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FAIRWOOD HOLDINGS LIMITED

大快活集團有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 52)



CONNECTED TRANSACTION RENEWAL OF TENANCY AGREEMENT

On 29 February 2024, Fairwood, an indirect wholly-owned subsidiary of the Company, as tenant, and Hibony, as landlord, entered into the New Tenancy Agreement to renew the tenancy of the Premises for a term of three (3) years commencing on 1 March 2024 and expiring on 28 February 2027 (both days inclusive).

Hibony is a connected person of the Company by virtue of being an associate of Mr Dennis Lo who is an Executive Chairman and substantial Shareholder of the Company, as defined under the Listing Rules. Accordingly, the entering into of the New Tenancy Agreement constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules.

In accordance with HKFRS 16 “Leases”, the Group is required to recognize the value of the right-of-use asset in connection with the New Tenancy Agreement and this transaction will be regarded as an acquisition of an asset by the Group pursuant to the Listing Rules. The estimated value of the right-of-use asset to be recognized by the Group under the New Tenancy Agreement is approximately HK\$6,143,000. Shareholders should note that the above figure is unaudited and may be subject to adjustment in the future.

As the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the estimated value of the right-of-use asset to be recognized by the Group under the New Tenancy Agreement are more than 0.1% but less than 5%, the entering into of the New Tenancy Agreement is subject to the reporting and announcement requirements but exempt from the circular (including independent financial advice) and Shareholders’ approval requirements under Chapter 14A of the Listing Rules.

BACKGROUND

Reference is made to the announcement of the Company dated 26 February 2021 containing details of the Expiring Tenancy Agreement. Fairwood did not exercise the option to renew within the prescribed period under the Expiring Tenancy Agreement.

After negotiation, Fairwood and Hibony agreed to enter into the New Tenancy Agreement to renew the tenancy of the Premises with principal terms being set out below.

New Tenancy Agreement

- Date : 29 February 2024
- Landlord : Hibony
- Tenant : Fairwood
- Premises : Portion of First Floor of Morning Light Building, Nos. 7-9 Hong Ning Road, Kwun Tong, Kowloon, Hong Kong.
- Term : Three (3) years commencing on 1 March 2024 and expiring on 28 February 2027 (both days inclusive).
- Rental : HK\$180,000 per month payable in cash in advance on the first day of each month from 1 March 2024. Rental payable is exclusive of management fee and government rates.
- Deposit : HK\$540,000, representing three months' rental payable upon the signing of the New Tenancy Agreement by Fairwood.

Historical Rentals

The historical rentals under the Expiring Tenancy Agreement, excluding management fee and government rates, for each of the financial years of the Company ended 31 March 2021, 31 March 2022, 31 March 2023 and ending on 31 March 2024 were approximately HK\$194,000, HK\$2,213,000, HK\$2,333,000 and HK\$2,139,000 respectively.

Basis of Determination of Rental

The rental payable under the New Tenancy Agreement was determined with reference to the market rental value as appraised by SAL. As at the Valuation Date, SAL has carried out property inspections, made relevant enquiries and obtained further information as it considered necessary for the provision of its opinion on the market rental value of the Premises in the amount of HK\$190,000 per month for a three-year tenancy with normal commercial terms, exclusive of rates, government rent, management fee and other outgoings.

SAL valued the Premises on the basis of the "Market Rent", which is an estimated amount of which a property would be leased on the valuation date between a willing lessor and a willing lessee on appropriate lease terms in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion. Yet, its estimation does not include any fixture and fitting out that may exist in the Premises.

In valuing the Premises, SAL adopted the "Direct Comparison Method", where comparison based on market rental information of comparable property is made. Compared properties of similar size, character and location are analysed and carefully weighted against all the respective advantages and disadvantages of each property for arriving a fair comparison of rental values.

In the course of valuation, SAL has also conducted searches at the Land Registry. Yet, it did not verify the ownership of the Premises or the existence of any amendments which did not appear on the copies handed to SAL and all documents, Government Leases were used for reference only.

SAL also assumed that the owner of the Premises has a free and uninterrupted right to use the Premises for the whole of the unexpired term of its Government Leases. The rental opinion also did not take into account the effect of orders by the Building Authority under the Buildings Ordinance (Chapter 123 of the Laws of Hong Kong) and its effect on the value of the Premises.

The valuation was made with the following limitations that may potentially affect the value of the Premises:

- (i) SAL did not verify the ownership of the Premises or the existence of any amendments which did not appear on the copies handed to SAL;
- (ii) SAL inspected the exterior of the Premises and, where possible, the interior of the Premise, but no structural survey has been made; and
- (iii) SAL was unable to report that the Premises is free from rot, infestation or any other structural defects.

Reasons for the transaction

Fairwood has been operating a fast food restaurant at the Premises since April 2012. By entering into the New Tenancy Agreement, Fairwood will maintain its business operations at the same location which will not only enable Fairwood to continue serving the customers that it has built up over the past twelve years, but also maintain its competitive advantage by retaining its business network in this district. Therefore, Fairwood and the Company consider it beneficial to enter into the New Tenancy Agreement.

The Directors, including the independent non-executive Directors, consider that the New Tenancy Agreement has been entered into in the ordinary and usual course of business of the Company, on normal commercial terms which are fair and reasonable, and in the interests of the Company and the Shareholders as a whole. Mr Dennis Lo and Mr Francis Lo (the son of Mr Dennis Lo) abstained from voting on the board resolution for approving the transaction as detailed in this announcement.

Principal business activities of the Company, Fairwood and Hibony

The principal business activity of the Company is investment holding.

The principal business activities of Fairwood are investment holding and the operation of a chain of restaurants in Hong Kong.

Hibony is principally engaged in property investment in Hong Kong.

Details of the connected relationship and implications under the Listing Rules

As at the date of this announcement, Hibony is a company which is indirectly wholly-owned by Mr Dennis Lo. Hence, Hibony is a connected person of the Company by virtue of being an associate of

Mr Dennis Lo who is an Executive Chairman and substantial Shareholder of the Company. Accordingly, the entering into of the New Tenancy Agreement constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules.

In accordance with HKFRS 16 “Leases”, the Group is required to recognize the value of the right-of-use asset in connection with the New Tenancy Agreement and this transaction will be regarded as an acquisition of an asset by the Group pursuant to the Listing Rules. The estimated value of the right-of-use asset to be recognized by the Group under the New Tenancy Agreement is approximately HK\$6,143,000. Shareholders should note that the above figure is unaudited and may be subject to adjustment in the future.

As the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the estimated value of the right-of-use asset to be recognized by the Group under the New Tenancy Agreement are more than 0.1% but less than 5%, the entering into of the New Tenancy Agreement is subject to the reporting and announcement requirements but exempt from the circular (including independent financial advice) and Shareholders’ approval requirements under Chapter 14A of the Listing Rules.

Definitions

“associate”	has the meaning ascribed thereto under the Listing Rules;
“Board”	the board of Directors;
“Company”	Fairwood Holdings Limited, an exempted company incorporated in Bermuda with limited liability, whose shares are listed on the Main Board of the Stock Exchange;
“connected person”	has the meaning ascribed thereto under the Listing Rules;
“Directors”	the directors of the Company;
“Expiring Tenancy Agreement”	the tenancy agreement dated 26 February 2021 entered into between Fairwood and Hibony in respect of the Premises for a term of three (3) years commencing on 1 March 2021 and expiring on 29 February 2024 with an option granted to Fairwood to renew the tenancy for a further term of three years;
“Fairwood”	Fairwood Fast Food Limited, a company incorporated in Hong Kong with limited liability and is an indirect wholly-owned subsidiary of the Company;
“Group”	the Company and its subsidiaries;
“Hibony”	Hibony Limited, a company incorporated in Hong Kong with limited liability, which is indirectly wholly-owned by Mr Dennis Lo;
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China;

“HKFRS”	Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Mr Dennis Lo”	Mr Dennis Lo Hoi Yeung, the Executive Chairman and substantial Shareholder of the Company;
“Mr Francis Lo”	Mr Lo Fai Shing Francis, Chief Executive Officer and Executive Director of the Company and an associate of Mr Dennis Lo;
“New Tenancy Agreement”	the Tenancy Agreement dated 29 February 2024 entered into between Fairwood and Hibony in respect of the Premises;
“Premises”	Portion of First Floor of Morning Light Building, Nos. 7-9 Hong Ning Road, Kwun Tong, Kowloon, Hong Kong;
“SAL”	Sinoappraisal Advisory Limited, an independent professional valuer;
“Shareholder(s)”	holder(s) of the shares of the Company;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Valuation Date”	27 February 2024, the date upon which SAL opined on the market rental value of the Premises; and
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong.

By Order of the Board
Fairwood Holdings Limited
Chan Kang Tung
Company Secretary

Hong Kong, 29 February 2024

As at the date of this announcement, the Directors of the Company are:

Executive Directors: Mr Dennis Lo Hoi Yeung (Executive Chairman), Mr Lo Fai Shing Francis (Chief Executive Officer) and Ms Peggy Lee; and

Independent Non-executive Directors: Mr Joseph Chan Kai Nin, Dr Peter Lau Kwok Kuen, Mr Peter Wan Kam To and Mr Yip Cheuk Tak.

Website: www.fairwoodholdings.com.hk