
INDUSTRY OVERVIEW

This section contains certain information which is derived from official government publications and industry sources as well as a commissioned report from Frost & Sullivan. We believe that the sources of the information are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. The information derived from the above sources has not been independently verified by us, the Sponsor, the Bookrunner, the Lead Managers, the Underwriters or any of their affiliates or advisers, nor any other party involved in the [REDACTED] and no representation is given as to its accuracy. Please refer to the section headed “Risk Factors – Statistics and industry information contained in this document may not be accurate and should not be duly relied upon” in this document for further information. We believe, after taking reasonable care, that there have been no material adverse changes in the market information since the date of issue of the Industry Report which may be qualify, contradict or have an impact on the information in this section.

SOURCES OF INFORMATION

We commissioned Frost & Sullivan, an independent market research consulting firm, to conduct an analysis on the car park flooring market in Hong Kong and to report on the industry, development trends and competitive landscape of the market. The market research covers the historical years of 2010 to 2014 and the base year of 2015. The forecast years are 2016 to 2020. A total fee of HK\$380,000 was paid to Frost & Sullivan for the preparation of the market research report, and our Directors consider that such fee reflects market rates. The payment was not conditional upon the results of the Industry Report or the successful listing of our Group. The report was prepared independently from our influence.

The information and statistics on the car park flooring industry in Hong Kong contained in this section are extracted from the Industry Report. The Industry Report derived its data from interviews with industry experts and competitors, official statistical sources, and market indicators for modeling.

Frost & Sullivan is a global consulting company founded in 1961 in New York and has over 40 global offices with more than 2,000 industry consultants, market research analysts, technology analysts and economists. Frost & Sullivan’s services include technology research, independent market research, economic research, corporate best practices advising, training, customer research, competitive intelligence and corporate strategy. Frost & Sullivan has been covering the Chinese market since the 1990s. Frost & Sullivan has four offices in China and direct access to the knowledgeable experts and market participants in the car park flooring industry and its industry consultants, who have more than three years of experience on average.

All statistics are based on information available as at the date of the Industry Report. The study took 2015 as the base year and 2016-2020 as the forecast period. However, since the study was conducted in 2016, some of the 2016 figures were not available from public statistical sources at the time of the study. Under such circumstances, Frost & Sullivan would use the latest information available (e.g. 2015) or make projections based on historical trends.

The analysis in the Industry Report may derive information from sources such as government agencies, trade associations and marketplace participants.

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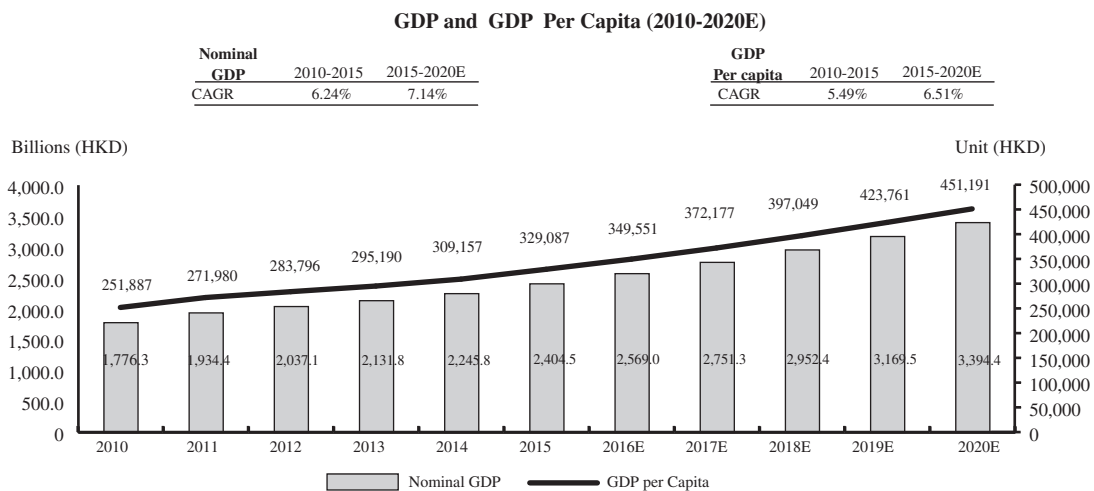
Frost & Sullivan developed estimates and forecasts on the following assumptions: (i) the global economy is assumed to maintain a steady growth across the forecast period; and (ii) it is assumed that there is no external shock such as financial crisis or the wide outbreak of diseases to affect the demand and supply of construction and refurbishment services, including car park flooring services, in Hong Kong during the forecast period.

MARKET OVERVIEW OF THE MACRO-ENVIRONMENT IN HONG KONG

(a) Nominal GDP and GDP Per Capita

Nominal GDP has seen stable growth since 2010 and growth will remain steady throughout 2015-2020.

Over the past five years, Hong Kong has experienced a steady growth in its economy. Nominal GDP increased from HK\$1,776.3 billion in 2010 to HK\$2,404.5 billion in 2015, growing at a CAGR¹ of 6.24%. It is expected that it will reach HK\$3,394.4 billion by the end of 2020, moving up at a faster CAGR of 7.14% during 2015-2020. GDP per capita has increased steadily during 2010-2015, at a CAGR of 5.49%, from HK\$251,887 to HK\$329,087.06. By the end of 2020, it is estimated that growth will accelerate at a CAGR of 6.51%, reaching HK\$451,191 per head.



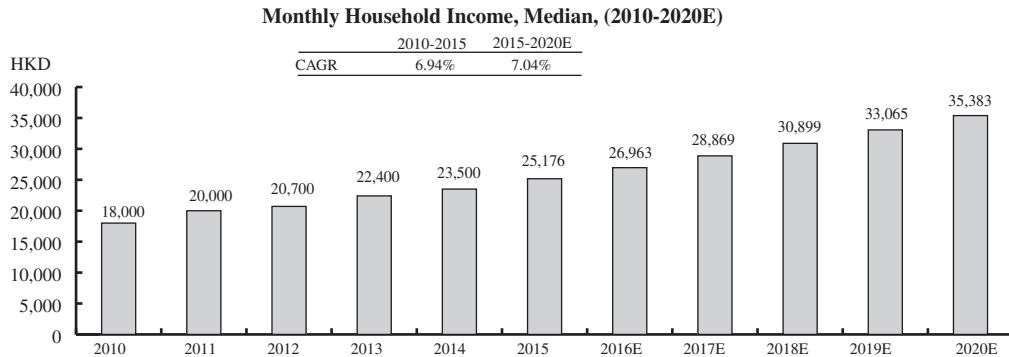
Source : IMF, Frost & Sullivan

¹ CAGR represents the compound annual growth rate which is the mean annual growth rate of an investment over a specified period of time longer than one year.

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(b) Monthly Household Income

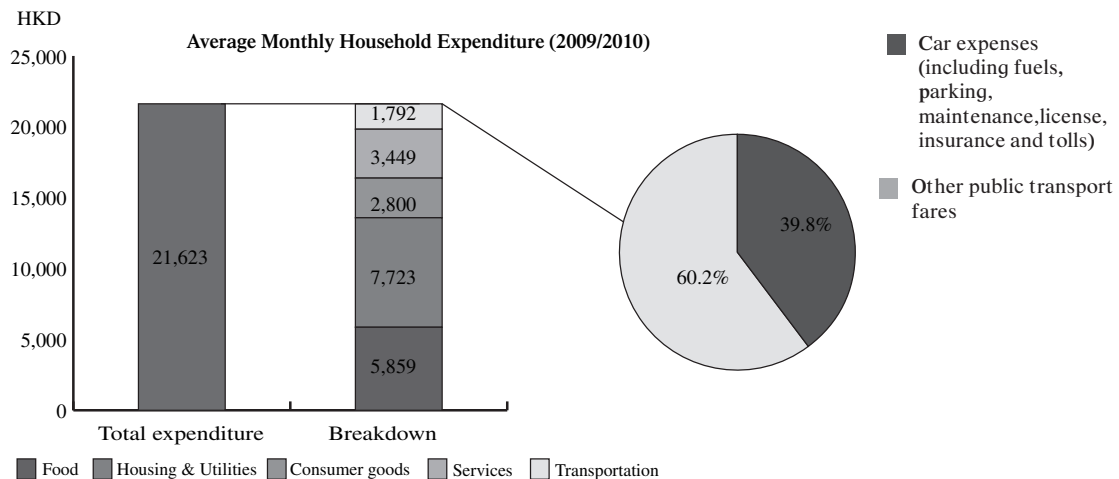
The monthly household income in Hong Kong is expected to continue to grow in the next five years. During 2010-2015, average monthly household income in Hong Kong grew at a CAGR of 6.94% from HK\$18,000 to HK\$25,176. In the next five years, monthly household income is expected to grow at a CAGR of 7.04%, reaching HK\$35,382 by the end of 2020. The accelerating growth in household income is expected to bring higher demand for private cars. As a result, this would also increase the demand for car parks, which would bring potential growth to the car park flooring industry in Hong Kong.



*Source: HKSAR Census and Statistics Department, Frost & Sullivan
Notes: Average household size=2.9 from 2009-2014*

(c) Monthly Household Expenditure

Car expenses accounted for 40% of the total transport expenses in 2010. In 2010, average monthly household expenditure was HK\$21,623, in which food as well as housing and utilities accounted for over 60% of the total expenditure. Other expenses such as transportation, consumer goods and services such as medical services, school fees and entertainment expenses, according to the HKSAR Census and Statistics Department, amounted to HK\$1,792, HK\$2,800 and HK\$3,449 respectively. More importantly, car expenses took up 40% of the total transportation expenses whereas other public transport fares such as bus, tram, subway, taxi and ferry fares added up to roughly 60%.



*Source: HKSAR Census and Statistics Department, Frost & Sullivan
Note 1: Household Expenditure Survey is conducted once every five years
Note 2: Latest survey recorded as 2010*

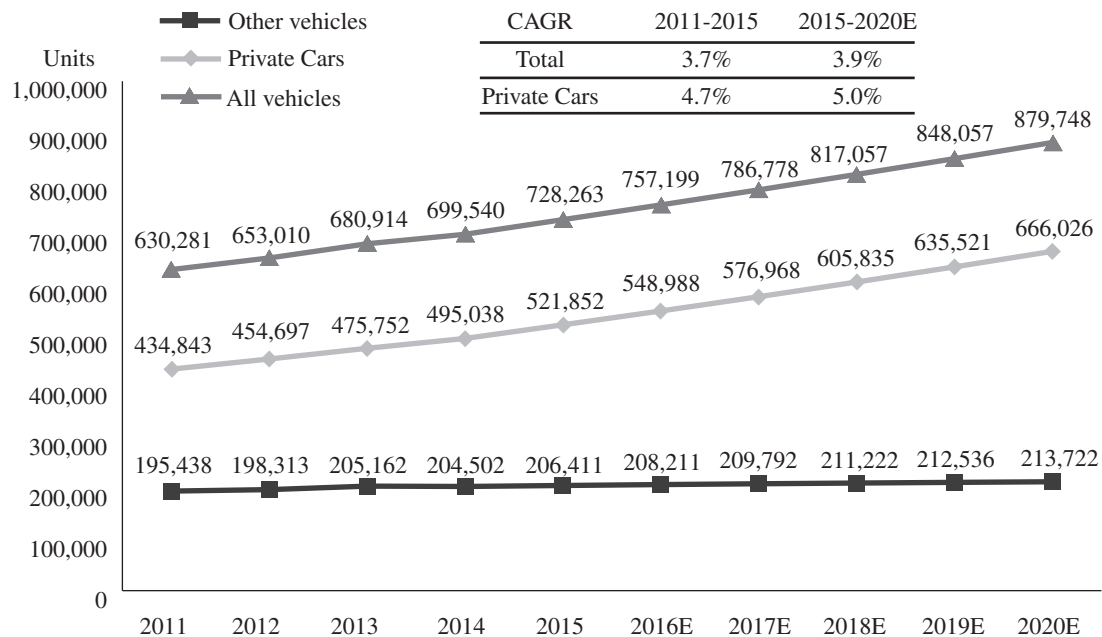
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(d) Total Vehicle Population

Hong Kong has seen a rise in the total number of licensed vehicles since 2011. During 2011-2015, total vehicle population grew at a CAGR of 3.7% from 630,281 to 728,263, in which the year-on-year growth of private cars was 4.7%. In 2015, private cars accounted for almost 70% of the total vehicle population in Hong Kong, becoming the main driver for the demand for car parks and parking lots.

It is estimated that total vehicle population in Hong Kong would continue to grow at a CAGR of 3.9% during 2015-2020, when private cars will present a CAGR of 5.0%. By 2020, the number of private cars would amount to 75.7% of the total vehicle population, which implies a market need of expanding the total area of car parks, creating more growth opportunities for the car park flooring market.

Total Licensed Vehicle Population, by types (2011-2020E)



Source: HKSAR Transport Department, Frost & Sullivan

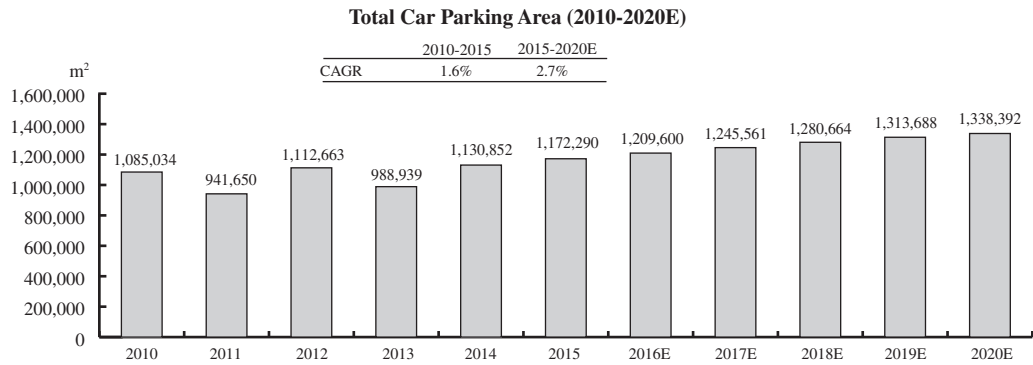
Note 1: Oldest data recorded as 2011

Note 2: Other vehicles included public and private buses, minibuses, taxis, motor cycles, goods vehicles, special purpose vehicles & government vehicles

(e) Total Car Parking Area

The car parking area in Hong Kong is expected to keep growing gradually in the future. Total car parking area in Hong Kong rose from 1,085,034.2 m² in 2010 to 1,172,290 m² in 2015, demonstrating a CAGR of 1.6%. Fluctuations in car parking area increased during the past five years, and they were mainly attributed to the ups-and-downs in gross floor area of newly completed building projects. Driven by the growing population of total vehicles in Hong Kong, especially private cars, it is estimated that the total car parking area in Hong Kong would continue to grow at a CAGR of 2.7% during 2015-2020 in order to meet the future car parking area demand.

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Source: HKSAR Building Department, Frost & Sullivan
Note: Oldest data recorded as 2011

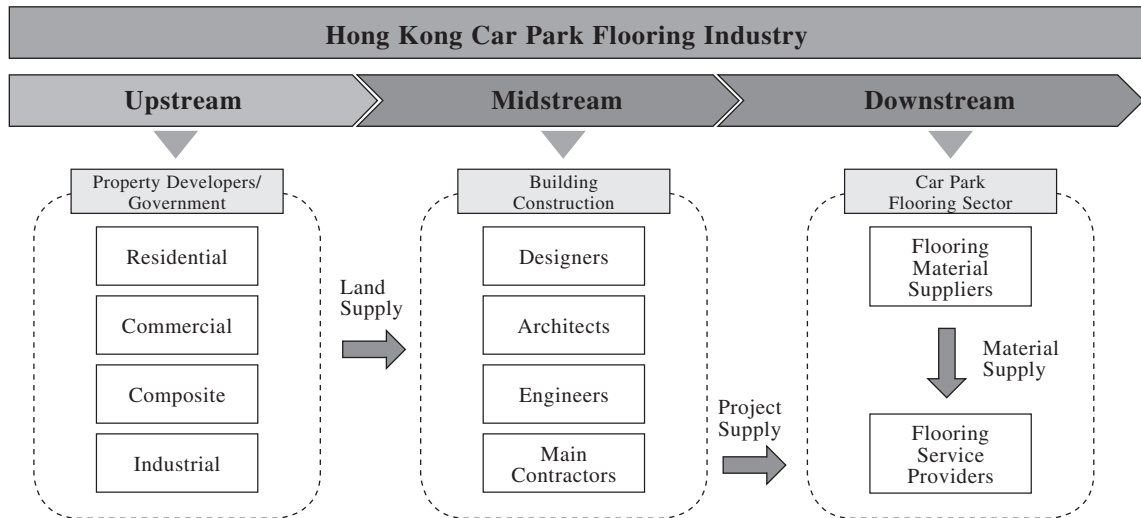
MARKET OVERVIEW OF THE CAR PARK FLOORING INDUSTRY IN HONG KONG

(a) Value Chain Analysis and Business Model

Value Chain Analysis

When property developers or the government has land that they want to develop, they are providing opportunities and projects for the construction industry. Some of these projects require car park flooring services – and this is where the car park flooring industry comes in.

The car park flooring service providers procure their materials from flooring material suppliers, and utilise the materials to produce their outputs.

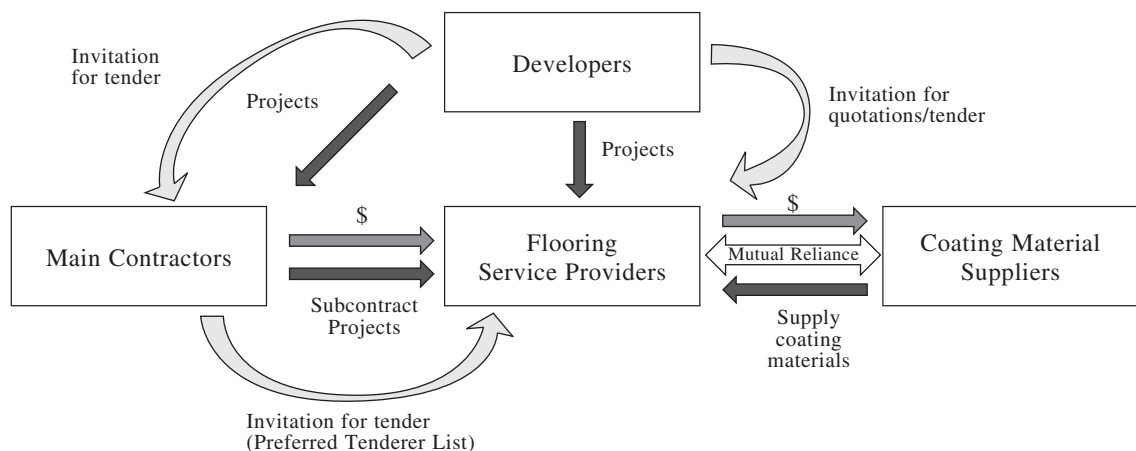


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Typical Business Model

In the car park floor coating industry of Hong Kong, there are two main sources where flooring service providers get their project deals from: (1) property developers send out invitations for tender to main contractors, main contractors will then engage subcontractors appearing on their preferred tenderer lists to work on their development projects; (2) In some instances, subcontractors such as flooring service companies would also get direct invitations of quotations from property developers.

The flooring service companies mentioned above then produce tender prices based on the material and labour costs and period and project spans after considering competition, site conditions and the types of customers – e.g. the Government, property developers or construction companies. Flooring service companies pay their suppliers for the materials, and they receive payment from the main contractors by way of progress payments and final settlements.



Source : Frost & Sullivan

Mutual reliance between flooring service providers and coating material suppliers is regarded as an industry norm within the car park flooring industry in Hong Kong. This is due to the fact that coating material suppliers intend to find good applicators of their coating materials securing sales channels through establishing long-term relationship with flooring service providers; while flooring service providers also prefer using high quality coating materials with their services to ensure that the best service is delivered to their end customers.

(b) Key Suppliers and Customer Segments

The identified key suppliers of car park floor coating materials in Hong Kong are Supplier A, Supplier B, Supplier X, Supplier Y and Supplier Z, in no particular order. They mainly supply car park coating materials such as epoxy, polyurethane as well as methyl methacrylate to flooring services companies in Hong Kong.

Main customers of car park flooring companies are segmented into five groups: the Government, property developers, construction companies, as well as property owners and property management companies acting on behalf of incorporated owners of existing buildings seeking renovations. They are the sources of demand for car park flooring services including new and renovation projects.

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Review of Major Suppliers

A comparison of the background and features among major suppliers in the Hong Kong car park flooring industry are listed below.

	Supplier A	Supplier B	Supplier X	Supplier Y	Supplier Z	
Year of Establishment	1982	1928	1988	1972	1910	
Headquarters	United Kingdom	United Kingdom	Hong Kong	Britain	Switzerland	
Key Manufacturing Location for Flooring Products (For Asia Market)	Malaysia	United Kingdom	Hong Kong	China	China	
Approved applicators in Hong Kong (Note)	Our Group, Competitor C	Our Group	Competitor A	Open to the market with no specific approved applicator	Competitor D, Competitor E	
Geographic Coverage	32 countries	25 countries	1 country	20 countries	93 countries	
Green Assessment Highlighted in relation to Flooring Product Application	Leadership in Energy and Environmental Design (LEED)	✓	✓	N/A	N/A	N/A
	Building Research Establishment Environmental Assessment Methodology (BREEAM)	✓	✓	N/A	N/A	N/A
	Building Environmental Assessment Method (BEAM)	✓	N/A	N/A	N/A	N/A

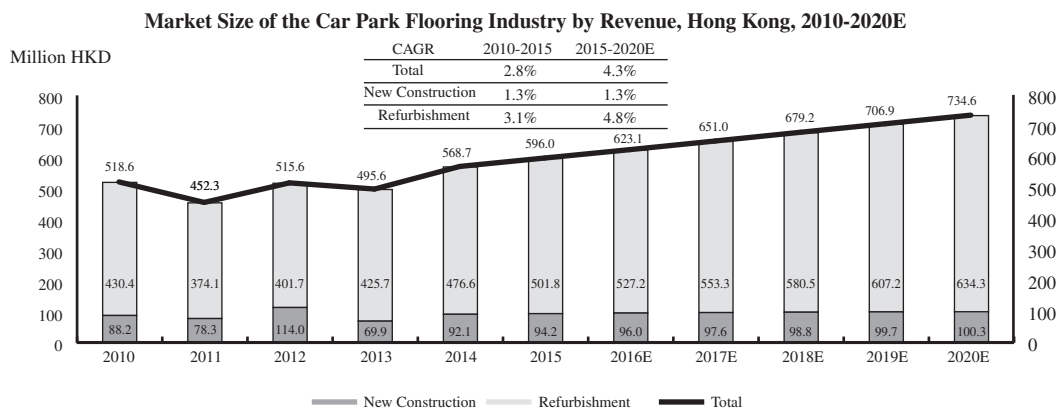
Note: Please refer to the paragraph headed “Ranking” in this section for details of our competitors.

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(c) Market Size of the Car Park Flooring Industry

The market size of the car park flooring industry in Hong Kong will likely maintain steady growth in the future. The total market size of car park flooring industry in terms of revenue in Hong Kong rose from approximately HK\$518.6 million in 2010 to approximately HK\$596.0 million in 2015, representing a CAGR of 2.8% during 2010-2015. The number of private cars in Hong Kong is estimated to have a CAGR of 5.0% during 2015-2020, so more demand for car parking lot will be generated. However, the shortage of land supply in Hong Kong tends to limit the new construction. Therefore, it is estimated that the total market size would grow at a CAGR of 4.3% from 2015 to 2020, driven by the increasing demand for car park refurbishment.

The market size of car park flooring refurbishment works has been larger and achieving higher CAGR than that of car park new construction because of the limited land supply in Hong Kong. The general situation of large car park flooring refurbishment market with higher CAGR will likely to remain in the next five years. In 2015, the market size of car park flooring refurbishment was five times as large as that of new constructions, as car park flooring refurbishment took up 84.2% in the whole market size.



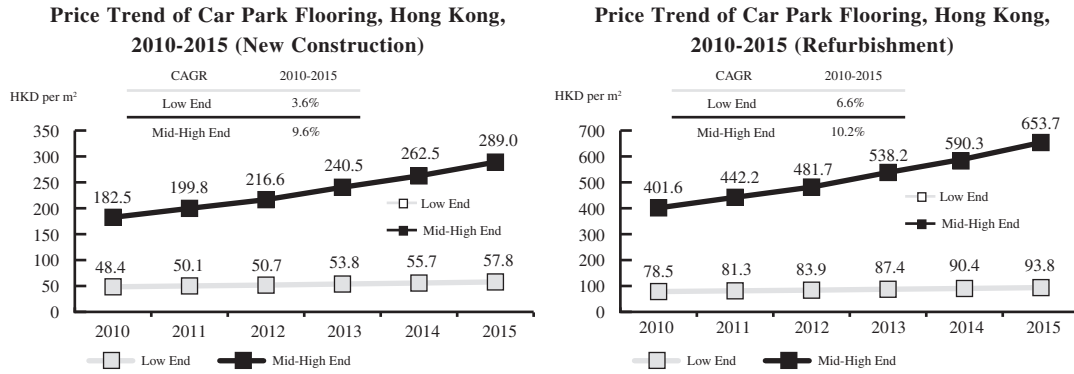
(d) Analysis of Historical Price Trend of Car Park Flooring

Car park flooring services in Hong Kong had recorded a growing trend in terms of price over the historical period. Due to additional procedures in flooring work (e.g. removal of old coating material and screeding), average price of car park flooring for refurbishment was higher than that of new construction projects.

In general, car park flooring service could be segmented into mid to high end and low end based on various criteria such as perception from customers, pricing, quality and grading of building, and property involved. The growing price trend for car park flooring service providers was attributed to escalating operation cost including coating materials (e.g. epoxy, cement) and labour cost. On the other

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hand, mid to high end players showed a higher CAGR than low end players due to the application of high quality materials, while the low end players maintained their competitiveness through lower project pricing.

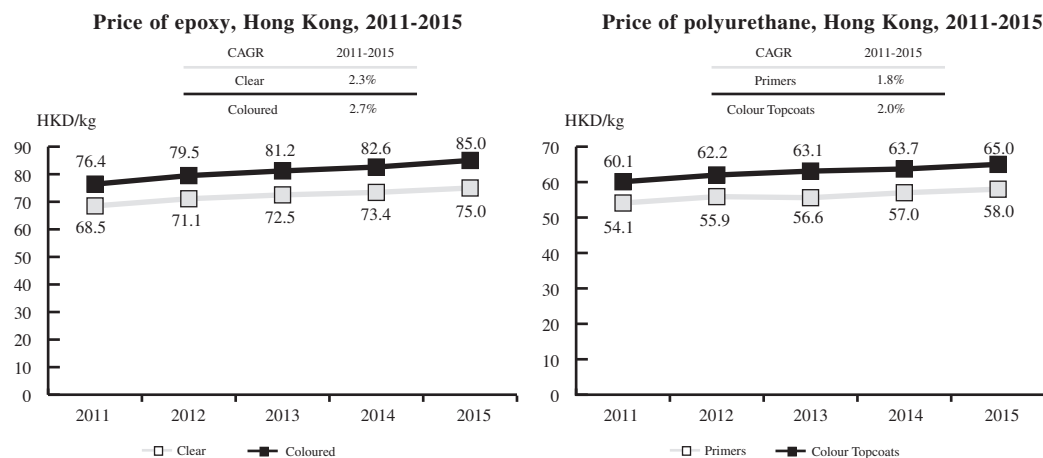


Source: Frost & Sullivan

(e) Analysis of Historical Average Price Trend for Key Raw Materials

The period of 2011-2015 saw a rise in the prices of coating materials in Hong Kong. Epoxy and polyurethane are the two mostly used paints in car park floor coating which are made from oil and resins while methyl methacrylate is also an option with faster installation. Polyurethane can be divided into primers and colour topcoats in which colour topcoat is generally slightly more expensive than primers, whilst coloured epoxy is also more expensive than the clear ones. Polyurethane and epoxy are used in different contexts for different purposes, while polyurethane is more preferred for anti-skid purposes, and epoxy is used in heavy-duty surfaces.

Due to increasing health concerns and government restrictions on volatile organic compounds levels in painting materials, the demand and prices for epoxy, which has a lower volatile organic compounds level, climbed faster than that of polyurethane. Meanwhile, coloured coating are growing in popularity due to a rise in the demand for better looking car parks.



Note: Oldest data recorded as 2011

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Source: Frost & Sullivan

Note: Oldest data recorded as 2011

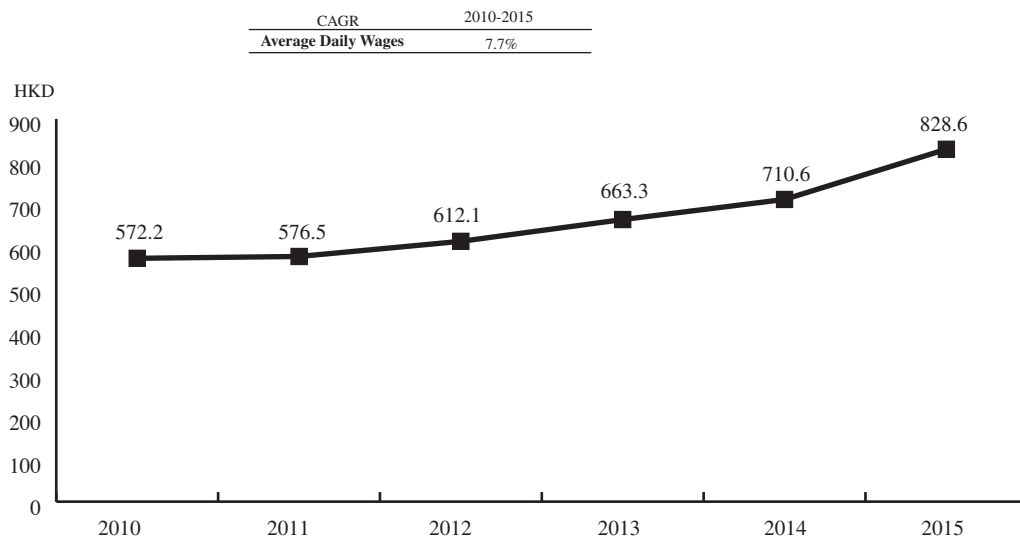
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(f) Historical Average Salaries of Workers in Car Park Flooring Services

The average daily wage of car park flooring workers had increased over the past five years, mainly driven by inflation and the substantial demand for labour. The average daily wages for Hong Kong car park flooring workers had witnessed a growing trend from HK\$572.2 in 2010 to HK\$828.6 in 2015 at a CAGR of 7.7%.

Inflation, substantial demand for workers in construction industry due to increasing number of property development projects, announcement of development goal by the government (e.g. 10-year housing supply target) and shortage of labour served as key drivers for the increase in daily wages in the car park flooring industry over the historical period.

Average Daily Wages of Car Park Flooring Workers, Hong Kong, 2010-2015











Soucre: Frost & Sullivan

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COMPETITIVE LANDSCAPE OF THE CAR PARK FLOORING INDUSTRY IN HONG KONG

(a) Customer Behavior and Choosing Criteria on Service Provider

Criteria	Power of Influence	Customer Behaviour
Quality		Quality of coating materials and coating work is the most important criteria that customers would consider when it comes to choose a service provider for car park flooring.
Experience and Job References		The more experiences service provider has the higher the chance it get picked as this would mean the service provider has got involved in a lot of relevant projects which helps to provide more comprehensive solutions for its customers.
Price		Better quality materials and works often cost more and last longer. However, customers are more willing to pay higher price for better quality flooring work.
Brand and Reputation		Word of mouth has become increasingly important when it comes to choose the right service provider to perform the task as poor coating work would impose extensive monetary losses and time cost to the customers.
After-Sales Service		Providing warranty is the industry common practice. Therefore, customers expect after-sales-service when things went wrong. The longer the warranty is, the higher the consumer confidence in choosing that particular service provider as this would mean longer durability of the products.
Service Scope		The wider range of services a company can provide, the more likely the customers would choose a particular company as they tend to have different requirements and various kinds of works to be completed in a project e.g. waterproofing with floor coating and anti-skid surface systems.
Eco-friendliness of materials		With the increasing awareness of environmental protection, eco-friendly coating materials are increasingly preferred by customers.

Notes: From low to high 

Source: Frost & Sullivan

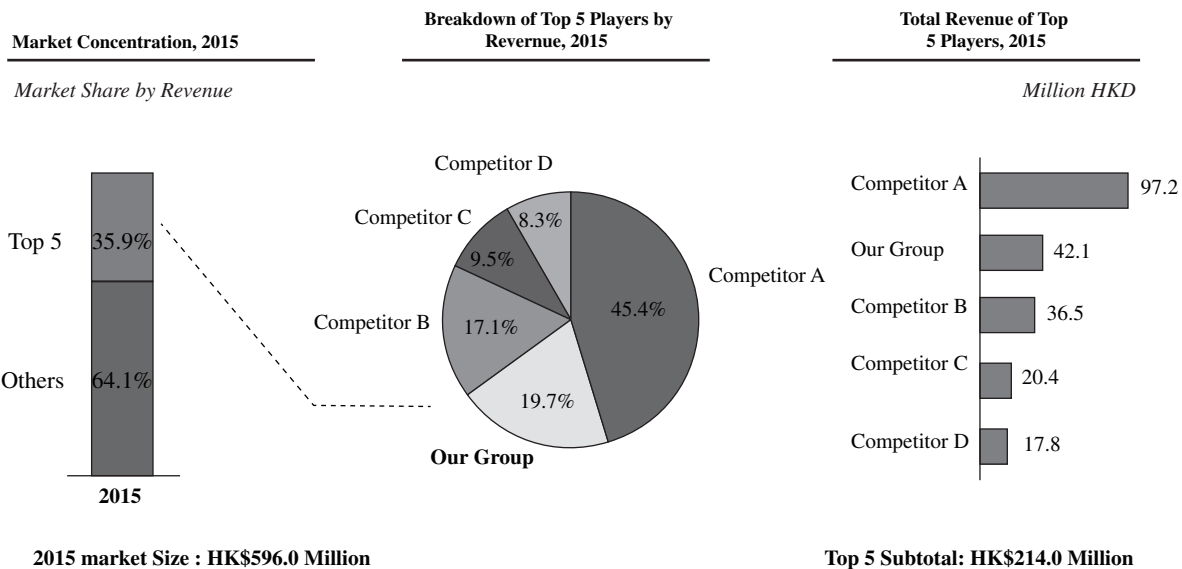
(b) Market Concentration

In the year of 2015, top five companies took up an aggregate market share of 36% in the car park flooring market of Hong Kong.

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Our Group is leading the new construction market of car park flooring in Hong Kong, as we occupied 33.7% in the new construction segment in the year of 2015. We have contributed approximately HK\$42.1 million dollars in the new construction market and the refurbishment market, representing 19.7% of the aggregate market share among the top five players.

Competitor A ranked first among other players, contributing an estimated revenue of HK\$97.2 million and 16.3% of market share in the car park flooring market of Hong Kong in 2015, because the focus of Competitor A is on refurbishment business. In 2015, 84.2% of total revenue was generated by the refurbishment segment.



(c) Ranking

Ranking by Revenue and Market Share

In terms of the revenue from car park flooring services, the top five players in Hong Kong in 2015 were Competitor A, our Group, Competitor B, Competitor C and Competitor D. The following table shows the revenue and market shares of the top five players:

Ranking	Company	2015 Revenue from Car Park Flooring in Hong Kong (HK\$ million)	2015 Market Share of Hong Kong Car Park Flooring
1	Competitor A	97.2	16.3%
2	Our Group	42.1	7.1%
3	Competitor B	36.5	6.1%
4	Competitor C	20.4	3.4%
5	Competitor D	17.8	3.0%
	Top 5 Total	214.0	35.9%

Source: Frost & Sullivan

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Profiles of Competitors

Company	Year of Establishment	Description
Competitor A	1988	Competitor A was established as an electronics chemicals supplier in Hong Kong. Over the years, the company has grown and diversified to become a leading manufacturer, equipment and materials supplier, and specialist applicator of epoxy, polyurethane, polyurea and other high performance materials for building construction and industrial applications. In the car park flooring sector, the company has been focusing on the refurbishment projects.
Competitor B	2002	Competitor B is an engineering company undertaking contracting works with imported Taiwanese branded floating products. Competitor B started its business as wall painter and slowly shifted to the part of flooring and has successfully grasped some market share in the car park flooring market of Hong Kong.
Our Group	2002	We are an established contractor in Hong Kong in the car park flooring industry.
Competitor C	1981	Competitor C is mainly involved in the service of waterproofing, flooring, external refurbishment and additional services or material supplies. Competitor C has a stronger presence in Macau than in Hong Kong as it has concentrated on works involving casinos in Macau. As for car park flooring, Competitor C has been focusing on the new construction market.
Competitor D	1991	Competitor D is a contractor for epoxy floor coating, anti-skid coating for car park, floor hardener and joint sealant installation. In the past few years, the company has successfully completed many projects, especially renovated car park flooring projects.

Source: Frost & Sullivan

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(d) Market Entry Barriers

New players in the Hong Kong car park flooring market may encounter the following entry barriers:

Relationships between Main Contractors and Existing Market Players

Main contractors play a key role in construction part of development projects in Hong Kong and they may have their own tender lists with preferred subcontractors for coating and decoration works, which include flooring in car parks. Hence a greater effort would be required for a new entrant without a track record to the car park flooring market to be included in the tender lists and acquire projects.

Limited Pool of Experienced Labour and Soaring Labour Costs in the Market

In the car park flooring industry, there are limited number of specialised and experienced workers serving existing flooring service providers. Meanwhile, the overall shortage of labour in the construction industry may further narrow down the manpower available for car park flooring. In addition, escalating costs for labour may also lead to an issue for new service providers to initiate and sustain their businesses in the market.

(e) Market Drivers and Opportunities

Vehicles and Parking Lots

According to the Transport Department, there were 731,073 licensed vehicles in 2015, while the total number of parking lots was 695,000 (exclude off-street parking). In view of the substantial number of vehicles, there will be a strong demand for parking lots, especially in urban areas and housing estates. The demand is also driven by speculation and escalating prices of parking lots in housing estates during the recent years. As a result, a potential growth in car parking lots is expected in the future to meet the increase in demand, which will bring more car park flooring businesses.

Housing and Development

According to the Housing Authority, the number of general applicants for public housing has increased from 77,800 in 2010 to 121,900 in 2014, which indicate a growing demand for parking lots in public housing estates. To address the increasing demand for housing, the Government had proposed the target of housing supply in its Policy Address since 2011. As estimated in the 2014 Policy Address, there will be 470,000 housing units in total in the next ten years, which will bring more car park construction needs in residential buildings and thus related car park flooring projects.

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Renovation Projects

With rising living standard and quality, property developers and management companies have increased their efforts on renovation of facilities. As estimated by Planning Department, there are 12,220 buildings aged above 40 years in Hong Kong in 2016, while there were 4,340 buildings aged between 30 to 39 years. The Mandatory Building Inspection Scheme (“**MBIS**”) has come into full implementation in 2012, which highlights the inspection and related repair works to be conducted for buildings aged 30 years and above. Apart from Mandatory Building Inspection Scheme, the Government has taken initiatives to boost their renovation projects. For instance, the Urban Renewal Authority has contributed HK\$150 million to repair and maintenance work. Hence, it is expected that more renovation work would be carried out on the aged buildings and related facilities including car parks, thus increasing the demand for car park flooring works.

Rising Quantity and Quality of Parking Lots

In view of the trend of escalating number of automobile possession in Hong Kong along with the speculation of parking lots, supply of car parking lots in the forms of underground and multi-storey car parks will likely be increased to meet the growing demand.

Meanwhile, it is expected that more old car parks will be refurbished and upgraded together with other common areas in the building under the MBIS. Meanwhile, higher living standards will increase the demand for modern designed car parks with better protection to vehicles, and car owners are more willing to store their vehicles in car parks rather than outside for security reason. Hence more flooring projects in car parks can be anticipated in the future.

(f) Threats

Advancement in Floor Coating Materials and Technology

Epoxy and polyurethane resin are the commonly used coating materials in car park flooring. With technological developments and thus the emergence of new materials, efficiency and quality of flooring work will likely be enhanced in the future.

For example, methyl methacrylate becomes one of the options for refurbishment projects due to its fast-curing installation time and high resistance to ultraviolet, which minimises the disruption to regular operation of the car park. However, cost of methyl methacrylate is currently approximately twice that of existing flooring products on the market. In addition, it has the disadvantage of emitting odour upon application, resulting in the limitation of application in outdoor spaces only. On the other hand, new systems with less consumption of materials, aggregates, higher durability, resistance to extreme conditions, and lower staff assignment are likely to appear in the future.