

CONNECTED TRANSACTIONS

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

During the Track Record Period, the Group has entered into transactions with a connected person of the Company. Following completion of the [REDACTED], the Group will continue to have certain transactions which are conducted in its ordinary and usual course of business, and constitute non-exempt continuing connected transactions of the Group pursuant to the GEM Listing Rules.

Framework Subcontracting Agreement entered between the Company and Kin Kwan

(a) Background and the principal terms

Kin Kwan is sole proprietorship owned by Mr. Wong Kang Hong, being the younger brother of Mr. Wong, the executive Director and a Controlling Shareholder. Kin Kwan is an approved subcontractor on the Group’s approved list of subcontractors and was a top five subcontractor of the Group for the two years ended 31 December 2013 and 2014. Prior to and during the Track Record Period, the Group has engaged Kin Kwan as subcontractor through tendering for the provision of fitting-out works in some of the Group’s projects. As at the Latest Practicable Date, there were one contract entered into between the Group and Kin Kwan which is expected to continue after the [REDACTED], the total outstanding contract sum of which amounted to approximately HK\$171,800 as at the Latest Practicable Date.

On [10 August 2015], the Company and Kin Kwan entered into a framework subcontracting agreement, pursuant to which the Group may engage Kin Kwan as subcontractor for the provision of fitting-out works pursuant to the terms and conditions thereunder with effect from [10 August 2015] and ending on 31 December 2017 (the “**Framework Subcontracting Agreement**”).

Under the Framework Subcontracting Agreement, the Company and its subsidiaries may invite Kin Kwan for tendering for the provision of the relevant services. The Group will generally select the most suitable subcontractor from the approved list of subcontractors based on their relevant skillsets and experience, subject to their availability and fee quotations. The Group is not bound to engage Kin Kwan for tenders submitted by it and may engage other subcontractors.

In the event that the Group accepts the tender provided by Kin Kwan, the Group will acknowledge Kin Kwan about its acceptance of Kin Kwan’s tender by placing a job order with Kin Kwan. Kin Kwan shall carry out the works and the Group shall pay the service fees to Kin Kwan in accordance with the relevant tender.

(b) Historical transaction amounts

The amounts received by Kin Kwan from the Group in respect of their transactions during the Track Record Period are set out as follows:

Year ended 31 December		Three-month period ended 31 March	
2013	2014	2014	2015
<i>(HK\$’000)</i>	<i>(HK\$’000)</i>	<i>(HK\$’000)</i>	<i>(HK\$’000)</i>
		(Unaudited)	
3,607	5,399	1	24

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(c) Reasons of and benefits for entering into the Framework Subcontracting Agreement by the Company

Kin Kwan is a registered minor works contractor for Class II and Class III minor works under the minor works control system governed by the Building (Minor Works) Regulation in Hong Kong. Kin Kwan has been one of the Group's subcontractors since 2011. Taking into account that (i) the Group has engaged Kin Kwan as subcontractor for the provision of fitting-out works in some of the Group's projects in the past; and (ii) the works provided by Kin Kwan to the Group in the past were satisfactory in general, the Directors consider that retaining Kin Kwan in the Group's approved list of subcontractors would provide the Group with an additional choice of subcontractor with prior business relationship. The Framework Subcontracting Agreement would also allow the Group to ensure the existing and future engagements with Kin Kwan are in compliance with the requirements under Chapter 20 of the GEM Listing Rules.

(d) Pricing basis

It is expected that the fees specified in the tenders by Kin Kwan shall be determined with references to, among others, the requirements of the Group in respect of the fitting-out works to be carried out, the prevailing market prices of materials and subcontracting services for the carrying out the fitting-out works, the fee level in the market and competitive conditions at the relevant times, and any other factors which may affect the fees at the material times.

(e) Amount and basis of annual caps

Under the Framework Subcontracting Agreement, the annual caps of the transaction amount between the Group and Kin Kwan are stipulated as follows:

Period	Annual cap (HK\$)
Year ending 31 December 2015	\$5,500,000
Year ending 31 December 2016	\$6,000,000
Year ending 31 December 2017	\$6,500,000

In determining the proposed annual caps, the Company has taken into account the historical transaction amounts for the two years ended 31 December 2014 and the potential growth of business of the Group.

(f) GEM Listing Rules requirements relating to the Framework Subcontracting Agreement

Mr. Wong Kang Hong is the younger brother of Mr. Wong, the executive Director and a Controlling Shareholder. Accordingly, Mr. Wong Kang Hong (and thus Mr. Wong Kang Hong trading as Kin Kwan) is a connected person of the Company under Rule 20.10(2)(a) of the GEM Listing Rules.

Given all applicable percentage ratios (other than profits ratio), as defined under the GEM Listing Rules, are expected to exceed 5% but less than 25% and the total annual consideration is expected to be less than HK\$10,000,000, the transactions contemplated under the Framework Subcontracting

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Agreement are subject to the reporting, announcement and annual review requirements, but is exempt from the circular and independent shareholders' approval requirements, pursuant to Rule 20.74(2) of the GEM Listing Rules.

Application for waivers from the Stock Exchange

Under Rule 20.74(2) of the GEM Listing Rules, the continuing connected transactions to be carried out pursuant to the Framework Subcontracting Agreement would require compliance with the reporting, announcement and annual review requirements.

Given the recurring nature of the transactions pursuant to the Framework Subcontracting Agreement after the Listing, the Directors consider that strict compliance with the reporting, announcement and annual review requirements would be impractical and unduly burdensome and would impose unnecessary administrative costs on the Company. Further, the fact that the continuing connected transactions pursuant to the Framework Subcontracting Agreement entered into prior to the Listing application will be fully disclosed in this document means that the purpose of public dissemination of information will be duly served.

Accordingly, the Company has applied to the Stock Exchange for [,and the Stock Exchange has granted] a waiver pursuant to Rules 20.103 of the GEM Listing Rules of the strict compliance with the GEM Listing Rules for the continuing connected transactions carried out pursuant to the Framework Subcontracting Agreement, subject to the following conditions:

- (a) the annual caps for such continuing connected transactions as stipulated above will not be exceeded; and
- (b) the Company will comply with other applicable requirements under Chapter 20 of the GEM Listing Rules.

If any of the material terms of the continuing connected transactions under the Framework Subcontracting Agreement are altered, or any future amendment to the GEM Listing Rules imposing more stringent requirements than those as of the date of the grant of the waiver of the continuing connected transactions, the Company will take immediate steps to ensure compliance with such requirement within a reasonable time.

Confirmation from the Directors

The Directors (including the independent non-executive Directors) are of the opinion that the continuing connected transactions under the Framework Subcontracting Agreement have been and will be entered into in the ordinary and usual course of business of the Group and are on normal commercial terms or terms no less favourable to the Group than terms available to Independent Third Parties, are fair and reasonable and in the interests of the Shareholders as a whole, and that the proposed annual caps for the transactions under in the Framework Subcontracting Agreement are fair and reasonable and in the interests of the Shareholders as a whole.

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Confirmation from the Sponsor

The Sponsor has reviewed the relevant documents, information and historical figures provided by the Company and participated in due diligence and discussions with the Company. The Sponsor is of the view that the continuing connected transactions under the Framework Subcontracting Agreement have been entered into and will be carried out in the ordinary and usual course of business of the Group and are on normal commercial terms or terms no less favourable to the Group than terms available to Independent Third Parties, are fair and reasonable and in the interests of the Shareholders as a whole, and that the proposed annual caps under the Framework Subcontracting Agreement are fair and reasonable and in the interests of the Group and the Shareholders as a whole.

EXEMPT CONTINUING CONNECTED TRANSACTIONS

The continuing connected transactions below are exempt from the reporting, annual review, announcement, circular and independent shareholders’ approval requirements pursuant to Rule 20.74(1) of the GEM Listing Rules.

Tenancy Agreements

(a) Background of the transactions

As at the Latest Practicable Date, the Group has occupied Workshops No. B2, B4, B6, B8 and B10 on the 6th Floor of Block B, Tonic Industrial Centre, 19 Lam Hing Street, Kowloon (the “**Property**”) as its head office in Hong Kong. The Group has been using part of the Property as its office since 5 July 2010. Details of the Property are set out in the section “Business — Properties” in this document.

During the Track Record Period and as at 31 March 2015, Lap Kei owned Workshop No. B2, Wealth E & M owned Workshop No. B4, Mr. Wong owned Workshops No. B6 and B10, and Ms. So owned Workshop No. B8.

During the Track Record Period, Lap Kei rented Workshops No. B6 and B10 from Mr. Wong and Workshop No. B8 from Ms. So, respectively, at a monthly rental ranging from HK\$10,000 to HK\$12,000 per workshop. No tenancy agreement has been entered into between Lap Kei and each of Mr. Wong and Ms. So. The annual rental paid by Lap Kei to Mr. Wong and Ms. So, respectively, in relation to the tenancies of Workshops no. B6, B8 and B10 for the two years ended 31 December 2013 and 2014 and the three-month period ended 31 March 2015 amounted to approximately HK\$414,000, HK\$432,000 and HK\$108,000, respectively.

The rental for the respective workshops was arrived at after arm’s length negotiations between Lap Kei and each of Mr. Wong and Ms. So with reference to prevailing market rental of the surrounding comparable premises in the vicinity of the Property. The Sponsor concurred with the Directors’ view that such monthly rental was arrived at after arm’s length basis and was on terms no less favourable to the Group than terms available from Independent Third Parties.

On 29 May 2015, each of Lap Kei and Wealth E & M as vendor entered into a memorandum of agreement for sale and purchase for the disposals of Workshops No. B2 and B4, respectively, to LKW Co. as purchaser. For details, please refer to the section “Business — Properties” in this document.

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(b) Proposed Tenancy Agreements to be entered by the subsidiaries of the Group

The Group intends to enter into the following tenancy agreements with effect from [13 July] 2015 and ending 31 December 2017: (i) tenancy agreement between Lap Kei as tenant and LKW Co. as landlord in relation to the lease of Workshop No. B2; (ii) tenancy agreement between Wealth E & M as tenant and LKW Co. as landlord in relation to the lease of Workshop No. B4; (iii) tenancy agreement between Lap Kei as tenant and Mr. Wong as landlord in relation to the lease of Workshop No. 6; (iv) tenancy agreement between Lap Kei as tenant and Ms. So as landlord in relation to the lease of Workshop No. B8; and (v) tenancy agreement between Lap Kei as tenant and Mr. Wong as landlord in relation to the lease of Workshop No. 10 (together the “**Tenancy Agreements**”).

(c) Proposed annual caps and basis of determination

The Group expects the annual caps for the rental (excluding management fees, rates and government rent) payable by it to LKW Co., Mr. Wong and Ms. So, respectively, for each of the three years ending 31 December 2017 under respective Tenancy Agreements are set out as below:

	Proposed annual cap		
	Year ending 31 December		
	2015	2016	2017
	<i>(HK\$)</i>	<i>(HK\$)</i>	<i>(HK\$)</i>
Property	606,000	933,600	933,600

The proposed annual caps with respect to the Tenancy Agreements are arrived at after arm’s length negotiation between the relevant parties under respective Tenancy Agreements, with reference to prevailing market rent of the surrounding comparable premises in the vicinity of the Property based on the Valuation Report prepared by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent valuer engaged by the Group.

The Directors consider that the Tenancy Agreements allow the Group to continue the use of the Property, part of which has been its office since 5 July 2010.

(d) GEM Listing Rules requirements relating to the Tenancy Agreement

Mr. Wong and Ms. So are the executive Directors and Controlling Shareholders, LKW Co. is a directly wholly-owned subsidiary of Golden Luck which is a Controlling Shareholder. Accordingly, each of Mr. Wong, Ms. So and LKW Co. is a connected person of the Company under Rule 20.07 of the GEM Listing Rules.

Given each of the applicable percentage ratios (other than profits ratio), as defined under the GEM Listing Rules, in respect of the Tenancy Agreements is, on an annual basis, expected to be less than 5% and the total annual consideration is less than HK\$3,000,000 for the three years ending 31 December 2017, the Tenancy Agreements are exempt from the reporting, announcement, annual review, circular and independent shareholders’ approval requirements under Chapter 20 of the GEM Listing Rules.