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## **BUILD KING HOLDINGS LIMITED**

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 00240)**

### **CONTINUING CONNECTED TRANSACTIONS**

Leader Marine, a wholly-owned subsidiary of the Company, has entered into a Framework Agreement with Grandeur Building, a wholly-owned subsidiary of Wai Kee, for the continuing provision of Transportation Service from time to time for a period from 1 March 2014 to 31 December 2016, subject to the terms and conditions of the Framework Agreement.

Wai Kee is a majority shareholder of the Company. Accordingly, Wai Kee is a substantial shareholder of the Company and therefore a connected person of the Company under the Listing Rules. The transaction under the Framework Agreement constitutes a continuing connected transaction for the Company.

As the applicable percentage ratios (as defined in the Listing Rules) in respect of the transactions under the Framework Agreement exceed 5%, the Framework Agreement is subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

A circular containing, among other things, (i) further details of the Framework Agreement; (ii) the recommendation from the Independent Board Committee to the Independent Shareholders; (iii) the letter of advice from the independent financial adviser to the Independent Board Committee and the Independent Shareholders; and (iv) the notice convening the SGM is expected to be despatched to the Shareholders on or before 20 February 2014. Wai Kee and its associates will abstain from voting on the resolution to approve the Framework Agreement at the SGM.

### **REASONS FOR THE CONTINUING CONNECTED TRANSACTIONS**

Wai Kee is an investment holding company and is principally engaged in civil engineering, toll road, property development, construction materials and quarrying. Its wholly-owned subsidiary, Grandeur Building, is primarily engaged in the trading of construction materials from the PRC to Hong Kong. Amongst other things, Grandeur Building sources aggregates from quarries in the PRC and supplies aggregates to the concrete batching plant owned by Wai Kee in Hong Kong.

The Company is an investment holding company and its group companies are principally engaged in the undertaking of construction projects in Hong Kong, the PRC and the Middle East and are also engaged in environmental and waste management and marine engineering. Its wholly-owned subsidiary, Leader Marine, is principally engaged in marine engineering and provision of transportation services and owns the Barge.

The Barge was chartered on a bareboat basis from Leader Marine to, and operated by a joint venture held as to 40% by the Group and 60% by an independent third party between Leader Marine and Honwin Engineering Limited, and was specially made and configured to enclose building materials (such as aggregates) carried to limit dust dispersion when the Barge passes en route any residential areas. Since April 2012, when the Barge came into operation, the Barge has been exclusively transporting aggregates for Grandeur Building from Grandeur Building's sourcing quarry (located in Niu Tou Island, the PRC) to the concrete batching plant (located in Tin Wan, Hong Kong) to which Grandeur Building supplies aggregates. In November 2013, Leader Marine entered into an agreement to acquire the interests of its joint venture partner. The acquisition will be completed by the end of February 2014, upon which Leader Marine will become the sole operator of the Barge and the provision of transportation services will become continuing connected transactions for the Company under the Listing Rules. Accordingly, in order to facilitate the continuation of business which has so far proven to have provided positive contribution to the Group's profits in a manner that complies with the Listing Rules, Leader Marine and Grandeur Building entered into the Framework Agreement.

## **THE FRAMEWORK AGREEMENT**

On 14 February 2014, Leader Marine, a wholly-owned subsidiary of the Company, entered into a Framework Agreement with Grandeur Building, a wholly-owned subsidiary of Wai Kee, whereby Leader Marine is obliged to provide Transportation Service exclusively to Grandeur Building from time to time during the term of the Framework Agreement.

Leader Marine and Grandeur Building will enter into Individual Agreements for individual transactions during the term of the Framework Agreement, which shall contain details of transactions including but not limited to details of the loading and delivery ports, transportation unit price, quantities and descriptions of aggregates to be delivered and the date of delivery. The terms of the Individual Agreements shall not conflict with the general principles set out in the Framework Agreement. Should there be any conflict, the Parties shall discuss and agree such adjustments to the Individual Agreements so that the general principles in the Framework Agreement should prevail.

Principal terms of the Framework Agreement are set out below.

### **Term and Exclusivity**

Under the Framework Agreement, Leader Marine is obliged to provide Transportation Service exclusively to Grandeur Building on all days during the term of the Framework Agreement other than public holidays in Hong Kong, Chinese New Year holidays in the PRC, days on which weather conditions are deemed by Leader Marine to be unsafe for the operation of the Barge and the periods during which the Barge undergoes maintenance.

The Framework Agreement is conditional upon approval by the Shareholders pursuant to the Listing Rules. Subject to satisfaction of such condition and unless earlier terminated, the Framework Agreement is for a term commencing from 1 March 2014 and ending on 31 December 2016, both dates inclusive.

If there is a material breach of obligations pursuant to the Framework Agreement by a Party, the other Party may terminate the Framework Agreement immediately by giving the defaulting Party a written notice.

### **Transportation Fee**

The Framework Agreement contains pre-agreed formulae for determining the transportation price per round trip between the port at which aggregates are loaded and the destination port, based on (i) a base price determined by the Parties based on the average transportation price of aggregates per tonne over the period from January 2013 to December 2013; (ii) the weight of the aggregates being carried (which affects fuel consumption); (iii) the distance between the two ports; (iv) adjustments on a month to month basis by reference to 40% of the movements in diesel costs against the December 2013 Government published price index of diesel fuel on the basis that diesel costs accounted for about 40% of the price over the past two years of operation of the Barge.

Under the Framework Agreement, Grandeur Building has committed to requiring Transportation Service for not less than 600,000 tonnes of aggregates per year, or to make up any shortfall by a cash payment. The cash payment will be determined based on the shortfall quantities and the average transportation unit price (being the total transportation fee for the relevant year divided by the total quantities delivered in that particular year).

Transportation fees are to be invoiced on a monthly basis, and settled within 30 days of invoice.

The initial transportation price in 2012 was negotiated between the joint venture that operated the Barge with Grandeur Building at arm's length and was thereafter adjusted for increases in diesel price with reference to the actual expenditure of diesel fuel by the joint venture. Under that arrangement, the transportation price agreed by the joint venture was based on different unit price per tonne that reduces by reference to an agreed scale as the quantities of aggregates delivered per month increase. It provided for price adjustments should diesel costs increased over 10% and did not provide for any minimum transportation fees. The Company considers that the formulae adopted in the Framework Agreement that uses Government published diesel price index provides a more objective, transparent and scientific way of determining price adjustments going forward, and obviates the need to negotiate on a monthly basis by reference to actual diesel expenditure which renders pricing agreement a more administratively cumbersome process. Clearly, the removal of the old requirement that no price adjustment is triggered if diesel costs increases within a 10% margin and the guaranteed minimum transportation quantity under the Framework Agreement are changes from the pre-existing arrangements that are financially beneficial to the Group.

Historical transaction amounts involving the Barge engaged by the joint venture are set out in the table below:

	<b>Historical transaction amounts</b>	
	<b>From 1 April 2012 to 31 December 2012 ("Period 2012") <i>HK\$'000</i> (unaudited)</b>	<b>From 1 January 2013 to 31 December 2013 ("Year 2013") <i>HK\$'000</i> (unaudited)</b>
Total value of the contract sum in respect of the provision of the transportation service by the Barge	13,203	15,743

### **Proposed Caps**

Under the Framework Agreement, Leader Marine and Grandeur Building agreed that the maximum total value of the contract sum in respect of the continuing provision of Transportation Service for the periods concerned under the Framework Agreement shall not exceed the amounts set out below.

<b>Period</b>	<b>Total value not exceeding (<i>HK\$'000</i>) (<i>Note</i>)</b>
1 March 2014 – 31 December 2014	17,000
1 January 2015 – 31 December 2015	21,000
1 January 2016 – 31 December 2016	21,000

*Note:* These figures represent the estimated maximum cap in respect of the continuing provision of Transportation Service for the periods concerned under the Framework Agreement. The actual amount payable for the Transportation Service may be different.

The above proposed caps have been determined based on an assumption that the Barge makes 250 round trips per year (based on the number of days on which the Barge is expected to be available with reference to public holidays in Hong Kong, Chinese New Year holidays in the PRC, estimated bad weather days based on historical average thunderstorm days data from the Hong Kong Observatory and the periods during which the Barge is expected to undergo maintenance) at an average capacity of 75% (based on the average quantities of aggregates delivered per carriage by the Barge since it commenced operation), annual inflation of diesel prices at 2.6% based on Hong Kong Government published price index of diesel fuel and allowing a modest 5% buffer in such estimations. The proposed cap for 2014 (which relates only to a ten-month period) had been pro-rated accordingly.

The proposed caps for the periods concerned under the Framework Agreement (annualized, in the case of 2014) represent an increase when compared to the annualized transaction amount for the Period 2012 and the transaction amount for the Year 2013, during which 162 (or annualized 216 round trips) and 192 round trips respectively were undertaken. During those periods, the values of the transactions were limited mainly by the number of trips the Barge was able to make. Once Leader Marine acquires control over the Barge on completion of its acquisition, the Group can draw upon its decades deep experience and expertise in marine engineering operations and fleet management and improve the overall operations of the Barge through better maintenance and closer supervision by its experienced marine engineers. Accordingly, the management of the Company expects to see an increase in the number of trips per year that the Barge can undertake going forward and considers it reasonable to work towards 250 trips per year, which represents just over 16% increase over the annualized round trips for the Period 2012 since Barge availability in the Year 2013 had been affected by longer maintenance periods.

The terms of the Framework Agreement were arrived at after arm's length negotiations between the Parties. The Directors (including the independent non-executive Directors) are of the view that the terms of the Framework Agreement are on normal commercial terms, and that the terms and proposed caps set out above are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Pursuant to the bye-laws of the Company, where a company in which a Director and/or his associate(s) (which has the meaning ascribed to it under the Listing Rules) holds 5% or more is/are materially interested in a transaction, then that Director and/or his associate(s) shall also be deemed materially interested in such transaction and that Director shall not vote on any resolution of the Board approving any contract or arrangement or proposal concerning that transaction. On the date of the Board meeting approving the terms of and the proposed caps in relation to the transactions under the Framework Agreement, Mr. Zen Wei Peu, Derek ("Mr. Zen") held 185,557,078 shares (23.40%) in Wai Kee. Therefore, Mr. Zen is deemed to have a material interest in the Framework Agreement and accordingly, he has abstained from voting in the Board resolution approving the terms of and the proposed caps in relation to the transactions under the Framework Agreement.

## **COMPLIANCE WITH LISTING RULES**

Wai Kee is a majority shareholder of the Company. As at the date of this announcement, Wai Kee (through its subsidiaries) was interested in 635,415,033 Shares, representing approximately 51.17% of the Company's issued share capital. Accordingly, Wai Kee is a substantial shareholder of the Company and therefore a connected person of the Company under the Listing Rules. Transactions under the Framework Agreement and the Individual Agreements constitute continuing connected transactions of the Company under the Listing Rules.

As the applicable percentage ratios (as defined in the Listing Rules) in respect of the transactions under the Framework Agreement exceed 5%, the Framework Agreement is subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As Grandeur Building (a wholly-owned subsidiary of Wai Kee) is a Party to the Framework Agreement, Wai Kee and its associates are required under the Listing Rules to abstain from voting at the SGM on the resolution for approving the terms of and the proposed caps in relation to the transactions under the Framework Agreement. Mr. Zen (who, as at the date of this announcement, held 113,945,228 Shares (9.18%) in the Company and 185,557,078 shares (23.40%) in Wai Kee) confirmed to the Company that he will voluntarily abstain from voting in the SGM.

The SGM will be convened at which an ordinary resolution will be proposed to consider, and if thought fit, to approve the terms of and the proposed caps in relation to the transactions under the Framework Agreement. An Independent Board Committee comprising all the independent non-executive Directors has been established to advise the Independent Shareholders in relation to the terms of and the proposed caps in relation to the transactions under the Framework Agreement. An independent financial adviser will be appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

A circular containing, among other things, (i) further details of the Framework Agreement; (ii) the recommendation from the Independent Board Committee to the Independent Shareholders; (iii) the letter of advice from the independent financial adviser to the Independent Board Committee and the Independent Shareholders; and (iv) the notice convening the SGM is expected to be despatched to the Shareholders on or before 20 February 2014. Wai Kee and its associates will abstain from voting on the resolutions to approve the Framework Agreement at the SGM.

## **DEFINITIONS**

In this announcement, the following terms have the meanings set forth opposite them:

“associate”	has the meaning ascribed thereto under the Listing Rules
“Barge”	the Barge named “康運” owned and operated by Leader Marine with a capacity of 4,642 tons of aggregates
“Board”	the board of Directors
“Company”	Build King Holdings Limited, a company incorporated in Bermuda with limited liability whose shares are listed on the Main Board of the Stock Exchange (Stock Code: 240)
“Directors”	the directors of the Company
“Framework Agreement”	the framework agreement between Leader Marine and Grandeur Building dated 14 February 2014 in respect of the continuing provision of Transportation Service
“Grandeur Building”	Grandeur Building Material (Holdings) Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of Wai Kee

“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the committee of the Company comprising all independent non-executive Directors, namely Dr. Chow Ming Kuen, Joseph, Mr. Ng Chi Ming, James and Mr. Ho Tai Wai, David, established to make recommendation to the Independent Shareholders in respect of the terms of and the proposed caps in relation to the transactions under the Framework Agreement
“Independent Shareholders”	Shareholders other than Wai Kee and its associates (as defined in the Listing Rules)
“Individual Agreements”	individual orders for individual transactions during the term of the Framework Agreement
“Leader Marine”	Leader Marine Contractors Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of the Company
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Party”	Leader Marine or Grandeur Building
“PRC”	The People’s Republic of China
“SGM”	the special general meeting of the Company to be convened for the purpose of considering, and if thought fit, approving the terms of and the proposed caps in relation to the transactions under the Framework Agreement
“Shares”	ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Shareholders”	the shareholders of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Transportation Service”	the deployment of the Barge exclusively by Leader Marine to Grandeur Building for the delivery of aggregates from the loading port to the delivery port pursuant to the Framework Agreement

“Wai Kee”

Wai Kee Holdings Limited, a holding company of the Company incorporated in Bermuda with limited liability whose shares are listed on the Main Board of the Stock Exchange (Stock Code: 610)

“%”

per cent.

By Order of the Board  
**Build King Holdings Limited**  
**Chang Kam Chuen, Desmond**  
*Company Secretary*

Hong Kong, 14 February 2014

*As at the date hereof, the Board comprises two executive Directors, namely Mr. Zen Wei Peu, Derek and Mr. Chang Kam Chuen, Desmond, three non-executive Directors, namely Mr. David Howard Gem, Dr. Cheng Chi Pang, Leslie and Mr. Chan Chi Hung, Anthony, and three independent non-executive Directors, namely Dr. Chow Ming Kuen, Joseph, Mr. Ng Chi Ming, James and Mr. Ho Tai Wai, David.*