

## BUSINESS

### OVERVIEW

We are one of the leading fitting-out contractors in Macau. According to the Frost & Sullivan Report, we were the second largest fitting-out contractor in Macau in terms of revenue in 2018. Our Group provides services of (i) fitting-out; (ii) construction; and (iii) repair and maintenance in Macau. For the years ended 31 December 2016, 2017 and 2018 and the four months ended 30 April 2019, our Group's total revenue amounted to approximately MOP175.2 million, MOP322.7 million, MOP400.1 million and MOP158.8 million, respectively. The following table sets forth a breakdown of our Group's revenue during the Track Record Period by business segments:

	Year ended 31 December						Four months ended 30 April	
	2016		2017		2018		2019	
	MOP'000	%	MOP'000	%	MOP'000	%	MOP'000	%
Fitting-out	166,803	95.2	297,318	92.1	392,700	98.2	158,016	99.4
Construction	7,696	4.4	24,696	7.7	5,662	1.4	795	0.5
Repair and maintenance	717	0.4	710	0.2	1,723	0.4	29	0.1
<b>Total</b>	<b>175,216</b>	<b>100.0</b>	<b>322,724</b>	<b>100.0</b>	<b>400,085</b>	<b>100.0</b>	<b>158,840</b>	<b>100.0</b>

During the Track Record Period, all of our Group's revenue was derived from the projects in Macau and our Group undertook projects from both private and public sectors. Public sector projects refer to projects where the project employer is the Macau Government or other government entities or statutory bodies in Macau, while private sector projects refer to projects that are not within the public sector. The following table sets forth a breakdown of our Group's revenue during the Track Record Period attributable to private and public sectors:

	Year ended 31 December						Four months ended 30 April	
	2016		2017		2018		2019	
	MOP'000	%	MOP'000	%	MOP'000	%	MOP'000	%
Public sector	98,401	56.2	159,600	49.5	77,137	19.3	24,176	15.2
Private sector	76,815	43.8	163,124	50.5	322,948	80.7	134,664	84.8
<b>Total</b>	<b>175,216</b>	<b>100.0</b>	<b>322,724</b>	<b>100.0</b>	<b>400,085</b>	<b>100.0</b>	<b>158,840</b>	<b>100.0</b>

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Our Group undertook projects as both main contractor and subcontractor during the Track Record Period and generally subcontracted the site works to subcontractors while mainly involving in project management. When our Group is engaged as a main contractor, we normally delegate works to our subcontractors and our main responsibilities include (i) project management; (ii) engaging subcontractors; (iii) developing detailed work programmes; (iv) procurement of major construction materials; (v) coordination with our customers or their consultants; (vi) overall control of the works carried out by our subcontractors; and (vii) ensuring the project is carried out in a safe manner. When our Group is engaged as a subcontractor, we normally delegate works to our subcontractors and manage their works. The table below sets forth a breakdown of our Group's revenue during the Track Record Period as main contractor and subcontractor:

	Year ended 31 December						Four months ended 30 April	
	2016		2017		2018		2019	
	<i>MOP'000</i>	%	<i>MOP'000</i>	%	<i>MOP'000</i>	%	<i>MOP'000</i>	%
Main contractor	101,118	57.7	164,739	51.0	75,938	19.0	25,942	16.3
Subcontractor	74,098	42.3	157,985	49.0	324,147	81.0	132,898	83.7
<b>Total</b>	<b>175,216</b>	<b>100.0</b>	<b>322,724</b>	<b>100.0</b>	<b>400,085</b>	<b>100.0</b>	<b>158,840</b>	<b>100.0</b>

Our Group provides fitting-out works for both new buildings and existing buildings in Macau. A fitting-out project involves shop drawing, procurement of materials, execution of fitting-out works, site supervision, management of subcontractors and overall project management. Types of works of a fitting-out project may include stone works, carpentry and joinery works, floor carpeting, decorative lighting suspended ceilings, plastering works, steel and metal works, installation of sanitary fittings and wares, fittings, fixture and equipment, glazing works, painting works, wall papering, as well as other associated works. During the Track Record Period, our customers of this segment included private and public sector customers.

A construction project involves works including foundation works, and buildings services systems installation. Our Group is also responsible for structural calculation and shop drawing, procurement of materials, site supervision, management of subcontractors and overall project management. Our Group generally subcontract site works to other subcontractors, including but not limited to, foundation works and building services systems installation. During the Track Record Period, our customers of this segment included private and public sector customers.

Our Group also provides repair and maintenance services for existing properties in Macau on (i) as-needed basis; and (ii) regularly over a fixed period. Repair and maintenance services provided by our Group include repair or replacement of interior decorative parts, as well as other works for building services systems such as installation of CCTV systems and air-conditioning systems. During the Track Record Period, our customers of this segment were mainly public sector customers.

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During the Track Record Period and up to the Latest Practicable Date, our Group had undertaken 246 fitting-out projects, four construction projects and 70 repair and maintenance projects. As at the Latest Practicable Date, our Group had 37 fitting-out projects, seven repair and maintenance projects, and two construction project in progress or awarded to us but yet to commence.

According to the Frost & Sullivan Report, the revenue generated from fitting-out industry in Macau increased rapidly from approximately MOP3,153.3 million in 2013 to approximately MOP8,883.8 million in 2018 at a CAGR of approximately 23.0%. The fitting-out market in Macau is estimated to have a moderate growth at a CAGR of approximately 8.5% over the period from 2019 to 2023, and achieve approximately MOP13,523.2 million in 2023. The growth is driven by infrastructure development and growth in tourism. In terms of revenue, our Group was the second largest fitting-out contractor in Macau in 2018, with market share of approximately 4.4%. The fitting-out market in Macau is dominated by major contractors, of which the top five contractors had an aggregate market share of approximately 26.9% in 2018. The construction market in Macau experienced a strong growth from MOP39.3 billion in 2013 to MOP82.0 billion in 2018, representing a CAGR of 15.8%. The rapid increase was primarily due to the new construction of casinos and hotels from 2013 to 2018. The expediting of the residential developments in the urban development and reclamation work for New Urban Zone Area A, would increase the demand for construction. The construction market in Macau will likely to grow continuously at a CAGR of 12.7% during 2019 to 2023, reaching MOP148.1 billion in 2023. The construction market in Macau is dominated by major contractors, of which the top five contractors had an aggregate market share of approximately 25.3% in 2018. For further information regarding the competitive landscape of the industries in which our Group operates, please refer to the section headed "Industry Overview" in this document.

### **COMPETITIVE STRENGTHS**

Our Directors believe that several competitive strengths set our Group apart from its competitors and enable our Group to continue its growth and enhance its profitability. Such competitive strengths include:

#### **Well-established reputation with proven track record in the fitting-out and construction industry in Macau**

Our Group has accumulated over ten and five years of experience in the fitting-out and construction industry, respectively in Macau. Throughout our Group's operating history, our Directors believe that our Group has built a good reputation in the fitting-out and construction industry in Macau. According to the Frost & Sullivan Report, in terms of revenue, our Group was the second largest fitting-out contractor in Macau in 2018, with market share of approximately 4.4%. Our Directors are of the view that our Group's well-established reputation and proven track record in the fitting-out and construction industry in Macau differentiate our Group from its competitors.

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### **Strong customers' portfolio in public sector which enabled our Group to develop its presence in the private sector**

During the Track Record Period, our Group had undertaken 11 public sector projects with contract sum of MOP10.0 million or above. Our major customers included various bureaus and departments of the Macau Government, other government entities and statutory bodies in Macau. Our Directors believe that our Group's reputation in undertaking public sector projects enables our Group to expand in the private sector. During the Track Record Period, our revenue generated from the private sector increased from MOP76.8 million for the year ended 31 December 2016 to MOP323.0 million for the year ended 31 December 2018. Our Directors believe that our Group can continue to leverage on its strong presence in the public sector in expanding our scale of operation.

### **Established business relationships with some of our Group's major customers**

Our Group's major customers include the Macau Government, statutory bodies and main contractors. We have business relationship of over five years with most of our top five customers for each year during the Track Record Period. Our Directors believe that customers' satisfaction is a fundamental factor to maintain good and long-term relationship between our Group and our customers, which enables our Group to secure fitting-out or construction projects from these existing customers in the future.

### **Stable pool of subcontractors**

Our Group has over ten and five years of operating history in the fitting-out and construction industry, respectively in Macau. Our Directors believe that our Group has built a stable pool of subcontractors. Among the top five subcontractors for each year during the Track Record Period, most of them had maintained over four years of business relationship with our Group. Our Group maintains internal lists for approved subcontractors, which will be updated by our Group from time to time. For further details of the basis for selection of subcontractors, please refer to the section headed "Business – Subcontractors – Basis for selection of subcontractors" in this document.

Our Directors consider that having a stable pool of subcontractors allows our Group to effectively maintain the quality of its works, which is a crucial factor for our Group to secure new business opportunities and maintain good reputation within the industry.

### **Our Group's experienced management team possesses extensive industry knowledge**

Our Directors consider that our Group's management team possesses the requisite industry knowledge and management experience in project execution and expertise in the fitting-out, construction and repair and maintenance industry. For instance, Mr Lou, one of our executive Directors, has more than 14 years of experience in the Macau construction industry. Please refer to the section headed "Directors and Senior Management" in this document for further details of the biographies of our Group's Directors and senior management and their relevant industry experiences.

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As at the Latest Practicable Date, our Group had 23 employees who received post-secondary or higher level of education in their respective related disciplines. Our Directors believe that the expertise, experience and industry knowledge of our Group's management team, together with other skilled employees, act a critical role in delivering up-to-standard works for its fitting-out, construction, and repair and maintenance projects.

### BUSINESS STRATEGIES

Our Group's principal business objective is to further strengthen its position and overall competitiveness of its fitting-out, construction, and repair and maintenance businesses and increase our market share in Macau. Our Directors intend to pursue the following key strategies to achieve our Group's future expansion plans:

#### **Strengthen our Group's financial capabilities to undertake more new and larger scale fitting-out and construction projects**

At the early stage of our projects, our Group may be required to pay for early stage payments such as the prepayment of some subcontracting fees, material costs as well as performance bonds. The customers make progress payments after the works commence. In addition, our Group's customers may withhold 5% to 10% of the total contract sum as retention money, which will be fully released to our Group subsequent to the expiration of the relevant defects liability period.

Our Directors are of the view that the cash flow requirement at the initial stage of our Group's projects constraints the number of and size of projects that our Group could take at the same time under the currently available resources. Average original contract sum of projects undertaken by the Group amounted to MOP4.3 million, MOP6.3 million, MOP6.2 million and MOP16.0 million during the year ended 31 December 2016, 2017 and 2018 and the four months ended 30 April 2019. In order to undertake more new projects and/or projects with larger contract sum in the future, our Directors intend to apply part of the [REDACTED] from the [REDACTED] to improve the cashflow position and expand our Group's capacity to undertake more new projects which depends on the available cashflow position. As at the Latest Practicable Date, we had (i) 46 tenders or quotations submitted and awaiting tender results for fitting out projects; and (ii) nine tenders submitted and awaiting results and one tender or quotation to be submitted for construction projects, respectively, with a total estimated contract sum of over MOP7,149.6 million. We are also reviewing and preparing for the submission of tender for six fitting-out projects with estimated total contract sum of over MOP113.0 million, respectively, as at the Latest Practicable Date. In this respect, our Directors consider that it is justifiable and intend to utilise approximately HK\$[REDACTED] (equivalent to approximately MOP[REDACTED]) to strengthen the financial resources on our Group's fitting-out projects and construction projects, which finance the early stage payments of new projects such as prepayment of subcontracting fees, material costs as well as performance bonds. Our Directors believe that, as a result, our Group is able to have sufficient financial resources to undertake more new projects and/or projects of larger contract sum to capture the growth in market size of fitting-out market and construction market and increase our market share in Macau. Our Directors also believe that this will allow our Group to reduce the reliance on the banking facilities so as to lower or maintain its gearing ratio and have better control on interest expenses.

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Our Directors are of the view that a strong working capital position is crucial in meeting the capital requirements of our customers and secure the projects. During the Track Record Period, we entered into memorandum of understanding in respect of two significant construction projects with Ming Shun Construction and Property Investment Limited, which was one of our five largest customers during the years ended 31 December 2017 and 2018, in March 2018 and received the relevant letters of award with contract sum amounted to approximately MOP258.1 million and MOP287.0 million in November 2018 and December 2018 respectively. According to the relevant letters of award, our Group was required to either maintain cash and bank balance of not less than MOP60.0 million and MOP55.0 million respectively or obtain bank guarantee in favour of our potential customer to secure the prepayments of the same amounts from our potential customer as our working capital to carry out the abovementioned projects. According to Frost & Sullivan, it is common to include financial requirement in the project contract in the fitting-out and building construction industry in Macau. For instance, the contractors are required to maintain cash and bank balance of an agreed amount in favour of the potential customer to secure the prepayments or provide bank guarantee of the same amounts to the potential customer as the working capital to carry out the bespoke projects. Nevertheless, our then current level of bank balance was less than MOP3.0 million which was far from meeting the relevant requirement. In addition, after we consulted our bank, we understood that we would not be able to obtain such bank guarantee due to the high level of our bank facilities with the bank for relevant purposes at the material time. Our Directors were of the view that we had no other alternatives but to give up the opportunities of undertaking the projects. Our Directors consider that our Group would have been able to capture similar opportunities and secure significant projects to establish our portfolio should we have a strong working capital position.

### **Improve our capacity, capabilities and cost efficiency**

According to the Frost & Sullivan Report, in terms of revenue, our Group was the second largest fitting-out contractor in Macau in 2018, with market share of approximately 4.4%. In order to maintain our Group's competitiveness and market position, our Group considers that it is crucial to improve our capacity, capabilities and cost efficiency by (i) acquiring machinery and equipment; and (ii) increasing workforce.

During the Track Record Period, we generally subcontract the site works to our subcontractors and machinery and equipment are usually provided by our subcontractors or, in some occasions, leased from our suppliers. Our Directors consider that our Group adopted a prudent approach in purchasing construction machineries and equipment in the past due to limited financial resources. Our Directors are of the view that in order to cope with our expansion strategy, there will be an imperative need for us to acquire certain machineries and equipment, including one tower crane, one lorry crane, 24 cement spraying machines and 24 automatic plastering machines, for the following reasons:

- Our Directors believe that having our own machineries and equipment will reduce our reliance on subcontractors or suppliers for the provision of machineries and equipment in the execution of our project works. In the past, we relied on our



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subcontractors or, in some occasions, our suppliers to provide the machineries and equipment for our projects. Our Directors are of the view that if the subcontractors or suppliers are required to provide machineries and equipment, it is necessary for our Group to match with their work or leasing schedule as their machineries and equipment may be used in some other projects at the material times. In the long run, our Directors believe that we can have more flexibility and better control over our work schedule and progress of the projects on hand if we have our own machineries and equipment, thus reducing the risk of delayed project completion which may have an adverse impact to our reputation and future success in tendering.

- Our Directors are of the view that having our own machineries and equipment may improve our efficiency and reduce project cost, for instance, we can handle repetitive and labour-intensive tasks such as plastering for our fitting-out projects more efficiently with cement spraying machines and automatic plastering machines which reduce the number of human workers needed. According to the Frost & Sullivan Report, the average daily wage of fitting-out workers in Macau increased from MOP588.6 in 2013 to MOP883.9 in 2018. Our Directors believe that use of machineries and equipment in our projects can (i) reduce our reliance on human labour which is subject to increasing trend of wage level; and (ii) time required to complete the project, which potentially allow us to offer a more competitive tender and help increase our chance of successful tender.
- Our Directors believe that we will also be able to broaden our approved list of subcontractors to include subcontractors who do not own the required machineries and equipment to execute the project works, which enables us to have more choices and higher flexibility over the selection of our subcontractors.
- Our Directors believe that, in addition to project execution, with our own fleet of machineries and equipment, we will be able to secure more new projects. According to the Directors' experience, in tendering for new projects, availability of machineries and equipment is one of the assessment criteria of our potential customers. In order to increase our tender success rate for the projects to be tendered, it is necessary for us to strengthen our resources and enhance our competitiveness by establishing our own fleet of machineries and equipment. As such, our Directors believe that we have needs to raise fund to purchase the above machineries and equipment to compete for more projects.

Our Directors are of the view that while maintaining our Group's business model of mainly focusing on project management and generally subcontracting the site works to subcontractors, the acquisition of machineries and equipment enables us to capture the advantages as detailed above which is commensurate with our overall business objective to expand our market share in Macau and to improve our capacity and operational efficiency, which will remain as our future strategies going forward.

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To increase our capacity, we plan to recruit one architect, two project managers, three registered civil engineers, eight registered electrical and mechanical engineers, one tower crane operators and five foremen on full-time basis to strengthen our capability to (i) handle more projects; (ii) participate in projects of larger scale and higher complexity; and (iii) further strengthen our quality assurance which is of utmost importance to our Group's competitiveness and ongoing development in the construction industry in Macau.

In order to maintain our Group's competitiveness and market share given the intense competition in fitting-out industry and construction industry in Macau, our Directors consider that it is justifiable to utilise approximately HK\$[REDACTED] (equivalent to approximately MOP[REDACTED]) to improve our capacity, capabilities and cost efficiency.

### SERVICES PROVIDED BY OUR GROUP

Our Group provides services of (i) fitting-out; (ii) construction; and (iii) repair and maintenance in Macau. For the years ended 31 December 2016, 2017 and 2018 and the four months ended 30 April 2019, our Group's total revenue amounted to approximately MOP175.2 million, MOP322.7 million, MOP400.1 million and MOP158.8 million, respectively. The following table sets forth a breakdown of our Group's revenue during the Track Record Period by business segments:

	Year ended 31 December						Four months ended 30 April	
	2016		2017		2018		2019	
	MOP'000	%	MOP'000	%	MOP'000	%	MOP'000	%
Fitting-out	166,803	95.2	297,318	92.1	392,700	98.2	158,016	99.4
Construction	7,696	4.4	24,696	7.7	5,662	1.4	795	0.5
Repair and maintenance	717	0.4	710	0.2	1,723	0.4	29	0.1
<b>Total</b>	<b>175,216</b>	<b>100.0</b>	<b>322,724</b>	<b>100.0</b>	<b>400,085</b>	<b>100.0</b>	<b>158,840</b>	<b>100.0</b>



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During the Track Record Period, all of our Group's revenue was derived in Macau and our Group undertook projects from both private and public sectors. Public sector projects refer to projects where the project employer is the Macau Government or other statutory bodies in Macau, while private sector projects refer to projects that are not within the public sector in Macau. The following table sets forth a breakdown of our Group's revenue during the Track Record Period attributable to private and public sectors:

	Year ended 31 December						Four months ended 30 April	
	2016		2017		2018		2019	
	MOP'000	%	MOP'000	%	MOP'000	%	MOP'000	%
Public sector	98,401	56.2	159,600	49.5	77,137	19.3	24,176	15.2
Private sector	76,815	43.8	163,124	50.5	322,948	80.7	134,664	84.8
<b>Total</b>	<b>175,216</b>	<b>100.0</b>	<b>322,724</b>	<b>100.0</b>	<b>400,085</b>	<b>100.0</b>	<b>158,840</b>	<b>100.0</b>

### Fitting-out works

Our Group provides fitting-out works for both new buildings and existing buildings in Macau. A fitting-out project involves shop drawing, procurement of materials, execution of fitting-out works, site supervision, management of subcontractors and overall project management. Types of works of a fitting-out project may include stone works, carpentry and joinery works, floor carpeting, decorative lighting suspended ceilings, plastering works, steel and metal works, installation of sanitary fittings and wares, fittings, fixture and equipment, glazing works, painting works, wall papering, as well as other associated works. During the Track Record Period, customers of this segment mainly include the Macau Government and other statutory bodies.

### Construction works

A construction project involves works including foundation works, and buildings services systems installation. Our Group is also responsible for structural calculation and shop drawing, procurement of materials, site supervision, management of subcontractors and overall project management. Our Group may subcontract site works to other subcontractors, including but not limited to, foundation works and building services systems installation. During the Track Record Period, our customers of this segment include land owners and the Macau Government.

### Repair and maintenance works

Our Group also provides repair and maintenance services for existing properties in Macau on (i) as-needed basis; and (ii) regularly over a fixed period. Repair and maintenance services provided by our Group include repair or replacement of interior decorative parts, as well as other works for building services systems such as installation of CCTV systems and air-conditioning systems. During the Track Record Period, our customers of this segment mainly include the Macau Government and other statutory bodies.

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### *Completed projects*

The following table sets out the brief details of our completed projects during the Track Record Period and up to the Latest Practicable Date with contract sum of MOP10 million or above, in ascending order by commencement date:

Project number	Location of project	Type of projects	Type of works	Type of building involved	Project period <i>(Note 1)</i>	Contract sum <i>(approximate MOP million)</i> <i>(Note 2)</i>
1/JT1 <i>(Note 3)</i>	Macau Peninsula	Public	Fitting-out	Residential building	May 2014 – July 2017	11.0
2	Macau Peninsula	Private	Fitting-out	Residential building	October 2014 – October 2017	50.0
3	Macau Peninsula	Public	Fitting-out	Office premises	December 2014 – December 2016	11.3
4/JT4 <i>(Note 4)</i>	Macau Peninsula	Public	Fitting-out	Office premises	December 2014 – November 2016	62.5
5	Macau Peninsula	Public	Fitting-out	School premises	April 2015 – January 2017	19.2
6	Taipa	Public	Construction	Government infrastructure	January 2016 – August 2018	24.1
7	Macau Peninsula	Private	Fitting-out	Residential building	July 2016 – April 2018	64.7
8	Macau Peninsula	Public	Fitting-out	Government building	November 2016 – July 2017	22.3
9	Macau Peninsula	Public	Fitting-out	Office premises	November 2016 – July 2017	22.3
10	Macau Peninsula	Private	Fitting-out	Residential building	December 2016 – April 2018	11.7
11	Macau Peninsula	Public	Fitting-out	Office premises	January 2017 – December 2017	13.1
12	Taipa	Public	Fitting-out	Resident hall of university	June 2017 – April 2018	48.4
13	Coloane	Private	Fitting-out	Residential building	June 2017 – February 2019	175.6
14	Taipa	Public	Fitting-out	Public area of university	October 2017 – October 2018	10.5
15	Taipa	Public	Fitting-out	Office premises	February 2018 – February 2019	25.2
16	Taipa	Private	Fitting-out	University laboratory	April 2018 – December 2018	24.0

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Project number	Location of project	Type of projects	Type of works	Type of building involved	Project period <i>(Note 1)</i>	Contract sum <i>(approximate MOP million)</i> <i>(Note 2)</i>
17	Cotai	Private	Fitting-out	Government training centre	April 2018 – November 2018	14.9
18	Cotai	Private	Fitting-out	University building	June 2018 – January 2019	12.3
19	Cotai	Private	Fitting-out	University sports ground	August 2018 – February 2019	88.0
20	Macau Peninsula	Public	Fitting-out	Government building	January 2019 – September 2019	22.1
21 <i>(Note 5)</i>	Taipa	Private	Fitting-out	University building	February 2019 – August 2019	55.6
22 <i>(Note 6)</i>	Macau Peninsula	Private	Fitting-out	Office premises	March 2019 – July 2019	22.6
23 <i>(Note 7)</i>	Macau Peninsula	Private	Filling-out	Bank premises	March 2019 – May 2019	49.0

*Notes:*

- (1) The project period covers the duration of our works with reference to commencement date and the completion date of the relevant project set out in the letter of award or in first invoice from subcontractor or in letter of commencement or in the payment certificate confirmed by our customer or their authorised persons, or with reference to the practical completion certificate issued by the relevant project architect or certificates of completion issued by our customers or confirmation issued by our customers.
- (2) Contract sum refers to the original awarded contract sum excluding all variation orders issued by our customers.
- (3) Our Group assumed the role of joint-contractor in this project under the relevant joint-tender arrangement. For details of our joint-tender arrangements during the Track Record Period, please refer to the section headed “Business – Our operation flow – Tender/quotation process” in this document.
- (4) Our Group assumed the role of contractor-in-charge in this project under the relevant joint-tender arrangement. For details of our joint-tender arrangements during the Track Record Period, please refer to the section headed “Business – Our operation flow – Tender/quotation process” in this document.
- (5) 明傑建築有限公司 has engaged our Group to provide fitting-out service for an art institute in Macau.
- (6) Viewtiful Renovation has engaged our Group to provide fitting-out service to an office premises in Macau.
- (7) 明傑建築有限公司 has engaged our Group to provide fitting-out service to a branch of a Macau local bank.

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***Projects in progress/awarded to us yet to commence***

The following table sets out the brief details of our projects in progress and projects awarded to us yet to commence as at the Latest Practicable Date with contract sum of MOP10.0 million or above, in ascending order by commencement date:

Project number	Location of project	Type of projects	Type of works	Type of building involved	Expected project period	Awarded contract sum (approximate MOP million)	Remaining contract sum as at 30 April 2019 (approximate MOP million)	Approximate percentage of completion as at 30 April 2019 (%)	% of revenue recognised during the Track Record Period (%)	Revenue to be recognised for the year ending 31 December 2019 (approximate MOP million)
24	Macau Peninsula	Private	Fitting-out	Residential building	June 2017 – March 2020	20.7	11.1	46.4	46.4	10.3
25	Macau Peninsula	Private	Fitting-out	College guest house	March 2018 – January 2020	23.2	8.4	63.7	63.7	11.3
26	Taipa	Public	Fitting-out	University laboratory	January 2019 – November 2019	17.4	13.8	20.4	20.4	17.4
27	Taipa	Public	Fitting-out	University laboratory	January 2019 – November 2019	15.9	14.8	7.2	7.2	15.9
28	Coloane	Private	Fitting-out	Residential building	August 2019 – April 2020	131.2	131.2	0.0	0.0	66.8
29 (Note 5)	Taipa	Public	Fitting-out	University hospital	September 2019 – June 2020	20.7	20.7	0.0	0.0	9.2
30	Coloane	Private	Construction	Residential building	May 2020 – January 2021	12.7	12.7	0.0	0.0	0.0

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Project number	Location of project	Type of projects	Type of works	Type of building involved	Expected project period	Awarded contract sum (approximate MOP million)	Remaining contract sum as at 30 April 2019 (approximate MOP million)	Approximate percentage of completion as at 30 April 2019 (%)	% of revenue recognised during the Track Record Period (%)	Revenue to be recognised for the year ending 31 December 2019 (approximate MOP million)
31 (Note 6)	Taipa	Private	Fitting-out	Data centre in university	(Note 1) November 2019 – June 2020	45.6	45.6	0.0	0.0	15.2
32 (Note 7)	Taipa	Public	Fitting-out	University building	October 2019 – February 2020	80.0	80.0	0.0	0.0	57.0
33	Macau Peninsula	Public	Fitting-out	Government building	July 2019 – April 2020	13.4	13.4	0.0	0.0	6.7

Notes:

- (1) The expected work period for a particular project comprises the commencement date of the relevant project set out in the letter of commencement or in first invoice from subcontractor or confirmation issued by our customers and our best estimation of the completion of the project. In making the estimation, our management takes into account factors including the date specified in the relevant contract, the extension period granted by our customers and the actual work schedule of our subcontractors.
- (2) Awarded contract sum is the original contract sum and, if any, together with the adjustments upon variation orders.
- (3) It represents the amount of works certified by our customers on the respective projects as at 30 April 2019 as a percentage of the original contract sum.
- (4) It represents our best estimation based on factors including the date specified in the relevant contracts and internal historical statistics data of revenue recognising.
- (5) 明傑建築有限公司 has engaged our Group to provide fitting-out service for a storey of a hospital in Macau.
- (6) 明傑建築有限公司 has engaged our Group to provide fitting-out service for a data-center facility of a tertiary institute in Macau.
- (7) 明傑建築有限公司 has engaged our Group to provide fitting-out service for an art institute in Macau.

## BUSINESS

### Backlog

The following tables set out the backlog as at the dates indicated:

	Year ended 31 December			Four months ended 30 April 2019	Up to the Latest Practicable Date
	2016	2017	2018	2019	Date
	MOP'000	MOP'000	MOP'000	MOP'000	MOP'000
Opening value of backlog	156,240	212,096	206,626	167,170	392,725
Add: Net value of new contracts <sup>(1)</sup>	231,072	317,254	360,629	384,395	73,246
Less: Revenue recognised <sup>(2)</sup>	175,216	322,724	400,085	158,840	126,087
Closing value of backlog <sup>(3)</sup>	<u>212,096</u>	<u>206,626</u>	<u>167,170</u>	<u>392,725</u>	<u>339,884</u>

Notes:

- (1) "Net value of new contracts" means the total contract value of the contracts which were awarded to us together with the additional amount(s) under the variation order(s) during the relevant year indicated for that particular business stream.
- (2) "Revenue recognised" means the revenue for the contracts that has been recognised during the relevant year indicated for that particular business stream.
- (3) "Closing value of backlog" means the total contract value for the remaining work of the contracts before the percentage of completion reaches 100% as at the end of the relevant year indicated for that particular business stream.

The table below sets forth the summary of our project movements by value of original contract sum during the Track Record Period and up to the Latest Practicable Date:

	For the year ended 31 December			Four months ended 30 April 2019	Up to the Latest Practicable Date
	2016	2017	2018	2019	Date
	<b>Original contract sum at or above MOP100 million</b>				
Number of projects brought forward from previous year/period	0	0	1	1	1
Number of projects awarded during the year/period	0	1	0	1	0
Number of projects completed during the year/period	0	0	0	1	0
Number of outstanding projects at the end of the year/period	0	1	1	1	1

**BUSINESS**

	For the year ended 31 December			Four months ended 30 April 2019	Up to the Latest Practicable Date
	2016	2017	2018		
<b>Original contract sum below MOP100 million but at or above MOP50 million</b>					
Number of projects brought forward from previous year/period	1	2	1	2	2
Number of projects awarded during the year/period	1	0	2	1	0
Number of projects completed during the year/period	0	1	1	1	1
Number of outstanding projects at the end of the year/period	2	1	2	2	1
<b>Original contract sum below MOP50 million but at or above MOP10 million</b>					
Number of projects brought forward from previous year/period	5	9	6	7	10
Number of projects awarded during the year/period	4	4	8	4	2
Number of projects completed during the year/period	0	7	7	1	4
Number of outstanding projects at the end of the year/period	9	6	7	10	8
<b>Original contract sum less than MOP10 million</b>					
Number of projects brought forward from previous year/period	13	26	18	24	24
Number of projects awarded during the year/period	86	76	74	18	27
Number of projects completed during the year/period	73	84	68	18	15
Number of outstanding projects at the end of the year/period	26	18	24	24	36
<b>Total number of outstanding projects at the end of the year/period</b>	<b>37</b>	<b>26</b>	<b>34</b>	<b>37</b>	<b>46</b>



## BUSINESS

The table below sets forth the backlog of our Group's projects that are yet to reach practical completion as at the Latest Practicable Date:

By business segments:	Number of contracts	Contract sum <i>(approximate MOP'000)</i>	Backlog value as at the Latest Practicable Date <i>(approximate MOP'000)</i>	Estimated revenue to be recognised for the year ending 31 December 2019 <i>(approximate MOP'000) (note)</i>
Fitting-out	37	426,093	316,964	250,742
Construction	2	22,478	22,478	9,800
Repair and maintenance	7	442	442	384
<b>Total</b>	<b>46</b>	<b>449,013</b>	<b>339,884</b>	<b>260,926</b>

*Note:* It represents our best estimation based on factors including the date specified in the relevant contracts and internal historical statistics data of revenue recognising.

## OUR OPERATION FLOW

We have developed a comprehensive project management system in respect of our business operations. Our Directors consider that there is no material difference in our business operation flow among our fitting-out projects, construction projects and repair and maintenance projects. For illustrative purposes, the following chart sets forth our operating flow which generally applies to the projects that we have undertaken.

Phase	Major steps involved	Duration of our fitting-out projects (approximate) <i>(Note)</i>	Duration of our construction project (approximate) <i>(Note)</i>	Duration of our repair and maintenance project (approximate)
<b>Identification of projects</b>	<ul style="list-style-type: none"> <li>Open tender or invitation for tender/quotation</li> </ul>	From time to time	From time to time	From time to time
<b>Tender/quotation process</b>	<ul style="list-style-type: none"> <li>Project assessment and preparation</li> <li>Tender/quotation submission</li> <li>Receipt of contract award</li> </ul>	3 to 16 weeks	2 to 4 months	1 to 4 weeks
<b>Project implementation</b>	<ul style="list-style-type: none"> <li>Formation of project management team</li> <li>Engineering design/technical submission</li> <li>Preparation of a works programme</li> <li>Materials procurement</li> <li>Subcontracting</li> <li>Taking out performance bond</li> <li>Progress payment</li> </ul>	2 to 38 months	9 to 31 months	1 to 6 months
<b>Project completion</b>	<ul style="list-style-type: none"> <li>Practical completion and handover</li> <li>Defect liability period</li> <li>Preparation of final accounts and final settlement</li> </ul>	12 to 60 months	24 months	n/a

*Note:* The actual duration of our projects may vary significantly depending on, among other things, nature of work, scale and complexity of the project. For instance, for fitting out projects involving fitting out works for multiple newly constructed buildings, project duration might be relatively longer.

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## BUSINESS

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### Identification of projects

We generally secure projects either through a competitive tendering or quotation processes. For private sector projects, our Group is generally invited by its customers directly to submit a tender or quotation. For public sector projects, our Group becomes aware of open tenders by reviewing newspapers and tender information from the websites of the Macau government or public entities.

### Tender/quotation process

#### *(i) Tender/quotation invitation*

Potential customers generally have a set of standards to assess whether a contractor is eligible to tender for a particular project. They will provide us with brief information of a potential project such as project nature, size and commencement date. For private projects, we may receive tender invitation and the relevant tender documents from our customers. For public projects, after internal assessment, our Group may obtain the relevant tender documents from the relevant public entities. The tender documents generally include work specifications, schedule of rates and drawings.

For quotation invitations from our customers, our customers will normally provide us with the relevant quotation documents which usually include submission criteria, work specifications and schedule of rates for preparing our quotation.

#### *(ii) Project assessment and preparation*

On receipt of a tender or quotation invitation, we will evaluate and perform assessment of the tender or quotation documents to identify the scope and complexity of work, project specification, costs and profitability, achievability of specified timetable, resources availability and expertise, in order to ascertain whether to make a recommendation to pursue the project. Our Directors believe that project assessment is an expedient process where we have to determine the feasibility of a particular project in a short period of time before devoting substantive resources in preparing a detailed project proposal.

On some occasions, our Group may submit joint-tenders with other contractor(s) for certain public sector projects to (i) fulfil the requirements of certain tenders and/or (ii) to increase the chance of being awarded the contract. The scenario in which our Group would submit a joint-tender may include: (i) the contract sum was significant and by submitting a joint-tender, the financial capacity and resources of the tender application would be strengthened; and (ii) such projects may involve various types of work and by submitting a joint-tender where each of the joint-contractors might possess a relatively richer portfolio in certain type(s) of works, the tender would be more comprehensive and competitive.



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Category 1 – Preliminary planning – within three months after the project was awarded, our Group, as joint-contractor, was responsible to prepare and deliver, amongst others, preliminary shop drawings, high-level works programme, machinery and labour deployment plans and quotation analysis etc.;

Category 2 – Detailed shop drawings and works programme – prior to commencement of fitting-out works (i.e. when the necessary preceding works such as foundation works and building construction works were approaching conclusion) of the project, our Group was responsible to finalise and deliver detailed shop drawings and works programme for fitting-out works of the project for the contractor-in-charge to implement; and

Category 3 – Management support and site supervision throughout the project period – during the entire project period, our Group was responsible to provide administrative support such as providing documents management service, attending project meetings and monitoring overall project progress and quality.

Allocation of revenue:

The contractor-in-charge will receive all payments from the customer on behalf of the joint-tender operation and pay a certain fixed percentage, negotiated on a case-by-case basis after taking into consideration certain factors such as (i) resources to be deployed by the joint-contractor; (ii) nature and complexity of the project; (iii) overall margin of the project, of the main contract amount to the joint-contractor. During the Track Record Period, the contract sum under the supplemental agreements when assuming the role of joint-contractor ranged from approximately 1.84% to 3.1% of the main contract sum of the respective joint-tenders; and for Project JT4, the contract sum allocated to the joint-contractor amounted to approximately 3.2% of the main contract sum of the respective joint-tender.

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During the Track Record Period, our Group had undertaken four projects under respective joint-tender arrangements. The table below sets forth the details of these projects:

Project number	Contractor-in-charge	Joint-contractor(s)	Contract sum (approximate MOP million) <i>(Note 1)</i>
JT1.	Shing Lung Construction and Engineering Company Limited	Our Group; Long Cheong Construction Engineering Limited <i>(Note 3)</i>	11.0 <i>(Note 2)</i>
JT2.	Shing Lung Construction and Engineering Company Limited	Our Group; Long Cheong Construction Engineering Limited <i>(Note 3)</i>	6.0 <i>(Note 2)</i>
JT3.	Shing Lung Construction and Engineering Company Limited	Our Group	6.0 <i>(Note 2)</i>
JT4.	Our Group	Shing Lung Construction and Engineering Company Limited	62.5

*Notes:*

- (1) Contract sum refers to the original awarded contract sum excluding all variation orders issued by our customers.
- (2) It refers to the contract sum our Group is entitled to according to the supplemental agreement under the respective joint-tender arrangement.
- (3) Long Cheong Construction Engineering Limited is a Macau incorporated company which is principally engaged in, among others, engineering and construction. One of the controlling shareholders of Long Cheong Construction Engineering Limited is also one of the controlling shareholders of Shing Lung Construction and Engineering Company Limited. As confirmed by our Directors, in Project JT1 and JT2, Long Cheong Construction Engineering Limited was named as one of the joint-contractors solely to enhance the competitiveness of the joint-tender as Long Cheong Construction Engineering Limited possessed strong track record in similar public projects.

Our industry consultant, Frost & Sullivan, is of the view, which is also concurred by the Sponsor, that joint-tender arrangements are not uncommon in the construction and fitting-out industry in Macau. For more details of the joint-tenders during the Track Record Period, please refer to the section headed “Business – Major customer with dual role as our subcontractor in other projects” in this document.

Project preparation involves costing and pricing analysis, technical analysis and risk management. We also obtained quotations from our subcontractors so as to make a cost estimation.

## BUSINESS

### *(iii) Pricing*

We generally make reference to the project cost estimate for pricing a project. We determine the price of a tender or quotation based on cost and profit margin estimates and take into account various factors such as quotations of our suppliers and subcontractors, complexity and completion schedule of the project, our previous tender or quotation records and the awarded price of similar projects. For details of salient terms of our contracts, please refer to the sub-sections headed "Salient terms of fitting-out and construction contracts" and "Salient terms of repair and maintenance contracts" in this section.

### *(iv) Award of contracts*

Depending on the requirements of our customers, they may shortlist potential candidates for interviews after tender or quotation submission. If required, we will conduct a presentation to demonstrate to our potential customer that we have the sufficient financial and technical resources to undertake the project. We may also respond to any queries they may have on our submitted tender or quotation, suggest alternative solutions and negotiate on the price and/or other contract terms during the interview.

After the interview (if required), award of contract is generally confirmed by way of a letter of acceptance. A project owner will usually arrange to enter into a formal contract with us. The period from the receipt of the tender or quotation invitation to award of contract may range from three to 16 weeks for our projects.

The table below sets forth our Group's tender success rate during the Track Record Period:

	For the year ended 31 December			Four months ended
	2016	2017	2018	30 April 2019
Number of tenders submitted	164	163	124	60
Number of successful tenders	30	28	27	12
Success rate (%)	18.3	17.2	21.8	20.0
Approximate contract sum of tenders submitted (MOP million)	2,769.2	5,134.5	3,116.0	6,713.2
Approximate contract sum of successful tenders (MOP million)	143.0	83.3	181.9	385.8

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## BUSINESS

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### **Project implementation**

With the award of contract, we will then proceed with project implementation which involve formation of a project team, engineering design and technical submission, devising a detailed works programme, procurement of materials, leasing of machinery and equipment, engagement of subcontractors, and to take charge in the overall management of the projects.

#### *(i) Formation of project team*

Depending on the scale and complexity of the project, we will assign a project team led by our project manager. Our project team normally comprised the following members:

- project manager: responsible for the overall day-to-day management and implementation of the project including overall planning of the project, work allocation, budgeting, communication with our customers, suppliers and subcontractors on project matters.
- quantity surveyor: conducts cost estimation, assessment of work progress and quantity of works completed.
- site manager: responsible for site supervision and monitoring of work progress and quality, including coordinating with our safety officers to implement our occupational safety management at site.
- safety officer: supervises implementation of site safety and environmental protection measures in accordance with statutory requirement, conducts site safety and environmental inspection, investigates any accidents at site, and evaluate our compliance of statutory compliance at site.
- project coordinator: responsible for communicating with subcontractors and suppliers at site.
- foreman: responsible for labour and raw materials coordination and allocation at site.
- site clerks: responsible for handling all clerical and administrative matters at site.

Our project team is responsible for onsite supervision and overall coordination of the day-to-day operation of the project. It will also prepare and submit a detailed works programme setting out key milestone dates to our customers. Our relevant project staff also reports to the executive Directors on project status and identifies issues requiring attention from time to time.



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## BUSINESS

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***(ii) Engineering design and technical submission***

Tender or quotation documents usually include customers' ideas which are usually in the form of architect's drawings together with specifications of materials, products and/or equipment to be used. We will transform these requirements into practicable work plan which include detailed engineering drawings, detailed particulars of materials, products and/or equipment to be used in the project and submit the same for our customers' approval.

***(iii) Works programme***

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 milestone dates which will be closely monitored during project implementation stage.

***(iv) Procurement of materials***

Please refer to the section headed "Business – Suppliers" in this document.

***(v) Leasing of machinery and equipment***

Please refer to the section headed "Business – Suppliers" in this document.

***(vi) Subcontracting***

Please refer to the section headed "Business – Subcontractors" in this document.

***(vii) Performance bonds***

During the Track Record Period, we have undertaken projects as either main contractor or subcontractor. To secure due and timely performance, sometimes we may be required to provide performance bonds in favour of our customers depending on project size and nature, background of customers, our role in a project and requirements of project owner or main contractor (if applicable). For the years ended 31 December 2016, 2017 and 2018 and the four months ended 30 April 2019, performance bond issued by our Group amounted to approximately MOP10.1 million, MOP5.1 million, MOP4.5 million and MOP54,000, respectively and the total number of projects that required the Group to pay for performance bonds amounted to 42. During the Track Record Period and up to the Latest Practicable Date, our Directors confirm that no performance bond had been called by our customers by reason of late completion of any of our projects. The amount of performance bond required for a project undertaken by us generally range from 5% to 10% of the total contract sum. Our performance bond normally expires upon issuance of the certificate of practical completion or as specified in the relevant project contract.

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## BUSINESS

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***(viii) Advance payment bonds***

Our customers may pay us advance payment ranging from 0% to 25% of the contract sum upon contract execution depending on the terms of the relevant contract. We therefore may be required to provide advance payment bonds for equal amount as guarantee of repayment of such advance payment to our customers.

***(ix) Progress payment and retention money***

On a regular basis, usually on a monthly basis, our Group's customers and/or their consultants will carry out inspections on the completed works upon our Group's request to verify the amount to be received by our Group. Upon agreement with our customers, our Group will issue invoices to our customers and they are required to pay us the amount certified less retention money. Our Group usually allows a credit period up to 90 days to our customers.

In most contracts with our customers, our customers have the right to hold up a retention money, generally about 5% to 10% of the contract sum, from each progress payment. Generally, the retention money will be released after the expiry of the defect liability period of approximately 12 to 60 months. Our Directors confirmed that, during the Track Record Period, there were no forfeiture of retention money.

***(x) Variation orders***

Our customers may, during the course of project execution, place variation orders pursuant to the relevant terms of the contract. Variation orders may include additions, alterations or changes in quantity and design. We will discuss with our customers to mutually agree on the sum of variation orders which shall be added to or deducted from the contract sum in the relevant contract. Upon receiving a variation order from our customers describing the detailed works to be carried out, we will make a cost estimation and may then obtain quotations from our suppliers and subcontractors and prepare and submit the proposed rate for our customers' approval. The principal contract terms and settlement of variation orders are generally in line with the terms of the main contract. For the years ended 31 December 2016, 2017 and 2018 and the four months ended 30 April 2019, our Group received a total of 33, 42, 30 and five variation orders resulting in additional work done, with total amount of approximately MOP4.9 million, MOP30.5 million, MOP52.0 million and MOP22.0 million, respectively.

***(xi) Duration***

According to our Directors' experience, the duration of the implementation of our projects can be affected by a number of factors including project scale, scope of works, technical complexity, availability of specified materials, expectation of customers and variation of works etc., which can vary widely. The expected completion time of a project is usually provided in the contract. During the Track Record Period, the duration for the implementation of our fitting-out projects varied from one month to 38 months and that for our construction projects and repair and maintenance projects is estimated to be about nine to 31 months and one to six months, respectively. In light of any circumstance which may lengthen the duration, we will discuss with our customers on the required time for completion of the project and adjust our previous quotation.

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### **Project completion**

#### *(i) Practical completion*

Our customers generally conduct inspection to ensure that our works are satisfactorily completed. A certificate of practical completion will then be issued by our customers, certifying that the project is substantially completed and is approved for handover. The performance bond (where applicable) may be converted into retention money to be released to our Group upon the end of the defect liability period.

#### *(ii) Defect liability period*

Our customers normally require a defect liability period, pursuant to which we are required to rectify any defects identified. Defect liability period lasts for 12 to 60 months after issuance of the certificate of practical completion. To safeguard our interests, we generally require a similar defect liability period to be provided by our subcontractors.

Generally, our customers will then release the retention money upon issuance of such certificate. During the Track Record Period, we have not experienced any material claim by our customers in respect of our projects.

## **CUSTOMERS**

### **Profile of our Group's customers**

Our Group's customers primarily include the Macau Government, other statutory bodies and main contractors.

During the Track Record Period, all of our Group's customers are located in Macau and all of our Group's service fees are denominated in MOP.

### **Major customers**

For each of the three years ended 31 December 2018 and the four months ended 30 April 2019, revenue attributable to our Group's largest customer amounted to approximately 26.3%, 23.2%, 51.6% and 62.1% of our Group's total revenue, respectively, while revenue attributable to our Group's five largest customers, in aggregate, amounted to approximately 74.3%, 78.2%, 91.3% and 87.1% of our Group's total revenue, respectively.

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Set out below is a breakdown of our Group's revenue attributable to our Group's five largest customers during the Track Record Period:

*For the year ended 31 December 2016*

Rank	Name of customer	Sector	Approximate amount of revenue (MOP million)	Approximate percentage of total revenue (%)	Service provided by our Group	Business relationship since
1	Shing Lung Construction and Engineering Company Limited	Private	46.1	26.3	Project management services and plastering	2012
2	Customer A	Public	39.6	22.6	Fitting-out	2009
3	Customer B	Public	16.6	9.5	Fitting-out	2011
4	Customer C	Public	15.0	8.6	Fitting-out	2009
5	Tek Pou Engineering Company Limited	Private	12.7	7.3	Plastering	2016
<b>Five largest customers combined</b>			<b>130.0</b>	<b>74.3</b>		

*For the year ended 31 December 2017*

Rank	Name of customer	Sector	Approximate amount of revenue (MOP million)	Approximate percentage of total revenue (%)	Service provided by our Group	Business relationship since
1	Ming Shun Construction and Property Investment Limited	Private	74.8	23.2	Plastering	2014
2	Customer A	Public	57.5	17.8	Fitting-out	2009
3	Tek Pou Engineering Company Limited	Private	45.5	14.1	Plastering	2016
4	Customer D	Public	40.3	12.5	Fitting-out	2015
5	Shing Lung Construction and Engineering Company Limited	Private	34.4	10.6	Project management services and plastering	2012
<b>Five largest customers combined</b>			<b>252.5</b>	<b>78.2</b>		

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### *For the year ended 31 December 2018*

Rank	Name of customer	Sector	Approximate amount of revenue (MOP million)	Approximate percentage of total revenue (%)	Service provided by our Group	Business relationship since
1	Ming Shun Construction and Property Investment Limited	Private	206.4	51.6	Fitting-out, stone works and plastering	2014
2	Zhuo Cheng Construction and Property Limited	Private	95.9	24.0	Fitting-out	2017
3	Customer D	Public	28.6	7.2	Fitting-out and construction	2015
4	Customer A	Public	23.3	5.8	Fitting-out	2009
5	Shing Lung Construction and Engineering Company Limited	Private	10.6	2.7	Plastering	2012
<b>Five largest customers combined</b>			<b>364.8</b>	<b>91.3</b>		

### *For the four months ended 30 April 2019*

Rank	Name of customer	Sector	Approximate amount of revenue (MOP million)	Approximate percentage of total revenue (%)	Service provided by our Group	Business relationship since
1	明傑建築有限公司	Private	98.7	62.1	Fitting-out	2018
2	Shing Lung Construction and Engineering Company Limited	Private	15.7	9.9	Fitting-out and plastering	2012
3	Viewtiful Renovation	Private	13.6	8.6	Fitting-out	2018
4	Zhuo Cheng Construction and Property Limited	Private	5.5	3.5	Fitting-out	2017
5	Customer D	Public	4.6	3.0	Fitting-out and construction	2015
<b>Five largest customers combined</b>			<b>138.1</b>	<b>87.1</b>		

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## BUSINESS

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*Notes:*

- (1) Customer A is a Macau Government bureau responsible for land management, urban planning, public buildings and infrastructure development.
- (2) Customer B is a Macau Government bureau responsible for education and youth policies.
- (3) Customer C is a Macau Government bureau responsible for the cleanliness of public places, the facilitation of rehabilitation of urban areas, road traffic regulation efforts and etc.
- (4) Customer D is a public comprehensive university in Macau.
- (5) Zhuo Cheng Construction and Property Limited is a Macau incorporated company, engaging in construction and the relevant design works.
- (6) Shing Lung Construction and Engineering Company Limited is a Macau incorporated construction company.
- (7) Tek Pou Engineering Company Limited is a Macau incorporated engineering and construction company. One of the shareholders of Tek Pou Engineering Company Limited is also one of the shareholders of Ming Shun Construction and Property Investment Limited. According to the best knowledge of our Directors, Tek Pou Engineering Company Limited ("**Tek Pou**") is in the course of dissolution as at the Latest Practicable Date due to restructuring to simplify the structure of the group of companies comprising Tek Pou and Ming Shun Construction and Property Investment Limited (the "**Ming Shun Group**"). As at the Latest Practicable Date, trade receivables, retention receivables and contract assets due from Tek Pou were all settled..
- (8) Ming Shun Construction and Property Investment Limited is a Macau incorporated construction company. One of the shareholders of Ming Shun Construction and Property Investment Limited is also one of the shareholders of Tek Pou Engineering Company Limited.
- (9) 明傑建築有限公司 is a Macau incorporated company, engaging in construction.
- (10) Viewtiful Renovation is a business enterprise located in Macau, engaging in fitting-out works.

All of our Group's five largest customers for each year during the Track Record Period are Independent Third Parties. To the best of the knowledge of our Directors, none of our Directors, their close associates, or any Shareholders who owned more than 5% of the share capital of our Company as at the Latest Practicable Date had any interest (direct or indirect) in any of our Group's five largest customers during the Track Record Period.

Our Directors are of the view that our Group did not overly rely on any of its major customers having considered the following factors:

- (i) our Group was able to demonstrate the ability to find substitute customers in the fitting-out and construction industries given that only Customer A and Shing Lung Construction and Engineering Company Limited were our top five customers consecutively for each of the three years ended 31 December 2018, collectively contributing approximately 48.9%, 28.4% and 8.5% of our revenue for the three years ended 31 December 2018 respectively;

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- (ii) our Directors believe that our Group was able to capture new source of revenue from potential customers and reduce its reliance on any single customer. During the Track Record Period, Tek Pou Engineering Company Limited, Zhuo Cheng Construction and Property Limited, 明傑建築有限公司 and Viewtiful Renovation contributed to our revenue as one of the top five customers as newly acquainted customers during the Track Record Period; and
- (iii) even if any of our major customers substantially reduce the number of contracts with us or terminate the business relationship with us, our Directors consider that we have the capacity and ability to handle other potential projects from existing or new customers in view of the expected growth in the fitting-out and construction industries in Macau. As set out in the section headed "Industry Overview" in this document, from 2019 to 2023, the revenue of the fitting-out and construction industries are expected to grow at a CAGR of approximately 8.5% and 12.7%, respectively.

### Salient terms of fitting-out and construction contracts

Our Group provides services of fitting-out works and construction works to its customers on a project-by-project basis instead of entering into long-term contracts. Our Directors consider that such arrangement is in line with the industry practice in Macau. The terms of each project contract entered into between our Group and its customers vary, but the salient terms of a project contract are shown below:

- |                  |   |  |
|------------------|---|--|
| Scope of work    | : | The scope of services and type of works to be carried out by our Group are specified in the project contract. The project contract may also include the product specifications and requirements as set out by the customers.   |
| Duration of work | : | Our Group shall follow the pre-determined fitting-out or construction work schedule as specified by the customers.   |
| Contract sum     | : | Our Group's project contracts are mainly remeasurement contracts which contain, among other things, Bills of Quantities or Schedule of Rates which is one of the contract types commonly adopted in the construction industry in Macau. The agreed unit rates of each item and the estimated quantities of various items of works based on the tender drawings are set out in the Bills of Quantity. Such Bills of Quantities are generally prepared by the project architect engaged by the customer or main contractor. When the works are completed, the customer will measure the actual quantities of works executed onsite and our Group will be paid based on works done. |



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Other than remeasurement contracts, some of our Group's project contracts are lump sum fixed price contracts in which the contract payment will be based on a fixed contract sum agreed in the contract for carrying out the whole of the works as specified in the specification, drawings and technical requirements of the customers (excluding any work done pursuant to subsequent variation orders).

- Subcontracting : Unless specified in the project contracts, our Group's customers do not prohibit our Group from engaging subcontractors to carry out the works, but our Group is primarily responsible for the works performed by its subcontractors.
- Insurance : When undertaking projects as the main contractor, our Group is responsible for all necessary insurances for its subcontractors, such as employees' compensation, contractors all risk insurance and third party liability insurance.
- Performance bond : Under some of the project contracts, our Group is required to provide a performance bond equivalent to approximately 5% to 10% of the total contract sum issued by banks in favour of the customer as security for the due performance and observance of our Group's obligations under the relevant project. The performance bonds are released upon completion of the project or as specified in the relevant project contract.
- Payment terms : For further details regarding the payment terms, please refer to the section headed "Business – Customers – Progress payment" in this document.
- Defects liability period : Our Group may be required to provide a defects liability period ranging from 12 to 60 months for its fitting-out projects and construction projects. During the defects liability period, our Group is responsible for remedial works which may arise from the defective works or materials used.
- Retention money : For some projects, 5% to 10% of the total contract sum of the project contract may be withheld by our Group's customers as retention money and will be fully released upon the expiry of the defects liability period. In some cases, part of the retention money will be released upon issuance of practical completion certificate.

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## **BUSINESS**

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### **Salient terms of repair and maintenance contracts**

Our Group provides as-needed repair and maintenance services for existing properties in Macau by providing a quotation to its customers on one-off basis. Our Group also provides such services on regular basis over a fixed period. The repair and maintenance quotations provided by our Group to its customers usually contain the following provisions:

- Scope of work : The scope of services and type of works to be carried out by our Group are specified in the quotations.
- Pricing : The quotations are re-measurement contracts containing Bills of Quantities. The agreed unit rates of each item and the quantities of various items of works are set out in the Bills of Quantity.
- Duration of work : In general, the scope of as-needed repair and maintenance services provided by our Group are on one-off basis. However, for some of its customers, our Group also provides such services regularly over a fixed period, generally up to six months.
- Payment : For further details regarding the payment terms, please refer to the section headed “Business – Our operation flow – project implementation – (ix) progress payment and retention money” in this document.

### **Progress payment**

Please refer to the paragraph headed “Business – Our operation flow – Project implementation – (ix) Progress payment and retention money” in this document.

## **SUPPLIERS**

### **Profile of our Group’s suppliers**

Our Group’s suppliers mainly include suppliers for materials to be consumed in its fitting-out projects and construction projects, such as cement, sand, rocks and marble; and in some occasions machines and equipment leasing services.

During the Track Record Period, a majority of our Group’s suppliers are located in Macau, and most of the purchases orders placed by our Group are denominated in MOP.

## BUSINESS

### Major suppliers

For each of the three years ended 31 December 2018 and the four months ended 30 April 2019, purchases attributable to our Group's largest supplier amounted to approximately 33.2%, 46.0%, 24.1% and 14.9% of our Group's total material costs, respectively, while total material costs attributable to our Group's five largest suppliers, in aggregate, amounted to approximately 57.7%, 65.3%, 69.9% and 54.3% of its total purchases, respectively.

Set out below is a breakdown of our Group's purchases attributable to our Group's five largest suppliers during the Track Record Period:

*For the year ended 31 December 2016*

Rank	Name of supplier	Approximate amount of material costs (MOP million)	Approximate percentage of total material costs (%)	Major materials supplied	Business relationship since
1	Supplier A	8.2	33.2	Construction material	2015
2	Supplier B	1.6	6.5	Construction material	2015
3	Supplier C	1.6	6.5	Office furniture	2010
4	Supplier D	1.5	6.2	Construction material	2016
5	Supplier E	1.3	5.3	Construction material	2016
<b>Five largest suppliers combined</b>		<b>14.2</b>	<b>57.7</b>		

**BUSINESS**

*For the year ended 31 December 2017*

Rank	Name of supplier	Approximate amount of material costs (MOP million)	Approximate percentage of total material costs (%)	Major materials supplied	Business relationship since
1	Supplier A	17.3	46.0	Construction material	2015
2	Supplier F	2.5	6.6	Construction material	2016
3	Supplier B	1.8	4.8	Construction material	2015
4	Supplier G	1.5	4.1	Construction material	2013
5	Supplier H	1.4	3.8	Lighting material	2017
<b>Five largest suppliers combined</b>		<b>24.5</b>	<b>65.3</b>		

*For the year ended 31 December 2018*

Rank	Name of supplier	Approximate amount of material costs (MOP million)	Approximate percentage of total material costs (%)	Major materials supplied	Business relationship since
1	Supplier A	3.4	24.1	Construction material	2015
2	Supplier E	2.0	14.5	Construction material	2016
3	Supplier B	2.0	14.4	Construction material	2015
4	Supplier I	1.4	9.8	Construction material	2017
5	Supplier J	1.0	7.1	Construction material	2016
<b>Five largest suppliers combined</b>		<b>9.8</b>	<b>69.9</b>		

## BUSINESS

*For the four months ended 30 April 2019*

Rank	Name of supplier	Approximate amount of material costs (MOP million)	Approximate percentage of total material costs (%)	Major materials supplied	Business relationship since
1	Supplier K	0.8	14.9	Furniture	2019
2	Supplier L	0.6	11.4	Furniture	2019
3	Supplier F	0.6	11.2	Construction material	2016
4	Supplier G	0.6	10.3	Construction material	2013
5	Supplier M	0.4	6.5	Sanitary wares	2019
<b>Five largest suppliers combined</b>		<b>3.0</b>	<b>54.3</b>		

*Notes:*

- (1) Supplier A is a Macau incorporated company engaging in the wholesale and retail of construction materials, and the processing work of stones and wood. Supplier A was owned by close associates of two of our Directors. On 23 February 2016, the said close associates disposed all of their interests in Supplier A to the Independent Third Parties who have interests in Subcontractor C, a top five subcontractor to the Group for each of the three years ended 31 December 2018 respectively.
- (2) Supplier B is a Macau incorporated company, engaging in trading of cement, and import and export businesses.
- (3) Supplier C is a Macau incorporated company, engaging in manufacture and sale of office furniture.
- (4) Supplier D is a business enterprise located in Macau, engaging in trading of construction materials, waterproof materials and recreational facilities.
- (5) Supplier E is a Macau incorporated company, engaging in trading of construction materials.
- (6) Supplier F is a company located in Hong Kong, engaging in trading of materials for fitting out.
- (7) Supplier G is a business enterprise located in Macau, engaging in the import, export and retail of materials for fitting out.
- (8) Supplier H is a Macau incorporated company, engaging in developing and managing lighting projects and trading of lighting equipment.
- (9) Supplier I is a Macau incorporated company, engaging in the trading of construction materials and provision of fitting out services.
- (10) Supplier J is a Macau incorporated company, engaging in the supply of construction materials and preparation of concrete.
- (11) Supplier K is a Macau incorporated company, engaging in trading of office furniture.
- (12) Supplier L is a company located in Hong Kong, engaging in trading of materials for fitting-out.
- (13) Supplier M is a business enterprise located in Macau, engaging in trading of sanitary wares.

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## **BUSINESS**

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Save as disclosed above, our Group's five largest suppliers for each year during the Track Record Period are Independent Third Parties. To the best of the knowledge of our Directors, none of our Directors, their close associates, or any Shareholders who owned more than 5% of the share capital of our Company as at the Latest Practicable Date had any interest (direct or indirect) in any of our Group's five largest suppliers during the Track Record Period.

### **Basis for selection of suppliers**

Our Group maintains an internal list of approved suppliers and such list is updated from time to time. Our Group will review the current list of approved suppliers and consider whether any should be removed or replaced based on the quality of their products or their respective job performance. As at the Latest Practicable Date, our Group had 79 approved suppliers on its internal list of approved suppliers. Our Group selects the suppliers based on a number of criteria including but not limited to their technical capability, track records, prices, product quality and timely delivery. Our Group generally sources the materials from suppliers after the contract is awarded and the proposed materials are approved by our customers.

Our Directors confirmed that during the Track Record Period, our Group did not experience any material shortage or delay in the supply of goods or services that our Group required. Our Directors consider that our Group is able to pass on any increase in purchase costs to its customers as our Group generally takes into account the overall costs of undertaking a project when preparing the tender.

### **Salient purchase terms**

Our Group makes purchase orders on a project-by-project basis instead of entering into long-term supply contracts with its suppliers. Our Directors consider that such arrangement is in line with the industry practice in Macau. During the Track Record Period, our Group purchased from its suppliers by placing purchase orders upon receiving a quotation on the required materials and goods from the suppliers. The terms of each purchase order entered by our Group with its suppliers vary, but the salient terms of a purchase order are shown below:

- |                        |   |  |
|------------------------|---|--|
| Material specification | : | A description of the material required, including the type of materials, quantity, size and technical specification of the products.         |
| Payment terms          | : | For further details regarding the payment terms, please refer to the section headed "Business – Suppliers – Credit policy" in this document. |

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## **BUSINESS**

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- Deposit : Some of our Group's suppliers require 30% to 50% of the total purchase amount as deposit while some of our Group's suppliers do not require any deposit.
- Delivery : In some cases, our Group's suppliers deliver the goods directly to the worksite or other designated location. In some cases, our Group collect the goods from the suppliers by itself.

### **Credit policy**

During the Track Record Period, majority of our Group's suppliers are located in Macau and Hong Kong, and most of the purchase orders made by our Group are denominated in MOP and HK\$. Credit terms granted by our suppliers range from up to 30 days. Our Group settles the payment by cheque for most of the suppliers.

### **SUBCONTRACTORS**

#### **Profile of our Group's subcontractors**

Our Group may subcontract certain activities in the project to other subcontractors depending on its internal resources level, nature of the works, complexity of the project and cost effectiveness. During the Track Record Period, our Group's subcontracted works mainly include demolition works, foundation and structural works, fitting-out works and building services systems installation.

During the Track Record Period, all of our Group's subcontractors are based in Macau, and most of our Group's subcontracting agreements are generally denominated in MOP.

#### **Major subcontractors**

For each of the three years ended 31 December 2018 and the four months ended 30 April 2019, subcontracting fees paid to our Group's largest subcontractor amounted to approximately 22.7%, 10.4%, 33.9% and 41.5% of our Group's total subcontracting fees, respectively, while subcontracting fees paid to our Group's five largest subcontractors, in aggregate, amounted to approximately 62.5%, 34.8%, 73.2% and 52.8% of its total subcontracting fees, respectively.

## BUSINESS

Set out below is a breakdown of our Group's subcontracting fees paid to our Group's top five subcontractors during the Track Record Period:

*For the year ended 31 December 2016*

Rank	Name of subcontractor	Approximate amount of subcontracting costs (MOP million)	Approximate percentage of total subcontracting costs (%)	Major services provided to our Group	Business relationship since
1	Subcontractor A	19.7	22.7	Electrical and mechanical engineering	2011
2	Subcontractor B	9.5	10.9	Plastering	2016
3	Subcontractor C	9.3	10.8	Electrical and mechanical engineering and fitting-out	2015
4	Subcontractor D	9.1	10.5	Construction	2015
5	Subcontractor E	6.6	7.6	Steelwork	2012
<b>Five largest subcontractors combined</b>		<b>54.2</b>	<b>62.5</b>		

*For the year ended 31 December 2017*

Rank	Name of subcontractor	Approximate amount of subcontracting costs (MOP million)	Approximate percentage of total subcontracting costs (%)	Major services provided to our Group	Business relationship since
1	Subcontractor F	19.9	10.4	Fitting-out	2015
2	Subcontractor C	18.5	9.6	Electrical and mechanical engineering and fitting-out	2015
3	Subcontractor A	13.0	6.8	Electrical and mechanical engineering	2011
4	Subcontractor D	8.6	4.5	Construction	2015
5	Subcontractor G	6.6	3.5	Plastering	2017
<b>Five largest subcontractors combined</b>		<b>66.6</b>	<b>34.8</b>		



## BUSINESS

*For the year ended 31 December 2018*

Rank	Name of subcontractor	Approximate amount of subcontracting costs <i>(MOP million)</i>	Approximate percentage of total subcontracting costs <i>(%)</i>	Major services provided to our Group	Business relationship since
1	Subcontractor H	101.0	33.9	Fitting-out	2017
2	Subcontractor C	55.8	18.7	Electrical and mechanical engineering and fitting- out	2015
3	Subcontractor I	24.1	8.1	Plastering	2018
4	Subcontractor K	19.5	6.5	Plastering	2017
5	Subcontractor J	17.9	6.0	Plastering	2017
<b>Five largest subcontractors combined</b>		<b><u>218.3</u></b>	<b><u>73.2</u></b>		

*For the four months ended 30 April 2019*

Rank	Name of subcontractor	Approximate amount of subcontracting costs <i>(MOP million)</i>	Approximate percentage of total subcontracting costs <i>(%)</i>	Major services provided to our Group	Business relationship since
1	Subcontractor H	48.1	41.5	Fitting-out	2017
2	Subcontractor I	4.6	4.0	Plastering	2018
3	Subcontractor L	3.6	3.1	Electrical and mechanical engineering	2019
4	Subcontractor M	2.5	2.1	Plastering	2017
5	Subcontractor N	2.4	2.1	Air conditioning engineering	2014
<b>Five largest subcontractors combined</b>		<b><u>61.2</u></b>	<b><u>52.8</u></b>		

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## BUSINESS

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*Notes:*

- (1) Subcontractor A is a Macau incorporated company, engaging in the installation and maintenance services of air conditioning, electricity and water systems, and the construction and fitting out of buildings.
- (2) Subcontractor B is a Macau incorporated company, engaging in decoration of construction work.
- (3) Subcontractor C is a Macau incorporated company, engaging in installation, maintenance services and trading of air conditioning, mechanical and electrical engineering, and fire engineering systems.
- (4) Subcontractor D is a Macau incorporated company, engaging in electrical and mechanical engineering works.
- (5) Subcontractor E is a business enterprise in Macau, engaging in wood and iron works.
- (6) Subcontractor F is a business enterprise in Macau, engaging in fitting out works.
- (7) Subcontractor G is a business enterprise in Macau, engaging in concrete and plaster works.
- (8) Subcontractor H is a Macau incorporated company, engaging in construction and fitting out works.
- (9) Subcontractor I is a Macau incorporated company, engaging in fitting-out works and environmental design work.
- (10) Subcontractor J is a business enterprise in Macau, engaging in construction and fitting-out works.
- (11) Subcontractor K is a Macau incorporated company, engaging in construction and fitting out works.
- (12) Subcontractor L is a Macau incorporated company, engaging in electrical and mechanical engineering and construction works.
- (13) Subcontractor M is a Macau incorporated company, engaging in construction and civil engineering works.
- (14) Subcontractor N is a Macau incorporated company, engaging in the installation, maintenance services and trading of air conditioning engineering systems.

All of our Group's top five subcontractors during the Track Record Period are Independent Third Parties. To the best of the knowledge of our Directors, none of our Directors, their close associates, or any Shareholders who owned more than 5% of the share capital of our Company as at the Latest Practicable Date had any interest (direct or indirect) in any of our Group's five largest subcontractors during the Track Record Period.

### **Basis for selection of subcontractors**

Our Group maintains an internal list of approved subcontractors and such list is updated from time to time. Our Group will review the current list of approved subcontractors and consider whether any should be removed or replaced based on the quality of their products or their respective job performance. As at the Latest Practicable Date, our Group had 84 approved subcontractors on its internal list of approved subcontractors. Therefore, our Directors consider that our Group does not place any significant reliance on any single subcontractor. While assessing whether a subcontractor is qualified to be on the list, our Group carefully evaluates the subcontractor based on its technical capability, job reference, pricing competitiveness, labour resources and past safety performance.

## **BUSINESS**

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In each project, our Group generally selects two or more subcontractors from the approved list based on their relevant skillsets and experience and invites them to provide a quotation. Our Group will then select the most suitable subcontractor.

Our Directors confirmed that during the Track Record Period, our Group did not experience any difficulty in procuring services from subcontractors and did not receive any material claims from the customers in relation to the standard and quality of services performed by subcontractors engaged by our Group.

### **Control on subcontractors**

Our Group has a project team to oversee each of its projects, of which the site foreman is assigned to monitor and supervise, on a daily basis, the working process of the subcontractors and ensures that they have met the safety and workmanship requirements and be responsible for coordination work on the project site. Furthermore, the project manager carries out inspection on the work done by the subcontractors on a regular basis to ensure that the works done are in line with the contract design.

Our Group requires our subcontractors to follow our guidelines in relation to occupational safety at the worksite. All of the personnel at the worksite, including our Group's own personnel and the employees of our Group's subcontractors, are required to possess a valid occupational safety card issued by the DSAL. For further information on our Group's internal rules and regulations in relation to work quality, occupational health and safety, and environmental protection, please refer to the sub-sections headed "Quality control", "Occupational health and safety" and "Environmental compliance" in this section.

In order to manage the status of the work undertaken by our Group's subcontractors, project managers of our Group conduct regular reviews on the status of work progress of the appointed subcontractors. Job performance of our Group's subcontractors will be monitored by either (i) conducting meetings with subcontractors' responsible personnel to review their performance; (ii) performing inspection or checking on subcontractors' works; or (iii) periodically evaluating the performance of subcontractors.

During the Track Record Period, our Directors confirmed that there was no claim from our Group's customers in relation to the quality of the work performed by the subcontractors.

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## **BUSINESS**

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### **Salient terms of subcontracting agreements**

Our Group generally engages subcontractors on a project-by-project basis instead of entering into long-term subcontracting agreements with them. Our Directors consider that such arrangement is in line with the industry practice in Macau. The terms of each subcontracting agreement entered by our Group with its subcontractors may vary, but the salient terms of a typical subcontracting agreement are shown below:

Scope of work	:	The scope of services and types of works to be carried out by the subcontractor will be specified in the subcontracting agreement.
Contract sum	:	<p>In respect of remeasurement contract, the final contract sum will be determined based on agreed unit rates and measurement of quantities of work done.</p> <p>In respect of lump sum fixed price contract, the whole contract sum will be agreed upon at engagement, subject to variation orders if any.</p>
Insurance	:	Our Group, as the main contractor, is responsible to maintain all the necessary insurance as required for the construction work.
Payment terms	:	For further details regarding the payment terms, please refer to the section headed "Business – Subcontractors – Credit policy" in this document.
Defects liability period	:	Our Group's subcontractors generally would provide a defects liability period on their work done.
Retention money	:	5% to 10% of the total sum of the subcontracting agreement may be withheld by our Group as retention money. The retention money will be payable to the subcontractors upon expiry of the defects liability period and confirmed by the customers. For further details on our Group's payable turnover days, please refer to the section headed "Financial Information – Trade and other payables – (i) Trade payables" in this document.

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## **BUSINESS**

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### **Credit policy**

Our Group's subcontractor would submit payment applications usually on a monthly basis, after agreeing the estimated value of work and/or material consumed, issue invoice to our Group from time to time.

During the Track Record Period, all of our Group's subcontractors are based in Macau, and the subcontracting agreements are generally denominated in MOP. Our subcontractors usually allows a credit period of up to 35 days to our Group.

### **Major customer with dual role as our subcontractor in other projects**

Shing Lung Construction and Engineering Company Limited, being one of our five largest Customers for each of the years ended 31 December 2016, 2017 and 2018 and the four months ended 30 April 2019, was also one of our subcontractors for the years ended 31 December 2016 and 2017. During the Track Record Period, in addition to being its subcontractor or providing plastering services, we also undertook three projects as joint-contractor with Shing Lung Construction and Engineering Company Limited where we were delegated project management work under relevant joint-tender arrangements. For details of joint tenders arrangement, please refer to the section headed "Business – Our operation flow – Tender/quotation process" in this document.

Also, during the Track Record Period, our Group undertook one project as contractor-in-charge with Shing Lung Construction and Engineering Company Limited under relevant joint-tender arrangements. For details of joint tenders arrangement, please refer to the section headed "Business – Our operation flow – Tender/quotation process" in this document.

For the three years ended 31 December 2018 and the four months ended 30 April 2019, the revenue contributable to Shing Lung Construction and Engineering Company Limited amounted to approximately MOP46.1 million, MOP 34.4 million, MOP10.6 million and MOP15.7 million, respectively, representing 26.3%, 10.6%, 2.7% and 9.9% of our total revenue, respectively. For the same period, our subcontracting cost attributable to Shing Lung Construction and Engineering Company Limited were approximately MOP1.0 million, nil, nil, and nil respectively, representing approximately 1.2%, nil, nil and nil of our total subcontracting costs, respectively.

### **INVENTORY MANAGEMENT**

During the Track Record Period and as at the Latest Practicable Date, our Group did not hold any inventory.

### **SEASONALITY**

Our Directors consider that save that it is a traditional low season for fitting-out industry and construction industry during the Chinese New Year, our Group's business operations do not have any material seasonality.

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## **BUSINESS**

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### **SALES AND MARKETING**

Our Group does not maintain a sales and marketing team, the executive Directors will directly contact potential customers to conduct the sales and marketing activities. During the Track Record Period, our Group secured new businesses mainly through direct invitation for tendering by customers, which is considered by our Directors to be attributable to our Group's track record and well-established presence in the industry in Macau.

### **MARKET AND COMPETITION**

According to the Frost & Sullivan Report, the revenue generated from fitting-out industry in Macau increased rapidly from approximately MOP3,153.3 million in 2013 to approximately MOP8,883.8 million in 2018 at a CAGR of approximately 23.0%. The fitting-out market in Macau is estimated to have a moderate growth at a CAGR of approximately 8.5% over the period from 2019 to 2023, and achieve approximately MOP13,523.2 million in 2023. The growth is driven by infrastructure development and growth in tourism. In terms of revenue, our Group was the second largest fitting-out contractor in Macau in 2018, with market share of approximately 4.4%. The fitting-out market in Macau is dominated by major contractors, of which the top five contractors had an aggregate market share of approximately 26.9% in 2018. The construction market in Macau experienced a strong growth from MOP39.3 billion in 2013 to MOP82.0 billion in 2018, representing a CAGR of 15.8%. The rapid increase was primarily due to the new construction of casinos and hotels from 2013 to 2018. The expediting of the residential developments in the urban development and reclamation work for New Urban Zone Area A, would increase the demand for construction. The construction market in Macau will likely to grow continuously at a CAGR of 12.7% during 2019 to 2023, reaching MOP148.1 billion in 2023. The construction market in Macau is dominated by major contractors, of which the top five contractors had an aggregate market share of approximately 25.3% in 2018.

For further information regarding the competitive landscape of the industry in which our Group operates or intends to operate, please refer to the section headed "Industry Overview" in this document.

### **HEDGING**

During the Track Record Period and as at the Latest Practicable Date, our Group did not engage in any hedging activity.

### **RESEARCH AND DEVELOPMENT**

During the Track Record Period and as at the Latest Practicable Date, our Group did not engage in any research and development activity nor incurred any research and development expenses.

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## BUSINESS

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### MAJOR QUALIFICATION AND CERTIFICATIONS

The following table sets forth the major qualifications and certifications held by our Group as at the Latest Practicable Date:

Year of first grant	Recipient	Qualification	Awarding authority	Validity
2005	AD&C	Constructor Registration (Execution of Works Category)	DSSOPT	For the year 2019
2012	S.J. Construction	Constructor Registration (Execution of Works Category)	DSSOPT	For the year 2019
2013	Q.F. Stone	Constructor Registration (Execution of Works Category)	DSSOPT	For the year 2019
2014	Huarchi Global	Constructor Registration (Execution of Works Category)	DSSOPT	For the year 2019
2017	Huarchi Global	Registration for the Execution of Function of Project Elaboration	DSSOPT	For the year 2019

As advised by the Macau Legal Advisers, the registration with DSSOPT as a construction company is subject to renewal on a yearly basis by submitting an [REDACTED] and provided that the company has (i) office in Macau; (ii) principal business related to construction or fitting-out work; (iii) at least one qualified technician as employee; and (iv) the activity insured. Given that AD&C, S.J. Construction, Q.F. Stone and Huarchi Global comply with the aforementioned legal requirements, the Macau Legal Advisers are of the view that there is no legal impediment for AD&C, S.J. Construction, Q.F. Stone and Huarchi Global to renew their respective registration as a construction company with DSSOPT.

### QUALITY CONTROL

Generally, except for projects of extremely small scale, each project of our Group has a project team comprising, among others, an executive Director and a project manager who are responsible for the overall quality assurance of the project.

For our Group's quality control measures on its subcontractors, please refer to the section headed "Business – Subcontractors – Control on subcontractors" in this document.

### INTERNAL CONTROL

In preparation of the [REDACTED], our Group has engaged an independent internal control consultant (the "Internal Control Consultant") to perform a detailed evaluation on its internal control system.

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## BUSINESS

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The Internal Control Consultant completed the first round of internal control review in September 2017 and has recommended measures and policies to enhance our Group's internal control system. In April 2018 and October 2019, the Internal Control Consultant performed follow up reviews on, including but not limited to, the measures set out in the section headed "Business – Non-compliance – Key measures taken to prevent recurrence of the non-compliance incident" in this section. Based on the result of the follow up review, our Directors confirmed, and the Sponsor concurred, that our Group did not have any significant deficiencies in its internal control system as at the Latest Practicable Date.

### INSURANCE

Our Directors consider that our Group's insurance coverage is adequate and consistent with industry norm having regard to our Group's current operations and the prevailing industry practice.

Our Group maintains employee's compensation insurance policies for its employees. As confirmed by the Company, on a project-by-project basis, our Group maintains the necessary employee's compensation insurance policies for each construction project and purchases additional insurances, such as contractor's all risk and third party liabilities, when required legally and/or in accordance with the specific requirements of our Group's customers. The coverage of the necessary employee's compensation insurance policies for each construction project include all workers employed by our Group and its subcontractors.

### OCCUPATIONAL HEALTH AND SAFETY

#### Occupational health and safety measures

Our Group has established procedures to provide its workers with a safe and healthy working environment by specifying various safety measures in its in-house rules. In the in-house rules, our Group highlights potential dangers of carrying out fitting-out and construction works and specifies corresponding measures and requirements for its workers and subcontractors to follow, including, among others:

<b>Potential dangers</b>	<b>Safety measures and requirements</b>
Protection from falling materials	<ul style="list-style-type: none"><li>– All staff must wear safety helmet at locations where there are falling objects hazard</li><li>– Provide safety nets along upright scaffoldings to prevent objects falling</li></ul>



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## BUSINESS

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### Potential dangers

### Safety measures and requirements

- |                                |  |
|--------------------------------|--|
| Welding                        | <ul style="list-style-type: none"><li>- No welding or cutting operation should be allowed near places where combustible material are stored, or near material or plant where explosive or flammable dust, gases or vapour are likely to be present or omitted</li><br/><li>- Oxygen bottles for welding must not be placed horizontally and must be securely fixed</li></ul> |
| Work at height and scaffolding | <ul style="list-style-type: none"><li>- Standing scaffolds will be erected under the guidance of a competent person</li><br/><li>- All scaffolds are inspected once every month or shortly after exposure to weather conditions likely to affect its stability</li></ul>   |

Our Group has devised approaches in order to ensure safe working procedures are in place on site. Below are some of the key approaches:

- |                   |  |
|-------------------|--|
| Safety inspection | :<br><p>Project manager or foreman shall inspect the site every day to check the compliance with the regulations and report any irregularities to relevant parties to improve various undesirable conditions</p> |
|-------------------|--|

The foreman shall hold a site safe meeting every day before work with the workers to stress on the importance of safety measures and provide measures to reduce safety risk.

- |  |  |
|--|--|
| Selection and control of subcontractor | :<br><p>Our Group will inspect and record a subcontractor's failure in complying with the safety measures. The Group will consider not to engage the subcontractors who have non-compliance more than three times on the same item. The appraisal of subcontractors is assessed by project manager, foreman and safety officer. Once contract is awarded, the subcontractors must comply with our Group's safety rules. For further details, please refer to section headed "Business – Subcontractors – Control on subcontractors" in this document</p> |
|--|--|

## **BUSINESS**

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### **Internal procedures to handle injuries and accidents at work**

Our Directors consider that given the nature of the services provided by our Group, the site workers is vulnerable to work-related accidents and injuries due to potentially hazardous working environment such as working at height or confined spaces. Our Group has a system in place to record and handle work-related accidents and injuries of the site workers. The recording and handling of work-related accidents and injuries are handled by our human resources department. Personnel from this department is also responsible for liaising with the relevant insurance company and the injured worker. Our Group's general procedures of reporting, recording and handling accidents and injuries are as follows:

1. the injured site worker should inform the on-site supervisor of the details of injury including but not limited to venue, time, cause of injury, etc.;
2. an accident report form will be filed to the engineering director by the relevant project manager which includes the details of accident, injuring condition, cause of accident and improvement measures recommended;
3. the Group will submit an accident report to the DSAL; and
4. the project manager, foreman and safety officer will keep monitoring the implementation of safety measures.

For the three years ended 31 December 2018 and the four months ended 30 April 2019, and thereafter up to the Latest Practicable Date, our Group recorded (i) nil, four, one, nil and nil accident involving workers who were employed by our Group; and (ii) one, nine, nil, one and nil accidents involving workers who were employed by the main contractors or subcontractors of our Group, respectively. The following table sets out the nature of the accidents recorded during the Track Record Period and up to the Latest Practicable Date:

## BUSINESS

### *Accidents involving employees of our Group*

No.	Date of the accident	Details of the accident	Amount settled or estimated quantum of compensation	Status as at the Latest Practicable Date
1.	24 February 2017	When a worker was drilling hole in ceiling, gravel fell into his eye and caused injury	MOP2,310	Settled
2.	1 March 2017	A worker accidentally injured his thigh when he was doing timber formwork	MOP5,459	Settled
3.	16 May 2017	A tile fell on a worker's foot in the course of plastering work and caused injury	MOP10,632	Settled
4.	13 October 2017	While undertaking cement works, liquid cement went into a worker's eyes and caused injury	MOP3,312	Settled
5.	7 January 2018	A worker fell down while going down a set of stairs in the course of his employment, and he fractured his rib due to the impact of the fall	MOP25,099	Settled

### *Accidents involving employees of main contractors or subcontractors of our Group*

No.	Date of the accident	Details of the accident	Amount settled or estimated quantum of compensation	Status as at the Latest Practicable Date
1.	24 October 2016	A worker was injured in the course of employment leading to superficial injuries on his ear helix	MOP13,365	Settled
2.	13 January 2017	A worker sprained her hand when washing the floor	MOP52,346	Settled
3.	16 January 2017	A worker fell over a bicycle when he was in the course of leaving the construction site, causing injury on his right shoulder	Estimated quantum of compensation is to be ascertained	Ongoing

**BUSINESS**

No.	Date of the accident	Details of the accident	Amount settled or estimated quantum of compensation	Status as at the Latest Practicable Date
4.	7 February 2017	A worker fell during his work, leading to abrasions to his face and arm	MOP854	Settled
5.	15 February 2017	A worker fell over and injured her arm during her work	MOP222,004	Settled
6.	7 April 2017	When a worker was moving the materials in preparation for a plastering project, he slipped and hit the cement brick nearby, causing fracture to his rib cage	MOP58,366	Settled
7.	10 October 2017	When a worker was removing temporary covers, she injured her arm on a sharp edge	MOP10,223	Settled
8.	11 October 2017	When a worker was working next to a wall with protrusions, he accidentally wounded his left hand	MOP6,579	Settled
9.	22 October 2017	A worker stepped onto an unstable object during his course of work and sprained his ankle	MOP1,921	Settled
10.	20 November 2017	A worker slipped when walking on stairway and caused injury to his head	MOP28,710	Settled
11.	26 February 2019	A worker was injured by a fallen steel cable, causing injury to his head	Estimated quantum of compensation is to be ascertained	Ongoing as the worker is under medical treatment

Our Group recorded 16 accidents during the Track Record Period and up to the Latest Practicable Date, of which (i) claims relating to 14 accidents had already been settled; and (ii) claims relating to two accidents as set out above are still ongoing. Our Directors confirmed that (i) there is sufficient insurance coverage (in relation to the accidents involving our employees); and (ii) our Group is able to seek sufficient recovery or reimbursement from the related main contractors or subcontractors of our Group or obtain sufficient insurance coverage, as the case may be (in relation to the accidents involving their employees).

## BUSINESS

### Analysis on accident rate

The following table sets out a comparison of the industrial accident rate per 1,000 workers and the industrial fatality rate per 1,000 workers in the construction industry in Macau between our Group and the industry average during the Track Record Period:

	<b>Industry average in Macau (Note 1)</b>	<b>Our Group (Note 2)</b>
<b>2016</b>		
Accident rate per 1,000 workers	23.6	3.0
Fatality rate per 1,000 workers	0.2	0.0
<b>2017</b>		
Accident rate per 1,000 workers	23.1	25.0
Fatality rate per 1,000 workers	0.2	0.0
<b>2018</b>		
Accident rate per 1,000 workers	N/A (note 3)	1.9
Fatality rate per 1,000 workers	N/A (note 3)	0.0
<b>Four months ended 30 April 2019</b>		
Accident rate per 1,000 workers	N/A (note 3)	0.9
Fatality rate per 1,000 workers	N/A (note 3)	0.0

In respect of the increased accident rate per 1,000 workers in 2017, our Directors are of the view that it was attributable to our Group undertaking relatively more works in construction sites, rather than already-existing structures, in 2017 as compared to previous years, and by nature the risk of incurring accidents is higher in construction sites. Notwithstanding, our Group's accident rate per 1,000 workers in 2017 was only slightly higher than the industry average in 2017.

Nonetheless, in light of the increased accident rate, our Group has implemented measures to reduce the accident rates in construction sites. For details, please refer to the section "Business – Occupational health and safety" in this document.

*Notes:*

1. Source: DSAL of the Macau Government.
2. Our Group's accident rate is calculated as the number of industrial accidents during the year/period divided by the daily average of the construction site workers (consisted of the employees of our Group's subcontractors only) in our Group's construction sites during the year/period.
3. The relevant data is not available as at the Latest Practicable Date.

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The following table sets forth our Group's lost time injuries frequency rate ("LTIFR") during the Track Record Period:

	<b>LTIFR</b> <i>(Note)</i>
For the year ended 31 December 2016	0.1
For the year ended 31 December 2017	0.8
For the year ended 31 December 2018	0.1
For the four months ended 30 April 2019	0.1

*Note:* LTIFR is a frequency rate that shows how many lost time injuries occurred over a specified time (e.g. per 100,000 hours) worked in a period. The LTIFRs shown above are calculated by multiplying the number of lost time injuries of our Group that occurred during the relevant year/period by 100,000 divided by the number of hours worked by site workers over the same year/period. It is assumed that the working hour of each worker is nine hours per day.

Save as disclosed above, during the Track Record Period and up to the Latest Practicable Date, our Group did not experience any significant incidents or accidents in relation to workers' safety.

## ENVIRONMENTAL COMPLIANCE

### Environmental compliance measures

Our Group's operations are subject to certain environmental requirements pursuant to laws in Macau, details of which are set out in the sections headed "Regulatory Overview – C. Laws and regulations in relation to environmental protection" in this document.

Our Group's in-house rules contain mitigation measures and guidelines governing environmental protection compliance that are required to be followed by our Group's employees. Such mitigation measures and guidelines include, among others:

<b>Area</b>	<b>Mitigation measures and guidelines</b>
Air pollution controls	<ul style="list-style-type: none"><li>• For works procedures that may affect air quality, water sprinkling will be adopted whenever possible. If water sprinkling is not possible, appropriate isolation measures will be adopted.</li></ul>
Water pollution controls	<ul style="list-style-type: none"><li>• All kinds of construction wastewater shall be processed before discharge.</li></ul>

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## BUSINESS

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Area	Mitigation measures and guidelines
Noise control	<ul style="list-style-type: none"><li>• All noisy construction activities shall only be carried out within the working hours in accordance with the statutory requirements or permits granted by the relevant authorities.</li><li>• All equipment shall be properly and regularly maintained in good operating condition.</li><li>• Appropriate gears will be distributed to workers involved in noisy work environment.</li></ul>
Waste management	<ul style="list-style-type: none"><li>• Disposing of construction waste shall be conducted at specific locations and regularly.</li><li>• The reuse and recycling of waste shall be practised as far as possible.</li></ul>

### Track record in relation to environmental compliance

Our Directors confirm that, during the Track Record Period and up to the Latest Practicable Date, our Group did not incur any expenses in relation to compliance with applicable environmental rules and regulations in Macau.

During the Track Record Period and up to the Latest Practicable Date, our Directors confirm that there was no material breach of our Group's in-house environmental management rules by our Group's staff or non-compliance with the applicable laws and regulations relevant to environmental protection.

## EMPLOYEES

### Number of employees by function

As at the Latest Practicable Date, our Group had a total of 53 employees. Most of the employees of our Group are stationed in Macau.

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## BUSINESS

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The following table sets forth a breakdown of the number of our Group's employees by functions:

	As at 31 December			As at the Latest Practicable Date
	2016	2017	2018	Date
Director	4	4	4	4
Management	3	4	5	5
Administration, accounting and finance	3	6	6	5
Project management and execution (including project managers, engineers)	15	15	21	16
Direct Labour	30	55	33	23
<b>Total</b>	<b>55</b>	<b>84</b>	<b>69</b>	<b>53</b>

The number of employees of our Group as at 31 December 2016, 2017 and 2018 and as at the Latest Practicable Date was 55, 84, 69 and 53. Such fluctuation was largely affected by the number of direct labour employed by our Group. We usually employ direct labour on a project basis and as a project is completed, the relevant direct labour would be released. As such, the number of direct labour employed by our Group at any given date is dependable on several factors including: (i) the number of on-going projects and (ii) the number of direct labour needed for each project.

### Relationship with staff

Our Directors consider that our Group has maintained good relationship with its employees. Our Directors confirm that our Group had not experienced any significant problems with its employees or disruption to its operations due to labour disputes nor had our Group experienced any difficulties in the recruitment and retention of experienced staff or skilled personnel during the Track Record Period. During the Track Record Period and up to the Latest Practicable Date, there was no labour union established by employees.

### Recruitment policy

Our Group generally recruits its employees from the open market mainly through placing recruitment advertisements. Our Group intends to use its best effort to attract and retain appropriate and suitable personnel to serve our Group. Our Group assesses the available human resources on a continuous basis and will determine whether additional personnel are required to cope with the business development of our Group.



## BUSINESS

### Training and remuneration policy

Our Group will enter into separate employment contracts with each of its employees in accordance with the applicable employment laws in Macau.

The remuneration package offered to our Group's employees generally included basic salaries, bonuses and other cash allowances or subsidies. Our Group determines the salary of its employees mainly based on each employee's qualifications, relevant experience, position and seniority.

Our Group will arrange for its employees to attend occupational safety education and training conducted by external parties to enhance their awareness of work safety.

### PROPERTIES

#### Owned properties

As at the Latest Practicable Date, our Group did not own any properties for its operation in Macau.

#### Leased properties

As at the Latest Practicable Date, our Group leased two properties in Macau for its operation, details of which are set out below:

No.	Location	Leased area <i>sq.m.</i> <i>(approximately)</i>	Duration	Landlord	Rent	Usage
1.	Alameda Dr. Carlos d'Assumpção No. 249 Edif. China Civil Plaza 7 Andar B Macau	94.45	two years (commencing from 1 February 2018)	an Independent Third Party	MOP33,000 per month	Commercial
2.	Alameda Dr. Carlos d'Assumpção No. 249 Edif. China Civil Plaza 7 Andar E&F Macau	184.48	two years (commencing from 1 January 2018)	Mr. Chang	MOP48,000 per month	Office

Our Directors confirm that, during the Track Record Period, our Group had not experienced any difficulty in renewing the leases.

## **BUSINESS**

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### **INTELLECTUAL PROPERTY RIGHTS**

#### **Trademarks**

As at the Latest Practicable Date, our Group had registered four trademarks in Macau and three trademarks in Hong Kong, for details please refer to the paragraph headed "B. Further information about our business – 2. Intellectual property rights – Trademarks" in Appendix IV to this document.

#### **Domain name**

As at the Latest Practicable Date, our Group had registered one domain name, being [www.huarchi.com](http://www.huarchi.com) in Macau, for details please refer to the paragraph headed "B. Further information about our business – 2. Intellectual property rights – Domain name" in Appendix IV to this document.

### **NON-COMPLIANCE**

Our Directors confirm that save as disclosed below, our Group has complied with all material applicable laws and regulations in Macau (being the principal jurisdiction in which our Group operates) during the Track Record Period and up to the Latest Practicable Date.

## BUSINESS

### Summary of systemic non-compliance

A summary of our Group's historical systemic non-compliance during the Track Record Period is set out in the table below:

#### 1. Non-compliance with occupational hygiene and safety regulations

Details of the non-compliance	Reason of the non-compliance	Potential legal consequence and maximum penalty	Rectification actions taken and actual operation or financial impact on our Group
<p>For the years ended 31 December 2016 and 2017 and thereafter up to the Latest Practicable Date, AD&amp;C respectively received nine, six and two notices for non-compliance with the Regulation on Occupational Hygiene and Safety in Construction of Macau (the "OHS Regulation") for failure to comply with certain occupational hygiene and safety requirements in our sites.</p>	<p>The non-compliance incidents were unintentional and caused by inadvertent oversight of site workers.</p>	<p>Macau Law no. 67/92/M provides a respective range of penalty to be imposed for non-compliance with different articles of the OHS Regulation.</p> <p>As confirmed by our Macau Legal Adviser, the maximum penalty in respect of the non-compliance incidents which AD&amp;C received notices for the years ended 31 December 2016 and 2017 and thereafter up to the Latest Practicable Date amounted to MOP202,500, MOP172,500 and MOP60,000 respectively.</p>	<p>The actual penalties imposed by the DSAL in respect of the non-compliance with the OHS Regulation for the years ended 31 December 2016 and 2017 and thereafter up to the Latest Practicable Date amounted to MOP40,500, MOP34,500 and MOP9,000 respectively. Our Directors have confirmed that all of the penalties were settled.</p> <p>Our Macau Legal Adviser has confirmed to our Group that (i) AD&amp;C duly settled the respective penalties imposed by the DSAL; (ii) the relevant cases have been fully settled; and (iii) it is very remote for AD&amp;C or its directors to be prosecuted for the non-compliance incidents.</p> <p>Having regard to (i) the immaterial amount of penalties which AD&amp;C paid for; and (ii) our Macau Legal Adviser's opinion, our Directors believe that the non-compliance incidents with the OHS Regulation would have no material adverse operation or financial impact on our Group. As such, no provision has to be made for the non-compliance incidents.</p>

## BUSINESS

### 2. Non-compliance with tax regulations in respect of late filing of complementary tax returns

Details of the non-compliance	Reason of the non-compliance	Potential legal consequence and maximum penalty	Rectification actions taken and actual operation or financial impact on our Group																			
Huarchi Global, AD&C, Q.F. Stone and S.J. Construction failed to submit their complementary tax returns for the years ended 31 December 2015 and 2016 within the prescribed time limit (i.e. 30 June 2016 and 30 June 2017) as required by section 64 of the Macau Complementary Income Tax Regulations (the "CITR").	The non-compliance incident was unintentional and caused by inadvertent oversight and insufficient knowledge of the tax-reporting staff of our Group.	<p>Article 64/n.1 of the CITR provides that lack or inaccuracy of the declarations that the taxpayers are required to submit, as well as the omissions verified therein, will be punished with a fine of MOP100 to MOP10,000. Article 64/n.2 further states that in case of intentional default, inaccuracy or omission, it will be fined between MOP1,000 and MOP20,000.</p> <p>Article 67 of the CITR provides that if the offender commits the same infringement as a fine that has been fined within 18 months, the offender shall be regarded as reoffending and the fines will be doubled.</p> <p>Our Macau operating subsidiaries filed the complementary tax returns for the years ended 31 December 2015 and 2016 during the first quarter of 2018.</p> <p>Our Macau Legal Adviser confirmed that each of Huarchi Global, AD&amp;C, Q.F. Stone and S.J. Construction will face a maximum fine of MOP60,000 under the CITR in respect of the late complementary tax returns for the years ended 31 December 2015 and 2016.</p>	<p>Our Group has rectified the non-compliance by submitting the overdue complementary tax returns of each of Huarchi Global, AD&amp;C, Q.F. Stone and S.J. Construction for the years ended 31 December 2015 and 2016 to the Financial Services Bureau of Macau ("FSB") during the first quarter of 2018. The complementary tax returns for the year ended 31 December 2017 were also submitted within the prescribed time limit.</p> <p>As confirmed by our Tax Adviser, the table below sets out the amount of tax payable under FSB's assessment by each of Huarchi Global, AD&amp;C, Q.F. Stone and S.J. Construction for the years ended 31 December 2015 and 2016.</p> <table border="1"> <thead> <tr> <th rowspan="2">For the year ended</th> <th colspan="4">Amount of complementary tax payable under FSB's assessment (MOP)</th> </tr> <tr> <th>Huarchi Global</th> <th>AD&amp;C</th> <th>Q.F. Stone</th> <th>S.J. Construction</th> </tr> </thead> <tbody> <tr> <td>31 December 2015</td> <td>Nil</td> <td>1,124,544</td> <td>210,888</td> <td>141,180</td> </tr> <tr> <td>31 December 2016</td> <td>36,394</td> <td>2,259,697</td> <td>1,461,684</td> <td>Nil</td> </tr> </tbody> </table> <p>Our Tax Adviser advised that each of Huarchi Global, AD&amp;C, Q.F. Stone and S.J. Construction (i) has settled the respective complementary tax payments under FSB's assessment for the years ended 31 December 2015 and 2016; and (ii) has no outstanding tax exposure in respect of the late complementary tax return filing.</p> <p>In November 2017, FSB imposed a fine of MOP10,952 to S.J. Construction in respect of the late tax return filing for the year ended 31 December 2015. The fines were settled in November 2017.</p>	For the year ended	Amount of complementary tax payable under FSB's assessment (MOP)				Huarchi Global	AD&C	Q.F. Stone	S.J. Construction	31 December 2015	Nil	1,124,544	210,888	141,180	31 December 2016	36,394	2,259,697	1,461,684	Nil
For the year ended	Amount of complementary tax payable under FSB's assessment (MOP)																					
	Huarchi Global	AD&C	Q.F. Stone	S.J. Construction																		
31 December 2015	Nil	1,124,544	210,888	141,180																		
31 December 2016	36,394	2,259,697	1,461,684	Nil																		

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## BUSINESS

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Details of the non-compliance	Reason of the non-compliance	Potential legal consequence and maximum penalty	Rectification actions taken and actual operation or financial impact on our Group
			<p>In July 2018, FSB imposed a fine of MOP3,000 to AD&amp;C in respect of its late tax return filing for the year ended 31 December 2015. The fine was settled in July 2018.</p> <p>Our Tax Adviser has confirmed that, under the current assessing practice of FSB, it is not likely for FSB to impose further penalty on AD&amp;C or S.J. Construction in respect of their late tax return filing for the year ended 31 December 2015.</p> <p>Since Huarchi Global committed the same offence within 18 months, the penalty in respect of its late tax return filing for the year ended 31 December 2015 is estimated to be twice of the amount for the year ended 31 December 2014, i.e. MOP10,000.</p> <p>Despite our Group's rectification measure of submitting the overdue complementary tax returns in the first quarter of 2018, our Group has not been informed by FSB so far as to whether any fine will be imposed in respect of the late tax return filing for the year ended 31 December 2016. However, based on the amount of fines imposed by FSB for the year ended 31 December 2015 and Article 67 of the CITR, our Tax Adviser has confirmed that the aggregate maximum fines to be borne by our Group in respect of the late complementary tax return filing for the years ended 31 December 2015 and 2016 would amount to MOP131,856.</p>

## BUSINESS

Details of the non-compliance	Reason of the non-compliance	Potential legal consequence and maximum penalty	Rectification actions taken and actual operation or financial impact on our Group			
			As confirmed by our Tax Adviser, the table below sets out the amounts of fine for each of Huarchi Global, AD&C, Q.F. Stone and S.J. Construction in respect of the late complementary tax return filing.			
			<b>Amount of fine (MOP)</b>			
			<b>For the year ended 31 December 2015</b>	<b>For the year ended 31 December 2016</b>	<b>Total</b>	
			Huarchi Global	10,000 (amount of fine estimated by our Tax Adviser)	20,000 (amount of fine estimated by our Tax Adviser)	30,000
			AD&C	3,000 (actual fine imposed by FSB)	6,000 (amount of fine estimated by our Tax Adviser)	9,000
			Q.F. Stone	20,000 (maximum fine to be imposed under the CITR)	40,000 (maximum fine to be imposed under the CITR)	60,000
			S.J. Construction	10,952 (actual fine imposed by FSB)	21,904 (amount of fine estimated by our Tax Adviser)	32,856
			Our Tax Adviser has confirmed that our Group has settled all of the fines actually imposed by FSB in respect of the non-compliance incidents.			

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## **BUSINESS**

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<b>Details of the non-compliance</b>	<b>Reason of the non-compliance</b>	<b>Potential legal consequence and maximum penalty</b>	<b>Rectification actions taken and actual operation or financial impact on our Group</b>
			<p>The Macau Legal Adviser has confirmed that, upon settlement of all dues and fines, it is very unlikely for our Group or our Directors to be prosecuted for the late tax return filing.</p> <p>Having regard to the opinions of our Tax Adviser and Macau Legal Adviser, our Directors believe that the non-compliance incidents would have no material adverse operation or financial impact on our Group, and therefore no provision has to be made for the non-compliance incidents.</p>

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## **BUSINESS**

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### **Indemnity given by our Controlling Shareholders**

Our Controlling Shareholders have given indemnities to our Group; pursuant to the Deed of Indemnity in respect of all losses and liabilities arising from the above non-compliance incidents, for details please refer to the paragraph headed "E. Other information – 1. Tax and other indemnities" in Appendix IV to this document.

### **Key measures taken to prevent recurrence of the non-compliance incident**

In order to enhance the implementation of our Group's risk management and internal control policies, our Group has adopted and will adopt the following measures:

- (i) Our Group has engaged a registered auditor in Macau to oversee the tax reporting matters to ensure compliance with CITR; and
- (ii) Our Group has established a set of internal control policies and procedures in relation to tax reporting starting from April 2018:
  - 1. our books and record will be prepared in accordance with Hong Kong Accounting Standards, which are materially similar to the accounting standards accepted by the local tax authority in Macau; and
  - 2. our chief financial officer and head of accounting department will review and approve the tax returns prepared by Macau auditor.

### **Review by the Internal Control Consultant**

The Internal Control Consultant has completed follow-up reviews on the enhanced internal control measures in April 2018 and October 2019 and confirmed to be unaware of any unrectified weaknesses. Taking into account the facts that (i) there were no findings of material weakness or material insufficiency in our Group's enhanced internal control system after the follow-up reviews by the Internal Control Consultant; and (ii) our Group has properly implemented the enhanced internal control measures recommended by the Internal Control Consultant, our Directors are of the view that the enhanced internal control measures are adequate and effective for our Group's operations.



## **BUSINESS**

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### **View of our Directors and the Sponsor**

The Sponsor has reviewed the rectification to historical non-compliance and the internal control report prepared by the Internal Control Consultant, discussed with the Internal Control Consultant on the design effectiveness of the enhanced internal control measures and concurred with our Directors' view that our Company's enhanced internal control measures could sufficiently and effectively ensure a proper internal control system of our Group.

The Sponsor considers that the abovementioned non-compliance incidents do not have any impact on the suitability of our Directors under Rules 3.08 and 3.09 of the Listing Rules, nor the suitability for [REDACTED] of our Company under Rules 8.04 of the Listing Rules. In arriving at their views, the Sponsor has taken into account the following factors:

1. The non-compliance incidents were unintentional and caused by inadvertent oversight or insufficient knowledge by the relevant staff or workers, which did not involve intentional misconduct, fraud, dishonesty or corruption of the part of our Directors;
2. The non-compliance incidents were not caused by our Directors' lack of experience or integrity in managing the business operations of our Group; and
3. Our Directors have taken actions to rectify the non-compliance incidents to the extent practicable and strengthen our internal control policies and procedures to prevent recurrence of the non-compliance incidents.

### **LITIGATION**

During the Track Record Period and as at the Latest Practicable Date, no member of our Group was engaged in any litigation, claim or arbitration of material importance and no litigation, claim or arbitration of material importance is known to our Directors to be pending or threatened against any member of our Group.

The claims as well as pending or threatened claims known to our Directors that were against our Group during the Track Record Period and up to the Latest Practicable Date were generally related to the work accidents arising out of the ordinary course of our business, details of which are set out in the section headed "Business – Occupational health and safety" in this document. Our Directors are of the view that none of such claims would have material impact on our business, results of operations or financial condition.