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## BUSINESS

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### OVERVIEW

We are an integrated fitting-out contractor based in Hong Kong specialising in providing professional, up-market and cost-saving fitting-out contracting services for sizeable residential and hotel projects.

We believe that our proven track record, long working relationships with major property developers in Hong Kong and hotel owners in Hong Kong and Macau and our good reputation in the fitting-out industry position us well to increase our market shares in the fitting-out industries in Hong Kong, Macau and China as well as to further develop our business outside these areas to other countries.

Our revenue by business segments during the Track Record Period was as follows:

	2007		Year ended 31 March 2008		2009	
	(HK\$' million)	%	(HK\$' million)	%	(HK\$' million)	%
Fitting-out works						
– Hotel and serviced apartment	528.2	57.3	1,025.6	71.0	843.5	57.6
– Residential apartment	338.8	36.8	343.8	23.8	598.2	40.8
– Others (including schools, commercial buildings and shopping arcades)	31.4	3.4	74.3	5.2	23.5	1.6
Sub-total:	898.4	97.5	1,443.7	100	1,465.2	100
Sourcing and distribution of interior decorative materials	22.9	2.5	–	–	–	–
Total:	<u>921.3</u>	<u>100</u>	<u>1,443.7</u>	<u>100</u>	<u>1,465.2</u>	<u>100</u>

Our revenue by geographic locations during the Track Record Period was as follows:

	2007		Year ended 31 March 2008		2009	
	(HK\$' million)	%	(HK\$' million)	%	(HK\$' million)	%
Hong Kong	310.7	33.7	445.7	30.9	867.9	59.2
Macau	500.5	54.3	939.1	65.0	547.8	37.4
China	110.1	12.0	58.9	4.1	49.5	3.4
Total:	<u>921.3</u>	<u>100</u>	<u>1,443.7</u>	<u>100</u>	<u>1,465.2</u>	<u>100</u>

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We have participated in a number of sizeable fitting-out projects in Hong Kong. As a fitting-out contractor, we are responsible for the overall project implementation by providing or arranging for the necessary materials, labour, engineering expertise and technical know-how required for the fitting-out works and carrying out corresponding project management so as to ensure that the fitting-out works conform to the contractual requirements, meet customers' expectation and are completed on time and within budget.

As a fitting-out contractor, we are responsible for overall project implementation and do not directly employ any worker so that all labour intensive works such as carpentry, installation of doors, floorsets and marble and plumbing works are outsourced to subcontractors. In doing so, we engage or outsource to subcontractors to carry out such works by entering into separate contracts with our subcontractors. Depending on the terms of the contracts with the subcontractors, we may also be responsible for the provision of interior decorative materials for purposes of the fitting-out works, while in other cases, our subcontractors may be responsible for purchasing all such materials for purposes of the fitting-out projects. As at the Latest Practicable Date, we had over 200 subcontractors, of which 33 have five years or above working relationship with us. Our fitting-out projects normally commenced with the tendering process. After tenders are awarded, we usually set up the detailed works programmer, delegate part of the fitting-out works to subcontractors and coordinate among customers, subcontractors and suppliers in completing the projects. Progress payments are received from the customers periodically according to the stages of completion of the works done, and the corresponding subcontracting fees and costs for materials payable to suppliers/subcontractors are settled accordingly.

Our fitting-out business is and has been focusing on the private sector in Hong Kong. In recent years, we have expanded our fitting-out business to Macau and in China. During the Track Record Period, our revenue attributable to fitting-out works amounted to approximately HK\$898.4 million, HK\$1,443.7 million and HK\$1,465.2 million, respectively and accounted for approximately 97.5%, 100% and 100% of our total revenue, respectively.

Our growth in revenue and gross profit is principally attributable to our success in achieving effective economies of scale in the overall business model, cost control system, quality of services and the experienced and dedicated management team. Leveraging on the diverse nature and number of fitting-out projects undertaken by us, our management and staff have accumulated years of experience in a wide variety of fitting-out works.

### COMPETITIVE STRENGTHS

Our competitive strengths as set out below have driven our growth in revenue and gross profits and distinguish us from our competitors:

- **Established reputation and a proven track record**

We commenced operations in Hong Kong in 1986 as a contractor of fire-proofing materials and dry walls. Our fitting-out business was started in 1988 and we have significant experience in the fitting-out industry in Hong Kong.

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Our Directors believe that we have a good reputation in the fitting-out industry in Hong Kong, Macau and the PRC with a proven track record and have the capability of delivering our jobs on time and to the satisfaction of our customers. Our professional and quality services have been well recognised in the fitting-out industry and a number of awards, Shanghai Construction Engineering Magnolia Award 2006 (Municipal high-quality engineering) (2006年度上海市建設工程「白玉蘭」獎(市優質工程)), Cross-century Dongguan and Hong Kong Manufacturing Outstanding Business Award (跨世紀莞港製造業傑出企業獎), Best Subcontractor Award and Macau Prime Awards For Brand Excellence 2008 have been granted by certain associations, government authorities and major property developers in Hong Kong (please refer to the section headed “Business – Major qualifications, certifications and awards” in this prospectus) and we have provided our fitting-out services for most of the landmark hotel and casino projects in Macau and to most of the major property developers in Hong Kong and/or the property development projects undertaken by them during the Track Record Period.

- **Long working relationships with major property developers and hotel owners in Hong Kong, Macau and the PRC**

We have been providing fitting-out services to most of the major property developers in Hong Kong and/or the property development projects undertaken by them since 1996 and certain hotel owners in Hong Kong, Macau and the PRC since 1988. Recommendations on our professional services have been given by some of them, thereby allowing us to secure further contracts from them. Such recommendations have not only solidified our market shares in the fitting-out industries in Hong Kong, Macau and the PRC in past years but also positioned us well to obtain fitting-out projects in the coming years.

- **Competitive edge on material costs and arrangements with reliable suppliers and subcontractors**

We have entered into agreements with DSTP and one other supplier and four other subcontractors. They are either suppliers or subcontractors of timber products, marble products or steel, metal and glazing products, all of which are principal materials and raw materials used in fitting-out projects. DSTP is a company indirectly wholly-owned by Mr. Leung, one of our executive Directors, while others are owned by Independent Third Parties.

DSTP used to be a member of our Group before we disposed of our interest in it in 2005. Since then, we continued to purchase timber products manufactured by DSTP through different members of the Sundart Living Group for our fitting-out projects in view of the history of DSTP, our relationships with DSTP and hence its owner and the quality and pricing of timber products manufactured by DSTP. Please refer to the section headed “Business – Relationship with DSTP” in this prospectus for further information about DSTP and the section headed “Connected transactions – Purchase of timber products from DSTP” in this prospectus for details about our transactions with DSTP.

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Sundart Holdings (for itself and on behalf of its subsidiaries, its holding company and the subsidiaries of its holding company from time to time) entered into the manufacturing and supply agreement, and manufacturing, supply & installation agreements with the following parties (the “**Suppliers**”), major terms of which are set out below:

<b>Suppliers</b>	Timber products supplier	Two Marble products subcontractors	Steel and metal products subcontractor	Glazing, steel and metal products subcontractor
<b>Name of agreement</b>	manufacturing & supply agreement	manufacturing, supply & installation agreement	manufacturing, supply & installation agreement	manufacturing, supply & installation agreement
<b>Relationship with our Group</b>	Independent Third Party	Independent Third Party	Independent Third Party	Independent Third Party
<b>Major responsibilities of the Suppliers</b>	manufacture and supply timber products to our Group whenever requested by our Group	manufacture, supply to and/or, if required, install marble products for our Group whenever requested by our Group	manufacture, supply to and/or, if required, install steel and metal products for our Group whenever requested by our Group	manufacture, supply to and/or, if required, install glazing, steel and metal products for our Group whenever requested by our Group

Each of the above agreements commenced on 1 June 2009 and shall continue up to 31 March 2012 and can be terminated by either the relevant Suppliers or Sundart Holdings without penalty by giving not less than three months’ written notice to the other.

Under each of the above agreements, the terms of the manufacture and supply or manufacture, supply and/or installation (as the case may be) of the requested 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 products where there are available market rates for those products comparable to the requested products (taking into account factors such as the design, type, standard, amount and quality of the products required and the time frame for the manufacturing and supply of such products), the payment terms to be offered to our Group by the Suppliers shall be no

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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 or similar products. Each of the Suppliers also undertakes that the price it charges our Group shall be the lowest among the prices it charges its other customers and that it shall give priority to orders placed by our Group over its other customers' orders.

If the relevant Suppliers and the relevant members of our Group are unable to reach an agreement on the terms governing the manufacture and supply of any product requested, neither of them shall be obliged to manufacture and supply or accept (as the case may be) such product.

Although such arrangements with the Suppliers are not formed exclusively for our Group, our Directors are not aware that they have formed any similar arrangement with any third party. Notwithstanding these arrangements with the Suppliers, our Company will follow the usual tendering process as more particularly described in the section headed "Business – Fitting-out works – Operating procedures – Tendering" in this prospectus in determining whether the orders are to be awarded to the Suppliers.

The arrangements with DSTP and the Suppliers allow us to have cost advantages as well as stable and reliable supplies of principal materials and raw materials used in fitting-out projects and hence let us have a competitive position when bidding for tenders. In addition, the arrangement with DSTP also allows us to have considerable advantage when bidding for tenders made by U.S.-based customers as DSTP is one of the very few manufacturers of timber products in China licensed by UL to produce UL certified products.

- **Possession of qualifications, capabilities and excellent job reference to undertake sizeable fitting-out projects**

In China, Sundart (Beijing) has been granted the Construction Enterprise Qualification Certificate (Grade I in the specialised contract for architectural decoration projects) (建築業企業資質證書) (建築裝修裝飾工程專業承包壹級) which is the highest level of qualification for fitting-out contractor and attesting our capability to undertake sizeable fitting-out projects in the PRC.

In Hong Kong and Macau, although no industry specific qualification, license or permit is required to carry out fitting-out works, our Directors consider that it is difficult for new or small-sized fitting-out companies to take part in sizeable projects as pre-qualification on job reference, technicality and financial resources is usually required. Therefore, having participated in a number of sizeable fitting-out projects in Hong Kong, Macau and the PRC, we possess the necessary capabilities and job reference to undertake sizeable fitting-out projects and are able to withstand stiff competition by small-sized fitting-out companies. In addition, by concurrently participating in a number of sizeable projects, we have the advantage of economic of scale to keep our operating costs to a minimum and increase our bargaining power on procurement of materials, which further secures our competitive position when bidding for tenders.

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- **Experienced and efficient management team**

Our senior management team and key technical personnel have extensive industry knowledge, project management experience and industry expertise in fitting-out works as well as in the other peripheral operations.

As at the Latest Practicable Date, 63 members of our staff have either received tertiary education or above or professional qualifications such as professional engineer, builder, surveyor, accountant and company secretary. Their qualifications and experience facilitate the formulation of competitive yet accurate tenders, which are essential to us in securing new business, and the efficient and timely implementation and management of fitting-out works.

We believe that the combination of our management and technical teams' collective expertise and knowledge of the industry, together with our highly qualified employees, have been and will continue to be our valuable assets.

- **Commitment to safety, quality and environment through well-established management systems**

Our Directors believe that our business primarily depends on our ability to meet our customers' requirements, particularly in respect of safety, quality and environmental aspects. In order to ensure that we meet our customers' requirements on safety, quality and environmental aspects, we have established safety management and formal quality and environmental management systems. Through the systematic and effective control of our operations, compliance with safety, quality and environmental requirements can be further assured.

We have been continuously accredited and re-accredited with ISO 9001 and ISO 14001 certifications. Our Directors believe that certifications to ISO 9001 and ISO 14001 will enhance our public image and credibility and also helps us to improve confidence in our stakeholders.

In addition, we are authorised to apply labels with the UL Mark on certain of our products, which provide us with further competitive advantages over others when tenders are made by us to U.S.-based customers which normally require such certifications.

## BUSINESS STRATEGIES

We aim to become a global integrated fitting-out contractor by increasing our market share in the fitting-out industries in Hong Kong, Macau and China and extending our geographic presence to other countries such as Qatar and Abu Dhabi in the Middle East.

In view of the different market conditions, we have different business objectives in these markets. We intend to maintain growth in our core fitting-out businesses in Hong Kong, Macau and China and step in other markets such as Qatar and Abu Dhabi in the Middle East. To achieve the aforesaid objectives, we will implement the following strategies:

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### **Solidify our position in the fitting-out markets in Hong Kong and Macau which we currently operate**

#### *Hong Kong*

We are an integrated fitting-out contractor based in Hong Kong. Given our proven track record, local knowledge and good reputation, we plan to increase our market share in the fitting-out industry in Hong Kong by focusing on new and key projects in Hong Kong in order to generate strong recurring cash flows for us.

Newly developed projects have been put into market and received good response while projects under development have not been halted. In addition, various upcoming mega-sized infrastructure projects will be commenced in the coming few years, we believe this initiative will create stimulus and another golden decade for the construction industry in Hong Kong as, according to the Synovate Report, a construction cycle generally involves the construction of infrastructure and real estates, and the stage of real estate development usually follows the stage of infrastructure development. According to the Synovate Report, certain residential housing and hotel projects are under construction currently and will be completed during the years from 2009 to 2013.

We believe that our proven track record and long working relationships with major property developers and hotel owners position us well for bidding key projects in Hong Kong for the coming years.

#### *Macau*

With the openings of new casinos in Macau, the tourism industry and economy in Macau had grown robustly until the financial tsunami broke out in 2008, as a result of which several casino and hotel projects were abandoned before completion. We expect that these casino and hotel projects will be re-launched in Macau as the global economy returns to normal. In addition, according to the Synovate Report, there are about four major housing projects under construction or waiting for the approval by the government of Macau. These projects, with estimated fitting-out values ranging from approximately MOP3 million to MOP1 billion, are expected to be completed during the years from 2009 to 2012. In view of these, our Directors are still optimistic about the fitting-out industry in Macau.

Our Directors intend to bring in additional effort and resources to make further business development in Macau.

### **Further expand our fitting-out business in the PRC**

Despite the financial tsunami, China is still able to maintain growth in its GDP when comparing with other developed countries including the United States, Japan and other European countries. Such driving force came primarily from one of the national policies to invest in public construction and infrastructure projects. In view of this policy and the statistics about the China construction industry for the last few years,

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our Directors are optimistic about the construction industry and hence the fitting-out industry in China. We intend to pursue more business opportunities in selected cities in China with good growing potential and to enhance the scale of our operations in China. This will principally be done by way of providing our services to major Hong Kong or International property developers in their PRC property development projects, through which we believe will enable us to further develop in the fitting-out industry in China and hence increase our profitability.

In order to meet our business expansion plan in China, we have already taken several steps including increasing the registered capital of Sundart (Beijing) from HK\$18 million to HK\$28 million in May 2009 and obtaining additional banking facilities for Sundart (Beijing). In addition, we have targeted certain proposed sizeable projects announced by major property developers in Hong Kong, and have closely monitored their progress so that sales and marketing efforts will be available as and when necessary. Our Directors believe that, given our proven track record and good reputation in the fitting-out industry, we will be able to participate in the mega-sized hotel and/or luxurious residential projects to be carried out in China in the coming years.

### **Strategically expand our fitting-out business to other markets such as Qatar and Abu Dhabi in the Middle East**

With the re-joining of Mr. Leung, we have started our fitting-out business in overseas market such as Qatar. Mr. Leung stepped in the Middle East market in about 2005 by trading timber products to local distributors and supplying timber products to local fitting-out contractors. As such, Mr. Leung possessed strong experience in dealing with market participants in the Middle East. New corporate entity, Sundart Interior, was set up by us for this purpose on 17 May 2009.

Sundart Interior's initial share capital is QAR10,000,000 divided into 10,000 equal shares of QAR1,000 each and is held as to 51%, 47%, 1% and 1% by Mr. Abdullatteef Mohammed A Al-Kuwari, Sundart (Middle East), Mr. Jubin Kodinjil Thomas and Ms. Anastasia Chistyakova respectively who are entitled to exercise voting rights in accordance with their respective shareholding interests. Sundart Interior was set up to be engaged principally in fitting-out works for residential, commercial, hotel and resort development and any other projects in Qatar.

Under the SI-JV Agreement, the board of Sundart Interior comprises four directors, of which two are nominated and appointed by Sundart (Middle East) and the other two directors are nominated by Mr. Al-Kuwari and Ms. Chistyakova respectively. The quorum of board meetings is three directors of which two shall be directors nominated and appointed by Sundart (Middle East). Any decision of the board of Sundart Interior shall be made by a simple majority of votes of the directors present at a duly constituted meeting and every director present shall have one vote.

Each of the JV Partners is entitled to appoint one representative to vote and Sundart (Middle East) is entitled to appoint three representatives to vote at shareholders' meetings of Sundart Interior. The quorum of shareholders' meetings of



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Sundart Interior shall be a minimum of one representative appointed by each of the JV Partners and any two representatives appointed by Sundart (Middle East) and passing of all resolutions at shareholders' meetings require votes of those shareholders representing more than 75% of the total number of shares of Sundart Interior except for those matters which require the approval of votes representing 100% of the total number of shares of Sundart Interior, such matters include, among others, any change in the capital and debt structure of Sundart Interior, any change in the dividend policy of Sundart Interior, the approval, declaration or payment of dividends or other distributions of Sundart Interior's profits and earnings, any proposal for Sundart Interior's reconstruction, consolidation, amalgamation or merger with, or acquisition by, another corporation.

The day to day administration of Sundart Interior is delegated to a general manager (who is appointed by Sundart (Middle East)) and to Mr. Thomas as manager. Mr. Leung has been appointed as the senior director who has the powers of a company general manager in accordance with Qatar law and to supervise the general manager of Sundart Interior. Each of the JV Partners shall provide Sundart Interior with such general assistance as it reasonably requires upon the request of Sundart (Middle East) or Sundart Interior.

Each of the JV Partners has also undertaken that he/she will not enter into any activities which do not form part of his/her existing businesses and would be in competition with, directly or indirectly, the business of Sundart Interior and any other business as Sundart Interior may from time to time carry out without the prior written consent of Sundart (Middle East).

Pursuant to the SI-JV Agreement, subject to circumstances prevailing at the relevant time, Sundart (Middle East), Mr. Al-Kuwari, Mr. Thomas and Ms. Chistyakova shall be entitled to dividend in the proportions as to 51%, 25%, 12% and 12% respectively of the net profits of Sundart Interior. They shall also be responsible for the net losses of Sundart Interior in the same proportions as aforesaid.

We have been advised by our legal advisers as to Qatar law that under Law No (13) of 2000 for the Regulation of Foreign Capital Investment in Economic Activity of Qatar (the "**Foreign Investment Law**"), a foreign investor may not own more than 49% of a Qatari company unless it has received an exemption in accordance with the Foreign Investment Law. Foreigners practising any economic activity in violation of the Foreign Investment Law are subject to a fine not less than QAR50,000 and not more than QAR100,000, and any Qatari national who collaborates with a foreigner in operating such activity shall be liable to the same penalty. However, the Foreign Investment Law does not explicitly prohibit a foreign investor from receiving more than 49% of a Qatari company's net profit.

The profit distribution arrangement as provided in the SI-JV Agreement as mentioned above means that the non-Qatari shareholders of Sundart Interior (i.e. Sundart (Middle East), Mr. Thomas and Ms. Chistyakova) are entitled to receive 75% of the net profits of Sundart Interior which is more than their combined 49% equity shareholding in Sundart Interior. Such profit distribution arrangement is also contained

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in the articles of association of Sundart Interior which have been studied, approved and registered by and with the Qatar Ministry of Business and Trade. Although it is possible that such profit distribution arrangement could theoretically be challenged in the Qatar courts on the basis that the profit distribution is of a different proportion to the equity shareholding and therefore possibly not in compliance with the Foreign Investment Law, the legal advisers as to Qatar law have advised that disproportionate profit sharing arrangement is an established practice in Qatar, they have seen many other Qatari companies with similar profit distribution arrangements and they have been involved in a considerable number of Qatari company incorporations over the last five years the joint venture contracts/articles of association of which contained similar provisions as those of Sundart Interior and that they are not themselves aware of any such challenge having been made or any decision handed down by the Qatar courts on this issue. Furthermore, under Qatar law there is a general principle by which the contract is the law of the contracting parties, and therefore in the absence of a specific prohibition in the law, shareholders should be able to determine and agree among themselves the basis on which they hold the economic benefit of their shareholdings in a company.

In the absence of fraud, misrepresentation or other extenuating circumstances, our legal advisers as to Qatar law believe that such a challenge would be unlikely, very remote and has little chances of being successful in a court action in Qatar in these circumstances, particularly given the level of profit distribution, the clear agreement of the parties and the fact that such arrangements are enshrined not only in the SI-JV Agreement, but also in the articles of association of Sundart Interior which have been approved by and registered at the Qatar Ministry of Business and Trade. In any event, any challenge of the arrangement would most likely be on the ground of the Qatari shareholder wanting a bigger share of the profit and not by a third party (including the authorities).

Our legal advisers as to Qatar law are also of the view that in the unlikely event that such challenge was made and was successful and the profit distribution arrangement was held to be void, the risk is that the court would bring back the profit sharing ratios to be in line with the actual shareholding and it would not otherwise affect the legal status, the operations or other activities of Sundart Interior. Thus the risk is that the share of profits of Sundart (Middle East) will be brought down from 51% to 47% to be in line with its percentage shareholding. The profit sharing entitlement of the other two non-Qatari shareholders (Mr. Thomas and Ms. Chistyakova) would also be brought down to 1% each and the profit sharing entitlement of the Qatari shareholder (Mr. Al-Kuwari) would be increased to 51% reflecting their respective levels of shareholding in Sundart Interior.

We will pay particular efforts to develop our business in Qatar market as we believe that new mega-sized fitting-out projects are emerging in this country which, if we are able to participate in them, will enhance our goodwill and make up our dropping business in Macau.

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We also look for opportunities to expand our fitting-out business to other countries such as Abu Dhabi in the Middle East. As a stepping stone, we will first involve in sourcing and distribution of interior decorative materials, followed by installation of timber doors and floors and thereafter try to participate in fitting-out projects in such country as and when appropriate.

As at the Latest Practicable Date, we had not secured any fitting-out contract in Qatar and Abu Dhabi and there were nine pending tenders for fitting-out projects in the Middle East having been submitted by us.

### **Extend to new business segment of building renovation and usage conversion**

In addition to new property developments, fitting-out business opportunities also arise when a building undertakes complete renovation or changes its usage, say from residential to hotel or from industrial to residential or hotel. Such kind of projects do not require construction of superstructure and usually require the fitting-out contractor to adopt “design-and-build” approach and take the leading role in place of building main contractor, hence, render the fitting-out contractor to have greater flexibility in deploying resources.

During the Track Record Period, we have participated as main contractor in three projects of building renovation and usage conversion involving Waldo Hotel, the Hotel Development at Morrison Hill Road and Butterfly on Prat (Hotel Conversion at 21-23A Prat Avenue, Kowloon). Such participations have not only provided us with business opportunities and revenue but also enhanced our image in the eyes of the customers, designers, suppliers and subcontractors.

In view of shortage of land and high labour costs in Hong Kong and our receipt of different tender invitations during the Track Record Period and thereafter, our Directors believe that further building renovations and usage conversion projects will emerge in the coming years in Hong Kong. As such, we will place further efforts to capture such opportunities.

### **Develop our business of sourcing and distribution of interior decorative materials**

Our proven track record positions us well to participate in future projects and we will pursue opportunities which we believe will generate a satisfactory return in investment. Leveraging on the established platforms of our main business, we intend to expand our operation scale by further developing our business of sourcing and distribution of interior decorative materials in other countries outside Hong Kong, Macau and China.

With the relationship with DSTP and the arrangements under the DSTP Agreement and the arrangements with other suppliers and subcontractors, we will actively be involving in the business of sourcing and distribution of interior decorative materials. Given that purchase orders of interior decorative materials aggregating over HK\$67 million have been secured by us since April 2009 and up to the Latest Practicable Date and the fact that gross output value of construction in Qatar had been increasing

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throughout 2005 to 2008, we are confident that this business will not only generate additional and stable revenue to us but also give us additional opportunities to step into other markets, first by supplying interior decorative materials, followed by installation of timber doors and floors and then by participating in interior fitting-out projects in other countries in the Middle East as and when appropriate.

### **Set up our own procurement and pre-fabrication facility**

We believe that there is a common trend in the fitting-out industry for pre-fabrication of fitting-out materials, particularly for sizeable projects, where heavy and complex fitting-out materials such as marbles, timber doors and furniture are pre-fabricated and then delivered on-site for assembling as pre-fabrication method will not only save costs and enhance quality but also generate less wastages and hence environmental friendly.

In view of this, we intend to set up our own procurement and pre-fabrication facility in the PRC, which we believe will enhance our competitiveness when bidding for tenders in terms of price, quality and environmental friendliness.

As an initial planning, our procurement and pre-fabrication facility will be located in the Southern part of China having an aggregate gross floor area of about 10,000 sq.m. which comprises a warehouse, a laboratory, an office and a staff dormitory and hiring not less than 100 employees. As at the Latest Practicable Date, the Group did not have any capital commitment in relation to the setting up of the pre-fabrication facility. Such proposal, which will be solely financed by our proceeds from the Global Offering, will be commenced immediately after the Listing and is targeted to be completed by 2012.

### **Strengthen our research and development capabilities**

Property developers and hotel owners have been increasingly demanding when it came to new projects, but they might not be willing to pay commensurate pricing. In order to maintain our competitive edge, we have to strengthen our R&D capabilities. At present, we do not have a separate R&D department but have recruited a technical manager in April 2009, with primary responsibility to provide technical support to our project team as well as research and development of timber products and pre-fabrication and installation technique. No R&D expenses arose by reason of employment of any employee before the recruitment date of the said technical manager. The R&D expenses for the two years ended 31 March 2009 had been accounted for under cost of sales or staff costs and no separate allocation of such expenses was made. After the Listing, we will devote significant research efforts and resources in the R&D of pre-fabrication and installation technique, fire-proofing and/or noise-reduction fitting-out materials and combination of different materials for fitting-out usages. In doing so, we will set up a separate R&D department and recruit not less than two engineers/technicians with sufficient engineering experience whom will be led by our technical manager recruited by us in April 2009. A laboratory with advanced instruments and equipment will also be set up in the same premises at which our own procurement and pre-fabrication facility is to be located.

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### **Continue to further enhance our brand name recognition**

We believe that our “**Sundart**” brand name has been paramount to our past records and will underpin our development in the future. We will continue to focus on increasing the appeal of our services and distinguishing ourselves from our competitors by further enhancing our operational efficiency and productivity. We will also continue to proactively manage our customer relations, expand our customer base and increase customer loyalty.

We believe that our “**Sundart**” brand name will be enhanced as we expand our business.

### **Continue to emphasize and maintain high standards of project planning, management and implementation**

We will continue to collaborate with highly selective main contractors in our pursuit of overall project quality. Our goal is to benchmark our services against world-class standards. More importantly, we will continue to apply our systematic approach to project management to further standardise and streamline different areas of our operations. We will also continue to implement strict quality control measures to monitor our product quality and workmanship throughout the development process.

As we expand, it will become increasingly important that we are able to maintain our levels of standards in order to ensure customer comfort and satisfaction.

### **Adhere to prudent financial management to ensure sustainable growth and capital sufficiency**

We will continue to closely monitor our capital and cash positions and carefully manage key measures such as labour costs, cash flows and fixed charge coverage. In the process of identifying and capturing emerging opportunities, we will continue to focus on projects on a selective and prudent basis which are profitable and of high-profile in nature.

We will continue to focus on our internal control system to ensure adequate cash flow for our ongoing capital requirements, improve our operating facilities and technologies and streamline our operational processes to achieve savings in our costs. We will remain disciplined in our capital commitments and seek long-term financing opportunities.

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### FITTING-OUT WORKS

We have been conducting our fitting-out business within Hong Kong, Macau and China. Our fitting-out business started in 1988 when Sundart Engineering, our past subsidiary, was involved as a subcontractor in works relating to structural spray fire protection (鋼結構耐火噴塗) and fitting-out works in respect of Jing Guang Centre in the PRC. Since then, we, through Sundart Engineering, continued to participate in several projects in the PRC on a project-by-project basis until Sundart (Beijing) was established in 2003. Then we have operated our fitting-out business in Hong Kong since 1996. We further expanded our fitting-out business to Macau in 2005 through Sundart (Macau).

As a professional fitting-out contractor, we are involved in the day-to-day management and implementation of projects awarded to us. Normally, we delegate part of our fitting-out works to our subcontractors, and coordinate with our customers or their consultants, the main contractors, subcontractors and suppliers when carrying out our projects.

### Projects taken and undertaking

We normally secure projects through competitive tender process. Over the years, we have completed a significant numbers of sizeable fitting-out projects for major property developers in Hong Kong and Macau. The diversity and extensiveness in our portfolio in the past is illustrated in the following examples of projects undertaken by us:

Project name	Type of customer	Our capacity <sup>(1)</sup>	Project type	Scope of works	District	Contract sum attributable to us	Contractual/estimated commencement date	Completion date
Celestial Heights (Phase 1)	Property owner	Contractor	Residence	Typical flats and lift lobbies fitting-out	Homantin, Hong Kong	HK\$269.6 million	28 August 2007	27 March 2009
The Capitol, Lohas Park	Property owner	Contractor	Residence	Typical kitchens, bathrooms and lift lobbies fitting-out	Tseung Kwan O, Hong Kong	HK\$160.2 million	7 June 2007	June 2009 <sup>(2)</sup>
Metro Town Phase 1 (Tiu Keng Leng Station Development)	Property owner	Contractor	Residence	Residential units, typical lift lobbies, main entrance lobbies and lift interior	Tseung Kwan O, Hong Kong	HK\$167.4 million	7 September 2004	16 October 2006
Le Point, Phase 2 (Tiu Keng Leng Station)	Main contractor	Nominated subcontractor	Residence	Residential units lift lobbies, lift cars	Tseung Kwan O, Hong Kong	HK\$138.7 million	24 May 2006	5 February 2008
The Legend	Main contractor	Nominated subcontractor	Residence	Typical flats, bathrooms and lift lobbies fitting-out	Tai Hang, Hong Kong	HK\$102.9 million	10 August 2005	4 August 2007
Phase RIII and RIVA of the Residential Development of Pokfulam	Main contractor	Subcontractor	Residence	Typical bathrooms and lift lobbies fitting-out	Pokfulam, Hong Kong	Bathroom: HK\$75.6 million Typical Lobby: HK\$35.6 million	22 December, 2004	28 February 2006
Residential Development at Pokfulam Phase RV – Bathroom Entrance Lobbies & Lift Cars	Main contractor	Subcontractor	Residence	Typical bathrooms and main entrance lobbies fitting-out	Pokfulam, Hong Kong	Bathroom: HK\$75.2 million Main Entrance: HK\$15.2 million	27 September 2007	11 November 2008

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Project name	Type of customer	Our capacity <sup>(1)</sup>	Project type	Scope of works	District	Contract sum attributable to us	Contractual/estimated commencement date	Completion date
The Palazzo (Ho Tung Lau Development, Shatin) – Typical Tower Lift Lobby	Main contractor	Nominated subcontractor	Residence	Typical lift lobbies fitting-out	Shatin, Hong Kong	HK\$60.0 million	2 July 2007	31 March 2009
Garden East Serviced Apartment (Hotel Development at Queen's Road 214-224)	Main contractor	Subcontractor	Serviced apartments	Typical guest rooms and corridor fitting-out	Wanchai, Hong Kong	HK\$56.2 million	31 January 2008	14 November 2008
Parcel 2 of the Cotai Casino, Exhibition and the Hotel Complex	Property owner	Trade contractor	Hotel	Guest suites (excluding the two presidential suites on L18 and 19), common corridors at front-of-house areas, lift lobbies and lift cars from L6-L19 fitting-out	Cotai, Macau	MOP147.7 million	15 August 2007	4 August 2008
MGM Grand Macau	Management contractor	Subcontractor	Hotel	Villa rooms, lift lobby and corridor fitting-out	Nam Van, Macau	MOP162.3 million	14 February 2007	10 January 2008
MGM Grand Macau	Management contractor	Subcontractor	Hotel	Suite rooms, lift lobby and corridor fitting-out	Nam Van, Macau	MOP172.8 million	18 October 2006	10 January 2008
Grand Lisboa Hotel and Casino	Main contractor	Subcontractor	Casino and hotel	Casino gaming areas at 1/F, 2/F, 3/F, casino VIP rooms at 2/F, U2/F, and 3/F and VIP lift lobbies and passageways at LG3, LG1, G/F and 3/F and hotel banquet hall at UG/F interior fitting-out	Macau	MOP152.4 million	24 April 2006	21 January 2008
Grand Lisboa Hotel	Main contractor	Subcontractor	Hotel	Hotel guestrooms 11/F to 22/F (except 13/F, 15/F & 16/F interior fitting-out	Macau	MOP112.8 million	31 July 2007	14 February 2008
Parcel 1 of the Cotai Casino, Exhibition and the Hotel Complex	Major trade contractor	Subcontractor	Hotel	VIP Suites at L38 & L39 and VIP, hospitality and club lounge at L6 and L7, hotel suites and corridors at central wing, guest lift lobbies and guest elevators of typical floors fitting-out	Cotai, Macau	MOP250.6 million	20 September 2006 (L38 & L39) 5 April 2006 (L6 & L7) 6 November 2005 (hotel suites and corridors at central wing, guest lift lobbies and guest elevators of typical floors fitting-out)	14 August 2007 (L38 & L39) 20 July 2007 (L6 & L7) 31 May 2007 (hotel suites and corridors at central wing, guest lift lobbies and guest elevators of typical floors fitting-out)
Wynn Resorts Macau	Contractor	Subcontractor	Casino and hotel	Fitout and Drywall to Ground Floor Promenade and Ground Floor Noodle (Expansion Phase)	Macau	HK\$16.0 million <sup>(3)</sup>	June 2006	December 2007

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Project name	Type of customer	Our capacity <sup>(1)</sup>	Project type	Scope of works	District	Contract sum attributable to us	Contractual/estimated commencement date	Completion date
Waldo Hotel	Property owner	Contractor	Casino and hotel	G/F and M/F Casino and Lobby renovation and fitting-out	Macau	HK\$27.0 million <sup>(4)</sup>	20 September 2007	October 2008
The Long Beach, KIL No. 11152, Hoi Fan Road, Kowloon	Main contractor	Subcontractor	Residence	Typical lift lobby, bathroom, kitchen, living room and maid lavatory for residential towers	Hoi Fan Road, Hong Kong	HK\$75.5 million	10 October 2003	25 November 2004
Parc Palais, Kowloon Inland Lot No. 11118, King's Park	Main contractor	Nominated subcontractor	Residence	Typical bathrooms, shuttle lift lobbies, entrance lobbies and lift lobbies fitting-out	King's Park, Hong Kong	HK\$78.9 million	10 July 2003	3 May 2004
Central Park Towers, Tin Shui Wai Town Lot No. 24, Area 33	Property owner	Contractor	Residence	Typical flats and lift lobbies fitting-out	Tin Shui Wai, Hong Kong	HK\$123.0 million	27 September 2004	2 January 2008
Harbourview Horizon KIL 11103 Hung Hom Bay	Property owner	Contractor	Hotel	Loose Furniture and lighting to the typical suite units fitting-out	Hung Hom, Hong Kong	HK\$56.3 million	22 June 2005	1 May 2006
Wynn Resorts Macau	Contractor	Subcontractor	Hotel	Fit-out to SPA, Restaurants, Hotel Lobbies, G/F Promenade and Lobby Lounge, Italian Restaurant and Public Restrooms in Area 2	Macau	HK\$36.4 million <sup>(5)</sup>	15 July 2005	April 2007
One Island East, Quarry Bay	Main contractor	Subcontractor	Office	Passenger, Carpark and Service lift lobbies, toilets smoke lobbies outside toilets and lift car interiors fitting-out	Quarry Bay, Hong Kong	HK\$59.1 million	12 June 2007	24 May 2008
Butterfly On Prat (Hotel Conversion at 21-23A Prat Avenue, Kowloon)	Main contractor	Subcontractor	Hotel	Provision of alteration works, fitting-out works and building services installation works	Tsim Sha Tsui, Hong Kong	HK\$55.3 million	8 December 2007	14 November 2008

*Notes:*

- For those projects which our capacity was classified as contractor/trade contractor, we were directly employed by the property owners to execute the fitting-out works of the contracts.

For those projects which our capacity was classified as nominated subcontractor, we were nominated by the property owners and entered into subcontracts with the main contractors to execute the fitting-out works.

- Fitting-out works have been completed pending written confirmation from our customer.
- The actual value of the works exceeded HK\$66.5 million due to subsequent variation of orders received from our customer.
- The actual value of the works exceeded HK\$100.0 million due to subsequent variation of orders received from our customer.
- The actual value of the works exceeded HK\$56.8 million due to subsequent variation of orders received from our customer.



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As at the Latest Practicable Date, we had a number of projects in progress. The following tables set out those projects with contract sum of not less than HK\$50 million:

*A. Contract sum of more than HK\$100 million:*

Project name	Type of customer	Our capacity <sup>(1)</sup>	Project type	Scope of works	Contract sum attributable to us	Contractual commencement date	Contractual completion date	Approximate percentage of progress payments received and receivable as at 30 June 2009
<b>Hong Kong</b>								
Lohas Park Phase II	Property owner	Contractor	Residence	Typical Kitchens, bathrooms, lift lobbies, lift cars fitting-out	HK\$183.8 million	23 April 2008	14 September 2010	46%
Central Park Towers II	Property owner	Contractor	Residence	Typical Flats and Lift Lobbies interior fitting-out	HK\$125.7 million	13 May 2008	9 November 2010	5%
Celestial Heights (Phase 2)	Property owner	Contractor	Residence	Typical flats and lift lobbies fitting-out	HK\$273.0 million	22 December 2008	November 2009	23%
<b>Macau</b>								
Serviced Apartments for Parcel 2 Cotai Resort Development	Property owner	Trade contractor	Hotel	Typical bathroom, kitchen & Front of House Area Finishes fitting-out	MOP445.4 million	24 June 2008	10 June 2009 <sup>(2)</sup>	39%
City of Dream at Cotai, Macau – C2388D Hotel Block 1	Property owner	Trade contractor	Hotel	Guestroom Front of House Area & Back of House Area fitting-out (L05-UR/F)	HK\$147.3 million	11 July 2008	30 July 2009 <sup>(2)</sup>	78%
City of Dream at Cotai, Macau – C2388E Hotel Block 2	Property owner	Trade contractor	Hotel	Guestroom Front of House Area & Back of House Area fitting-out (L05-UR/F)	HK\$154.5 million	11 July 2008	30 June 2009 <sup>(2)</sup>	94%
<b>Shanghai</b>								
Ritz Carlton Hotel (陸家嘴S01工程)	Property owner	Nominated subcontractor	Hotel	Guest rooms, lift lobbies and corridor of south tower hotel fitting-out	RMB88.3 million	December 2008 <sup>(3)</sup>	November 2009	2.4%

*Notes:*

- For those projects which our capacity was classified as contractor/trade contractor, we were directly employed by the property owners to execute the fitting-out works of the contracts.

For the projects which our capacity was classified as nominated subcontractor, we were nominated by the property owners and entered into subcontracts with the main contractors to execute the fitting-out works.

- Contractual completion date has to be extended and application for extension of time has been submitted to our customer. The delay was caused by additional and variation of works as instructed by our customer during the course of execution of works. There is no default on our part.
- The project was at the stage of design during the first half of 2009 and the mass production is expected to commence in August 2009.

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*B. Contract sum between HK\$50 million and HK\$100 million:*

Project name	Type of customer	Our capacity <sup>(1)</sup>	Project type	Scope of works	Contract sum attributable to us	Contractual commencement date	Contractual completion date	Approximate percentage of progress payments received and receivable as at 30 June 2009
<b>Hong Kong</b>								
Harbour Grand (21/F – 40/F for Hotel Development at 15-17 Oil Street, North Point)	Property owner	Contractor	Hotel	Guest rooms, lift lobbies and corridor fitting-out	HK\$91.8 million <sup>(2)</sup>	16 March 2008	7 November 2008 <sup>(3)</sup>	96%
13-15 Tai Hang Road, Causeway Bay, Hong Kong	Main contractor	Nominated subcontractor	Residence	Typical Lift Lobbies, kitchens and bathrooms fitting-out	HK\$85.9 million	17 July 2008	30 September 2009	41%

*Notes:*

- For the projects which our capacity was classified as nominated subcontractor, we were nominated by the property owners and entered into subcontracts with the main contractors to execute the fitting-out works.
- The actual value of the works certified by our customer has reached HK\$173.0 million, which is larger than the original contract sum due to additional works as instructed by our customer.
- Contractual completion date has to be extended and application for extension of time has been submitted to our customer. The delay was caused by additional and variation of works as instructed by our customer during the course of execution of works. There is no default on our part.

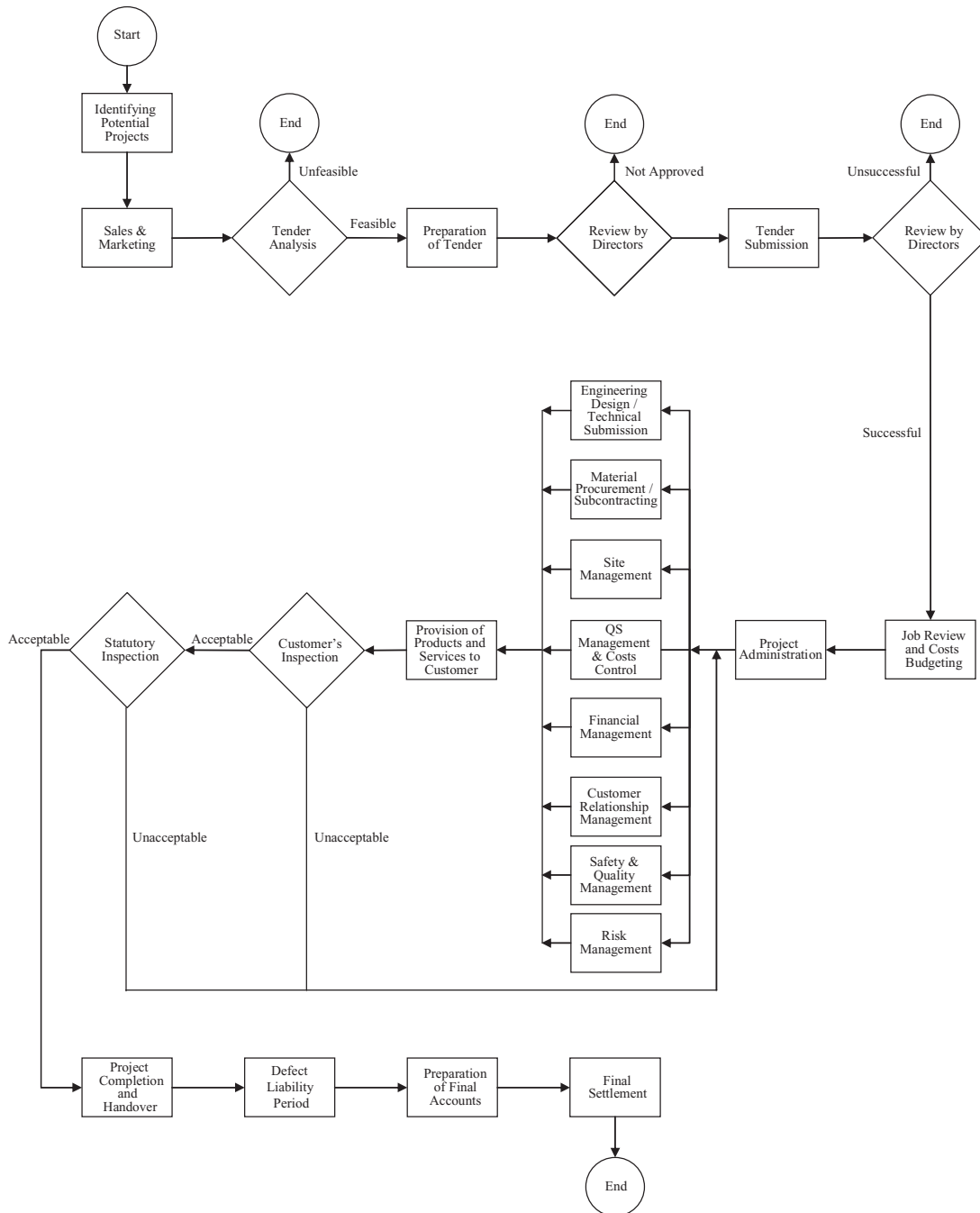
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## Operating procedures

Our operating procedures in respect of fitting-out works principally involve identifying potential projects, sale and marketing, tendering and project implementation. We have developed a comprehensive project management system in respect of our fitting-out works including tendering preparation, contract management, project administration and project completion and handover. For illustrative purposes, the flow of our operating procedures is outlined below:



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### *Identifying potential projects*

We will preliminarily review such potential projects in order to ascertain whether they are profitable and manageable. We normally make decisions based on a number of factors including the scope and complexity of work, project specification, achievability of specified timetable, availability of recourses and expertise and our financial conditions.

In case of new potential customers, we will assess and review their backgrounds, future development prospects and financial status by meeting with the customers and through public searches.

### *Sales and Marketing*

After deciding to proceed with an identified project, our sales and marketing staff will prepare the necessary pre-qualification submission, study tender background, make forecast review and carry out site visit. Pre-qualification is a common practice adopted by developers whereby the developers require each candidate to make a submission in order to assess its eligibility to tender. Different factors may be considered by the developers in the assessment including company organisation and resources, past job experience, proposed human resources for the project, proposal for undertaking the project and safety and environmental protection track records, etc.

During the Track Record Period, nearly all of our revenue were derived from our fitting-out projects in the private sector. Therefore, nearly all of our customers are either property developers, hotel owners or main building contractors in Hong Kong, Macau or China. During the Track Record Period, sales to our largest customer accounted for approximately 27.6%, 38.2% and 40.2% of our revenue, respectively. During the Track Record Period, sales to our five largest customers accounted for approximately 64.9%, 80.2% and 78.7% of our revenue, respectively.

None of our Directors, their associates or any Shareholders (which to best knowledge of our Directors will own more than 5% of the issued share capital of our Company immediately upon completion of the Global Offering) had any interest in our five largest customers as at the Latest Practicable Date.

### *Tendering*

In pricing a tender, we make reference to the information maintained in our computer database, the quotations of suppliers and subcontractors, the materials price trend, wage trend, our previous tender records and the awarded tender prices of similar jobs. During the tendering process, if any subsequent tender changes, modifications or addenda are received, we will review and take into account all such tender changes, modifications or addenda in the preparation of tender and reply customers as required. We take into account various possible risk factors in preparing an accurately budgeted, competitive and profitable tender. Most of our contracts are awarded and carried out on a fixed-price basis with a pre-determined timetable for project completion. Our bids are therefore prepared on this basis. This type of contracts generally commits the fitting-out contractor to provide all the resources required to complete a project for a fixed sum.

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### *Tender analysis*

On receipt of a tender, we will evaluate and conduct an analysis of the tender documents to identify the scope of works, costs, environment, quality, schedule, safety, statutory and technical requirements.

Tender analysis is an expedient process in the sense that we have to determine the feasibility of a particular project in a short period of time before placing substantive resources in preparing the tender proposal.

### *Preparation of tender*

Tender preparation is a comprehensive procedure which mainly involves our QS and project management teams. It includes costing and pricing, competitor analysis, cash flow analysis and risk assessment, etc.

The time allowed to prepare the tender proposal varies from case to case, and depends on specific tender requirements of a project. Generally, it takes about three to four weeks from receipt of the tender documents to submission of the tender proposal. Additional time is usually allowed if there is any tender addendum or pre-tender interview. In certain circumstances, extension of tender return date may be granted by potential customers when so requested by us.

### *Tender interviews*

After receiving tender proposals from candidates, the potential customer will have interviews with those short-listed candidates, at which the potential customer will have an in depth study on the tender, technicality and financial aspects of the candidates.

## **Project administration**

On award of a contract, we will implement project administration to ensure the contract is executed effectively and efficiently.

The management process includes engineering design and technical submission, devising detailed works programme, procurement of materials, delegation of works to subcontractors, coordination with the customer or its consultants, and with subcontractors and suppliers and to take charge in the overall management of these works.

### *Works programme*

Once a contract is awarded to us, we will assign a project team which is led by a project manager for on-site supervision and overall coordination of the day-to-day operation of the project.

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A works programme will be prepared according to the contract requirements and the site activities in the works programme will be broken down into sufficient details such that individual task works can be monitored. The works programme will show the logic of the work sequence and incorporate the key dates and milestone dates which will be closely monitored during the execution of the project.

Based on the works programme, the subletting schedule, the resource schedule, the method statement submission schedule, the design submission schedule and the material requirements or sample submission schedule will be worked out. The above schedules will be used to monitor the planning work and to ensure that the subletting work, the resources allocation, the submission works are prepared and proceeded in a timely manner.

### *Engineering design / Technical submission*

Ideas of customers are included in the tender documents which are usually in the form of architect's drawings together with the specifications of materials and/or products to be used. Staff of our technical department has to prepare corresponding detail engineering drawings in order to transform such ideas into real and practicable solutions. Sometimes, product simulation and/or mould-up is required in order to let the customers have an in-depth understanding of what materials or products are to be used in the projects.

### *Procurement and allocation of resources*

Our purchasing department sources materials, invites quotations, conducts price evaluation and negotiation, undertakes procurement of materials and equipment, allocates resources for all projects and aligns demands for each project. This centralised procurement and resources allocation system enables us to make bulk purchases in order to achieve cost savings, and to coordinate the allocation of our existing resources among different sites in order to maximise utilisation of resources.

Depending on contract requirements, we may be required to purchase raw materials such as marble, wood, veneer, paint and cement to furnished products such as door, bath tub, shower head and other furniture.

Proposed materials, together with actual sample, if possible, will be approved by the customer prior to order. Generally, our suppliers offered us credit terms of thirty days after receipt of invoices or demand notes. We have maintained good working relationship with our suppliers and, barring unforeseeable circumstances, do not foresee any difficulties in sourcing materials in the future.

Unless the customers require us to select suppliers nominated by them, we select our suppliers from our approved list of suppliers and only listed suppliers are invited to submit quotations. Starting from 2008, annual performance appraisal is conducted on all the listed suppliers and we assess their overall performances including quality, safety, environmental friendliness and timeliness of delivery. Generally, we select suppliers from the approved list based on their past performances and their capacity to comply with the specified project requirements. We will within 2009 start to implement regular assessment of our suppliers in the course of a project to ensure the quality of their products.

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During the Track Record Period, purchases from members of the Sundart Living Group, our largest supplier accounted for approximately 11.9%, 6.0% and 4.8% of our total cost of sales, respectively and purchases from our five largest suppliers accounted for approximately 20.8%, 10.8% and 11.6%, respectively of our total cost of sales. Purchases from such suppliers mainly included timber products, tiles and marble, furniture, light fittings, wall covering and ironmongeries.

Save for Mr. Leung, who is the sole owner of the Sundart Living Group, none of our Directors, their associates or any Shareholders (which to the best knowledge of our Directors will own more than 5% of the issued share capital of our Company immediately upon completion of the Global Offering) has any interest in our five largest suppliers as at the Latest Practicable Date.

### *Subcontracting*

As a fitting-out contractor, we are responsible for overall project implementation and do not directly employ any worker so that all labour intensive works such as carpentry, installation of doors, floorsets and marble and plumbing works are outsourced to subcontractors. In doing so, we engage or outsource to subcontractors to carry out such works by entering into separate contracts with our subcontractors. Depending on the terms of such contracts, we may also be responsible for purchasing all interior decorative and building materials for the fitting-out projects while in other cases, our subcontractors will be responsible for provision of such materials for purposes of the fitting-out works.

Our contracts with subcontractors, to certain extent, vary in accordance with the main contracts with our customers or the main contractors (as the case may be), but we consistently adopt the following principal terms in our contracts with subcontractors in order to protect our interest:

- (a) restrain our subcontractors from further assignment or subcontracting of works without our permission;
- (b) adoption of retention money;
- (c) subcontractors' obligations to maintain works in good repair and condition;
- (d) early termination whereby we may terminate the subcontracts forthwith with cause by giving notice to the subcontractors such that we will reserve the rights to seek for remedies.

Our subcontractors are neither our employees nor agents and we are not a party to the employment arrangement between our subcontractors and their employees. Fitting-out works are labour intensive works. Usually a large number of workers from different trades with different skills will be required for a project. Given the variety of works undertaken by us, we may involve technical staff and labour with a wide variety of specialised skills at each stage. Subcontracting provides a flexible means of meeting fluctuating workload and maximising the utilisation of expertise in the industry.

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We maintain long-standing working relationship with our subcontractors. As at the Latest Practicable Date, we had over 200 subcontractors, of which 33 have five years or above of working relationship with us. Long-standing relationship with subcontractors enables us to have comprehensive assessment of the subcontractors over years, ensuring the quality of works in the long run. With the relatively large pool of approved subcontractors in our pre-qualified list, our Directors do not foresee any difficulties in finding substitute subcontractors should that become necessary.

For any given project, we select subcontractors based on a number of parameters including the requirements in the main contract with our customer, previous cooperation experience and our valuation of their performance from the list of pre-qualified subcontractors maintained by us which is regularly reviewed and updated.

As at the Latest Practicable Date, all of our subsisting subcontractors were Independent Third Parties. Project owners also typically require us to obtain their consent before we subcontract. Unless the customers require us to select subcontractors nominated by them, we will select subcontractors from our pre-qualified list of subcontractors. Starting from 2008, an annual performance appraisal is conducted in respect of all listed subcontractors and we will assess their overall performances including workmanship, progress control, safety, environment/pollution control, organisation and resources. We will within 2009 start to implement regular assessment of our subcontractors during the course of a project to ensure quality of their works because pursuant to either the contract or applicable laws, we remain liable to the project owners for the performance of our subcontractors. In doing so, we, in addition to daily site visits made by our project managers to ensure general compliance by subcontractors in all respects and regular site visits made by our safety officers and environmental officers to particularly uphold our safety and environmental requirements, maintain records of non-compliance regarding safety, environmental and other issues, of our subcontractors. In addition, during the continuance of the contracts with our subcontractors, we will supply with them our internal guidelines on safety and environmental issues and we will also regularly hold meetings with our subcontractors to update their knowledge on such issues.

We are committed to prohibiting recruitment of illegal workers and when recruiting employees, whether in our offices or the sites for which we are responsible, we will carefully check the identification documents provided by the candidates. We will report to the police when we come across any candidate with suspicious identity. During the Track Record Period, no illegal workers have been reported in the sites for which we are responsible. In addition, the contracts with our subcontractors have expressed provisions to prohibit them from hiring any illegal workers and we require our subcontractors to carefully check the identity documents of their workers to ensure that no illegal workers are hired to work in the sites for which we are responsible.

During the Track Record Period, subcontracting costs attributable to our five largest subcontractors accounted for approximately 22.2%, 22.1% and 21.7%, respectively of our total cost of sales and our largest subcontractor accounted for approximately 7.2%, 8.5% and 8.2%, respectively of our total cost of sales.



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None of our Directors, their associates or any Shareholders (which to the best knowledge of our Directors will own more than 5% of the issued share capital of our Company immediately upon completion of the Global Offering) had any interest in our five largest subcontractors as at the Latest Practicable Date.

### *Defect liability period*

Our customers would normally require a defect liability period, during which we are responsible to rectify defects. Defect liability period normally lasts for one year after project completion and handover. In order to protect our interest, similar defect liability period has to be provided by our subcontractors. Under the usual terms of our contracts, we are liable to rectify all defective works during the defect liability period, if any. Our site management conducts review regularly on the defective works identified. If necessary, additional costs for repairs and maintenance are provided for in the financial statements. During the Track Record Period, we have not experienced any material claim by our customers in respect of our fitting-out works.

### *Progress payment and retention money*

We normally receive progress payment from customers on a monthly basis with reference to the value of works done. Generally, the authorised persons, such as the architects or consulting quantity surveyors employed by the customers, would issue a progress certificate certifying the work progress in the preceding month. The customers will then make payments with reference to such certificates.

In most contracts, there is a contract term for the customers to hold up a portion, normally about 10%, from each progress payment until a particular percentage of the total contract sum is reached and such sum of money is known as retention money. The retention money for each project is normally 5% the total contract sum. Generally, the first half of the retention money is released upon the issue of certificate of practical completion of the project and the second half of the retention money is released to us upon the issue of certificate of completion of making good defects after the expiry of the defect liability period.

### *Performance bonds/Advanced payment bonds*

In order to secure due and timely performance, our customers will request us to take out performance bonds issued by a bank or an insurance company in their favour. In case where advanced payment is provided by our customer, we have to take out advanced payment bonds for equal amount as guarantee of repayment of such advanced payment to the customer.

Generally, the amount of performance bond required for a project undertaken out by us would not exceed 10% of the total contract sum and the performance bond normally expires after completion of the project. We believe that we have a reputation for completing projects on schedule, and during the Track Record Period, no performance bond had been called by our customers by reason of late completion of any of our projects.

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### **Credit management**

Our Group does not have a standardised and universal credit period granted to our customers. The credit period of individual customers is considered on a case-by-case basis and set out in the project contracts, as appropriate. We receive payments from our customers in the form of advance payment, progress payment and the return of retention money. For some of the projects, our customers may make an advance payment to us upon the commencement of the projects. Our customers usually retain 5% of the total contract value of the projects as retention money. The remaining balance will mainly be in the form of progress payment to be billed based on the progress of the project.

Similarly, we normally pay our subcontractors on a monthly basis with reference to the value of the works done and if the main contract adopts milestone payment, we will, to the extent practicable, seek payment term for subcontractors on similar basis. Each of the subcontractors is required to submit a request for payment to us every month. Once we have verified the subcontractor's request against the actual works done or their payment entitlement according to the milestone payment term, we will release the relevant portion of the subcontracting amounts but hold up a retention money. Payments are generally made within one month after we receive and verify the subcontractor's request.

The provision for impairment of trade receivable, including retention money, is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor and significant changes in the technological, market economic or legal environment that have an adverse effect on the debtor) that our Group will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivables, including retention money, is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectibles. The balance of allowance for trade and other receivables amounted to approximately HK\$0.5 million, nil and nil, respectively, as at 31 March 2007, 2008 and 2009. If any trade receivable, including retention money, is overdue for six months, our accounting staff will discuss with our Directors and/or senior management about the recoverability of such overdue trade receivable or retention money. If our Directors and/or senior management have doubt, bad debt provision will be made accordingly and assessment as to whether to collect the debt through external legal counsel will be made. If there is still no further progress after it has been overdue for one year, our accounting staff will seek approval by our Directors and/or senior management to write off the same as bad debt unless we have reasonable ground to believe such overdue debts can be collected in the future.

During the Track Record Period, there were incidents which we failed to receive payments from customers due to their financial problems, as a result of which bad debts in the sum of HK\$1.5 million were recorded. We will continue to select our customers by assessing their credit worthiness. Our Directors consider that we have sufficient working capital (in form of cash at banks) and available banking facilities to finance our business and we have never failed to pay any of our suppliers and/or subcontractors due to cash flow problems during the Track Record Period. Although there were incidents which we had withheld payments to suppliers/subcontractors, they were solely due to defective goods and/or services delivered/provided by suppliers/subcontractors. The Directors confirm that we have never withheld payments to suppliers/subcontractors because of insufficient cash flow.

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Up to 31 May 2009, amounts due from customers for contract work as at 31 March 2009 were fully certified by surveyors and transferred to trade receivables.

Up to 31 May 2009, trade payables in the amount of HK\$124.5 million, which represented approximately 55% of the balances as at 31 March 2009 have been subsequently settled.

### **Quality control**

Our Directors believe that our results and hence our profits depend on our ability to meet our customers' and the end-users' requirements in all respects. In pursuit of quality excellence, we have established formal quality management system in accordance with the requirements of ISO 9001:2008 to develop a sustainable performance-oriented culture with an emphasis on pursuing continuous improvement rather than adopting a short-term, project based approach. Please refer to the section headed "Business – Major qualifications, certifications and awards" in this prospectus for further details of the ISO certifications.

### **Environment**

Fitting-out works inevitably have an impact on the environment and our fitting-out business, whether in Hong Kong, Macau or the PRC, is subject to certain laws and regulations in relation to environmental protection. Please refer to the section headed "Regulations" in this prospectus for further information about such laws and regulations. We have obtained all the required permits and approvals for the projects carried out by us during the Track Record Period. Our Directors believe that it is essential for us to act as an environmentally responsible fitting-out contractor to meet the customers' demands in environmental protection and the expectation of the community for a health living environment and in return it will ensure the healthy growth and development of our business.

We are committed to minimisation of any adverse impact on the environment resulting from our business activities. In addition, in order to comply with the applicable environmental protection laws, we have established an environmental management system in our operations in the PRC in accordance with ISO 14001:2004 international standards and Sundart (Beijing) was awarded ISO 14001 certification in 2006. We assign separate resources to update our environment management system and maintain our ISO 14001 certification in order to reduce our risks related to environmental issues.

We require our subcontractors to comply with our environmental protection policy. We also encourage our staff to contribute towards sustainability by planning their works to efficiently eliminate waste to the maximum extent with a view to achieving long-term cost savings.

### **Safety**

Our Directors are of the view that if safety is not managed properly; it can be extremely costly not only in human terms, but in monetary terms as well. Therefore, safety is treated as the highest priority during the delivery of our services and we are committed to providing a safe and healthy working environment for the benefit of our staff, our subcontractors and the general public.

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We have adopted a preventive approach with an emphasis on hazard management and risk assessment and in addition, we have developed and maintained a safety management system where a record of non-compliance with any safety procedure as well as subsequent remedial measures are properly managed and reviewed in order to manage safety and health at all of the construction sites for which we are responsible and comply with applicable laws and regulations. Our safety system is documented in written procedures and supplemented with oral instructions, training and demonstration. Our Directors require strict implementation of our safety system with supervision by our Group's or the subcontractors' management staff. In Hong Kong, we have employed qualified safety officers approved by the Labour Department in Hong Kong to monitor and implement our safety system. We will continue to put adequate resources and effort to uphold and improve our safety management system in order to reduce our risks related to safety issues.

To pursue the safety and health of all personnel working on sites, we conduct regular internal safety inspections to ensure our operations are conducted in a manner so as to reduce the risks to persons and properties. In addition, we provide safety training to all of our workers at the sites for which we are responsible for compliance with the safety regulations. We require our subcontractors to abide by all legislations, codes and guidelines as well as all safety requirements as stated in our safety manuals and project safety plans and to comply with all current and future enactments relating to their works. In particular, we hold regular meetings with subcontractors to discuss safety issues and to follow up safety measures during the course of projects.

We also evaluate our safety measures regularly and in the event of the occurrence of significant accidents, in order to improve safety control and to avoid reoccurrence of accidents.

During the Track Record Period, no prosecution has been laid against us by any relevant authorities in respect of violation of applicable laws or regulations of safety and health. Save for the personal injuries litigation as mentioned in the section headed "Business – Litigation" in this prospectus and personal injuries suffered by workers of our subcontractors which compensations including sick leave and medical expenses were covered by relevant insurance policy, no material injury and fatal accidents were happened in the sites for which we were responsible during the Track Record Period. Our Directors are of the view that our Group has maintained sufficient third party liability insurance.

Our Directors confirm that we have complied with all the relevant laws, rules and regulations relating to environment, safety and health.

### **Insurance**

All fitting-out projects undertaken by us are normally protected by contractor's all-risk and third party liability insurance which, depending on the terms of the relevant contracts, are taken out either by the customers, the main contractors or us. Such insurance policy generally extends for the entire contract period, including the defect liability period following completion of the project.

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### SOURCING AND DISTRIBUTION OF INTERIOR DECORATIVE MATERIALS

Leveraging on our proven track record and good reputation in the fitting-out industry, we intend to expand our operation scale by further developing our business of sourcing and distribution of interior decorative materials. With a view to strengthening this business, we invited Mr. Leung to re-join us as director and shareholder of Sundart Holdings in 2009. This act not only allows us to have Mr. Leung, an expert in manufacturing and trading in timber products, but also enables us to form an arrangement with DSTP pursuant to the DSTP Agreement. Please refer to the section headed “Connected transactions – Purchase of timber products from DSTP” in this prospectus for further details about our business transactions with DSTP.

Mr. Leung left us in July 2006 (at which time he was the chief executive officer of DSTP and mainly responsible for overseeing and managing the manufacturing business of timber products) when the then other shareholders of Sundart Holdings intended to focus on fitting-out business and not to continue to be involved in timber products manufacturing business and as such, it ended up in the agreement between the then shareholders of Sundart Holdings and Mr. Leung that the timber products manufacturing business be taken up and run by Mr. Leung. SIL and Win Venture were disposed of by us in 2007 for the purposes of streamlining our business and simplifying our corporate structure.

The sourcing and distribution business of interior decorative materials has been undermined by us during the Track Record Period when most of our efforts and resources have been placed to develop our fitting-out business in Macau and Hong Kong. With the re-joining of Mr. Leung, we plan to develop such business as our second largest source of revenue. In order to achieve this goal, we have formed arrangements with DSTP and other suppliers and subcontractors. Please refer to the sections headed “Business – Relationship with DSTP” and “Connected transactions – Purchase of timber products from DSTP” in this prospectus for further details about our transactions with DSTP. Given our long-term business relationship with DSTP and the established goodwill of DSTP in the timber products market, we anticipate to purchase timber products, which principally include timber doors, wall panels and furniture for our business of sourcing and distribution of decorative materials from DSTP in the coming one or two years and our Directors currently anticipate that purchases of timber products from DSTP (excluding those for uses in our fitting-out projects) will account for approximately 35% of our total purchases for our business of sourcing and distribution of decorative materials in the coming one or two years. In addition, we believe that such business will, to certain extent, act as a stepping stone for us to participate in fitting-out industry in other countries. By supplying interior decorative materials such as good-quality timber doors and joineries, we may be required to provide related installation services. On the other hand, local fitting-out companies in those advanced countries are continuously looking for cost saving opportunities such as outsourcing, forming cooperative relationship with experienced fitting-out companies which have strong network of sourcing interior decorative materials, custom made products and furniture in China in increase their competitiveness. Such exposure, as our Directors believe, serves as a good medium for us to introduce ourselves and hence our fitting-out services, either in reverse alliance with local fitting-out companies or directly, to potential customers. If this expansion path is proved to be successful, we will further develop into other countries if and when appropriate.

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### **RELATIONSHIP WITH DSTP**

With a view to strengthen our competitiveness, we have entered into the DSTP Agreement with DSTP in relation to the supply of timber products. These timber products principally include timber doors, wall panels and furniture.

#### **Major terms of the DSTP Agreement**

The term of the DSTP Agreement is three years commencing from 1 April 2009 and may be terminated by either party by serving written notice to the other party. Save for the purchase prices of products, no other type of fees will be payable by our Company and no minimum purchase amount is imposed on our Group under the DSTP Agreement. Pursuant to the DSTP Agreement, DSTP shall supply timber doors, wall panels and furniture manufactured by itself to our Group. Please refer to the section headed “Connected transactions – Purchase of timber products from DSTP” in this prospectus for further details about the major terms of the DSTP Agreement.

#### **Background of DSTP**

DSTP was established in 1992. It has its own factory located in the Guangdong Province of the PRC with a floor area of over 60,000 sq.m. and as at the Latest Practicable Date, employed over 500 workers and other staff. DSTP used to be a member of our Group before we disposed of its interest in 2005. Since then, we have been purchasing timber products of DSTP for our fitting-out projects either directly from DSTP or indirectly from other members of the Sundart Living Group, including DYBM (a past subsidiary of the Sundart Living Group and which was deregistered in May 2008) and Win Venture and SI (Macau) (both of them are the trading arms within the Sundart Living Group which mainly sell DSTP’s timber products). Our Group has been viewing members of the Sundart Living Group as a single supplier of our Group as a whole.

Our Group plans to purchase in the future timber products directly from DSTP and cease to purchase timber products from SI (Macau) or Win Venture (save and except for the existing orders already placed) since Win Venture and SI (Macau) will cease to engage in the sourcing and distribution of timber products after they finish their existing orders on hand (which is anticipated to be in September 2009). The Sundart Living Group intends to focus on the timber products manufacturing business and in line with such intention, its sales team had already been dismissed.

During the Track Record Period, major customers of the Sundart Living Group (excluding our Group) were either trading or construction companies located in Hong Kong and Macau, U.S., the United Kingdom, the Middle East and other European countries.

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During the Track Record Period, the gross profit margins for sales made by the Sundart Living Group to our Group are approximately 15.2%, 10.8% and 14.8% respectively and to their other customers are approximately 42.0%, 46.7% and 30.8% respectively. Despite of the lower gross profit margin, the Sundart Living Group made sales to our Group so as to better utilise the production capacity of DSTP and as a result of which, the gross profit margin of sales of timber products by the Sundart Living Group during the Track Record Period has been maintained at a stable level of approximately 23.1%, 22.2% and 22.6% respectively.

In determining whether to award any orders of timber products to the Sundart Living Group, our Group underwent its usual tendering process to select the supplier with the lowest quote. As such, the Sundart Living Group was awarded the orders in circumstances when it quoted the lowest price among all other suppliers and could meet our Group's products requirements and production and delivery schedules.

Despite the fact that relevant orders of timber products placed with the Sundart Living Group were at the lowest price offered among various suppliers who had submitted tenders for such orders, the purchase price of timber products from the Sundart Living Group was not lower than the market rates. There were circumstances the Sundart Living Group could not offer the lowest quote among the bidders, our Directors therefore considered that purchases from the Sundart Living Group did not have any impact on our Group's financial results during the Track Record Period.

### Historical and future transaction amounts

The following table sets out the historical transaction amounts between our Group and the Sundart Living Group respectively and the relevant percentages during the Track Record Period:

	For the year ended 31 March					
	2007		2008		2009	
	<i>HK\$'000</i> <i>(approx.)</i>	%	<i>HK\$'000</i> <i>(approx.)</i>	%	<i>HK\$'000</i> <i>(approx.)</i>	%
Purchase amount from the Sundart Living Group and percentage of our Group's costs of sales	93,770	11.9	78,593	6.0	60,356	4.8
Sales amount to our Group and percentage of total sales amount of the Sundart Living Group	93,770	71	78,593	68	60,356	52

Purchase amount from the Sundart Living Group for the year ended 31 March 2007 was exceptionally high when comparing with the purchase amount for each of the two years ended 31 March 2009 because fitting-out projects undertaken by us during the year ended 31 March 2007 involved much more timber-related works such as timber flooring and timber doors.

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It is currently estimated that the total amount of purchase of timber products from DSTP 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. It is estimated that the amounts of sales of timber products of the Sundart Living Group attributable to its customers other than our Group for the year ending 31 March 2010 will amount to approximately HK\$25,000,000 which represents approximately 10% to 15% of the estimated total amount of sales of timber products of the Sundart Living Group for that year.

Our Directors estimated the purchases of timber products from DSTP for the three years ending 31 March 2012 will account for approximately 35%, 32% and 33% respectively of the total estimated purchases of timber products by our Group. The remaining timber products will be purchased from other suppliers.

It is expected that our Group's orders for the two years ending 31 March 2012 will take up almost all of DSTP's existing manufacturing capacity and therefore it is expected that no sale of DSTP will be attributable to customers other than our Group for these two years.

As many of the ultimate customers of timber products which we purchased from DSTP are our fitting-out customers with which DSTP has no direct contact and our Group's distribution network is better than that of the Sundart Living Group, by supplying timber products to our Group, the Sundart Living Group will be able to distribute the timber products of DSTP without having to put in the resources and to bear the risk associated with such sourcing and distribution business. As such, the Sundart Living Group entered into the DSTP Agreement with our Group to supply timber products to us and chooses not to distribute its products directly to the ultimate customers.

### **Benefits of the DSTP Agreement**

Given that fitting-out projects have to be completed within a short period of time, a stable and reliable supply of good quality timber products, in terms of short lead time and pricing, is exceptionally important. Our established relationship with DSTP and the arrangement pursuant to the DSTP Agreement allow us to have advantages over other competitors when bidding for tenders and over other suppliers in our business of sourcing and distribution of interior decorative materials. Our Directors estimated that the gross profit margin of our Group in distributing products provided by the DSTP will be approximately 15%.

DSTP is an authorised manufacturer of UL certified products certified by UL. It is common for U.S.-based customers to designate UL certified timber products to be used in their projects and DSTP and our Directors believe that DSTP is one of the very few manufacturers in the PRC which manufactures timber products certified by UL. Therefore, our relationship with DSTP and the arrangement under the DSTP Agreement not only allow us to have stable and reliable supply of timber products and cost advantage but also considerable advantage when bidding for tenders made by U.S.-based customers.



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Although it is expected that DSTP will be our major supplier of timber products, it is not our sole supplier of timber products. The total purchase amount paid by our Group to suppliers of timber products other than the Sundart Living Group during the Track Record Period were approximately HK\$78,775,000, HK\$69,532,000 and HK\$75,401,000 respectively, representing approximately 46%, 47% and 56% respectively of our total purchase amount of timber products. Given that our Group has also purchased timber products from several other suppliers with which we have an established relationship and we have entered into a manufacturing and supply agreement with another timber products supplier and there are also other suppliers of timber products in the market, in the event that DSTP fails to supply timber products as required by our Group, our Directors expect that our Group will be able to obtain supply of such timber products from other suppliers within a reasonable period of time and at reasonable price and therefore believe that our Group will not be materially adversely affected thereby.

### **Business delineation**

DSTP is engaged in timber products manufacturing business in which our Group is not involved. As timber products manufacturing business and sourcing and distribution of interior decorative materials business are two distinct types of businesses, we consider that no competition exists.

With respect to timber products manufacturing business, back in 2006 it had been decided that our Group should focus on fitting-out business and not to continue with the timber products manufacturing business. Since (i) it is our plan to expand our sourcing and distribution of interior decorative materials business and thus, it is more beneficial to us to put our resources in the sourcing and distribution of interior decorative materials business rather than in the timber product manufacturing business; and (ii) timber products manufacturing business requires a significantly higher capital expenditure and is much more labour-intensive when compared to our existing businesses, therefore, our Group had no intention to include the timber products manufacturing businesses of DSTP in our Group prior to the Listing, and our Group currently has no intention to include such business of DSTP in our Group after the Listing.

With respect to sourcing and distribution of interior decorative material business, during the Track Record Period, most of our Group's efforts and resources had been placed to develop its fitting-out business in Macau and Hong Kong rather than such sourcing and distribution business, so our Group had no intention to include the sourcing and distribution business of the Sundart Living Group in our Group prior to the Listing. In light of the intended cessation of such sourcing and distribution businesses by the Sundart Living Group, its such business will not be included in our Group after the proposed Listing.

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### MAJOR QUALIFICATIONS, CERTIFICATIONS AND AWARDS

The following table sets out our major qualifications and certifications:

Year of grant	Nature	Recipient	Award	Awarding organisation or authority	Period of validity
2004	Qualification for decoration work	Sundart (Beijing)	Construction Enterprise Qualification Certificate (Grade I in the specialised contract series for architectural decoration projects) (建築業企業資質證書) (建築裝修裝飾工程專業承包壹級)	Ministry of Construction of the People's Republic of China (中華人民共和國建設部) (now known as Ministry of Housing and Urban-Rural Development of the People's Republic of China) (中華人民共和國住房和城鄉建設部)	–
2006	Environmental management system certification	Sundart (Beijing)	Environmental Management System Certificate (Assessment standard GB/T 24001-2004/ISO 14001:2004)	Beijing Zhongdahuayuan Certification Centre	22 June 2009 to 21 June 2012
2006	Occupational health and safety management system certification	Sundart (Beijing)	Occupational Health and safety management System Certificate (Assessment standard GB/T 28001-2001)	Beijing Zhongdahuayuan Certification Centre	22 June 2009 to 21 June 2012
2008	Safety Production Permit	Sundart (Beijing)	Safety Production Permit	Beijing Construction Committee	30 July 2008 to 29 July 2011
2008	Credit rank certification	Sundart (Beijing)	Credit Rank Certificate	Beijing Association for Quality Credit Evaluation Center	Subject to renewal on 22 September 2009
2009	Quality management system standard certification	Sundart Timber	ISO 9001:2008 quality management system standard	Hong Kong Quality Assurance Agency	30 March 2009 to 29 March 2012 (subject to satisfactory maintenance of the system which will be monitored by Hong Kong Quality Assurance Agency)

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The following table sets out the major awards and recognition obtained by us:

Year(s) of award	Nature	Recipient	Award	Awarding organisation or authority
2004	Business award	Sundart Timber	Cross-century Dongguan and Hong Kong Manufacturing Outstanding Business Award (跨世紀莞港製造業傑出企業獎)	The People's Government of Dongguan City (東莞市人民政府) Guangdong Science and Technology Department (廣東省科學技術廳)
2004	Fire services inspection award	Sundart Timber	Outstanding Subcontractor (Bronze) Award in Fire Services Inspection Award Scheme	Shimizu – China State Joint Venture
2006	Performance award	Sundart	Best Subcontractor Award	Gammon
2007	Quality engineering award	Sundart (Beijing)	Shanghai Construction Engineering Magnolia Award 2006 (Municipal high-quality engineering) (2006年度上海市建設工程「白玉蘭」獎(市優質工程))	Shanghai Construction Trade Association (上海市建築施工行業協會)
2008	Brand excellence	Sundart Holdings	Macau Prime Awards For Brand Excellence 2008	Prime Magazine
2009	Performance award	Sundart Holdings	Outstanding Strategic Performance Award	Capital Weekly

### COMPETITION

Our Directors consider all sizeable fitting-out companies actively operating in Hong Kong, Macau and the PRC to be our competitors.

The fitting-out industry in Hong Kong is scattered and competitive. Entrance barrier to this industry is not high and new comers may enter the industry without industry specific qualifications, licenses or permits. We are able to withstand the intense competition in the past few years and maintain a steady growth of our business because of our competitive strengths:

- Established reputation and a proven track record
- Long working relationships with major property developers and hotel owners in Hong Kong, Macau and the PRC
- Competitive edge on material costs and arrangements with reliable suppliers and subcontractors
- Possession of qualifications, capabilities and excellent job reference to undertake sizeable fitting-out projects

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- Experienced and efficient management team
- Commitment to safety, quality and environment through well-established management system

Please refer to the section headed “Business – Competitive strengths” above.

### PROPERTIES

As at the Latest Practicable Date, we owned one property in the PRC and all of our places of operations in Hong Kong, Macau, Qatar and the PRC are leased properties. Please refer to Appendix IV to this prospectus for the valuation report of the leased properties.

### LITIGATION

#### Hong Kong

There were six litigations made against us during the Track Record Period, of which four were personal injuries claims, one was commercial claim and the remaining one was labour claim.

The four personal injuries litigation, which were made by workers who have suffered personal injuries at our sites, have either been closed or settled.

Of these settled personal injury claims, the one involving a more material sum was instituted by a worker of our subcontractor who alleged to have suffered injury to his left eye when he was working in a site for which we were responsible. The worker as plaintiff claimed against us and our subcontractor as joint defendants for damages. A total settlement sum of HK\$2,826,461.37 was eventually paid to the relevant plaintiff for the injury sustained in satisfaction of all the claims and actions arising from this accident and the incident was covered by the relevant contractor’s all risk and third party liability insurance.

For the other two personal injury cases, which were of a more minor nature, the respective settlement amounts were HK\$460,000 and HK\$50,000.

The remaining personal injury case was settled and has now proceeded to taxation of legal costs involving an estimated sum of approximately HK\$200,000. The plaintiff of the case was engaged by our subcontractor. During the course of employment, the plaintiff slipped on a wet staircase at a construction site and suffered back injury. The case was settled at a sum of HK\$600,000.

Apart from personal injury cases, we were involved in two other claims in the Track Record Period. One was a Small Claims Tribunal case involving an outstanding amount of HK\$6,153 for goods sold and delivered. The other case was a Labour Tribunal case involving arrears of wage payment of a sum of HK\$52,000 claimed by two employees of our subcontractor. We, as the contractor, were named as one of the defendants in this Labour Tribunal case. Both cases had been settled, the settlement sum involved was not more than HK\$58,153.

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### PRC

The Shanghai Branch of Sundart (Beijing) is currently involved in one outstanding legal proceedings in which it is being sued for a contract sum of approximately RMB 150,791 for timber products delivered together with interests and administrative fees. In this regard, the People's Court of Shanghai Jingan District, the PRC has ordered the Shanghai Branch of Sundart (Beijing)'s bank account with deposits of RMB181,660 to be frozen or properties with equivalent value to be seized pending the final outcome of the proceedings. If such deposits or properties of Shanghai Branch of Sundart (Beijing) are not sufficient for settling the final judgement sum, Sundart (Beijing) may be liable for any shortfall. Pursuant to the Deed of Indemnity, the Controlling Shareholders, Mr. Ng, Mr. Leung and Mr. Wong have given indemnities on a joint and several basis in favour of our Company (for itself and as trustee as its subsidiaries and jointly-controlled entities) in connection with, among others, all or any damages, losses, claims, fines, penalties to be imposed, charges, fees, costs, interests, expenses (including all legal costs and expenses), actions, proceedings arising from or in connection with any litigation, arbitration and/or legal proceedings, whether of criminal or administrative or contractual or tortuous or any other nature, against any member of the Group which was issued and/or accrued and/or arising from any act or non-performance or omission or otherwise of any member of our Group on or before the date on which the Global Offering becomes unconditional in Hong Kong, Macau, the PRC, Qatar or elsewhere. Another company was also added as party to the proceedings as defendant. Our Directors believe that should the legal proceedings be decided against the Shanghai Branch of Sundart (Beijing), there will be no material adverse impact on our business and financial conditions.

### Macau

Sundart (Macau) is currently involved in only one litigation. Such litigation was related to an industry accident and instituted by a worker of our subcontractor in the Basic Judicial Court of Macau as a result of dispute on the amount of compensation of HK\$39,000. The case is now pending on the plaintiff's submission of medical proof to sustain his claim. The plaintiff sued us because we were the contractor of the site where the incident took place. The compensations will be covered by relevant insurance policy if the plaintiff can produce sufficient medical proof.

### BREACHES OF RULES AND REGULATIONS

In 2007, an administrative sanction was imposed on the Shanghai Branch of Sundart (Beijing) by Shanghai Jingan District Bureau of Quality and Technical Supervision for installing timber doors which did not meet the required safety standards in the PRC. Sundart (Beijing) was ordered to stop using or selling the relevant timber doors and to pay a fine of RMB277,246 which was fully paid in 2007. The relevant timber doors were forfeited as well. The relevant timber doors supplied and used by us for installation were in accordance with the design specification required by the relevant customer but the design of the timber doors failed to fulfill the required safety standards in the PRC. Shanghai Branch of Sundart (Beijing) took full responsibility for such breach and given the sanction is not of a material nature, it had not taken any action against the then customer or other third parties or received compensation from the customer.

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Our Group has subsequently implemented the ISO 9001 and the quality manual and the operation manual have been adopted by our Group for staff of members of our Group to follow. According to the quality manual, the members of our Group are required to demonstrate their commitment to meeting customers' requirements as well as the relevant regulatory and legal requirements.

The quality manual also covers several areas which are relevant to the prevention of breaches of rules and regulations in relation to products' quality or standard. Project development control is one of the areas covered in the operation manual and it is in place with written procedures set out to control our Group's projects from receipt of the order to the final completion of the projects. The project managers of the relevant projects, who are usually staff with professional qualifications or qualified engineers with knowledge of relevant rules and regulations, will be required to check against applicable statutory and regulatory requirements after drawing and details are obtained from clients. They then review and resolve any requirements of clients which will be conflicting with the applicable statutory and regulatory requirements. It is an ongoing process for keeping track of the work in progress throughout the projects.

Periodic inspection and testing activities during the project are also in place to ensure compliance with inspection and testing requirements. The operation manual contains procedures regarding inspection and/or testing controls at different stages: when materials and equipment are delivered to the members of our Group, when the fitting-out and installation work is partly completed and when the completed works are to be delivered to the clients.

Save as disclosed above, we have not been involved as defendant or respondent in any other legal proceedings, regulatory inquiries or investigations during the Track Record Period, and there are no legal proceedings, regulatory inquiries or investigations currently pending or, to our knowledge, threatened against us. We may from time to time be subject to various legal or administrative proceedings arising in the ordinary course of business.