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MODERN BEAUTY SALON HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 919)

CONTINUING CONNECTED TRANSACTIONS: MASTER LEASE AGREEMENT

THE MASTER LEASE AGREEMENT

The Company is pleased to announce that on 20 February 2014, the Company entered into the Master Lease Agreement with the Lessor to regulate the lease arrangement between the Group and the Owners for the three years ending 31 March 2017.

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 Ms. 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 each of the Annual Caps are less than 25% but the annual consideration is more than HK\$10 million, the Leasing Arrangements under the 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 Master Lease Agreement and the Annual Caps. An independent financial adviser will be 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 Master Lease Agreement and the Annual Caps. Since Ms. Tsang is materially interested in the Master Lease Agreement, Ms. 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 Master Lease Agreement and the Annual Caps; (ii) the recommendation of the Independent Board Committee in respect of the Leasing Arrangements under the 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 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 11 March 2014.

THE MASTER LEASE AGREEMENT

Background

Currently, the Group has entered into a number of lease agreements (“**Existing Lease Agreements**”) with the Owners for leasing certain premises from the Owners 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) and staff quarters. The Group intends to continue to lease some of the Existing Premises under the arrangement contemplated under the Master Lease Agreement. Set out below is a summary of the Existing Lease Agreements in respect of those Existing Premises which are expected to continue under the 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
			2012	2013	31 March
			HK\$'000 (Note 1)	HK\$'000 (Note 1)	2014 HK\$'000 (Note 1)
<i>Hong Kong</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	31 March 2014	Service centre	3,633 (Note 2)	7,368	7,368
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 2014	Service centre	195 (Note 2)	780	780

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 31 March
			2012	2013	2014
			HK\$'000 (Note 1)	HK\$'000 (Note 1)	HK\$'000 (Note 1)
3. Shops B2B and B2C of Portion B on Ground Floor, Portion B on 1st Floor, Whole of 2nd Floor and Portion B2 of Portion B on Flat Roof J on 4th Floor, MRT Plaza, Hang Ying House, Nos. 318-328 King's Road, North Point, Hong Kong	31 March 2014	Service centre	—	—	2,850 (Note 4)
4. Commercial Area on Upper Ground Floor and 1st Floor (excluding canopy) and 2nd Floor of V. Heun Building, No. 138 Queen's Road Central, Hong Kong	31 March 2014	Service centre	—	4,968 (Note 3)	7,452
Kowloon					
5. 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 2014	Office and warehouse	2,512 (Note 2)	3,840	3,840
6. 3rd and 4th Floor (including Flat Roof) BCC Building, Nos 25-31 Carnarvon Road, Kowloon	31 March 2014	Service centre	—	—	975 (Note 4)
7. 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 2014	Service centre and retail shop	—	3,360 (Note 3)	5,040

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 31 March
			2012	2013	2014
			HK\$'000 (Note 1)	HK\$'000 (Note 1)	HK\$'000 (Note 1)
New Territories					
8. 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 2014	Warehouse	957 (Note 2)	1,488	1,488
9. 18th Floor, Hou Feng Industrial Building, Nos.1-5 Wing Kin Road, Kwai Chung, New Territories	31 March 2014	Warehouse	309 (Note 2)	552	552
10. Shop 1 on Ground Floor and 1st Floor (with floor roof adjacent thereto), Len Fat Mansion, Nos. 56-86 Kin Yip Street, Yuen Long, New Territories	31 March 2014	Service centre	1,122 (Note 2)	1,608	1,608
11. Portion A of Shop 3 on Ground Floor, Unit B on Cockloft, Whole of 1st Floor, Whole of Block B on 2nd Floor, Portion of Roof, Chung On Building, 297-303, 305, 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 2014	Service centre	6,750 (Note 2)	7,800	7,800
12. Flat B on 8th Floor of Tower 7, Residence Oasis, 15 Pui Shing Road, Tseung Kwan O, Sai Kung, New Territories	31 January 2016	Staff quarter	—	216 (Notes 3&5)	336 (Note 5)
13. Flat A on 32nd Floor of Tower 3, The Wings, 9 Tong Yin Street, Tseung Kwun O, New Territories	31 January 2016	Staff quarter	—	56 (Notes 3&5)	336 (Note 5)
14. Units B74-B90, B99-B116, B132-B136, 1/F., The Commercial Accommodation of Well On Garden, 9 Yuk Nga Lane, Tsueng Kwan O, New Territories	31 March 2014	Service centre	471 (Note 2)	1,884	1,884

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 31 March
			2012	2013	2014
			HK\$'000 (Note 1)	HK\$'000 (Note 1)	HK\$'000 (Note 1)
<i>Singapore</i>					
15. 21 Kovan Road #09-16, Singapore 548192	31 December 2014	Staff quarter	93 (Notes 2 & 6)	375 (Note 6)	369 (Note 6)
16. BLK 218 Bedok North Street 1 #01-19 Singapore 460218	31 May 2015	Service centre	—	550 (Note 3)	650
			16,042	34,845	43,328

Notes:

1. *Exclusive of government rates, government rent and management fees.*
2. *The relevant Existing Lease Agreements were entered into in the year ended 31 March 2012.*
3. *The relevant Existing Lease Agreements were entered into in the year ended 31 March 2013.*
4. *The relevant Existing Lease Agreements were entered into in the year ending 31 March 2014.*
5. *Inclusive of government rates, government rent and management fees.*
6. *Inclusive of government rates, taxes, maintenance charges and any surcharges thereon, assessments and outgoing.*

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 Master Lease Agreement and the summary of those New Premises which have now been identified are set out as follows:

New Premises	Intended Usage
<i>Hong Kong</i>	
1. 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. 1/F., Block A, Champagne Court, 46 Carnarvon Road, Tsim Sha Tsui, Kowloon	Service centre
3. Portion B of Basement, MRT Plaza, Hang Ying House, Nos, 318–328 King's Road, North Point, Hong Kong	Service centre
<i>Singapore</i>	
4. 21 Kovan Road #10–15, Singapore 548192	Staff quarter

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 2017, the Company and the Lessor entered into the Master Lease Agreement on 20 February 2014 to set out the principal terms and conditions governing the Leasing Arrangement in the future.

In respect of each of the above Existing Premises and New Premises, the Company has obtained 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 Master Lease Agreement, the rent will not be higher than such prevailing market rent.

Date of the Master Lease Agreement

20 February 2014

Parties to the Master Lease Agreement

The Lessor and the Company

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

Subject Matter

Pursuant to the Master Lease Agreement, the Group will enter into separate lease agreements to lease certain premises (which are expected to comprise some of 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 Master Lease Agreement. For those Existing Lease Agreements which have not expired as at 1 April 2014, subject to the transactions contemplated under the Master Lease Agreement and the Annual Caps having been approved by the Independent Shareholders at the EGM, such Existing Lease Agreements will be terminated at nil consideration and a new tenancy agreement in respect of each such Existing Lease Agreements will be entered into pursuant to the terms of the Master Lease Agreement.

Conditions

The 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 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 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 Master Lease Agreement shall be for a term commencing from 1 April 2014 and ending on 31 March 2017. In addition, the 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 Master Lease Agreement will have a term commencing on or after 1 April 2014 and expiring on or before 31 March 2017.

Consideration and other terms

Pursuant to the 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.

In respect of any additional New Premises to be identified by the Group, the Company will obtain a fair rent opinion from an independent property valuer regarding the then prevailing market rent of such New Premises.

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

The Annual Caps

The amount of rents paid and 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 2014 is estimated to be approximately HK\$43.3 million.

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 as mentioned above for its own use during the three years ending 31 March 2017, it is expected that the Annual Cap in respect of the Leasing Arrangements as contemplated under the Master Lease Agreement for the year ending 31 March 2015, the year ending 31 March 2016 and the year ending 31 March 2017 will not exceed HK\$76.3 million, HK\$76.3 million and HK\$76.3 million, respectively. These Annual Caps were determined after taking into account (i) the number of individual lease agreements that are expected to be entered into by the Group under the Master Lease Agreement; (ii) the prevailing market rents of the relevant Existing Premises and the New Premises mentioned above of HK\$5.78 million per month; and (iii) a 10% buffer for rental payments in respect of additional New Premises which may be leased from the Owners during the term of the 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, fitness 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 certain Existing Premises and may lease some other premises (including the New Premises mentioned above) from the Owners for its own use, the Company has considered that the entering into of the 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 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 Master Lease Agreement and the Annual Caps are fair and reasonable and the entering into of the 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 Ms. Tsang, an executive Director, chairperson of the Board and a controlling Shareholder interested in 646,760,190 issued Shares (representing approximately 74.00% 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 Ms. Tsang is interested in 650,000 issued Shares (representing approximately 0.074% 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 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 Master Lease Agreement and the Annual Caps. An Independent Financial Adviser will be 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 Master Lease Agreement and the Annual Caps. Since Ms. Tsang is materially interested in the 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 Master Lease Agreement and the Annual Caps.

A circular containing, among other things, (i) details of the Master Lease Agreement and the Annual Caps; (ii) the recommendation of the Independent Board Committee in respect of the Leasing Arrangements under the 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 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 11 March 2014.

DEFINITIONS

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

“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 Master Lease Agreement for the year ending 31 March 2015, the year ending 31 March 2016 and the year ending 31 March 2017 in the amount of HK\$76.3 million, HK\$76.3 million and HK\$76.3 million, respectively
“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
“EGM”	the extraordinary general meeting of the Company to be convened to consider, if thought fit, among other matters, the Leasing Arrangements pursuant to the 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, those which 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”	an independent financial adviser to be appointed by the Company to advise the Independent Board Committee and the Independent Shareholders on the Leasing Arrangements under the Master Lease Agreement and the Annual Caps
“Independent Shareholder(s)”	Shareholder(s) other than those who are required by the Listing Rules to abstain from voting on the resolution approving the Leasing Arrangements under the Master Lease Agreement and the Annual Caps, being Ms. Tsang and her associates

“Leasing Arrangements”	the leasing of premises by the Group from the Owners pursuant to the 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 British Virgin Island and is wholly owned by a family trust set up by Ms. Tsang
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Master Lease Agreement”	the agreement dated 20 February 2014 entered into between the Company and the Lessor in respect of the Leasing Arrangements
“Ms. Tsang”	Ms. Tsang Yue, Joyce, an executive Director, chairperson of the Board and a controlling Shareholder (within the meaning of the Listing Rules)
“New Premises”	the properties owned by the Owner(s) which the Group may lease from the Owners during the term of the Master Lease Agreement
“Owner(s)”	subsidiaries of the Lessor from time to time which are or may become the legal and beneficial owners of the Existing Premises and the New Premises and “Owner” shall mean any of them
“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

By Order of the Board
Modern Beauty Salon Holdings Limited
Tsang Yue, Joyce
Chairperson

Hong Kong, 20 February 2014

As at the date of this announcement, the Board consists of Three Executive Directors, Ms. 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.