
INDUSTRY OVERVIEW

The information set forth in this section has been derived from the Ipsos Report. We believe that the sources of the information are appropriate sources for such information, and we have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is materially false or misleading, and no fact has been omitted that would render such information materially false or misleading. However, the information has not been independently verified by us, the [REDACTED], the Sponsor, the Sole Bookrunner, the Lead Manager, the Underwriters, any of the respective directors, officers, employees, advisers, agents or representatives or any other party involved in the [REDACTED] and no representation is given as to its accuracy. Except as otherwise noted, all the data and forecast in this section are derived from the Ipsos Report.

SOURCE OF INFORMATION

We commissioned an independent professional market research company, Ipsos, to assess the industry development trends, market demand and competitive landscape of building maintenance and renovation contracting services in Hong Kong, at a fee of HK\$338,000 and our Directors consider that such fee reflects market rates. Ipsos is an independent market research company and consulting company which conducts research on market profiles, market size, share and segmentation analyses, distribution and value analyses, competitor tracking and corporate intelligence and which has been engaged in a number of market assessment projects in connection with initial public offerings in Hong Kong. Founded in Paris France in 1975 and publicly-listed on the NYSE Euronext Paris in 1999, Ipsos SA acquired Synovate Ltd. in October 2011. After the acquisition, Ipsos became one of the largest market research and consulting companies in the world, which employs approximately 16,000 personnel worldwide across 85 countries.

The information contained in the Ipsos Report is derived by means of data and intelligence gathering such as: (i) desk research; (ii) client consultation to understand the background information about our Company; and (iii) primary research by interviewing key stakeholders and industry experts including but not limited to building maintenance and renovation service providers and companies providing such services. Information gathered by Ipsos has been analysed, assessed and validated using Ipsos in-house analysis models and techniques. According to Ipsos, information gathered can be cross-referenced to ensure accuracy. Nevertheless, we cannot assure you regarding the accuracy or completeness of the factors, forecasts and statistics in this [REDACTED] obtained from sources such as government publications, market data providers and the Ipsos Report.

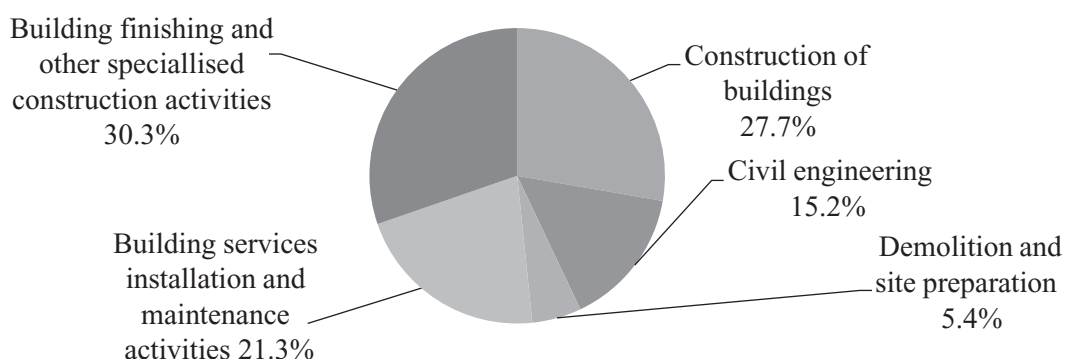
Our Directors confirm that after taking reasonable care, there is no adverse change in the market information since the date of the Ipsos Report which may qualify, contradict or have an impact on the information in this section.

INDUSTRY OVERVIEW

OVERVIEW OF THE BUILDING MAINTENANCE AND RENOVATION CONTRACTING SERVICE INDUSTRY IN HONG KONG

Building maintenance and renovation contracting service industry under the category of “building services installation and maintenance activities” is one of the five major contracting service industries in Hong Kong (among which include construction of buildings, civil engineering, demolition and site preparation, and building finishing and other specialised construction activities). The chart below shows the segmentation of the gross value of construction works performed in Hong Kong in 2012.

Segmentation of the Gross Value of Construction Works Performed in Hong Kong in 2012



Building maintenance and renovation contracting service plays an important role in the local building and construction industry as it can extend the life and maintain or elevate the value of the target buildings. In general, typical building maintenance and renovation works in Hong Kong include refurbishment and/or replacement of external and internal wall, internal floor and ceiling, loose concrete, doors and windows of buildings as well as the associated plumbing and electrical works.

The demand for maintenance and renovation works are usually originated from the owners of buildings which include (i) public/government institutions e.g. Housing Authority and URA; and (ii) private/non-government organisation e.g. owners' corporation of the residential buildings.

District term contract for the maintenance, improvement and vacant flat refurbishment

In regards to the service contracts awarded by the Government, the district term contract for the maintenance, improvement and vacant flat refurbishment i.e. DTC represented the key maintenance and renovation contracts in the public sector and are awarded by the Housing Authority from time to time. From 2009 to 2013, the Housing Authority executed an average of eight DTCs each year. The award of DTCs grants the successful building maintenance and renovation contracting service providers the exclusive right for the maintenance, improvement and vacant flat refurbishment works of all the Housing Authority's properties within a particular district and a specific timeframe, which is generally 3 years.

INDUSTRY OVERVIEW

Only the building maintenance and renovation contracting service providers who are on the Housing Authority List of Building Contractors in Building (Maintenance) Group M2 are eligible to tender for the DTCs. Group M2 contractors are eligible to tender for maintenance and improvement contracts of unlimited value.

Role of subcontractors

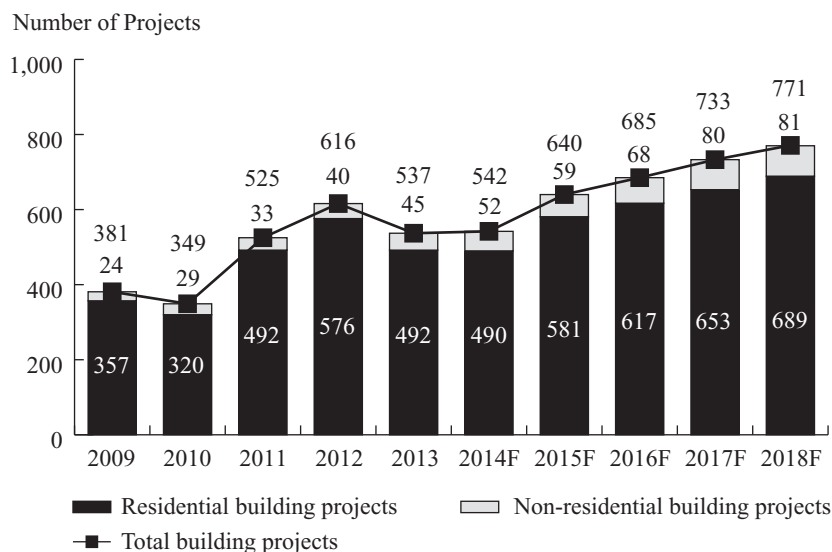
In the building maintenance and renovation contracting service industry, it is a common practice for the main contractors to outsource part of or all the works to one or more subcontractor(s). The amount of works outsourced by the main contractors depends on the variables such as expected profitability of subcontracting, availability of related skilled labours and equipment as well as work load of the main contractors by the time of contract awarded.

DEVELOPMENT OF BUILDING MAINTENANCE AND RENOVATION CONTRACTING SERVICE MARKET IN HONG KONG

Governmental buildings

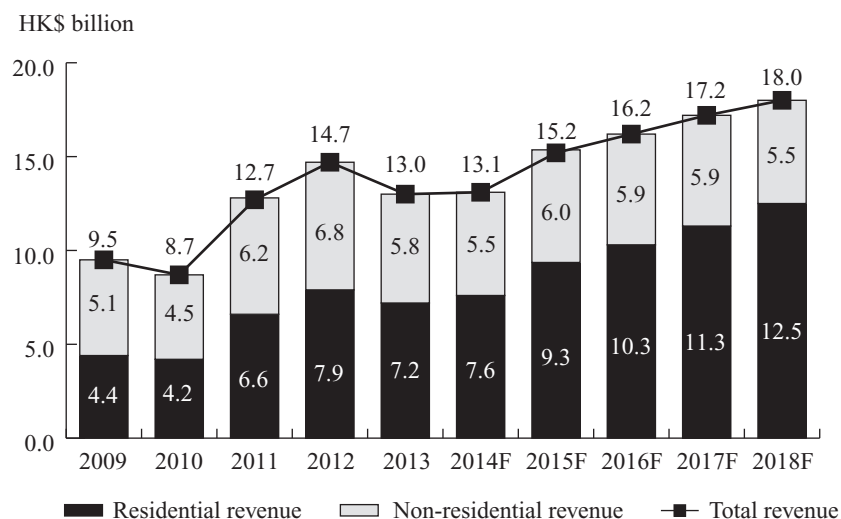
The charts below show the historical and estimated (i) number of governmental building maintenance and renovation projects in progress; and (ii) revenue of governmental building maintenance and renovation contracting service industry involving governmental buildings in Hong Kong from 2009 to 2018.

Number of Governmental Building Maintenance and Renovation Projects in Progress in Hong Kong from 2009 to 2018



INDUSTRY OVERVIEW

Revenue of Building Maintenance and Renovation Contracting Service Industry Involving Governmental Buildings in Hong Kong from 2009 to 2018



The total number of governmental building maintenance and renovation projects in progress in Hong Kong grew from approximately 381 in 2009 to approximately 537 in 2013. Correspondingly, the total revenue of this segment increased 36.8% from HK\$9.5 billion in 2009 to HK\$13.0 billion in 2013. The historical growth was mainly due to the supportive Government policies on building maintenance and renovation sectors and the increasing public awareness of building safety.

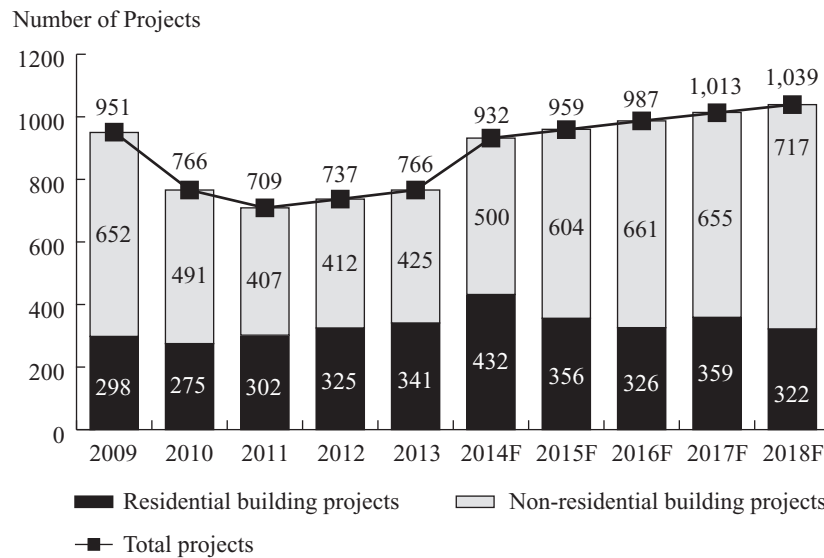
The ageing problem of public housing is expected to continue driving the revenue growth of governmental building maintenance and renovation contracting service industry in Hong Kong. According to the Ipsos Report, it is expected that the total estimated number of governmental building projects undergoing maintenance and renovation in Hong Kong will reach about 771 in 2018 from about 542 in 2014. The total revenue of this segment is also expected to increase 37.4% from HK\$13.1 billion in 2014 to HK\$18.0 billion in 2018.

Non-governmental buildings

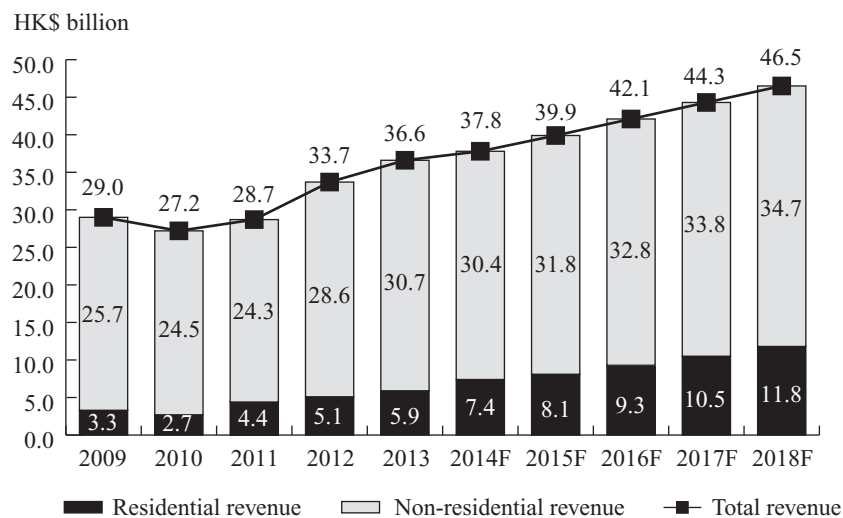
The charts below show the historical and estimated (i) number of non-governmental building maintenance and renovation projects in progress; and (ii) revenue of non-governmental building maintenance and renovation contracting service industry involving non-governmental buildings in Hong Kong from 2009 to 2018.

INDUSTRY OVERVIEW

Number of Non-Governmental Building Maintenance and Renovation Projects in Progress in Hong Kong from 2009 to 2018



Revenue of Building Maintenance and Renovation Contracting Service Industry Involving Non-governmental Buildings in Hong Kong from 2009 to 2018



The total estimated number of non-governmental building projects undergoing maintenance and renovation in Hong Kong declined from approximately 951 in 2009 to approximately 766 in 2013. The drop was mainly due to the recovery of the Hong Kong economy from the global financial crisis in late 2008 as more money was invested in the building construction segment rather than maintenance and renovation project in the private sector under a prosperous economy as projects of private building construction were considered to be more profitable. Nevertheless, the revenue of building maintenance and renovation contracting service industry for non-governmental buildings in Hong Kong grew at a CAGR of about 6.0% during 2009 to 2013. This was mainly attributable to the increase in average contract price of building maintenance and renovation contracting service project

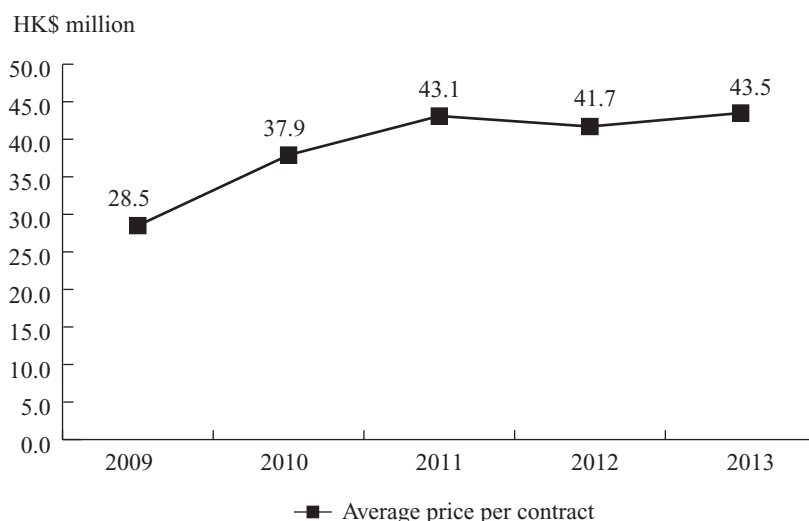
INDUSTRY OVERVIEW

in Hong Kong which was in turn attributable to the significant increase in the project size, the rising average daily wage of construction worker in building maintenance and renovation contracting service industry in Hong Kong, and the notable growth in the average wholesale prices of key building materials used in the building maintenance and renovation contracting service industry such as cement, concrete blocks, and white and colour glazed ceramic wall tiles.

Similar to the public sector, due to the problem of ageing buildings and the rising awareness of building safety, more private building projects are expected to undergo maintenance and renovation in the next 5 years. According to the Ipsos Report, it is estimated that the number of non-governmental building projects undergoing maintenance and renovation in Hong Kong will reach about 1,039 in 2018 while the total revenue of this sector will grow from HK\$37.8 billion in 2014 to HK\$46.5 billion in 2018, represented a CAGR of 5.3%.

Contract price

Average Contract Price of Building Maintenance and Renovation Contracting Service Projects in Hong Kong from 2009 to 2013



Notes: Contracts are inclusive of DTC

The growth of the average contract price of building maintenance and renovation service contracts from HK\$28.5 million in 2009 to HK\$43.5 million in 2013 with a CAGR of 11.2% mainly resulted from the increasing raw material, labour cost and the relatively higher valued DTC awarded by the Housing Authority in the past 5 years.

INDUSTRY OVERVIEW

GROWTH DRIVERS FOR BUILDING MAINTENANCE AND RENOVATION CONTRACTING SERVICE IN HONG KONG

Supportive Government policies

The demand for building maintenance and renovation contracting service in Hong Kong is significantly affected by the Government policies. Major policies imposed by the Government on the building maintenance and renovation industry include:

- > Mandatory Building Inspection Scheme (“MBIS”) and Mandatory Window Inspection Scheme (“MWIS”) and the Mandatory Building Inspection Subsidy Scheme (“MBISS”)

Under the MBIS implemented by the BD in June 2012, the BD selects 2,000 target buildings (except domestic buildings not exceeding 3 storeys) each year which are at least 30 years old and requires the owners of all units in the target buildings to appoint a registered inspector to carry out certain prescribed inspections and supervise the prescribed repair works found necessary of the common parts, external walls and projections or signboards of the buildings once every ten years. Similarly, under the MWIS implemented by the BD in June 2012, the BD selects 5,800 target buildings of at least 10 years old (except domestic buildings not exceeding 3 storeys) each year and requires the owners to appoint a qualified person to carry out certain prescribed inspections on the windows of target buildings every five years. Out of the 5,800 buildings selected under the MWIS, 2,000 of which were also covered under the MBIS. To assist the building owners in complying with these statutory requirements, the URA and the Hong Kong Housing Society launched the MBISS in October 2012 to provide financial and technical assistance to eligible building owners with the subsidy amount ranges from HK\$25,000 to HK\$100,000 subject to the total number of units of the building.

- > Operation Building Bright (“OBB”)

Implemented by Development Bureau, the BD, the URA and the Hong Kong Housing Society in May 2009, the OBB provides a total subsidy of HK\$3.5 billion and is helping owners of over 3,200 buildings aged 30 years or over to carry out repair works.

- > Integrated Building Maintenance Assistance Scheme (“IBMAS”)

A subsidy of 50%, or up to HK\$6,000 per annum of the premium for third party risks insurance for the common areas of buildings is provided to owners’ corporations for 3 consecutive years who have successfully applied for the Common Area Repair Works Subsidy or the Common Area Repair Works Interest-free Loan of the IBMAS and have completed such repair works.

INDUSTRY OVERVIEW

> Revitalisation of industrial buildings

Revitalisation measures have been imposed to facilitate the redevelopment and wholesale conversion of older industrial buildings with a purpose of providing more floor space for suitable uses such as hotels, office or data centres to meet Hong Kong’s changing social and economic needs. Pursuant to the 2013 Policy Address, further refinements to the revitalisation measures were introduced to address certain difficulties and problems faced by applicants of wholesale conversion and redevelopment of industrial buildings. Also, building owners will be exempt from paying the waiver fee for the change of land use if they opt for the wholesale conversion, instead of redevelopment, of the industrial buildings.

The above schemes are able to accelerate the demand for building maintenance and renovation contracting services in Hong Kong as the public is more willing to undertake building rehabilitation given there is support available from the Government.

Rising number of ageing building

Buildings in Hong Kong are typically made of reinforced concrete and have a life span of about 50 years. According to the Development Bureau, there were about 39,000 private buildings in Hong Kong in 2013, among which about 13,000 are over 30 years old, the number is estimated to reach 22,000 by 2023. The growing number of ageing buildings will therefore further facilitate the demand for building maintenance and renovation services in Hong Kong.

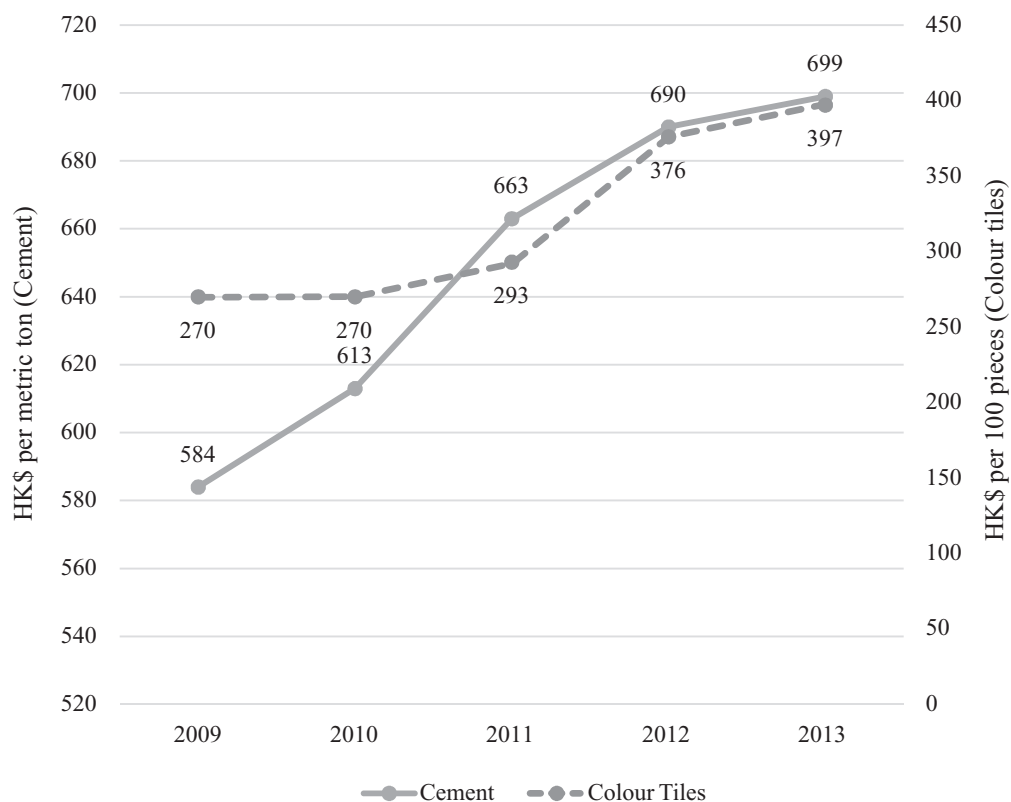
INDUSTRY OVERVIEW

MAJOR THREATS AFFECTING BUILDING MAINTENANCE AND RENOVATION CONTRACTING SERVICE INDUSTRY PLAYERS IN HONG KONG

Increasing operation costs

Major operation costs affecting the profitability of building maintenance and renovation contracting service providers in Hong Kong include costs of building materials and labour. The chart below illustrates the historical average wholesale prices of cement and colour tiles, the major types of building materials for maintenance and renovation, in Hong Kong from 2009 to 2013:

Average Wholesale Prices of Cement and Colour Tiles in Hong Kong (2009 – 2013)

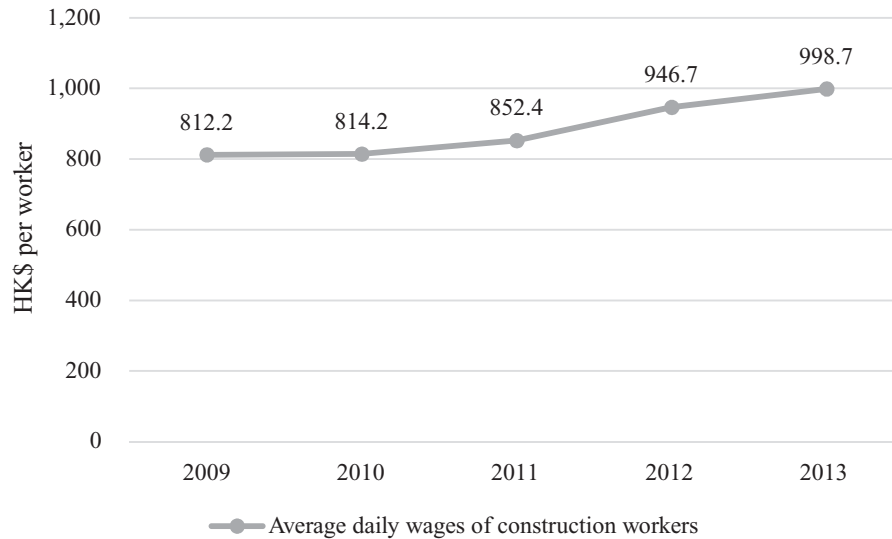


The costs of major materials for building maintenance and renovation works, such as cement and colour tiles, have increased at a CAGR of about 4.6% and 10.1%, respectively from 2009 to 2013. The increasing trend of the costs of building materials is due to inflation and the appreciation of the Renminbi as most of the construction materials in Hong Kong are imported from the PRC.

INDUSTRY OVERVIEW

The chart below illustrates the historical average daily wages of construction workers in Hong Kong from 2009 to 2013:

Average Daily Wage per Construction Worker^(Note 1) in Hong Kong (2009 – 2013)



Note:

1. Includes concreters, drainlayers, general welders, joiners, plumbers, plasterers, painters and decorators, bamboo scaffolders, marble workers, electrical fitters (including electricians), refrigeration/ air-conditioning/ ventilation mechanics, building services maintenance mechanics and general workers and labourers in the public sector.

The average daily wage per construction worker in Hong Kong increased from about HK\$812.2 in 2009 to HK\$998.7 in 2013, or at a CAGR of 5.3% for the period due to the manpower shortage in construction market as discussed below. Inflation, coupled with an increasing material prices and wages, is expected to increase the total operation costs for building maintenance and renovation contracting service providers in Hong Kong over the next few years.

Insufficient experienced and skilled labour

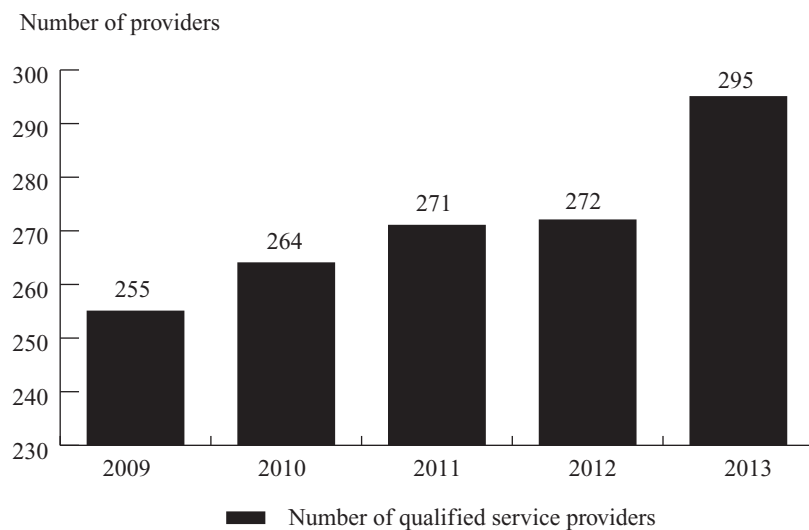
The declining number of young people entering the construction market, coupled with the large-scale construction projects going on in Hong Kong and Macau have raised the demand for construction workers and raised the labour costs in the region. The huge demand for construction workers will induce an insufficient supply of skilled and experienced building maintenance and renovation contracting service workers, especially when current skilled and experienced workers retire. This may threaten the development of the building maintenance and renovation contracting service industry in Hong Kong.

INDUSTRY OVERVIEW

COMPETITIVE LANDSCAPE

The building maintenance and renovation contracting service industry in Hong Kong is fragmented. There were about 295 qualified building maintenance and renovation contracting service providers in Hong Kong in 2013, compared to 255 in 2009. The increasing number of qualified building maintenance and renovation contracting service providers was due to the expected bright outlook in the building maintenance and renovation contracting service industry in Hong Kong in view of the growing demand for building maintenance and renovation services driven by the factors set out in the paragraph headed “Growth drivers for building maintenance and renovation contracting service in Hong Kong” of this section.

Number of Qualified Building Maintenance and Renovation Contracting Service Providers in Hong Kong from 2009 to 2013



Barriers to entry

Specialist knowledge and qualifications

Building maintenance and renovation is a specialist field within the construction industry in Hong Kong. Building maintenance and renovation work providers should possess specialist knowledge to perform preventative maintenance in accordance with the Buildings Ordinance. Building maintenance and renovation work providers without specialist knowledge on minor works would find it difficult to enter the industry. Building maintenance and renovation workers should register at relevant departments in order to provide such services in Hong Kong.

Experience

Building maintenance and renovation works require the repair workers to identify potential problems within a structure. Observation is one of the primary duties of building maintenance and renovation workers and ability to discover structural or mechanical elements in a building comes along with experience.

INDUSTRY OVERVIEW

Capital

Capital is essential for building maintenance and renovation contracting service providers in order to guarantee payment of wages to specialists and to rent specialised machinery for work. The inability to settle payments on time may defer the construction schedule and lead to a decrease in credibility. Furthermore, a contractor admitted by the Housing Authority is subject to certain minimum financial criteria and capital requirements. This poses a barrier for new building maintenance and renovation contracting service providers.

Top ten contractors in the building maintenance and renovation contracting service market

The following table sets out the top ten contractors in the building maintenance and renovation contracting service market in 2013:

Ranking	Company	Company background	Market share in terms of total industry revenue (%)
1	Competitor A	A construction company listed on the Main Board and headquartered in Hong Kong	1.8
2	Competitor B	A subsidiary of a construction company listed on the Main Board and headquartered in Hong Kong	1.6
3	Competitor C	A construction company listed on the Main Board and headquartered in Hong Kong	1.4
4	Competitor D	A subsidiary of a construction company listed on the Main Board and headquartered in Hong Kong	1.3
5	Competitor E	A construction company headquartered in Hong Kong	1.2
6	Sing Fat Construction	Our operating subsidiary	1.2 ^(note)
7	Competitor F	A subsidiary of an infrastructure company listed on the Main Board headquartered in Hong Kong	0.7
8	Competitor G	A subsidiary of a construction company listed on the Main Board and headquartered in Hong Kong	0.7
9	Competitor H	A company headquartered in Hong Kong providing construction, maintenance, renovation, design and build of building projects services	0.5
10	Competitor I	A subsidiary of a company headquartered in Hong Kong providing demolition, new works, civil engineering and building maintenance services	0.5

INDUSTRY OVERVIEW

Ranking	Company	Company background	Market share in terms of total industry revenue (%)
Others			89.1
Total			100.0

Note: The revenue of Sing Fat Construction is calculated by reference to the average of its revenue of the two years ended 30 June 2013 and 2014.

Competition in DTC market

Building maintenance and renovation contracting service providers are especially interested in capturing large-scale projects such as DTCs to maximise their revenue and profitability. As of September 2014, there were 31 contractors registered under Building (Maintenance) Group M2 category approved by the Housing Authority which are eligible to tender for the DTCs. The competition in the DTC market is highly concentrated, with the top 5 contractors contributing to approximately 65.9% of total contract revenue in 2013. Out of the 24 ongoing DTCs in 2013, the top 5 contractors were responsible for 16 of them. The following table sets out the top five players in the DTC market for the year ended 31 December 2013 in terms of revenue and their respective background:

Ranking	Company	Background information	Market share in terms of total industry revenue (%)	Number of contracts
1	Competitor A	A construction company listed on the Main Board and headquartered in Hong Kong	22.3	6
2	Competitor B	A subsidiary of a construction company listed on the Main Board and headquartered in Hong Kong	17.7	4
3	Sing Fat Construction	Our operating subsidiary	12.9 ^(Note)	4
4	Competitor H	A company headquartered in Hong Kong providing construction, maintenance, renovation, design and build of building projects services	7.1	1
5	Competitor J	A company headquartered in Hong Kong providing construction, maintenance, renovation, design and build of building projects services	5.9	1
Others			34.1	8
Total			100.0	24

INDUSTRY OVERVIEW

Note: The revenue of Sing Fat Construction is calculated by reference to the average of its revenue of the years ended 30 June 2013 and 2014.

Our competitive advantage

Reputation and track record

Sing Fat Construction was established in 1960, and has its reputation well-developed in the building maintenance and renovation contracting service industry in Hong Kong for over 20 years. Such good reputation with impressive track record, in terms of customer satisfaction, quality of work and cost control, enables us to gain confidence from its customers and therefore increases the opportunity of winning projects.

Significant market share in the DTC market

Sing Fat Construction is one of the major contractors providing maintenance, improvement and vacant flat refurbishment for public housing estates, public facilities and other public properties in Hong Kong pursuant to DTCs awarded by the Housing Authority. According to the Ipsos Report, Sing Fat Construction ranked third among building maintenance and renovation service providers within the DTC market in Hong Kong with approximately 12.9% market share in terms of the total revenue in the DTC market for the twelve months ended 31 December 2013. Its significant market share in the DTC market also allows it to gain trust of our existing customers and attract potential customers. This in turn will continue to drive the competitiveness of our Group.

Stable relationships with customers

Having good and stable business relationship with customers in the construction industry, including the building maintenance and renovation contracting service industry, is especially important as a significant portion of revenue is usually gained by job referrals from customers. A good business relationship with customers has allowed our Group to have higher chances to win the projects.