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MODERN BEAUTY SALON HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 919)

CONTINUING CONNECTED TRANSACTIONS: 2017 MASTER LEASE AGREEMENT

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

Nuada Limited
Corporate Finance Advisory

THE 2017 MASTER LEASE AGREEMENT

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

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

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

By virtue of the Lessor being wholly-owned by a family trust set up by Dr. Tsang, an executive Director, chairperson of the Board and a controlling Shareholder, the Lessor is a connected person of the Company and the Leasing Arrangements will constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. As the relevant percentage ratios (as defined under the Listing Rules) in respect of the Annual Caps are less than 25% but the annual consideration is more than HK\$10 million, the Leasing Arrangements under the 2017 Master Lease Agreement are subject to the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

GENERAL

The Independent Board Committee comprising all of the independent non-executive Directors has been established to advise the Independent Shareholders in relation to the Leasing Arrangements under the 2017 Master Lease Agreement and the Annual Caps. 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 2017 Master Lease Agreement and the Annual Caps. Since Dr. Tsang is materially interested in the 2017 Master Lease Agreement, Dr. Tsang and her associates will be required to abstain from voting at the EGM regarding the relevant resolution.

A circular containing, among other things, (i) details of the Leasing Arrangements under the 2017 Master Lease Agreement and the Annual Caps; (ii) the recommendation of the Independent Board Committee in respect of the Leasing Arrangements under the 2017 Master Lease Agreement and the Annual Caps; (iii) a letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders containing its advice on the Leasing Arrangements under the 2017 Master Lease Agreement and the Annual Caps; (iv) a notice of the EGM and (v) other information required under the Listing Rules will be despatched to the Shareholders on or before 13 March 2017.

THE MASTER LEASING AGREEMENT

Background

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

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

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

Particulars of Existing Premises	Expiry date of relevant Existing Lease Agreement	Present usage	Total rental paid for the year ended 31 March		Estimated total rental payable for the year ending	Prevailing monthly market rent as at 31 December
			2015	2016	2017	2016
			HK\$'000	HK\$'000	HK\$'000	HK\$'000
			(Note 1)	(Note 1)	(Note 1)	(Note 1 and 4)

Hong Kong Island

1. Shop and Toilet Area on 1st Floor, Shop and Toilet Area on 2nd Floor, Lift and Staircase (No. 3) and Grease Trap Room on 1st Floor, 1st Floor Staircase for 2nd Floor, Lift and Staircase on 2nd Floor, Lift Machine Room for 1st to 2nd Floors on 3rd Floor, Signage Units Nos. 1 to 8 on Ground Floor, Signage Units Nos. 9 to 14 on 1st Floor, Store and Open Store on Ground Floor, The Grandeur, 47 Jardine's Bazaar, Causeway Bay, Hong Kong	31 March 2017	Service centre	8,629	8,629	8,629	730
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Particulars of Existing Premises	Expiry date of relevant Existing Lease Agreement	Present usage	Total rental paid for the year ended 31 March		Estimated total rental payable for the year ending	Prevailing monthly market rent as at 31 December
			2015	2016	2017	2016
			HK\$'000	HK\$'000	HK\$'000	HK\$'000
			(Note 1)	(Note 1)	(Note 1)	(Note 1 and 4)
2. 1/F, (including its Flat Roof and Stair-Entrance on Ground Floor), King Kwong Mansion, 8 King Kwong Street, Happy Valley, Hong Kong	31 March 2017	Service centre	826	826	826	77
3. Shops B2B and B2C of Portion B on Ground Floor, Portion B on 1st Floor, Whole of 2nd Floor, MRT Plaza, Hang Ying House, Nos. 318-328 King's Road, North Point, Hong Kong	31 March 2017	Service centre	6,151	6,151	6,151	620
4. Commercial Area on Upper Ground Floor, 1st Floor (excluding canopy) and 2nd Floor of V. Heun Building, No. 138 Queen's Road Central, Hong Kong	31 March 2017	Service centre	6,793	6,793	6,793	750
5. Portion B of Shop C on Ground Floor and Shop E on Basement, King's View Court, 901-907 King's Road, Quarry Bay, Hong Kong	31 March 2017	Service centre	802 (Note 2)	2,550	2,550	250
6. 3/F, Causeway Bay Commercial Building, No. 3 Sugar Street, Causeway Bay, Hong Kong	31 March 2017	Service centre	–	2,417 (Note 3)	3,223	250
Kowloon						
7. Workshop Nos. 11-31, 32B, 33B, 41-78 and Store Room No. 10 on 6th Floor and Lorry Car Parking Space Nos. L8, L10, L14 and L15 on Basement, Sino Industrial Plaza, 9 Kai Cheung Road, Kowloon Bay	31 March 2017	Office and warehouse	5,233	5,233	5,233	590

Particulars of Existing Premises	Expiry date of relevant Existing Lease Agreement	Present usage	Total rental paid for the year ended 31 March		Estimated total rental payable for the year ending	Prevailing monthly market rent as at 31 December
			2015	2016	2017	2016
			HK\$'000	HK\$'000	HK\$'000	HK\$'000
			(Note 1)	(Note 1)	(Note 1)	(Note 1 and 4)
8. 3rd and 4th Floor (including Flat Roof) BCC Building, Nos. 25-31 Carnarvon Road, Kowloon	31 March 2017	Service centre	3,672	3,672	3,672	380
9. Shop no. 5 on Ground Floor, 1st Floor and 2nd Floor Commercial Unit with 1st Floor and 2nd Floor Advertising Space of Paradise Square, 3 Kwong Wa Street, Kowloon	31 March 2017	Service centre	6,610	6,610	6,610	620
New Territories						
10. Workshops D1-D14 on 3rd Floor of Block D and Car Parking Spaces Nos. 131 and 132 on 1st Floor, Tsing Yi Industrial Centre Phase II, 1-33, Cheung Tat Road, Tsing Yi, New Territories	31 March 2017	Warehouse	1,652	1,652	1,652	170
11. 18th Floor, Hou Feng Industrial Building, Nos.1-5 Wing Kin Road, Kwai Chung, New Territories	31 March 2017	Service centre and warehouse	734	734	734	73
12. Shop 1 on Ground Floor and 1st Floor (with flat roof adjacent thereto), Len Fat Mansion, Nos. 56-60, 64-86 Kin Yip Street, Yuen Long, New Territories	31 March 2017	Service centre	1,836	1,836	1,836	190

Particulars of Existing Premises	Expiry date of relevant Existing Lease Agreement	Present usage	Total rental paid for the year ended 31 March		Estimated total rental payable for the year ending	Prevailing monthly market rent as at 31 December
			2015	2016	2017	2016
			HK\$'000	HK\$'000	HK\$'000	HK\$'000
			(Note 1)	(Note 1)	(Note 1)	(Note 1 and 4)
13. Portion A of Shop 3 on Ground Floor, Unit B on Cockloft, Whole of 1st Floor, Whole of Block B on 2nd Floor and Portion of Roof, Chung On Building, 297-303, 307-313 Sha Tsui Road, Tsuen Wan, New Territories together with Flat 1 and Flat Roof on 1st Floor, Kwong Yick Building, 315-323 Sha Tsui Road, Tsuen Wan, New Territories	31 March 2017	Service centre	8,996	8,996	8,996	850
14. Units B74-B90, B99-B116, B132-B136, 1/F, The Commercial Accommodation of Well On Garden, 9 Yuk Nga Lane, Tseung Kwan O, New Territories	31 March 2017	Service centre	2,020	2,020	2,020	190
15. Units C1, C2, D1, D2, E1 & E2, 16/F, TG Place, No. 10 Shing Yip Street, Kowloon	31 March 2017	Service centre	–	370 (Note 3)	1,480	160
			<u>53,954</u>	<u>58,489</u>	<u>60,405</u>	<u>5,900</u> per month

Notes:

1. Exclusive of government rates, government rent and management fees.
2. The relevant Existing Lease Agreement was entered into in the year ended 31 March 2015.
3. The relevant Existing Lease Agreements were entered into in the year ended 31 March 2016.
4. The quoted prevailing monthly market rent is based on the preliminary view of an independent property valuer.

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

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

Note: The quoted prevailing monthly market rent is based on the preliminary view of an independent property valuer.

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

Date of the 2017 Master Lease Agreement

23 February 2017

Parties to the 2017 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” in this announcement below.

Subject Matter

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

Conditions

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

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

Duration

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

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

Consideration and other terms

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

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

The Annual Caps

The amount of rents paid and payable to the Owners under the Existing Lease Agreements in respect of the Existing Premises as mentioned in the paragraph headed “Background” above, the leases of which are expected to continue, for the year ending 31 March 2017 is estimated to be approximately HK\$60.4 million.

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

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

REASONS FOR AND BENEFITS OF ENTERING INTO THE CONTINUING CONNECTED TRANSACTIONS

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

Having considered the above, the Directors (excluding the independent non-executive Directors whose opinion will be rendered and stated in the circular to be despatched after taking into account the advice from the Independent Financial Adviser) are of the view that the terms of the 2017 Master Lease Agreement and the Annual Caps are fair and reasonable and the entering into of the 2017 Master Lease Agreement is in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

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

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

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

GENERAL

The Independent Board Committee comprising all of the independent non-executive Directors has been established to advise the Independent Shareholders in relation to the Leasing Arrangements under the 2017 Master Lease Agreement and the Annual Caps. 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 2017 Master Lease Agreement and the Annual Caps. Since Dr. Tsang is materially interested in the 2017 Master Lease Agreement, she and her associates will be required to abstain from voting on the resolution to be proposed at the EGM to approve the 2017 Master Lease Agreement and the Annual Caps.

A circular containing, among other things, (i) details of the 2017 Master Lease Agreement and the Annual Caps; (ii) the recommendation of the Independent Board Committee in respect of the Leasing Arrangements under the 2017 Master Lease Agreement and the Annual Caps; (iii) a letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders containing its advice on the Leasing Arrangements under the 2017 Master Lease Agreement and the Annual Caps; (iv) a notice of the EGM; and (v) other information required under the Listing Rules will be despatched to the Shareholders on or before 13 March 2017.

DEFINITIONS

Unless the context requires otherwise, the following terms have the following meanings in this announcement:

“2014 Master Lease Agreement”	the agreement dated 20 February 2014 entered into between the Company and the Lessor in respect of the leasing of the Existing Premises
“2017 Master Lease Agreement”	the agreement dated 23 February 2017 entered into between the Company and the Lessor in respect of the Leasing Arrangements for the three years ending 31 March 2020
“Annual Caps”	the maximum consideration payable by the Group to the Lessor and/or the Owners (as the case may be) under the Leasing Arrangements pursuant to the 2017 Master Lease Agreement for the year ending 31 March 2018, the year ending 31 March 2019 and the year ending 31 March 2020 in the amount of HK\$79 million, HK\$79 million and HK\$79 million, respectively
“Board”	the board of Directors
“Company”	Modern Beauty Salon Holdings Limited, a company incorporated under the laws of the Cayman Islands with limited liability and the shares of which are listed on the Stock Exchange
“Director(s)”	the director(s) of the Company
“Dr. Tsang”	Dr. Tsang Yue, Joyce, an executive Director, chairperson of the Board and a controlling Shareholder (within the meaning of the Listing Rules)
“EGM”	the extraordinary general meeting of the Company to be convened to, among other matters, consider and, if thought fit, approve the Leasing Arrangements pursuant to the 2017 Master Lease Agreement and the Annual Caps

“Existing Premises”	the properties owned by the Owners in Hong Kong and/or other place(s) in the world currently leased to the Group under the Existing Lease Agreements and are expected to continue are disclosed in the paragraph headed “Background” in this announcement
“Group”	the Company and its subsidiaries
“Independent Board Committee”	the independent board committee comprising all of the independent non-executive Directors, namely, Ms. Liu Mei Ling, Rhoda, Mr. Wong Man Hin, Raymond, Mr. Hong Po Kui, Martin and Mr. Lam Tak Leung established to advise the Independent Shareholders
“Independent Financial Adviser”	Nuada Limited, being a licensed corporation to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO and the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the Leasing Arrangements pursuant to the 2017 Master Lease Agreement and the Annual Caps
“Independent Shareholder(s)”	Shareholder(s) other than those who are required by the Listing Rules to abstain from voting on the resolutions approving the Leasing Arrangements under the 2017 Master Lease Agreement and the Annual Caps, being Dr. Tsang and her associates
“Leasing Arrangements”	the leasing of the premises by the Group from the Owners pursuant to the 2017 Master Lease Agreement by the entering into a tenancy or lease agreement in respect of such premises between the Group and the relevant Owner
“Lessor”	Asia Power Global Limited, a company with limited liability incorporated under the laws of the British Virgin Islands and is wholly-owned by a family trust set up by Dr. Tsang
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange

“New Premises”	the properties owned by the Owner(s) which the Group may lease from the Owners during the term of the 2017 Master Lease Agreement
“Owners”	subsidiaries of the Lessor from time to time which are or may become the legal and beneficial owners of the Existing Premises and the New Premises and “Owner” shall mean any of them
“Share(s)”	share(s) of HK\$0.10 each of the Company
“Shareholder(s)”	shareholder(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong

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

Hong Kong, 23 February 2017

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