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GAYETY HOLDINGS LIMITED

喜尚控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 8179)

CONNECTED AND DISCLOSEABLE TRANSACTION

PROVISION OF LOAN AND ACQUISITION OF CALL OPTION

On 18 January 2012, the Company entered into the Loan Agreement with KMW and the Guarantors, pursuant to which, the Company agreed to provide the Loan in the principal amount of HK\$9,900,000 to KMW.

The repayment of the Loan is secured by the Guarantee provided by the Guarantors to the Company.

On 18 January 2012, KMW executed the Option Deed to grant to the Company the Call Option at nil consideration, subject to the terms and conditions contained therein and exercisable at the sole discretion of the Company during the Exercise Period to purchase the entire issued share capital of the Project Company.

KMW holds 75% of the issued share capital of the Company and is therefore a connected person of the Company under the GEM Listing Rules. Accordingly, each of the provision of the Loan and the acquisition of the Call Option constitutes a connected transaction of the Company under Chapter 20 of the GEM Listing Rules. Since certain relevant percentage ratio defined under Rule 19.04(9) of the GEM Listing Rules in relation to the Loan exceeds 5% but is less than 25%, the provision of the Loan also constitutes a discloseable transaction of the Company under Chapter 19 of the GEM Listing Rules.

As the total value of the Loan is less than HK\$10,000,000, the provision of the Loan is also subject to the reporting and announcement requirements under Chapter 20 of the GEM Listing Rules but is exempt from the independent shareholders' approval requirement pursuant to Rule 20.66(2)(a) of the GEM Listing Rules.

As the relevant percentage ratio(s) defined under Rule 19.04(9) of the GEM Listing Rules in relation to the Call Option is less than 0.1%, the acquisition of the Call Option is exempt from the reporting, announcement and independent shareholders' approval requirements pursuant to Rule 20.31(2)(a) of the GEM Listing Rules.

Each of the Guarantors is a controlling shareholder and an executive Director, and is therefore a connected person of the Company. Accordingly, the provision of the Guarantee constitutes a connected transaction of the Company. As the Guarantee is provided for the benefit of the Company on normal commercial terms where no security over the assets of the Group is granted, the provision of the Guarantee is exempt from the reporting, announcement and independent shareholders' approval requirements pursuant to Rule 20.65(4) of the GEM Listing Rules.

THE LOAN AGREEMENT

Introduction

On 18 January 2012, the Company entered into the Loan Agreement with KMW and the Guarantors, pursuant to which, the Company agreed to provide a loan in the principal amount of HK\$9,900,000 to KMW.

The repayment of the Loan is secured by the Guarantee provided by the Guarantors to the Company.

Terms of the Loan

Date:	18 January 2012
Parties:	the Company KMW the Guarantors
Principal amount:	HK\$9,900,000
Drawdown:	The Loan is to be drawn down in one lump sum on the Drawdown Date.
Purpose:	All the proceeds of the Loan shall be applied by KMW towards the investment in the New Business.
Term of the Loan:	The Loan is for a term of three years from the Drawdown Date.
Interest rates:	The interest rate for the Loan shall be 1% above the Prime Rate, and shall accrue from day to day. Interest rate payable for any overdue amount will be calculated at the rate of 1.5% above the interest rate for the Loan. The above interest rates were determined by the Company and KMW after arm's length negotiation.
Repayment terms:	Subject to the Company's on demand right described below, the principal of the Loan would be repaid by KMW to the Company in one lump sum upon the expiry of the term of the Loan and the interest of the Loan is payable by KMW to the Company every six months from the Drawdown Date. The Company shall have the overriding right at any time, by written notice to KMW, to demand immediate repayment of the Loan, interest accrued and all other monies payable under the Loan Agreement.
Default:	Upon the occurrence of an event of default as provided in the Loan Agreement, the Company may, by written notice to KMW, declare the principal of the Loan, the interest thereon and all other amounts payable by KMW to the Company under the Loan Agreement become immediately due and payable and terminate the Loan Agreement.
Security:	The repayment of the Loan is secured by the Guarantee provided by the Guarantors to the Company.
Conditions Precedent:	Completion of the Loan Agreement shall be conditional upon, among others, the delivery of the duly executed Guarantee and Option Deed.

The terms of the Loan Agreement were determined after arm's length negotiation between the Company, KMW and the Guarantors.

THE CALL OPTION

- Date: 18 January 2012
- Parties: the Company
KMW
- Subject matter: KMW executed the Option Deed to grant to the Company the Call Option, subject to the terms and conditions contained therein, which is exercisable at the sole discretion of the Company any time during the Exercise Period by giving the Option Notice, to demand and require KMW to sell to the Company and/or its nominee(s) the entire issued share capital of the Project Company.
- Consideration: The total consideration payable by the Company for the purchase of the entire issued share capital of the Project Company from KMW will be calculated by reference to the market value of the Project Company upon the exercise of the Call Option, as ascertained by a reputable firm of professional valuers to be selected upon the mutual agreement of the Company (as resolved by the Board (including all the independent non-executive Directors)) and KMW.
- Lapse: The Call Option shall lapse and the Option Deed shall be absolutely determined upon the earlier of: (a) the expiry of the Relevant Period; or (b) if no Option Notice shall be served on KMW during the Exercise Period, the expiry of the Exercise Period.

The terms of the Option Deed were determined after arm's length negotiation between the Company and KMW.

LISTING RULES IMPLICATIONS

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REASONS FOR AND BENEFITS OF THE PROVISION OF THE LOAN

The Directors wish to expand the Group's business to include more diversified product and service offerings. In this respect, they consider that the New Business could be developed into a viable and profitable business for the following reasons. The New Business, which relates to the provision of Japanese cuisine, is likely to appeal to and be accepted by a large population in Hong Kong, given that Japanese food is very popular locally. The New Business is expected to be developed into a food franchise business, being a more mature food catering business model.

KMW, through the Project Company, will invest the principal amount of the Loan to open and operate (i) two ramen restaurants in Hong Kong, each with a capacity of approximately 100 seats; and (ii) a central kitchen in Hong Kong to centralise the management of raw material procurement and food production to support the above ramen restaurants. By making the investment through the Loan to KMW, the Group may avoid certain risks involving direct investment into a new area of business. The Loan would provide KMW with sufficient working capital to develop the New Business at the preliminary stage. The Directors consider that the Loan represents an efficient use of its funding resources and generates interest income at an acceptable and reasonable rate of return. If the New Business proves to be profitable, the Company could exercise the Call Option during the Exercise Period to purchase the entire issued share capital of the Project Company.

The Directors have considered the interest rates and the terms of the Hong Kong dollar denominated commercially available loans in general and have concluded that the Loan Agreement is on equal or better terms to the Company. Payment for the Loan will be financed by cash available within the Group and not from the proceeds raised from the placing of the shares of the Company in 2011. The Directors believe that the Loan will not have a significant impact on the Group's financial position.

Although it is not the Company's ordinary business to provide financing, the Directors believe that the provision of the Loan will benefit the Company in the long run and the provision of the Guarantee as security will lower the related risk of the Company.

The Directors (including the independent non-executive Directors) are of the view that the Loan Agreement is on normal commercial terms and its terms are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

GENERAL INFORMATION

The Group is principally engaged in the operation of a chain of Chinese restaurants in Hong Kong.

KMW is an investment holding company.

Mr. Wong KM and Ms. Lau LY, being the Directors, have material interests in the transactions contemplated under the Loan Agreement. Therefore, they have abstained from voting at the meeting of the Board convened for the purpose of approving the related transactions. Save as disclosed above, none of the Directors has a material interest in the same transactions.

DEFINITION

“Board”	board of Directors
“BVI”	the British Virgin Islands
“Call Option”	the exclusive and irrevocable option (but not the obligation) of the Company to require KMW to sell the entire issued share capital of the Project Company to the Company and/or its nominee(s) pursuant to the terms and conditions of the Option Deed
“Company”	Gayety Holdings Limited (喜尚控股有限公司), a company incorporated in the Cayman Islands as an exempted company with limited liability
“Controlling Shareholder”	has the meaning ascribed to it under the GEM Listing Rules
“Directors”	directors of the Company
“Drawdown Date”	any day falling within a two-month period after the date of the Loan Agreement, being the date on which the drawdown under the Loan Agreement is made, as may be agreed by the parties hereto
“Exercise Period”	the 12-month period commencing from (and inclusive of) the date on which the Company notifies KMW of the existence or occurrence of any of the Relevant Events
“GEM”	the Growth Enterprise Market operated by the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“Group”	the Company and its subsidiaries
“Guarantee”	the personal guarantee provided by the Guarantors to the Company (on a joint and several basis) to secure the repayment of the Loan and any amount payable by KMW to the Company under the Loan Agreement
“Guarantors”	Mr. Wong KM and Ms. Lau LY
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong

“KMW”	KMW Investments Limited, a company incorporated in BVI with limited liability, and is owned as to 50% by Mr. Wong KM and 50% by Ms. Lau LY
“Loan”	the loan facility in the principal amount of HK\$9,990,000 to be provided by the Company to KMW in accordance with the terms and conditions of the Loan Agreement. Such amount being the total value of the financial assistance for the purposes of Rule 20.66 (2) (a) of the GEM Listing Rules; there being no preferential benefit for the purposes of the same GEM Listing Rule in this case
“Loan Agreement”	the loan agreement entered into by the Company, KMW and the Guarantors on 18 January 2012 in relation to the grant of the Loan by the Company to KMW
“Mr. Wong KM”	Mr. Wong Kwan Mo, being the chairman, an executive Director and a Controlling Shareholder of the Company
“Ms. Lau LY”	Ms. Lau Lan Ying, being the chief executive officer, an executive Director and a Controlling Shareholder of the Company
“New Business”	the opening and the day-to-day operation by the Project Company of (i) two ramen restaurants in Hong Kong, each with a capacity of approximately 100 seats; and (ii) a central kitchen in Hong Kong to centralise the management of raw material procurement and food production to support the above ramen restaurants, all three of which are targeted to be completed by December 2012
“Option Deed”	the deed executed by KMW on 18 January 2012, whereby KMW granted the Call Option to the Company
“Option Notice”	the notice exercising the Call Option
“Prime Rate”	the rate of interest per annum from time to time quoted by The Hongkong and Shanghai Banking Corporation Limited as its prime or best lending rate for Hong Kong Dollars
“Project Company”	a company to be incorporated as a wholly-owned subsidiary of KMW and the proposed owner of the New Business
“Relevant Events”	being (a) an event of default or potential event of default as provided in the Loan Agreement; or (b) the event of the accumulated net profit of the New Business attributable to KMW under the Hong Kong generally accepted accounting principles calculated over a period of three years commencing from the Drawdown Date exceeding HK\$15,000,000

“Relevant Period”	from the date of the Option Deed to the 10th day immediately after the date when the Company receives from KMW, in accordance with the Loan Agreement, the audited financial statements of the Project Company covering the period of three years commencing from the Drawdown Date
“Shareholders”	holders of the shares of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

By the order of the Board
Gayety Holdings Limited
Wong Kwan Mo
Chairman and executive Director

Hong Kong, 18 January 2012

As at the date of this announcement, the Board comprises Mr. Wong Kwan Mo and Ms. Lau Lan Ying as executive Directors, and Mr. Yu Ka Ho, Mr. Li Fu Yeung and Ms. Chiu Man Yee as independent non-executive Directors.

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM 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 announcement 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 announcement misleading.

This announcement will remain on the “Latest Company Announcements” page of the GEM website at <http://www.hkgem.com> for at least 7 days from the date of its posting and on the website of the Company at <http://www.gayety.com.hk>.