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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)

CONTINUING CONNECTED TRANSACTION

The Board announces that on 25 November 2011, Gayety, an indirectly wholly-owned subsidiary of the Company, entered into the Yuen Long Tenancy Agreement with Goldex in respect of the Yuen Long Property. The Yuen Long Property is an optimal location for the opening of the Group's sixth restaurant under Red Royalty Banquet (i.e. Red Royalty Banquet Restaurant). The Yuen Long Tenancy Agreement between Gayety as tenant and Goldex as landlord, made on normal commercial terms and in the ordinary and usual course of business of the Group, constitutes a continuing connected transaction for the Company under GEM Listing Rules.

Mr. Wong KM and Ms. Lau LY, both the Directors and Controlling Shareholders, are connected persons of the Company under the GEM Listing Rules. As each of Mr. Wong KM and Ms. Lau LY holds to 50% of the issued share capital of Goldex, Goldex is an associate of each of Mr. Wong KM and Ms. Lau LY and is a connected person of the Company.

The Yuen Long Tenancy Agreement on its own is only subject to the reporting, announcement and annual review requirements but is exempt from the independent shareholders' approval requirements under the GEM Listing Rules since each of the relevant percentage ratios (other than profits ratio) (as defined in Rule 19.07 of the GEM Listing Rules) in respect of the Yuen Long Tenancy Agreement is, on an annual basis, less than 25 percent and the annual consideration is less than HK\$10,000,000. In addition, when the Yuen Long Tenancy Agreement is aggregated with the Existing Lease pursuant to Rule 20.25 of the GEM Listing Rules, each of the relevant percentage ratios is, on an annual basis, also less than 25 percent and the aggregate annual consideration is less than HK\$10,000,000. Thus, the Yuen Long Tenancy Agreement is only subject to the reporting, announcement and annual review requirements but is exempt from the independent shareholders' approval requirements under the GEM Listing Rules.

The lease duration of the Yuen Long Tenancy Agreement will exceed three years. Pursuant to the GEM Listing Rules 20.35(1), except in special circumstances where the nature of the transaction requires the contract to be of a longer duration, the period for such agreement must not exceed three years. As the duration of the Yuen Long Tenancy Agreement will exceed three years, the Company has appointed Goldin to explain why a longer period is required and to confirm that this is a normal business practice for contracts of the same type as the Yuen Long Tenancy Agreement to be of such duration.

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

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Principal terms

Tenant:	Gayety
Landlord:	Goldex
Premises:	Yuen Long Property
Terms:	Commencing from 1 January 2012 and expiring on 31 December 2016. If all the Necessary Licences have been issued to Gayety in respect of the Yuen Long Property, the lease term could be commenced earlier subject to the consent from both Goldex and Gayety.
Rent:	HK\$580,000 per month, excluding management fee, government rates and utilities expenses. The monthly rent was determined based on arm's length negotiations with reference to the prevailing market prices for premises of comparable size and location. Ample Appraisal Limited, an independent valuer, has confirmed that the rent reflects the then market rent of the Yuen Long Property and the terms of the Yuen Long Lease Agreement are fair and reasonable.
Deposit:	Three months of the applicable monthly rent
Payment:	The monthly rent should be paid in advance on or before the 5th day at the commencement of each month

The Company intends to settle the rent under the Yuen Long Tenancy Agreement by its internal resources.

Condition precedent

The Yuen Long Lease Agreement is conditional upon whether Gayety could obtain the Necessary Licences for the restaurant operations in respect of the Yuen Long Property from the Government authorities. If the relevant licences applications are rejected by the Government authorities, the Yuen Long Lease Agreement would be lapsed immediately.

Expected annual caps

The Board estimates that the annual rent payable by Gayety to Goldex for the Yuen Long Property for each of the years ending 31 December 2016 will not exceed HK\$6,960,000.

Reasons for and benefits of the transaction

Reference is made to the Prospectus of the Company dated 30 June 2011. As disclosed in the "Business" section in the Prospectus, the Group will continue its restaurant network expansion and it will open the sixth restaurant under its third brand Red Royalty Banquet (i.e. Red Royalty Banquet Restaurant) in Yuen Long. The Company has selected the Yuen Long Property for the location of the new restaurant.

The Yuen Long Property is located at Yuen Long, which is the fourth largest district in Hong Kong with a large and growing population and an established railway system within the district. It has an area of approximately 138.43 km² and a population size of approximately 562,200 residents in 2010. Its transportation systems include West Rail and Light Rail of Mass Transit Railway and other major highways.

The whole of First Floor of Yuen Long Property has a total area of approximately 1,978.35 square metre and could provide a maximum seating capacity of 120 12-seat banquet tables enabling the tenant to serve up to 1,440 guests on a single occasion. It is located in the heart of Yuen Long with nearby public transportation and parking facilities. The Board believes the Yuen Long Property is (i) a preferred dining venue for families and hosts for Chinese wedding banquets or large-scale events because of its space and ease of accessibility; and (ii) an optimal location for the opening of the Group's sixth restaurant under Red Royalty Banquet (i.e. Red Royalty Banquet Restaurant).

The terms of the Yuen Long Tenancy Agreement have been negotiated on arm's length basis between the parties with reference to prevailing rentals of the premises in the nearby location and on normal commercial terms and are considered by the Directors (including the independent non-executive Directors) to be fair and reasonable and in the interests of the Company and its Shareholders as a whole. This continuing connected transaction is conducted in the ordinary course of business of the Company in accordance with terms of the Yuen Long Tenancy Agreement.

GEM Listing Rules implication

Goldex is principally engaged in property investment in Hong Kong.

Mr. Wong KM and Ms. Lau LY, both the Directors and Controlling Shareholders, are connected persons of the Company under the GEM Listing Rules. As each of Mr. Wong KM and Ms. Lau LY holds to 50% of the issued share capital of Goldex, Goldex is an associate of each of Mr. Wong KM and Ms. Lau LY and is a connected person of the Company. Therefore, the Yuen Long Lease Agreement constitutes a continuing connected transaction of the Company under the GEM Listing Rules.

The Yuen Long Tenancy Agreement on its own is only subject to the reporting, announcement and annual review requirements but is exempt from the independent shareholders' approval requirements under the GEM Listing Rules since each of the relevant percentage ratios (other than profits ratio) (as defined in Rule 19.07 of the GEM Listing Rules) in respect of the Yuen Long Tenancy Agreement is, on an annual basis, less than 25 percent and the annual consideration is less than HK\$10,000,000. In addition, when the Yuen Long Tenancy Agreement is aggregated with the Existing Lease pursuant to Rule 20.25 of the GEM Listing Rules, each of the relevant percentage ratios is, on an annual basis, also less than 25 percent and the aggregate annual consideration is less than HK\$10,000,000. Thus, the Yuen Long Tenancy Agreement is only subject to the reporting, announcement and annual review requirements but is exempt from the independent shareholders' approval requirements under the GEM Listing Rules.

The principal terms of the Existing Lease are set out in the Company's Prospectus dated 30 June 2011.

Goldin's view on and reasons for the Yuen Long Tenancy Agreement with a duration exceeding three years

Rule 20.35(1) of the GEM Listing Rules requires that the term of an agreement governing continuing connected transactions of an issuer must not exceed three years except in special circumstances. As the lease term of the Yuen Long Lease Agreement will exceed three years, the Company has appointed Goldin to explain why a longer period is required and to confirm that it is normal business practice for contracts of the same type as the Yuen Long Tenancy Agreement to be of such duration.

Goldin has discussed with the management of the Company regarding the Yuen Long Tenancy Agreement and has taken into account the reasons as follows:

- (i) the longer duration of the Yuen Long Tenancy Agreement will enable the Group to prevent the recurrence of expensive initial investment costs in the short term, including initial set up cost and interior decoration;
- (ii) the longer duration of the Yuen Long Tenancy Agreement will enable the Group to secure a strategic and prime location in the highly competitive catering industry;
- (iii) it is the Group's normal business practice to enter into longer term tenancy agreements for catering premises with floor area over 1,000 square metre considering the considerable initial investment costs and securing of prime location. The Company confirms that all of the Group's lease duration of tenancy agreement for catering premises with floor area more than 1,000 square metre are over 3 years; and
- (iv) the longer duration of the Yuen Long Tenancy Agreement will insulate the Group from the potential increase in the market rent considering the rising trend of the average rent of retail properties in Hong Kong in the past ten years.

In considering whether it is normal business practice for tenancy agreements of a similar nature to the Yuen Long Tenancy Agreement to have a term of such duration, Goldin reviewed relevant comparable transactions which are selected based on the following criteria: (i) one of the parties to such transaction is listed on the Stock Exchange; (ii) such transactions are publicly announced by way of announcement made pursuant to the Listing Rules in the past six months; and (iii) such transaction involving lettable floor area of more than 1,000 square metre which is utilised for catering/retail business (the "Comparable Transactions"). Goldin noted that the lease duration of the Comparable Transactions ranges from 2 years to 15 years with a mean of 7.17 years. Accordingly, Goldin considers that the lease duration of the Yuen Long Tenancy Agreement falls within the range and below the mean of that of the Comparable Transactions.

Having considered the above, Goldin is of the view that the long lease duration of five years under the Yuen Long Tenancy Agreement is required for the operation of the Group and is normal business practices for tenancy agreement of this type to be of such duration.

The Directors' view

The Board are of the view that it is the industry norm for lease agreements for the purpose of operating restaurants to exceed three years and that the Yuen Long Lease Agreement will help the Group in securing the Yuen Long Property at a commercially reasonable price on a long term basis. The Directors are of the view that it will be in the interest in the Company and its Shareholders as a whole for the Group to have a term of lease with more than three years under the Yuen Long Lease Agreement.

Mr. Wong KM and Ms. Lau LY, being the common directors of the Company and Goldex, have a material interest under the Yuen Long Tenancy Agreement and have abstained from voting on the relevant resolutions at the board meeting for approving the Yuen Long Tenancy Agreement.

Definitions

In this announcement, unless the context otherwise requires, the following expressions shall have the following meanings:

“associate”	has the meaning ascribed to it under the GEM Listing Rules
“Board”	the board of Directors
“Company”	Gayety Holdings Limited, a company incorporated in the Cayman Islands with limited liability whose shares are listed on the GEM
“connected person”	has the meaning ascribed to it under the GEM Listing Rules
“Controlling Shareholder(s)”	has the meaning ascribed to it under the GEM Listing Rules and, in the context of this announcement, means the controlling shareholders of the Company, namely KMW Investments Limited, Mr. Wong KM and Ms. Lau LY
“Director(s)”	the director(s) of the Company
“Existing Lease”	a lease entered into between Red Seasons Corporation Limited, a wholly-owned subsidiary of the Company, and U Investments on 1 January 2010 pursuant to which Red Seasons Corporation Limited had agreed to lease from U Investments premises situated at Shop No. 33, Level 1 and Level 2, Garden Rivera, Nos. 20-30 Tai Chung Kiu Road, Shatin, Hong Kong. Details of the Existing Lease have been disclosed in the “Connected Transactions” section in the Prospectus
“Gayety”	Gayety Limited, a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of the Company
“GEM”	the Growth Enterprise Market operated by the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM as amended, supplemented or otherwise modified from time to time

“GEM website”	the internet website at www.hkgem.com operated by the Stock Exchange for the purposes of GEM
“Government”	the Government of Hong Kong
“Goldex”	Goldex Management Limited, a company incorporated in Hong Kong with limited liability and is owned as at 50% by Mr. Wong KM and 50% by Ms. Lau LY
“Goldin”	Goldin Financial Limited, a licensed corporation under the SFO licensed to carry out type 6 (advising on corporate finance) regulated activity, being the independent financial adviser to the Independent Board Committee to advise on the Yuen Long Tenancy Agreement
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Wong KM”	Mr. Wong Kwan Mo, the chairman of the Company, an executive Director, one of the Controlling Shareholders and the spouse of Ms. Lau LY
“Ms. Lau LY”	Ms. Lau Lan Ying, the chief executive officer of the Company, an executive Director, one of the Controlling Shareholders and the spouse of Mr. Wong KM
“Necessary Licences”	General restaurant licence/provisional restaurant licence to be granted by the Director of Food and Environmental Hygiene of the Food and Environmental Hygiene Department of the Government under the Public Health and Municipal Services Ordinance (Chapter 132 of the Laws of Hong Kong) and the Food Business Regulation (Chapter 132X of the Laws of Hong Kong); water pollution control licence to be granted by the Director of Environmental Protection of the Environmental Protection Department of the Government under the Water Pollution Control Ordinance (Chapter 358 of the Laws of Hong Kong); and liquor licence to be granted by the Liquor Licensing Board of Hong Kong
“Prospectus”	the prospectus issued by the Company dated 30 June 2011
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“subsidiary” or “subsidiaries”	has the meaning ascribed to it in section 2 of the Companies Ordinance

“U Investments”	U Investments Limited, a company incorporated in Hong Kong with limited liability on 8 December 2009, and is owned as to 50% by Mr. Wong KM and 50% by Ms. Lau LY. U Investments is an associate of each of Mr. Wong KM and Ms. Lau LY, and is a connected person of the Company
“Yuen Long Property”	First Floor Commercial Unit (previously known as Restaurants A and B on First Floor) plus carparking space Nos. L5 on Ground Floor and 97, 98, 99 & 100 on First Floor, Manhattan Plaza, No. 23 Sai Ching Street, Yuen Long, New Territories, Hong Kong
“Yuen Long Tenancy Agreement”	the tenancy agreement dated 25 November 2011 entered into between Gayety and Goldex relating to the leasing of the Yuen Long Property
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“HK\$”	Hong Kong dollars

Shareholders and potential investors of the Company are advised to exercise caution when dealing in the shares of the Company.

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

Hong Kong, 25 November 2011

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>.