

## INDUSTRY OVERVIEW

*This section contains information and statistics relating to the economy of Hong Kong and the industry in which we operate. We have extracted and derived the information in the section below, in part, from various official government publications and a commissioned market research report from DTZ, a global real estate adviser and an Independent Third Party. Please refer to the paragraph headed “Sources of Information” below for more details. We believe that such sources are appropriate sources for the information and statistics below, including forward-looking information for future periods as identified, and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading in any material respect or that any fact has been omitted that would render such information false or misleading in any material respect. The information has not been independently verified by us or the Joint Sponsors, any of our or their respective affiliates or advisers, or any party involved in the [REDACTED] and no representation is given as to its correctness, accuracy and completeness. Certain information and statistics included, including those excerpted from official and government publications and sources in Hong Kong, may not be consistent with other information and statistics compiled within or outside Hong Kong by third parties. Our Directors confirm that, after taking reasonable care, there is no adverse change in the market information since the date of the DTZ Market Report, which may qualify, contradict or have an impact on the information as disclosed in this section.*

## SOURCES OF INFORMATION

In connection with the [REDACTED], we commissioned a market research report from DTZ for use in part of this [REDACTED] to provide information relating to the economy of Hong Kong, the property market in Hong Kong and the property industry in which we operate. DTZ has charged us a total fee of HK\$280,000, for the preparation of the DTZ Market Report, which we believe is in line with the market rate for such report.

DTZ is a global real estate adviser, which offers a range of services including investment agency, leasing agency, property and facilities management, project and building consultancy, investment and asset management, market research and forecasting, and valuation. DTZ has 240 offices in 68 countries.

The DTZ Market Report was prepared based on economic, demographic and property market data from agencies of the Hong Kong Government, including the Rating and Valuation Department, the Lands Registry, the Census and Statistics Department, the Civil Engineering and Development Department and the Hong Kong Monetary Authority, and the proprietary databases of DTZ. In addition, all projections relating to future completions of residential and commercial properties were based on information collected from the Lands Department as well as announcements from property developers; and projections on price and/or rental trends were generated by DTZ’s in-house econometric models based on various assumptions on the macroeconomic conditions and future supply volume. DTZ adopted the abovementioned sources of information and considers them as reliable as (i) it is a general market practice to adopt official data and announcements from various government agencies in Hong Kong; (ii) DTZ has been producing property market forecasts based on its in-house econometric models for the past five years.

While preparing the DTZ Market Report, DTZ has made the assumptions set out below:

- all information relating to the property portfolio provided by the Company is true and correct;
- all published data by various departments of the Hong Kong Government is true and correct;

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- all collected information relating to residential sales transaction and land transaction records from the Lands Registry are true and correct;
- where information is obtained from renowned public institutions, DTZ relies upon the apparent integrity and expertise of such institutions; and
- no external shock such as financial crisis, natural disasters, new government and industry regulations to affect the demand and supply of the property industry during the forecast period.

## OVERVIEW OF THE HONG KONG ECONOMY

Hong Kong is located in the South China Sea near the mouth of the Pearl River Delta. It has a total land area of 1,110 square kilometres and has a total population of approximately 7.3 million as at 30 September 2015. Given Hong Kong’s strategic location, sound legal system, and its role as an important gateway city to China as well as a leading financial and trading centre, Hong Kong has continuously been ranked amongst the world’s ten most competitive cities in an annual competitiveness ranking compiled by the World Economic Forum. In addition, according to the World Investment Report 2015 published by the United Nations Conference on Trade and Development, Hong Kong is the second largest recipient of foreign direct investment in Asia with a total of global foreign direct investment inflows of US\$103.3 billion in 2014.

Our business and growth are directly correlated with the Hong Kong economic conditions. According to the DTZ Market Report, Hong Kong’s economy has been driven by high real GDP growth and has remained relatively stable for the past three years, with an annual average growth of 2.94% between 2011 and 2015\*. Hong Kong’s recovery from the global financial crisis that took place in late 2008 was underpinned by a strong demand for residential and commercial spaces since 2011.

The table below sets out the key economic and demographic indicators of Hong Kong for the years/period indicated:

|   | 2010    | 2011    | 2012    | 2013    | 2014    | 2015<br>(Jan-Sep) |
|---|---------|---------|---------|---------|---------|-------------------|
| GDP (HK\$ Billion)  | 1,776   | 1,934   | 2,037   | 2,139   | 2,256   | 1,756             |
| Real GDP Growth (%)   | 6.8     | 4.8     | 1.7     | 3.1     | 2.6     | 2.5               |
| GDP Per Capita (HK\$)   | 252,887 | 273,549 | 284,720 | 297,553 | 311,479 | 240,223           |
| Consumer Price Index  | 100.7   | 106.0   | 110.3   | 115.1   | 120.2   | 123.6             |
| Per Capita Disposable Income<br>(Domestic Households) (HK\$/year) | 787,892 | 842,307 | 865,012 | 904,974 | 952,823 | 728,298           |
| Per Capita Expenditure<br>(Domestic Households) (HK\$/Year)       | 468,898 | 518,968 | 550,427 | 587,008 | 616,368 | 478,473           |
| Per Capita Saving<br>(Domestic households) (HK\$/Year)            | 318,994 | 323,339 | 314,585 | 317,966 | 336,455 | 249,825           |
| No. of Household in upper income percentile                       | 119,200 | 134,700 | 146,500 | 170,800 | 185,600 | 241,100           |

*Source: Hong Kong Census and Statistics Department*

Consumer spending has risen sharply since 2010 and has remained relatively high for the past few years, which was mostly driven by an annual average growth of 10.4% in tourist arrival between 2010 and 2015\*. Mainland Chinese tourists are the major contributor to Hong Kong’s overall tourist arrival by volume, and they substantially contributed to the growth in Hong Kong’s retail sector. As a result of the

\* Provisional figure for 2015 was adopted

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PRC Government’s anti-corruption measures, retail sales in Hong Kong have been slowing down since 2014. Such anti-corruption measures have affected the luxury goods retail sales, such as jewellery and watches. However, local purchasing power remained strong, especially reflected in the food and beverage sector, which maintained a positive year-on-year growth of 4.8% as at September 2015.

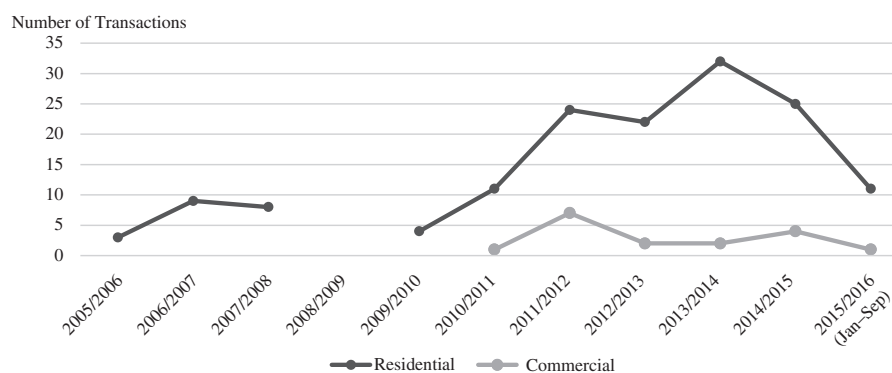
Per capita disposable income for domestic households continued to rise since 2010 and reached approximately HK\$254,005 in the third quarter of 2015, representing a solid year-on-year growth of 4.5%. According to the DTZ Market Report, the strong growth in disposable income has maintained the growing spending power in Hong Kong and underpins the commercial market amidst a potential drop in tourists’ contribution to retail sales as shown by the growth in retail sales contributed by domestic households by 0.2% amidst a fall in retail sales by tourists of 2.9% from 2014 to 2015.

## OVERVIEW OF THE PROPERTY MARKET IN HONG KONG

Supported by strong economic momentum, low interest rate, structural shortage of supply in land, residential and commercial property markets, property prices and rents in Hong Kong have been rising sharply in the past few years, reflecting a strong underlying demand for properties.

The Hong Kong Government has been aware that limited land supply is one of the main causes of the skyrocketing property prices. As a result of the Hong Kong Government’s announcement in late 2010 to aggressively increase the supply of land by way of auctions from 2011, the number of land transactions in residential land has picked up steadily since 2012. In the 2015 Policy Address, the Chief Executive of Hong Kong, Mr. Leung Chun Ying, continued to stress for more efforts to increase land supply for both residential and commercial developments. The charts below illustrate the number of land transactions, the average land transaction value and land transaction by land area from 2005 to 2015, respectively.

**Number of Land Transactions**



Source: Lands Department

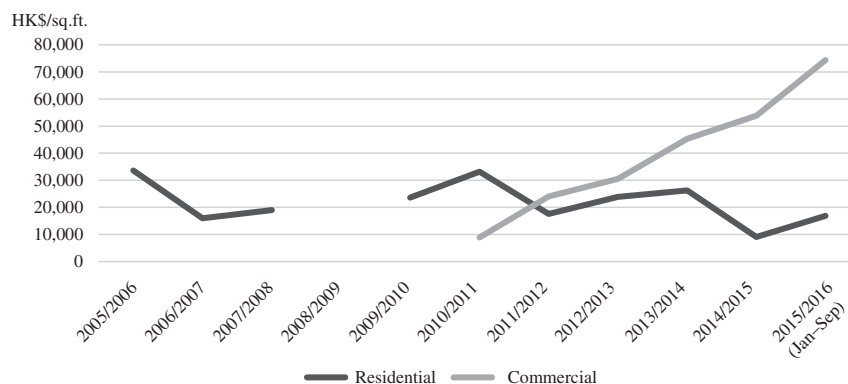
Notes:

1. For year 2005/2006, no commercial land transactions had taken place.
2. For year 2006/2007, the only land transaction with a mix of both residential and commercial was classified by DTZ as a residential transaction as such piece of land was primarily intended for residential use.
3. For year 2007/2008, no commercial land transactions had taken place.

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4. For year 2008/2009, no commercial land transactions had taken place. In addition, the only residential land transaction involving a piece of land in Sai Kung was excluded by DTZ as such piece of land was designated for low-density private residential use only and was not intended for residential development.
5. For year 2009/2010, the only land transaction with a mix of both residential and commercial was classified by DTZ as a residential transaction as such piece of land was primarily intended for residential use.

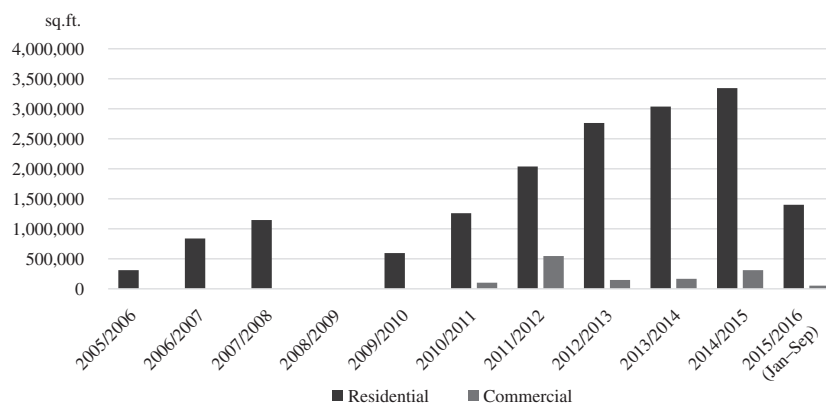
### Average Land Transaction Value



Source: Lands Department

Note: Please refer to the notes in relation to the chart illustrating the number of land transactions from 2005 to 2015 on page 70 to page 71 of this [REDACTED].

### Land Transactions (by Land Area)



Source: Lands Department

Note: Please refer to the notes in relation to the chart illustrating the number of land transactions from 2005 to 2015 on page 70 to page 71 of this [REDACTED].

In addition to releasing more land, the Hong Kong Government has been regulating the property market to restrict property speculations in the past few years. Regulatory policies, such as the revision in the mortgage insurance programme, implementation of SSD, BSD, and the new ad valorem stamp duty rates (which is commonly known as DSD), are considered to be key actions taken by the Hong Kong Government in the past few years attempting to curb property speculations. However, the rise in property prices and rents in the past few years have not been dampened by such government regulations.

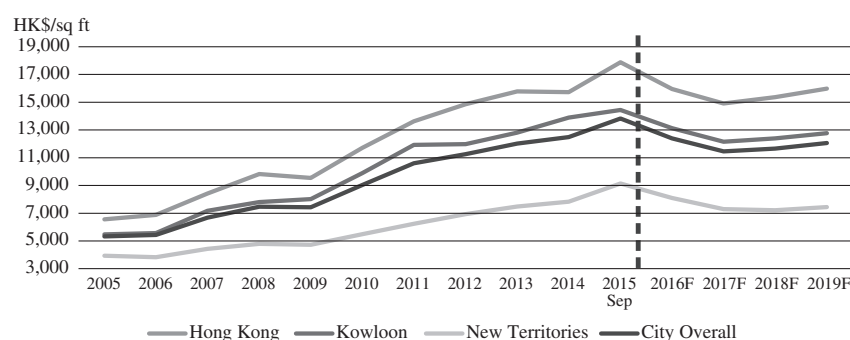
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### Overview of residential property market in Hong Kong

In the residential property market, the key driver of demand includes low interest rate and strong and growing pent-up demand from local end-users who possess increasing consumption power and are exempted from some of the regulatory measures aimed at cooling the property market. According to the DTZ Market Report, the majority of the local end-users’ targets at smaller size units, i.e. less than 431 sq.ft. on a saleable area basis, due to a lower lump sum price.

The demand of local end-users to upgrade from smaller to larger units remains strong, but such demand has been, to some extent, suppressed by rising prices and higher minimum loan to value ratios imposed by the Hong Kong Government. Potential purchasers are adopting a wait-and-see attitude, speculating on further price correction in the overall residential property market. The average selling price doubled during the past decade, with the Hong Kong Island remained as the most expensive area, while the biggest growth in average selling price was achieved in Kowloon, with an accumulated increase of 253.0% in the past decade or an annual average growth of 10.3% from 2005 to 2015. The chart below illustrates the average unit price of residential property sales from 2005 to 2015 and the forecast of average unit price from 2016 to 2019:

**Average Unit Price of Residential Property Sales**



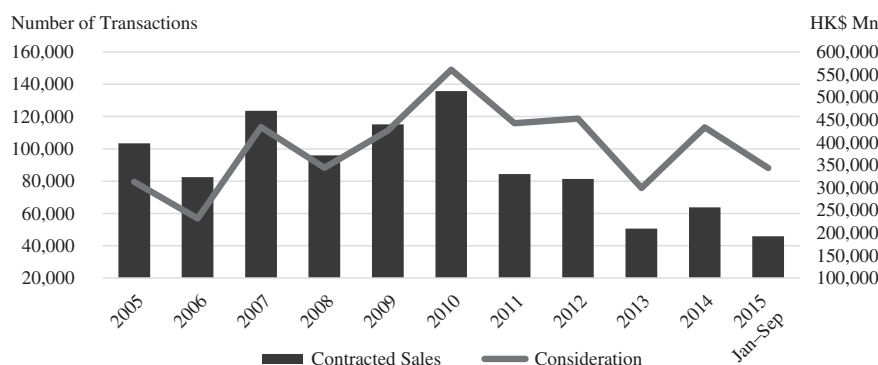
Source: Ratings and Valuations Department and DTZ

As at 30 September 2015, the total private residential property stock in Hong Kong reached 1.1 million units, with an annual average of completed new private residential units of 11,728 units during 2005 and 2015, indicating a very limited new supply. Out of the total stock, the number of units with unit sizes below 431 sq.ft. remained relatively flat over the past decade, with a mild growth of 2.4% from 2005 to September 2015, contributing only approximately 31.2% of the total stock by 30 September 2015. Since 2012, there has been a mild growth in the supply of small units as a response to venting market demand for smaller sized units, but such supply only represents a small fraction, from 14.9% in 2012 to 22.2% in September 2015, of the overall new completions and it is believed that the underlying pent up demand for such units has not yet been adequately met.

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The volume of residential property sales by and large followed the pattern of new supply of residential properties over the past five years. The volume and value of sales and purchases in the residential property market dropped in 2013, which is largely attributable to the Hong Kong Government’s stringent policies and regulations. The residential property market recovered in 2014 with approximately 64,000 sales and purchases with a total value of approximately HK\$433.0 billion, representing an increase of approximately 26.0% and 45.0%, respectively, from 2013. The chart below illustrates the number and total value of contracted residential property sales (primary and secondary) from 2005 to September 2015:

**Number and Total Value of Contracted Residential Property Sales (Primary and Secondary)**



Source: Rating and Valuation Department

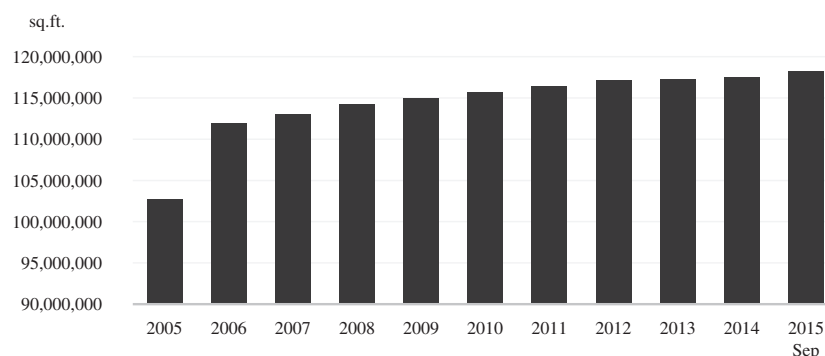
According to the DTZ Market Report, local demand will remain the primary driver of the residential property market over the next five years. The surge in new supply in the coming few years and the recent fluctuation in transaction price may lead to a more cautious market sentiment, which may be evidenced by continuous low level of transactions and price consolidation in 2016. However, the residential property market will mainly be driven by two factors, namely affordability of local residents and economic fundamentals, which are anticipated to remain strong in the coming few years. According to the DTZ Market Report, the primary market demand is expected to pick up and remain strong beyond 2016, benefiting small size residential properties due to smaller total consideration, as well as medium size residential properties which have been strongly demanded by young families who wish to upgrade to larger homes.

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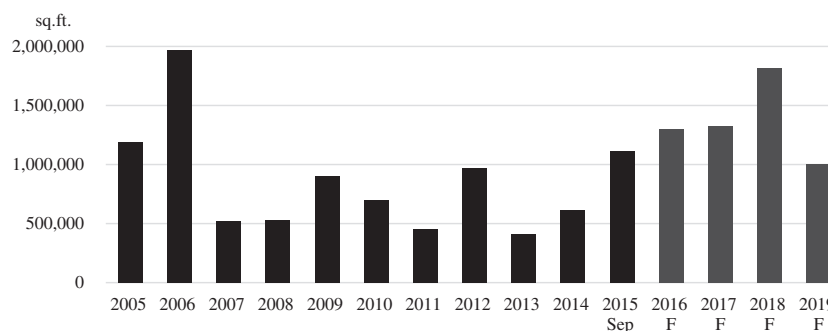
### Overview of commercial property market in Hong Kong

Similar to the situation of residential property market, the commercial property market in Hong Kong has been facing limited supply in the past years. As at September 2015, commercial property stock stood at approximately 118.0 million sq.ft., representing a growth of approximately 5.5% from 2005, or a CAGR of approximately 1.3% from 2005. It is estimated that approximately 5.4 million sq.ft. of new commercial space, equivalent to approximately 4.6% of existing total commercial property stock, would be available to the market in the next five years, which will ease some rental pressure on retailers. The charts below illustrate the commercial property stock in Hong Kong from 2005 to September 2015 and the new commercial property completions in terms of area from 2005 to September 2015 and the forecast from 2016 to 2019:

**Commercial Property Stock in Hong Kong**



**New Commercial Property Completion (in Area)**



*Source: Rating and Valuation Department, Lands Department, DTZ and announcements of property developers*

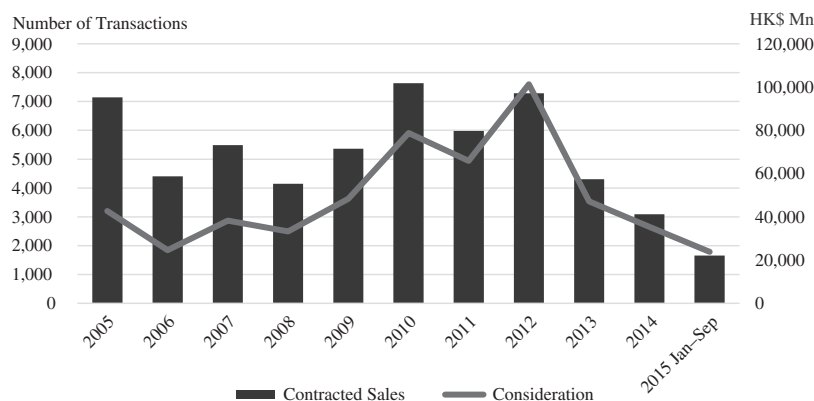
According to the DTZ Market Report, new commercial property supply in the core shopping districts will continue to remain limited, as new commercial spaces are mostly located in several new towns outside the traditional city centres, in order to support the development and growth of the residential and working populations in these new town developments.

In the past few years, the key driver in the commercial property market has been the growing tourism industry, especially the growing numbers of Mainland Chinese tourists since 2010. Known as a shopping paradise, Hong Kong has witnessed twelve years of sales boom, such growth was mainly attributable by the sharp growth in Mainland Chinese tourists and the disposable income in China. Rents and capital values of commercial properties have soared, especially for sites in prime tourist locations

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such as Mongkok, Tsim Sha Tsui and Causeway Bay. Commercial property vacancy remained low, between 7.0% to 8.0%, in the past five years. The chart below illustrates the commercial property demand, in terms of contracted sales, and total consideration:

**Commercial Property Demand (Contracted Sales) and Total Consideration**



Source: Rating and Valuation Department

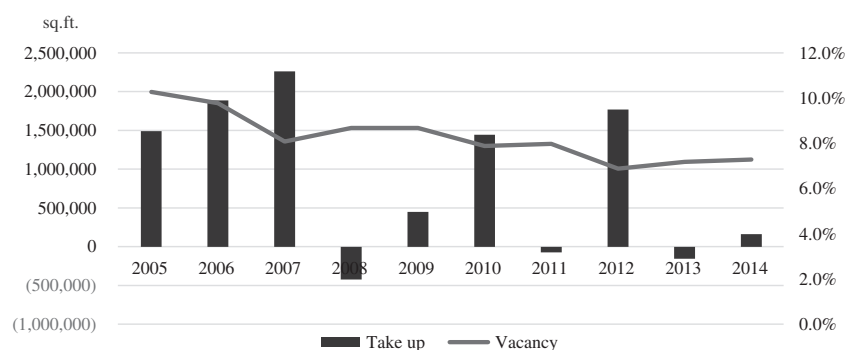
As Mainland Chinese tourists have become more sophisticated and prefer other overseas tourist destinations than Hong Kong, coupled with the Occupy Central event that took place in 2014 and several anti-Mainland Chinese tourists incidents in Hong Kong in early 2015, the growth rate in the number of Mainland Chinese tourists visiting Hong Kong has begun to slow down in 2015, maintaining a much more moderate year-on-year growth of 0.3% as of September 2015 (compared with 15.2% as of September 2014). The decrease in Mainland Chinese tourists in 2015 has contributed to the gradual fall in total retail sales volume (approximately 2.7% on a year-on-year basis as of September 2015), which has generally led to a more cautious market sentiment. Some types of retail shops, such as retail outlet largely supported by Mainland Chinese tourists, have witnessed the greatest drop. For example, the sale of jewellery, watches, clocks and valuable gifts decreased by approximately 14.7%, followed by apparel, the sales of which also decreased by approximately 6.6% on a year-on-year basis as of September 2015. In addition to the volume drop, the spending pattern of Mainland Chinese tourists has also changed from luxury markets, such as luxurious fashion, accessories, watches and jewellery, to mid-to-mass market focusing on daily necessities located in both prime and regional shopping destinations. The city has witnessed a number of these tourism-focused retailers moving out of traditional shopping areas, which were subsequently taken up by other less tourism-related retailers.



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The commercial property market, on the other hand, has been supported by local residents whose consumption power is on the rise, especially in regional shopping destinations, as well as ancillary commercial space in major residential areas. Local consumption expenditure grew by 32.9% between 2010 to 2015 and other commercial sectors, such as food and beverage, continue to record year-on-year growth of approximately 7.3% by the end of September 2015, vacancy rate remained at an all-time low level as a result. The following chart illustrates the commercial property demand in the leasing market and the vacancy rate from 2005 to 2014:

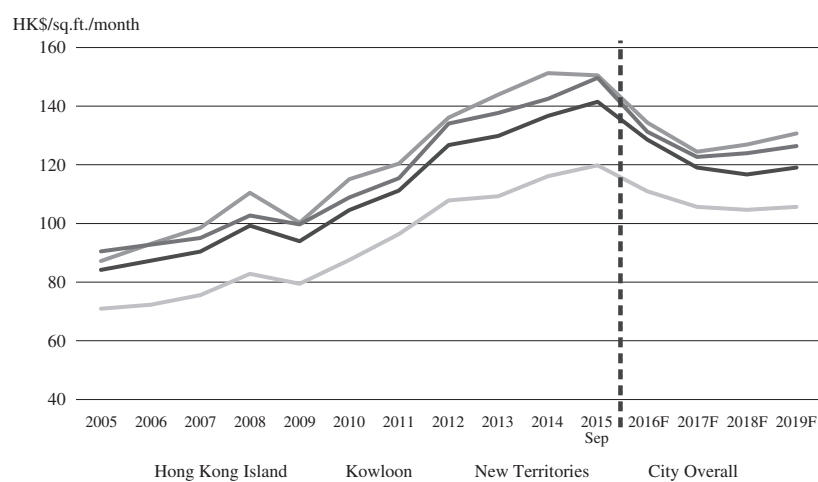
**Commercial Property Demand (Leasing Market) and Vacancy**



Source: Rating and Valuation Department

In 2015, commercial property rent has dropped which has been largely limited to street shops and prime retail areas. The gradual fall in retail rent is considered as a market correction and has allowed more mid-range brands to tap into prime locations, which will benefit the long-term sustainable development of the overall commercial sector in Hong Kong. The chart below illustrates the commercial property rental from 2005 to the third quarter of 2015, and the forecast from the fourth quarter of 2015 to 2019:

**Commercial Property Rental**

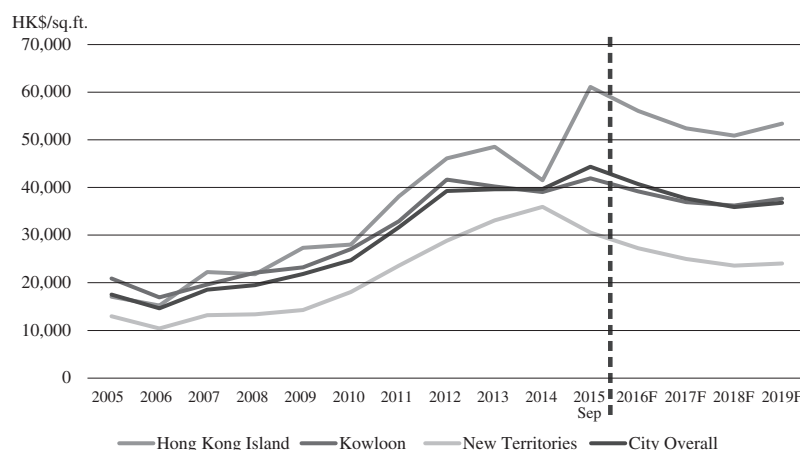


Source: Rating and Valuation Department and DTZ

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Commercial property rental has experienced a drop in 2015; however, according to the DTZ Market Report, investors’ confidence remains positive in the commercial property market, which is illustrated by the continuous growth in retail asset price, especially in the Hong Kong Island and Kowloon, in 2015. The chart below illustrates the average unit price of commercial property sales from 2005 to the third quarter of 2015 and the forecast from the fourth quarter of 2015 to 2019:

**Average Unit Price of Commercial Property Sales**



Source: Rating and Valuation Department and DTZ

According to the DTZ Market Report, demand for commercial property spaces, both in the city centres and new towns, would remain strong amidst the drop in tourists and retail sales volume, and two key structural changes will occur in the commercial property market in Hong Kong in the coming few years, being (i) local consumption will take over the spending by tourists as a result of strong local consumption and positive economic fundamentals, and (ii) the streetscape will change whereby mid-to-mass market brands will replace luxury brands in traditional shopping areas, which will have an effect on the market dynamics as well as the rental and price levels.

### Overview of industrial property market in Hong Kong

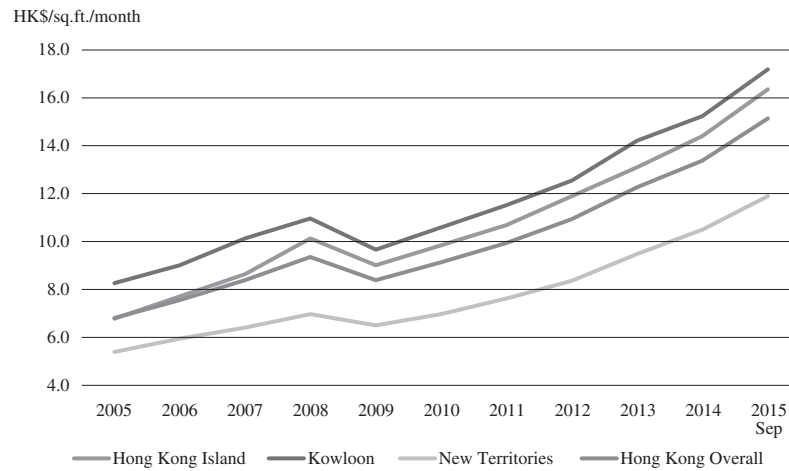
With the relocation of manufacturing activities to the PRC since 1980s, demand for industrial properties in Hong Kong has been primarily reliant on the trading and logistics industries, given the city has been a global shipping centre since 1970s. The lack of diversified demand sources has led to a low level of new supply of industrial properties in the past decade. Between 2005 and September 2015, the average annual completions of industrial property was approximately 405,356.4 sq.ft.

Despite the weaker performance in export activities and a drop in Hong Kong retail consumption, industrial property rents continued to demonstrate growth, driven by limited availability. Monthly rental level of industrial property doubled from HK\$6.8 per sq.ft. in 2005 to HK\$15.1 per sq.ft. in September 2015, representing an average annual growth rate of 7.7%.

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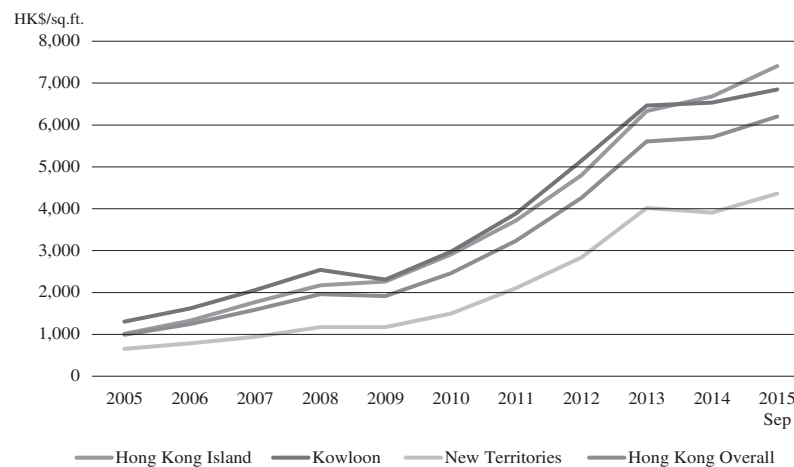
The charts below illustrate the average rent and price of industrial properties from 2005 to September 2015:

### Average Rent of Industrial Properties



Source: Rating and Valuation Department

### Price of Industrial Properties



Source: Rating and Valuation Department

According to the DTZ Market Report, it is expected that weaker external trade activity may continue into 2016, and together with the increase in new supply of industrial properties in the next few years through the Hong Kong Government’s re-development initiatives of wholesale conversion of industrial buildings in Hong Kong which will end in March 2016, both industrial property rental and prices may face a slower growth outlook. As at September 2015, 95 applications had been approved by the Hong Kong Government under such re-development initiatives.

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### COMPETITIVE LANDSCAPE

#### Situation of competition

The property market in Hong Kong has traditionally been dominated by a few large-scale local developers which are listed on the Stock Exchange. However, there has been a growing number of small-to-medium listed companies and private companies which participate in the property market in the past decade. In recent years, developers based in China have also entered into the Hong Kong property market and are active in the Hong Kong property market.

According to the DTZ Market Report, based on the number of residential units pre-sold from January 2011 to September 2015, the market shares of 32 property developers listed on the Stock Exchange are as follows:

| Ranking   | Property developer           | Market share<br>(approximately) |
|-----------|------------------------------|---------------------------------|
| 1         | Listed Property Developer A  | 24.1%                           |
| 2         | Listed Property Developer B  | 22.1%                           |
| 3         | Listed Property Developer C  | 12.8%                           |
| 4         | Listed Property Developer D  | 11.3%                           |
| 5         | Listed Property Developer E  | 10.4%                           |
| 6         | Listed Property Developer F  | 3.9%                            |
| 7         | Listed Property Developer G  | 3.5%                            |
| 8         | Listed Property Developer H  | 2.4%                            |
| 9         | Listed Property Developer I  | 1.6%                            |
| 10        | Listed Property Developer J  | 0.9%                            |
| 11        | Listed Property Developer K  | 0.8%                            |
| 12        | Listed Property Developer L  | 0.7%                            |
| 13        | Listed Property Developer M  | 0.7%                            |
| 14        | Listed Property Developer N  | 0.6%                            |
| <b>15</b> | <b>Parentco/Our Company</b>  | <b>0.6%</b>                     |
| 16        | Listed Property Developer O  | 0.5%                            |
| 17        | Listed Property Developer P  | 0.5%                            |
| 18        | Listed Property Developer Q  | 0.5%                            |
| 19        | Listed Property Developer R  | 0.4%                            |
| 20        | Listed Property Developer S  | 0.3%                            |
| 21        | Listed Property Developer T  | 0.3%                            |
| 22        | Listed Property Developer U  | 0.3%                            |
| 23        | Listed Property Developer V  | 0.2%                            |
| 24        | Listed Property Developer W  | 0.2%                            |
| 25        | Listed Property Developer X  | 0.2%                            |
| 26        | Listed Property Developer Y  | 0.1%                            |
| 27        | Listed Property Developer Z  | 0.1%                            |
| 28        | Listed Property Developer AA | 0.1%                            |
| 29        | Listed Property Developer AB | 0.1%                            |
| 30        | Listed Property Developer AC | 0.1%                            |
| 31        | Listed Property Developer AD | 0.01%                           |
| 32        | Listed Property Developer AE | 0.01%                           |

Source: Land Registry, DTZ, respective listed property developers' annual reports

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The top five property developers listed on the Stock Exchange together accounted for approximately 80.7% of the total number of pre-sold residential units from January 2011 to September 2015. Parentco/our Company ranked 15 out of 32 listed property developers in Hong Kong in terms of the number of residential units pre-sold by the Parentco Group/our Group from January 2011 to September 2015, with a market share of approximately 0.6%. Our Directors consider all property developers in Hong Kong are our potential competitors depending on the location, timing and positioning of their property development projects. In particular, our Directors consider that, except for the property developers which are ranked in top five above and represent market share of over 80.0% in terms of the total number of pre-sold residential units from January 2011 to September 2015, all other developers which share the remaining market with us and are generally engaged in residential property development projects in Hong Kong with project scales similar to us, are our main competitors. Our Directors believe that we will be able to compete, to a certain extent, with our competitors given our various competitive strengths as detailed in the section headed “Business — Our Competitive Strengths” of this [REDACTED], despite the property development market is dominated by a few property developers.

### Factor of competition

Lands for development are primarily released for private development through land auctions and land tenders. While there is no explicit entry barrier to the property market in Hong Kong, successful bidding for a development site through a land auction or tender would reflect the bidding company’s financial strength, as land cost usually accounts for a high proportion of a project value.

## OUTLOOK OF THE HONG KONG PROPERTY MARKET

### Opportunities

The Hong Kong property market has maintained a growing trend since 2009, underpinned by strong domestic demands and active investments, despite regulatory measures by the Hong Kong Government. Supported by the healthy growth of Hong Kong economy and the unique character in the global market, the future opportunities will continue to come from both the mass market and investment market.

### Challenges

As much of the outlook is built on the healthy growth of the economy, the possibility of sudden change in macro-economic conditions, e.g. another global economic crisis or the announcements of further property market curbs by the Hong Kong Government may threaten the outlook of the property market.

In December 2015, the Federal Reserve of the United States decided to raise the federal funds rate by 0.25% and indicated that the rate level is expected to increase gradually in the next few years. Our Directors expect that the banks in Hong Kong may increase the interest rate in the near future, which may likely have a negative impact on our financial performance, as such increase in interest rate will directly affect our future costs of property developments and the costs of purchasing properties of our customers. For details, please refer to the paragraphs headed “Risk Factors — Risks Relating to Our Group and Our Business — Our profit and results of operations are subject to changes in interest rates” and “Risk Factors — Risks Relating to Our Industry — Our Business will be adversely affected if mortgage financing becomes more costly or otherwise less attractive or available” in this [REDACTED].

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The property market in Hong Kong is recently experiencing a cyclical decline in both volume and value of property sale and lease transaction. In the event that there is any major volatility and fluctuation in the global stock market, the property market may be adversely affected, as investors and potential buyers may be more cautious when making investments in properties.

Increasing market competition is a potential challenge for market players. Competition for development land in future tenders is expected to be fierce as there is an increasing number of new entrants to the market, including PRC developers.

### HISTORICAL PRICE TRENDS OF LAND PRICES AND CONSTRUCTION MATERIALS AND LABOUR COSTS IN HONG KONG

#### Land prices

For details of historical price trends of land, please refer to the sub-section headed “Overview of the Property Market in Hong Kong” above in this section.

#### Construction materials and labour costs

Costs of construction materials, such as sand, metal lathing, stone chipping and reflective paint, maintained relatively stable in the past few years, while construction labour cost increased significantly by 45.5% from 2009 to 2015\*, with an annual average growth of approximately 4.2%. The rise in construction labour cost, largely due to a general labour shortage in the construction section caused by several ongoing major infrastructure projects such as (i) the Central Reclamation; (ii) the Hong Kong Zhuhai Macau Bridge; and (iii) Kowloon West High Speed Rail Project, has primarily led to an increase in remuneration of construction labour, translating to an overall increase in construction cost in the past few years. The chart below illustrates the construction cost index from 2005 to September 2015:



Source: Civil Engineering and Development Department

Note: According to the Civil Engineering and Development Department, Cost Index = 0.6\* (Material Index) + 0.4\* (Labour Index)

Construction of the abovementioned infrastructure projects is expected to continue over the next few years and with other new property developments coming along, the situation of labour shortage in the construction industry will likely intensify over the next few years. This will continue to drive up the overall construction cost in Hong Kong. On the other hand, the fluctuation of material cost, which is subjected to the seasonal adjustment from upstream suppliers, has been relatively small over the past years and it is expected that the influence of this factor in the overall construction cost will be relatively insignificant.