

INDUSTRY OVERVIEW

The information and statistics set out in this section and other sections of this document were extracted from the report prepared by Frost & Sullivan, which was commissioned by us, and from various official government publications and other publicly available publications. We engaged Frost & Sullivan to prepare the F&S Report, an independent industry report, in connection with the [REDACTED]. The information from official government sources has not been independently verified by us, the Sponsor, the [REDACTED], the [REDACTED], the [REDACTED], [REDACTED], or any of our or their respective directors and advisers or any other persons or parties involved in the [REDACTED], and no representation is given as to its accuracy.

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 wet trades works industry in Hong Kong. A total fee of HK\$520,000 was charged by Frost & Sullivan for the preparation of the Industry Report. The Industry 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 Industry Report. The payment of such amount was not conditional on our Group's successful [REDACTED] or on the results of the Industry 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 Industry Report includes information on the wet trades works industry in Hong Kong. The information contained in the Industry 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 wet trades works industry 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 the Industry 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.

In compiling and preparing the research, save for the foreseeable impact resulted from the outbreak of COVID-19 such as the impact of delay in the schedules of some ongoing construction projects as a result of interruptions in the supply of construction materials and difficulty in labour deployment in the first quarter of 2020, the first quarter of 2022 amid the outbreak of Omicron and the potential impact of COVID-19 on the global economy in the following years, (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 other wide outbreak of diseases to affect the demand and supply of construction works industry, including wet trades works industry, in Hong Kong during the forecast period. In preparation of the forecast data, Frost & Sullivan also assumed that the outbreak of COVID-19 in Hong Kong and overseas markets are likely under effective control in the long run with a gradual resumption of economic performance thereafter, with reference to the same assumption taken by the International Monetary Fund in preparation of the world economic outlook published in April 2022.

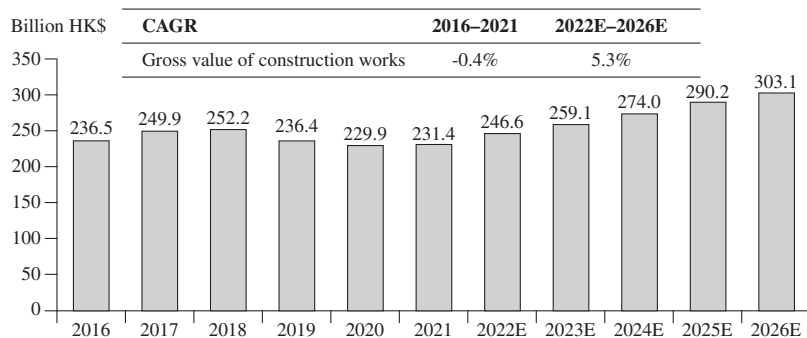
Our Directors, after due and reasonable consideration, are of the view that there has been no adverse change in the market information since the date of the Industry Report which may qualify, contradict or have an impact on the information therein.

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CONSTRUCTION WORKS INDUSTRY OVERVIEW

According to the Census and Statistics Department of Hong Kong, the gross value of construction works performed by main contractors in Hong Kong decreased from approximately HK\$236.5 billion in 2016 to approximately HK\$231.4 billion in 2021, representing a negative CAGR of 0.4%. The decrease was primarily due to the slowdown of construction works during the COVID-19 outbreak. In addition to slower building works of fitting-out, repair and maintenance in the private sector, spending by the public sector also shrank as the implementation of new project items were affected by the delay in the Legislative Council’s approval of funding proposals, and new projects had yet to generate sufficient output to offset the completion of some major infrastructure projects, which in turn led to the decrease in gross value of construction works in 2019. The outbreak of COVID-19 in 2020 led to the economic downturn and further disrupted the construction industry in Hong Kong, which in turn lowered the gross value of construction works in 2020. As the impact of COVID-19 outbreak diminishes, the gross value of construction works started to rebound in 2021. Along with the buildings development projects, planned infrastructure, and specialised installation and maintenance works, the gross value of construction works performed by main contractors in Hong Kong is forecasted to grow steadily at a CAGR of approximately 5.3% during 2022 to 2026.

Gross value of construction works performed (Hong Kong), 2016–2026E



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

WET TRADE WORKS INDUSTRY OVERVIEW

Definition

Wet trades works generally involves the use of dry construction materials mixed with water. Common scope of wet trades works includes ceiling, floor and wall plastering, interior and exterior tiling, brickwork, marble works, painting and decorating, as well as other interior and exterior fitting, decoration and repairs for buildings. Wet trades contractors may also provide wet trades related ancillary services such as cleaning, smoothing platform, applying sealant, washed granolithic screed and on-site logistic service, etc. The demand for wet trades works is associated with construction, renovation, maintenance, addition and alteration of buildings in mainly residential (e.g. private residential buildings and public housing) and commercial segments (e.g. hotel, office buildings, retail stores and shopping malls), as well as industrial buildings, government buildings, community facilities, transportation and public infrastructure, etc.

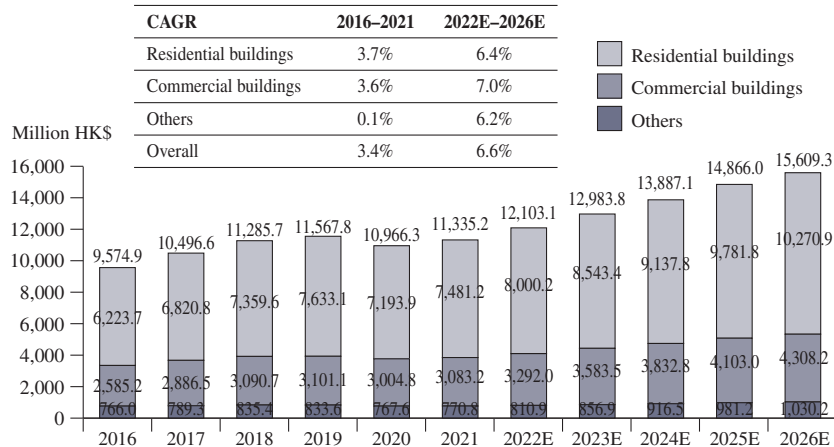
Market Size

The gross value of wet trades works in Hong Kong increased from approximately HK\$9,574.9 million in 2016 to approximately HK\$11,335.2 million in 2021, representing a CAGR of approximately 3.4%, underpinned by the rising housing supply and continuous expansion of the commercial segment, including offices and hotels, and the residential segment. The drop of gross value of wet trades works in 2020 was mainly due to the outbreak of COVID-19 which led to economic downturn and further disrupted the construction industry in Hong Kong.

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The Government has simplified and accelerated the process of changing land use, which could lead to the increase in the land supply in Hong Kong in short term. The new development area projects, such as Kwu Tung North/Fanling North new development, Hung Shui Kiu/Ha Tsuen new development area and Yuen Long South development, are undergoing at the moment and they will approximately release more than 1,200 hectares of lands to the market in Hong Kong in the future. On the other hand, the urban renewal, such as the renovation of hotels, also continues to contribute to the growth of construction market in Hong Kong. As such, the gross value of wet trades works is expected to increase from approximately HK\$12,103.1 million in 2022 to approximately HK\$15,609.3 million in 2026.

Gross value of wet trades works by segment in Hong Kong, 2016–2026E



Note: Others refer to industrial and storage service.

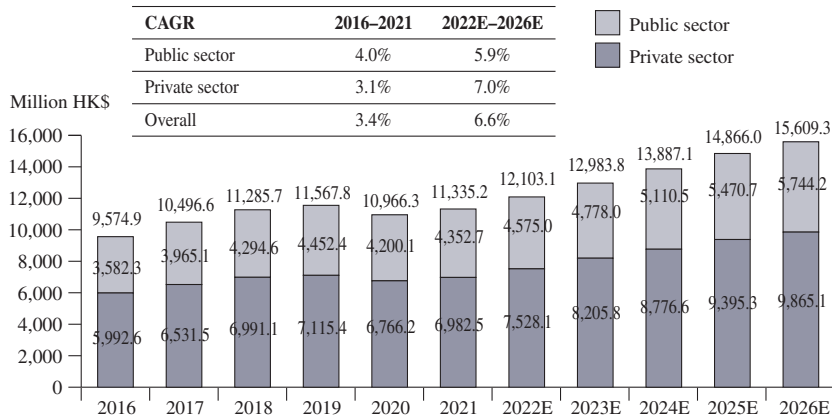
In 2021, the gross value of wet trades works in residential buildings segment accounted for approximately 66.0% of total gross value of wet trades works. Driven by the completion of large residential estate projects such as Grand Central at Kwun Tong and Malibu at Tseung Kwan O, the gross value of wet trades works market in residential buildings segment increased from approximately HK\$6,223.7 million in 2016 to approximately HK\$7,481.2 million in 2021, representing a CAGR of approximately 3.7%. The residential segment is expected to demonstrate a steady growth in the next few years, underpinned by the supportive policies towards housing development. As set out in the 2020–21 Land Sale Programme, 15 private residential sites, including Area 24 and Area 25 in Kwu Tung, Chung Yip Road, Kai Tak Area 4E Site 1 and Site 2, would provide about 7,530 flats. According to the Long Term Housing Strategy (the “LTHS”) issued in 2020, the projected total housing supply target for the 10-year period from 2021–22 to 2030–31 is approximately 430,000 units, with an upper and lower range of 451,000 and 405,000 units respectively. In particular, the Government would maintain the public/private split of 70:30 for the next 10-year period from 2021–22 to 2030–31. Accordingly, out of the total housing supply target of 430,000 units, the public housing supply target will be 301,000 units and the private housing supply target will be 129,000 units. Accordingly, the gross value of wet trades works in residential buildings segment is expected to increase from approximately HK\$8,000.2 million in 2022 to approximately HK\$10,270.9 million in 2026, representing a CAGR of approximately 6.4%.

On the other hand, the commercial buildings segment comprised 27.2% of total gross value of wet trades works in 2021 and increased at a CAGR of 3.6% from 2016 to 2021 from approximately HK\$2,585.2 million in 2016 to HK\$3,083.2 million in 2021, primarily due to the development of new central business district, namely Kai Tak Development Area, Kwun Tong and Kowloon Bay Business Areas. As set out in the 2020–21 Land Sale Programme, 6 commercial sites would provide about 833,700 square metres of gross floor area. In particular, a prime commercial site in Central, the New Central Harbourfront Site 3, spans roughly 4.8 hectares (equivalent to approximately 516,322 square feet) was sold in 2021. Total investment for the project could top out at between HK\$60 billion and HK\$65 billion. Thus, the gross value of wet trades works in commercial buildings segment is expected to increase from approximately

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HK\$3,292.0 million in 2022 to HK\$4,308.2 million in 2026, representing a CAGR of approximately 7.0%.

Gross value of wet trades works by sector in Hong Kong, 2016–2026E



Source: Frost & Sullivan

The private sector contributes to the majority of the total gross value of wet trades works in Hong Kong. During 2016 to 2021, primarily owing to the establishment of various sizeable real estate properties in Kowloon City and Sai Kung, the gross value of wet trades works in the private sector increased from approximately HK\$5,992.6 million in 2016 to approximately HK\$6,982.5 million in 2021, representing a CAGR of approximately 3.1%, whereas the urban development in Tuen Mun and Kwun Tong has also accelerated the demand for wet trades works during the same period. Benefitted from the increase in number of actual public housing production units, namely the completion of Lin Tsui Estate, Hoi Ying Estate, Yan Tin Estate, Kwai Tsui Estate, Ying Tung Estate and Mun Tung Estate, the gross value of wet trade works in public sector increased from approximately HK\$3,582.3 million in 2016 to approximately HK\$4,352.7 million in 2021, at a CAGR of approximately 4.0%.

As set out in the release of the “Hong Kong 2030: Planning Vision and Strategy”, the construction of North East New Territories New Development Areas (NDAs) in Kwu Tung North, Fanling North and Ping Che which is expected to accommodate more than 50,000 household residential units in both public and private sectors. Growing along with a number of private residential properties expected to complete in Ho Man Tin and Cheung Sha Wan, such as the development at Ho Man Tin MTR Station and Hing Wah Street West, in the coming years, the gross value of wet trades works in the private sector is anticipated to grow from 2022 to 2026 at a CAGR of approximately 7.0%, reaching approximately HK\$9,865.1 million in 2026. Driven by the Long Term Housing Strategy (LTHS) issued in 2020 with total public housing units target for the ten-year period from 2021–22 to 2030–31 of approximately 301,000 units and the continuous investment by the Government in infrastructure with an estimated annual expenditure of over HK\$100 billion on average in the next few years, as proposed by the Chief Executive in the 2020 Policy Address, the gross value of wet trades works in the public sector is expected to grow from approximately HK\$4,575.0 million in 2022 to approximately HK\$5,744.2 million in 2026, representing a CAGR of approximately 5.9%.

MARKET DRIVERS AND OPPORTUNITIES OF WET TRADES WORKS INDUSTRY IN HONG KONG

The development of wet trades market in Hong Kong is closely related to the building construction and the construction industry as a whole, and is expected to benefit from the following market drivers and market opportunities:

1. Sustained supply of residential units

The gross value of wet trades works in residential buildings segment accounted for over 60% of total gross value of wet trades works in 2021. From 2016 to 2021, the actual public

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housing production under Housing Authority and completion of private units registered 108,199 units and 102,271 units, respectively, driving the growth of wet trades works market in Hong Kong. Looking forward, favourable government policies aiming at rising land supply and housing are expected to create sustained demand for wet trades works in residential segment. The construction of North East New Territories New Development Areas (NDAs) in Kwu Tung North, Fanling North and Ping Che which is expected to accommodate more than 50,000 household residential units in both public and private sectors. According to the LTHS issued in 2020, the projected total housing supply target for the 10-year period from 2021–22 to 2030–31 is approximately 430,000 units, with an upper and lower range of 451,000 and 405,000 units respectively. In particular, the Government would maintain the public/private split of 70:30 for the next 10-year period from 2021–22 to 2030–31. Accordingly, out of the total housing supply target of 430,000 units, the public housing supply target will be 301,000 units and the private housing supply target will be 129,000 units. In addition, a number of large-scale initiatives and projects including the “Lantau Tomorrow Vision” and the Kwu Tung North/Fanling North and Ping Che/Ta Kwu Ling New Development Areas are forecasted to accommodate 310,000 to 450,000 residential units. Furthermore, several private residential properties are under processing and expected to complete in the coming years, such as the development at Ho Man Tin MTR Station and Hing Wah Street West. Therefore, the increasing supply of residential units will contribute to the continuous demand for wet trades works from 2022 to 2026.

2. Expanding commercial area and business district

Commercial buildings segment has been one of the main contributors to the overall growth of the wet trades market in Hong Kong from 2016 to 2021. According to the Rating and Valuation Department, the completion of private office is expected to increase to 275.3 thousand m² in 2022 while the completion of private commercial space is forecasted to increase to 173.3 thousand m² in 2022. The growth was mainly owing to the “Energising Kowloon East” programme which the Government targets to develop a new central business district (CBD) around the Kowloon East area, in order to provide a vast amount of office spaces and community facilities to support the long-term economic development of Hong Kong. “Energising Kowloon East” programme also includes the projects of Kai Tak Development, and Kai Tak Cruise Terminal, which encompass the development of cruise terminal, hotels, residential and commercial developments, and entertainment and public facilities, creating a vibrant and diverse community within Kowloon East CBD. The existing supply of commercial gross floor area in Kowloon East has reached about 2.9 million square meter by October 2020, with the potential to provide an additional 4.1 million square meter in the future. The expanding commercial activities, development of new business district, residential and entertainment and public facilities will translate into potential business opportunities for wet trades works contractors and support the growth of wet trades market. Moreover, the continuous investment by the Government in infrastructure with an estimated annual expenditure of over HK\$100 billion on average in the next few years, as proposed by the Chief Executive in the 2020 Policy Address, will increase the demand for wet trades works.

3. Higher customer requirements and industry standards

Driven by the increasing living standards and income level of Hong Kong residents, customers have shown a rising preferences towards building materials with better grades and construction works with better quality. Therefore, the requirements on the quality and cost efficiency of wet trades works have risen to cater to the expectations of the downstream customers. In addition, with the popularity of sustainability in construction works, property developers and owners usually expect higher durability of buildings and facilities with minimum defects, future maintenance costs and hassle, which is expected to set a higher standard on the quality of materials, working process and craftsmanship of wet trades works. It is a key trend for home buyers to employ clerk of works to undertake inspection works for newly purchased flats. As property developers strive to maintain their industry reputation, demand for quality wet trades works has thus increased in order to fulfil the interior design and inspection requirement.

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4. Urban Renewal Programme

According to the Urban Renewal Authority, there will be 326,000 private housing units aged 70 or above by 2046 and there is an urgent need to step up the rejuvenation of dilapidated urban areas, especially for those located at densely-built urban core, such as Sham Shui Po and Kowloon City. As stated in the Annual Report 2019–20 of Urban Renewal Authority (URA), there were more than 10,000 buildings in Hong Kong aged 50 years or above, and the number is forecasted to reach 28,000 by 2046. To address the aging problem, the Government has increased the three-year target of 10,000 transitional housing units within the next three years to 15,000 units, in order to relieve the pressure of families living in unpleasant living conditions. Moreover, with a growing emphasis on the preservation of these aged building by the means of proper repair and maintenance works under Integrated Building Rehabilitation Assistance Scheme and Operating Building Bright 2.0, there is a rising demand for refurbishment of these properties and wet trades works, such as plastering works and tiling works, in the long run. As a result the redevelopment works under urban renewal projects are expected to drive the demand for wet trade works.

COMPETITIVE LANDSCAPE AND ENTRY BARRIERS

Overview of market competition

The wet trades works market in Hong Kong is considered as fragmented in terms of number of market participants. According to the Construction Industry Council, there were over 500 contractors registered under the trade specialties of “Finishing Wet Trades” by the end of 2021.

In 2021, the top five wet trades works subcontractors had an aggregate market share of approximately 10.0%. Our Group is the largest wet trades works subcontractor with a market share of approximately 4.0% in 2021.

Leading wet trades works subcontractors market by revenue in Hong Kong, 2021

Rank	Company	Estimated revenue in 2021 (HK\$ million)	Approximate market share in 2021	Company description
1	The Group	456.4	4.0%	
2	Noble Engineering Group Holdings Limited	275.6	2.5%	A listed company and the listed group principally engages in wet trades works such as marble works, floor screeding, brick laying and plastering in Hong Kong
3	Hang Kee Engineering Company Limited	150.5	1.3%	A private company and mainly perform wet trade works in Hong Kong
4	Kwan Kee Engineering Company	135.7	1.2%	A private wet trade works subcontractor with the focus on marble works, floor screeding, brick laying and plastering in Hong Kong
5	Hands Form Holdings Limited	117.5	1.0%	A listed company and the listed group principally engages in wet trades works such as marble works, floor screeding, brick laying and plastering in Hong Kong
	Subtotal	1,135.7	10.0%	
	Other	10,199.5	90.0%	
	Total	11,335.2	100.0%	

Source: Frost & Sullivan

Note: The respective estimated revenue and market share of market participants are extrapolated based on published financial reports and company information for the year ended 31 March 2022.

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Factors of competition

1. *Established business relationship*

The leading wet trades works contractors are remarked by the established long-term relationship with customers, subcontractors and suppliers, which facilitates the resources deployment and division of labour for certain area of construction works based on business relationship, track record, ability in project delivery. By leveraging the good working relationship built on collaboration with industry stakeholders, time and cost could be greatly saved in the day-to-day operation. As such, it would further enhance the execution capacity of the wet trades works contractors.

2. *Wide variety of expertise*

Wet trades works entail a wide variety of expertise, such as plastering, floor screeding and bricklaying. Given the high standard of specialised wet trades works, contractors with proven industry know-how have the competitive advantage in the wet trades works industry in Hong Kong. Moreover, extensive capacity is one of the most important criteria for selecting contractors during tendering process, which in turn increases the possibility of bidding large scale projects.

3. *Quality of works*

With the higher demand for interior environment of residential flats and commercial buildings, including the texture, colour and materials used in the design, as well as the use of fixtures, furniture and other accessories, quality of works is becoming the key focus of competition in wet trade works industry. The buyers in Hong Kong tend to have high expectation on the interior design and fitting-out of newly built residential flats, which drives property developers to focus on areas around quality assurance of work on site, design analysis and space planning aesthetics. It is also the rising trend for home buyers to employ clerk of works to undertake inspection works for newly purchased flats. As property developers strive to maintain their industry reputation, demand for quality wet trades works has thus increased in order to fulfil the interior design and inspection requirement. Therefore, wet trades works contractors with quality of works are preferred by property developers and main contractors.

Entry barriers

1. *Strong track record with long-standing reputation*

A strong track record with long-standing reputation is one of the most important entry barriers for the wet trades works industry. A proven track record and reputation possessed by subcontractors enable them to satisfy customers' requirement and maintain a solid customer base from main contractors that support a sustainable development of the business. The recognition and trust built on past project reference comes as the core competitiveness and retain the market position in Hong Kong. Meanwhile, clients are generally more confident with engaging existing contractors which have undertaken sizable projects. As a result, companies with proven project portfolio and service offerings are likely to stand out in the wet trades works industry in Hong Kong. New entrants without reputation and track records are not easily accepted by customers in the wet trade works industry.

2. *Financial resources*

Sufficient initial capital is another key entry barrier for the wet trades works contractors to satisfy their operational and capital needs. Wet trades contractors generally experience net cash outflows as project up-front costs at the early stage of a project. Significant cash flow is required for the purchase of materials, recruitment of skilled labour and payment to subcontractors in wet trades works projects. Market participants without sufficient experience, capital and financial resources are less likely to be considered in the tender selection process. Market participants with sufficient capital and credibility are preferred by main contractors and standing at a better chance of tendering more and larger scale projects, which in turn further enrich the track record and build up the reputation of them in the industry.

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3. *Technical know-how and experienced management team*

Technical knowledge is one the key barriers for new market entrants of wet trades works as contractors and specialists generally have a strong understanding towards plastering works, tile laying works, brick laying works, marble works and floor screeding works in order to deliver quality services. With technical know-how, the performance of the existing players and their quality of works can be assured to meet quality standards. In addition, experienced and capable project management teams of existing players implements effective quality control by conducting regular on-site inspections and arranging regular meetings with subcontractors to address material issues such as quality issues, to ensure sufficient resources are allocated for each project, and that the works executed at each stage meet the requirements of customers. Comparatively, new market entrants without technical know-how and experienced management teams may be less competitive.

Potential Challenges

1. *Rising project complexity*

In Hong Kong, the wet trades works industry is encountering a trend of rising project complexity and higher requirements from clients, which may include higher requirements for building materials and tighter deadline for planning and execution, and therefore lead to additional workload on and expenditure from the service providers' ends such as sourcing of specific materials, adding headcount and recruitment of related professionals.

2. *Higher material cost*

During the past five years, prices of a number of major raw materials used in wet trades works have experienced an increase. For example, prices of sand, Portland cement and concrete blocks have increased from 2016 to 2021, registering CAGRs of approximately 17.6%, 3.1% and 4.1% respectively. In particular, amongst all raw materials used in wet trades works, the average price of sand has increased the most, primarily due to the limited supply of river sand in the PRC. The inflation in material cost will result in higher expenditure of wet trades market participants, which may further negatively impact their profit margin.

3. *Shortage of qualified and skilled labour*

Due to the aging population and higher requirements on skills and qualifications of workers, the wet trades market in Hong Kong has been facing serious problems of shortage of experienced and skilled labour. According to the Construction Industry Council, the number of high-aged (i.e. aged 40 and above) construction workers accounted for over 67% of total construction workers by the end of 2019. Therefore, in order to attract qualified workers, market participants may need to adopt measures including competitive remuneration packages, growth opportunities and flexible schedule. The increasing competition for talents will result in higher labour cost and pose a challenge to the growth of wet trades market.

PRICE TREND OF MAJOR COST COMPONENTS

The major cost components of our Group's operation include but not limited to direct labour cost, and cost of construction materials such as Portland cement, concrete blocks, aggregates and sand.

Average daily wages of wet trades workers

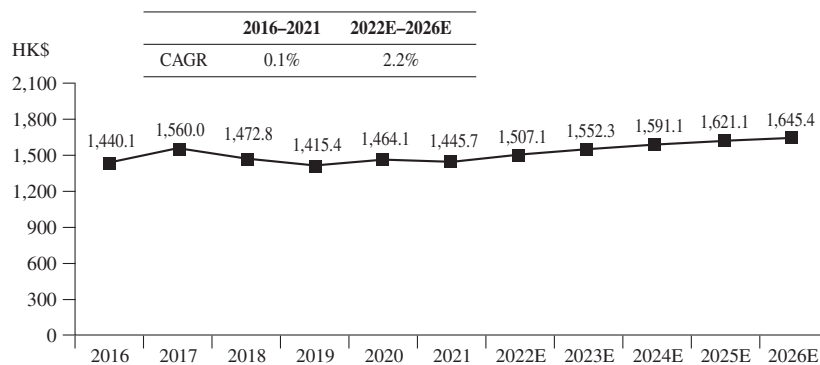
Generally, wet trades works required plasterer, marble worker, bricklayer and concreter. According to Frost & Sullivan, the average daily wages of major wet trades workers, have increased from approximately HK\$1,440.1 per day in 2016 to approximately HK\$1,445.7 per day in 2021, representing a CAGR of 0.1%. The decrease of wage of wet trade works worker in 2018 was mainly due to increase of labour supply. For instance, as compared to 2017, the number of bricklayer and concreter increased by approximately 11.5% and 8.0% in 2018, respectively. In 2019, there was a slight decrease in gross value of construction works in the private sector due to uncertainties including the developments of the US-China trade relations

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and the local social incident, which in turn led to the decrease in the demand, and thus, the average daily wages of wet trade workers in Hong Kong. The average daily wages of wet trade workers increased from HK\$1,415.4 in 2019 to HK\$1,464.1 in 2020. Due to the outbreak of COVID-19, some ongoing construction projects have been postponed, which led to temporary decrease in the demand for construction workers and the slow down in growth of average daily wages of wet trade workers in 2021.

The overall rising trend in the average daily wages of wet trades workers between 2016 to 2021 was principally due to the imbalance between the demand and supply of experienced construction workers available in the market and the labour shortage is very likely to continue in the future years, which the average daily wages of wet trades workers will grow at a CAGR of 2.2% during 2022 to 2026.

Average daily wages of wet trades workers (Hong Kong), 2016–2026E



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

Price trends of wet trade works materials

Portland cement, hydraulic lime, concrete blocks, aggregates and sand are major construction materials for wet trades works. The average prices of all of the construction materials applied in wet trades works have shown an increasing trend in the past years. Amongst all of the wet trades works materials, the average price of sand has experienced significant growth, which increased at a CAGR of approximately 17.6% from approximately HK\$137.7 per metric tonne in 2016 to approximately HK\$310.0 per metric tonne in 2021. The rise in raw material costs was mainly attributable to the continuous construction works being carried out in Hong Kong, which has supported the demand for these construction materials, as well as limited supply of certain materials such as river sand. In the following years, the average prices of major construction materials in wet trades works are likely to climb up as the demand for such materials is expected to remain high due to the sustained number of construction projects to be commenced in Hong Kong.

Average price of major construction materials for wet trades works (Hong Kong), 2016–2026E

Item	Unit	2016	2017	2018	2019	2020	2021	2022E	2026E	CAGR (2016–2021)	CAGR (2022E–2026E)
Portland cement	HK\$ per metric tonne	714.7	699.9	698.5	727.8	747.3	832.5	834.2	840.8	3.1%	0.2%
Hydraulic lime	HK\$ per metric tonne	585.5	700.5	630.2	625.1	630.5	631.5	636.5	657.1	1.5%	0.8%
Concrete blocks	HK\$ per metric tonne	76	76.4	77	79.8	80.5	93	93.8	97.2	4.1%	0.9%
Aggregates	HK\$ per metric tonne	67.8	59.3	65.2	70.7	88	100	102.5	113.1	8.1%	2.5%
Sand	HK\$ per metric tonne	137.7	121.4	204.4	276.7	281.3	310	350.3	571.1	17.6%	13.0%

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

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IMPACT OF COVID-19 ON THE WET TRADE WORKS MARKET

As the number of infections of the COVID-19 has been increasing, the Government has escalated its response level to Emergency under the Preparedness and Response Plan for Novel Infectious Disease of Public Health Significance and has introduced several control measures to restrict the movement of populations in order to prevent the disease spreading in the wider community. For example, save as the Government scheme, "Return2hk" which allows Hong Kong residents to return to Hong Kong from Mainland China and Macau without serving mandatory quarantine by showing negative COVID-19 test results 24 hours before travelling, any persons entering Hong Kong from Mainland China are required to undergo mandatory quarantine for 14 days. As there may exist construction workers who are immigrants from Mainland China, they may be required to comply with this regime when they return to Hong Kong and hence the labour supply in the wet trade works market may be temporarily affected. Furthermore, as the Lunar New Year holiday was extended in the PRC in early 2020 as announced by the State Council and local authorities, the supply of certain construction materials, such as Portland cement, hydraulic lime, concrete blocks, aggregates and sand supplies, may be temporarily disrupted during the early stages of the outbreak of COVID-19 in the PRC, especially in first quarter of 2020. Some of the ongoing construction projects in Hong Kong have been postponed in progress due to the outbreak of COVID-19 in 2020, which led to the temporary decrease in demand for construction works as well as wet trades works in Hong Kong.

However, in view of (i) as at the Latest Practicable Date, the COVID-19 vaccines have been widely launched in many countries, World Health Organization is working in collaboration with scientists, business, and global health organizations to speed up the pandemic response. In particular, Pfizer and BioNTech presented preliminary data on 9 November 2020 indicating that their coronavirus vaccine was over 90% effective. On 11 December 2020, the U.S. Food and Drug Administration issued the first emergency use authorization (EUA) for a vaccine for the prevention of COVID-19 caused by severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2) in individuals 16 years of age and older. The emergency use authorization allows the Pfizer-BioNTech COVID-19 Vaccine to be distributed. With the launch of vaccine, the impact of COVID-19 is likely to be diminished and the global economy would recover in the near future; (ii) most Chinese companies, including production and manufacturing enterprises have resumed full production; and (iii) the number of confirmed cases of COVID-19 in Hong Kong is relatively low when compared to other regions and the number of recovered cases has been increasing, it is believed that the supply of labour and raw materials will not be substantially affected by the outbreak of COVID-19.

In early 2022, Hong Kong has been stricken by the fifth wave of the outbreak of the COVID-19 under the more transmissible virus variant namely Omicron, with daily cases reaching over 10 thousand during March and April 2022. To manage and prevent the importation risks posed by Omicron cases, the Government had tightened the measures to guard against importation of cases, such as the extension of compulsory quarantine to 21 days and having more stringent social-distancing measures. The Government has also implemented the place-specific flight suspension mechanism since January 2022 for Australia, Canada, France, India, Nepal, Pakistan, the Philippines, the United Kingdom and the United States of America to restrict persons who have stayed in these nine places to board flights for Hong Kong. Following the decrease in daily cases and relaxation of the social-distancing measures since April 2022, the Hong Kong economy has been resuming.

Having considered that (i) the launch of COVID-19 vaccine can diminish the impact of COVID-19; (ii) the increasing public awareness and social distancing measures have proved to be effective in combating COVID-19; and (iii) according to World Economic Outlook Report published by International Monetary Fund (IMF) in April 2022, the global economy is projected to grow by 3.6% in 2022, F&S is of the view that the COVID-19 would be effectively controlled in the long run.

Given the outbreak of COVID-19 has been largely contained in the second quarter of 2022, it is expected that in general the operation of construction industry in Hong Kong will not be materially affected in the near future.

INDUSTRY OVERVIEW

Considering a series of relief measures have been launched by the Government to help ease financial burdens of businesses and individuals and encourage enterprises to retain employees, in particular two rounds of subsidy schemes for construction companies and workers as outlined in the Anti-epidemic Fund, the outlook of Hong Kong wet trades works market will remain positive, as driven by the planned urban development and strong demand from the residential and commercial sectors in the long-run. In addition, the Government has announced certain refinements to the next round of Employment Support Scheme (ESS) in April 2022. The proposed changes will result in the number of employees benefiting from the ESS to increase to around 1.74 million from 1.3 million. Employees in the construction industry with monthly salary less than HK\$8,000 are entitled to receive a subsidy of HK\$4,000 per month. Analysed by major end-use group, the gross value of construction works performed at construction sites in respect of residential buildings projects amounted to HK\$12.8 billion in the first quarter of 2021, up by 4.6% over a year earlier. As mentioned above in “Market Drivers and Opportunities of Wet Trade Works Industry in Hong Kong” in this section, according to the LTHS issued in 2020, the projected total housing supply target for the 10-year period from 2021-22 to 2030-31 is approximately 430,000 units, with an upper and lower range of 451,000 and 405,000 units respectively. The long-term housing supply is not affected by the COVID-19. In addition, a number of large-scale initiatives and projects including the “Lantau Tomorrow Vision” and the Kwu Tung North, Fanling North and Ping Che/Ta Kwu Ling New Development Areas are forecasted to accommodate 310,000 to 450,000 residential units. Furthermore, several private residential properties are under processing and expected to complete in the coming years, such as the development at Ho Man Tin MTR Station and Hing Wah Street West. Therefore, the increasing supply of residential units will contribute to the continuous demand for wet trades works from 2022 to 2026, contributing to the growth of overall wet trade works market in Hong Kong. Although some of the ongoing construction projects in Hong Kong has been postponed in progress due to the outbreak of COVID-19 in 2020, which led to the temporary decrease in demand of construction works and wet trades works, these projects have resumed to normal in 2021. Given that (i) the outbreak of COVID-19 has been largely contained in the second quarter of 2022, and (ii) the strong demand from residential sector in the long-run with large-scale initiatives and projects to be completed in the coming year, F&S is of the view that the outbreak of COVID-19 will not adversely and materially affect the wet trades works market in 2022.