
CONTINUING CONNECTED TRANSACTIONS

During the Track Record Period, our Group entered into a number of transactions with Huazhang Automation (Zhejiang), a company which is indirectly owned as to 30% by Huazhang Overseas, which is in turn owned as to approximately 77.9% in aggregate by our Controlling Shareholders. Therefore, Huazhang Automation (Zhejiang) will become a Connected Person of our Company upon the Listing. Our Directors confirmed that all these transactions were conducted in the ordinary and usual course of business and on normal commercial terms during the Track Record Period. Following the Listing, these transactions will continue in the ordinary and usual course of business and will constitute continuing connected transactions of our Company under the GEM Listing Rules. For more information on Huazhang Automation (Zhejiang), please refer to the paragraph headed “Excluded business” under the section headed “Relationship with Controlling Shareholders” in this prospectus.

EXEMPT CONTINUING CONNECTED TRANSACTIONS

Use of trademark of our Group by Huazhang Automation (Zhejiang)

Huazhang Technology is the registered owner of the trademark number 1493871 under class 9 in the PRC (the “Trademark”). Huazhang Automation (Zhejiang) has been authorised to use the Trademark since November 2006 at a royalty-free basis as a condition of the transactions contemplated under the HAHK 2007 S&P Agreement. During the Track Record Period, such authorisation of the use of the Trademark in favour of Huazhang Automation (Zhejiang) continued pursuant to a trademark licensing agreement dated 4 November 2009 (“Trademark Licensing Agreement”) at a royalty-free basis for a term expiring on 3 November 2016. As such, Huazhang Automation (Zhejiang) did not pay any consideration to our Company for the use of the Trademark during the Track Record Period.

The transactions under the Trademark Licensing Agreement were conducted as a condition of the disposal by Huazhang Overseas of its interests in Huazhang Automation (Hong Kong) in March 2007, and no consideration will be payable by Huazhang Automation (Zhejiang) for each of the three years ending 30 June 2015 respectively. Accordingly, the transaction under the Trademark Licensing Agreement falls within the de minimis threshold under Rule 20.33(3) of the GEM Listing Rules and is therefore exempt from the reporting, annual review, announcement and independent Shareholders’ approval requirements under the GEM Listing Rules.

CONTINUING CONNECTED TRANSACTIONS SUBJECT TO THE REPORTING, ANNUAL REVIEW, ANNOUNCEMENT AND INDEPENDENT SHAREHOLDERS’ APPROVAL REQUIREMENTS

Provision of industrial automation systems by our Group to Huazhang Automation (Zhejiang)

During the Track Record Period, our Group sold industrial automation systems to Huazhang Automation (Zhejiang). The revenue from our sales to Huazhang Automation (Zhejiang) amounted to approximately HK\$10.1 million, HK\$5.8 million and HK\$2.7 million

CONTINUING CONNECTED TRANSACTIONS

for the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012 respectively, representing approximately 10.2%, 2.5% and 2.3% of our total revenue for the respective period. As Huazhang Automation (Zhejiang) is a Connected Person of our Company, any transaction between our Group and Huazhang Automation (Zhejiang) constitutes a connected transaction of our Company upon the Listing. Our Directors confirmed that the aforesaid transactions during the Track Record Period were conducted in the ordinary and usual course of business and on normal commercial terms. Following the Listing, these transactions will continue in the ordinary and usual course of business and will constitute continuing connected transactions of our Company under the GEM Listing Rules.

On 6 May 2013, our Group entered into a master supply agreement (the “Master Supply Agreement”) with Huazhang Automation (Zhejiang), pursuant to which Huazhang Automation (Zhejiang) engages us for the provision of industrial automation systems in accordance with specifications provided by Huazhang Automation (Zhejiang) from time to time. The prices for providing the industrial automation systems shall be determined on a case by case and an arm’s length basis, with reference to the prevailing market price of similar or comparable products and mutually agreed by both parties. The Master Supply Agreement has an initial term commencing from the Listing Date to 30 June 2015. Our Directors, including our independent non-executive Directors, are of the view that the Master Supply Agreement was entered into in the ordinary and usual course of business of our Group and on normal commercial terms.

It is proposed that the annual caps for the fees received under the Master Supply Agreement will amount to approximately HK\$6.0 million, HK\$6.3 million and HK\$6.6 million respectively for each of the three financial years ending 30 June 2015. Such annual caps have been determined by our Company after taking into account (a) the historical amounts of sales by our Group to Huazhang Automation (Zhejiang) during the Track Record Period; and (b) the estimated annual growth of 5% of our Group’s sales of industrial automation systems to Huazhang Automation (Zhejiang).

Given that the highest relevant percentage ratio of the transactions contemplated under the Master Supply Agreement is, on an annual basis, more than 1% but less than 5%, the continuing connected transactions contemplated under the Master Supply Agreement will be subject to the reporting, announcement and the annual review requirements under the GEM Listing Rules.

Purchases from Huazhang Automation (Zhejiang) by our Group

During the Track Record Period, the raw materials purchased from Huazhang Automation (Zhejiang) by our Group accounted for approximately HK\$54.9 million, HK\$67.9 million and HK\$31.2 million for the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012 respectively, representing approximately 44.1%, 42.3% and 36.9% of our total purchases for the same period respectively. The raw materials we purchased from Huazhang Automation (Zhejiang) were the Branded Industrial Automation Products, which mainly included inverter, control panel and power source equipment, as well as other hardware and components.

CONTINUING CONNECTED TRANSACTIONS

On 6 May 2013, our Group entered into a master purchase agreement (the “Master Purchase Agreement”) with Huazhang Automation (Zhejiang), pursuant to which we engage Huazhang Automation (Zhejiang) for the provision of the Branded Industrial Automation Products and other hardware and components in accordance with specifications provided by our Group to Huazhang Automation (Zhejiang) from time to time. The prices for providing the Branded Industrial Automation Products and other hardware and components shall be determined on a case by case and an arm’s length basis, with reference to prevailing market price of similar or comparable products and mutually agreed by both parties. The Master Purchase Agreement has an initial term commencing from the Listing Date to 30 June 2015. Our Directors, including our independent non-executive Directors, are of the view that the Master Purchase Agreement was entered into in the ordinary and usual course of business of our Group and on normal commercial terms.

Huazhang Automation (Zhejiang) is the designated distributor for the Branded Industrial Automation Products, which usually offers parts and components for industrial automation systems, in particular the Branded Industrial Automation Products, at more competitive prices compared to other brands’ distributors. We will be required to obtain a prior written approval if we were to purchase the Branded Industrial Automation Products from another authorised distributor. It is proposed that the annual caps for the fees received under the Master Purchase Agreement will amount to approximately HK\$68.0 million, HK\$64.6 million and HK\$61.4 million respectively for each of the three financial years ending 30 June 2015 respectively. Such annual caps have been determined by our Company after taking into account (a) the historical amounts of purchase by our Group from Huazhang Automation (Zhejiang) during the Track Record Period; and (b) our intention to reduce our reliance on Huazhang Automation (Zhejiang) in the future and hence an annual decrease of 5% in demand for the Branded Industrial Automation Products and other hardware and components from Huazhang Automation (Zhejiang) as raw materials of our Group.

Given that the highest relevant percentage ratio in respect of the transactions contemplated under the Master Purchase Agreement is, on an annual basis, more than 25% and its annual consideration exceeds HK\$10 million, the continuing connected transactions contemplated under the Master Purchase Agreement will be subject to the reporting, annual review, announcement and independent Shareholders’ approval requirements under the GEM Listing Rules.

Waiver for the continuing connected transactions from the Stock Exchange

Our Directors (including our independent non-executive Directors) are of the view that the continuing connected transactions under the Master Supply Agreement and the Master Purchase Agreement have been and shall be (a) entered into in the ordinary and usual course of business of our Group; (b) on normal commercial terms and are fair and reasonable and in the interests of our Group and our Shareholders as a whole; and (c) the annual cap amounts are fair and reasonable and in the interests of our Group and our Shareholders as a whole.

CONTINUING CONNECTED TRANSACTIONS

Our Directors (including our independent non-executive Directors) are of the view that the prices and terms in relation to the Master Supply Agreement and Master Purchase Agreement offered to/by Huazhang Automation (Zhejiang) to us are or shall be of no less favourable than those offered to/by Huazhang Automation (Zhejiang) to Independent Third Parties, and are also no less favourable to us than those obtainable by our Group from Independent Third Parties.

Under the GEM Listing Rules, the continuing connected transactions contemplated under the Master Supply Agreement and the Master Purchase Agreement will be subject to the reporting, announcement, annual review and independent Shareholders' approval requirements. As the Master Supply Agreement and the Master Purchase Agreement were entered into prior to the Listing Date, details of which have been fully disclosed in this prospectus and the transactions contemplated thereunder are expected to continue on a recurring basis, our Directors consider that compliance with the announcement and independent Shareholders' approval requirements would be unduly burdensome, impractical as well as imposing additional administrative costs to our Company. Accordingly, our Company has, pursuant to Rule 20.42(3) of the GEM Listing Rules, applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with the announcement and independent Shareholders' approval requirements relating to the continuing connected transactions contemplated under the Master Supply Agreement and the Master Purchase Agreement. In addition, our Directors confirm that our Company will comply with the applicable provisions under Rules 20.35(1), 20.35(2), 20.36 to 20.40 of the GEM Listing Rules.

Confirmation from the Sole Sponsor

The Sole Sponsor is of the view that the continuing connected transactions contemplated under the Master Supply Agreement and the Master Purchase Agreement for which waiver is sought (a) have been and shall be entered into in the ordinary and usual course of business of our Company, on normal commercial terms, are fair and reasonable and in the interests of our Group and our Shareholders as a whole; and (b) the proposed annual caps for the continuing connected transactions under the Master Supply Agreement and the Master Purchase Agreement are fair, reasonable and in the interests of our Group and our Shareholders as a whole.