
INDUSTRY OVERVIEW

The information presented in this section, unless otherwise indicated, is derived from various official government publications and other publications and from the Ipsos Report prepared by Ipsos, which was commissioned by us. We believe that the information is derived from appropriate sources and we have taken reasonable care in extracting and reproducing the information. We have no reason to believe that the information is false or misleading in any material respect or that any fact has been omitted that would render the information false or misleading in any material respect. The information has not been independently verified by us, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Joint Underwriters or any of our or their respective affiliates, advisers, directors, officers or representatives or any other person involved in the Placing. Neither our Group, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Joint Underwriters or any of our or their respective affiliates, advisers, directors, officers or representatives nor any other person involved in the Placing make any representation as to the accuracy, completeness or fairness of such information from official government publications.

The information extracted from the Ipsos Report reflects estimates of market conditions based on sampling, and is prepared primarily as a market research tool. References to Ipsos should not be considered as the opinion of Ipsos as to the potential investment of our Shares or in our Group. Our Directors believe that the sources of information extracted from the Ipsos Report are appropriate sources for such information. We have no reason to believe that such information is false or misleading or that any material fact has been omitted that would render such information false or misleading. Our Directors confirm that after taking reasonable care, there is no adverse change in the market information since the date of the Ipsos Report.

RELIABILITY OF INFORMATION IN THE IPSOS REPORT

Our Directors, after due and reasonable consideration, are of the view that there has been no adverse change in the market information since the date of the Ipsos Report which may qualify, contradict or have an impact in the information therein.

SOURCES OF INFORMATION

We have commissioned Ipsos, an independent market research company, to conduct an analysis of, and to report on, the construction industry (including building construction services and RMAA contracting services) in Hong Kong for the period from 2010 to 2019. The information and analysis contained in the Ipsos Report was assessed independently by Ipsos, including all its subsidiaries, divisions and units (collectively refer to “Ipsos Group”), is not connected to our Group in any way. Ipsos Limited charged us a total fee of approximately HK\$360,000 for the preparation and the use of the Ipsos Report, which our Directors consider to reflect market rates.

INDUSTRY OVERVIEW

Ipsos has conducted research and data gathering based on (i) desk research; and (ii) primary research, including face-to-face and phone interviews with key stakeholders and industry experts in Hong Kong, such as government officials, developers, main contractors, subcontractors, architectures, quantity surveyors, industry experts, and associations in Hong Kong. In addition, intelligence gathered was analysed, assessed and validated using Ipsos' in-house analysis models and techniques.

Ipsos Limited, being one of the worldwide offices of the Ipsos Group, which employs approximately 16,000 personnel worldwide across 87 countries, is specialised in conducting researches across various industrial sectors including tourism, financial services, cosmetics, regional luxury and high net worth research. Ipsos is independent of our Company and none of our Directors or their associates has any interest in Ipsos.

Except as otherwise noted, all of the data and forecasts contained in this section are derived from the Ipsos Report, various official government publications and other publications.

ASSUMPTIONS AND PARAMETERS USED IN THE IPSOS REPORT

The following assumption is adopted in the preparation of the Ipsos Report:

- It is assumed that there is no external shock such as financial crisis or natural disasters to affect the demand and supply of construction industry during the forecast period.

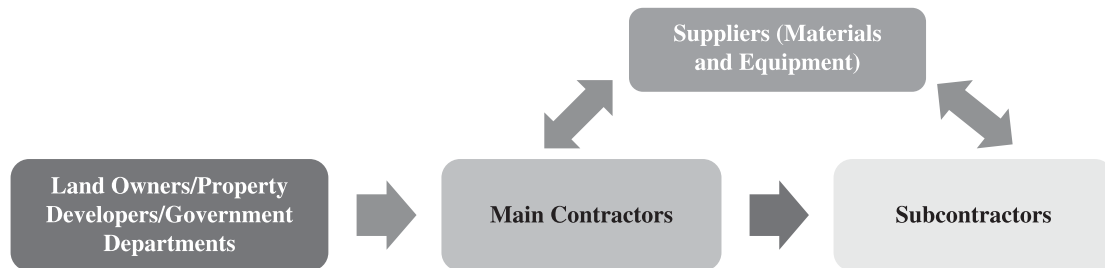
The following parameters have been taken into account in the preparation of the Ipsos Report:

- GDP value and GDP growth rate of Hong Kong from 2010 to 2014
- Accident rates in the construction industry in Hong Kong from 2010 to 2014
- Gross output value of building construction works performed by main contractors at construction sites in Hong Kong from 2010 to 2014
- Total number of public rental housing units produced by the Housing Authority in Hong Kong from 2010 to 2014
- Total number of private residential housing units in new completions in Hong Kong from 2010 to 2014
- Revenue of building construction services contracting industry in Hong Kong from 2010 to 2014
- Number of workers in the RMAA services contracting industry in Hong Kong from 2010 to 2014
- Average wholesale price trend of concrete blocks in Hong Kong from 2010 to 2014
- Average price trend of imported structural steel in Hong Kong from 2010 to 2014
- Price trend of average wages for workers in the building construction services and RMAA services contracting industry in Hong Kong from 2010 to 2014

INDUSTRY OVERVIEW

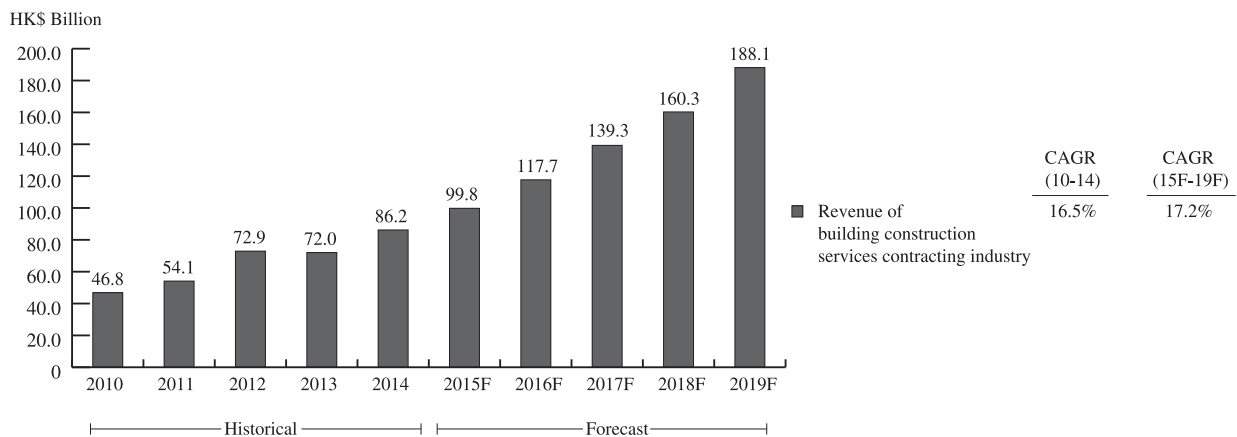
MARKET OVERVIEW OF THE BUILDING CONSTRUCTION SERVICES CONTRACTING INDUSTRY IN HONG KONG

Four major stakeholders are usually involved in the supply chain of the construction industry in Hong Kong.



Construction projects are managed by the main contractors once the projects have been issued by the land owner, property developer, or the Government. Main contractors are the lead coordinators for the entire duration of the construction project and may decide to subcontract certain tasks according to their areas of expertise and professional knowledge. Main contractors often hire subcontractors to reduce their project costs and enhance efficiency. As size of project increases, it is more likely for main contractors to decide to subcontract more tasks to subcontractors.

Revenue of Building Construction Services Contracting Industry in Hong Kong from 2010 to 2019



Note: Data refers to gross value of building construction works in nominal terms performed by main contractors and sub-contractors at construction sites.

Source: Census and Statistics Department, HKSAR; Ipsos Report

According to Ipsos Report, the revenue of the building construction services contracting industry in Hong Kong increased from about HK\$46.8 billion in 2010 to about HK\$86.2 billion in 2014, at a CAGR of about 16.5%. Such an increase was mainly due to the robust demand from large scale and complex multi-disciplinary building construction works projects, which include shopping malls and office buildings in Hong Kong in the past 5 years.

INDUSTRY OVERVIEW

Demand for building construction works contracting services in Hong Kong

Residential buildings

The growing demand for real estate properties has caused the residential property price index (1999=100) to increase from about 150.9 in 2010 to about 256.9 in 2014. With a view to address housing needs for Hong Kong residents, a government statement was made in 2011 Policy Address to stabilise the property market by increasing housing supply. A plan to supply land for approximately 20,000 residential flats every year and a total of about 470,000 housing units for the next ten years was devised in 2014. In addition, 2015 Policy Address estimates that around 210,000 residential units, of which 70% was designated for public housing, will be ready by 2019.

The Land Sale Programme of 2015 to 2016 is expected to provide around 29 residential sites for approximately 16,000 flats. The aggregate government sites sold in the fiscal year of 2014 and 2015 will also supplement residential development space to produce around 20,300 flats, over the expected target of 18,800 flats.

Office buildings

The number of newly registered companies reached around 167,280 in 2014 from around 139,530 in 2010, at an increasing CAGR of around 4.6%. This drives the demand for office space, fueling both public and private investment in commercial developments in Hong Kong.

Industrial buildings

In 2014 Policy Address, the Government announced its initiative to convert GIC (i.e. Government, institution or community) sites for commercial and industrial uses. Approximately 105 applications were approved for lease modification and special waiver for industrial buildings in December 2014.

MARKET OVERVIEW OF RMAA SERVICES CONTRACTING INDUSTRY IN HONG KONG

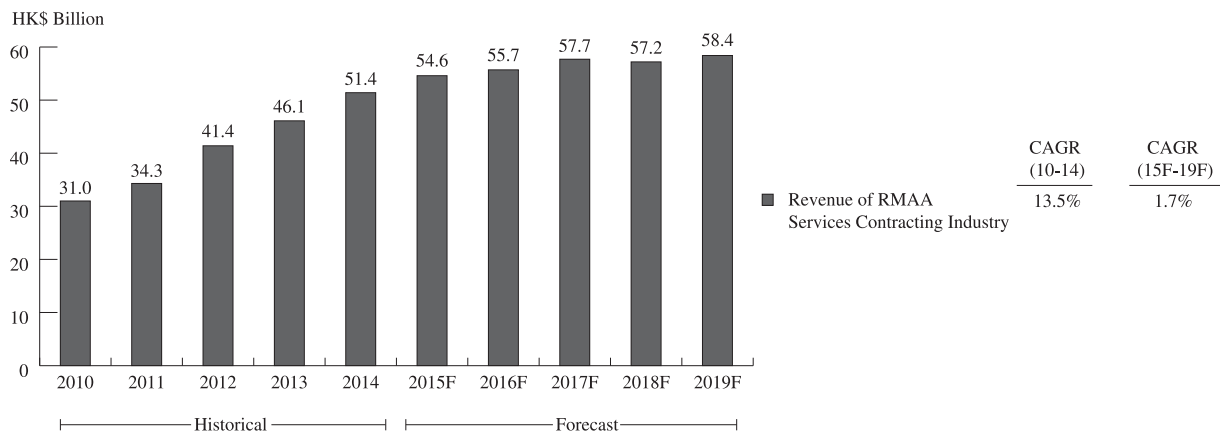
RMAA contracting service providers offer various works and services, including re-roofing, external wall refurbishment, internal wall refurbishment, internal floor refurbishment, internal ceiling refurbishment, spalling repair, doors and windows, plumbing and drainage and electrical works.

INDUSTRY OVERVIEW

Although there are specific requirements for each building's maintenance and renovation procedures due to the uniqueness of different types of buildings, a common need shared amongst them is to extend and maintain their lives and values.

Category	Subcategory	Demand or Need
Residential buildings	Luxury and high-end residential buildings	To restore the residential buildings back to their original splendor in order to maintain the rental and selling value, and to comply with safety regulations
	Large scale community residential buildings	To extend the life of the residential buildings, and to comply with safety regulations
	Standalone residential building	To change the ownership, and to comply with safety regulations
Non-residential buildings	Office building	To maintain the rental value and attract more companies to occupy the office space
	Retail space	To maintain the rental value, attract more brands to occupy spaces and increase the customer flow
	Schools	To extend the life of the school facilities, expand the seating capacity of the school facilities, and to provide an ideal environment for teachers and students
	Public facilities	To extend the life of public facilities and to provide job opportunities
	Hotel buildings	To maintain the building value, the brand name, and attract tourists
	Others	To extend the life of the building, maintain its value, change the ownership and the purpose of the building.

Revenue of RMAA Services Contracting Industry in Hong Kong from 2010 to 2019



Note: Data refers to revenue of RMAA contracting services by main contractors in Hong Kong.

Source: Construction Industry Council, HKSAR; Ipsos Report

INDUSTRY OVERVIEW

The revenue of the RMAA services contracting industry experienced a positive growth from 2010 to 2014 at a CAGR of around 13.5%. The major reason for the upward trend is the fact that ageing residential buildings has been a growing concern in Hong Kong. As a result, the Hong Kong government has implemented policies to stimulate urban renewal plans such as Operation Building Bright introduced by the Urban Renewal Authority with an aim to support building owners in improving building safety by providing subsidies to property owners to habitually carry out RMAA works. Hence, it led to more RMAA works in the said period.

In addition, commercial building owners now adopt RMAA works to enhance the appearance and durability of office and retail spaces for potential tenants and customers.

It is forecasted that the revenue of RMAA contracting services industry in Hong Kong will increase moderately from around HK\$54.6 billion in 2015 to around HK\$58.4 billion in 2019 at a CAGR of approximately 1.7%, mainly due to rising construction costs which will lead to an increase in the project value.

Demand for RMAA contracting services in Hong Kong.

The demand for RMAA contracting services are significantly affected by government policies. A huge influence is placed on the modernisation of buildings subsequent to the implementation of major policies shown below.

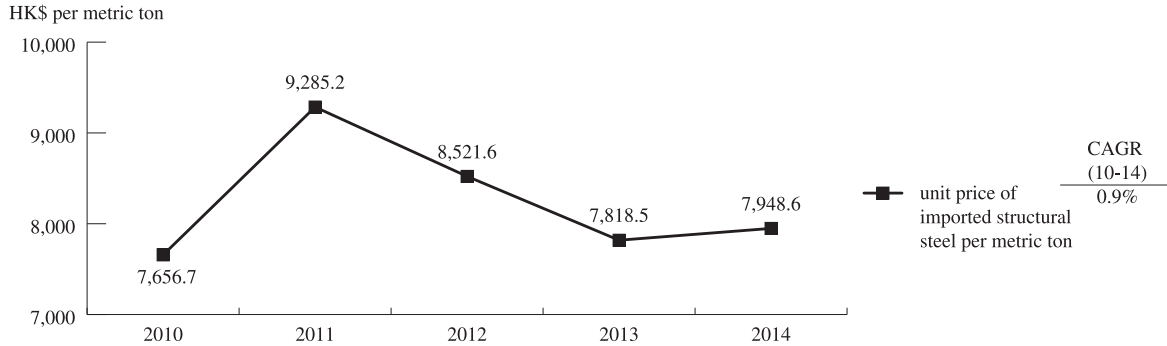
- Mandatory Building Inspection Scheme 《強制驗樓計劃》
- Mandatory Window Inspection Scheme 《強制驗窗計劃》
- Mandatory Building Inspection Subsidy Scheme 《強制驗樓資助計劃》
- Third Party Risks Insurance Subsidy 《第三者風險保險資助》
- Common Area Repair Works Subsidy 《公用地方維修津貼》
- Common Area Repair Works Interest Free Loan 《公用地方維修免息貸款》
- Home Renovation Interest Free Loan 《家居維修免息貸款》
- Building Safety Loan Scheme 《樓宇安全貸款計劃》
- Building Maintenance Grant Scheme for Elderly Owners 《長者維修自住物業津貼計劃》
- Integrated Building Maintenance Assistance Scheme 《樓宇維修綜合支援計劃》
- Operation Building Bright 《樓宇更新大行動》
- Urban Renewal Authority's Flat-for-Flat Scheme 《樓換樓計劃》

INDUSTRY OVERVIEW

Major construction cost components

According to Ipsos Report, steels, concrete blocks and wages of workers are the major cost components involved in the construction industry. Their price trends from 2010 to 2014 are set out as follows:

Price Trend of Imported Structural Steel

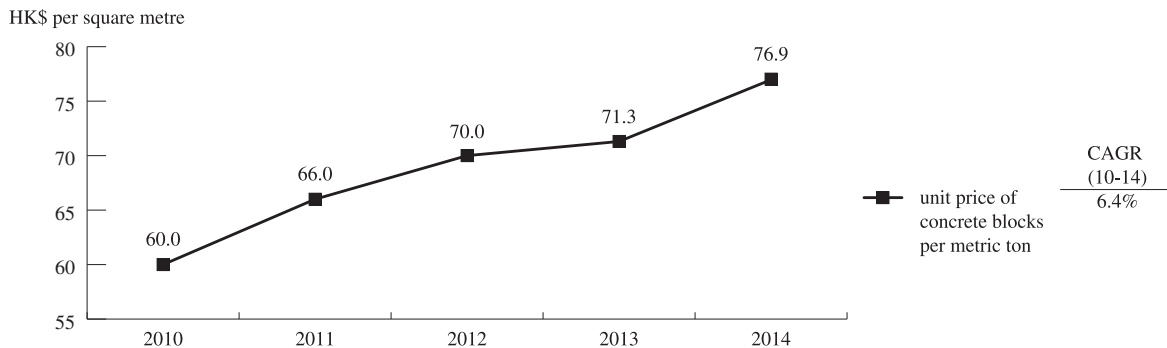


Note: Structural steel includes U, I, L, T, H or hollow sections of iron or non-alloy steel, hot-worked, less than 80 mm high; U, I, L, T or H sections of iron or non-alloy steel, hot-worked, 80 mm or more than 80 mm high; Bars and rods of iron or non-alloy steel, hot-worked nesoi-concrete reinforcing, of rectangular (other than square) cross-section, not further worked than cold-formed or cold-finished; iron or steel welded angles, shapes and sections of bridges and bridge sections; towers and lattice masts; structures and parts of structures nesoi.

Sources: Census and Statistics Department, HKSAR; Ipsos research and analysis

The average price of imported structural steel increased from around HK\$ 7,656.7 per metric ton in 2010 to around HK\$ 7,948.6 per metric ton in 2014, at a CAGR of approximately 0.9%, attributed to the increased prices of its raw materials including iron ore and coking coal.

Price Trend of Concrete Blocks

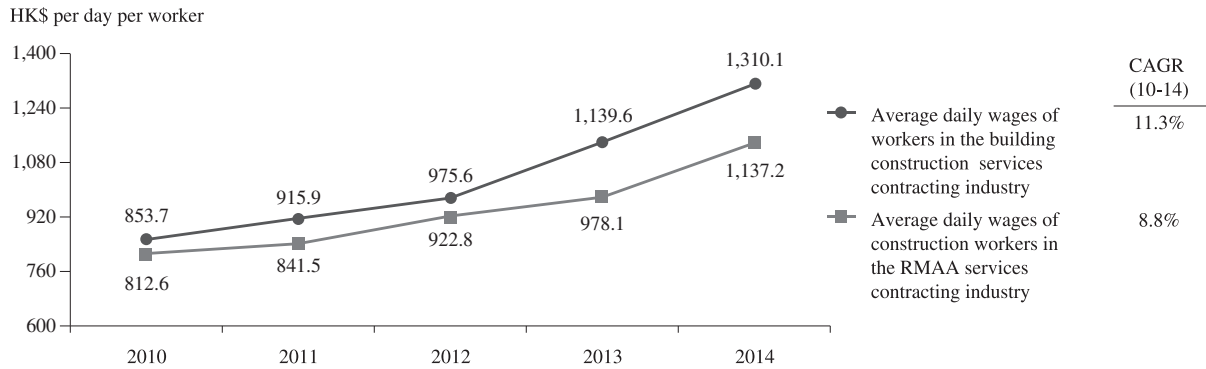


Source: Census and Statistics Department, HKSAR; Ipsos Report

The average wholesale prices of concrete blocks in Hong Kong increased from about HK\$60.0 in 2010 to HK\$76.9 per metric ton in 2014, increasing at a CAGR of around 6.4%. The flat growth rate of concrete block prices from 2010 to 2014 can be explained through the stable, predictable and wide-ranging need for the material in all building construction works.

INDUSTRY OVERVIEW

Price Trend of Average Wages for Workers in the Building Construction Services Contracting Industry and Workers in the RMAA Services Contracting Industry in Hong Kong



Source: Census and Statistics Department, HKSAR; Ipsos Report

Workers engaging in the building construction services contracting industry in Hong Kong experienced an increase in average daily wages from around HK\$853.7 in 2010 to around HK\$1,310.1 in 2014 at a CAGR of approximately 11.3%. The upward trend of average daily wages of construction workers in Hong Kong from 2010 to 2014 was mainly attributed to the shortage of labourers in the building construction market and the robust demand for new and ongoing construction projects. In addition to the unmet labour demand, there is also an ageing trend with construction workers. As of the end of 2014, roughly over 44.4% of construction workers are over the age of 50 and soon to retire. It is estimated that the average wage of building construction workers will continue to rise in order to train more construction talents and to tackle the problem of insufficient labour supply.

The average daily wage of workers in the RMAA services contracting industry in Hong Kong increased from about HK\$812.6 in 2010 to HK\$1,137.2 in 2014, at a CAGR of approximately 8.8%. Attributable to the government policies set out to regulate building owners to go through mandatory building inspections, the demand for RMAA workers have grown.

INDUSTRY OVERVIEW

COMPETITIVE LANDSCAPE

According to Ipsos Report, the building construction services contracting industry is consolidated while the RMAA services contracting industry is fragmented. The respective top five players of the building construction services contracting industry and the RMAA services contracting industry contributed approximately 23.0% and 8.2% of the total revenue of respective markets in Hong Kong. The following set forth the details of the major players in the building construction services contracting industry and the RMAA services contracting industry:

Top 5 main contractors engaged in the building construction services contracting industry in Hong Kong in 2014

<u>Rank</u>	<u>Name of Company</u>	<u>Headquarter location</u>	<u>Revenue in 2014</u> (HK\$ million)	<u>Share of Total Industry Revenue</u> (%)	<u>Business coverage</u>
1	Company A	Hong Kong	7,642.4	8.9	Building construction, civil engineering operations, other peripheral operations such as foundation work, site investigation, mechanical and electrical engineering, highway and bridge construction, ready-mixed concrete, pre-cast production and infrastructure investment
2	Company B	Hong Kong	3,703.6	4.3	Building construction, maintenance, renovation, plumbing and drainage works, electrical and mechanical works, building materials supply, pre-cast products manufacturing and trading, property development, hotel and property investment, IT solution and services
3	Company C	Hong Kong	3,031.3	3.5	Design, management and construction services in building, civil engineering, foundations, electrical and mechanical, infrastructure maintenance and operation, and interiors refurbishments and fit out
4	Company D	Hong Kong	2,999.0	3.5	Construction of building, bored piling, foundation works, site formation, site infrastructure, roads and drainage, waterworks, site investigation, landslip preventive measures (LPM) and slope works
5	Company E	Hong Kong	2,377.8	2.8	Building construction, civil engineering, electrical and mechanical engineering, project and construction management, interiors and special projects, railway systems, property development and asset management services
N/A	Our Group	Hong Kong	134.3	0.2	Building construction services; and RMAA works services
	Others		<u>66,311.6</u>	<u>76.8</u>	
	Total		<u><u>86,200.0</u></u>	<u><u>100.0</u></u>	

Source: Ipsos Report

INDUSTRY OVERVIEW

Top 5 main contractors engaged in the RMAA services contracting industry in Hong Kong in 2014

<u>Rank</u>	<u>Name of Company</u>	<u>Headquarter location</u>	<u>Revenue in 2014</u> (HK\$ million)	<u>Share of Total Industry Revenue</u> (%)	<u>Business coverage</u>
1	Company B	Hong Kong	1,271.6	2.5	Building construction, maintenance, renovation, plumbing and drainage works, electrical and mechanical works, building materials supply, pre-cast products manufacturing and trading, property development, hotel and property investment, IT solution and services
2	Company F	Hong Kong	1,254.5	2.4	Property development operations, construction, interior fitting out, building renovation, maintenance and cement operations
3	Company G	Hong Kong	638.2	1.2	Civil engineering, building, foundations construction, electrical & mechanical installation, and fitting out works
4	Company E	Hong Kong	570.2	1.1	Building construction, civil engineering, electrical and mechanical engineering, project and construction management, interiors and special projects, railway systems, property development and asset management services
5	Company H	Hong Kong	530.9	1.0	Real estate and property development, civil engineering, building construction, oil and gas exploration and investment
N/A	Our Group	Hong Kong	72.8	0.1	Building construction services; and RMAA works services
	Others		<u>47,090.4</u>	<u>91.7</u>	
	Total		<u><u>51,428.6</u></u>	<u><u>100.0</u></u>	

Source: Ipsos Report

Factors of competition

Reputation

The track record of construction contracting service providers is greatly emphasised by property developers. Credibility is based off of the service providers' timeliness of delivery, quality of work, and safety and environment requirement fulfillment for construction works. Reputable and credible construction contracting service providers are generally more capable of getting larger scale projects from property developers.

INDUSTRY OVERVIEW

Service pricing

Another key factor that comes into play when selecting a construction contracting service provider is pricing. Clients (i.e. property owners), similar to any other business owners, will try to make the best trade off of the lowest cost to increase their benefit. Service providers who are able to offer lower price for their contracting services will generally be more competitive in the eyes of clients.

Scale

Sizeable construction contracting service providers enjoy an advantage in tendering for projects of property developers and government associated organisation as these customers often scout for construction contracting services providers with a wider variety of specialties backed by larger labour force.

Entry Barriers

Expertise and knowledge

The construction contracting service industry is a specialised sector in Hong Kong. Service providers are expected to possess knowledge in performing preventative maintenance measures in accordance with section 8B of the Buildings Ordinance. Taking the initiative to build preserving structures can extend the lives of structures while delaying the rate of deterioration and decreasing the chances of costly repairs and replacements in the future. New start-up with relatively less experience may find it difficult to enter into the industry as a result.

Experience

Workers are required to identify potential problems with a building structure. Attentive observation is one of the primary duties of construction workers. They need to be aware of how structural and mechanical elements in a building should look, sound and perform as problems are usually undetectable to the untrained eye. Thus, possessing experienced labour force is often considered to be crucial for construction contracting service providers.

Capital

Sufficient capital flow is critical for construction contracting service providers in order to guarantee payment of wages to specialists (e.g. foremen, machinery operators and technical personnel) and to rent specialised machinery for operation works. The inability to settle timely payments may defer the construction schedule and lead to a decrease in credibility.

Opportunities

Government policies in Hong Kong

Similar to other developed cities, Hong Kong concentrates on tackling the problem of ageing buildings. The government has launched policies to encourage building maintenance and renovation such as the Mandatory Building Inspection Subsidy Scheme, Integrated Building Maintenance Assistance Scheme and Operation Building Bright by helping property owners fund for regular building maintenance and repair practices. Such policies will be able to incentivise carrying out of RMAA projects.

Regulating unauthorised building works

Building dilapidation and unauthorised building works (UBWs) has become phenomenal in Hong Kong. In addition to encouraging owners to be accountable for maintaining their own properties, the government has also promoted the responsibility to tenants, building attendants and the general public to report potential buildings posing a threat to public safety. Approximately 44,000 cases of unauthorised building works were reported by members of the public to the Buildings Department in 2013. As the removal of unauthorised building works continues, it is expected that the construction contracting service providers in Hong Kong will benefit from the advancement of building safety awareness.

Improved living standards

The rising of annual per capita gross national income at current market prices in Hong Kong from around HK\$258,240 in 2010 to around HK\$319,871 in 2014 has heightened the citizens' willingness to spend in improving living environments. Residential property buyers are more willing to pay a higher price in exchange for more complex and quality renovation works. The robust development of the real estate market will also encourage developers to invest in luxurious home maintenances to preserve the property's value. These will create more opportunities for the RMAA services contracting industry in Hong Kong.

Threats

Increasing operation costs

The prices of key construction materials such as structural steel and concrete blocks have increased at CAGR of around 0.9% and 6.4% respectively from 2010 to 2014. Such trend is mainly caused by the appreciation of Renminbi since majority of such construction materials are imported from China. In case construction service providers are unable to transfer the inflation cost to their clients, their profit margins will ultimately decrease.

INDUSTRY OVERVIEW

Insufficient skilled labour

The construction industry requires thoroughly trained workers to complete up-to-standard works. The insufficient supply of skilled and experienced service workers is becoming a major threat to the construction industry as the ageing and retirement of experienced construction workers outpaced the new entrants to the construction labour force.

Competitive Strength of our Group in the construction contracting service industry in Hong Kong

Impressive track record

Established in 1982, the Group has been operating for over 30 years in the construction industry. In addition, the Group has maintained strong relationships with customers during these years of operation, particularly in the public sector, such as Architectural Services Department and Housing Authority.

Professional management team

The Group has a management team with ample industry knowledge and experience. The team's experience and knowledge accumulated allow them to be more sophisticated in negotiating, pitching and executing construction projects. It is more likely for the Group to deliver up-to-standard performance and winning deals from its counterparts.

Possession of qualifications

The Group possesses a number of qualifications, which allow the Group to undertake a broad variety of projects. More business opportunities are open to qualification holders including the Group compared to those who have less.