owners if it considers appropriate so long as the terms of such lease are no less favourable than those offered by the Owners to other independent third parties.

Having considered the above, the Directors (including the independent non-executive Directors) are of the view that the terms of the 2017 Master Lease Agreement and the Annual Caps are fair and reasonable and the entering into of the 2017 Master Lease Agreement is in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

LISTING RULES IMPLICATIONS

The Lessor is a company incorporated in the British Virgin Islands with limited liability and is principally engaged in investment holding.

By virtue of the Lessor being wholly owned by a family trust set up by Dr. Tsang, an executive Director, chairperson of the Board and a controlling Shareholder interested in 677,897,942 issued Shares (representing approximately 74.95% of the issued share capital of the Company) as at the Latest Practicable Date, the Lessor is a connected person of the Company and the Leasing Arrangements will constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. The spouse of Dr. Tsang is interested in 650,000 issued Shares (representing approximately 0.072% of the issued share capital of the Company) as at the Latest Practicable Date.

As the relevant percentage ratios (as defined under the Listing Rules) in respect of each of the Annual Caps are less than 25% but the annual consideration is more than HK\$10 million, the Leasing Arrangements under the 2017 Master Lease Agreement are subject to the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

GENERAL

The Independent Board Committee comprising all of the independent non-executive Directors has been established to advise the Independent Shareholders in relation to the Leasing Arrangements under the 2017 Master Lease Agreement and the Annual Caps. Nuada Limited has been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

Since the Lessor is wholly-owned by a family trust set up by Dr. Tsang, she is considered as having a material interest in the 2017 Master Lease Agreement and has abstained from voting on the relevant resolutions at the Board meeting relating to the 2017 Master Lease Agreement and the transaction contemplated thereunder.

The EGM will be convened at which an ordinary resolution will be proposed to seek the Independent Shareholders' approval of, among other things, the Leasing Arrangements under the 2017 Master Lease Agreement and the Annual Caps. Since Dr. Tsang is materially interested in the 2017 Master Lease Agreement, she and her associates will be required to abstain from voting on the resolution to be proposed at the EGM to approve the 2017 Master Lease Agreement and the Annual Caps.

LETTER FROM THE BOARD

EGM

A notice convening the EGM to be held at 9/F., Gloucester Tower, The Landmark, 15 Queen's Road Central, Hong Kong on Wednesday, 29 March 2017 at 11:00 a.m. is set out on pages EGM-1 and EGM-2 of this circular. A proxy form for the EGM is enclosed. Whether or not you intend to attend the EGM, you are requested to complete the enclosed proxy form in accordance with the instructions printed thereon and return the same to the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, situated at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong by 11:00 a.m. (Hong Kong time) on Monday, 27 March 2017 or not less than 48 hours before the time appointed for holding any adjourned meeting. Completion and return of the proxy form will not preclude you from attending and voting at the EGM or any adjourned meeting thereof should you so wish.

The EGM will be convened at which a resolution will be proposed to seek the Independent Shareholders' approval of, among other things, the Leasing Arrangements under the 2017 Master Lease Agreement and the Annual Caps.

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

- (a) (i) there were no voting trust or other agreements or arrangements or understandings (other than outright sale) entered into by or binding upon Dr. Tsang and her associates; and
- (ii) there were no obligations or entitlement of Dr. Tsang and her associates, whereby Dr. Tsang and her associates had or might have temporarily or permanently passed control over the exercise of the voting right in respect of their Shares to a third party, either generally or on a case-by-case basis; and
- (b) there were no discrepancy between the beneficial shareholding interests of the Lessor and Dr. Tsang and their respective associates and the number of Shares in respect of which they would control or would be entitled to exercise control over the voting right at the EGM.

RECOMMENDATION

The Independent Board Committee, having taken into account the advice of the Independent Financial Adviser, consider that the 2017 Master Lease Agreement and transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote for the resolution to be proposed at the EGM to approve the 2017 Master Lease Agreement and the transactions contemplated thereunder and the Annual Caps. The text of the letter from the Independent Board Committee is set out on page 16 of this circular.

LETTER FROM THE BOARD

Having considered the above-mentioned benefits to the Group's future business development, the Directors consider that the terms of the 2017 Master Lease Agreement and the Annual Caps are fair and reasonable and the entering into of the 2017 Master Lease Agreement is in the interests of the Company and the Shareholders as a whole and recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the 2017 Master Lease Agreement and the transactions contemplated thereunder and the Annual Caps.

On behalf of the Board
Modern Beauty Salon Holdings Limited
Tsang Yue, Joyce
Chairperson



MODERN BEAUTY SALON HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 919)

13 March 2017

To the Independent Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

This Independent Board Committee has been established to advise you on the terms of the 2017 Master Lease Agreement and transactions contemplated thereunder and the Annual Caps, details of which are set out in the letter from the Board contained in the circular to the Shareholders dated 13 March 2017 (“**Circular**”) of which this letter forms part. Terms defined in the Circular shall have the same meanings when used in this letter unless the context otherwise requires.

Having considered the terms of the 2017 Master Lease Agreement and the advice of the Independent Financial Adviser in relation thereto as set out on pages 17 to 30 of the Circular, we are of the opinion that the terms of the 2017 Master Lease Agreement and the Annual Caps are fair and reasonable, on normal commercial terms and are in the interest of the Company and the Shareholders as a whole. We therefore recommend the Independent Shareholders to vote for the ordinary resolution to be proposed at the EGM to approve the 2017 Master Lease Agreement and the transactions contemplated thereunder and the Annual Caps.

Yours faithfully,

For and on behalf of the Independent Board Committee

Ms. Liu Mei Ling,
Rhoda
Independent
Non-executive Director

Mr. Wong Man Hin,
Raymond
Independent
Non-executive Director

Mr. Hong Po Kui,
Martin
Independent
Non-executive Director

Mr. Lam Tak Leung
Independent
Non-executive Director

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the text of a letter of advice to the Independent Board Committee and the Independent Shareholders from Nuada Limited dated 13 March 2017 prepared for the purpose of inclusion in this circular.

Nuada Limited

Unit 1805-08, 18/F
OfficePlus @Sheung Wan
93-103 Wing Lok Street
Sheung Wan, Hong Kong
香港上環永樂街 93-103 號
協成行上環中心 18 樓 1805-08 室

13 March 2017

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

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in connection with the continuing connected transactions contemplated under the 2017 Master Lease Agreement, details of which are set out in the section headed “Letter from the Board” (the “**Letter from the Board**”) in the Company’s circular dated 13 March 2017 (the “**Circular**”) to the Shareholders, of which this letter forms part. Our appointment as the Independent Financial Adviser has been approved by the Independent Board Committee. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

Reference is made to the announcement of the Company dated 20 February 2014 in respect of the continuing connected transactions in relation to the 2014 Master Lease Agreement, pursuant to which the Group entered into the Existing Lease Agreements with the Owners from time to time during the term of the 2014 Master Lease Agreement for the period ending on 31 March 2017.

As stated in the Letter from the Board, given that the 2014 Master Lease Agreement will expire on 31 March 2017 and the Group expects that the continuing connected transactions contemplated under the 2014 Master Lease Agreement will continue, on 23 February 2017, the Company entered into the 2017 Master Lease Agreement with the Lessor in relation to the continuance of the lease arrangements between the Group and the Owners for the three years ending 31 March 2020.

The Lessor is the holding company of various companies (being the Owners) holding various properties in Hong Kong and other places in the world.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

By virtue of the Lessor being wholly-owned by a family trust set up by Dr. Tsang, an executive Director, chairperson of the Board and a controlling Shareholder, the Lessor is a connected person of the Company and the Leasing Arrangements will constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the relevant percentage ratios (as defined under the Listing Rules) in respect of the Annual Caps are less than 25% but the annual consideration is more than HK\$10 million, the Leasing Arrangements under the 2017 Master Lease Agreement are subject to the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Independent Board Committee comprising all of the independent non-executive Directors has been established to advise the Independent Shareholders in relation to the Leasing Arrangements under the 2017 Master Lease Agreement and the Annual Caps. We, Nuada Limited, has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

During the past two years immediately preceding and up to the date of our appointment as the Independent Financial Adviser, we are independent from, and not associated with the Company or any other party to the 2017 Master Lease Agreement, or their respective substantial shareholder(s) or connected person(s), as defined under the Listing Rules and accordingly, are considered eligible to give independent advice on the terms of the 2017 Master Lease Agreement and the transactions contemplated thereunder. During the past two years, there was no engagement between the Group and Nuada Limited. Apart from normal professional fees for our services to the Company in connection with our engagement as the Independent Financial Adviser, no other arrangement exists whereby we will receive any fees and/or benefits from the Company or any other party to the 2017 Master Lease Agreement, or their respective substantial shareholder(s) or connected person(s), as defined under the Listing Rules.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the accuracy of the statements, information, opinions and representations contained or referred to in the Circular and the information and representations provided to us by the Company, the Directors and the management of the Company. We have no reason to believe that any information or representation relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render the information provided and the representations made to us untrue, inaccurate or misleading. We have assumed that all information, representations and opinions contained or referred to in the Circular, which have been provided by the Company, the Directors and the management of the Company and for which they are solely and wholly responsible, were true and accurate at the time when they were made and continue to be true up to the Latest Practicable Date.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Directors have jointly and severally accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed in the Circular, having made all reasonable enquiries, that to the best of their knowledge and belief, the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement in the Circular misleading.

We consider that we have reviewed sufficient information, including relevant information and documents provided by the Company and the Directors and the information published by the Company, to enable us to reach an informed view and to justify reliance on the accuracy of the information contained in the Circular to provide a reasonable basis for our opinions and recommendations. We have not, however, carried out any independent verification of the information provided by the Company and the Directors, nor have we conducted an independent in-depth investigation into the business and affairs, financial condition and future prospects of the Group, the connected persons and/or any of their respective subsidiaries and/or associated companies and the markets in which they respectively operate.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our recommendation in relation to the terms of the 2017 Master Lease Agreement and the transactions contemplated thereunder, we have taken into consideration the following principal factors and reasons:

1. Information on the Company and the Lessor

As stated in the Letter from the Board, the Group is a renowned beauty salon group in Hong Kong offering a comprehensive beauty and wellness services ranging from beauty and facial, spa and massage, slimming to sales of skincare and wellness products at its network of service centres in Hong Kong, mainland China, Taiwan, Singapore and Malaysia.

The Lessor is a company incorporated in the British Virgin Islands with limited liability and is principally engaged in investment holding. By virtue of the Lessor being wholly owned by a family trust set up by Dr. Tsang, an executive Director, chairperson of the Board and a controlling Shareholder interested in 677,897,942 issued Shares (representing approximately 74.95% of the issued share capital of the Company) as at the Latest Practicable Date, the Lessor is a connected person of the Company and the Leasing Arrangements will constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

2. Background of and reasons for entering into the 2017 Master Lease Agreement

In performing its ordinary course of businesses, the Company has entered into the 2014 Master Lease Agreement for the three years ending 31 March 2017 with the Lessor on 20 February 2014. Pursuant to the 2014 Master Lease Agreement, the Group would lease certain premises from the Owners by entering into individual lease agreements from time to time during the term of the 2014 Master Lease Agreement. At the extraordinary general meeting of the Company held on 31 March 2014, the then independent Shareholders approved, among others, the 2014 Master Lease Agreement, together with the proposed annual caps and the transactions contemplated thereunder. Details of the continuing connected transactions contemplated under the 2014 Master Lease Agreement were disclosed in the circular of the Company dated 14 March 2014.

As disclosed in the Letter from the Board, given that the 2014 Master Lease Agreement will expire on 31 March 2017 and the Group expects that the continuing connected transactions contemplated under the 2014 Master Lease Agreement will continue, on 23 February 2017, the Company entered into the 2017 Master Lease Agreement with the Lessor in relation to the continuance of the lease arrangements between the Group and the Owners for the three years ending 31 March 2020.

Currently, the Existing Premises are being used in the ordinary and usual course of the business of the Group as its operating facilities (including but not limited to offices, retail shops, service centres and warehouses). The Group intends to continue to lease the Existing Premises in Hong Kong under the arrangement contemplated under the 2017 Master Lease Agreement. Depending on the then operation needs of the Group and market conditions and subject to vacant possession of such premises, the Group may lease certain New Premises from the Owners under the arrangement contemplated under the 2017 Master Lease Agreement. Please refer to the Letter from the Board for the summary of (i) the Existing Lease Agreements in respect of the Existing Premises which are expected to continue under the 2017 Master Lease Agreement; and (ii) certain Premises which have been identified as at the Latest Practicable Date.

Taking into account the principal business of the Group in a comprehensive beauty and wellness services ranging from beauty and facial, spa and massage, slimming, fitness to sales of skincare and wellness products at its network of service centres and retail shops, we consider that the entering into of the 2017 Master Lease Agreement to lease premises as its operating facilities is in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

3. Principal terms of the 2017 Master Lease Agreement

Pursuant to the 2017 Master Lease Agreement, the Group will enter into separate lease agreements to lease certain premises (which are expected to comprise the Existing Premises, the New Premises identified as stated in the Letter from the Board and some other additional New Premises) from the respective Owners from time to time during the term of the 2017 Master Lease Agreement. We have reviewed and compared the terms of the 2017 Master Lease Agreement and the 2014 Master Lease Agreement and noted that, save for the annual caps, there is no material difference between the terms of the aforesaid agreements.

According to the management of the Company and under the 2017 Master Lease Agreement:

- (i) each of the Leasing Arrangements to be entered into between the Company and the relevant Owner pursuant to the 2017 Master Lease Agreement will have a term commencing on or after 1 April 2017 and expiring on or before 31 March 2020;
- (ii) each Leasing Arrangement shall be on normal commercial terms and shall be on terms which are no less favourable than those offered by the Owners to other independent third parties and the amount of rental (exclusive of rates, land rent and management fees) under each Leasing Arrangement shall be determined by the parties to each Leasing Arrangement with reference to the then prevailing market rents on premises comparable in location, area and permitted use ("**Comparable Premises**") provided that before each Leasing Arrangement is entered into, the Group shall, at its own cost and expenses, obtain a confirmation from an independent property valuer providing its opinion of the then prevailing market rent of the premises with reference to the market rent of the Comparable Premises and the rent to be set out in the relating Leasing Arrangement shall be no more than such prevailing market rent and the effective date of the opinion shall not be more than three months. In light of such safeguard, there will not be a situation where the actual rent payable by the Group under any individual lease to be entered into pursuant to the 2017 Master Lease Agreement will be higher than the prevailing market rent of the relevant Comparable Premises; and
- (iii) the government rent, rates and management fee under each Leasing Arrangement will be paid to the government or, as the case may be, the management companies by the relevant tenant direct.

Further details regarding the terms of the 2017 Master Lease Agreement are set out in the Letter from the Board.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(i) *Review of the transactions under the 2014 Master Lease Agreement*

We have discussed with the management of the Company and note that for the purpose of ascertaining the prevailing market rents of Comparable Premises, the Group shall, at its own cost and expenses, obtain a confirmation from an independent property valuer providing its opinion of the then prevailing market rent of the premises with reference to the market rent of the Comparable Premises, and the rent to be set out in the relating Leasing Arrangement shall be no more than such prevailing market rent and the effective date of the opinion shall not be more than three months of the respective tenancy agreements. On such basis, we are of the view and concur with the view of the management of the Company that the aforesaid pricing basis can ensure that each Leasing Arrangement will be on normal commercial terms and will be on terms no less favourable to the Group than those available from Independent Third Parties.

The aforesaid pricing basis adopted in the 2017 Master Lease Agreement is the same as adopted in the 2014 Master Lease Agreement. In order to review whether such pricing basis is feasible or not, we have requested the Company to provide (i) all tenancy agreements entered into between the Group and the Lessor under the terms of the 2014 Master Lease Agreement for the two years ended 31 March 2016 and the year ending 31 March 2017 (the “**Previous Tenancy Agreements**”); and (ii) four valuation reports dated 14 March 2014, 14 March 2014, 10 December 2014 and 23 December 2015 respectively issued by Roma Appraisals Limited (the “**Valuer**”), an independent property valuer appointed by the Company, for ascertaining the then prevailing market rents for the Previous Tenancy Agreements (the “**Previous Valuation Reports**”). Based on our review of the Previous Tenancy Agreements and the Previous Valuation Reports, as well as discussion with the management of the Company, we note that (i) the effective date of the opinion as stated in the Previous Valuation Reports are not more than three months prior to the date of the respective tenancy agreements; and (ii) the rental paid under each of the Previous Tenancy Agreements was indeed not higher than the respective prevailing market rent as stated in the Previous Valuation Reports, both of which are in accordance with the aforementioned pricing policy.

Based on the above, we are of the view and concur with the view of the management of the Company that there are adequate measures in place to ensure that the rents paid by the Group are in accordance with the prevailing market rents and not less favourable to the Group than available from Independent Third Parties.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(ii) *Valuation report*

Given that the rental for the Existing Premises and the New Premises will be determined with reference to, among other factors, the prevailing market rents of Comparable Premises, we have reviewed the valuation report (the “**Valuation Report**”) prepared by the Valuer, and have discussed with the Valuer regarding the methodology of and the principal bases and assumptions adopted for such valuations.

According to the Valuer, the Valuation Report has been prepared in compliance with all requirements contained in Chapter 5 and Practice Note 12 to the Listing Rules and the HKIS Valuation Standard on Properties (2012 Edition) published by The Hong Kong Institute of Surveyors.

The basis of the valuation is the market rent which the Valuer would define as intended to mean “the estimated amount for which a property would be leased on the valuation date between a willing lessor and a willing lessee on appropriate lease terms in an arm’s-length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently, and without compulsion”.

We noted that the Valuer used comparison approach by reference to comparable market rents in assessing the market rents of the properties. As discussed with the Valuer, we understand that the Valuer had considered three commonly adopted methods which can be used for valuation of a premise, namely, investment approach, comparison approach, and cost approach. We are advised that the comparison approach by making reference to comparable properties of similar size and location is the most appropriate approach in valuing premises among the three commonly adopted valuation approaches and is also consistent with normal market practice. Based on the above and the academic qualification and working experience of Dr. Alan Lee (please refer to detailed information of Dr. Alan Lee as stated below), we are of the view that the basis and the methodology adopted in the Valuation is justifiable.

For our due diligence purpose, we reviewed and enquired into (i) the terms of engagement of the Valuer with the Company; (ii) the Valuer’s qualification and experience in relation to the preparation of the Valuation Report; (iii) the steps and due diligence measures taken by the Valuer for the preparation of the Valuation Report; and (iv) details of the Comparable Premises adopted for the Valuation Report such as dates of transactions, location, consideration, size of the comparable premises, and their selection criteria.

We noted that Dr. Alan Lee, the person who is responsible for the preparation of the Valuation Report, has over 13 years of valuation experience in, among others, Hong Kong and the Asia Pacific Region. Dr. Alan Lee is a Registered Professional Surveyor (General Practice), a member of Hong Kong Institute of Surveyors and an Associate of Australian Property Institute. The Valuer also confirmed that it is independent from the Company and all relevant material information provided by

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

the Company had been incorporated in the Valuation Report and there were no other material relevant information or representations provided or made by the Company to the Valuer relating to the Existing Premises or the New Premises which have been identified not having been included in the valuation. In addition, we reviewed the terms of the Valuer's engagement and noted that the scope of work is appropriate to the opinion required to be given. Based on the above, we are of the view that the Valuer do have a relevant capacity and experience to undertake the Valuation.

We have discussed with the Valuer regarding the Comparable Premises and understand that the Comparable Premises are selected based on the criteria that (i) the relevant comparable transactions were entered into in year 2016; and (ii) the subject properties were of the same nature (i.e. retail or residential, as the case may be), similar size and in vicinity to the Existing Premises and New Premises. We consider that the selection criteria are fair and reasonable to reflect the recent market rents of premises similar in natures and locations. Upon our review of the list of Comparable Premises provided by the Valuer, we noted that one to eleven Comparable Premises are obtained to determine the prevailing market rent of each of the Existing Premises or New Premises, with adjustment mainly based on the age, location and floor level thereof.

As there is one Existing Premise which has only one Comparable Premise identified, we have discussed with the Valuer in this regard. We understand that there is only one comparable transaction in vicinity of that Existing Premise entered into in year 2016. Based on the selection criteria of the Valuer, if at least one comparable transaction is identified in year 2016, transactions in year 2015 would not be considered and the comparable transaction(s) in year 2016 are used to reflect the most recent market conditions.

Regarding the above adjustment mechanisms, we have discussed with the Valuer and understand that age, time, location and floor level are adjustment factors generally considered in valuation using comparison approach. The Valuer has already considered time factor as a selection criterion as mentioned above. Meanwhile, we understand from the Valuer that location and floor level are the major adjustment factors in valuation of rental of retail premises, while age and floor level are the major adjustment factors in valuation of rental of residential premises.

For retail premises, if the Comparable Premises are situated in relatively less popular location as compared with the Existing Premise or New Premise, the rent will be adjusted upward in order to reflect that the Existing Premise or New Premise is situated in a relatively popular location and can be leased at a higher rent. If the Comparable Premises are situated at higher floor level as compared with the Existing Premise or New Premise, the rent will be adjusted upward in order to reflect that the Existing Premise or New Premise at a lower level is generally more popular and hence can be leased at a higher rent.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

For residential premises, if the Comparable Premises are older as compared with the Existing Premise or New Premise, the rent will be adjusted upward in order to reflect that the Existing Premise or New Premise is newer and can be leased at a higher rent. If the Comparable Premises are situated at lower floor level as compared with the Existing Premise or New Premise, the rent will be adjusted upward in order to reflect that the Existing Premise or New Premise at a higher level is generally more attractive to tenants and hence can be leased at a higher rent.

After discussion with the Valuer, we noted that the above selection criteria and adjustment mechanisms are consistent with common market practice in valuation. Based on the above and the academic qualification and working experience of Dr. Alan Lee, we are of the view that the above selection criteria and adjustment mechanisms are justifiable. Please refer to the summary table of the Existing Premises and New Premises under the paragraph headed "Background" in the Letter from the Board for the prevailing monthly market rent as at 31 December 2016 as valued by the Valuer.

Also as discussed with the management of the Company, we understand that the Group intends to enter into the tenancy agreements for the Existing Premises and, if appropriate, the New Premises on 1 April 2017. We noted that the effective dates of the opinion as stated in the Previous Valuation Reports are indeed not more than three months prior to the aforesaid proposed date of tenancy agreements.

In light of the foregoing, we are of the view that the principal basis and assumptions of the Valuation Report are fair and reasonable.

(iii) Internal control

Pursuant to Rules 14A.55 and 14A.56 of the Listing Rules, the continuing connected transactions (including but not limited to the transactions contemplated under the 2017 Master Lease Agreement) are subject to the following annual review requirements:

- (a) independent non-executive Directors must review the continuing connected transactions every year and confirm in the annual report whether the transactions have been entered into:
 - (1) in the ordinary and usual course of business of the Group;
 - (2) on normal commercial terms or better; and
 - (3) according to the agreement governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (b) the Company must engage its auditors to report on the continuing connected transactions every year. The auditors must provide a letter to the Board confirming whether anything has come to their attention that causes them to believe that the continuing connected transactions:
 - (1) have not been approved by the Board;
 - (2) were not, in all material respects, in accordance with the pricing policies of the Group if the transactions involve the provision of goods or services by the Group;
 - (3) were not entered into, in all material respects, in accordance with the relevant agreement governing the transactions; and
 - (4) have exceeded the cap.

We note that the independent non-executive Directors has provided confirmation regarding the continuing connected transactions of the Company under the terms of the 2014 Master Lease Agreement in the annual reports of the Company for the two years ended 31 March 2015 and 2016. We also reviewed the confirmation letters from the auditors of the Company regarding the continuing connected transactions of the Company for the two years ended 31 March 2015 and 2016. Based on the above documents, we noted that the continuing connected transactions of the Company under the terms of the 2014 Master Lease Agreement complied with requirements under Rules 14A.55 and 14A.56 of the Listing Rules. Accordingly, we consider that the Company has complied with Listing Rules to exercise internal control regarding continuing connected transactions of the Company.

We also discussed with the management of the Company regarding the internal control procedures to ensure the actual rental amounts under the individual lease agreements would be not less favourable to the Group. We understand that prior to entering into any individual lease agreement under the 2017 Master Lease Agreement for the Existing Premises or, as the case may be, the New Premises, the Company will follow the below procedures:

- (i) the Company will engage an independent property valuer to obtain an opinion about the prevailing market rent of the relevant premise;
- (ii) based on the aforesaid opinion in step (i), the property department of the Company will fix a rent which will not be, as required under the 2017 Master Lease Agreement, higher than the prevailing market rent as opined by the independent property valuer; and

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (iii) the independent non-executive Directors would review the proposed Leasing Arrangements in respect of the Existing Premises, the New Premises or any additional New Premises to be identified by the Group in light of the then prevailing market rent thereof and other terms of the leases to ensure that the proposed Leasing Arrangements are (i) entered into in the ordinary and usual course of business of the Company; (ii) on normal commercial terms and on terms that are no less favourable than those offered by the Owners to other independent third parties; and (iii) in accordance with the provisions of the 2017 Master Lease Agreement. The interested parties, i.e. Dr. Tsang and her associates, will not be involved in such reviewing process.

Regarding the above internal control procedures, we have interviewed one of the managers of the property department who is responsible for the preparation of individual lease agreements in step (ii) above and noted that she is familiar with the internal control procedures. The management of the Company also confirms that the independent non-executive Directors will comply with the above internal control procedures.

In addition, as mentioned above in our review of the Previous Tenancy Agreements under the 2014 Master Lease Agreement above and the Previous Valuation Reports, we note that the rental paid under each of the Previous Tenancy Agreements was indeed not higher than the respective prevailing market rent as stated in the Previous Valuation Reports, i.e. no less favourable to the Group than available from Independent Third Parties.

Accordingly, based on our interview regarding the internal control procedures and the Company's previous record in carrying out such procedures, we consider that the above internal control procedures are enforceable and in place to ensure that the prices paid by the Group are in accordance with the prevailing market prices and no less favourable to the Group than available from Independent Third Parties.

Besides, taking into account of the terms of the 2017 Master Lease Agreement as well as the above internal procedures, we consider that there will not be a situation where the actual rent payable by the Group under any individual lease to be entered into pursuant to the 2017 Master Lease Agreement will be higher than the prevailing market rent of the relevant Comparable Premises, i.e. less favourable to the Company.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(iv) Conclusion

Having considered (i) the pricing basis under the 2017 Master Lease Agreement being the same as that adopted in the 2014 Master Lease Agreement; (ii) our review of the Previous Tenancy Agreements and Previous Valuation Reports above, showing that the rentals were indeed not higher than the then prevailing market price which were in accordance with the 2014 Master Lease Agreement; (iii) our review of the Valuation Report and discussion with Valuer with regard to the basis and method adopted for ascertaining market rents of the Comparable Premises; and (iv) our review of the aforementioned internal policy of the Company, including (a) the internal control procedures prior to the entering into of proposed Leasing Arrangements, and (b) the annual review of continuing connected transactions under the 2014 Master Lease Agreement by the independent non-executive Directors and the auditors of the Company after the financial year ends of the Company, we are of the view and concur with the view of the Directors that the transactions contemplated under the 2017 Master Lease Agreement are conducted on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

4. The Annual Caps

The table below sets out (i) the past annual caps under the 2014 Master Lease Agreement for the years ended 31 March 2015 and 2016 and the year ending 31 March 2017 (the “**Previous Annual Caps**”); and (ii) the Annual Caps for the three years ending 31 March 2020:

Previous Annual Caps:

	For the year ended/ending 31 March		
	2015	2016	2017
	<i>(HK\$ million)</i>	<i>(HK\$ million)</i>	<i>(HK\$ million)</i>
Previous Annual Caps under the 2014 Master Lease Agreement	76.3	76.3	76.3

Annual Caps:

	For the year ending 31 March		
	2018	2019	2020
	<i>(HK\$ million)</i>	<i>(HK\$ million)</i>	<i>(HK\$ million)</i>
Annual Caps under the 2017 Master Lease Agreement	79.0	79.0	79.0

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As stated in the Letter from the Board, in determining the Annual Caps, the Board has primarily taken into account the following factors:

- (i) the prevailing market rents of the relevant Existing Premises and the New Premises identified; and
- (ii) a buffer of approximately 10% for rental payments in respect of additional New Premises which may be leased from the Owners during the term of the 2017 Master Lease Agreement.

In order to assess the fairness and reasonableness of the Annual Caps, we have discussed with the management of the Company on the basis of determination of the Annual Caps and have taken into consideration the historical transactions under the 2014 Master Lease Agreement. The table below summarises (i) the Previous Annual Caps under the 2014 Master Lease Agreement; (ii) the actual historical transaction amounts for the two years ended 31 March 2016 and the estimated transaction amounts for the year ending 31 March 2017; and (iii) their respective utilisation rates.

	For the year ended 31 March		For the year ending 31 March
	2015	2016	2017
	<i>(HK\$ in million)</i>	<i>(HK\$ in million)</i>	<i>(HK\$ in million)</i>
Previous Annual Caps	76.3	76.3	76.3
Historical/Estimate			
transaction amounts	55.1	59.2	60.4
Utilisation rates	72.2%	77.6%	79.2%

As shown in the table above, we noted that the utilisation rates of the Previous Annual Caps under the 2014 Master Lease Agreement for the two years ended 31 March 2016 and the year ending 31 March 2017 ranged from approximately 72.2% to 79.2%. We discussed with the management of the Company and understand that the Previous Annual Caps are not fully utilised as (i) some of the tenancy agreements entered under the terms of the 2014 Master Lease Agreement were terminated during the terms of the 2014 Master Lease Agreement; and (ii) a buffer of approximately 10% for rental payments were included for prudent sake under the 2014 Master Lease Agreement. As such, we are of the view that the utilisation rates are justifiable.

As stated in the Letter from the Board, we noted that the buffer of approximately 10% of the annual prevailing market rent of the Existing Premises and the New Premises identified amounted to HK\$7,135,200, which was determined with reference to (i) the upward trend in local property market; and (ii) the annual prevailing market rent of some middle-to-large-size service centres of the Group in Kowloon and Hong Kong, including the one in Paradise Square in Kowloon and the one in MRT Plaza in North Point (the annual prevailing market rent of each such centre is HK\$7,440,000). As such, should the Group rent one more middle-to-large-size service centre, the Annual Cap will almost be fully utilised.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As a general reference, we study the latest statistics released by the Rating and Valuation Department of Hong Kong (“RVD”) on its website (<http://www.rvd.gov.hk/>) and noted that the average monthly rents for private retail properties in Kowloon and Hong Kong are approximately HK1,319 and HK\$1,500 per square meter respectively for year 2016. As discussed with the management of the Company, we understand that average area of a middle size service centre of the Group is around 400 square meter. The annual rent of such service centre would be approximately HK\$6.3 million or HK\$7.2 million based on the average rents in Kowloon and Hong Kong as quoted from the RVD, which is close to the buffer of approximately HK\$7,135,200. Accordingly, we consider that a buffer of approximately 10% for rental in respect of any additional New Premises for prudent is justifiable.

Furthermore, having considered that (i) the Previous Annual Caps are utilised as to close to 80%; (ii) the aggregate prevailing market rents of the relevant Existing Premises and the New Premises identified amount to approximately HK\$71.4 million annually, which implies the utilisation rate would be approximately 90.3% if all such premises are leased by the Group; and (iii) a buffer of approximately 10% for rental payments in respect of additional New Premises which may be leased from the Owners during the term of the 2017 Master Lease Agreement is included for prudent sake, we are of the view and concur with the view of the management of the Company that the Annual Caps are fair and reasonable.

RECOMMENDATION

Having considered the above principal factors and reasons, we are of the opinion that the 2017 Master Lease Agreement are entered into in the ordinary and usual course of business of the Group based on normal commercial terms, and their terms together with the Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Shareholders, and the Independent Board Committee to recommend the Independent Shareholders, and we also recommend the Independent Shareholders, to vote in favour of the relevant resolution(s) to be proposed at the EGM to approve the 2017 Master Lease Agreement (including the Annual Caps) and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
Nuada Limited
Kevin Wong
Vice President

Mr. Kevin Wong is a person licensed to carry out type 6 (advising on corporate finance) regulated activity under the SFO and is a responsible officer of Nuada Limited who has over 13 years of experience in corporate finance industry.

1. RESPONSIBILITY STATEMENT

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

2. DISCLOSURE OF INTERESTS

Directors' and Chief Executives' Interests and Short Positions in the Shares, Underlying Shares or Debentures

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

(i) *Long positions in Shares, underlying Shares and debentures in the Company*

Name of Director	Capacity in which interests are held	Interests in Shares	Approximate Percentage of Issued Share Capital of the Company (Note 1)
Dr. Tsang Yue, Joyce	Founder of a discretionary trust (Notes 2 & 4)	677,247,942 (Note 3)	74.88%
	Interest of spouse	650,000	0.07%
Mr. Yip Kai Wing	Beneficial Owner	185,000	0.02%
Ms. Yeung See Man	Beneficial Owner	172,000	0.02%

Notes:

1. The percentage has been compiled based on the total number of Shares in issue as at the Latest Practicable Date (i.e. 904,483,942 Shares).
2. These 677,247,942 Shares were held by a trust of which Dr. Tsang Yue, Joyce was the founder and TMF (Cayman) Ltd. was the trustee of the trust.
3. These Shares comprised (i) 209,247,942 Shares directly owned by Allied Wealth Limited; (ii) 367,200,000 Shares directly owned by Silver Compass Holdings Corp.; and (iii) 100,800,000 Shares directly owned by Silver Hendon Enterprises Corp. All such companies are controlled corporations of Dr. Tsang. Dr. Tsang is a director of each of Allied Wealth Limited, Silver Compass Holdings Corp. and Silver Hendon Enterprises Corp.
4. Allied Wealth Limited, Silver Compass Holdings Corp. and Silver Hendon Enterprises Corp. are wholly owned by Asia Gift Company Limited ("**Asia Gift**"), which is in turn wholly owned by Goldlite Development Limited ("**Goldlite**"). Goldlite is wholly owned by Allied Chance Management Limited ("**Allied Chance**"), which is in turn wholly-owned by Kelday International Limited. TMF (Cayman) Ltd. is the ultimate holding company of Kelday International Limited. Dr. Tsang is a director of each of Asia Gift and Goldlite.

(ii) Long positions in shares and underlying shares in the associated corporations

Name of Director	Name of associated corporation	Capacity in which interests are held	Number of share held	Percentage of holding
Dr. Tsang Yue, Joyce	Alliance Chance Management Limited (Note)	Founder of a discretionary trust	1	100%
Dr. Tsang Yue, Joyce	Goldlite Development Limited (Note)	Founder of a discretionary trust	1	100%
Dr. Tsang Yue, Joyce	Asia Gift Company Limited (Note)	Founder of a discretionary trust	1	100%

Note: Each of Alliance Chance Management Limited, Goldlite Development Limited and Asia Gift Company Limited is a holding company of the Company and is thus an associated corporation of the Company.

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

3. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

4. DIRECTORS' COMPETING INTERESTS

To the best knowledge of the Directors, as at the Latest Practicable Date, none of the Directors or their respective associates had any interests in a business, which competes or is likely to compete either directly or indirectly with the business of the Group which would be required to be disclosed under Rule 8.10 of the Listing Rules, if the Directors were controlling Shareholders.

5. DIRECTORS' INTEREST IN ASSETS, CONTRACTS OR ARRANGEMENTS

Save for the lease agreements relating to the Existing Premises and the 2017 Master Lease Agreement (and the Leasing Arrangements contemplated thereunder) as disclosed in the section headed "Letter from the Board" of this circular, none of the Directors was materially interested in any contract or arrangement subsisting as at the Latest Practicable Date which is significant in relation to the business of the Group, nor had any Director had any direct or indirect interests in any assets which have been acquired or disposed of by or leased to, or are proposed to be acquired or disposed of by or leased to, any member of the Group since 31 March 2016, being the date to which the latest published audited consolidated financial statements of the Group were made up.

6. NO MATERIAL ADVERSE CHANGE

The Directors confirm that as at the Latest Practicable Date, they were not aware of any material adverse change in the financial or trading position of the Group since 31 March 2016, being the date to which the latest published audited financial statements of the Group were made up.

7. QUALIFICATION AND CONSENT OF EXPERTS

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

Name	Qualification
Nuada Limited	a licensed corporation to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO
Roma Appraisals Limited ("Roma")	Independent property valuer

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

Each of the Independent Financial Adviser and Roma has confirmed that as at the Latest Practicable Date,

- (a) it was not beneficially interested in the share capital of any member of the Group nor did it have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group; and
- (b) it did not directly or indirectly, have any interest in any assets which had since 31 March 2016 (being the date to which the latest published audited financial statements of the Company were made up) been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

8. GENERAL

- (a) The registered office of the Company is situated at PO Box 309 GT, Uglund House, South Church Street, George Town, Grand Cayman, Cayman Islands.
- (b) The Company's head office and principal place of business in Hong Kong is situated at 6th Floor, Sino Industrial Plaza, 9 Kai Cheung Road, Kowloon Bay, Kowloon, Hong Kong.
- (c) The company secretary of the Company is Mr. Wong Shu Pui, a solicitor admitted in Hong Kong.
- (d) The Company's share registrar and transfer office in Hong Kong is Tricor Investor Services Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.

- (e) The English text of this circular shall prevail over the Chinese text in the event of conflict or inconsistency between the two.

9. DOCUMENTS AVAILABLE FOR INSPECTION

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

- (a) the 2014 Master Lease Agreement;
- (b) the 2017 Master Lease Agreement;
- (c) the letter from the Independent Board Committee, the text of which is set out in this circular;
- (d) the letter from the Independent Financial Adviser, the text of which is set out in this circular; and
- (e) the written consents referred to in paragraph headed "Qualification and Consent of Experts" of this appendix.

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 9/F., Gloucester Tower, The Landmark, 15 Queen’s Road Central, Hong Kong on Wednesday, 29 March 2017 at 11:00 a.m., to consider and, if thought fit, pass the following resolution as an ordinary resolution:

ORDINARY RESOLUTION

“THAT:

- (A) the (i) transactions as contemplated under the 2017 Master Lease Agreement (as defined in the circular of the Company dated 13 March 2017 (“**Circular**”), a copy of which is marked “A” and initialled by the chairman of the meeting for identification purpose and has been tabled at the meeting) dated 23 February 2017 entered into between the Company and Asia Power Global Limited; and (ii) the relevant annual caps for such transactions for the year ending 31 March 2018, the year ending 31 March 2019 and the year ending 31 March 2020 as set out in the Circular be and are hereby approved; and
- (B) the directors of the Company be and are hereby authorised to do all such acts and things, to sign and execute such documents or agreements or deeds on behalf of the Company and to do such other things and to take all such actions as they consider necessary, appropriate, desirable or expedient for the purposes of giving effect to or in connection with the 2017 Master Lease Agreement and to agree to such variation, amendments or waivers or matters relating thereto (including any variation, amendments or waiver of such documents or any terms thereof, which are not fundamentally different from those as provided in the 2017 Master Lease Agreement) as are, in the opinion of the directors of the Company, in the interest of the Company and its shareholders as a whole.”

On behalf of the Board
Modern Beauty Salon Holdings Limited
Tsang Yue, Joyce
Chairperson

Hong Kong, 13 March 2017

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 of this notice, the Board consists of Three Executive Directors, Dr. Tsang Yue, Joyce, Mr. Yip Kai Wing 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.

Notes:

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. A form of proxy is enclosed with this circular. 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 branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong by 11:00 a.m. (Hong Kong time) on Monday, 27 March 2017 or not less than 48 hours before the time appointed for holding any adjourned meeting. 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.