
CONNECTED TRANSACTIONS

OVERVIEW

The Group has entered into a transaction with an entity which will be regarded as a connected person of the Company upon Listing and such transactions will constitute a continuing connected transaction of the Company upon Listing under the GEM Listing Rules. Details of the transaction are set out below.

CONTINUING CONNECTED TRANSACTION

Tenancy agreement between Speed Apparel HK and Firenze Apparel

Background of the transaction

As part of the Reorganisation, on 31 December 2015, each of Speed Apparel and Firenze Apparel entered into Business Transfer Agreement 1 and Business Transfer Agreement 2, respectively, with Speed Apparel HK pursuant to which both Speed Apparel and Firenze Apparel ceased to operate the Speed Garment Business and Firenze Garment Business, respectively, and transferred all the rights and obligations, and assets and liabilities related specifically except for the Eldex Properties and Gemstar Property, to Speed Apparel HK. The Directors are of the view that with such exclusion the Group has benefited from nil stamp duty, greater flexibility in allocation of resources and better control of investment risks. For details of the business transfers, please refer to the section headed “History, Reorganisation and Corporate Structure — Business and corporate development” in this prospectus. On 7 March 2016, the Group leased the Gemstar Property with the saleable area of approximately 6,653 sq.ft. from Firenze Apparel. The Gemstar Property are used as godown together with ancillary office in Hong Kong. It is expected that the Group will continue to lease the Gemstar Property after Listing.

Tenancy agreement

On 7 March 2016, Speed Apparel HK, a subsidiary of the Company, entered into a Tenancy Agreement for the leasing of the Gemstar Property to the Company for a monthly rent of HK\$100,000 from 1 February 2016 to 31 January 2019 (both days inclusive). Pursuant to the Tenancy Agreement, Firenze Apparel agreed to pay management fee and government rates and rent. The monthly rent under the Tenancy Agreement was determined on an arm’s length basis between Speed Apparel HK and Firenze Apparel.

Historical transaction amounts

The total aggregate of rental paid by the Group under the Tenancy Agreement was HK\$200,000 for the year ended 31 March 2016.

Proposed annual cap on future transaction amounts

The annual rental paid and payable by the Group under the Tenancy Agreement will be HK\$1,200,000 for the year ending 31 March 2017, which is determined after arm’s length negotiation between the parties thereto by reference to the prevailing market rates.

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The independent property valuer of the Group has reviewed the Tenancy Agreement and conducted market search on the leasing market in Hong Kong. It has confirmed that the terms of the Tenancy Agreement, including the rental payable thereunder, are fair and reasonable and the rental payment thereunder reflects the prevailing market rate as at the date of the commencement of the Tenancy Agreement.

As such, the Directors consider that the leasing of the Gemstar Property by the Company from Firenze Apparel under the Tenancy Agreement is conducted in the ordinary and usual course of business of the Company and is on normal commercial terms which are fair and reasonable and in the interests of the Company and Shareholders as a whole.

GEM Listing Rules implications

Since Firenze Apparel is owned as to 100% by Mr. Chan, being an executive Director, the chief executive officer of the Company and a Substantial Shareholder, Firenze Apparel will become a connected person of the Company upon Listing under the GEM Listing Rules. As such, the leasing of the Gemstar Property by the Company from Firenze Apparel under the Tenancy Agreement will constitute a continuing connected transaction of the Company under Chapter 20 of the GEM Listing Rules upon Listing.

It is proposed that the annual caps for the rental payable under the Tenancy Agreement will be HK\$1.2 million, HK\$1.2 million and HK\$1.0 million for the two years ending 31 March 2018 and the 10 months ending 31 January 2019, respectively. Since, on an aggregate basis, each of the applicable ratios calculated with reference to Rule 19.07 of the GEM Listing Rules is expected to be less than 5% and the aggregate annual consideration is less than HK\$3,000,000, the transactions under the Tenancy Agreement fall within the de minimis threshold and constitute de minimis continuing connected transactions of the Company under Rule 20.74(1)(c) of the GEM Listing Rules. Accordingly, the Tenancy Agreement and the transactions contemplated thereunder will be exempted from the reporting, annual review, announcement, circular and independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules upon Listing.

CONFIRMATION FROM THE DIRECTORS

The Directors (including the independent non-executive Directors) consider that the Tenancy Agreement has been entered into in the ordinary and usual course of business and on normal commercial terms, and the terms of and transactions contemplated under the Tenancy Agreement and the annual caps set out above are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

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CONFIRMATION FROM SPONSOR

After review of the relevant documentation and historical figures provided by the Company, the Sponsor is of the opinion that the terms of the Tenancy Agreement and the transactions contemplated thereunder have been and will be entered into in the ordinary and usual course of business of the Company and on normal commercial terms which are fair and reasonable and in the interests of the Company and the Shareholders as a whole.