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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 in white 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



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 5 to 21 of this circular.

A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on page 22 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 23 to 38 of this circular.

A notice convening the EGM to be held at Unit 1103-06, China Building, 29 Queen's Road Central, Hong Kong, on Friday, 27 March 2020 at 11:20 a.m. is set out on pages EGM-1 and EGM-2 of this circular. A proxy form in white 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 white 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 Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong by 11:20 a.m. (Hong Kong time) on Wednesday, 25 March 2020 or not less than 48 hours before the time appointed for the holding of the EGM or any adjourned meeting. Completion and return of the proxy form will not preclude you from attending and voting in person at the EGM or any adjourned meeting if you so wish, and in such case, the proxy form previously submitted shall be deemed to be revoked.

11 March 2020

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DEFINITIONS

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

“2017 Master Lease Agreement”	the agreement dated 23 February 2017 entered into between the Company and the Lessor in respect of the Existing Premises
“2020 Master Lease Agreement”	the agreement dated 20 February 2020 entered into between the Company and the Lessor in respect of the Leasing Arrangements for the three years ending 31 March 2023 and where the context so requires, as varied and modified by a supplemental agreement entered into between the Company and the Lessor dated 28 February 2020
“Annual Caps”	the annual caps under the 2020 Master Lease Agreement, which are determined with reference to the total value of the right-of-use assets relating to the Leasing Arrangements to be or expected to be entered into by the Group, for the year ending 31 March 2021, the year ending 31 March 2022 and the year ending 31 March 2023 in the amount of HK\$115.2 million, HK\$7.1 million and HK\$3.6 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 in the Cayman Islands with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange (stock code: 919)
“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)

DEFINITIONS

“EGM”	the extraordinary general meeting of the Company to be held at Unit 1103-06, China Building, 29 Queen’s Road Central, Hong Kong on Friday, 27 March 2020 at 11:20 a.m. to consider, and if thought fit, approve, among other matters (if any), the Leasing Arrangements pursuant to the 2020 Master Lease Agreement and the Annual Caps, the notice of which is set out on pages EGM-1 and EGM-2 of this circular
“Existing Premises”	the properties owned by the Owners in Hong Kong currently leased to the Group under the Existing Lease Agreements (as defined in the Letter from the Board contained in this circular) 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
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Board Committee”	an independent board committee, comprising all of the independent non-executive Directors, namely, Ms. Liu Mei Ling, Rhoda, Dr. Wong Man Hin, Raymond and Mr. Hong Po Kui, Martin, established to advise the Independent Shareholders in respect of the Leasing Arrangements under the 2020 Master Lease Agreement and the Annual Caps
“Independent Financial Adviser”	VBG Capital Limited, a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the Leasing Arrangements under the 2020 Master Lease Agreement and the Annual Caps

DEFINITIONS

“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 2020 Master Lease Agreement and the Annual Caps, being Dr. Tsang and her associates
“Latest Practicable Date”	4 March 2020, 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 2020 Master Lease Agreement by the entering into a tenancy or lease agreement in respect of such premises between the Group and the relevant Owner
“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
“Long Stop Date”	31 March 2020
“New Premises”	the properties owned or which may be acquired by the relevant Owner(s) which the Group may lease from such Owner(s) during the term of the 2020 Master Lease Agreement
“Owner(s)”	subsidiaries of the Lessor from time to time which are or may become the 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)”	the ordinary share(s) of HK\$0.10 each in the share capital of the Company

DEFINITIONS

“Shareholder(s)”

shareholder(s) of the Company

“Stock Exchange”

The Stock Exchange of Hong Kong Limited

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

(Chairperson and Chief Executive Officer)

Mr. Yip Kai Wing

Ms. Yeung See Man

Registered Office:

P.O. Box 309

Ugland House

Grand Cayman

KY1-1104

Cayman Islands

Independent Non-Executive Directors:

Ms. Liu Mei Ling, Rhoda

Dr. Wong Man Hin, Raymond

Mr. Hong Po Kui, Martin

*Head Office and Principal Place of
Business in Hong Kong:*

Workshops Nos. 66-68

6/F Sino Industrial Plaza

9 Kai Cheung Road

Kowloon Bay

Kowloon

Hong Kong

11 March 2020

To the Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

References are made to (i) the announcement of the Company dated 20 February 2020 in relation to the entering into of the 2020 Master Lease Agreement; and (ii) the supplemental announcement of the Company dated 28 February 2020 in relation to the clarification on the Annual Caps.

LETTER FROM THE BOARD

On 20 February 2020, the Company announced that it had entered into the 2020 Master Lease Agreement with the Lessor to regulate the lease arrangement between the Group and the Owners for the three years ending 31 March 2023. On 28 February 2020, the Company and the Lessor entered into a supplemental agreement to the 2020 Master Lease Agreement pursuant to which the Annual Caps had been revised as elaborated below.

The purpose of this circular is to provide you with, among other things, details regarding (i) the Leasing Arrangements under the 2020 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 2020 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.

THE 2020 MASTER LEASE AGREEMENT

Background

Reference is made to the announcement of the Company dated 23 February 2017 and the circular of the Company dated 13 March 2017 in respect of the continuing connected transactions in relation to the 2017 Master Lease Agreement, pursuant to which the Group entered into a number of separate lease agreements (“**Existing Lease Agreements**”, each a “**Existing Lease Agreement**”) with the Owners for leasing certain premises from the Owners during the term of the 2017 Master Lease Agreement.

Given that the 2017 Master Lease Agreement will expire on 31 March 2020 and the Group expects that the leasing arrangement contemplated under the 2017 Master Lease Agreement will continue after its expiry, on 20 February 2020, the Company entered into the 2020 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 2023.

LETTER FROM THE BOARD

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 2020 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 2020 Master Lease Agreement:

Particulars of the Existing Premises	Present usage	Total rental paid for the year ended 31 March		Total rental paid for the nine months from 1 April 2019 to 31 December	Estimated total rental for the year ending 31 March 2020	Fair market rent (monthly) as at 1 January 2020
		2018 <i>HK\$</i> <i>(Note 1)</i>	2019 <i>HK\$</i> <i>(Note 1)</i>	2019 <i>HK\$</i> <i>(Note 1)</i>	2020 <i>HK\$</i> <i>(Note 1)</i>	2020 <i>HK\$</i> <i>(Notes 1 and 2)</i>
Hong Kong Island						
1. Shop and Toilet Area on 1st Floor, Shop and Toilet Area on 2nd Floor, Lift and Staircase (No. 3) and Grease Trap Room on 1st Floor, 1st Floor Staircase for 2nd Floor, Lift and Staircase on 2nd Floor, Lift Machine Room for 1st to 2nd Floors on 3rd Floor, Signage Units Nos. 1 to 8 on Ground Floor, Signage Units Nos. 9 to 14 on 1st Floor, Store and Open Store on Ground Floor, The Grandeur, 47 Jardine's Bazaar, Causeway Bay, Hong Kong	Service centre	7,446,000	5,452,824 <i>(Note 3)</i>	3,342,177	4,456,236 <i>(Note 3)</i>	360,000
2. 1/F, (including its Flat Roof and Stair-Entrance on Ground Floor), King Kwong Mansion, No. 8 King Kwong Street, Happy Valley, Hong Kong	Service centre	785,400	785,400	589,050	785,400	68,000
3. Portion B of Basement of Hang Ying House, Nos. 318-328 King's Road, Hong Kong	Service centre	—	—	1,002,150	1,336,200 <i>(Note 4)</i>	110,000

LETTER FROM THE BOARD

Particulars of the Existing Premises	Present usage	Total rental paid for the year ended 31 March		Total rental paid for the nine months from 1 April 2019 to 31 December	Estimated total rental for the year ending 31 March 2020	Fair market rent (monthly) as at 1 January 2020
		2018 HK\$ (Note 1)	2019 HK\$ (Note 1)	2019 HK\$ (Note 1)	2020 HK\$ (Note 1)	2020 HK\$ (Notes 1 and 2)
4. 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	Service centre	2,550,000	2,550,000	1,912,500	2,550,000	240,000
5. 3/F., Causeway Bay Commercial Building, No. 3 Sugar Street, Causeway Bay, Hong Kong	Service centre	2,550,000	2,550,000	1,912,500	2,550,000	250,000
6. Offices on 3rd Floor of On Lok Yuen Building, Nos. 25, 27 & 27A Des Voeux Road Central, Hong Kong	Service centre	—	1,224,000 (Note 5)	1,101,600	1,468,800	136,000
7. Office and Ancillary Areas on 12th Floor, Silver Fortune Plaza, No. 1 Wellington Street, Central, Hong Kong	Service centre	—	1,640,500 (Note 6)	1,476,450	1,968,600	172,000
8. 5/F., World Trust Tower, No. 50 Stanley Street, Central, Hong Kong	Service centre	—	829,600 (Note 7)	933,300	1,244,400	100,000
9. Unit 2A, 2/F, Winner House, No. 310 King's Road, North Point, Hong Kong	Service centre	—	—	125,000	500,000 (Note 8)	138,000

LETTER FROM THE BOARD

Particulars of the Existing Premises	Present usage	Total rental paid for the year ended 31 March		Total rental paid for the nine months from 1 April 2019 to 31 December	Estimated total rental for the year ending 31 March 2020	Fair market rent (monthly) as at 1 January 2020
		2018 HK\$ (Note 1)	2019 HK\$ (Note 1)	2019 HK\$ (Note 1)	2020 HK\$ (Note 1)	2020 HK\$ (Notes 1 and 2)
Kowloon						
10. Workshop Nos. 11-13, 32B, 33B, 50-71 and Store Room No.10 on 6th Floor and Lorry Car Parking Space Nos. L8, L14 and L15 on Basement, Sino Industrial Plaza, 9 Kai Cheung Road, Kowloon Bay, Kowloon, Hong Kong (Note 9)	Office and warehouse	6,018,000	4,186,200 (Note 10)	2,452,725	2,998,152 (Note 11)	190,000
11. 3rd and 4th Floor (including Flat Roof) BCC Building, Nos 25-31 Carnarvon Road, Kowloon, Hong Kong	Service centre	3,876,000	3,876,000	2,907,000	3,876,000	340,000
12. 2nd Floor Commercial Unit with 2nd Floor Advertising Space of Paradise Square, 3 Kwong Wa Street, Kowloon, Hong Kong (Note 12)	Service centre	6,177,624	4,116,240 (Note 13)	1,671,387	2,121,387 (Note 14)	230,000
13. Shop No.5 on Ground Floor, Paradise Square, 3 Kwong Wa Street, Kowloon, Hong Kong	Retail shop	146,376	146,376	109,782	146,376	16,000
14. Shops C1, C2, D1, D2, E1 & E2, 16/F, TG Place, No. 10 Shing Yip Street, Kowloon, Hong Kong	Service centre	1,632,000	1,632,000	1,224,000	1,632,000	160,000
15. 16/F & Lavatories, Oriental Central Nos. 67-71 Chatham Road South, Kowloon, Hong Kong	Service centre	—	354,450 (Note 15)	1,063,350	1,417,800	138,000

LETTER FROM THE BOARD

Particulars of the Existing Premises	Present usage	Total rental paid for the year ended 31 March		Total rental paid for the nine months from 1 April 2019 to 31 December	Estimated total rental for the year ending 31 March 2020	Fair market rent (monthly) as at 1 January 2020
		2018 <i>HK\$</i> <i>(Note 1)</i>	2019 <i>HK\$</i> <i>(Note 1)</i>	2019 <i>HK\$</i> <i>(Note 1)</i>	2020 <i>HK\$</i> <i>(Note 1)</i>	2020 <i>HK\$</i> <i>(Notes 1 and 2)</i>
New Territories						
16. 18th Floor, Hou Feng Industrial Building, Nos.1-5 Wing Kin Road, Kwai Chung, New Territories	Warehouse	744,600	744,600	558,450	744,600	62,000
17. 1st Floor (with flat roof adjacent thereto) and Covered Air-conditioned Plant Shelter on the 2nd Floor, Len Fat Mansion, Nos. 56-86 Kin Yip Street, Yuen Long, New Territories	Service centre	1,938,000 <i>(Note 16)</i>	1,938,000 <i>(Note 16)</i>	1,453,500	1,938,000 <i>(Note 16)</i>	157,000
18. Units B74-B90, B99-B116, B132-B136, 1/F., The Commercial Accommodation of Well On Garden, No. 9 Yuk Nga Lane, Tseung Kwan O, New Territories	Service centre	1,938,000	1,938,000	1,453,500	1,938,000	130,000
		35,802,000	33,964,190	25,288,421	33,671,951	2,997,000 per month

Notes:

1. Exclusive of government rates, government rent and management fees.
2. The monthly fair market rent is based on the opinion of Roma Appraisals Limited, an independent property valuer.
3. The monthly rent has been reduced for the period from 1 August 2018 to 31 March 2020.
4. The relevant Existing Lease Agreement was entered into in the year ended 31 March 2020.
5. The relevant Existing Lease Agreement was entered into in the year ended 31 March 2019.

LETTER FROM THE BOARD

6. The relevant Existing Lease Agreement was entered into in the year ended 31 March 2019.
7. The relevant Existing Lease Agreement was entered into in the year ended 31 March 2019.
8. The relevant Existing Lease Agreement was entered into in the year ended 31 March 2020.
9. The total rental paid for the respective years ended 31 March 2018 and 2019 and the year ending 31 March 2020 comprised rental paid for the Existing Premises and another part of premises which was surrendered to the relevant Owner on 1 February 2020.
10. The monthly rent had been reduced with effect from 1 August 2018.
11. The monthly rent has been further decreased for the period from 1 February 2020 to 31 March 2020.
12. The total rental paid for the respective years ended 31 March 2018 and 2019 and the year ending 31 March 2020 comprised rental paid for the Existing Premises and another part of premises which was surrendered to the relevant Owner on 14 July 2019.
13. The monthly rent had been reduced with effect from 1 August 2018.
14. The monthly rent has been further reduced for the period from 1 July 2019 to 31 March 2020.
15. The relevant Existing Lease Agreement was entered into in the year ended 31 March 2019.
16. The total rental paid for the respective years ended 31 March 2018 and 2019 and the year ending 31 March 2020 comprised rental paid for the Existing Premises and another part of premises the lease of which will not continue after 31 March 2020.
17. All the above leases will expire on 31 March 2020.
18. All rent paid for each of the lease for leasing the Existing Premises under the 2017 Master Lease Agreement were fixed monthly rent and all rent payable for each of the leases for leasing the Existing Premises above under the 2020 Master Lease Agreement will also be fixed monthly rent.

LETTER FROM THE BOARD

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 arrangements contemplated under the 2020 Master Lease Agreement and as at the Latest Practicable Date, the Company has identified a New Premises which may be leased from the relevant Owner. A summary of such New Premises is set out as follows:

New Premises	Intended usage	Prevailing monthly market rent as at 1 January 2020 HK\$ (Note 1)
1/F, 44-46 Carnarvon Road, Tsim Sha Tsui, Kowloon, Hong Kong	Service centre	<u>60,000</u>
	Total (per month):	<u><u>60,000</u></u>

Notes:

1. The quoted prevailing monthly market rent is based on the opinion of Roma Appraisals Limited, an independent property valuer.
2. The rent payable in respect of the leasing of the above New Premises will be fixed monthly rent.

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 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 2023, the Company and the Lessor entered into the 2020 Master Lease Agreement on 20 February 2020 to set out the principal terms and conditions governing the Leasing Arrangements in the future.

In respect of each of the above Existing Premises and New Premises, the Company has obtained a preliminary opinion from an independent property valuer about the prevailing market rent of such premises. In fixing the rent for the individual leases under the 2020 Master Lease Agreement, the rent will not be higher than such prevailing market rent.

LETTER FROM THE BOARD

Date of the 2020 Master Lease Agreement

Date of the original master lease agreement: 20 February 2020

Date of the supplemental agreement to the original master lease agreement: 28 February 2020

Parties to the 2020 Master Lease Agreement

The Lessor and the Company

The relationship between the Lessor and the Company is more particularly described in the paragraph headed “Listing Rules Implications” below.

Subject Matter

Pursuant to the 2020 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 (if any)) from the relevant Owners from time to time during the term of the 2020 Master Lease Agreement.

Conditions

The 2020 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 Leasing Arrangements under the 2020 Master Lease Agreement and the Annual Caps; and
2. (if required) all requisite waivers, consents and approvals from any relevant governments or regulatory authorities in Hong Kong or other jurisdictions (if applicable) or other relevant third parties in connection with the Leasing Arrangements under the 2020 Master Lease Agreement required to be obtained on the part of the Group having been obtained.

If the conditions above shall not have been fulfilled on or before the Long Stop Date, the 2020 Master Lease Agreement shall cease and terminate, save and except for certain provisions in relation to costs and expenses and miscellaneous matters which shall remain in full force and effect.

LETTER FROM THE BOARD

Duration

Subject to fulfillment of the above conditions on or before the Long Stop Date, the 2020 Master Lease Agreement shall be for a term commencing from 1 April 2020 and ending on 31 March 2023. In addition, the 2020 Master Lease Agreement may be terminated by the Company by giving the Lessor at least sixty days' written notice of termination. Such right allows the Group the flexibility to terminate the 2020 Master Lease Agreement at any time during its term. The Directors consider that such right is in the interest of the Company. However, as at the Latest Practicable Date, the Board did not foresee any circumstances which will result in the Company exercising such terminate right. According to the terms of the 2020 Master Lease Agreement, the Lessor shall not have any right to terminate the 2020 Master Lease Agreement.

Subject to fulfillment of the above conditions on or before the Long Stop Date, each of the Leasing Arrangements to be entered into between the Group and the relevant Owners pursuant to the 2020 Master Lease Agreement will have a term commencing on or after 1 April 2020 and expiring on or before (i) the expiration or earlier termination of its own term, or (ii) 31 March 2023, whichever is earlier.

Consideration and other terms

Pursuant to the 2020 Master Lease Agreement, each Leasing Arrangement shall be on normal commercial terms or better (within the meaning of Chapter 14A of the Listing Rules) and the amount of rental (exclusive of rates, government 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 rents 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 valuation date of the opinion shall not be more than three months.

Pursuant to the agreed form of the individual tenancy agreement to be entered into by the Group and the relevant Owner(s) appended to the 2020 Master Lease Agreement, the Lessee shall pay the rent to the relevant Owner(s) in Hong Kong dollars in advance on the first day of each and every calendar month during the term of the relevant lease.

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

LETTER FROM THE BOARD

Reasons for the 2020 Master Lease Agreement

The Lessor, which is a company wholly owned by a family trust set up by Dr. Tsang, an executive Director, Chairperson of the Board and a controlling Shareholder, directly or indirectly owns a number of premises in Hong Kong (including but not limited to the Existing Premises) and other countries in Asia. The beneficiaries of such family trust set up by Dr. Tsang include the family members of Dr. Tsang. The Board considers that the entering into of a framework agreement to cater for the leasing arrangements offers the Group the flexibility to enter into separate lease agreements with the relevant Owners for leasing certain premises at prevailing market rent or lower from time to time during the period ending 31 March 2023 and allows the Group to switch the leased premises from one location to another so long as the terms of the new leases are fair and reasonable and on normal commercial terms or better, in each case, within the limit set under the Annual Caps. The Group has entered into master agreement with the Lessor since 2011 on successive terms and based on the previous experience, the Board realises that it is inevitable for the Group to increase or reduce the individual leases with the Lessor based on the actual business circumstances and the operational needs of the Group. Therefore, the Board considered that the 2020 Master Lease Agreement should be a framework agreement rather than an agreement with fixed terms in order to give flexibility to management of the Group to alter the leases with the Owners in view of the ever-changing business environment. Furthermore, the Board is of the view that by entering into the 2020 Master Lease Agreement, the Group could avoid treating each leasing arrangement as a connected transaction under Chapter 14A of the Listing Rules (taking into account the requirements of HKFRS 16 as elaborated below) and accordingly, avoid unnecessary and burdensome administrative costs from complying with the relevant Listing Rules from time to time, thus bringing business convenience and operational efficiency to the Group.

The Annual Caps

The Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (“**HKFRS**”) applicable to the Group include HKFRS 16 “Leases” which has come into effect on 1 January 2019 and is applicable to financial years starting on or after 1 January 2019. Under HKFRS 16, the Group, as the lessee, shall recognise the total rental payments payable to the relevant Owners under the 2020 Master Lease Agreement as a right-of-use asset and a lease liability in the consolidated statement of the financial position of the Group.

On 28 February 2020, the 2020 Master Lease Agreement was modified by a supplemental agreement entered into between the Company and the Lessor, pursuant to which the Annual Caps for the year ending 31 March 2021, the year ending 31 March 2022 and the year ending 31 March 2023 were adjusted to HK\$115.2 million, HK\$7.1 million and HK\$3.6 million, respectively.

LETTER FROM THE BOARD

The Annual Caps for the continuing connected transactions under the 2020 Master Lease Agreement for the year ending 31 March 2021, the year ending 31 March 2022 and the year ending 31 March 2023 are determined with reference to the total value of right-of-use asset in respect of the Leasing Arrangements to be or expected to be entered into by the Group under the 2020 Master Lease Agreement. Having considered, among others:

- (i) the fact that the Group intends to continue to lease the Existing Premises and the New Premises as identified as at the date of the 2020 Master Lease Agreement, the details of which are set out in the paragraph headed “Background” in the Announcement and in the paragraph headed “Background” in the Letter from the Board contained in this circular;
- (ii) the aggregate prevailing monthly rent of the Existing Premises and the New Premises identified above of HK\$3,057,000 as at 1 January 2020 (annual rent of HK\$36,684,000) based on the opinion of Roma Appraisals Limited, an independent property valuer, under which a market-based approach by reference to comparable market rent has been adopted in assessing the market rents of the Existing Premises and the New Premises identified above; and
- (iii) the value of the Group’s rights to use the Existing Premises and the New Premises which is initially measured on present value basis and calculated by discounting the non-cancellable lease payments for respective connected lease, using the incremental borrowing rate as the discount rate, and such incremental borrowing rate is determined based on the Hong Kong Dollar 3 Year Interest Rate Swap on 1 April 2019 of approximately 1.96%, after adding an approximately 1.5% interest rate as quoted for a trust receipt loan offered by Hang Seng Bank Limited to the Group,

it is expected that the estimated value of the right-of-use asset for the Existing Premises and the New Premises as identified above for the year ending 31 March 2021 amounts to approximately HK\$104,691,142. Taking into account the rental payments in respect of additional New Premise(s) which may be leased from the Owner(s) during the term of the 2020 Master Lease Agreement, a buffer of approximately 10% has been added to the above estimated value of the right-of-use asset to set the Annual Cap for the year ending 31 March 2021. As such, the Annual Cap for the year ending 31 March 2021 is fixed at approximately HK\$115.2 million. As explained above, it is the intention of the Group to be offered the flexibility to enter into additional leasing arrangement with the relevant Owner(s) at any time during the term of the 2020 Master Lease Agreement. As estimated by the management of the Company, the value of the additional right-of-use asset of approximately HK\$10.5 million represents an additional monthly rent of HK\$306,000 (“**Additional Monthly Rent**”) (assuming the additional leases are entered into on 1 April 2020), which the management of the Company considers to be adequate to cover monthly rent of two

LETTER FROM THE BOARD

middle-sized service centres (of approximately 10,000 square feet). Based solely on the Additional Monthly Rent and assuming that the relevant leases are entered into on 1 April 2021 and 1 April 2022 respectively, the value of the right-of-use asset of such leases shall be approximately HK\$7.1 million and HK\$3.6 million respectively and such amounts shall be the Annual Cap for the year ending 31 March 2022 and the Annual Cap for the year ending 31 March 2023 respectively.

The Group has adopted the following internal control measures to ensure the compliance of the pricing policy and the Annual Caps limit under the 2020 Master Lease Agreement:

- (i) before leasing any additional New Premise(s) from the Owner, a fair rent opinion will be obtained from an independent property valuer and the leasing department of the Group will review and check whether the monthly rent under such lease is fair and reasonable with reference to the prevailing market rent of the Comparable Premises;
- (ii) before leasing any additional New Premise(s) from the Owner, the accounting department of the Group will review and monitor such additional lease to ensure the respective Annual Cap for the years ending 31 March 2021, 2022 and 2023 is not exceeded. The accounting department will then report to the audit committee of the Company that the additional lease has been entered into (a) in the ordinary and usual course of business of the Group; (b) on normal commercial terms or better; and (c) in accordance with the relevant tenancy agreement governing it on terms that are fair and reasonable and in the interests of the Shareholders as a whole. The audit committee of the Company will consider and approve such lease accordingly;
- (iii) the Company's external auditors will review the continuing connected transactions under the 2020 Master Lease Agreement (which are subject to the annual review and disclosure requirements under the Listing Rules) annually to check and confirm, among others, whether the pricing terms have been adhered to and whether the Annual Cap has been exceeded in the relevant year; and
- (iv) the independent non-executive Directors will comply with the relevant Listing Rules to conduct an annual review with respect to the continuing connected transactions of the Group under the 2020 Master Lease Agreement throughout the preceding financial year and give confirmation on the transaction amounts and terms of the transactions in each annual report of the Group.

In view of the above, the Company considers that there are adequate internal control measures to ensure the compliance of the pricing policy and the Annual Caps limit under the 2020 Master Lease Agreement.

LETTER FROM THE BOARD

REASONS FOR AND BENEFITS OF ENTERING INTO THE CONTINUING CONNECTED TRANSACTIONS

The Group is a renowned beauty salon group in Hong Kong offering comprehensive beauty and wellness services and sales of skincare and wellness products at its network of service centres in Hong Kong, mainland China and Singapore. As mentioned above, given that it has been the intention of the Group to continue to lease the Existing Premises and lease some other premises (including the New Premises mentioned above) from the Owners for its own use, the Company considers that the entering into of the 2020 Master Lease Agreement will shelter the Group from any potential loss which may be resulted from relocation of its existing beauty and wellness centres in the event that the relevant Existing Lease Agreements are not renewed upon their expiry. In addition, the Company is of the view that the 2020 Master Lease Agreement would enable the Group to lease New Premises from the Owners at rentals not higher than market prices from time to time during the term of the 2020 Master Lease Agreement, which would provide the Group with operational convenience to expand its network of service centres when business opportunities arise.

Having considered the above and the benefits of entering into of the 2020 Master Lease Agreement as set out in “The 2020 Master Lease Agreement — Reasons for the 2020 Master Lease Agreement” above, the Directors (including the independent non-executive Directors) are of the view that the terms of the 2020 Master Lease Agreement and the Annual Caps are fair and reasonable and the entering into of the 2020 Master Lease Agreement is in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

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

As at the Latest Practicable Date, Dr. Tsang, being an executive Director, Chairperson of the Board and a controlling Shareholder, held 677,247,942 issued Shares (representing approximately 74.88% of the issued share capital of the Company). 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. By virtue of the Lessor being wholly owned by a family trust set up by Dr. Tsang, 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.

LETTER FROM THE BOARD

As the relevant highest percentage ratio (as defined under the Listing Rules) in respect of each of the Annual Caps is more than 25%, the Leasing Arrangements under the 2020 Master Lease Agreement are subject to the reporting, annual review, announcement, circular (including independent financial advice) and the 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 2020 Master Lease Agreement and the Annual Caps. An Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

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 2020 Master Lease Agreement and the Annual Caps. Since Dr. Tsang is materially interested in the 2020 Master Lease Agreement, she and her associates, holding in aggregate 677,897,942 Shares, representing approximately 74.95% of the issued share capital of the Company as at the Latest Practicable Date, will be required to abstain from voting on the resolution to be proposed at the EGM to approve the 2020 Master Lease Agreement and the Annual Caps. To the best of the Directors' knowledge, information and belief, no other Shareholder is required to abstain from voting on the resolution to approve the Leasing Arrangements under the 2020 Master Lease Agreement and the Annual Caps.

In view of Dr. Tsang's material interest in the 2020 Master Lease Agreement and the fact that her presence at the board meeting approving the 2020 Master Lease Agreement would not be counted towards the quorum of such board meeting, Dr. Tsang did not attend nor vote at such board meeting.

EGM

A notice convening the EGM to be held at Unit 1103-06, China Building, 29 Queen's Road Central, Hong Kong on Friday, 27 March 2020 at 11:20 a.m. is set out on pages EGM-1 and EGM-2 of this circular. A proxy form in white 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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding of the EGM or any adjournments thereof. Completion

LETTER FROM THE BOARD

and return of the proxy form will not preclude you from attending and voting at the EGM or any adjournments thereof should you so wish, and in such case, the proxy form previously submitted shall be deemed to be revoked.

In light of the outbreak of the novel coronavirus (COVID-19), the Company will provide hand sanitisers at the venue of the EGM and will also require every participants of the EGM to have their body temperature checked before allowing them access to the venue of the EGM.

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 2020 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 terms of the 2020 Master Lease Agreement are on normal commercial terms and in ordinary and usual course of business of the Company and the 2020 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

LETTER FROM THE BOARD

Independent Shareholders to vote for the resolution to be proposed at the EGM to approve the 2020 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 22 of this circular.

Having considered the above-mentioned benefits to the Group's future business development, the Directors consider that the terms of the 2020 Master Lease Agreement are on normal commercial terms and in ordinary and usual course of business of the Company, and the terms of the 2020 Master Lease Agreement and the Annual Caps are fair and reasonable. Hence, the Directors consider that the entering into of the 2020 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 2020 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

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



MODERN BEAUTY SALON HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 919)

11 March 2020

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 2020 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 11 March 2020 (“**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 2020 Master Lease Agreement and the advice of the Independent Financial Adviser in relation thereto as set out on pages 23 to 38 of the Circular, we are of the opinion that the terms of the 2020 Master Lease Agreement and the Annual Caps are fair and reasonable, on normal commercial terms, in ordinary and usual course of business of the Company 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 2020 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

Dr. Wong Man Hin, Raymond

Mr. Hong Po Kui, Martin

*Independent
Non-executive Director*

*Independent
Non-executive Director*

*Independent
Non-executive Director*

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the full text of the letter of advice from VBG Capital Limited to the Independent Board Committee and the Independent Shareholders in respect of the 2020 Master Lease Agreement and the transactions contemplated thereunder for the purpose of inclusion in this circular.



18/F, Prosperity Tower
39 Queen's Road Central
Hong Kong

11 March 2020

To: The Independent Board Committee and the Independent Shareholders

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS: 2020 MASTER LEASE AGREEMENT

INTRODUCTION

We refer to our engagement as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Leasing Arrangements under the 2020 Master Lease Agreement and the Annual Caps, details of which are set out in the letter from the Board ("**Letter from the Board**") contained in the circular ("**Circular**") of the Company to the Shareholders dated 11 March 2020, of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

Reference is made to the announcement of the Company dated 23 February 2017 and the circular of the Company dated 13 March 2017 in respect of the continuing connected transactions in relation to the 2017 Master Lease Agreement, pursuant to which the Group entered into the Existing Lease Agreements with the Owners for leasing certain premises from the Owners during the term of the 2017 Master Lease Agreement.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As stated in the Letter from the Board, given that the 2017 Master Lease Agreement will expire on 31 March 2020 and the Group expects that the leasing arrangements contemplated under the 2017 Master Lease Agreement will continue after its expiry, on 20 February 2020, the Company entered into the 2020 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 2023.

The Lessor is a company incorporated in the British Virgin Islands with limited liability and the holding company of various companies holding various properties in Hong Kong and other places in the world. Certain subsidiaries of the Lessor are the Owners.

As at the Latest Practicable Date, Dr. Tsang, being an executive Director, Chairperson of the Board and a controlling Shareholder, held 677,247,942 issued Shares (representing approximately 74.88% of the issued share capital of the Company), and the spouse of Dr. Tsang was interested in 650,000 issued Shares (representing approximately 0.072% of the issued share capital of the Company). By virtue of the Lessor being wholly owned by a family trust set up by Dr. Tsang, the beneficiaries of such family trust set up by Dr. Tsang include the family members of Dr. Tsang. 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 highest percentage ratio (as defined under the Listing Rules) in respect of each of the Annual Caps is more than 25%, the Leasing Arrangements under the 2020 Master Lease Agreement are subject to the reporting, annual review, announcement, circular (including independent financial advice) and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. Since Dr. Tsang is materially interested in the 2020 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 2020 Master Lease Agreement and the Annual Caps. To the best of the Directors' knowledge, information and belief, no other Shareholder is required to abstain from voting on the resolution to approve the Leasing Arrangements under the 2020 Master Lease Agreement and the Annual Caps.

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 2020 Master Lease Agreement and the Annual Caps. We, VBG Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

OUR INDEPENDENCE

As at the Latest Practicable Date, apart from the existing engagement in connection with the 2020 Master Lease Agreement, we did not have any relationship with or interest in the Company, the Lessor, or their respective substantial shareholder(s) or core connected person(s), as defined under the Listing Rules, or any other parties that could reasonably be regarded as relevant to our independence. In the past two years, we have not provided any financial advisory services to the Company, the Lessor, or their respective substantial shareholder(s) or core connected person(s), as defined under the Listing Rules, or any other parties that could reasonably be regarded as relevant to our independence. Apart from normal professional fees in connection with the engagement as the Independent Financial Adviser, no other arrangements exist whereby we had received or will receive any fees or benefits from the Company, the Lessor, or their respective substantial shareholder(s) or core connected person(s), as defined under the Listing Rules, or any other parties that could reasonably be regarded as relevant to our independence. As such, we consider that we are independent pursuant to Rule 13.84 of the Listing Rules.

BASIS OF OUR ADVICE

In arriving at our recommendation, we have relied on the statements, information, opinions and representations contained in the Circular and the information, representations and opinions provided to us by the Directors and the management of the Group. We have assumed that all statements, information, opinions and representations contained or referred to in the Circular and all information, representations and opinions which have been provided by the Directors and the management of the Group for which they are solely responsible, are true and accurate at the time they were made and will continue to be accurate up to the date of the despatch of the Circular.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts not contained in the Circular the omission of which would make any such statements contained in the Circular misleading.

In formulating our opinion, we consider that we have been provided with sufficient information, including but not limited to, the 2017 Master Lease Agreement, the 2020 Master Lease Agreement, the Previous Tenancy Agreements (as defined below), the Previous Valuation Reports (as defined below), the engagement letter between the Valuer (as defined below) and the Company, the Valuation Report (as defined below), list of the Comparable Transactions (as defined below) as well as the calculation of the right-of-use asset for lease payments under the 2020 Master Lease Agreement, on which to form a reasonable basis for our opinion. We have discussed with the management of the Group so as to assess the fairness and reasonableness of the Leasing

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Arrangements under the 2020 Master Lease Agreement as well as the respective Annual Caps. We have also conducted interviews with the Valuer (as defined below) to understand the principal bases and methodology for the Valuation Report (as defined below), and also with a leasing officer of the property department of the Company to understand the internal control measures adopted and their implementation. We have no reason to suspect that any relevant information has been withheld, nor are we aware of any fact or circumstance which would render the information provided and representations and opinions made to us untrue, inaccurate or misleading. Having made all reasonable enquiries, the Directors have further confirmed that, to the best of their knowledge, they believe there are no other information or representations the omission of which would make any statements in the Circular, including this letter, misleading. We have not, however, carried out any independent verification of the information provided by the Directors and the management of the Group, nor have we conducted any independent investigation into the business and affairs of the Company, the Lessor or their respective subsidiaries or associates. Any subsequent developments may affect and/or change our opinion and we have no obligation to update, revise or reaffirm this opinion to take into account any events occurring after the Latest Practicable Date. Except for its inclusion in the Circular, this letter is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purpose, without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion to the Independent Board Committee and the Independent Shareholders, we have taken the following principal factors and reasons into consideration for the 2020 Master Lease Agreement and the respective Annual Caps.

1. Background of and Reasons for entering into the 2020 Master Lease Agreement

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

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

As stated in the Letter from the Board, given that the 2017 Master Lease Agreement will expire on 31 March 2020 and the Group expects that the leasing arrangement contemplated under the 2017 Master Lease Agreement will continue after its expiry, on 20 February 2020, the Company entered into the 2020 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 2023.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Currently, the Existing Premises are being used in the ordinary and usual course of business of the Group as its operating facilities (including but not limited to offices, retail shops, service centres and warehouses). Given that it has been the intention of the Group to continue to lease the Existing Premises and lease some other premises (including the New Premises) from the Owners for its own use, the Group considers that the entering into of the 2020 Master Lease Agreement will shelter the Group from any potential loss which may be resulted from relocation of its existing beauty and wellness centres in the event that the relevant Existing Lease Agreements are not renewed upon their expiry. In addition, the Group is of the view that the 2020 Master Lease Agreement would enable the Group to lease New Premises from the Owners at rentals not higher than market prices from time to time during the term of the 2020 Master Lease Agreement, which would provide the Group with operational convenience to expand its network of service centres when business opportunities arise.

Please refer to the Letter from the Board for the summary of (i) the Existing Lease Agreements which are expected to continue under the 2020 Master Lease Agreement; and (ii) the New Premises which had been identified as at the Latest Practicable Date.

Taking into account that the Group operates in the beauty industry, offering various professional treatments as well as providing beauty and wellness services to its customers, we consider that the entering into of the 2020 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.

2. Principal terms of the 2020 Master Lease Agreement

Pursuant to the 2020 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 (if any)) from the respective Owners from time to time during the term of the 2020 Master Lease Agreement. We have reviewed and compared the terms of the 2020 Master Lease Agreement and the 2017 Master Lease Agreement and noted that, save for the annual caps, there is no material difference between the terms of the aforesaid agreements.

As stated in the Letter from the Board and under the 2020 Master Lease Agreement,

- (i) each of the Leasing Arrangements to be entered into between the Group and the relevant Owners pursuant to the 2020 Master Lease Agreement will have a term commencing on or after 1 April 2020 and expiring on or before (a) the expiration or earlier termination of its own term; or (b) 31 March 2023, whichever is earlier;

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (ii) each Leasing Arrangement shall be on normal commercial terms or better (within the meaning of Chapter 14A of the Listing Rules) and the amount of rental (exclusive of rates, government 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 rents 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 valuation date of the opinion shall not be more than three months;
- (iii) pursuant to the agreed form of the individual tenancy agreement to be entered into by the Group and the relevant Owner(s) appended to the 2020 Master Lease Agreement, the Lessee shall pay the rent to the relevant Owner(s) in Hong Kong dollars in advance on the first day of each and every calendar month during the term of the relevant lease; and
- (iv) the rates, government rent and management fee under each Leasing Arrangement will be paid to the government or, as the case may be, the management companies.

Further details regarding the terms of the 2020 Master Lease Agreement are set out in the Letter from the Board.

(i) Review of the pricing basis under the 2020 Master Lease Agreement

We have discussed with the management of the Group 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 rents of the premises with reference to the market rents of the Comparable Premises, and the rents to be set out in the relating Leasing Arrangements shall be no more than such prevailing market rents and the valuation date of the opinion shall not be more than three months of the respective tenancy agreements. In light of such safeguard, we consider that such can ensure the actual rent payable by the Group under any individual lease to be entered into pursuant to the 2020 Master Lease Agreement will be on normal commercial terms or better (within the meaning of Chapter 14A of the Listing Rules).

The aforesaid pricing basis adopted in the 2020 Master Lease Agreement is the same as that adopted in the 2017 Master Lease Agreement. In order to review whether such pricing basis is feasible, we have requested the Group to provide (i) the tenancy agreements entered into between the Group and the Owners in years 2018 and 2019 (“**Previous Tenancy Agreements**”); and (ii) the

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

relevant valuation reports issued by Roma Appraisals Limited (“**Valuer**”), an independent property valuer appointed by the Group, for ascertaining the then prevailing market rents for the Previous Tenancy Agreements (“**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 Group, we note that (i) the valuation dates as stated in the Previous Valuation Reports are not more than three months prior to the dates of the respective Previous Tenancy Agreements; and (ii) the rent paid under each of the Previous Tenancy Agreements was indeed not higher than the prevailing market rents as stated in the respective 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 management of the Group 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 those available from independent third parties.

(ii) Valuation report

Given that the rents for the Existing Premises and the New Premises will be determined with reference to, among other factors, the prevailing market rents of the Comparable Premises, we have reviewed the valuation report (“**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 the requirements contained in Chapter 5 of the Listing Rules and the HKIS Valuation Standards (2017 Edition) published by The Hong Kong Institute of Surveyors, the RICS Valuation — Professional Standards published by the Royal Institution of Chartered Surveyors and the International Valuation Standards published by the International Valuation Standards Council.

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 market-based 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 premises, namely, income-based approach, market-based approach, and asset-based approach. We are advised that the market-based approach by making reference to comparable properties of

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

similar size and location is the most appropriate approach in valuing premises among the three commonly adopted valuation approaches and is also consistent with common market practice. Based on the above and the academic qualification and working experience of Mr. Frank Wong (please refer to detailed information of Mr. Frank Wong as stated below), we are of the view that the bases and the methodology adopted in the Valuation Report is justifiable.

For our due diligence purpose, we have reviewed and enquired into (i) the terms of engagement between the Valuer and 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) the details and the selection criteria of the Comparable Premises adopted for the Valuation Report such as dates of transactions, location, consideration, size of the comparable premises.

We noted that Mr. Frank Wong, the person who is responsible for the preparation of the Valuation Report, has over 21 years' valuation, transaction advisory and project consultancy of properties experience in Hong Kong and over 13 years' experience in valuation of properties in China as well as relevant experience in the Asia-Pacific region. Mr. Frank Wong is a Chartered Surveyor, Registered Valuer, a member of the Australasian Institute of Mining and Metallurgy and an associate of the Chartered Institute of Plumbing and Heating Engineering. The Valuer also confirmed that it is independent from the Company and all relevant material information provided by 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 considered 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 has 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 and/or the Comparable Premises were offered for rental in year 2019 and/or early year 2020 ("**Comparable Transactions**"), which the Valuer considers to be close to the valuation date; and (ii) the Comparable Premises were of the same nature, similar size and/or in vicinity to the Existing Premises and the New Premises. We have discussed with the Valuer on the above selection criteria and note that the above is in line with the RICS Valuation — Professional Standards. We consider that the selection criteria are in line with the industry standard and fair and reasonable to reflect the recent market rents of the Existing premises and the New Premises.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We have obtained and reviewed the list of the Comparable Transactions identified by the Valuer for each of the Existing Premises and the New Premises and noted that the Valuer has identified two to six Comparable Transactions for each of them. We further noted that (i) the location of the Comparable Premises are in the same district of the relevant Existing Premises and the New Premises; (ii) the Comparable Transactions are available in year 2019 and/or early year 2020; and (iii) the details of the Comparable Transactions are sourced from EPRC, the land registry, and the Valuer's own property database. We also understand that the Valuer has made relevant adjustments, including size, location (including floor level), and timing difference between the dates of the Comparable Transactions and the valuation date, to account for the differences between the Existing Premises and the New Premises and the Comparable Premises. Regarding the above adjustment mechanisms, we have discussed with the Valuer and understand that age, timing difference, location and floor level are the major adjustment factors generally considered in valuation using market-based approach, and out of which, the timing difference, location and floor level are the most relevant adjustment factors in rental valuation of the Existing Premises and the New Premises.

We have reviewed the calculation of the fair monthly rents of the Existing Premises and the New Premises and understand the rationale of the adjustments made to the Comparable Transactions. We noted that the adjustments are relevant to the fair monthly rents calculation. In particular, we have sought confirmation from the Valuer that, based on their professional expertise and experience, the new monthly rents are in line with the prevailing market rents. Based on the above, we are of the view that the monthly rental amounts of the Existing Premises and the New Premises as identified as at the date of the 2020 Master Lease Agreement are in line with the market.

To justify the reasonableness of the Comparable Transactions identified by the Valuer, we have checked, on a sampling basis, from the public sources and compared the monthly rents of the Comparable Premises selected by the Valuer. We note that the Comparable Transactions identified by the Valuer are representative and suitable for calculating the fair monthly rents of the Existing Premises and the New Premises. In this regard, we are of the view that the Comparable Transactions selected by the Valuer reflect the prevailing market rents of the Existing Premises and the New Premises.

We are advised by the Valuer that the above selection criteria and adjustment mechanisms are consistent with the common market practice in valuation. Based on the above and the academic qualification and working experience of Mr. Frank Wong, 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 the New Premises under the paragraph headed "Background" in the Letter from the Board for the prevailing monthly market rents as at 1 January 2020 as valued by the Valuer.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Also as discussed with the management of the Group, 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 2020. We note that the valuation date of the opinion as stated in the Valuation Report is 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 bases 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 2020 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.

- (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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We note that the independent non-executive Directors have provided the relevant confirmations regarding the continuing connected transactions of the Group under the 2017 Master Lease Agreement in the annual report 2018/19 of the Group. We also reviewed the confirmation letter from the auditors of the Group regarding the continuing connected transactions of the Group for the year ended 31 March 2019. Based on the above documents, we note that the Group has complied with the Listing Rules requirements in relation to the annual reviews by the independent non-executive Directors and the auditors for the continuing connected transactions and such can also help to ensure that the continuing connected transactions will be transacted in accordance with their terms and in compliance with the Listing Rules requirements.

We have also discussed with the management of the Group regarding the internal control procedures to ensure the actual rental amount under the individual lease agreement would not be less favourable to the Group. We understand that prior to entering into any individual lease agreement under the 2020 Master Lease Agreement for the Existing Premises or, as the case may be, the New Premises, the Group will follow the below procedures.

- (a) the Company will engage an independent property valuer to obtain an opinion about the prevailing market rent of the relevant premises;
- (b) based on the aforesaid opinion in step (a), the property department of the Company will fix a rent which will not be, as required under the 2020 Master Lease Agreement, higher than the prevailing market rent as opined by the independent property valuer; and
- (c) 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 rents 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 or better (within the meaning of Chapter 14A of the Listing Rules); and (iii) in accordance with the provisions of the 2020 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 a leasing officer of the property department of the Company who is responsible for the preparation of individual lease agreement in step (b) above and noted that she is familiar with the internal control procedures. The management of the Group also confirms that the independent non-executive Directors will comply with the above internal control procedures.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

For additional details of the internal control measures adopted, please refer to the paragraph headed “The Annual Caps” in the Letter from the Board.

In addition, as mentioned above in our review of the Previous Tenancy Agreements under the 2017 Master Lease Agreement and the Previous Valuation Reports, we note that the rents paid under each of the Previous Tenancy Agreements was indeed not higher than the respective prevailing market rents as stated in the Previous Valuation Reports, i.e. no less favourable to the Group.

Accordingly, based on our interview regarding the internal control procedures and the Group’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.

Besides, taking into account the terms of the 2020 Master Lease Agreement as well as the above internal control 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 2020 Master Lease Agreement will be higher than the prevailing market rents of the relevant Comparable Premises, i.e. less favourable to the Group.

(iv) Conclusion

Having considered (i) the pricing basis under the 2020 Master Lease Agreement being the same as that adopted in the 2017 Master Lease Agreement; (ii) our review of the Previous Tenancy Agreements and Previous Valuation Reports above, showing that the rents were indeed not higher than the then prevailing market prices which were in accordance with the 2017 Master Lease Agreement; (iii) our review of the Valuation Report and discussion with Valuer with regard to the bases and methodology adopted for ascertaining market rents of the Comparable Premises; and (iv) our review of the aforementioned internal control policy of the Group, 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 2017 Master Lease Agreement by the independent non-executive Directors and the auditors of the Company after the financial year end of the Company, we are of the view and concur with the view of the Directors that the transactions contemplated under the 2020 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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

3. *The Annual Caps*

The table below sets out the Annual Caps for the three years ending 31 March 2023.

	For the year ending 31 March		
	2021	2022	2023
	<i>(HK\$ million)</i>	<i>(HK\$ million)</i>	<i>(HK\$ million)</i>
Annual Caps under the 2020 Master Lease Agreement	115.2	7.1	3.6

Pursuant to HKFRS 16 “Lease”, which is effective for financial statements with annual period beginning on or after 1 January 2019, entering into a lease agreement as a lessee will require the Group to recognise the total rental payments payable to the relevant Owners under the 2020 Master Lease Agreement as a right-of-use asset and a lease liability in its consolidated statement of the financial position of the Group. In view of the adoption of HKFRS 16 “Lease” by the Group for the year ending 31 March 2021, the Leasing Arrangements under the 2020 Master Lease Agreement constitute continuing connected transactions and will be recognised as right-of-use asset at the commencement date. The annual caps for such continuing connected transactions will be determined based on the estimated maximum amount of right-of-use asset relating to the Leasing Arrangements entered into between the Group and the Lessor and/or the Owners during the three years ending 31 March 2023.

As stated in the Letter from the Board, the Annual Caps for the continuing connected transactions under the 2020 Master Lease Agreement for the year ending 31 March 2021, the year ending 31 March 2022 and the year ending 31 March 2023 are determined with reference to the total value of right-of-use asset in respect of the Leasing Arrangements to be or expected to be entered into by the Group under the 2020 Master Lease Agreement. Having considered, among others,

- (i) the fact that the Group intends to continue to lease the Existing Premises and the New Premises as identified as at the date of the 2020 Master Lease Agreement, the details of which are set out in the paragraph headed “Background” in the Letter from the Board;

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (ii) the aggregate prevailing monthly rent of the Existing Premises and the New Premises identified as at the date of the 2020 Master Lease Agreement of HK\$3,057,000 as at 1 January 2020 (annual rent of HK\$36,684,000) based on the opinion of Roma Appraisals Limited, an independent property valuer, under which a market-based approach by reference to comparable market rent has been adopted in assessing the market rents of the Existing Premises and the New Premises identified; and
- (iii) the value of the Group's rights to use the Existing Premises and the New Premises which is initially measured on present value basis and calculated by discounting the non-cancellable lease payments for respective connected lease, using the incremental borrowing rate as the discount rate, and such incremental borrowing rate is determined based on the Hong Kong Dollar 3 Year Interest Rate Swap on 1 April 2019 of approximately 1.96%, after adding an approximately 1.5% interest rate as quoted for a trust receipt loan offered by Hang Seng Bank Limited to the Group.

It is expected that the estimated value of the right-of-use asset for the Existing Premises and the New Premises identified as at the date of the 2020 Master Lease Agreement for the year ending 31 March 2021 amounts to approximately HK\$104.7 million. Such amount is calculated by discounting the estimated total rents of the Existing Premises and the New Premises which had been identified as at the date of the 2020 Master Lease Agreement for the three years ending 31 March 2023 with the discount rate of the Group's incremental borrowing rate. A buffer of approximately 10%, being approximately HK\$10.5 million ("**2021 Buffer**") has been added to such value of the right-of-use asset to cater for new leases for other additional New Premises that may be leased from the Owner(s) for the year ending 31 March 2021. As a result, the Annual Cap for the year ending 31 March 2021 is fixed at approximately HK\$115.2 million.

We note that the 2021 Buffer was determined with reference to the Group's intention to rent two additional service centres during the three years ending 31 March 2023. In order to see if the 2021 Buffer is fair and reasonable, we have taken into account the annual prevailing market rents of the Group's certain middle-sized service centres in Hong Kong and Kowloon, including the one in Winner House in North Point and the one in TG Place in Kwun Tong ("**Mid-sized Service Centres**") with annual prevailing market rents of approximately HK\$1.7 million and HK\$1.9 million respectively. Assuming the Group is going to lease two middle-sized service centres at similar rents, the Group will need to recognise the new leases as the right-of-use asset in its financial statements at the commencement date in accordance with the HKFRS 16 "Leases". The maximum amount of right-of-use asset for those new leases will amount to approximately HK\$10.2 million and the 2021 Buffer would almost been fully utilised.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We understand from the management of the Group that, depending on the business needs of the Group, the number and location of the services centres, offices, retail shops and warehouses may change during the three years ending 31 March 2023. In order to allow flexibility to the Group to enter into additional leasing arrangements with the relevant Owner(s) during the two years ending 31 March 2023 under the 2020 Master Lease Agreement, the Directors have fixed the Annual Caps for the two years ending 31 March 2023 to be HK\$7.1 million and HK\$3.6 million respectively (“**2022 and 2023 Annual Caps**”). As stated in the Letter from the Board, the Annual Caps for the two years ending 31 March 2023 is calculated based solely on the right-of-use asset, assuming the relevant leases are entered into on 1 April 2021, of leases with the Additional Monthly Rent (i.e. HK\$306,000). Assuming an aggregate annual rental amount of HK\$3.6 million (representing a monthly rent of HK\$300,000), which is at a level similar to the Mid-sized Service Centres as detailed above, the maximum amount to be recognised as right-of-use asset for the two years ending 31 March 2023 is approximately HK\$7.0 million and HK\$3.5 million respectively and the 2022 and 2023 Annual Caps would almost been used up. In view of the above, we consider that the 2021 Buffer and the 2022 and 2023 Annual Caps are fair and reasonable and are in the interests of the Company and the Shareholders as a whole as they would offer more flexibility to the Group in the Leasing Arrangements with the Owners.

We have reviewed the monthly rents of the Existing Premises and the New Premises and recalculated the aggregate amount of rents payable to the Owners for the Existing Premises and the New Premises to be approximately HK\$36.7 million for each of the three years ending 31 March 2023. We have also reviewed the discount rates adopted by the Group in calculating the right-of-use asset. The discount rate for the lease payment is determined with reference to the borrowing interest rate charged by the Company’s principal bank in Hong Kong. We have also reviewed the 2019/20 interim report of the Group and discussed with the management of the Group and noted that the basis for determining the discount rate is consistent with that as stated in the 2019/20 interim report of the Group.

Based on our review on the calculation of the Annual Caps, we are of the view that the Annual Caps are determined by the Group after due and careful consideration and concur with the view of the management of the Group that the Annual Caps are fair and reasonable.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

RECOMMENDATION

Having considered the above principal factors and reasons, we are of the opinion that the terms of the 2020 Master Lease Agreement and the Annual Caps are fair and reasonable, on normal commercial terms, in the ordinary and usual course of business of the Company and are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to recommend the Independent Shareholders to vote for the ordinary resolution to be proposed at the EGM to approve the 2020 Master Lease Agreement and the transactions contemplated thereunder and the Annual Caps.

Yours faithfully,
For and on behalf of
VBG Capital Limited
Yau Wai
Managing Director

Ms Yau Wai is a licensed person and the principal and the responsible officer of VBG Capital Limited registered with the Securities and Futures Commission of Hong Kong to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO and has over 16 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 (<i>Note</i>)	Founder of a discretionary trust	1	100%
Dr. Tsang Yue, Joyce	Goldlite Development Limited (<i>Note</i>)	Founder of a discretionary trust	1	100%
Dr. Tsang Yue, Joyce	Asia Gift Company Limited (<i>Note</i>)	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 2020 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 2019, 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 2019, 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
VBG Capital 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 2019 (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 P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.
- (b) The Company’s head office and principal place of business in Hong Kong is situated at Workshops Nos. 66-68, 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 54, 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 Workshops Nos. 66-68, 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 2017 Master Lease Agreement;
- (b) the 2020 Master Lease Agreement;
- (c) the valuation report provided by Roma;
- (d) the letter from the Independent Board Committee, the text of which is set out in this circular;
- (e) the letter from the Independent Financial Adviser, the text of which is set out in this circular; and
- (f) 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 11:20 a.m. on Friday, 27 March 2020 at Unit 1103-06, China Building, 29 Queen’s Road Central, Hong Kong, 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 2020 Master Lease Agreement (as defined in the circular of the Company dated 11 March 2020 (“**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); and (ii) the relevant annual caps for such transactions for the year ending 31 March 2021, the year ending 31 March 2022 and the year ending 31 March 2023 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 2020 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 2020 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, 11 March 2020

NOTICE OF EGM

Registered office:
P.O. Box 309
Ugland House
Grand Cayman
KY1-1104
Cayman Islands

*Head office and principal place of
business in Hong Kong:*
Workshops Nos. 66-68
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 three Independent Non-executive Directors, Ms. Liu Mei Ling, Rhoda, Dr. Wong Man Hin, Raymond, Mr. Hong Po Kui, Martin.

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. Any member of the Company who is the holder of two or more Shares may appoint more than one proxy to represent him and vote on his behalf. A proxy need not be a member of the Company. If more than one proxy is so appointed, the appointment shall specify the number and class of shares of the Company in respect of which each such proxy is so appointed.
2. A form of proxy in white 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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong by 11:20 a.m. (Hong Kong time) on Wednesday, 25 March 2020 or not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude a member from attending and voting in person at the EGM.
3. Where there are joint holders of any share, any one of such joint holder may vote, either in person or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such joint holders be present at the EGM the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.
4. Pursuant to Rule 13.39(4) of the Listing Rules, any votes of shareholders at a general meeting must be taken by poll (except for those relating purely to a procedural or administrative matter which may be voted on by a show of hands). Therefore, the ordinary resolution to be proposed at the EGM shall be voted on by poll.