
CONNECTED TRANSACTIONS

CONTINUING CONNECTED TRANSACTIONS

Summary

Following completion of the Listing, we will continue to have certain transactions which are conducted in our ordinary and usual course of business, and constitute continuing connected transactions pursuant to the Listing Rules. Set out below is a summary of these continuing connected transactions.

Item	Parties involved	Nature of transaction	Duration of agreement	Annual caps for the financial year ending 31 March		
				2014	2015	2016
				<i>(HK\$ million)</i>		
(A)	(1) EXCEL, a wholly-owned subsidiary of our Company; and (2) Able Contractors, a wholly-owned subsidiary of Vantage	Sub-contract of carcass works for TW7 Project by EXCEL to Able Contractors	three years from 21 November 2013 to 20 November 2016			
		(i) Sub-contracting fee payable to Able Contractors		763	208	27
		(ii) Amounts for reimbursement of staff costs to be received from Able Contractors		8	3	Nil
(B)	(1) Frason Holdings Limited (“Frason”) a wholly-owned subsidiary of Vantage, one of our Controlling Shareholders; and (2) EXCEL, a wholly-owned subsidiary of our Company	Lease of office premises and two car parking spaces by Frason to EXCEL	1 June 2013 to 31 May 2016	N/A	N/A	N/A

Non-exempt continuing connected transaction

Sub-contract of carcass works for TW7 Project

Able Contractors is a connected person of our Company by virtue of it being a wholly-owned subsidiary of Vantage, one of our Controlling Shareholders.

CONNECTED TRANSACTIONS

(i) Description of the transaction

While our Group shall focus on civil engineering construction business which is our core business upon Listing, there is still one remaining private residential building construction project currently in progress, TW7 Project, which started in August 2011. This project was undertaken by EXCEL as the main contractor with the intention of diversifying risks and establishing track records on different nature of construction projects among member companies of the Vantage Group for the Vantage Group as a whole. When EXCEL tendered for TW7 Project, it was then decided within the Vantage Group for EXCEL to sub-contract the project to Able Contractors as the project is in the nature of building construction for which Able Contractors possesses the relevant expertise and technical experience.

EXCEL was awarded the tender and accordingly our Group as main contractor has, in August 2011, sub-contracted the carcass works for TW7 Project to Able Contractors which shall be responsible for providing all expertise, staff, labour, materials, constructional plant, transport, temporary work, working drawing and details required for the execution, completion and maintenance of the carcass works for TW7 Project.

The tendering price of TW7 Project was based on the then estimated cost of the project and the estimated overall profit margin of 2% of the contract sum was set by taking into account, among other things, the then market condition and level of competition, as well as the relatively lower execution risk for us on the project as our Group, being part of the Vantage Group do not have to seek any external sub-contractors for execution of the project. As the contract sum of TW7 Project amounted to approximately HK\$1.61 billion, our Group considered that our share of 1% of the contract sum which represented half of the then estimated overall profit margin for the project would be reasonable in the circumstances. Therefore, it was agreed by EXCEL and Able Contractors that the consideration for providing such sub-contracting works by Able Contractors to our Group to be 99% of the price of the main contract of TW7 Project. Our Group has also provided certain staff to assist or supervise Able Contractors under TW7 Project and in return, Able Contractors would reimburse our Group based on the cost of the relevant staff and the hours spent.

Our Group expects to continue sub-contracting the carcass works for TW7 Project to Able Contractors after the Listing Date with all works expected to be completed by mid-2014. However, due to the time required for certifying completion and relevant billing process, part of the relevant sub-contracting fees may only be paid to Able Contractors after the year ending 31 March 2016, depending on the progress of TW7 Project. Also, we will continue to provide our staff to Able Contractors until completion of the project, and will accordingly receive reimbursement on cost basis from the Retained Vantage Group. The sub-contracting arrangement between our Group and Able Contractors after the Listing Date shall be governed by the Sub-Contracting Agreement (as defined in paragraph (iii) below).

CONNECTED TRANSACTIONS

(ii) Historical transaction amounts

For each of the three years ended 31 March 2013 and the four months ended 31 July 2013, the sub-contracting fees paid to Able Contractors by our Group were approximately nil, HK\$166.8 million, HK\$504.4 million and HK\$428.6 million respectively and the amounts for reimbursement of staff costs received from Able Contractors, as part of our management fee income from the Retained Vantage Group, were approximately nil, HK\$1.3 million, HK\$9.9 million and HK\$2.5 million respectively. We received management fee income of approximately nil, HK\$2.9 million, HK\$14.0 million and HK\$2.5 million from the Retained Vantage Group for each of the three years ended 31 March 2013 and the four months ended 31 July 2013 respectively, which consisted of (i) the staff cost reimbursement mentioned above, and (ii) recovery of certain amounts of corporate expenses of the Vantage Group shared by us which has ceased and hence will not constitute connected transaction for us upon Listing. Further information relating to our management fee income received from the Retained Vantage Group is set out in the paragraph “Our other income and gains” in the section headed “Financial Information” in this prospectus.

(iii) Sub-contracting Agreement

On 21 November 2013, EXCEL and Able Contractors entered into a sub-contracting agreement (the “**Sub-contracting Agreement**”) for a term of three years, pursuant to which:

- (a) Able Contractors shall execute, complete and maintain the carcass works for TW7 Project in accordance with the Sub-contracting Agreement and to the reasonable satisfaction of EXCEL and of Company A, the employer in the main contract in consideration of EXCEL agreeing to pay to Able Contractors 99% of the price of the main contract; and
- (b) Able Contractors shall provide all expertise, staff, labour, materials, constructional plant, transport, temporary work, working drawing and details and everything whether of a permanent or temporary nature required for the execution, completion and maintenance of the carcass works for TW7 Project provided that: (i) at the request of Able Contractors or at EXCEL’s own absolute discretion, EXCEL may (but not obliged to) provide such staff as it may consider appropriate to assist or supervise Able Contractors in the performance by Able Contractors of its obligations under the Sub-contracting Agreement, and Able Contractors shall reimburse EXCEL basing on the cost of such staff and the hours spent; and (ii) EXCEL has the right (but not the obligations) to purchase materials which in its absolute discretion consider necessary or desirable for the main contract, and require Able Contractors to reimburse EXCEL the cost incurred by EXCEL in purchasing such materials.

The fees for such sub-contracting services were determined based on arm’s length negotiation and with reference to, among other things, the then project budget for tendering for TW7 Project.

CONNECTED TRANSACTIONS

Our Group considered that the terms of the sub-contracting arrangement with the Retained Vantage Group are reasonable and represent normal commercial terms after taking into account the following factors:

- (1) Able Contractors, as the sub-contractor, is responsible for all the actual work to be carried out in the construction sites. It also bears the risks of the project cost overrun and other claims and liabilities in relation to the actual onsite work. Able Contractors also has to reimburse EXCEL for the safety insurance bought on its behalf.

EXCEL shall be held responsible to the customer as the main contractor should there be any breach of the main contract due to non-performance of the contract or delay in completion of the construction work done by Able Contractors. As such, EXCEL has to monitor the overall onsite operation by Able Contractors and provide technical assistance or expertise when required to ensure timely and efficient performance of work by Able Contractors.

- (2) When setting the profit margin and the tender price, EXCEL and Able Contractors had to consider the chance of success in tendering the project. If the profit margin was set too high, the chance of successful tender might be lowered significantly due to the high tender price. As such, the initial target profit margin of TW7 Project and the agreed spread of the profit margin among EXCEL and Able Contractors, which was determined before the actual execution of the project, had to take account of, among other factors, competitiveness to obtain the award of the relevant tender. Further, the agreed spread of profit margin among EXCEL and Able Contractors was set based on initial project budget for tendering purpose. Hence, it is possible and not fully controllable by EXCEL and Able Contractors that the actual profit margin achieved by Able Contractors, which acts as the sub-contractor and bears the actual project cost overrun risk, may deviate from its initial target profit margin as agreed with EXCEL at the time of tendering and entering into the relevant sub-contracting agreement. As advised by the Retained Vantage Group, the actual profit margin from TW7 Project earned by the Retained Vantage Group during the Track Record Period was 0.01%.
- (3) The sub-contracting fee paid to Able Contractors would be settled generally within one month upon receiving payment from our customer. Able Contractors is the only building construction sub-contractor that EXCEL has been working with in the past. There is no Independent Third Party sub-contracting agreement that can be used comparable in relation to credit terms arrangement for building construction projects. For Independent Third Party sub-contractors which the Group has dealt with for its civil engineering works projects, generally the Group would pay within 30 days after the completion of corresponding portion of contract works is certified by the Group's customers, which is comparable to what is granted by Able Contractors.

CONNECTED TRANSACTIONS

The above transactions are and will continue to be entered into within the ordinary and usual course of our business and on normal commercial terms.

(iv) Annual caps on future transaction amounts

In accordance with Rule 14A.35(2) of the Listing Rules, our Company has set the abovementioned annual caps for the maximum sub-contracting fee payable to Able Contractors and the maximum amounts for reimbursement of staff costs to be received by our Group for each of the three years ending 31 March 2014, 2015 and 2016.

The abovementioned annual caps in respect of the Sub-contracting Agreement have been determined on the following bases:

- (a) **Sub-contracting fee:** With reference to (i) the agreed sub-contracting fee percentage, i.e. 99%, (ii) the current and estimated future project progress, (iii) the time required for certifying completion and relevant billing process and (iv) estimation of amount of variation order; and
- (b) **Amounts for reimbursement of staff costs to be received:** With reference to (i) the number of staff expected to be provided to Able Contractors, (ii) the estimated time for the staff provided by EXCEL to spend on the project, and (iii) the current and estimated future project progress.

(v) Listing Rules requirements

As the highest relevant percentage ratios in respect of the Sub-contracting Agreement to be made between Able Contractors and our Group will be, on an annual basis, more than 25% and the annual consideration is more than HK\$10,000,000, they will pursuant to Rule 14A.35 of the Listing Rules, be subject to reporting, announcement, annual review and independent shareholders' approval requirements in Chapter 14A of the Listing Rules.

Exempt continuing connected transaction

Lease of office premises

(i) Description of the transaction

During the Track Record Period, our Group has been using our head office and principal place of business owned by the Retained Vantage Group. We paid a management fee to Vantage for sharing of its corporate expenses which included the cost of using our head office and related utilities, and certain administrative and operating costs of Vantage during the three years ended 31 March 2013. We intend to lease our existing head office from the Retained Vantage Group after the Listing. Accordingly, EXCEL has entered into the Tenancy Agreement (as defined below).

CONNECTED TRANSACTIONS

Frason is a connected person of our Company by virtue of it being a wholly-owned subsidiary of Vantage, one of our Controlling Shareholders. On 31 July 2013, Frason and EXCEL entered into a tenancy agreement (the “**Tenancy Agreement**”) pursuant to which Frason as Landlord agreed to lease to EXCEL the office premises at No. 155 Waterloo Road, Kowloon Tong, Hong Kong (the “**Property**”) with a gross floor area of approximately 183.21 square metres and two car parking spaces for a term of 3 years from 1 June 2013 to 31 May 2016 (both dates inclusive) at a monthly rent of HK\$51,700 (exclusive of utility and other property related miscellaneous expenses).

The monthly rent is calculated based on the floor area used by us and the latest ratable value of the Property, as set out in the demand note issued by the HKSAR Government in April 2013. For the four months ended 31 July 2013, the rent paid pursuant to the Tenancy Agreement amounted to approximately HK\$207,000.

(ii) Listing Rules requirements

As the highest relevant percentage ratios in respect of the Tenancy Agreement entered into between Frason and our Group will be, on an annual basis, less than 5% and the annual consideration is less than HK\$1,000,000, they will, pursuant to Rule 14A.33 of the Listing Rules constitute *de minimis* continuing connected transactions exempt from the reporting, announcement, annual review and independent shareholders’ approval requirements in Chapter 14A of the Listing Rules.

Waiver from compliance with announcement and independent shareholders’ approval requirements

Under the Listing Rules, the continuing connected transaction under the Sub-Contracting Agreement described above (the “**Non-exempt continuing connected transaction**”) would require compliance with the reporting and announcement requirements set out in Rules 14A.45 to 14A.47 of the Listing Rules and the prior independent shareholders’ approval requirement set out in Rule 14A.48 of the Listing Rules after the completion of the Share Offer.

Since the Non-exempt continuing connected transaction described above is expected to continue on a recurring basis after the Listing, and has been entered into prior to the Listing Date which has been fully disclosed in this prospectus, we have applied to the Stock Exchange, and the Stock Exchange has granted us a waiver pursuant to Rule 14A.42(3) of the Listing Rules from strict compliance with the announcement and independent shareholders’ approval requirements as stipulated in Rules 14A.47 and 14A.48 of the Listing Rules in connection with the Non-exempt continuing connected transaction. In addition, we confirm that we will comply with Chapter 14A of the Listing Rules in relation to the continuing connected transactions described above.

CONNECTED TRANSACTIONS

Confirmation from our Directors

As the Non-exempt continuing connected transaction with the Retained Vantage Group is conducted (i) on normal commercial terms and (ii) on terms no more favourable to the Retained Vantage Group than those available to Independent Third Parties, our Directors (including our independent non-executive Directors) consider that the terms (including the annual caps) of the Non-exempt continuing connected transaction in relation to the Sub-contracting Agreement are fair and reasonable and has been entered into in the ordinary and usual course of business of our Group, on normal commercial terms and in the interests of our Company and our Shareholders as a whole, and the proposed annual caps for the Non-exempt continuing connected transaction are fair and reasonable and in the interests of our Company and our Shareholders as a whole.

Confirmation from the Sole Sponsor

The Sole Sponsor is of the view that (i) the Non-exempt continuing connected transaction has been entered into in the ordinary and usual course of business of our Company, on normal commercial terms which are fair and reasonable and in the interests of our Shareholders as a whole; and (ii) the proposed annual caps for the Non-exempt continuing connected transaction are fair and reasonable and in the interests of our Company and our Shareholders as a whole.