

CONNECTED TRANSACTIONS

OVERVIEW

We have entered into certain agreements with parties that will be our connected persons (as defined under Chapter 14A of the [REDACTED]) during the Track Record Period. Following the [REDACTED], the transactions contemplated under such agreements will constitute our continuing connected transactions under the [REDACTED].

CONNECTED PERSONS

Following the [REDACTED], the following parties, which have entered into certain written agreements with our Group, will be connected persons of our Group:

Max Contracting: Mr. Lee, an executive Director and Controlling Shareholder of our Company, holds approximately 33.3% equity interest in Max Contracting and is therefore an associate of Mr. Lee. Accordingly, Max Contracting is a connected person of our Group.

Max Furniture: Max Furniture Shenzhen Company Limited (宏大家俱(深圳)有限公司) (“**Max Furniture**”), a wholly-owned subsidiary of Max Contracting, is also a connected person of our Group.

Wealthmood: Mr. Lee, an executive Director and Controlling Shareholder of our Company, holds 100% equity interest in Wealthmood and is therefore an associate of Mr. Lee. Accordingly, Wealthmood is a connected person of our Group.

CONTINUING CONNECTED TRANSACTIONS

Fully Exempt Continuing Connected Transactions

Car Rental Agreement

Background: During the Track Record Period, we had historically been using a car owned by Wealthmood, a company wholly-owned by Mr. Lee. In anticipation of the [REDACTED], we entered into a car rental agreement with Wealthmood on [●] (the “**Car Rental Agreement**”) to ensure that our Group will continue to be able to use the car.

Material Terms: Pursuant to the Car Rental Agreement, Wealthmood agreed to rent to our Group, on a rent-free basis, the car owned by Wealthmood for a term of three years until June 30, 2018. Our Directors (including the Independent Non-executive Directors) are of the view that entering into the Car Rental Agreement was in the ordinary course of our business, on normal commercial terms, and is fair and reasonable and is beneficial to our Shareholders as a whole.

Implication under the [REDACTED]: Since the car will be rented to us on a rent-free basis and our Directors (including the independent non-executive Directors) are of the opinion that the Car Rental Agreement is on normal commercial terms or better, the transactions contemplated under the Car Rental Agreement will constitute *de minimis* connected transactions which will be fully exempted from annual reporting, annual review, announcement, circular and shareholders’ approval requirements under Rule 14A.76(1) of the [REDACTED].

CONNECTED TRANSACTIONS

Non-exempt Continuing Connected Transactions

Max Contracting Framework Agreement and Max Furniture Framework Agreement

Background: During the Track Record Period, our Group purchased a variety of woodwork from Max Contracting and Max Furniture. During the six months ended December 31, 2015, our Group also acquired furniture and fixture from Max Contracting for HK\$0.2 million and sold the unused materials from our woodwork and furniture provision projects to Max Furniture for HK\$0.9 million.

In anticipation of the [REDACTED], our Company entered into (i) a framework agreement for our purchase of furniture, fixture and woodwork from Max Contracting on [●] (the “**Max Contracting Framework Agreement**”); and (ii) a framework agreement for our purchase of woodwork from and sale of unused materials to Max Furniture on [●] (the “**Max Furniture Framework Agreement**”), in order to govern relevant transactions after the [REDACTED].

Material Terms: The Max Contracting Framework Agreement and Max Furniture Framework Agreement will be effective from the [REDACTED] until June 30, 2018, subject to compliance with the [REDACTED].

The consideration payable under the Max Contracting Framework Agreement and Max Furniture Framework Agreement will be paid for and settled in cash and payment and settlement will be made at the time and according to the method agreed in separate purchase orders or sale and purchase agreements.

Pricing Policy: Both the price for woodwork, furniture and fixture to be supplied to our Company under the Max Contracting Framework Agreement and Max Furniture Framework Agreement and the price for unused materials to be sold to Max Furniture under the Max Furniture Framework Agreement, will be determined by reference to the costs of materials plus a markup within the range of 10% to 25% to be agreed on an arm’s length basis. We believe that such agreed price will be generally comparable to the price payable in other similar arm’s length transactions.

CONNECTED TRANSACTIONS

Historical Transaction Amounts: The approximate annual aggregate transaction amounts with Max Contracting and Max Furniture were as follows:

	For the year ended June 30,			For the six months ended
	2013	2014	2015	December 31,
		(in HK\$'000)		2015
Max Contracting				
Purchase of woodwork	8,640	8,073	7,560	1,956
Acquisition of furniture and fixture	—	—	—	210
Max Furniture				
Purchase of woodwork	—	—	11	219
Sale of unused materials	—	—	—	863
Total	<u>8,640</u>	<u>8,073</u>	<u>7,571</u>	<u>3,248</u>

Aggregate total transaction amounts relating to woodwork supplied by Max Contracting and Max Furniture decreased from 2013 to 2015, because our major clients increased their demand for metalwork in place of woodwork during the Track Record Period and we also started to engage other suppliers for woodwork since 2014.

Annual Caps and Basis of Caps: We expect the annual aggregate transaction amounts under the Max Contracting Framework Agreement and Max Furniture Framework Agreement for the three-year ending June 30, 2018 will be as follows:

	For the year ending June 30		
	2016	2017	2018
		(in HK\$'000)	
	8,000	11,000	15,000

In arriving at the above annual caps, our Directors have considered (i) the historical transaction amount; (ii) our strategies to focus more on millwork and furniture provision; (iii) increase in demand for woodwork from our clients in Americas; (iv) market conditions and inflation rate for the relevant period; and (v) pricing policy under the Max Contracting Framework Agreement. In addition, a buffer is built in for any unexpected increase in transaction volume, and/or unit purchase cost and/or fluctuation in foreign exchange rate.

The annual caps are shared between Max Contracting and Max Furniture because Max Furniture is a wholly-owned subsidiary of Max Contracting. We may sell unused materials to Max Furniture only when there are materials left unused from our production processes. Further, historical transaction amounts of the sale of unused materials to Max Furniture have been insignificant. As such, the Directors have considered that it would be unnecessary to provide separate annual caps for such sale of unused materials and it would be appropriate for the annual caps set out above to be shared between Max Contracting and Max Furniture for our purchase of furniture, fixture and woodwork and our sale of unused materials.

CONNECTED TRANSACTIONS

Implication under the [REDACTED]: As each of the percentage ratios (other than the profits ratio) (as defined in Rule 14.07 of the [REDACTED]) calculated on the basis of projections for the years ended June 30, 2016, 2017 and 2018 is expected to be more than 5%, the transactions contemplated under the Max Contracting Framework Agreement and Max Furniture Framework Agreement will constitute continuing connected transactions which are subject to the annual review, reporting, announcement and the independent shareholders’ approval requirements under Chapter 14A of the [REDACTED].

DIRECTORS’ VIEW ON NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

Our Directors (including our independent non-executive Directors) are of the view that (1) the non-exempt continuing connected transactions disclosed above have been entered into, and will be carried out, in the ordinary and usual course of business and on normal commercial terms or better; (2) such non-exempt continuing connected transactions are fair and reasonable and are in the interest of our Company and our Shareholders as a whole; and (3) the proposed annual caps of such non-exempt continuing connected transactions are fair and reasonable, as far as our Company and our Shareholders, taken as a whole, are concerned.

APPLICATION FOR WAIVER

We expect the non-exempt continuing connected transaction disclosed above will be carried out on a continuing basis and will extend over a period of time, and our Directors consider that strict compliance with the announcement and independent shareholders’ approval requirements under the [REDACTED] would be impractical, unduly burdensome and would impose unnecessary administrative costs on our Company. Accordingly, pursuant to Rule 14A.105 of the [REDACTED], we have applied for, and the [REDACTED] [has granted] to us, a waiver from strict compliance with the announcement and independent shareholders’ approval requirements under Rules 14A.35 and 14A.36 of the [REDACTED] once the Shares are [REDACTED] on the [REDACTED] in respect of such non-exempt continuing connected transactions. We will, however, comply at all times with the other applicable provisions under Chapter 14A of the [REDACTED] in respect of such non-exempt continuing connected transactions.

CONFIRMATION FROM THE SPONSOR

Having taken into account the information set out above, the Sponsor is of the view that the non-exempt continuing connected transactions disclosed above, for which a waiver is sought, have been entered into in the ordinary and usual course of business of our Group, on normal commercial terms or better, are fair and reasonable and in the interests of our Shareholders as a whole. The Sponsor is also of the view that the proposed annual caps for such non-exempt continuing connected transactions are fair and reasonable and in the interests of our Company and our Shareholders as a whole.