
CONNECTED TRANSACTIONS

Exempt continuing connected transaction

We have entered into the following transaction which is expected to continue after the Listing and which will constitute exempt continuing connected transaction of our Company under Rule 14A.33(3) of the Listing Rules and our Company will be exempt from all reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. Particulars of such exempt continuing connected transaction are set out below.

Licence to use patents

Pursuant to two assignments both dated 20 May 2009 and entered into between DSTP (as assignor) and Sundart (Beijing) (as assignee), DSTP has assigned the patents registered in the PRC as set out in the section headed "Further information about our business – Intellectual property rights" in Appendix VI to this prospectus (the "PRC Patents") to Sundart (Beijing) for a total consideration of HK\$2.00. As an interim arrangement to better protect our Group's interests pending the recordal of assignment of such patents being completed in the PRC, DSTP (as licensor) and Sundart (Beijing) (as licensee) entered into a licence agreement (專利實施許可合同) dated 20 May 2009 pursuant to which DSTP granted an exclusive licence to Sundart (Beijing), any of its holding companies, subsidiaries and associated companies, any subsidiaries and associated companies of its holding companies and such other persons or entities as designated by Sundart (Beijing) to use the PRC Patents free of royalty until the occurrence of any of the following events, namely, the recordal of assignment of such patents is completed in the PRC, the revocation or termination of such patents or the parties agree to terminate the licence agreement. The PRC Patents are patents related to the design of timber products. The PRC Patents have never been used by DSTP or by our Group on any products for commercial purpose. However, in the future, the PRC Patents may be utilised in products required by our Group if there is any demand for products that require the utilisation of the PRC Patents and we consider it commercially beneficial to do so.

We consider the above assignment of the PRC Patents by DSTP to Sundart (Beijing) to be commercially beneficial to our Group. As proprietor of the PRC Patents, other manufacturers cannot utilise them to manufacture the relevant products without our consent. This also allows us to have greater flexibility in choosing and thus greater control over which timber products manufacturer to engage in manufacturing the relevant products required by our Group. Therefore, we can choose among various manufacturers (including DSTP) and license the PRC Patents to the manufacturers chosen by our Group to manufacture the relevant products.

Non-exempt continuing connected transactions

We have entered into the following transactions which are expected to continue after the Listing and which will constitute non-exempt continuing connected transactions of our Group under the Listing Rules and are subject to the reporting, announcement and independent shareholder's approval requirements under Chapter 14A of the Listing Rules. Particulars of non-exempt continuing connected transactions are set out below.

Purchase of timber products from DSTP

We have been purchasing timber products from, among others, DSTP, from DYBM, which was deregistered in May 2008, and from Win Venture and SI (Macau), both of which are the two trading arms within the Sundart Living Group which mainly sell DSTP's timber

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products. Our Group has been viewing members of the Sundart Living Group as a single supplier of our Group as a whole. During the Track Record Period, the total consideration paid by us in respect of such purchases with such members of the Sundart Living Group in aggregate amounted to approximately HK\$93,800,000, HK\$78,600,000 and HK\$60,400,000, respectively, representing approximately 54%, 53% and 44% respectively of our Group's total purchase amount of timber products. As at the end of the financial year ended 31 March 2009, orders placed with the Sundart Living Group which were still outstanding amounted to not more than HK\$27,800,000, and it is expected that all such outstanding orders will be completed before the Listing.

Since 1 April 2009, our Group has purchased timber products directly from DSTP and has ceased to purchase timber products from SI (Macau) or Win Venture (save and except for the outstanding orders already placed as mentioned above) since Win Venture and SI (Macau) plan to cease their timber products trading business after completing their existing orders on hand and the Sundart Living Group intends to focus on the timber products manufacturing business. In this connection, on 14 March 2009, Sundart Holdings, DSTP and SPG entered into the DSTP Agreement pursuant to which SPG agreed with Sundart Holdings to procure DSTP to, and DSTP agreed with Sundart Holdings to, manufacture and supply timber products to members of our Group whenever requested by any member of our Group for the period commencing from 1 April 2009 to 31 March 2012 on and subject to the terms therein provided, in particular, the terms of the manufacture and supply of the requested timber products shall be arrived at after arm's length negotiations and shall be fair and reasonable and be on normal commercial terms or, if there are no or not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to our Group than terms available from Independent Third Parties and, without limitation to the generality of the foregoing, for those timber products where there are available market rates for timber product comparable to the requested timber product (taking into account factors such as the design, type, standard, amount and quality of the timber product required and the time frame for the manufacturing and supply of such products), the payment terms to be offered to our Group by DSTP shall be no less favourable to our Group than the payment terms that may be offered to our Group by other Independent Third Party manufacturers or suppliers for such/similar product. If DSTP and the relevant members of our Group are unable to reach an agreement on the terms governing the manufacture and supply of any timber product requested, neither of them shall be obliged to manufacture and supply or accept (as the case may be) such timber product.

As DSTP is a company indirectly wholly-owned by Mr. Leung, who is an executive Director, accordingly, DSTP is an associate of Mr. Leung and thus a connected person of our Company within the meaning of the Listing Rules once the Shares are listed on the Stock Exchange.

It is currently expected that the amount payable by our Group to DSTP pursuant to the DSTP Agreement for the three years ending 31 March 2012 will not exceed HK\$120,000,000, HK\$138,000,000 and HK\$158,700,000 respectively.

Our Group has had a stable demand of timber products in the amount of more than HK\$60,000,000 for the fitting-out business during the Track Record Period. As part of our Group's business strategy, our Group will expand the fitting-out business to other markets such as Qatar and Abu Dhabi in the Middle East. Our Group will first involve in sourcing and distribution of interior decorative materials. Timber products are one of the main interior decorative materials. From 1 April 2009 to the Latest Practicable Date, our Group had

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already secured purchase orders of timber products from the Middle East, U.S., Hong Kong and Macau markets with an aggregate contract value of approximately HK\$65 million (of which more than HK\$54,000,000 were from the Middle East market). Up to the Latest Practicable Date, our Group has secured orders of approximately HK\$41,800,000, approximately HK\$4,100,000 and approximately HK\$2,500,000 from the Middle East, U.S., Hong Kong and Macau respectively to be placed to DSTP for the sourcing and distribution business, of which orders of approximately HK\$32,300,000 are scheduled to be delivered by 31 March 2010. In respect of the fitting-out projects, up to the Latest Practicable Date, our Group has placed orders of approximately HK\$53,800,000 to DSTP. Our Directors anticipated that there will be significant and continuous growth in demand of timber products from Middle East market in the future notwithstanding the global financial crisis. As shown in the Synovate Report, the Qatari and Abu Dhabi governments are focusing on the development of the construction industry and our Directors are of the view that the demand for timber products will continue to increase with the growth in construction industry of residential properties, commercial properties and especially hotels in these two countries. This is further supported by the fact that our Group has already submitted tenders of over HK\$500 million in respect of sourcing and distribution orders and fitting-out projects in the Middle East market. The cap amount for the year ending 31 March 2010 was estimated by our Company based on the amount of the secured orders to be placed to DSTP, the forecast of our business of sourcing and distribution of interior decorative materials, in particular, the demands from the Middle East market and the forecast of materials utilised by our fitting-out business.

The cap amount for each of the years ending 31 March 2011 and 2012 was determined by applying a 15% increment to the cap amount for the immediately preceding year. The 15% increment represents our estimation that the amount of purchase of timber products from DSTP for the two years ending 31 March 2012 will account for approximately 32% and 33% respectively of the estimated total purchases of timber products by our Group during such period. The said 32% to 33% are in line with our estimation that approximately 35% of the estimated total purchases of timber products by our Group for the year ending 31 March 2010 will be purchased from DSTP. Our Directors consider such expectation of 15% increment in the purchase from DSTP by our Group for each of the two years ending 31 March 2012 is reasonable since our Group (i) has dedicated staff specialising in procuring business for our sourcing and distribution business and expects to increase our human resources dedicated thereto; (ii) intends to apply approximately 15% of the total estimated net proceeds from the Global Offering to develop our fitting-out business in the Middle East market which is expected to facilitate our sourcing and distribution business and propel the demand for timber products; (iii) had already secured purchase orders of timber products in the aggregate amount of over HK\$65,000,000 since April 2009 from our customers up to the Latest Practicable Date; and (iv) intends to enhance our sales and marketing efforts dedicated to further development and ongoing expansion of our sourcing and distribution business.

Pursuant to the DSTP Agreement, Sundart Holdings has agreed to grant, and to procure the relevant members of our Group to grant, DSTP a limited, non-exclusive, royalty-free license to use such of our Group's intellectual property to the extent necessary to permit DSTP to carry out its obligation under the DSTP Agreement. Any such licence will expire upon termination of the DSTP Agreement and shall not be transferable or sublicensable. DSTP has undertaken to Sundart Holdings (for itself and on behalf of members of our Group) that any intellectual property licensed to it shall be used solely for the purposes of the manufacturing and supply of the timber products to our Group by DSTP in accordance with the DSTP Agreement.

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Pursuant to the DSTP Agreement, Sundart Holdings has agreed to authorise and permit, and shall procure the relevant members of our Group to authorise and permit, DSTP to apply marks and labels in respect of which UL, Intertek Testing Services NA, Inc., CERTIFIRE, FM Approvals or any internationally recognised product safety testing and certification organisation have given authorisation, approval or permission to members of our Group to apply on the timber products (“**Relevant Marks**”) requested by our Group to the extent necessary to permit DSTP to carry out its obligation under the DSTP Agreement. Any such authorisation will expire upon termination of the DSTP Agreement. DSTP has undertaken to Sundart Holdings (for itself and on behalf of members of our Group) that any Relevant Marks which it is authorised to apply shall be applied to the timber products requested by our Group only and used solely for the purposes of manufacturing and supply of such products to our Group in accordance with the DSTP Agreement.

DSTP has been able to deliver timber products to our Group with the required quality, at competitive prices and on time. The Directors believe that the DSTP Agreement shall benefit our Group as we can have stable and reliable supply of timber products required for our fitting-out projects as well as in our business of sourcing and distribution of interior decorative materials.

Provision of fitting-out works to Waldo Hotel Limited

Our Group has been providing fitting-out works to Waldo Hotel Limited since September 2007 and is still providing fitting-out works to it. Waldo Hotel Limited is a company in which Mr. Chan’s father has an indirect and minority interest and Ms. Li has a controlling interest, directly and indirectly. During the last two financial years of the Track Record Period, the total consideration received by our Group from Waldo Hotel Limited amounted to approximately HK\$40,426,000 and HK\$64,605,000 respectively. Our Group received HK\$9,740,000 from Waldo Hotel Limited for actual work done for the period from 1 April 2009 to 30 June 2009.

On 30 June 2009, Sundart (Macau) and Waldo Hotel Limited entered into an agreement (the “**WHL Agreement**”) pursuant to which Sundart (Macau) has agreed with Waldo Hotel Limited to provide fitting-out works in respect of certain areas/floors of Waldo Hotel, Macau for the period commencing from 1 July 2009 up to 31 December 2009. The contract sum is HK\$25,248,400 and no adjustment shall be made unless any variations to the fitting-out works which have cost effects are required. Down payment of HK\$25,248,400 shall be made by Waldo Hotel Limited by 31 July 2009. The Directors expect that the fitting-out works under the WHL Agreement would be completed by the end of 2009.

As Ms. Li has a controlling interest, directly or indirectly, in Waldo Hotel Limited, Waldo Hotel Limited therefore is an associate of a Controlling Shareholder and thus a connected person of the Company for the purposes of the Listing Rules once the Shares are listed on the Stock Exchange.

It is currently expected that the amount payable to our Group by Waldo Hotel Limited pursuant to the WHL Agreement for the period from 1 July 2009 to 31 March 2010 will not exceed HK\$29,040,000. Such cap amount was estimated by the Company based on the contract sum of the WHL Agreement and a buffer of 15% for possible variation orders. No cap amounts are required for the two years ending 31 March 2012.

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Our Directors believe that the WHL Agreement benefits our Group by providing our Group a contract with good profit margin.

Waiver

Since, in respect of the expected annual consideration payable under the DSTP Agreement and the expected contract sum payable under the WHL Agreement, not all of the percentage ratios (other than the profit ratio which is not applicable) are less than 2.5% and the respective amount is not less than HK\$10,000,000, the transactions under the DSTP Agreement and the WHL Agreement will, upon the Listing, respectively constitute continuing connected transactions for our Company and will normally require full compliance with the reporting, announcement and independent shareholders' approval requirements under Rules 14A.45 to 14A.48 of the Listing Rules.

As the transactions contemplated under the DSTP Agreement and the WHL Agreement are of an ongoing nature, our Directors consider that compliance with all the applicable requirements under Chapter 14A of the Listing Rules on each occasion such transaction arises would be impracticable and add unnecessary administrative costs to our Company. Accordingly, our Company had applied for, and the Stock Exchange has granted our Company, a waiver from strict compliance with the announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules in respect of such transactions subject to the following conditions:

- (a) the annual consideration payable under the DSTP Agreement for each of the financial years ending 31 March 2012 shall not exceed the respective caps stated above;
- (b) the total consideration payable under the WHL Agreement for the period from 1 July 2009 to 31 March 2010 shall not exceed the relevant cap stated above; and
- (c) our Company will comply with Rules 14A.35(1), 14A.35(2), 14A.36, 14A.37, 14A.38, 14A.39 and 14A.40 of the Listing Rules.

Confirmation from the Directors

Our Directors (including the independent non-executive Directors) are of the view that all the continuing connected transactions under the DSTP Agreement and the WHL Agreement have been and shall be entered into on normal commercial terms and in the ordinary and usual course of business of our Group, and the terms of the DSTP Agreement and the WHL Agreement and the cap amounts are fair and reasonable and in the interests of the Shareholders as a whole.

Confirmation from the Sponsor

The Sponsor is of the view that all the continuing connected transactions under the DSTP Agreement and the WHL Agreement have been and shall be entered into on normal commercial terms and in the ordinary and usual course of business of our Group, and the terms of the DSTP Agreement and the WHL Agreement and the cap amounts are fair and reasonable and in the interests of the Shareholders as a whole.