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MODERN BEAUTY SALON HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 919)

SUPPLEMENTAL ANNOUNCEMENT CONTINUING CONNECTED TRANSACTIONS — 2020 MASTER LEASE AGREEMENT

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



Reference is made to the announcement of Modern Beauty Salon Holdings Limited (the “**Company**”) dated 20 February 2020 (the “**Announcement**”) in relation to continuing connected transactions relating to the 2020 Master Lease Agreement. Unless otherwise stated, capitalised terms used herein shall have the same meanings as those defined in the Announcement.

REASONS FOR THE 2020 MASTER LEASE AGREEMENT

As disclosed in the Announcement, 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 given that the 2017 Master Lease Agreement will expire on 31 March 2020.

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 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 Lessor 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.

Based on the above and given certain properties that may be leased by the Group from the Lessor have not yet been identified as at the date of the 2020 Master Lease Agreement, the Board considered that the Leasing Arrangements contemplated under the 2020 Master Lease Agreement will constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

THE REVISION OF THE ANNUAL CAPS

The Board wishes to announce that on 28 February 2020 after trading hours, the Company and the Lessor entered into an agreement supplemental to the 2020 Master Lease Agreement, 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.

The Hong Kong Financial Reporting Standards (“**HKFRS**”) issued by the Hong Kong Institute of Certified Public Accountants 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.

The Board wishes to clarify that 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. 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;
- (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; 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,

it is expected that the estimated value of the right-of-use asset for the Existing Premises and the New Premise which had been identified as at the date of the 2020 Master Lease Agreement 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% will be 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 shall be fixed at 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). 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.

Save for the revision to the Annual Caps as set out above, all other terms of the 2020 Master Lease Agreement remain unchanged.

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 2020 Master Lease Agreement (as modified by the supplemental agreement as mentioned above) 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

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.

Save as disclosed above, all other information in the Announcement remain unchanged.

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

Hong Kong, 28 February 2020

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, Dr. Wong Man Hin, Raymond, Mr. Hong Po Kui, Martin and Mr. Lam Tak Leung.