

---

## INDUSTRY OVERVIEW

---

*Certain facts, statistics and data presented in this section and elsewhere in this document have been derived, in part, from various government official publications as well as the Ipsos Report. Whilst our Directors have taken all reasonable care to ensure that the relevant facts and statistics are accurately reproduced from these official government sources, such facts and statistics have not been independently verified by our Group or any of its respective affiliates or advisers, nor by the Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters or any of their affiliates or advisers or any other party involved in the [REDACTED]. Our Directors have no reason to believe that such facts, statistics and data presented in this section is false or misleading or that any fact has been omitted that would render such facts, statistics and data false or misleading. In this section, other than the Ipsos Report, information regarding the relevant industries has been recited or extracted from certain articles, reports or publications, and their preparations were not commissioned or funded by our Group. Our Directors confirm that after taking reasonable care, there is no adverse change in the market information since the date of the Ipsos Report which may qualify, contradict or have an impact on the information in this section.*

### SOURCES OF INFORMATION

We commissioned Ipsos, an independent market research consulting firm, to conduct an analysis of, and to report on, the concrete demolition industry in Hong Kong and Macau. A total fee of HK\$556,000 was paid to Ipsos for the preparation of the Ipsos Report. The Ipsos Report has been prepared by Ipsos independent of our Group's influence. The information and statistics set forth in this section have been extracted from the Ipsos Report. The payment of such amount was not conditional on our Group's successful [REDACTED] or on the results of the Ipsos Report.

Ipsos has been engaged in a number of market assessment projects in connection with initial public offerings in Hong Kong.

The Ipsos Report includes information on the concrete demolition industry in Hong Kong and Macau. The information contained in the Ipsos Report is derived by means of data and intelligence gathering which include: (i) desktop research; and (ii) primary research, including interviews with key stakeholders and industry experts including concrete demolition work companies, main contractors, developers, architects, industry experts and government officials and associations in Hong Kong and Macau, etc. Information gathered by Ipsos has been analysed, assessed and validated using Ipsos in-house analysis models and techniques.

All statistics are based on information available as at the date of the Ipsos Report. Other sources of information, including government, trade associations or marketplace participants, may have provided some of the information on which the analysis or data is based.

Ipsos developed its estimates or forecasts on the following bases and assumptions: (i) the economy of Hong Kong and Macau are 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 services, including concrete demolition services, in Hong Kong and Macau during the forecast period.

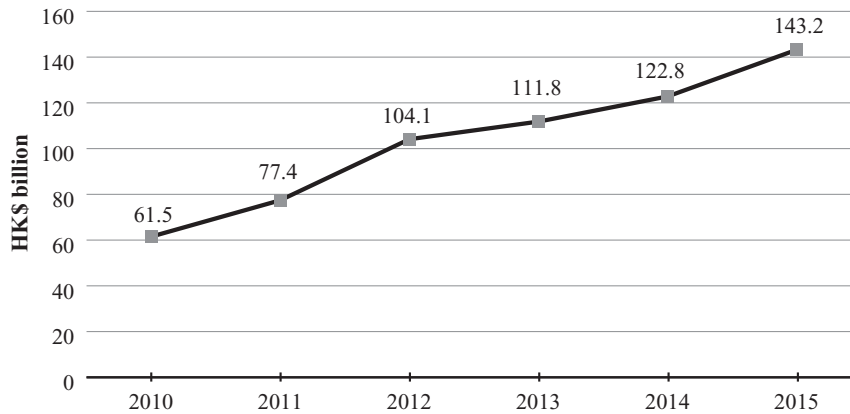
### CONSTRUCTION INDUSTRY OVERVIEW

#### Hong Kong

The total gross output value of construction works performed by main contractors at construction sites in Hong Kong increased from approximately HK\$61.5 billion in 2010 to approximately HK\$143.2 billion in 2015, representing a CAGR of approximately 18.4%:

## INDUSTRY OVERVIEW

**Total gross output value of construction works performed by main contractors at construction sites in Hong Kong**



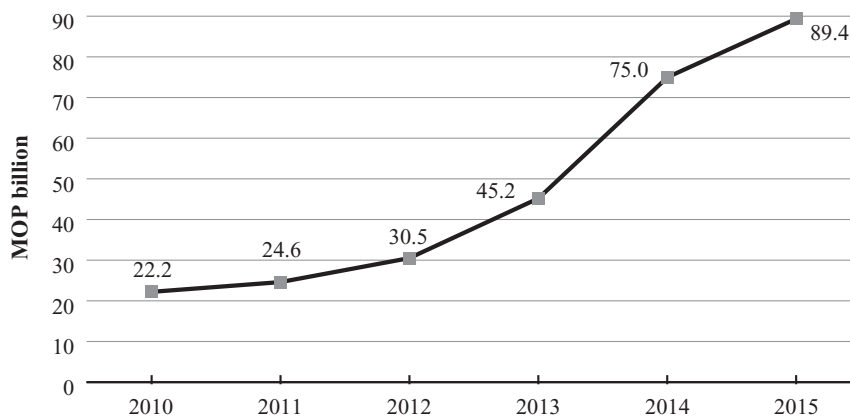
Source: The Ipsos Report

Construction projects in Hong Kong can be generally categorised into public sector projects and private sector projects. Public sector projects refer to projects of which the main contractors are employed by the Hong Kong Government, the Macau Government or their respective related organisations or corporations, while private sector projects refer to projects that are not public sector projects. The total gross output value of public sector projects in Hong Kong increased significantly from approximately HK\$31.2 billion in 2010 to approximately HK\$77.1 billion in 2015, representing a CAGR of approximately 19.8%, which was mainly due to the commencement of more construction projects by the Hong Kong Government to create job opportunities in the construction industry. On the other hand, the total gross output value of private sector projects in Hong Kong increased from approximately HK\$30.3 billion in 2010 to approximately HK\$66.1 billion in 2015, representing a CAGR of approximately 16.9%, which was mainly due to the economic recovery during the period as well as the rising demand for residential properties in Hong Kong.

### Macau

The total gross output value of construction works performed by main contractors at construction sites in Macau increased from approximately MOP22.2 billion in 2010 to approximately MOP89.4 billion in 2015, representing a CAGR of approximately 32.1%:

**Total gross output value of construction works performed by main contractors at construction sites in Macau**



Source: The Ipsos Report

## INDUSTRY OVERVIEW

Similar to Hong Kong, construction projects in Macau can also generally be classified as public sector projects and private sector projects. The general increase in total gross output value of construction works in Macau from 2010 to 2015 was mainly attributable to the increase in the number of major casino development projects in Macau, as well as the various major public infrastructure and construction projects commenced by the Macau Government during the period. The total gross output value of public sector projects increased from approximately MOP4.4 billion to approximately MOP10.2 billion from 2010 to 2015, representing a CAGR of approximately 18.3%. On the other hand, the total gross output value from of private sector projects increased from approximately MOP17.8 billion to approximately MOP79.2 billion from 2010 to 2015, representing a CAGR of approximately 34.8%.

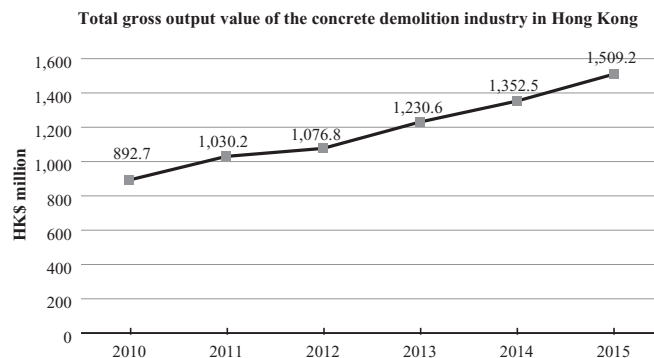
It is not uncommon for Hong Kong contractors in Hong Kong to engage in projects in Macau. This can be attributed to the fact that the industry practice, factors of competition and tender processes are relatively similar between the Hong Kong construction market and Macau construction market. Given the similarity, it allows the contractors in Hong Kong to engage in projects in Macau with less difficulties.

### CONCRETE DEMOLITION INDUSTRY OVERVIEW

The concrete demolition industry is one of the specific areas of the construction industry which mainly concerns the removal of pieces or sections of concrete from concrete structures and the demolition of the entire concrete structures or buildings by applying different methods such as coring, sawing, bursting and crushing. Concrete demolition is required in various situations including but not limited to the making of openings for the installation of elevators, doors, windows, plumbing or other utilities systems, the removal of unnecessary concrete during the course of construction of buildings or infrastructure, the demolition of concrete structures in addition and alteration works or redevelopment projects in buildings, roads, tunnels and underground facilities, the removal of pieces of concrete for concrete sample analysis, etc.

#### Hong Kong

As of July 2016, there were more than 120 registered concrete demolition service providers in Hong Kong. The total gross output value of the concrete demolition industry in Hong Kong grew from approximately HK\$892.7 million in 2010 to approximately HK\$1,509.2 million in 2015, representing a CAGR of approximately 11.1%:



Source: The Ipsos Report

According to the Ipsos Report, the gross output value of the concrete demolition in Hong Kong is estimated to grow from approximately HK\$1,509.2 million in 2015 to approximately HK\$1,945.6 million in 2019, at a CAGR of approximately 6.6%.

---

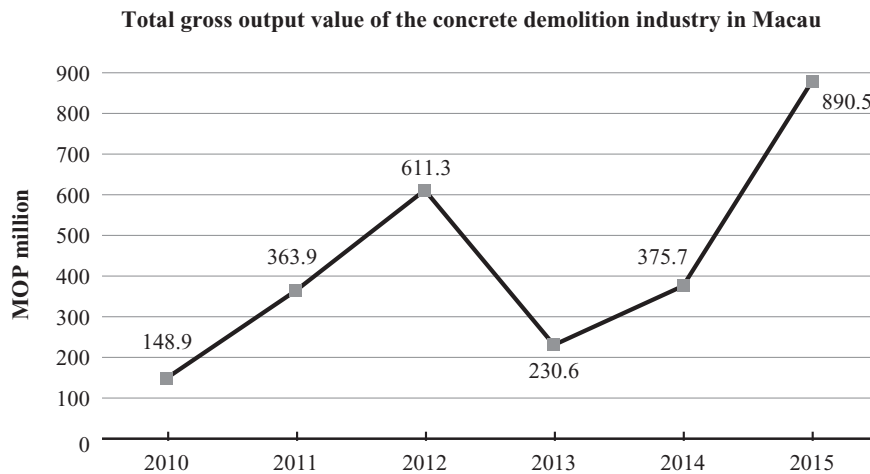
## INDUSTRY OVERVIEW

---

The significant increase in the gross output value of the concrete demolition industry in Hong Kong was primarily due to the commencement of the “Ten Major Infrastructure Projects” announced in the 2007 Policy Address by the Hong Kong Government as well as the general increase in residential projects and urban renewal projects in Hong Kong, which led to the increase in construction and redevelopment works of buildings, roads, tunnels, underground facilities, and other infrastructures that in turn led to the increase in the general demand for concrete demolition services.

### Macau

The total gross output value of the concrete demolition industry grew from approximately MOP148.9 million in 2010 to approximately MOP890.5 million in 2015, representing a CAGR of approximately 43.0%:



Source: *The Ipsos Report*

The significant increases in the gross output value of the concrete demolition industry in Macau in 2011 and 2012 were primarily due to the increase in investment by the Macau Government on infrastructure and public housing owing to the rising population in Macau, resulting in the increase in demand for concrete demolition service for the removal of existing concrete structures. In 2013, the gross output values returned to a level that was lower than the values in 2011 and 2012 but was still considerably higher than that in 2010, resulting in a CAGR of approximately 43.0% from 2010 to 2015. Such general increasing trend was mainly due to (i) the increase in investment on the improvement of infrastructure and public housing by the Macau Government; (ii) the establishment of the “Permanent Inter-Departmental Working Group for Demolition and Vacating of Illegal Construction” in 2011 by the Macau Government to tackle illegal buildings in Macau, which led to the general increase in redevelopment and demolition projects in Macau; and (iii) the continued investment in construction projects in relation to the gaming and tourism industry in Macau.

### INDUSTRY DRIVERS

In general, an increase in the amount of construction projects will increase the general demand for concrete demolition services. For instance, redevelopment projects will necessarily involve the demolition of existing structures before new structures are built, while for new building projects, concrete demolition services may be required in various situations such as the creation of openings for the installation of elevators, doors, windows, plumbing, utilities systems, and/or electrical and mechanical services, the removal of small amount of concrete for concrete sample analysis, and/or the removal of otherwise excess or unnecessary concrete structures during the course of construction.

---

## INDUSTRY OVERVIEW

---

During the Track Record Period, our Group undertook both private and public sector projects and we will continue to pursue both private and public sector projects after [REDACTED]. According to the Ipsos Report, the availability of private and public sector construction projects in Hong Kong and Macau is expected to grow in the coming years as a result of, among others, the following key drivers:

### **The “Ten Major Infrastructure Projects” in Hong Kong and the increasing expenditures on infrastructure by the Hong Kong Government and the Macau Government**

In 2007, the Hong Kong Government announced the “Ten Major infrastructure Projects”, which led to the continual growth in Hong Kong’s public expenditure on infrastructure. The “Ten Major infrastructure Projects” include South Island Line, Lok Ma Chau Loop, Sha Tin to Central Link, West Kowloon Cultural District, Tuen Mun-Chek Lap Kok Link and Tuen Mun Western Bypass, Kai Tak Development, Guangzhou-Shenzhen-Hong Kong Express Rail Link, Hong Kong-Zhuhai-Macao Bridge, North East New Territories New Development Areas and Hong Kong-Shenzhen Western Express Line.

In recent years, the Hong Kong Government’s infrastructure investment has been maintained at high levels, with several construction and transportation projects being carried forward in parallel. From 2009 to 2014, the proportion of the value of infrastructure projects to the total value of all construction projects increased from about 23.7% to about 44.7%, which was mostly attributable to the “Ten Major Infrastructure Projects”. In addition, according to the 2016-2017 Budget of the Hong Kong Government, the Hong Kong Government will invest about HK\$86.1 billion on infrastructure between 2016 and 2017.

Investment in private sector projects in Hong Kong is also expected to increase as a result of the increase in expenditures on the “Ten Major infrastructure Projects” by the Hong Kong Government. With the development of public infrastructure, such as the South Island Line and the Sha Tin to Central Link, people can travel more conveniently around the city. Moreover, the Hong Kong Government has been planning to develop the North East New Territories New Development Areas and the Hung Shui Kiu New Development Areas. As a result, sustained investment in private sector construction projects in these areas is envisaged due to the expected rising demand for both public and private residential buildings as well as commercial and other buildings in these new development areas.

As these projects are yet to hit their peak, it is expected that the demand for construction services will continue to grow in Hong Kong.

In Macau, it is the policy of the Macau Government to develop the city’s infrastructure. In 2009, several public infrastructure were launched, including the construction of new campus of the University of Macau, the first phase of the Macau light rail transit, the ferry pier in Taipa, and the Hong Kong-Zhuhai-Macao Bridge alongside with the artificial islands for the bridge. In addition, multiple construction projects in relation to community centers, roads, prisons, fire stations, temples, sewage systems, slopes and hospitals were carried out between 2009 and 2014 in Macau. It is expected that the total expenditure on infrastructure development in Macau will continue to grow due to the ongoing expenditure by the Macau Government on various projects, such as major road construction, land reclamations in Taipa and Colane, the new public housing in North Taipa as well as the other ongoing construction projects mentioned above.

### **Initiatives in increasing housing supply and redevelopment works**

Owing to the increase in the average waiting time for public rental housing and the increasing property prices in Hong Kong, the Hong Kong Government has made clear plans for increasing both land and housing supply in order to reduce the average waiting time for public rental housing and to stabilise the residential property prices according to the 2014

---

## INDUSTRY OVERVIEW

---

Policy Address of the Hong Kong Government. The Hong Kong Government has also been encouraging the redevelopment of industrial buildings. The continual encouragement of redeveloping industrial properties and the increase in both land and housing supply by the Hong Kong Government are expected to result in the continued growth of the construction works in Hong Kong.

According to the "2010 to 2020 Long Term Housing Strategy" launched by the Macau Government, the Macau Government aimed to ensure a stable housing supply as a result of influx of foreign workers. The public housing targets under the "2010 to 2020 Long Term Housing Strategy" are expected to result in a relatively stable residential buildings under construction. Moreover, to address the overcrowding issue and sluggish traffic condition caused by the rising population in Macau, the Macau Government is investing on improvement of infrastructure and public utilities, which led to the demolition of some of the existing buildings, starting from 2013. Furthermore, to simulate Macau's tourism growth, the large-scale redevelopment of the Macau Fisherman's Wharf theme park, including the construction of three new hotels, commenced, which requires demolition of old facilities and is expected to stimulate the demands for construction works as well as concrete demolition works in Macau.

### **Increase in number of old buildings in Hong Kong**

In 2010, there were about 17,000, 13,000, 11,000 and 4,000 buildings in Hong Kong that were aged over 20, 25, 30 and 50 years respectively according to the Buildings Department. The Buildings Department estimates that an average of about 570 buildings per annum will reach the age of 50 between 2010 and 2020. Also, the number of buildings aged over 50 years is also estimated to increase from approximately 4,000 in 2009 to approximately 9,500 in 2019. With the rising number of old buildings in Hong Kong, redevelopment projects and thus the demands for concrete demolition services are expected to increase as these old buildings increasingly pose danger to the public.

## **COMPETITIVE LANDSCAPE AND ENTRY BARRIERS**

### **Competitive landscape of concrete demolition industry in Hong Kong and Macau**

Concrete demolition service providers in Hong Kong and Macau generally compete on the following:

*(i) Reputation and track record*

Reputation and track record is one of the primary selection basis for construction contractor to choose concrete demolition service providers. Customers generally prefer concrete demolition service providers who have a good reputation and satisfactory track record in terms of safety performance, timeliness in works performance, and quality of works.

*(ii) Possession of adequate and advanced machinery*

The performance of concrete demolition works requires various different types of machinery, such as coring machines, sawing machines, remote controlled demolition robots, etc. Concrete demolition service providers can either rent or acquire the machinery required in the performance of works. However, concrete demolition service providers who possess their own machinery have greater efficiency of work and can avoid delay caused by difficulties in renting sought-after machinery.



---

## INDUSTRY OVERVIEW

---

### *(iii) Skilled and experienced workers*

In view of the general labour shortage faced by the construction industry in Hong Kong and Macau, having sufficient skilled workers who are knowledgeable and experienced in operating various types of concrete demolition machinery and able to apply different demolition methods is one of the crucial factors for construction contractors in choosing concrete demolition service providers in Hong Kong and Macau.

### *(iv) Relationships with customers*

The Ipsos Report stated that approximately 70% of concrete demolition jobs in Hong Kong and approximately 60-70% of concrete demolition jobs in Macau are awarded through direct invitation from customers where job opportunities are directly referred or presented to the contractor as a result of the contractor's established relationship with the customer or with other industry players who refer the customer to the contractor. Therefore, well-established presence and good relationships with customers is crucial for concrete demolition service providers to secure businesses opportunities.

### **Top five concrete demolition contracting service providers**

#### *Hong Kong*

As of July 2016, there were more than 120 concrete demolition service providers operating in Hong Kong, with the top five providers together accounted for approximately 23.5% of the total revenue of the concrete demolition industry in Hong Kong in 2015. Our Group was the largest concrete demolition service providers in Hong Kong in 2015, accounting for approximately 7.2% of the total revenue of the concrete demolition industry in Hong Kong:

<b>Ranking</b>	<b>Firm</b>	<b>Market share</b>
1	Our Group	7.2%
2	A company headquartered in Hong Kong	6.0%
3	A company headquartered in Hong Kong	4.0%
4	A company headquartered in Hong Kong	3.4%
5	A company headquartered in Hong Kong	3.0%
		<hr/>
		23.5%
		<hr/> <hr/>

#### *Macau*

According to the Ipsos Report, concrete demolition service providers operating in Macau are mainly Hong Kong-based, such as our Group. The Ipsos Report was unable to reveal the market share data in the Macau market.

### **Entry barriers**

#### *(i) Lack of credibility and project experiences*

Credibility is a key success factor for concrete demolition service providers. New entrants may find it hard to enter the industry because they do not have a good track record as the existing players do which can show the potential customers that they can deliver their works on time and with good quality. Therefore, new entrants may find it difficult to enter the industry due to their insufficient experience to compete with the existing players.

---

## INDUSTRY OVERVIEW

---

*(ii) High start-up costs*

The concrete demolition industry requires large amounts of start-up costs because of high labor costs, substantial investment in different types of machinery such as remote controlled demolition robots, coring machines, sawing machines, etc. and higher costs for compliance of strict environmental and safety regulations in order to perform different types of concrete demolition works. In addition, considerable amount of time and costs may be involved in recruiting and training workers for operating different types of machinery and performing different types of concrete demolition works. Therefore, the considerable initial capital commitment for machinery and operation can be an entry barrier for new entrants.

*(iii) Lack of established relationships with customers*

New entrants without well-established relationship with customers in the concrete demolition industry in Hong Kong and Macau may find it difficult to secure business opportunities because, according to the Ipsos Report, approximately 70% of concrete demolition jobs in Hong Kong and approximately 60-70% of concrete demolition jobs in Macau are awarded through direct invitation from customers where job opportunities are directly referred or presented to the contractor as a result of the contractor's established relationship with the customer or with other industry players who refer the customer to the contractor. Therefore, the lack of established relationships with customers may be an entry barrier for new entrants.

### POTENTIAL CHALLENGES

#### **Labour shortage**

Staff costs and subcontracting charges are among our most significant cost items in our operation. Subcontracting charges, in turn, are directly affected by labour costs as subcontractors generally provide labours while we provide machinery to our subcontractors in a typical subcontracting arrangement.

According to the Ipsos Report, the construction industry in Hong Kong and Macau, including the concrete demolition industry, is suffering from labor shortage due to the shortage of experienced and skillful labours as a result of a declining number of young people entering the industry whereby skilled workers are approaching the age of retirement, coupled with the growing demand for construction workers as a result of the general increase in the amount of construction works.

In Hong Kong, as of December 2015, only about 77.1% of the registered laborers were active in the construction industry, coupled with an ageing workforce whereby approximately 43.2% of the registered workers in 2015 were above the age of 50. The Ipsos Report also states that most construction contractors in Hong Kong have to start paying higher salaries to attract young people to join the construction industry and to provide generous salary increments to retain experienced workers to avoid the outflow to the Macau and the PRC markets. The graph below shows the estimated average daily wage per worker in the concrete demolition industry in Hong Kong from 2010 to 2015:

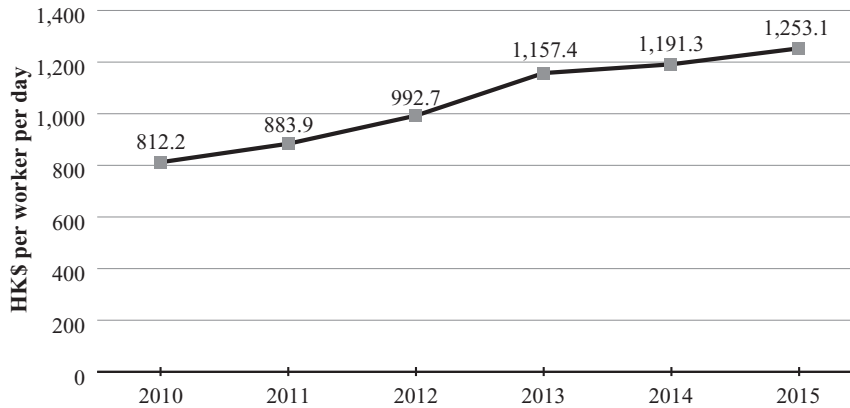


---

## INDUSTRY OVERVIEW

---

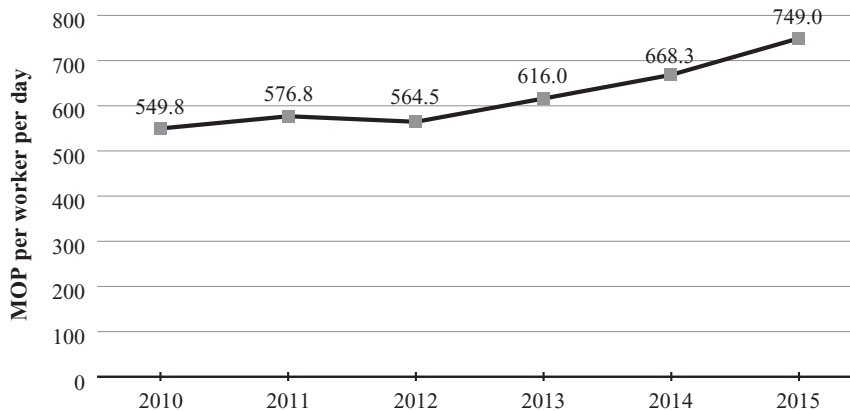
Average daily wage per worker in the concrete demolition industry in Hong Kong



Source: The Ipsos Report

In Macau, due to the large-scale housing and casino construction projects, the demand for construction workers in Macau, including the concrete demolition workers, have been increasing over the past few years. Due to the lack of the relevant data, the Ipsos Report was only able to reveal the average daily wage per worker in the Macau construction industry in general (instead of the concrete demolition industry), as shown in the graph below:

Average daily wage per worker in the construction industry in Macau



Source: The Ipsos Report

According to Ipsos, the average daily wages of construction works labor and the concrete demolition work labor are influenced by the market condition of the construction industry, public policy and the approval of public expenditure on the public works. Hence, the forecast figures may not be able to catch the aforementioned factors, and in this case, is inaccurate and misleading.

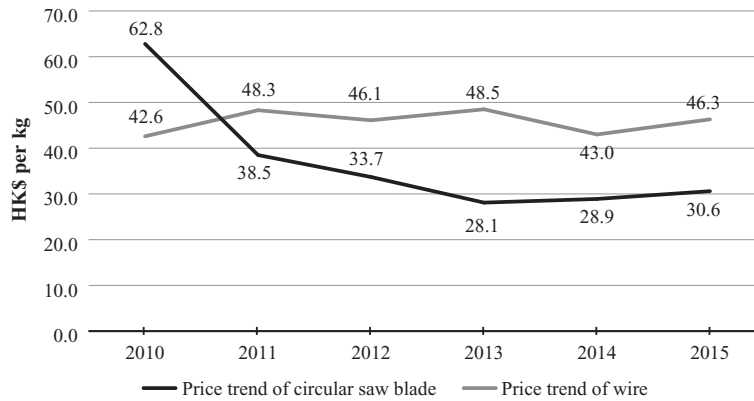
### Fluctuating cost of consumables

We require various types of consumables such as saw blades and cutting wires for the performance of concrete demolition works.

The average cost of wires has increased from approximately HK\$42.6 per kg in 2010 to approximately HK\$46.3 per kg in 2015, while the average cost of circular saw blade has decreased from approximately HK\$62.8 per kg in 2010 to approximately HK\$30.6 per kg in 2015:

## INDUSTRY OVERVIEW

**Price trend of circular saw blade and wire in Hong Kong**



*Note 1:* Circular saw blade includes circular saw blades with working part of steel and circular saw blades including parts.

*Note 2:* Wire includes wire of iron or non-alloy steel not plated or coated whether or not polished, wire of iron or non-alloy steel plated or coated with zinc or other base metals, other wire of iron or non-alloy steel, wire of stainless steel, wire of other alloy steel, copper wire of refined copper, copper wire of copper alloys and aluminum wire.

*Source:* The Ipsos Report

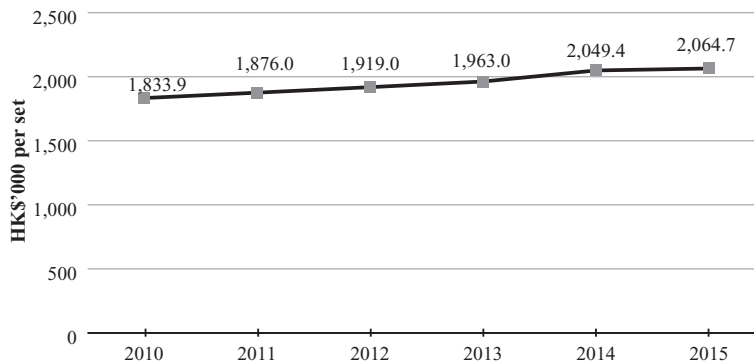
Any material fluctuations in the prices of cutting wires and saw blades may lead to fluctuation in the profit margin of our Group.

### Increasing cost of remote controlled demolition robots

We make use of remote controlled demolition robots for the performance of concrete demolition works from time when considered appropriate and/or necessary.

According to the Ipsos Report, the price of remote controlled demolition robots demonstrated a general increasing trend over the past few years, which was mainly due to the continual launch of improving features of remote controlled demolition robots. The graph below shows the historical price trend of medium-sized remote controlled demolition robot from 2010 to 2015:

**Historical price of medium-sized remote controlled demolition robot in Hong Kong**



*Source:* The Ipsos Report

According to Ipsos, the forecast price trend of circular saw blade and wire as well as concrete demolition robot is not available because the price may be influenced by the demand of the construction works, which are also impacted by the public policy and government expenditure on public projects. Therefore, Ipsos is of the view that it will be inaccurate to include the forecast analysis for these two prices.