

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, [REDACTED], the Sponsor, the [REDACTED], the [REDACTED], the [REDACTED] or any of our or their respective affiliates, advisers, directors, officers or representatives or any other person involved in the [REDACTED]. Neither our Group, [REDACTED], the Sponsor, the [REDACTED], the [REDACTED], the [REDACTED] or any of our or their respective affiliates, advisers, directors, officers or representatives nor any other person involved in the [REDACTED] 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 contracting industry, RMAA Works Industry contracting services and substructure works industry) 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\$400,000 for the preparation and the use of the Ipsos Report, which our Directors consider to reflect market rates.

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 85 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.

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Assumptions used in the Ipsos Report

- There is no external shock such as financial crisis or natural disasters to affect the demand and supply of the construction and hence the substructure works industry over the forecast period.
- The supply of construction and foundation works is expected to grow under government promotion such as the Ten Major Infrastructure Projects, urban renewal projects and etc.

Parameters used in the Ipsos Report

- GDP value and GDP growth rate in Hong Kong from 2010 to 2014.
- Revenue of overall construction works performed by main contractors at construction sites in Hong Kong from 2010 to 2014.
- The revenue of (i) the building construction contracting industry; (ii) the RMAA Works industry; and (iii) substructure works industry in Hong Kong from 2010 to 2014.
- The number of public and private residential housing units produced in Hong Kong from 2010–2014.
- The total floor area of private office space completed in Hong Kong from 2010 to 2014.
- Historical average contract fee of (i) the building construction contracting industry; (ii) the RMAA Works industry; and (iii) substructure works industry in Hong Kong from 2010 to 2014.
- Price trend of steel, cement, concrete blocks and diesel fuel in Hong Kong from 2010 to 2014.
- Price trend of construction worker's wages in Hong Kong from 2010 to 2014.
- Number of workers involved in the (i) the building construction contracting industry; (ii) the RMAA Works industry; and (iii) substructure works industry in Hong Kong from 2010–2014.
- Historical price trend of average wages for workers engaging in substructure works and the building construction works in Hong Kong from 2010 to 2014.

MARKET OVERVIEW OF SUBSTRUCTURE WORKS INDUSTRY, SUPERSTRUCTURE WORKS INDUSTRY AND RMAA WORKS INDUSTRIES IN HONG KONG

The revenue of substructure works industry in Hong Kong grew significantly from about HK\$9.9 billion in 2010 to about HK\$19.4 billion in 2014, at a CAGR of about 18.5%. Key reason for such growth was mainly driven by both the public and private sectors, which involved the Ten Major Infrastructure Projects, the Public Housing Development Program, and the continual demand for office space.

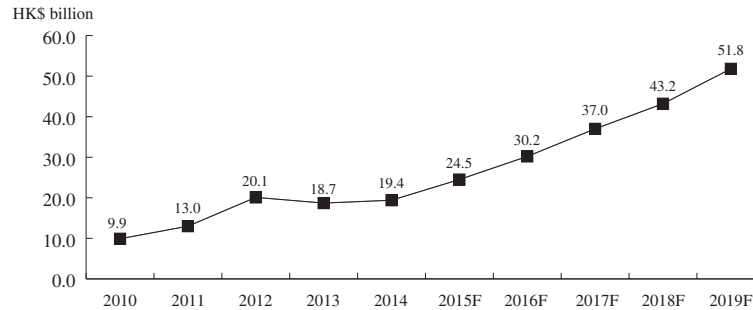
The revenue of superstructure works industry in Hong Kong increased from about HK\$33,429 million in 2010 to about HK\$50,715 million in 2014, at a CAGR of about 11.0%. Key reasons for such growth include the increasing demand for residential buildings and commercial buildings and the Government's initiative to increase the housing supply.

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The revenue of RMAA Works Industry experienced a positive growth from around HK\$31.0 billion in 2010 to around HK\$51.4 billion in 2014 at a CAGR of around 13.5%. Key reasons for such growth include:

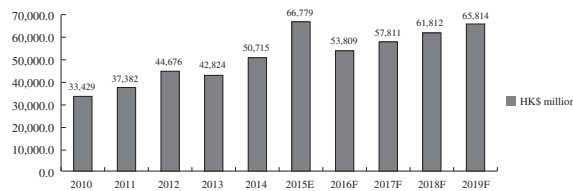
- (1) Government’s initiatives to implement policies and regulations as well as urban renewal plans to address the growing number of ageing residential buildings; and
- (2) Commercial building owners are adopting RMAA works to enhance the appearance and durability of office and retail spaces for potential tenants and customers.

Revenue of substructure works industry in Hong Kong from 2010 to 2019



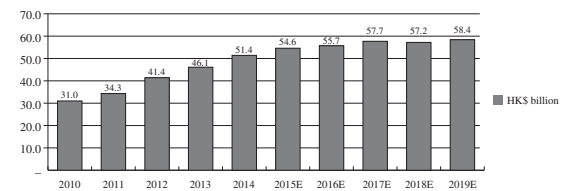
Source: Census and Statistics Department, HKSAR; Ipsos research and analysis

Revenue of superstructure works industry in Hong Kong from 2010 to 2019



Source: Census and Statistics Department, HKSAR; IPSOS research and analysis

Revenue of RMAA Works Industry in Hong Kong from 2010 to 2019



Source: Construction Industry Council, HKSAR; IPSOS research and analysis

Demand for substructure works industry, superstructure works industry and RMAA Works Industries in Hong Kong

Substructure Works Industry

Public infrastructure projects

Infrastructure projects have a great contribution to the substructure works industry in Hong Kong, such as the Ten Major Infrastructure Projects proposed in 2007 and railway network expansion projects which are currently at different stages of implementation and are expected to be completed between 2015 to 2021. The substructure works industry in Hong Kong is expected to grow due to the large numbers of ongoing and upcoming public infrastructure project.

Increasing demand for residential and commercial buildings

The government’s initiatives to increase the residential housing supply and the increasing demand for office space will continue to support the substructure works industry in Hong Kong. More specifically, the government planned to provide additional residential land for an average of 20,000 residential flats each year and a total of about 470,000 housing units for the next ten years. Also, as more global enterprises have chosen Hong Kong to expand their businesses, this has driven increasing demand for more office buildings. According to the Ipsos Report, the number of newly registered companies in Hong Kong reached about 167,280 units in 2014 from about 139,530 units in 2010. Given

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the growing number of newly registered enterprises in Hong Kong, the demand for office space therefore supports the building construction contracting services in Hong Kong. Despite the recent slowdown in Hong Kong’s economy, Hong Kong remains its attractiveness in doing business and Hong Kong has sustained its top position as the first in “protecting minority investors” among 189 economies. The number of newly registered local companies in Hong Kong continuously increased to 139,209 in 2015 and the newly registered non-Hong Kong companies grew to 894 in 2015.

Superstructure Works Industry

Increase demand for office spaces

The total number of newly registered local companies in Hong Kong hit a high record with approximately 167,280 in 2014, from 139,530 in 2010, representing a CAGR of about 4.6%. Newly registered non-Hong Kong companies also grew from about 737 in 2010 to about 811 in 2014, at a CAGR of around 2.4%. The growing number of registered companies in Hong Kong has led to an increase in rental prices due to the limited office spaces in Hong Kong. Such growth indicates the increasing demand for both office and operating spaces and the increase in rental prices.

Increase supply of residential buildings

Hong Kong government strived to increase housing land supply in order to stabilize the property market since 2011. The number of applicants on the waiting list for the public rental housing initiative increased at a CAGR of about 20.8% from 2010 to 2014. In addition, the residential property index increased from 150.9 in 2010 to 256.9 in 2014, representing a CAGR of 14.2%. With the long average waiting time as well as the increasing unaffordable housing prices, the government strived to increase the housing supply through a plan providing additional residential land for an average of 20,000 residential flats each year and a total of about 470,000 housing units for the next ten years. According to the 2015 Policy Address, it is estimated that around 210,000 residential units will be ready by 2019. Therefore, it is expected that the increasing supply of residential building will highly support the construction industry in Hong Kong.

RMAA Works Industry

Hong Kong government’s enacted schemes

Hong Kong government has launched variety of subsidies and assistance schemes to support the demand of RMAA Works Industry, including but not limited to:

- Mandatory Building Inspection Subsidy Scheme;
- The Third Party Risks Insurance Subsidy; and
- Operation Building Bright.

These schemes were launched to support property owners who wish to undertake building rehabilitation or renovation.

Increasing public awareness of building safety

The accident and fatality caused by collapse of buildings have aroused public awareness of building safety, e.g. the tragic collapse of entire building undergoing renovations on January 29, 2010 in Ma Tau Wai Road. In addition, the Building Department revised the enforcement policy published in April 2011 to refocus its priorities and broadened the scope for enforcement action against unauthorized building works.

Rising number of aged buildings

Buildings in Hong Kong are typically made of reinforced concrete and have a life span of about 50 years, thus the building maintenance and renovations are needed to help in extending the life of the building and slow down the pace of urban decay. According to the Development Bureau, there were

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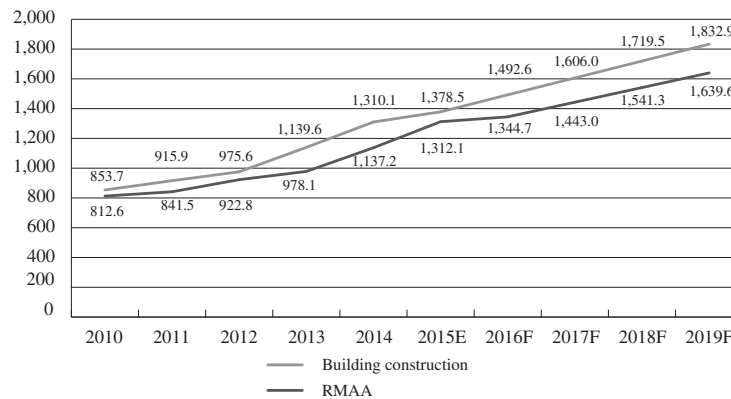
about 39,000 private buildings in Hong Kong, around 13,000 to which have been built for over 30 years in 2013 and the number would increase to 22,000 by 2023. In addition, the number of private buildings which have been built for more than 50 years were about 3,000 according to the Hong Kong Institution of Engineers.

HISTORICAL KEY COSTS COMPONENTS IN CONSTRUCTION INDUSTRY

Wages

The following set forth the historical average wage trend of workers in building construction industry and RMAA works industry in Hong Kong:

Historical average wage trend of workers (HK\$ per day per worker)



Source: Census and Statistics Department, HKSAR; IPSOS research and analysis

Wages of workers

The average daily wage of workers engaging in the building construction industry in Hong Kong increased from HK\$853.7 in 2010 to around HK\$1,310.1 in 2014, at a CAGR of 11.3%. The average daily wage of workers engaging in the RMAA works industry in Hong Kong increased from HK\$812.6 in 2010 to HK\$1,137.2 in 2014, at a CAGR of approximately 8.8%. The key reasons for the increase in average daily wage of workers include but not limited to the following factors.

Intensified labour shortage in Hong Kong’s construction industry.

The increase was mainly attributed to the labour shortage. The Hong Kong construction industry has been facing with labour shortage and the problem of ageing workers. According to the Construction Council, there were about 44.4% of the 336,002 registered workers who have been in the industry for more than 10 years aged over 50 at the end of 2014. In addition, the Public Housing Development Program and the Ten Major Infrastructure Projects launched by the government also increase the demand of skilled construction workers. Generally the average wage of construction workers is expected to grow in the next few years. Thus the building construction costs will rise which lead to contractors also raising average project fees accordingly.

Government Initiatives

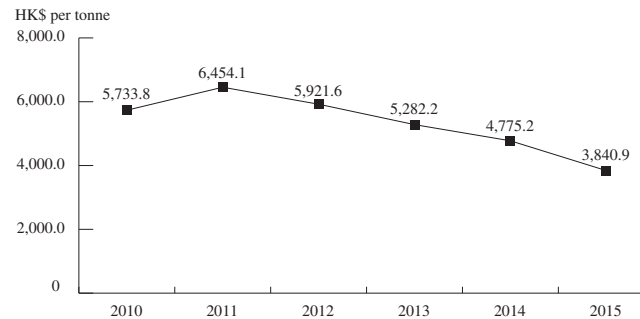
Hong Kong government’s policies set out to regulate building owners to go through mandatory building inspections such as the launch of the Mandatory Building Inspection Scheme in June 2012 by the Buildings Department, which required 2,000 selected buildings over 30 years of age to be examined by registered inspectors. Once deemed inadequate, the owners must appoint a licensed contractor to execute the necessary repair works.

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Steel

The following set forth the historical trend of steel in Hong Kong:

**Historical average trend of steel
(wholesale price of steel reinforcements, high tensile steel bars, 10mm to 40mm)
(HK\$ per tonne)**



Note: Data for 2015 refers to the average price from January to July 2015
Source: Census and Statistics Department, HKSAR; IPSOS research and analysis

The average wholesale price of steel reinforcements decreased from approximately HK\$5,733.8 per tonne in 2010 to approximately HK\$3,840.9 per tonne in 2015, at a CAGR of about -7.7%.

Since September 2011, average wholesale price of steel reinforcements in Hong Kong has decreased due to the following factors:

- Worsening of European economy and China’s monetary tightening policies, which brought difficulty in financing, decreased the downstream industries’ demand for steel reinforcements;
- Decline in price of iron ore and coking coal for steel production during this period.
- Global drop in demand for new construction works as a result of the Eurozone debt crisis; and
- Over supply of steel.

To reduce business risks brought by price volatility, suppliers of construction materials usually use quotation, negotiation, tracking and forecasting to maintain control over steel prices.

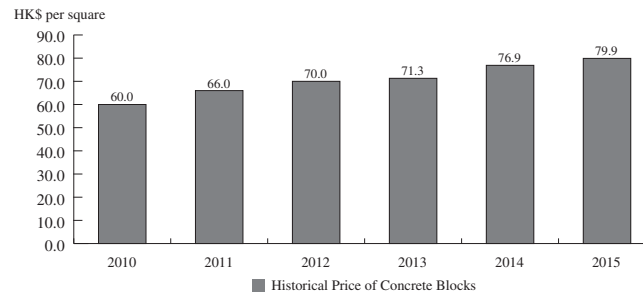
Average price of steel reinforcement continued to drop in 2015 as China seeks to shift away from investment-led growth to a consumption-driven economy. China’s economy growth is projected to remain moderate during 2015–2016, which will impact the downstream industries’ demand for steel and other construction materials.

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Concrete

The following set forth the historical trend of concrete in Hong Kong:

Historical average trend of concrete blocks (100mm thick) (HK\$ per square)



Source: Census and Statistics Department, HKSAR; IPSOS research and analysis

The average wholesale price of concrete in Hong Kong had been relatively stable, and had increased from an average of about HK\$60.0 per square metre to an average of about HK\$79.9 per square metre, at a CAGR of about 5.9%. The steady price growth from 2010 to 2015 was attributed to the fact that more developers have preferred to use concrete, which can be used to construct durable and energy efficient buildings faster and cheaper.

As Hong Kong is expected to have a continual demand for commercial buildings, it is expected that the average wholesale price of concrete in Hong Kong will continue to increase in the coming years.

COMPETITIVE LANDSCAPE

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

Rank	Name of Company (Headquarter)	Revenue in 2014 (HK\$ million)	Share of Total Industry Revenue (%)	Business Coverage
1	Company A (Hong Kong)	7,642	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)	3,704	4.3%	Building construction, maintenance, renovation, plumbing and drainage works, electrical and mechanical works, building materials supply, precast products manufacturing and trading, property development, hotel and property investment, IT solution and services
3	Company C (Hong Kong)	3,031	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	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)	2,378	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

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Rank	Name of Company (Headquarter)	Revenue in 2014 (HK\$ million)	Share of Total Industry Revenue (%)	Business Coverage
N/A	Our Company (Hong Kong)	157	0.2%	Development and redevelopment of church, educational, residential and commercial buildings
Others		<u>66,353</u>	<u>76.8%</u>	
Total		<u><u>86,264</u></u>	<u><u>100.0%</u></u>	

Note: Revenue of the Company refers to the revenue generated from the superstructure building works industry in Hong Kong from April 2014 to March 2015

Source: Ipsos interviews and analysis

The building construction contracting industry in Hong Kong was considered as fragmented, with top 5 players accounted for approximately 23.0% of the total industry revenue in 2014. In the building construction contracting industry in Hong Kong, there were about 156 registered public building contractors at the Development Bureau; about 41 registered public housing contractors (New Works) at Housing Authority; and about 694 qualified registered general building contractors of the Buildings Department as of October 2015.

Factors of competition

- (1) Quality of works: top priority in the construction industry. Inferior building works can have a disastrous influence on building safety and the construction schedule. Contractors will be blacklisted and debarred from the building projects for the unqualified building works.
- (2) Relationship with private developers: private developers generally have their own list of contractors for tender invitation. Therefore, building good and sustainable relationships with major developers is an advantage to building construction work contractors in being included in the preference list and winning private tenders.

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

Rank	Name of Company (Headquarter)	Revenue in 2014 (HK\$ million)	Share of Total Industry Revenue (%)	Business Coverage
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, precast 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 Company (Hong Kong)	25.7	0.04%	Refurbishment, fitting-out works, renovation works, restoration works and external works
Others		<u>47,137.5</u>	<u>91.76%</u>	
Total		<u><u>51,428.6</u></u>	<u><u>100.0%</u></u>	

Note: Revenue of the Company refers to the revenue generated from RMAA works industry in Hong Kong from April 2014 to March 2015

Source: Ipsos interviews and analysis

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The RMAA market is not dominated by the top players with top 5 players only accounted for approximately 8.2% of the total industry in 2014. There were around 340 approved RMAA main contractors in 2014. The revenue of RMAA industry experienced a positive growth from around HK\$ 31.0 billion in 2010 to around HK\$ 51.4 billion in 2014 at a CAGR of around 13.5%, and is estimated to keep growing at a moderate rate from 2015 to 2019.

Factors of competition

- (1) Reputation and track record: reputation and credibility is based on the track record from previous projects, in terms of timeliness of delivery, quality of work, safety and environment requirement fulfillment, such as following the safety regulations for building maintenance and renovation work. Players with strong reputation and credibility are able to gain trust from property owners which can increase the likelihood of winning projects.
- (2) Price: an important concern for customers. players who can offer lower prices are generally more competitive in the RMAA industry in Hong Kong.
- (3) Scale and Scope: players with larger market share and larger in size are generally more preferred by government-related organizations. Also, those with specialties in related field of the project are more likely to be chosen.

Top 5 main contractors engaged in the substructure works industry in Hong Kong in 2014

Rank	Name of Company (Headquarter)	Revenue in 2014 (HK\$ million)	Share of Total Industry Revenue (%)	Business Coverage
1	Company I (Hong Kong)	2,990	15.4%	Large diameter bored pile (with bell-out), mini-pile, precast prestressed tubular pile, rock-socketed steel H-pile in pre-bored hole, steel H-pile, steel tubular pile
2	Company A (Hong Kong)	2,289	11.8%	Large diameter bored pile (with bell-out), precast concrete pile, precast prestressed tubular pile, rock-socketed steel H-pile
3	Company C (Hong Kong)	1,654	8.5%	Barrette pile, large diameter bored pile (with bell-out), mini-pile, non-percussion cast-in-situ concrete pile, percussion cast-in-situ concrete pile, precast prestressed tubular pile, rock-socketed steel H-pile in pre-bored hole, steel H-pile, steel tubular pile
4	Company J (Hong Kong)	1,233	6.3%	Large diameter bored pile (with bell-out), mini-pile, rock-socketed steel H-pile in pre-bored hole, steel H-pile
5	Company K (Hong Kong)	1,219	6.3%	Driven steel H-pile, driven precast concrete pile, prebored socketed steel H-pile, mini-pile, prebored friction pile, pipe pile, soldier pile and sheet pile for pile wall, bored pile, footing and pile caps
N/A	Our Company	130	0.7%	Demolition and hoarding, site formation and foundation works
Others		<u>9,931</u>	<u>51%</u>	
Total		<u><u>19,446</u></u>	<u><u>100.0%</u></u>	

Note: Revenue of the respective companies refers to the revenue generated from the foundation industry in Hong Kong from January 2014 to December 2014. Revenue of the Company refers to the revenue generated from the substructure works industry in Hong Kong from April 2014 to March 2015.

Source: Ipsos interviews and analysis

In 2014, the substructure works industry in Hong Kong was consolidated, with the top 10 players accounted for approximately 69.2% of the total industry revenue. The top 5 foundation contractors contributed approximately HK\$9.6 billion to Hong Kong’s foundation industry in 2014. As of September 2015, there were 136 registered contractors under the Buildings Department as the Specialist Contractors (Sub-register of Foundation Works Category), and 40 registered contractors under the Development

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Bureau as the Specialist Contractors for Public Works under the land piling category. Furthermore, there were 10 registered contractors in the large diameter bored piling category and 9 registered contractors in the percussive piling category of the Housing Authority respectively.

Factors of competition

- (1) Established reliable working relationships: a foundation contractor is considered competitive if they can maintain good relationships with their customers, subcontractors and raw material suppliers.
- (2) Experience in foundation works project management and technical expertise: technical expertise and experience in foundation project management is an important factor to meet project timeline, quality and budget. With good technical understanding of foundation works by an experienced project management team, the contractor is able to address different issues that may arise during project execution, and foresee potential problems during the project.
- (3) Industry reputation and proven track record: foundation contractors with a proven track record would have better industry reputation and would be more likely to win project tenders based on their proven reliability and experience in completing foundation works.

Entry Barriers

(1) Industry expertise and experience

According to section 8B of the Buildings Ordinance, service providers are expected to possess knowledge in performing preventative maintenance measures. In addition, having an experienced team is often considered to be crucial in the construction industry.

(2) Track record

Contractors with a proven track record would be more likely to win project tenders based on their proven reliability and experience.

Opportunities

(1) Increase demand for office spaces and residential buildings

The demand for both office and operating spaces in Hong Kong are increasing together with the rental prices. In addition, Hong Kong government strived to increase housing land supply in order to stabilize the property market since 2011. It is expected that the increasing supply of residential building will highly support the construction industry. All of these contribute to the growth of the construction industry in Hong Kong.

(2) Government's enacted schemes and rising number of aged buildings

According to the Development Bureau, there were about 39,000 private buildings in Hong Kong, around 13,000 to which have been built for over 30 years in 2013 and the number would increase to 22,000 by 2023. Hong Kong government has launched policies to encourage building maintenance and renovation such as the Mandatory Building Inspection Subsidy Scheme to help property owners fund for regular building maintenance and repair practices. Such policies will be able to increase demand for RMAA works.

Threats

Labour shortage in Hong Kong

The Hong Kong construction industry has been facing with labour shortage and the problem of ageing workers, together with growing demand for works. The average daily wage of workers engaging in the building construction industry in Hong Kong increased at a CAGR of 11.3% from 2010 to 2014. The average wage of construction workers is expected to grow in the next few years, leading to rising construction costs which lead to contractors also raising average project fees accordingly.