

RELATIONSHIP WITH JOINT SURPLUS

BACKGROUND OF JOINT SURPLUS

Corporate history of Joint Surplus

Joint Surplus was incorporated in Hong Kong as a private limited company on 26 September 2001. As at 10 October 2011, Joint Surplus was owned equally by Ms. Li Chuen Chun and Ms. Kwong Wing Yee. Ms. Li is the spouse of Mr. Kwong, our executive Director and Controlling Shareholder, and Ms. Kwong is the daughter of Mr. Kwong.

On 1 April 2011, Mr. Jason Yip acquired the entire issued capital of Joint Surplus from Ms. Li and Ms. Kwong at a nominal consideration (the “**Acquisition**”) with a view to using Joint Surplus as his vehicle to develop his own business with his own skill set, network, and customer base in the car park flooring industry. Immediately before the Acquisition, Joint Surplus was a dormant company.

Mr. Jason Yip subsequently disposed of his entire interests in Joint Surplus in 2013 and 2015 to dedicate more time and effort to our Group. On 17 December 2013, Mr. Jason Yip transferred 80% of the entire issued share capital of Joint Surplus to Ms. Ke at a nominal consideration. On 26 July 2015, Mr. Jason Yip further transferred his remaining 20% of the entire issued share capital of Joint Surplus to Ms. Ke at HK\$4.00. Ms. Ke then became the sole shareholder and sole director of Joint Surplus. The considerations of the said transfers were based on par value of Joint Surplus’ shares. As advised by Mr. Jason Yip, he transferred his shares to Ms. Ke at nominal consideration due to the following:

- (i) There would be minimal business activity in Joint Surplus after he disposed of his interest;
- (ii) As at 31 March 2015, taken into account payables to be made, Joint Surplus had minimum cash holding; and
- (iii) As at 26 July 2015, Joint Surplus only had two contracts on hand, namely (a) additional cleaning work to be conducted for a residential development in Ping Shan, which involved a contract sum of below HK\$60,000, and (b) flooring work for a residential development in Ho Man Tin which would only contribute minimal profit.

Although Ms. Ke is an Independent Third Party, she was one of the first directors and shareholders of KMK and she had joint property investments in Hong Kong with Mr. Kwong and Mr. Jason Yip respectively. For details on Ms. Ke’s relationship with KMK, please refer to the section headed “History, Development, Reorganisation and Corporate Structure” in this document.

Business of Joint Surplus

While Mr. Jason Yip was a shareholder of Joint Surplus during the period from 1 April 2011 to 26 July 2015, Joint Surplus was a subcontractor providing car park flooring works by sub-subcontracting the work to us. Its direct customers included main contractors, and upper tier subcontractors.

RELATIONSHIP WITH JOINT SURPLUS

The following table shows the revenue of Joint Surplus for each of the four years ended 31 March 2012, 2013, 2014 and 2015 (before Mr. Jason Yip’s relinquishment of his shares and directorship in Joint Surplus in July 2015):

For the year ended	Revenue (HK\$’000)
31 March 2012	1,787
31 March 2013	4,423
31 March 2014	10,720
31 March 2015	7,951

RELATIONSHIP BETWEEN OUR GROUP AND JOINT SURPLUS

Mr. Jason Yip’s role as our consultant

Mr. Jason Yip was a shareholder of Joint Surplus during the period from 1 April 2011 to 26 July 2015, and director of Joint Surplus during the period from 1 April 2011 to 13 July 2015. Meanwhile, Mr. Jason Yip was engaged by us as a part time consultant during the period from 1 April 2009 to 31 July 2015 for a monthly fee commensurate with his time spent with KMK. Mr. Kwong, our director during that period, was fully aware of the fact that Mr. Jason Yip was operating Joint Surplus while he was our part time consultant.

Mr. Jason Yip’s main responsibility as our consultant was to conduct marketing work, which involved connecting with suppliers of car park flooring materials that are suitable for the Hong Kong market, promoting the use of certain car park flooring materials on our behalf to architects who are responsible for the products and services specifications of new construction projects. In addition, Mr. Jason Yip assisted Mr. Kwong in project management. For further details on our marketing activities, please refer to the paragraph headed “Sales and marketing” in this section.

The table below sets out the amount of consultancy fee paid to Mr. Jason Yip during the period that he was our consultant:

Period	Consultancy fee paid to Mr. Jason Yip (HK\$)
1 April 2009 – 31 March 2010	445,000
1 April 2010 – 31 March 2011	664,500
1 April 2011 – 31 March 2012	249,000
1 April 2012 – 31 March 2013	120,000
1 April 2013 – 31 March 2014	155,000
1 April 2014 – 31 March 2015	180,000
1 April 2015 – 31 July 2015	60,000

RELATIONSHIP WITH JOINT SURPLUS

We confirm that during the period from 1 April 2011 to 26 July 2015 when Mr. Jason Yip was the shareholder and director of Joint Surplus, it was agreed between our Group and Mr. Jason Yip that when Joint Surplus was invited to submit a tender, Mr. Jason Yip would notify us and would only participate in the tender when we expressed no objection to it to do so, and when we had not objected to Joint Surplus in participating in a tender when both our Group and Joint Surplus were invited to tender, Mr. Jason Yip would refrain from taking part in our entire tendering process, ranging from tender preparation to tender interview and submission of final offer. Mr. Jason Yip would handle the tendering process for Joint Surplus, and Mr. Kwong would handle the tendering process for us independently. They would not discuss the details of the tenders with each other and they would be separately identified as representing each of Joint Surplus and our Group.

At the time Mr. Jason Yip started up his own business with Joint Surplus in April 2011, Mr. Kwong envisaged that Mr. Jason Yip would be entitled to 30% shares in KMK pursuant to the Share Option Agreement, given KMK's increasing business volume and reputation in the car park flooring market at the time. As such, Mr. Jason Yip was allowed to continue to serve as our consultant and assisted us in managing projects, apart from promoting the use of the flooring materials of Supplier A and Supplier B within the industry. During the FY2015 and FY2016, consultancy fee we paid to Mr. Jason Yip were HK\$180,000 and HK\$60,000 respectively and such expenses was recorded under general and administrative expenses. Such amount did not form part of the compensation under the Share Option Agreement.

Mr. Kwong was of the view that, given the fact that Mr. Kwong and Mr. Jason Yip were recognised in the industry to represent KMK and Joint Surplus respectively and with the measures mentioned in the paragraph above, conflict of interests (if any) between us and Joint Surplus was manageable. In 2012, the condition upon which Mr. Jason Yip's share option could be exercised under the Share Option Agreement was fulfilled. In December 2013, in order to devote more time to promote our business, Mr. Jason Yip sold 80% of his shareholding in Joint Surplus to Ms. Ke. In July 2015, Mr. Jason Yip sold his remaining 20% interest to Ms. Ke after he exercised the share option for 30% shares in KMK and joined us as a full-time manager in August 2015.

Projects subcontracted to us by Joint Surplus

As at the Latest Practicable Date, we had five years of business relationship with Joint Surplus. During the Track Record Period, we provided car park flooring services as a subcontractor of Joint Surplus and recognised revenue amounted to approximately HK\$4.5 million and HK\$0.3 million from Joint Surplus for the two years ended FY2015 and FY2016 respectively. Joint Surplus was one of our top five customers for FY2015.

During the Track Record Period, we recognised gross profit of approximately HK\$1.7 million and HK\$0.1 million for the contracts subcontracted by Joint Surplus. In light of the contracts subcontracted to us by Joint Surplus resulted in similar range of project gross profit margins as the contracts awarded by our other customers, the Sponsor is of the view that those contracts were entered into in the ordinary and usual course of our business, on normal commercial terms that are fair and reasonable and in the interests of our Company and the Shareholders as a whole.

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Had we excluded revenue from Joint Surplus from the Track Record Period, our revenue would have been HK\$38.3 million and HK\$68.3 million respectively during the Track Record Period. Similarly, our gross profit would have been HK\$17.1 million and HK\$32.5 million and profit before tax would have been HK\$11.4 million and HK\$20.8 million; whereas our operating cash flow before changes in working capital would have been HK\$11.4 million and HK\$20.8 million respectively.

The following table sets forth our projects with Joint Surplus that were completed by us during the Track Record Period and up to the Latest Practicable Date:

Project location	Project type	Property type	Scope of work	Commencement month/year	Completion month/year	Revenue recognised (HK\$'000)
Lodging facilities in Yau Ma Tei	Refurbishment	Lodging facility	Flooring	July 2014	November 2014	100
Residential and commercial development in Yuen Long	Refurbishment	Residential/ Commercial	Flooring	November 2014	March 2015	2,000
Residential development in Fanling	New construction	Residential	Flooring	September 2014	November 2014	600
Residential development in Hung Shui Kiu	New construction	Residential	Flooring	October 2014	December 2014	100
Residential development in Yuen Long	New construction	Residential	Flooring	March 2014	December 2014	1,500
Residential development in west Tsuen Wan	New construction	Residential	Flooring	March 2014	May 2014	200
Commercial development near Ocean Park	New construction	Commercial	Flooring	June 2014	June 2015	200
Residential development in Ping Shan	New construction	Residential	Flooring	October 2015	October 2015	100

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As at the Latest Practicable Date, we had the following remaining project on hand in which Joint Surplus was the direct customer:

Project location	Project type	Property type	Scope of work	Contract sum (HK\$'000) (note)	Commencement month/year	Expected completion month/year	Amount of revenue recognised during the Track Record Period (HK\$'000)
Residential development in Ho Man Tin	New construction	Residential	Flooring	4,956	Commenced in July 2016	Expected to complete in October 2016	Nil

Note: Contract sum refers to the contract amount stated in the original contract

For FY2012, FY2013, FY2014 and FY2015, the percentage of work subcontracted by Joint Surplus to our Group amounted to 2.1%, 5.5%, 17.3%, and 10.5% of our total revenue, respectively.

FUTURE RELATIONSHIP WITH JOINT SURPLUS

After Mr. Jason Yip’s disposal of his entire shareholding in Joint Surplus on 26 July 2015, Joint Surplus continued to complete all its projects-on-hand, the last one being the project in relation to a residential development in Ho Man Tin which was subcontracted to us on 18 May 2015. Ms. Ke, the sole shareholder and sole director of Joint Surplus as at the Latest Practicable Date, has undertaken to our Company that for as long as she is a director or shareholder of Joint Surplus, she and her close associates will not engage, have any interest in, or render any service to any business which competes or is likely to compete with the business currently and from time to time engaged in by our Group (including but not limited to the provision of flooring services and related services in Hong Kong). Ms. Ke has further undertaken to our Company that she will not conduct or cause to be conducted the business of Joint Surplus in such manner as to be in competition with our business in Hong Kong.