
INDUSTRY OVERVIEW

This and other sections of this document contain information relating to the industry in which we operate. Certain information and statistics contained in this section have been derived from various official and publicly available sources. In addition, certain information and statistics set forth in this section have been extracted from a market research report commissioned by us and prepared by Frost & Sullivan, and independent market research agency. We believe that the sources of such information and statistics are appropriate and have taken reasonable care in extracting and reproducing such information and statistics. We have no reason to believe that such information or statistics is false or misleading in any material respect of that any fact has been omitted that would render such information or statistics false or misleading in any material respect. However, such information and statistics have not been independently verified by us, the Sponsor, the [REDACTED], the [REDACTED], any of the [REDACTED], our or their respective directors and officers or any other parties involved in the [REDACTED] (which, for the purpose of this paragraph, excludes Frost & Sullivan). No representation is given as to the accuracy or completeness of such information and statistics.

SOURCE AND RELIABILITY OF INFORMATION

Our Group commissioned Frost & Sullivan, an independent market search company to conduct an analysis of, and to report on, the slope works industry in Hong Kong. A total fee of HK\$380,000 was charged by Frost & Sullivan for the preparation of the Frost & Sullivan Report. The Frost & Sullivan Report has been prepared by Frost & Sullivan independent of our Group's influence. Except as otherwise noted, the information and statistics set forth in this section have been extracted from the Frost & Sullivan Report. The payment of such amount was not conditional on our Group's successful [REDACTED] or on the results of the Frost & Sullivan Report.

Frost & Sullivan is an independent global consulting firm founded in 1961, and offers industry research, market strategies and provides growth consulting and corporate training on a variety of industries.

The Frost & Sullivan Report includes information on the slope works industry in Hong Kong. The information contained in the Frost & Sullivan Report is derived by means of data and intelligence gathering which include: (i) desktop research; and (ii) primary research, including interviews with key stakeholders including but not limited to slope works service providers and industry experts in Hong Kong.

Information gathered by Frost & Sullivan has been analysed, assessed and validated using Frost & Sullivan in-house analysis models and techniques. According to Frost & Sullivan, this methodology ensures a full circle and multilevel information sourcing process, where information gathered can be cross-referenced to ensure accuracy. All statistics are based on information available as at the date of Frost & Sullivan Report. Other sources of information, including government, trade association or market place participants, may have provided some of the information on which the analysis or data is based.

Frost & Sullivan developed its estimates or forecast on the following principal bases and assumptions: (i) it is assumed that the global economy remains a steady growth across the forecast period; and (ii) it is assumed that there is no external shock such as financial crisis or natural disaster to affect the demand and supply of the slope works industry in Hong Kong during the forecast period.

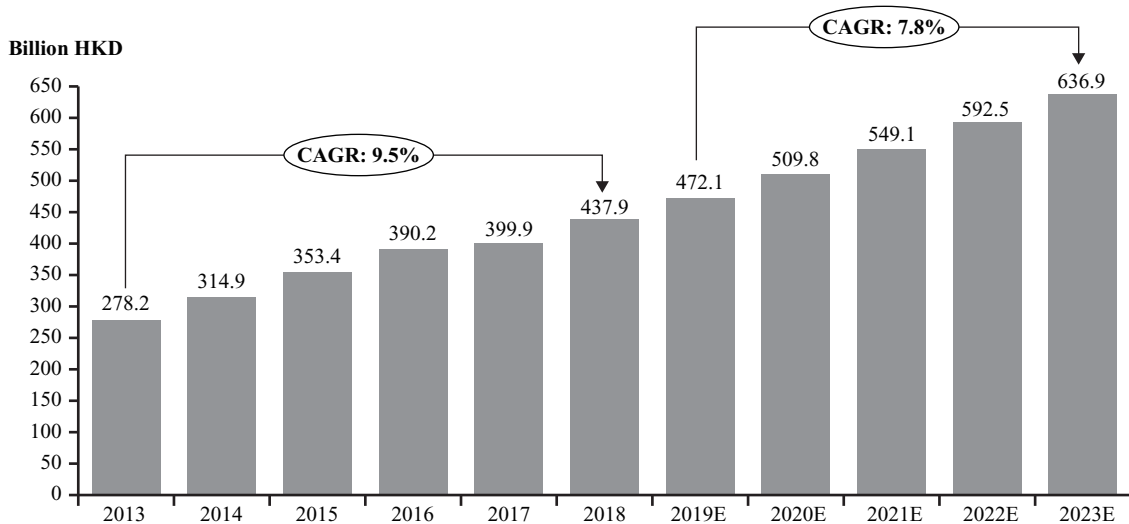
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CONSTRUCTION INDUSTRY OVERVIEW

The construction industry in Hong Kong accounted for approximately 13.0% to 15.5% of the GDP of Hong Kong from 2013 to 2018. According to Census and Statistics Department of Hong Kong, the gross value of construction works performed in Hong Kong increased from approximately HK\$278.2 billion in 2013 to approximately HK\$437.9 billion in 2018, representing a CAGR of 9.5%. The growth was primarily driven by the increase in construction activities for key infrastructure and property development projects, namely the revitalisation of ageing buildings, rising residential supply, and the new towns development. Given the continuous investment in the infrastructure projects in Hong Kong, including the improvement of the buildings and facilities and construction of new buildings, the pace of growth in construction works is expected to be maintained, which in turn lead to an increase in gross value of construction works performed. The gross value of construction works performed in Hong Kong is expected to grow steadily at a CAGR of 7.8% during 2019 to 2023.

Construction projects in Hong Kong can be generally categorised into public sector projects and private sector projects. Public sector projects refer to projects commissioned by the Government or Government-related organizations while private sector projects refer to projects commissioned by individuals, property developers, property owners and main contractors who are engaged in property development. Public sector projects in Hong Kong are generally initiated by the CEDD, Lands Department, Housing Authority, Highways Department and Water Supplies Department.

Gross Value of Construction Works Performed (Hong Kong), 2013-2023E



Source: Census and Statistics Department of Hong Kong, Frost & Sullivan

SLOPE WORKS INDUSTRY OVERVIEW

The value chain of Hong Kong slope works market consists of upstream government department and property developers, who are the owners of slopes, midstream engineering consultancies and contractors, and downstream raw material and equipment suppliers. Government departments, such as Geotechnical Engineering Office (“GEO”) conduct regular studies on every slopes around Hong Kong under Landslip Prevention and Mitigation Programme (“LPMitP”) and invite tenders from the engineering consultancies and slope works contractors if there are necessary landslip prevention and mitigation works to be carried out. On the other hand, Building Department is responsible for taking statutory

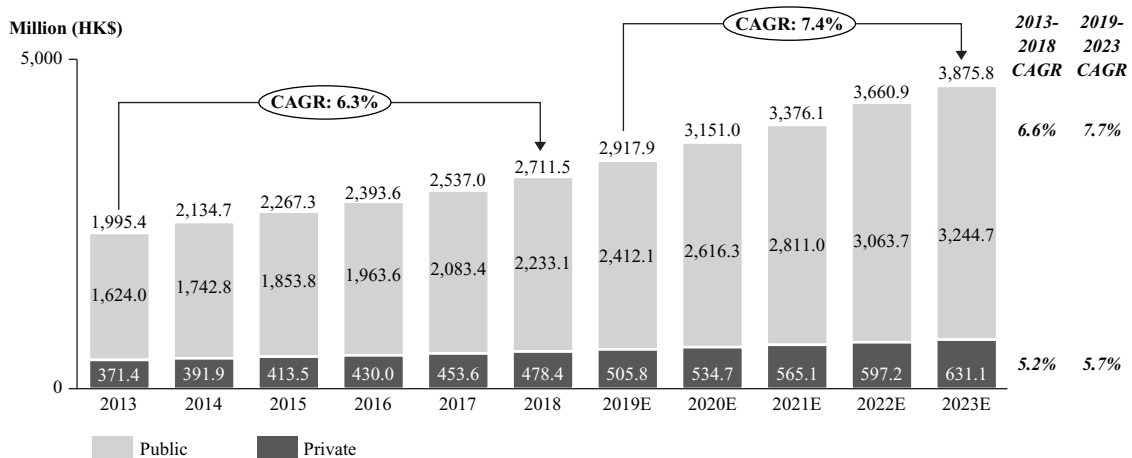
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actions against private slope owners in order to maintain the safety of the privately-owned slopes. In general, GEO first engages engineering consultants in the landslip prevention and mitigation studies.

Engineering consultants are mainly engaged in (i) conducting investigation and feasibility studies; (ii) conducting engineering designs and planning; (iii) construction supervision for slopes; (iv) assisting clients in consulting and obtaining consents or approvals from relevant authorities for their projects; and (v) inspecting and certifying the construction works undertaken by clients. Contractors conduct execution works with engineering consultants. In addition, contractors may also employ external-consultants for additional engineering design and other related services. Contractors generally engage sub-contractors with specialist licenses or specialties in certain aspects, including slope works, to carry out a portion of site works under their contracts. The criteria for selecting contractors are mainly based on the track records, business relationship and capital requirements. Slope works subcontractors are responsible for the sourcing of suitable raw materials and equipment for their slope works from the raw material and equipment suppliers.

The revenue of slope works increased from approximately HK\$1,995.4 million in 2013 to approximately HK\$2,711.5 million in 2018, at CAGR of 6.3%. The estimated revenue of slope works in public sector recorded an increase from HK\$1,624.0 million in 2013 to HK\$2,233.1 million in 2018, at a CAGR of 6.6%. During the same period, the revenue in private sector increased from HK\$371.4 million in 2013 to HK\$ 478.4 million in 2018, representing a CAGR of 5.2%. Along with the rising safety standard for man-made slope and natural hillsides, the demand for slope works is expected to increase in the future. Hence, the estimated revenue of slope works in Hong Kong is forecasted to experience the growth from HK\$ 2,917.9 million in 2019 to HK\$ 3,875.8 million in 2023, at a CAGR of 7.4%.

Revenue of Slope Works by Public and Private Sector (Hong Kong), 2013-2023E



Source: Frost & Sullivan

Slope works includes the maintenance, repair and construction of slopes. In the provision of slope works services, the soil nailing method which involves drilling holes on the slope, driving steel nails into the holes, and grouting into the holes is generally employed to stabilise the slope. Slope works are generally associated with other structural works and refurbishment works. Apart from soil nailing, other common measures are generally carried out, such as vegetation surface protection, surface and subsurface drainage

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installation, in order to protect the slope from collapsing. Slopes works correlate to the construction industry as it is the subset of demolition and site preparation, which is performed in the buildings and infrastructure development.

The slope works projects in public sector are initiated by various Government departments, including the Agriculture, Fisheries and Conservation Department, Lands Department, Water Supplies Department, Highways Department, Architectural Services Department and Civil Engineering and Development Department. The main criteria for contractor's pre-qualification and bid evaluation include financial soundness, technical ability, management capability, health and safety, and reputation.

The following table sets forth the selected slope works projects in the public sector in Hong Kong from 2017 to 2018 that only contractors who are registered on the list of Approved Suppliers of Materials and Specialist Contractors for Public Works under the category of Landslip Prevention, Remedial Works to Slopes/Retaining Walls are eligible to tender directly from the Government:

Selected Slope Works Projects in the Public Sector in Hong Kong from 2017 to 2018

	Number of projects available for tenders	Total contract sum (HK\$' Million)
2017	23	2,104.6
2018	21	1,377.0

Source: Frost & Sullivan

MARKET DRIVERS

The development of slope works industry is closely related to the construction industry as a whole, and the slope works industry is expected to benefit from the following market drivers:

1. Promotion of Landslip Prevention and Mitigation Programme (LPMitP)

The launching of LPMitP by the GEO in 2010 is considered one of the key drivers for the Hong Kong slope works market. LPMitP regularly monitors the situation of all slopes in Hong Kong to mitigate the risks associated with both man-made slopes and natural hillside. Since the launching of LPMitP, GEO has spent about HK\$22.9 billion on landslip prevention and mitigation studies and works; more than 5,550 Government man-made slopes were upgraded, and more than 250 mitigation works for natural hillside had been implemented. Coupled with the increasing population and more buildings sit next to steep slopes, it is expected that the government will put more effort on promotion of LPMitP to ensure the safety of all man-made slope and natural hillside. With the continuous efforts by the Government in this regard to slope safety, the demand for slope works is expected to rise accordingly.

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2. Rising housing supply and expansion of urban areas

To address the rising needs of housing, the Government has initiated several schemes and policies to boost the residential housing supply in Hong Kong. As set out in Policy Address 2018, the Government plans to launch "Land Sharing Pilot Scheme" to collaborate with private land owners and release their land for housing development in short to medium term. As set out in the "Lantau Tomorrow Vision", more than 1,700-hectare of reclaimed land project will be launched in Lantau Island to satisfy the long-term demand for the expansion of urban areas. On the other hand, the sizable long-term land development projects, such as Kwu Tung North/Fanling North, Hung Shui Kiu, and Yuen Long South Development are under progress. As estimated, more than 2,000 hectares of lands will be provided for urban development, including residential buildings. Together with the new town extensions planned in Tung Chung and North East New Territories in the coming years, the comprehensive land development plan in Hong Kong will drive the demand for building construction, which unleash potential business opportunities for the site formation and slope works. In particular, it would give rise to a number of man-made slopes in these areas. As such, the demand for slope construction and maintenance will increase accordingly.

3. Technology advancement in slope engineering

In order to enhance the safety condition of man-made slopes and increase the efficiency of the mitigation measures implemented on natural hillsides, the Hong Kong Government has been continuously working with academia and experienced slope engineering professionals to develop innovative slope work solution. Through the support of the Development Bureau and policy makers, the GEO of the CEDD has developed a comprehensive slope safety management system. On the other hand, the market participants in Hong Kong are adopting more advanced technologies and engineering methodologies, such as adoption of wireless tilt and vibration monitoring system, to improve the overall work efficiency and quality, and to cater the changing requirements from the clients, i.e. the Government. Monitoring and early warning is one of the most effective methods toward reduction of disasters induced by landslides and slope instabilities. The developed tilt sensor is able to monitor slope deformation and transfer real time data via wireless network. The warning system with its developed equipment has been deployed in several actual slopes for validation of field performance in Hong Kong. The evolution of slope engineering further facilitates the problem identification, risk distribution examination, and risk strategy formulation in prioritisation and resources allocation. The enhanced landslide risk management expedite the urban development, which in turn increase the demand for slope works.

COMPETITIVE LANDSCAPE AND ENTRY BARRIERS

The five largest players in the slope works industry in Hong Kong

According to Frost & Sullivan, the slope works market in Hong Kong is highly competitive with the top five players contributing to 40.0% of the entire market in terms of revenue.

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The five largest players in the slope works industry in Hong Kong, 2018

Rank	Company	Company types	Estimated revenue (HK\$'million)	Estimated market share (%)
1	Company A	A private Chinese company engaging in construction of industrial, energy, transportation, and municipal works	296.4	10.9
2	Company B	A Hong Kong company listed on Hong Kong Stock Exchange primarily engaged in the slope works in Hong Kong as main contractor	254.7	9.4
3	Company C	A private Chinese company based in Beijing, the PRC and mainly focuses on the contracting of roads, bridges, ports, railways, airports, tunnels, municipal works and dredging works, and water conservancy projects	201.6	7.4
4	Company D	A public Hong Kong company listed on Hong Kong Stock Exchange in 2016 and primarily engaged in slope works construction	193.1	7.1
5	Company E	A private Hong Kong-based company principally engaged in the provision of maintenance and construction works on civil engineering contracts including waterworks engineering, road works and drainage, as well as slope upgrading and maintenance services in Hong Kong	139.8	5.2
		Top five subtotal	1,085.6	40.0
		Others	1,625.9	60.0
		Total	2,711.5	100.0

Our Group's market share

The revenue of our Group was approximately HK\$111.2 million in 2018, accounting for 4.1% market share in the slope works market in Hong Kong in terms of revenue. According to the Frost & Sullivan Report, our Group ranked the ninth in Hong Kong slope works market in terms of revenue.

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Factors of competition

1. Recognition and qualification

In Hong Kong slope works market, recognition and qualification is one of the key factors of competition. Contractors are required to be registered on the List of Approved Specialist Contractors for Public Works from the Development Bureau in order to tender for public slope works projects directly from the Government. The details of the registered contractors, such as works categories and contract value of public works for tendering are shown to the public and potential clients. When construction contractors and private property owners and developers select slope works contractors, they generally refer to the List of Approved Specialist Contractors for Public Works which is publicly available on the website of the Development Bureau because such list provides them with assurance on the track record, financial position and the service quality of the registered contractors. Besides, as slope works involve different aspects of technical know-how (including design of foundation and methods of site works), main contractors typically prefer to engage subcontractors who possess strong academic background and qualifications in the engineering field for handling the technical and contract administration of the projects. The approved contractors are recognised by its proven project reference in building industry and experience in managing related projects, which enables the company to enjoy an edge in the Industry. In addition, slope works contractors obtaining international recognized certificates including ISO9001, OHSAS18001 and ISO14001 regarding to quality system management, occupational health and environmental management are more competitive in the market.

2. Track record and quality of works

Slope works contractors are required to carry out high quality of work within tight schedule and budget. Any slight defects of the finished works may potentially lead to catastrophic consequences, i.e. landslide, or require further improvement works to rectify the issue. Furthermore, the potential clients, including the Government and main contractors, would consider the factors of quality of works, timeliness of project delivery as well as capability of meeting safety and environmental requirements as part of the assessment criteria for tender awards. As a result, contractors with better performance on these criteria can stand out from the market. Ongoing investment in machinery and construction equipment enables the companies to access and deploy more machinery to the slope works projects, which in turn improves the execution effectiveness and efficiency. Slope works contractors with sufficient level of machinery and working capital, are therefore preferred by the clients.

3. Relationship with stakeholders

In general, the existing slope works contractors have already established business relationship with various stakeholders, including the engineering consultants, main contractors, sub-contractors and raw-materials suppliers. In addition, the majority of slope works projects are public works, therefore having an in-depth understanding of the work requirements from the Government is invaluable to the market. On the other hand, some of the slope works contractors are capable of providing design-and-build services, such as advisory of engineering design, allocation of resources and final project execution, as well as employment of external engineering consultants.

Entry barriers

1. Licensing requirement

Licensing is considered to be one of the key entry barriers for the slope works market in Hong Kong. In order to be eligible for tendering public slope works directly from the Government, contractors are required to register on the List of Approved Specialist Contractors for Public Works under the category of "Landslip preventive/remedial works to

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slopes retaining walls”, which set certain criterion in the area of financial, technical and management. For subcontractors engaged in public slope works projects commissioned by certain Government departments and statutory bodies, they are required to be registered under the Registered Specialist Trade Contractors Scheme (formerly known as the Subcontractor Registration Scheme) at the Construction Industry Council. For undertaking slope work projects from private sectors, contractors are also required to be registered on the list of “Register of Specialist Contractors (sub-register of Site Formation Works category)” from Building Department which requires highly experienced slope works professional to be part of the management team. As a result, market entrants may find it difficult to obtain these licenses and to carry out slope works services in Hong Kong.

Public slope works projects in Hong Kong are generally awarded to certain sizeable construction contractors. According to Development Bureau, there are 39 approved contractors who are eligible to tender for the public works of landslip preventive and remedial works to slopes or retaining walls. According to Building Department, there are 195 contractors registered on the list of “Register of Specialist Contractors” with the sub-register of Site Formation Works category in Buildings Department of Hong Kong.

2. Capital requirement

A substantial amount of capitals is required to acquire various types of construction machinery for slope works such as drilling machines, excavators, air-compressors, concrete pumps, on top of other cost items such as procurement and labour cost. On the other hand, contractors are required to have sufficient capital reserve during the early stage of construction works as the payment is generally divided into several settlements and being paid with respect to the progress of works. In particular, slope works contractors are generally required by new customers, with whom they have limited past business relationship, to take out performance guarantees. The performance guarantee requirement is generally adopted by contractors to safeguard the performance and service quality of their new subcontractors. Furthermore, contractors are required to meet certain financial criterion for the admission and retention on the List of Approved Specialist Contractors for Public Works. According to the Development Bureau, to remain on the List, the contractors are required to (i) maintain a minimum employed capital of HK\$8,600,000; and (ii) have a minimum working capital of either (a) HK\$8,600,000 if there are no outstanding contracts; or (b) the higher of HK\$8,600,000 or 10% of the combined annual value of uncompleted works on outstanding contracts both in the public and private sectors. Otherwise, they could not be eligible to tender for such sizable slope works from the Government.

3. Proven track record and project experience

Proven track record and technical expertise are essential for contractors to undertake slope works project in Hong Kong. Other than project fee and business relationship, relevant track record and experience is the key selection criteria for main contractors. On the other hand, proven track record is required for advancement of registered contractors to higher level of work group with eligibility of tendering for slope works projects of higher contract value. Hence, new entrants without proven track record are hindered from undertaking sizeable projects.

Potential Challenges

Slope works contractors are undergoing the following potential challenges in Hong Kong:

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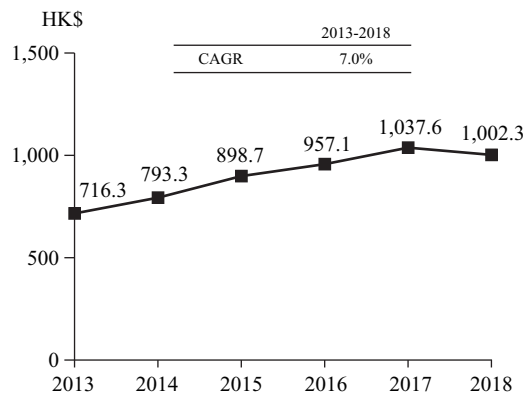
1. Shortage of skillful workers

The Hong Kong construction industry has in general been facing the problem of labour shortage and aging workforce. According to the statistics of the Construction Industry Council, around 43.8% of the 482,900 registered construction workers as at 31 March 2019, were aged over 50 whereas only about 14.7% were aged below 30. According to the Manpower Forecasting Model Report published by Construction Industry Council in 2017, it is estimated that there will be an excess demand of workers for about 5,000 to 10,000 of overall construction manpower during 2018 to 2022. Besides, attributable to the long working hours and challenging working conditions in construction sites, market participants may find it difficult to attract younger generation to participate in the industry. Therefore, the lack of new entrance of competent workers and inadequate supply of labour force may result in project delays and pose as a potential market threat in the Hong Kong slope works market.

2. Rising labour cost

The slope works market in Hong Kong is generally considered as labour-intensive and it has seen an increasing demand for construction workers. According to the Census and Statistics Department of Hong Kong, the average wages of construction workers have increased at a CAGR of 7.0% from approximately HK\$716.3 per day in 2013 to approximately HK\$1,002.3 per day in 2018. It is expected that the insufficient supply of particular trade workers will further heighten the labour costs in the slope works market. Moreover, in order to attract and retain high-calibre workers, contractors are required to pay a higher salary which may further impose as a financial burden to existing market participants. As a result, the escalating labour wages may entail to an increase in operation costs and affect the business performance of contractors.

**Average Daily Wages of General Workers
(Hong Kong), 2013-2018**



Source: Census and Statistics Department of Hong Kong, Frost & Sullivan

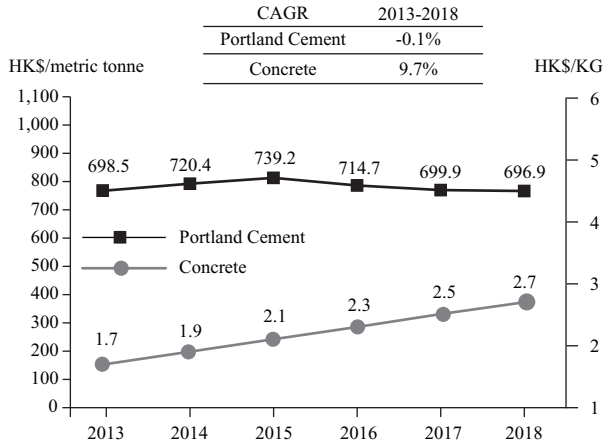
3. Fluctuating cost of materials in Hong Kong

Portland cement, concrete and steel reinforcements are the common construction materials used when carrying out slope works in Hong Kong. During 2013 to 2018, the average price of steel reinforcements has decreased from approximately HK\$5,631.0 per metric tonne to approximately HK\$4,503.5 per metric tonne due to oversupply of steel in the PRC from 2013 to 2016. On the other hand, the average price of Portland cement remain broadly constant, where it changes from approximately HK\$698.5 per metric tonne to approximately HK\$696.9 per metric tonne between 2013 and 2018 primarily due to the

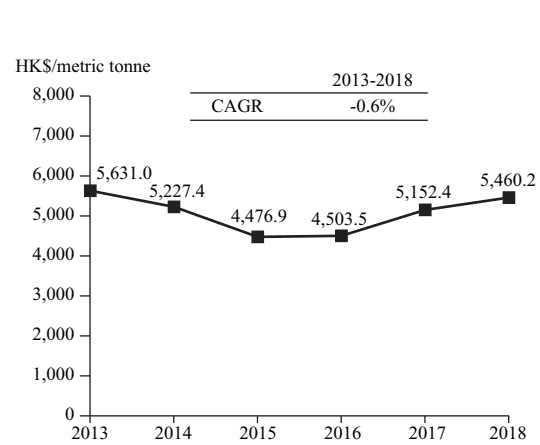
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stable demand for slope works and other construction works. However, the average price of concrete has increased from HK\$1.7 per kilogram in 2013 to HK\$2.7 per kilogram in 2018, representing a CAGR of 9.7% from 2013 to 2018. Such increase is driven by the rising import price from PRC, where the government campaign to limit the production of some heavy industries such as concrete, to reduce air pollution. With the continued development of slope works and other construction works in Hong Kong, the average prices of concrete and Portland cement are forecasted to increase in the future.

Average Price of Portland Cement and Concrete (Hong Kong), 2013-2018



Average Price of Steel Reinforcements (Hong Kong), 2013-2018



Source: Census and Statistics Department of Hong Kong, Frost & Sullivan

Note:

- (i) Average price of steel reinforcements includes both mild steel and high tensile steel.
- (ii) Latest available figures recorded in July 2019.

4. Change in government policies

The development of slope works industry in Hong Kong is closely associated with the economic cycle and government policies. Specifically, current land planning policies are more residential-oriented so as to cope with increasing housing needs and the construction of residential flats is the key focus among the property developers in Hong Kong. The speed of urban renewal and land supply shows a positive correlation with the needs for construction works. For example, changes in the LPMitP may impact the demand for slope works in Hong Kong.