

## INDUSTRY OVERVIEW

*The information and statistics set out in this section have been extracted from various publicly available official sources and an industry source including (i) the Hong Kong government; (ii) the Housing Authority; (iii) the Macau government; (iv) the IMF; and (v) Hong Kong Construction Association. Save for the industry source from Hong Kong Construction Association which is available to its corporate members only, all other sources are publicly available. None of the information and statistics from the above sources is commissioned by our Group. We believe that the sources of this information are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. Our Group has no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. The information has not been independently verified by us, the Joint Lead Managers, the Sponsor, the Underwriters or any other party involved in the Listing and no representation is given as to its accuracy.*

### CONSTRUCTION INDUSTRY IN HONG KONG

#### Introduction

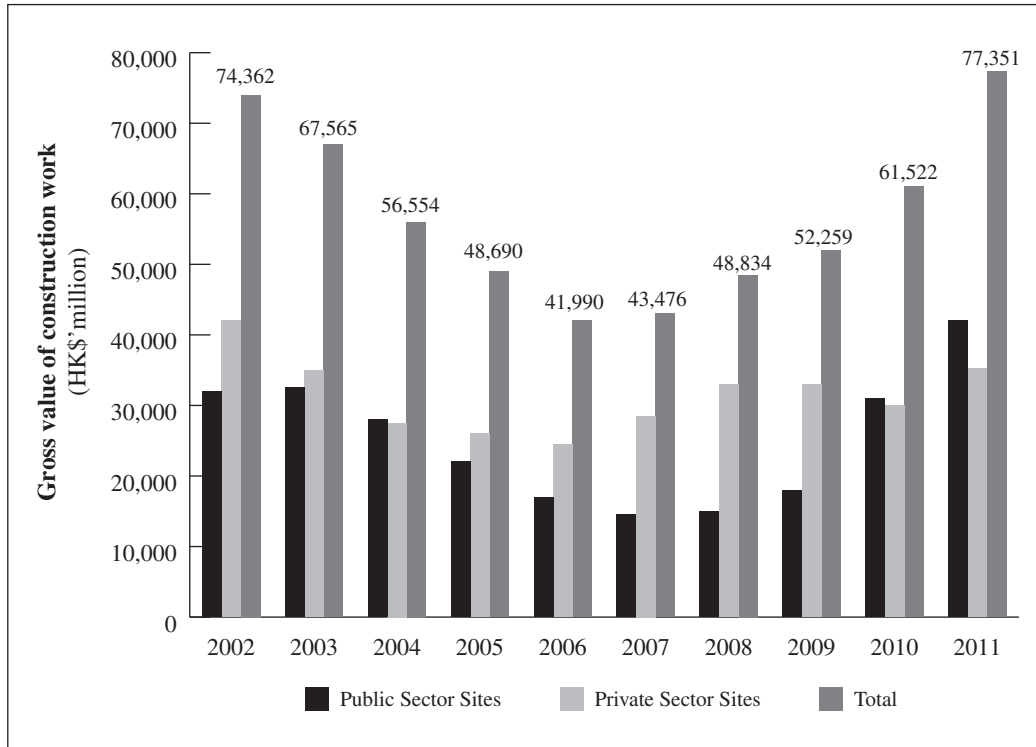
Foundation is an integral part of most building construction projects and some infrastructure construction projects. In Hong Kong, many high-rise structures, such as multi-storey buildings including residential, commercial or industrial blocks and public facilities, or infrastructures, such as highways and bridges, have to be supported by a foundation. Foundation work is generally an essential construction process and is required for most projects, including public projects advocated or implemented by both the public sector, being the Hong Kong government and other public bodies including Housing Authority, and private projects implemented by private property developers or other private entities.

All construction projects in Hong Kong can broadly be divided into public projects and private projects. Public projects include construction of public housing, subsidised housing, public facilities buildings or structures and other civil engineering projects that were initiated, advocated or implemented by the Hong Kong government or public bodies in Hong Kong. Private projects include construction of private residential, commercial or industrial buildings. In Hong Kong most of the public or subsidised housing projects are implemented by Housing Authority and the Hong Kong Housing Society. The market for public projects in Hong Kong is dependent on the number, size and scale of building and construction work advocated or funded by the Hong Kong government or other public bodies. These in turn, are determined by policies and the budget of the Hong Kong government and other public bodies. Private projects are initiated by numerous private property developers. The construction market for private projects is influenced by factors such as economic prospect, land supply and the general demand for properties in Hong Kong.

## INDUSTRY OVERVIEW

The following graph sets out the value of construction outputs analysed by public sector sites and private sector sites in Hong Kong:

**Gross Value of Construction Works Performed by Main Contractors at Construction Sites in Hong Kong**



*Source:* Official website of the Census and Statistics Department, Hong Kong government as at 15 May 2012, and the Report on the Quarterly Survey of Construction Output (1st Quarter 2012)

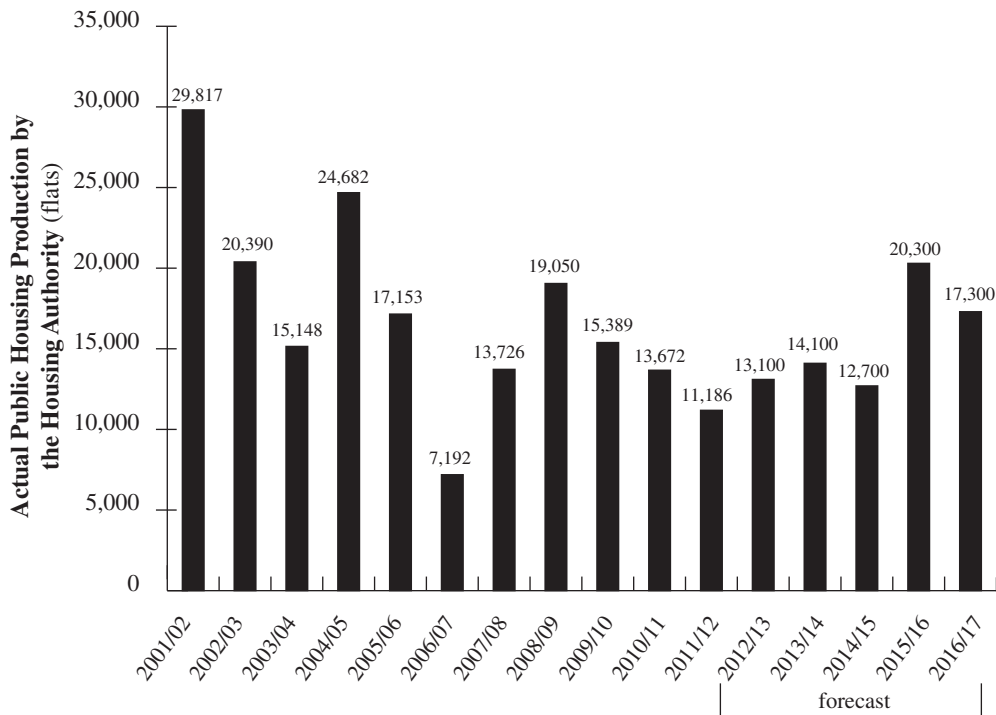
As illustrated in the above graph, the construction market for the public sector and that of the private sector showed varying trends. The market for public sector was sluggish between 2006 and 2009 during which the value of construction outputs by main contractors was the lowest in the past ten years and fell below HK\$20 billion. As a result of the decline of construction market in the private sector compounded with weak demand for construction work in private sector sites, the total value of construction outputs by main contractors slipped to approximately HK\$42.0 billion in 2006. Since then, the construction market has shown sign of gradual recovery, with the total value of construction outputs by main contractors growing from approximately HK\$42.0 billion in 2006 to HK\$77.4 billion in 2011. Since 2010, thanks to the Hong Kong government's initiative to boost employment opportunities in the construction industry and to promote economic growth, there has been a substantial increase in the public expenditure on infrastructure, boosting the construction outputs by main contractors for public sector sites and all sites as a whole to exceed HK\$30 billion and HK\$60 billion respectively. The public sector has become one main driving force for the growth of the construction industry in Hong Kong since 2010.

## INDUSTRY OVERVIEW

### Public Projects

Housing Authority is the primary public body that takes charge of developing and implementing public housing programmes in Hong Kong. Each year, more than 10,000 flats are built by the Housing Authority on average for public rental housing. In implementing its housing building programmes, Housing Authority engages construction companies to carry out the construction of public housing, and thus Housing Authority is one of the major customers in the construction industry in Hong Kong. The following graph sets out the volume of public housing production by Housing Authority:

**Public Housing Production by Housing Authority**



*Source:* Official website of Housing Authority, Hong Kong government as at 15 May 2012 and 21 September 2012

It is shown in the above graph that, while the number of flats produced by Housing Authority varied from time to time, fluctuating between approximately 29,800 flats in year 2001/02 and approximately 7,200 flats in year 2006/07, annual production stood above 10,000 units for most years. The average number of flats produced by Housing Authority between 2001/02 and 2010/11 was approximately 17,000 flats per annum. According to Housing Authority, it is projected that its annual production of public housing will be relatively stable between year 2012/13 and 2016/17, with an average annual production of approximately 15,500 flats.

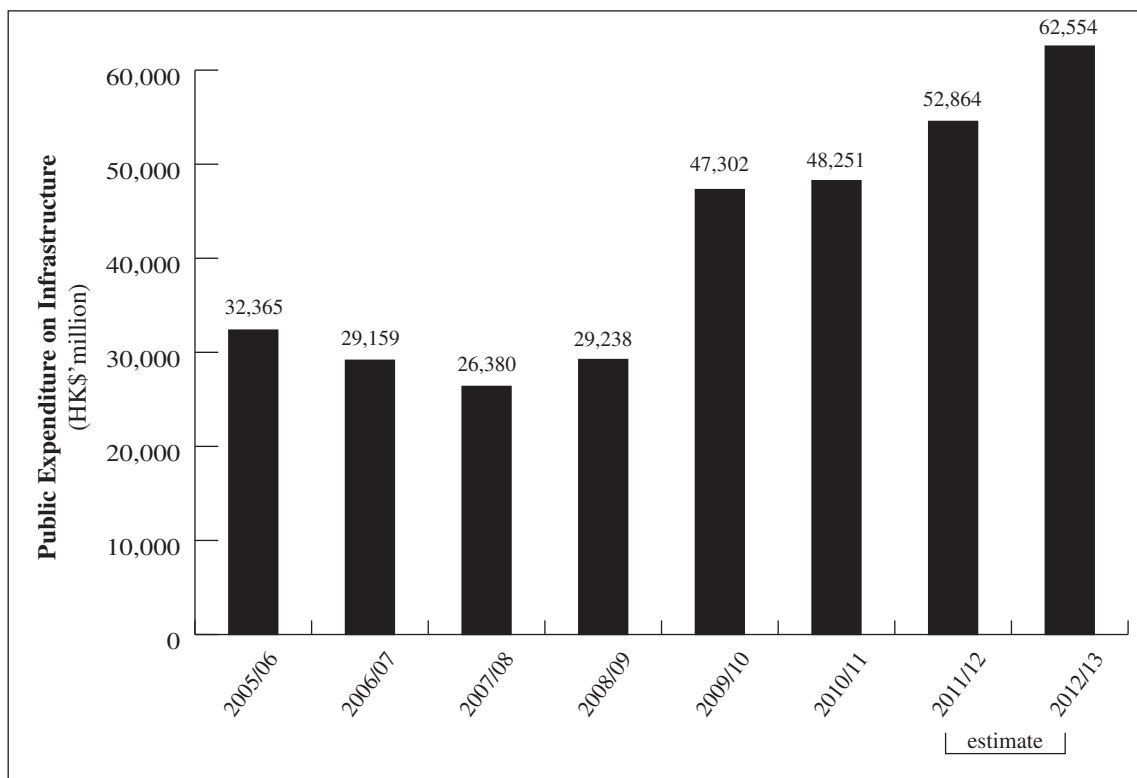
In addition, the Hong Kong government announced in its 2011–12 Policy Address that it intended to resume the Home Ownership Scheme. Under this initiative, the Hong Kong government plans to provide more than 17,000 flats over four years from 2016–2017 onwards, with an annual production of between 2,500 and 6,500 flats. As per the manifesto of the current Chief Executive of the Hong Kong government released in March 2012, the Chief Executive has reiterated the resumption of the Home

## INDUSTRY OVERVIEW

Ownership Scheme as part of his policy platform. On 4 August 2012, the Secretary for Transport and Housing of the Hong Kong government announced that the new Home Ownership Scheme flats will be available in 2016–2017 at the earliest, and there will be land to provide 17,000 units in the first three to four years according to current planning. Furthermore, the Hong Kong government has unveiled 10 new measures on 30 August 2012 to expedite the sale of subsidised and private residential units to meet public demand. Included in such new measures are (i) a total of 2,650 private flats will be sold in the Government Land Sale Program (October — December) and the Hong Kong government will increase residential land if necessary; (ii) an open space in Cheung Sha Wan will be converted to building 2,300 public rental units; and (iii) 36 government, institution and community sites will be rezoned to provide 11,900 public and private flats. The Hong Kong government's commitment to public housing is an important factor that contributes the sustainability and long-term development of the construction industry in Hong Kong.

Apart from public housing produced by Housing Authority, the Hong Kong government also carries out various kinds of infrastructure projects. The following graph sets out the actual and estimated public expenditure on infrastructure in Hong Kong:

**Public Expenditure on Infrastructure in Hong Kong**



Source: Hong Kong Annual Digest of Statistics, 2011, and Hong Kong government's Budgets 2012/13

In Hong Kong government's Budgets, with a view to boosting employment opportunities in the construction industry and promoting economic growth, the Hong Kong government announced in recent years that the expenditure on infrastructural projects will increase. According to the Hong Kong Annual Digest of Statistics 2011 and the Hong Kong government's Budgets 2012/2013, it is estimated the public

## INDUSTRY OVERVIEW

expenditure on infrastructure to double in five year time, increasing from approximately HK\$26.4 billion in the year 2007/08 to approximately HK\$62.6 billion 2012/13. The Hong Kong government also estimated in its 2012/13 Budget that the capital works expenditure for each of the next few years will exceed HK\$70 billion as some major infrastructure projects and other projects would enter their construction peaks.

In the 2007–08 Hong Kong government’s Policy Address, the Hong Kong government undertook to push ahead 10 major infrastructure projects. These 10 major infrastructure projects, including the South Island Line, the Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link, Hong Kong-Zhuhai-Macao Bridge, West Kowloon Cultural District and the Kai Tak Development Plan, etc., encompass various kinds of civil and building structures such as railways, highways, bridges, new urban and new town developments. These various kinds of infrastructure projects will benefit the wide range of sectors in the construction industry. Among the 10 major infrastructure projects, it is believed that (i) Hong Kong-Shenzhen Joint Development of the Lok Ma Chau Loop, (ii) West Kowloon Cultural District, (iii) Kai Tak Development Plan, and (iv) numerous New Development Areas will involve a large number of building structures that require the foundation works, and that the foundation industry in Hong Kong will also benefit from the 10 major infrastructure projects.

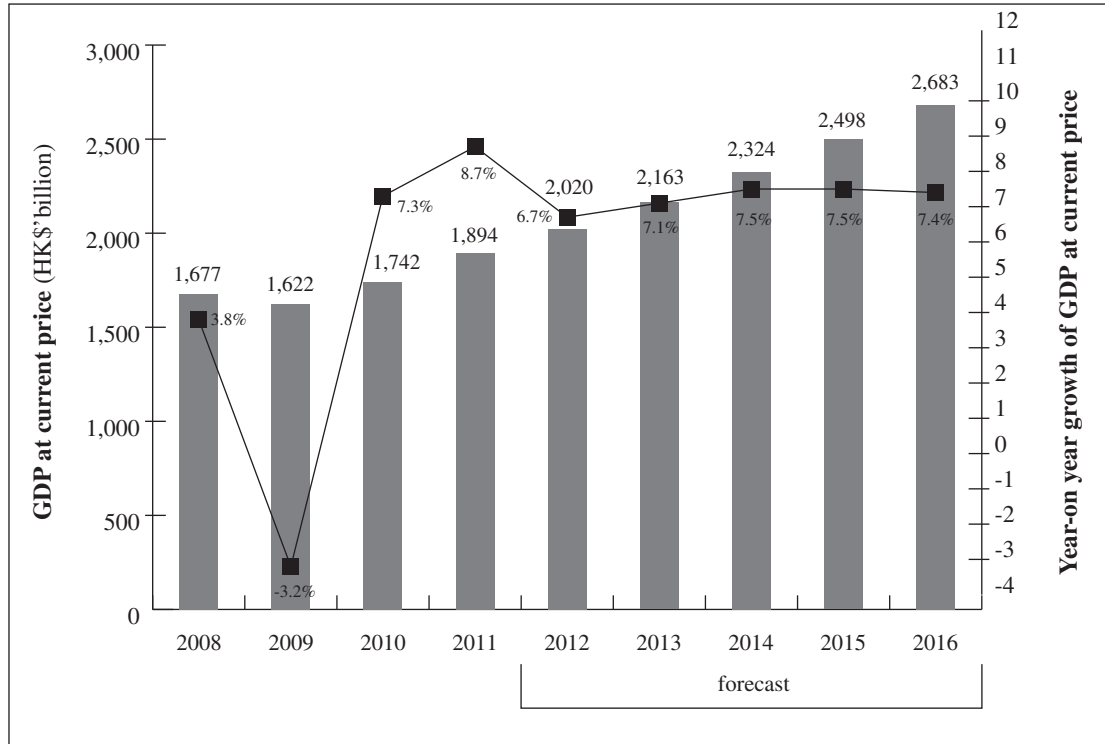
It is expected that the surge in public expenditure on infrastructure and the rolling out of major infrastructure projects would generate considerable business opportunities for the construction industry in Hong Kong in the next few years to come.

## INDUSTRY OVERVIEW

### Private Projects

Private projects are mainly initiated by numerous private property developers. Private property developers make investment decision to develop or redevelop residential, commercial or industrial building projects taking into account of factors including, inter alia, land supply, economic prospect and the general demand for properties in Hong Kong. The following graph shows the projected growth of GDP of Hong Kong:

**GDP and growth of GDP of Hong Kong**



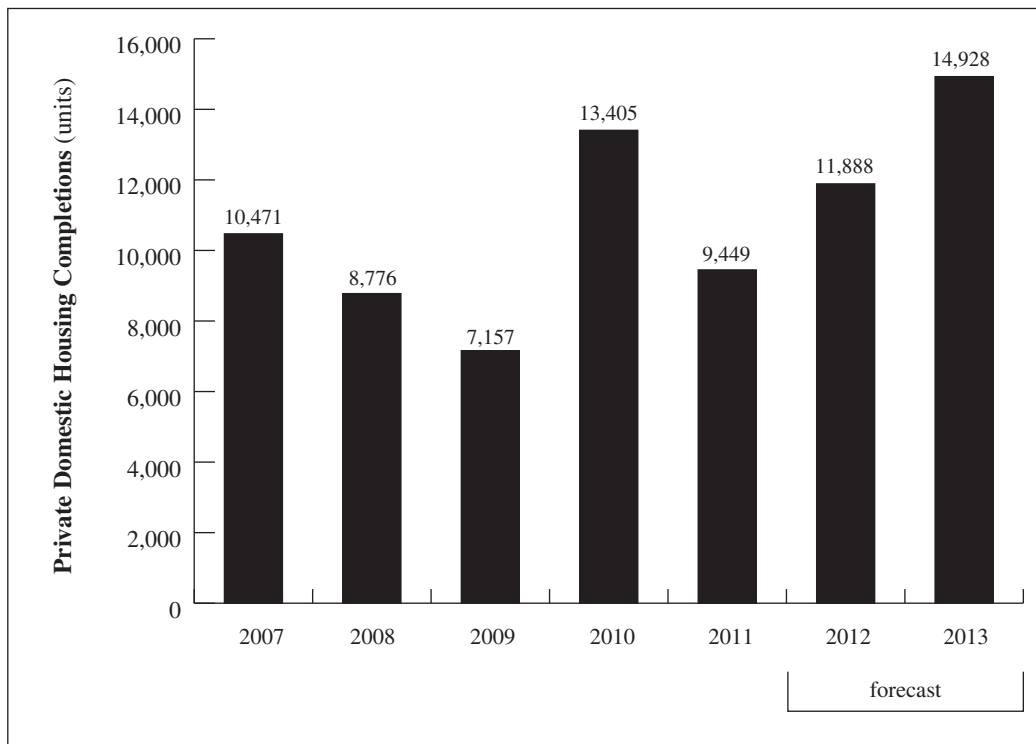
Source: World Economic Outlook (April 2012), IMF

## INDUSTRY OVERVIEW

According to the forecast of IMF, the GDP of Hong Kong is projected to grow from approximately HK\$1,894 billion in 2011 to HK\$2,683 billion in 2016, at a CAGR of approximately 7.2%. According to the same forecast by IMF, the GDP at constant price level of Hong Kong is projected to grow from approximately HK\$1,823 billion in 2010 to HK\$2,214 billion in 2016 at a CAGR of approximately 4.0%. With such projected steady increase in GDP, it is therefore believed that Hong Kong will in general face a stable economic environment that fosters persistent investment in the construction of properties in Hong Kong in the next few years, although the property market and the construction market in Hong Kong also depend on numerous other economic and non-economic factors, such as land supply in Hong Kong.

Sale of land by the Hong Kong government by auction or tender is one of the important ways by which property developers in Hong Kong acquire lands for property development. Among all types of property development, residential property is one of the major sectors for the property market and the construction market. Recognising the limited land supply for residential flats in Hong Kong, in 2010, the Hong Kong government indicated in the 2010/11 Policy Address that its wish to make available land for 20,000 private residential flats annually in the next ten years. Subsequently in 2011, the Hong Kong government announced some specific measures to increase the supply of land and private housing in Hong Kong, by putting more lands up for sale. The following graph sets out the number of private domestic housing completed in the last few years and projected to be completed in 2011 and 2012:

### Private Domestic Housing Completions



Source: Hong Kong Property Review (2012), Rating and Valuation Department, Hong Kong government

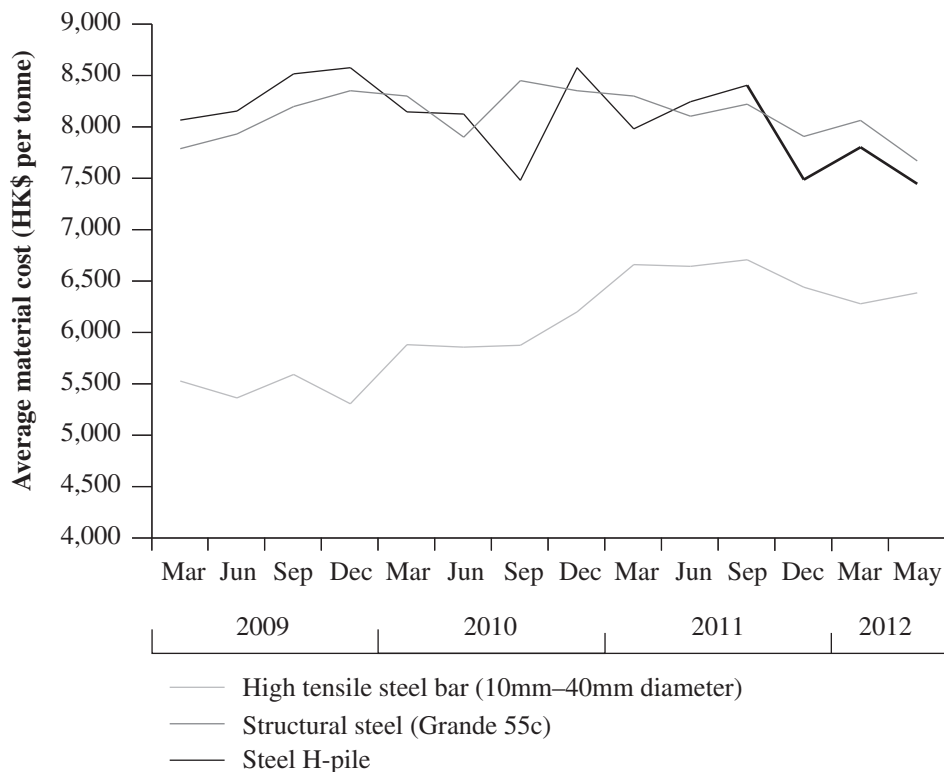
## INDUSTRY OVERVIEW

Between 2007 and 2011, only approximately 9,900 units of private domestic housing per year were completed on average. It is projected that the average number of private domestic housing completion will increase to approximately 13,400 units per year between 2012 and 2013. In 2011 the Hong Kong government announced that it would make available lands for approximately 35,000 residential flats in 2011/12. With the Hong Kong government's initiative to increase the land supply in Hong Kong, it is believed that, if the Hong Kong government's target for private residential flats completion is achieved, there is a strong possibility that the number of domestic housing completion will increase further beyond 2012. The rise in private residential housing development in Hong Kong is likely to generate a considerable amount of new construction projects and business opportunities in the Hong Kong construction industry in the next few years to come.

### Material Price

Construction companies make use of a wide range of construction materials in construction projects. A wide range of construction materials such as steel and cement is utilised in construction projects to form piles, supporting structures, walls and exteriors. Prices for these construction materials are influenced by factors including the local demand for materials, size and intensity of construction works, international commodity prices and foreign exchange rate fluctuation. The following graphs set out the average material costs for some of the construction materials commonly used in foundation projects as regarded by our Directors:

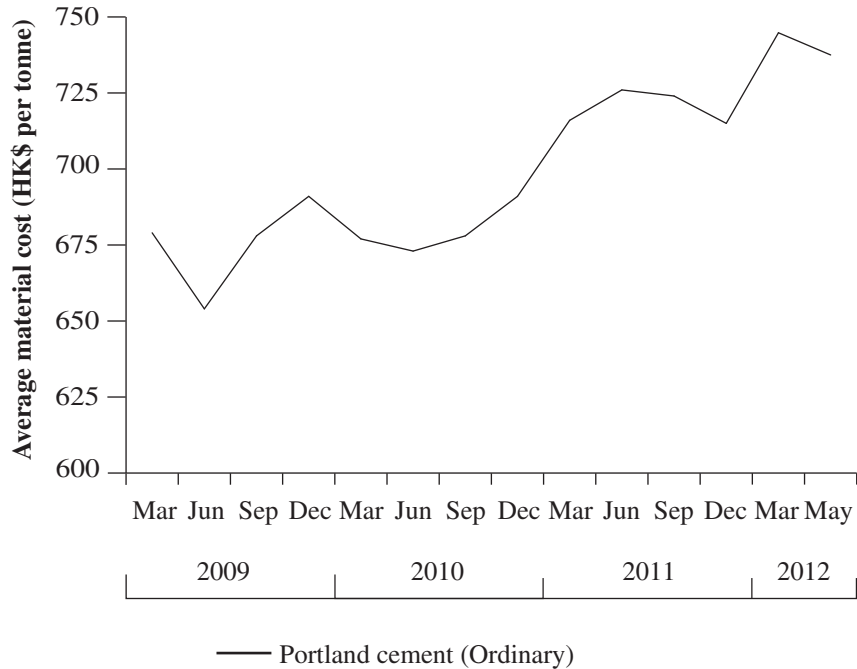
**Construction Material Costs**



Source: Hong Kong Construction Association



## INDUSTRY OVERVIEW



*Source:* Hong Kong Construction Association

The average costs for these construction materials, which include steel and cement, fluctuated considerably during the last two years. The cost for high tensile steel bar (10mm–40mm diameter) increased considerably from approximately HK\$6,200 per tonne in December 2010 and hit a recent high of approximately HK\$6,600 per tonne in June 2011. The cost for Portland cement (ordinary) was generally on a rising trend, growing from approximately HK\$690 per tonne in December 2010 to HK\$730 per tonne in June 2011. Costs for some important construction materials in general vary from time to time or tend to increase considerably over the last two years.

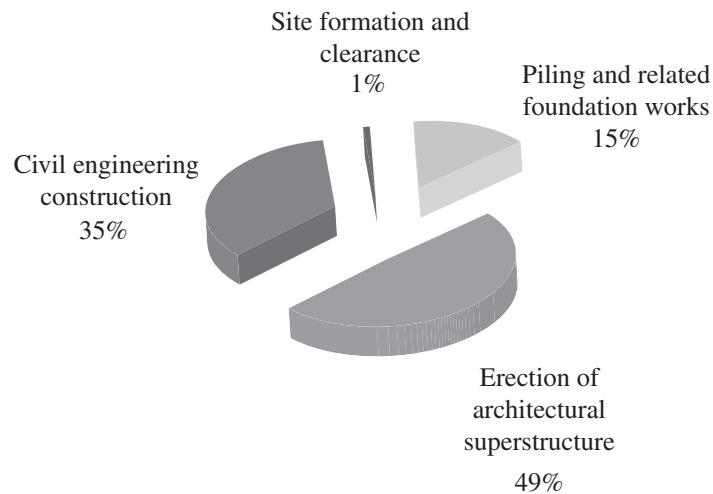
Prices for some major materials fluctuated in varying trends between September 2011 and May 2012. Based on the material price statistics published by the Hong Kong Construction Association, the average price for high tensile steel bar (10mm–40 mm diameter), structural steel (grade 55c) and steel H-pile has dropped from HK\$7,778 per tonne in September 2011 by approximately 7.9% to HK\$7,381 per tonne in March 2012, whereas the price for Portland cement (ordinary) has increased from HK\$724 per tonne in September 2011 by approximately 2.9% to HK\$745 per tonne in March 2012.

## INDUSTRY OVERVIEW

### FOUNDATION INDUSTRY IN HONG KONG

A construction project typically comprises the following areas of work: site formation and clearance; piling and related foundation work; erection of architectural superstructure; and civil engineering construction. The chart below sets forth the proportion, in terms of gross contract value, of the various types of construction work carried out in Hong Kong in 2011. According to the following chart, the gross value of piling and related foundation work performed by main contractors at construction sites amounted to HK\$11,239 million in 2011, accounting for approximately 15% of the total gross value of construction output by main contractors at construction sites of approximately HK\$77,211 million in that year.

**Percentage Share of Construction Output by Main Contractor at Construction Sites in Hong Kong in 2011**



*Source:* Report on the Quarterly Survey of Construction Output (4th Quarter 2011), Census and Statistics Department, Hong Kong government

## INDUSTRY OVERVIEW

The intensity of competition in different areas of works is illustrated in the tables below, which sets forth the number of approved contractors or specialist contractors (as listed in the relevant lists of approved contractors administered by Development Bureau); and the number of contractors registered under Buildings Ordinance:

### **Number of Approved Contractors or Specialist Contractors for Public Works in the Lists of Approved Contractors Administered by Development Bureau**

<b>Category</b>	<b>Number of approved contractors or specialist contractors</b>
Site formation	78
Land piling ( <i>Note</i> )	35
Building	147

*Note:* As at 17 September 2012, there were six specialist contractors eligible for undertaking piling works in all of the following piling methods: (i) large diameter bored pile (with bell-out), (ii) rock-socketed steel H-pile in pre-bored hole, (iii) steel H pile and (iv) minipile.

*Source:* Official website of Development Bureau as at 17 September 2012.

### **Total Number of Contractors Registered under the Buildings Ordinance**

<b>Type of registration</b>	<b>Number of contractors</b>
Registered Specialist Contractors (Site Formation Works)	170
Registered Specialist Contractors (Foundation Works)	129
Registered General Building Contractors	647
Registered Specialist Contractors (Demolition Works)	102
Registered Specialist Contractors (Ground Investigation Field Works)	42

*Source:* Official website of Buildings Department as at 17 September 2012

Our Group is principally engaged in the foundation business and machinery leasing business in Hong Kong. Many of our Group's projects involve a mix of different works including land piling, site formation and building works. For those projects, it is not feasible to segregate the amount and percentage of revenue attributed to each type of our works. Out of the 46 Major Projects undertaken by our Group during the Track Record Period, three Major Projects involved both land piling and site formation works, one Major Project involved civil engineering, one Major Project involved site formation, 39 Major Projects involved land piling works and two Major Projects involved building works. If a contractor wishes to carry out piling works of Hong Kong government departments under Development Bureau, it must be included in the Specialist List which is administered by the Works Branch of Development Bureau under the category of "Land Piling" in respect of the relevant piling system. In order to be eligible to carry out foundation works for private projects in Hong Kong, contractors must be registered with the Buildings Department as a registered specialist contractor under the foundation category. Both Sunley and Sunnic of our Group are included in the Specialist List administered by the Works Branch of Development Bureau under the category of "Land Piling", and

## INDUSTRY OVERVIEW

each of them is registered specialist contractors under the foundation category with the Buildings Department pursuant to the Buildings Ordinance. Our Group also provides ancillary services such as site foundation and site investigation, and our Group also undertook two Major Projects that involved building works since the Track Record Period. Our Group possesses the relevant licences to conduct the above services, details of which are set out in the paragraph headed “Major qualifications, certifications, awards and compliance” under the section headed “Business” of this prospectus.

It is shown in the lists of approved contractors administered by Development Bureau that, as at 17 September 2012, there were only 35 approved specialist contractors for land piling work. These are the specialist contractors allowed to carry out piling works for Hong Kong government departments under Development Bureau or public projects. As indicated in the first table, as at 17 September 2012 there were 78 and 147 approved contractors under site formation work and building work respectively, far more than the number of approved specialist contractors for land piling work. Furthermore, there were only six specialist contractors that are eligible for undertaking piling works by all of the four methods which our Directors consider to be common in the industry: (i) large diameter bored pile (with bell-out), (ii) rock-socketed steel H-pile in pre-bored hole, (iii) steel H pile, and (iv) minipile. With only 35 approved specialist contractors for land piling work, and even fewer specialist contractors that are eligible for undertaking piling works by all of the four common methods competing for all piling and related foundation works in public projects in Hong Kong, the environment of competition in the public projects foundation industry is likely to be less intense than in other sectors of the construction industry.

Based on the gross value of piling and related foundation works performed by main contractors at construction sites as set out in the Report on the Quarterly Survey of Construction Output (1st Quarter 2012) of the Census and Statistics Department, Hong Kong government and our Group’s construction contracts income for the year ended 31 March 2012, our Group represented a fraction of the overall piling and related foundation works market in Hong Kong with construction contracts income of our Group for the year ended 31 March 2012 representing approximately 2.5% of the gross value of piling and related foundation works performed by main contractors at construction sites in Hong Kong.

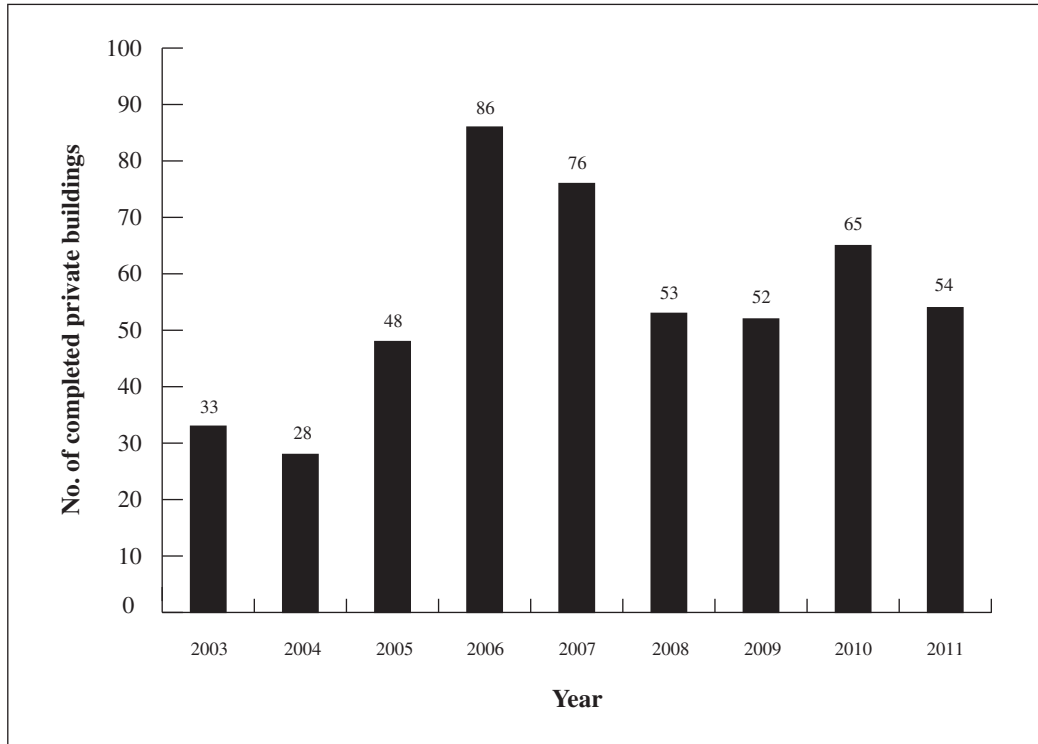
# INDUSTRY OVERVIEW

## CONSTRUCTION INDUSTRY IN MACAU

### Private Projects

The following graph sets out the number of buildings completed in private sector in Macau:

**Total Number of Buildings Completed in Private Sector**



*Source:* Official website of the Statistics and Census Service, Macau government as at 22 May 2012

As illustrated in the above graph, the trend of the Macau construction market fluctuated throughout 2003 to 2011. The completion rate remained low during the years from 2003 to 2005 and experienced a sudden surge to 86 buildings in the year of 2006 which was likely attributable to the flourishing Macau economy, the resulting high demand of which kept the number on the crest in 2007. In 2008, the global financial crisis brought down the economy together with the construction market in Macau, causing a drop of 30% to 53 buildings compared to 76 buildings in 2007. The completion rate was still under the negative impact of the financial crisis and the figure jumped to 65 in 2010. Yet the increasing trend failed to persist and returned to 54 buildings in 2011.

## INDUSTRY OVERVIEW

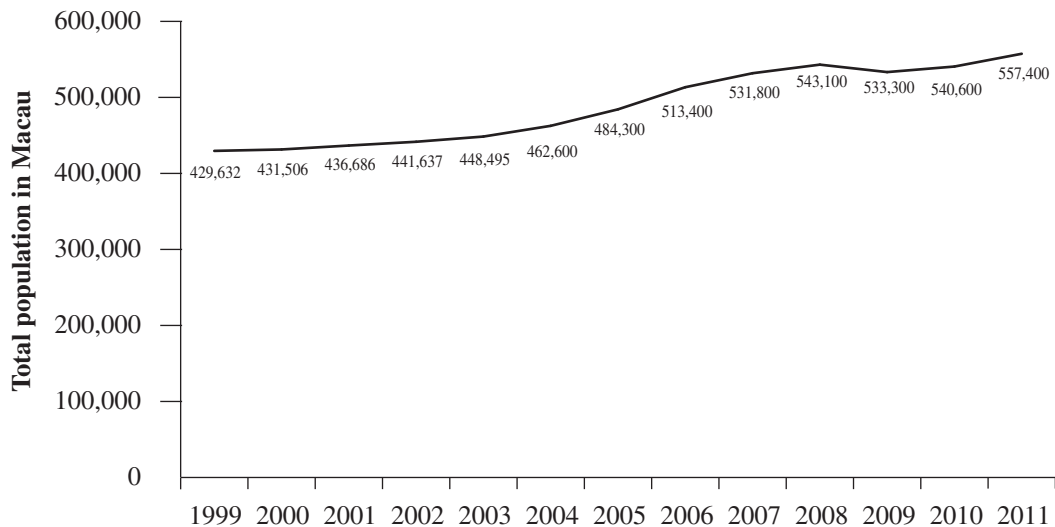
Below table shows the break down of completed buildings in Macau during 2003 to 2011:

	2003	2004	2005	2006	2007	2008	2009	2010	2011
Residential/Dual commercial and residential	17	19	29	47	32	34	32	38	34
Commercial Offices	9	4	3	7	13	6	5	10	2
Industrial	—	—	1	1	1	1	1	—	3
Others	2	1	—	5	1	2	2	—	3
	<u>5</u>	<u>4</u>	<u>15</u>	<u>26</u>	<u>29</u>	<u>10</u>	<u>12</u>	<u>17</u>	<u>12</u>
<b>Total</b>	<b><u>33</u></b>	<b><u>28</u></b>	<b><u>48</u></b>	<b><u>86</u></b>	<b><u>76</u></b>	<b><u>53</u></b>	<b><u>52</u></b>	<b><u>65</u></b>	<b><u>54</u></b>

*Source:* Official website of the Statistics and Census Service, Macau government as at 22 May 2012

The above statistics show the residential or dual commercial and residential buildings had formed the majority of the total number of buildings completed in Macau in the past nine years. Besides, it was mainly attributed to this category of building that had the total number of completion lifted to a new high in 2006. Even when the economy was stroked by the financial crisis between 2007 and 2008, the completion rate of this category was able to resist the enormous negative impact. On this basis, it is thus believed that the residential or dual commercial and residential buildings will remain as a relatively stable and potentially a growing source of new construction given the total population had been increasing in general during the past 12 years as shown in the graph below:

**Total Resident Population in Macau from 1999 to 2011**



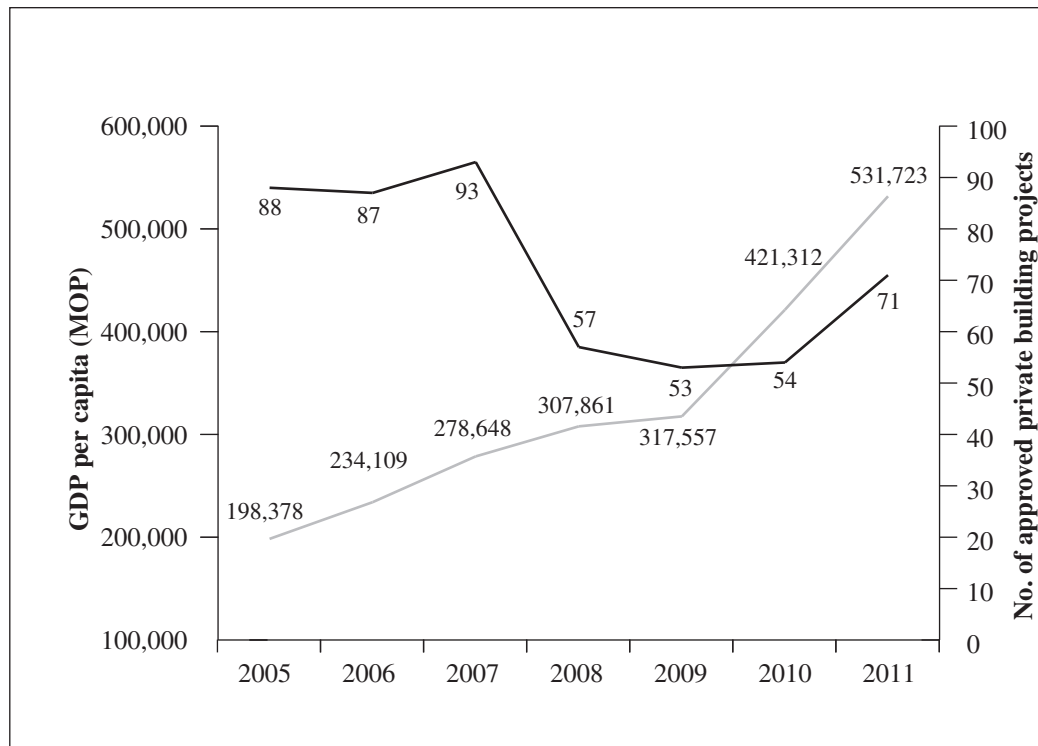
*Source:* Demographic Statistics 2011, Demographic Statistics 2008, Demographic Statistics 2003, Statistics and Census Service, Macau government

## INDUSTRY OVERVIEW

Macau's resident population had been increasing at an average CAGR of 2.14%, from 429,632 to 557,400 between 1999 and 2011. The upward trend came to a halt in 2008 due to an outflow of foreign employees during the financial crisis but resumed in 2010. The total population soared by 16,800, representing an increase of 3.1% in 2011 as compared to 2010. This demographic trend will exert a boost on the demand for residential or dual commercial and residential buildings, and in this sense, is likely to bring business opportunities for the stable growth of the foundation construction industry in the years to come.

The graph below sets forth the number of projects (all kinds of buildings) in private sector approved by the Housing Bureau and GDP per capita in Macau from 2005 to 2011:

**Total number of Approved Building Projects in Private Sector and GDP per capita**



— No. of approved private building projects  
 — GDP per capita

*Source:* Official website of the Statistics and Census Service, Macau government as at 22 May 2012

The total number of approved projects declined drastically in 2008 due to the economic downfall. After a few years of oscillation at a low rate of approval due to a cautious market sentiment, a significant increment was shown in the year of 2011. This increment of 31.5% from 54 buildings in 2010 to 71 buildings in 2011 suggests that there is a favourable market environment in the property or construction market to cope with the increasing demand.

## INDUSTRY OVERVIEW

The above graph also shows that the GDP per capita in Macau had been increasing throughout the period from 2005 to 2011 despite the global financial crisis. The figure skyrocketed at a much higher rate in post-crisis years after 2009, indicating that Macau's economy is now in a robust state and is able to maintain its stability and resistance against negative economic environment. It is therefore believed that Macau generally has good economic foundation, enabling the construction industry to grow in the next few years.