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## CONNECTED TRANSACTIONS

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During the Track Record Period, our Group entered into a number of related party transactions, details of which are set out in note 27 to the Accountant's Report. Save as disclosed below, these related party transactions of our Group were discontinued before the Latest Practicable Date.

Following the Listing, the following transactions will continue between our Group and the connected persons of our Company which will constitute continuing connected transactions for our Company under the GEM Listing Rules:

### NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

Our Group has entered into the following transactions, which, when aggregated, will constitute non-exempt continuing connected transactions for our Company subject to reporting and announcement requirements but exempt from the independent Shareholders' approval requirement under Chapter 20 of the GEM Listing Rules upon Listing:

#### Leasing of properties to our Group

On 29 August 2016, City Silver, an indirect subsidiary of our Company, entered into a tenancy agreement (the "**Tenancy Agreement**") with Digital Option Limited ("**Digital Option**") and High Supreme Limited ("**High Supreme**"), pursuant to which Digital Option and High Supreme agreed to lease their owned properties in Hong Kong (collectively, the "**Premises**") to City Silver subject to the terms and condition of the Tenancy Agreement. Below set out the summary of the terms of the Tenancy Agreement:

<u>Date</u>	<u>Landlord</u>	<u>Tenant</u>	<u>Property</u>	<u>Monthly rental and payment term</u>	<u>Term</u>	<u>Use of property</u>
29 August 2016	Digital Option and High Supreme	City Silver	Shops A, B & C on G/F and Shops A, B & C on Cockloft of No. 14 Pennington Street, Causeway Bay, Hong Kong	HK\$145,000 payable on a monthly basis	Fixed term of 3 years commencing on 1 February 2017 and expiring on 31 January 2020 (both days inclusive)	Tiger Curry

#### *Previous transactions and historical rentals*

On 27 December 2013, City Silver entered into previous tenancy agreements with Digital Option and High Supreme in respect of the Premises for a fixed term of 3 years commencing on 1 February 2014. During the two years ended 31 May 2015 and 2016 and eight months ended 31 January 2017, the aggregated rentals paid by City Silver under such previous tenancy agreements were approximately HK\$1.5 million, HK\$1.5 million and HK\$1.1 million, respectively.

#### *Annual caps and basis*

The annual rentals payable by City Silver to Digital Option and High Supreme for each of the three years ending 31 May 2019 will not exceed HK\$0.6 million, HK\$1.74 million and HK\$1.74 million respectively. Such estimates are based on the fixed monthly rentals payable under the Tenancy Agreement, which were determined after arm's length negotiations with reference to (i) the historical rentals paid by our Group and (ii) the prevailing market rates of similar properties in the vicinity of those properties leased by our Group.

According to the rental appraisal report issued by International Valuation Limited, an independent qualified valuer engaged by our Group, the terms of the Tenancy Agreement are on normal commercial terms and are fair and reasonable, and the monthly rentals payable under the Tenancy Agreement are at market rates for similar premises in similar location as at the date of the Tenancy Agreement.

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### *Implications under the GEM Listing Rules*

As Digital Option and High Supreme are subsidiaries of CSI Properties, a substantial shareholder of our Company, they are associates of CSI Properties and connected persons of our Company after Listing. The transactions contemplated under the Tenancy Agreement will constitute continuing connected transactions for our Company pursuant to Rule 20.14 of the GEM Listing Rules.

Our Directors (including our independent non-executive Directors) consider that the Tenancy Agreements had been entered into on arm's length basis and in the ordinary and usual course of business, and that the transactions contemplated under the Tenancy Agreements and the annual rentals are on normal commercial terms, fair and reasonable and in the interests of our Group and our Shareholders as a whole.

As the Tenancy Agreement and the Master Agreement (as defined below) were both entered into by our Group with the associates of CSI Properties, the transactions contemplated under the Tenancy Agreement will be aggregated with those contemplated under the Master Agreement, details of which are set out in “— Non-exempt continuing connected transactions — Provision of marketing and promotion services to our Group”.

### **Provision of marketing and promotion services to our Group**

During the Track Record Period, Model Genesis International Management Limited (“**Model Genesis**”) has been providing marketing and promotion services to our Group. On 14 March 2017, Model Genesis has entered into a master agreement (the “**Master Agreement**”) with our Company, pursuant to which Model Genesis agreed to provide the marketing and promotion services including organisation of featured events, engagements of DJs and preparation of publication materials (the “**Marketing and Promotion Services**”) mainly for “Volar” and “Fly” to our Group from the Listing Date to 31 May 2019.

Model Genesis was one of our suppliers for the Marketing and Promotion Services during the Track Record Period. Our Directors expect that we will continue to engage Model Genesis and other suppliers for provision of such service in the future.

Under the premise of compliance with the Master Agreement, our Group and Model Genesis shall further enter into separate individual contracts or purchase orders in respect of specific Marketing and Promotion Services and determine the specific terms and conditions of the Marketing and Promotion Services, such as services fees to be charged by Model Genesis (the “**Services Fees**”).

The Services Fees would be payable on a monthly basis pursuant to the Master Agreement. The terms and conditions of the transactions contemplated under the Master Agreement shall be on normal commercial terms, negotiated on arm's length basis, fair and reasonable and no less favourable to our Group than those offered to other Independent Third Parties for similar services.

### *Previous transactions and historical transaction amounts*

Prior to the entering into the Master Agreement, Model Genesis had provided the marketing and promotion services which were of the same nature as the Marketing and Promotion Services contemplated under the Master Agreement since July 2013 (the “**Previous Marketing and Promotion Services**”).

Set out below are the historical transaction amounts paid by our Group to Model Genesis in relation to the Previous Marketing and Promotion Services during the Track Record Period:

	<i>HK\$'000</i>
Year ended 31 May 2015	2,158
Year ended 31 May 2016	3,403
For the eight months ended 31 January 2017	1,566

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Such historical transaction amounts were mainly calculated by adding the costs spent in each event held in the Track Record Period, the majority part of which was attributable to the costs of DJs who are generally charged by hourly rates.

The significant increase in such historical transaction amounts from the year ended 31 May 2015 to the year ended 31 May 2016 was primarily due to the operation of “Fly” by our Group since 1 November 2015 which also required provision of the Previous Marketing and Promotion Services by Model Genesis.

### *Annual caps and basis*

The annual caps for the total Services Fees payable by our Group to Model Genesis for the three years ending 31 May 2019 are set out below:

	<i>HK\$'000</i>
Year ending 31 May 2017	600
Year ending 31 May 2018	3,400
Year ending 31 May 2019	3,400

In determining the annual caps, we have made references to (i) the historical transaction amounts paid by our Group, (ii) the current market rate of similar services provided by Independent Third Parties, (iii) the anticipated number of featured events held in “Volar” and “Fly” for the three years ending 31 May 2019, (iv) the estimated number of potential DJs involved in featured events and (v) the approximate hourly rates charged by potential DJs. Our Directors consider that the expected number of featured events organised for “Volar” and “Fly” for each of the three years ending 31 May 2019 would be similar to the number of featured events held for the year ended 31 May 2016, hence the annual caps for the total Services Fees payable by our Group for each of the three years ending 31 May 2019 would be similar to the historical transaction amounts for the year ended 31 May 2016.

### *Implications under the GEM Listing Rules*

As Model Genesis is owned as to 30% by Phoenix Year (which is wholly-owned by CSI Properties) and 70% by Aplus (which is wholly-owned by Mr. Kester Ng), being our substantial shareholder and Controlling Shareholder, respectively, it is an associate of each of Aplus, Mr. Kester Ng, Phoenix Year and CSI Properties and a connected person of our Company after Listing. The provision of the Marketing and Promotion Services by Model Genesis to our Group will constitute continuing connected transactions for our Company pursuant to Rule 20.14 of the GEM Listing Rules.

Our Directors (including our independent non-executive Directors) consider that the Master Agreement had been entered into on arm’s length basis and in the ordinary and usual course of business, and that the transactions contemplated under the Master Agreement and the annual caps are on normal commercial terms, fair and reasonable and in the interests of our Group and our Shareholders as a whole.

As the Master Agreement and the Tenancy Agreement were both entered into by our Group with the associates of CSI Properties, the transactions contemplated under the Master Agreement will be aggregated with those contemplated under the Tenancy Agreement. For details, see “— Non-exempt continuing connected transactions — Aggregation of transactions”.

### **Aggregation of transactions**

The maximum aggregated annual caps for the transactions contemplated under the Tenancy Agreement and the Master Agreement (the “**Non-exempt Continuing Connected Transactions**”) payable by our Group for the three years ending 31 May 2019 will be HK\$1.2 million, HK\$5.14 million and HK\$5.14 million.

Given that one of the applicable percentage ratios (other than profit ratio) for the Non-exempt Continuing Connected Transactions calculated by reference to Rule 19.07 of the GEM Listing Rules is expected to exceed 5% but less than 25% and the aggregate consideration is less than HK\$10,000,000 on an annual basis, the Non-

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exempt Continuing Connected Transactions will be subject to the reporting, annual review and announcement requirements but exempt from the independent Shareholders' approval requirement under Rule 20.74(2) of the GEM Listing Rules.

### APPLICATION FOR WAIVER FOR THE NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

Having reviewed the relevant documentation, underlying agreements and historical figures, and having considered the pricing basis and annual caps, our Directors (including the independent non-executive Directors) are of the view that:

- (a) the Non-exempt Continuing Connected Transactions have been entered into on an arm's length basis and in the ordinary and usual course of business of our Group;
- (b) the terms of the Non-exempt Continuing Connected Transactions for each of the three years ending 31 May 2019 are on normal commercial terms, fair and reasonable and in the interests of our Company and our Shareholders taken as a whole; and
- (c) the annual caps of the Non-exempt Continuing Connected Transactions are fair and reasonable and in the interest of our Company and our Shareholders as a whole.

Based on its review of the relevant documentation and historical figures provided by our Company, the Sponsor is of the view that (i) the Non-exempt Continuing Connected Transactions have been entered into on an arm's length basis and in the ordinary and usual course of business of our Group, and (ii) the terms of the Non-exempt Continuing Connected Transactions for each of the three years ending 31 May 2019 are on normal commercial terms, fair and reasonable and in the interests of our Company and our Shareholders taken as a whole; and (iii) the proposed annual caps of the Non-exempt Continuing Connected Transactions are fair and reasonable and in the interest of our Company and our Shareholders as a whole.

Pursuant to Rule 20.103 of the GEM Listing Rules, we have applied to the Stock Exchange for, and the Stock Exchange has granted us, a waiver from strict compliance with the announcement requirement under Rule 20.33 of the GEM Listing Rules for the Non-exempt Continuing Connected Transactions. We shall comply with the annual review and reporting requirements for the Non-exempt Continuing Connected Transactions under Chapter 20 of the GEM Listing Rules.

### RECENT DEVELOPMENT AS AT THE LATEST PRACTICABLE DATE

A subsidiary of CSI Properties (together with its subsidiaries, the "CSI Group") entered into a provisional sale and purchase agreement (the "Sale SPA") on 6 January 2017 for the sale of the CSI Group's entire interests in, among others, Digital Option and High Supreme which are directly holding the Premises (the "CSI Sale"). Completion of the CSI Sale is conditional upon, among others, obtaining the approval of shareholders of CSI Properties in its special general meeting (the "SGM") held on 15 March 2017.

As at the Latest Practicable Date, the CSI Sale had approved in the SGM. Subject to the satisfaction of conditions in the Sale SPA, completion of the CSI Sale shall take place on the later of 31 March 2017 or the third business day following the date of the SGM. It is expected that following the completion of the CSI Sale on 31 March 2017, Digital Option and High Supreme will no longer be the subsidiaries of CSI Properties and the transactions contemplated under the Tenancy Agreement will no longer constitute continuing connected transactions for our Company pursuant to Rule 20.14 of the GEM Listing Rules. Further announcement(s) will be made by the Company in this respect as and when appropriate.