

CONNECTED TRANSACTIONS

OVERVIEW

During the Track Record Period, the Group entered into certain transactions with the connected persons of the Company. Several transactions are not expected to continue after the [REDACTED] whilst the rest will continue and constitute continuing connected transactions (as defined under Chapter 20 of the GEM Listing Rules) of the Company upon the [REDACTED]. Set out below is a summary of the discontinued connected transactions and continuing connected transactions:

Item	Type	Connected person	Nature of transactions	Connected transaction historical amounts	
				Year ended 31 March	
				2014	2015
				HK\$'000	HK\$'000
1	Discontinued connected transaction	Wonder Asia Development Limited 冠亞發展有限公司 (“Wonder Asia”)	Lease of premises by KPa Engineering from Wonder Asia	348	348
2	Discontinued connected transaction	Hillford	Identify potential suppliers in the PRC for the Group	140	140
3	Exempt continuing connected transaction	BuildMax (SZ)	Lease of premises by BuildMax (SZ) as lessor to KPa (SZ) as lessee	Nil	Nil
4	Non-exempt continuing connected transaction	BuildMax (SZ)	Supply and sale of building material products to the Group	14,514	11,886

RELATIONSHIP BETWEEN THE GROUP AND THE CONNECTED PERSONS

The following entities will be connected persons of the Company under the GEM Listing Rules upon [REDACTED].

Wonder Asia

Wonder Asia is a limited liability company incorporated in Hong Kong which is principally engaged in property holding. It is owned as to 50.0% by Mr. Wai and 50.0% by Ms. Wu.

Mr. Wai is an executive Director and a Controlling Shareholder. Ms. Wu is the spouse of Mr. Wai. As each of Mr. Wai and Ms. Wu is holding more than 30.0% shareholding interests in Wonder Asia, Wonder Asia is therefore considered as an associate of Mr. Wai and Ms. Wu and a connected person of the Company under Chapter 20 of the GEM Listing Rules.

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Hillford

Hillford is a company incorporated in Hong Kong with limited liability which is, as at the Latest Practicable Date, an investment holding company holding 75.0% of the equity interest of BuildMax (SZ). Hillford is owned as to approximately 26.7% by Mr. Lui, approximately 26.7% by Mr. Wai, approximately 26.7% by Mr. Yip, approximately 15.0% by Mr. Liu and approximately 5.0% by Mr. Chan.

As (i) Mr. Lui, Mr. Wai and Mr. Yip are executive Directors and Controlling Shareholders and hence are connected persons of the Company; and (ii) Mr. Lui, Mr. Wai and Mr. Yip together hold over 30.0% shareholding interest in Hillford, Hillford is therefore considered as an associate of Mr. Lui, Mr. Wai and Mr. Yip and a connected person of the Company under Chapter 20 of the GEM Listing Rules.

BuildMax (SZ)

BuildMax (SZ) is a sino-foreign equity joint venture enterprise established in the PRC which is principally engaged in (i) the processing, fabrication and manufacturing of building material products in the PRC; and (ii) the sales and supply of building material products predominantly to the Group in Hong Kong and to customers in the PRC. It is owned as to 75.0% by Hillford and 25.0% by an Independent Third Party.

As (i) Hillford is, by reasons aforementioned, a connected person of the Company; and (ii) over 30.0% equity interest of BuildMax (SZ) is held by Hillford, BuildMax (SZ) is therefore considered as an associate of Mr. Lui, Mr. Wai and Mr. Yip and a connected person of the Company under Chapter 20 of the GEM Listing Rules.

DISCONTINUED CONNECTED TRANSACTIONS

During the Track Record Period and up to the Latest Practicable Date, the Group had the following transactions with the connected persons of the Company. These transactions are not expected to continue after [REDACTED].

1. Identification service fees paid to Hillford

During the Track Record Period, the Group had engaged Hillford to identify potential building material products suppliers in the PRC as the Group did not retain any procurement team in the PRC. During the Track Record Period, the amount of procurement by the Group assisted by Hillford amounted to HK\$3.5 million and HK\$2.8 million, representing approximately 4.8% and 3.9% of the Group's total material and processing charges, respectively. In view of setting up KPa (SZ) in Shenzhen in March 2015 and KPa (SZ) have recruited two experienced staff for its procurement needs since its commencement of business, the Directors considered that KPa (SZ) would be able to take up the role of Hillford to identify potential suppliers in the PRC and therefore terminated the business relationship with Hillford. Given that (i) Hillford was only engaged to identify potential suppliers for the Group during the Track Record Period; and (ii) all the purchase orders were in fact placed by the Group onto the suppliers directly, the Directors considered that the termination of business relationship between Hillford and the Group has no material adverse impact on the existing business operation of the Group. There was no long term agreement entered into between Hillford and the Group. Instead, at the end of each calendar year, Hillford would issue to the Group debit notes in the aggregate fixed sum of

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HK\$140,000, representing the service charge for identification of potential building material products suppliers in the PRC during the year. As a result, Hillford charged against the Group an aggregate of HK\$140,000 and HK\$140,000 for the years ended 31 March 2014 and 2015 respectively. The Directors considered the fees charged by Hillford to be reasonable, fair and on normal commercial terms.

The Group no longer engaged Hillford to provide the identification service after 31 December 2014, and the Group ceased to have any business relationship with Hillford thereafter.

2. Lease between KPa Engineering and Wonder Asia

On 1 April 2013, KPa Engineering as tenant and Wonder Asia as landlord entered into a lease agreement for the leasing of the property located at Flat A, Level 12 of Block 5, Peak One, 63 Mei Tin Road, Shatin, New Territories, Hong Kong for a term of two years from 1 April 2013 to 31 March 2015 at a monthly rent of HK\$29,000 exclusive of management fees, rates, government rent and property tax. The Directors and the Sponsor considered that the terms of the lease agreement were fair and reasonable and on normal commercial terms.

The lease agreement was not renewed upon its expiry on 31 March 2015 and the Group ceased to have any business relationship with Wonder Asia thereafter.

EXEMPTED CONTINUING CONNECTED TRANSACTIONS

Upon [REDACTED], the following transaction will be regarded as exempted continuing connected transactions of the Group under Chapter 20 of the GEM Listing Rules.

3. The PRC Lease Agreement

On 14 July 2015, BuildMax (SZ) as lessor and KPa (SZ) as lessee entered into the lease agreement (the “**PRC Lease Agreement**”) for the leasing of the property located at Unit 1508, Reith International Building, Luohu District, Shenzhen City, Guangdong Province, PRC for a term commencing from 14 July 2015 to 31 March 2018 at a monthly rent of RMB16,300 exclusive of building management fee, property taxes and other expenses.

Upon the expiry of the term mentioned above, if KPa (SZ) wishes to renew the lease, it shall give BuildMax (SZ) a written notice one month prior to the expiry of such term. KPa (SZ) will be given the priority to renew the lease in case the terms offered by the Group and other potential leases are the same.

The monthly rental of RMB16,300 was determined after arm length’s negotiations between the parties with reference to the then prevailing market conditions and the rental rate of similar properties in the vicinity. The independent property valuer has reviewed the PRC Lease Agreement and confirmed that the rent payable under the PRC Lease Agreement is fair and reasonable and is consistent with prevailing market rates for similar premises in similar locations and consistent with the terms of the PRC Lease Agreement, which are on normal commercial terms.

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The PRC Lease Agreement will continue after [REDACTED]. It is proposed that the annual caps for the rental payable under the PRC Lease Agreement will be RMB195,600 for each of the three years ending 31 March 2018. The annual caps were arrived with reference to the actual rental payable under the PRC Lease Agreement.

As each of the applicable percentage ratio(s) (as defined in Rule 19.07 of the GEM Listing Rules) (other than the profit ratio) with respect to the transaction contemplated under the PRC Lease Agreement is on an annual basis less than 5% and the annual consideration is less than HK\$3,000,000, the transaction is fully exempt from the reporting, annual review, announcement and independent shareholders’ approval requirements under Chapter 20 of the GEM Listing Rules. Should the annual rental payable exceeds the relevant threshold, the Company will comply with the GEM Listing Rules where applicable.

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

Upon [REDACTED], the following transaction will be regarded as non-exempt continuing connected transactions of the Group under Chapter 20 of the GEM Listing Rules.

4. The Master Supply Agreement

Background and principal terms

During the Track Record Period, BuildMax (SZ) supplied and sold building material products to the Group. There was no long-term agreement between the Group and BuildMax (SZ) and the Group placed purchase orders with BuildMax (SZ) on separate occasions with relevant purchase price agreed between the parties after arm’s length negotiation from time to time.

On 15 September 2015, the Company (for itself and other group companies) entered into a master supply agreement (the “**Master Supply Agreement**”) with BuildMax (SZ), pursuant to which BuildMax (SZ) agreed to sell and/or supply and the Company (for itself and other group companies) agreed to purchase on a non-exclusive basis building material products, which have been processed, fabricated or manufactured by BuildMax (SZ) in accordance with the specifications provided by the Group at the purchase price set out in each individual purchase order (the “**Purchaser Order**”) as may from time to time be offered by the Group and accepted by BuildMax (SZ).

The purchase price in each Purchase Order placed by the Group to BuildMax (SZ) include (i) the cost of the raw materials procured by BuildMax (SZ); and (ii) the fees charged by BuildMax (SZ) for the processing, fabricating or manufacturing of the building material products in accordance with the specifications provided by the Group. The purchase price shall be determined after arm’s length negotiations between BuildMax (SZ) and the Group from time to time with reference to the then prevailing market price of similar products in the market and that in any event shall be no less favourable to the Group than that offered to Independent Third Parties by BuildMax (SZ). The Directors confirmed that the transactions with BuildMax (SZ) during the Track Record Period were (i) conducted on normal commercial terms; (ii) carried out in the Group’s ordinary and usual course of business; and (iii) fair and reasonable, and in the interest of the Shareholders as a whole.

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The terms of the Master Supply Agreement commenced on the [REDACTED] and will expire on 31 March 2018. Either party may terminate the Master Supply Agreement by serving a notice of not less than three months to the other.

Reasons for and benefits of entering into the Master Supply Agreement by the Company

BuildMax (SZ) had been supplying building material products to the Group since 2011 for the Group’s (i) design and build business and (ii) building material product trading business. Taking into account (i) the building material products supplied by BuildMax (SZ) in the past were good quality in general; and (ii) the stable business relationship between BuildMax (SZ) and the Group, the Directors consider that the entering into the Master Supply Agreement with BuildMax (SZ) would allow the Group to maintain a stable supply of building material products for its businesses. Further, the Directors confirmed that the terms of the Master Supply Agreement are fair and reasonable, on normal commercial terms and in the interest of the Group and the Shareholders as a whole.

Annual caps for the three financial years ending 31 March 2018

The relevant historical transaction amounts paid by the Group to BuildMax (SZ) for the supply and sale of building material products for the two years ended 31 March 2015 were approximately HK\$14.5 million and HK\$11.9 million, respectively. The Directors estimate that the annual amount payable by the Group to BuildMax (SZ) under the Master Supply Agreement for the three years ending 31 March 2018 will not exceed HK\$15.0 million, HK\$15.0 million and HK\$15.0 million, respectively. In determining the annual caps, the Directors have considered (i) the historical transaction amounts for the purchase of building material products from BuildMax (SZ) for the two years ended 31 March 2015; (ii) the future expansion of the Group’s business which is expected to result in the increase in demand for building material products; and (iii) the expected increase in the prices of building material products for the three years ending 31 March 2018.

GEM Listing Rules Implication

Since the applicable percentage ratios (as defined in Rule 19.07 of the GEM Listing Rules) (other than the profit ratio) for the transaction contemplated under the Master Supply Agreement for each of the three financial years ending 31 March 2018 will exceed 5% on an annual basis and the annual consideration is more than HK\$10 million, the exemptions for de minimis transaction under Rule 20.24 of the GEM Listing Rules are not applicable to the transactions under the Master Supply Agreement and they are therefore subject to the reporting, annual review, announcement, circular and independent shareholders’ approval requirement under Chapter 20 of the GEM Listing Rules.

Waiver from the Stock Exchange

Given that the Master Supply Agreement will be carried out following [REDACTED] on a recurring basis, the Directors consider that it would be unduly burdensome and impracticable, and would increase the Company’s administrative costs if the continuing connected transaction under the Master

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Supply Agreement is subject to strict compliance with the requirements set out under Chapter 20 of the GEM Listing Rules, including, among other things, the requirement for publishing an announcement and obtaining approval of the independent Shareholders.

Accordingly, the Company has applied to the Stock Exchange for a waiver pursuant to Rule 20.103 of the GEM Listing Rules to exempt the transactions under the Master Supply Agreement from strict compliance with the relevant announcement and independent shareholders’ approval requirements for the three years ending 31 March 2018, subject to the following conditions:

- (a) the annual cap amounts for the continuing connected transactions under the Master Supply Agreement for each of the three years ending 31 March 2018 as stated above will not be exceeded;
- (b) the Company will comply with the relevant requirements under Chapter 20 of the GEM Listing Rules in relation to the transaction under the Master Supply Agreement including the proposed annual caps set out above, and if any of material terms of such continuing connected transactions is altered and/or if the Group enters into any new continuing connected transactions with BuildMax (SZ) in the future resulting in the aggregate annual consideration paid or payable by the Group to BuildMax (SZ) in any of the three years ending 31 March 2018 exceeds any of the proposed annual caps set out above, the Company will issue an announcement, circular and seek independent shareholders’ approval regarding this alteration and/or the new cap for compliance with the applicable requirements under Chapter 20 of the GEM Listing Rules;
- (c) upon expiry of the waiver granted for the period ending 31 March 2018 for the Master Supply Agreement, the Company will comply with the relevant requirements under Chapter 20 of the GEM Listing Rules; and
- (d) in the event of any further amendments to the GEM Listing Rules which impose more stringent requirements than those as of the date of this submission on the continuing connected transactions, the Company will take appropriate steps to ensure compliance with such requirement within a reasonable time.

The Stock Exchange has granted the waiver set out above.

CONFIRMATION FROM THE DIRECTORS

The Directors (including the independent non-executive Directors) confirmed that the continuing connected transactions under the PRC Lease Agreement and the Master Supply Agreement as described above have been entered into in the ordinary and usual course of business of the Group and have been based on arm’s length negotiations and on normal commercial terms that are fair and reasonable, the respective terms of the PRC Lease Agreement and the Master Supply Agreement and their respective annual caps as mentioned above 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 has participated in due diligence and discussions with the Company and its legal advisers. Based on the above, the Sponsor is of the view that the continuing connected transactions under the PRC Lease Agreement and the Master Supply Agreement (i) have been entered into in the ordinary and usual course of business of the Group; (ii) are on normal commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole; and (iii) the respective proposed annual caps for the continuing connected transactions under the PRC Lease Agreement and the Master Supply Agreement are fair and reasonable and in the interest of the Company and the Shareholders as a whole.