

INDUSTRY OVERVIEW

Certain information and statistics in this section and elsewhere in this document relating to retail, interior design market and overall Hong Kong economy are derived from various official and independent third party sources and have been prepared on the basis of information made public by governmental entities and the commissioned research report from Frost & Sullivan. The information presented in this section and elsewhere in this document from these and other sources represents the most recent information that is currently available from those sources. We believe that the sources of the information in this section and elsewhere in this document are appropriate sources for such information 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 Company, the Sponsors, the Underwriters, their respective directors, employees, agents, representatives, affiliates and advisors and all other parties involved in the [REDACTED] have not independently verified, and make no representation as to, the accuracy of the information from official or other third party sources. Such information may not be consistent with, and may not have been compiled with the same degree of accuracy or completeness as, other information compiled within or outside the PRC. Accordingly, the official and other third party sources contained or referred to herein may not be accurate and should not be unduly relied on.

SOURCE OF INFORMATION

We have commissioned Frost & Sullivan to provide industry information on interior design industry. We have agreed to pay a fee of RMB500,000 for the report, which will be fully paid prior to the [REDACTED]. Our Directors are of the view that the payment does not affect the fairness of the views and conclusions presented in the Frost & Sullivan Report.

In compiling and preparing the research report, Frost & Sullivan conducted primary research involving telephone and face-to-face interviews with industry participants. Also secondary research, which involved reviewing industry publications, annual reports and data based on its own database, was conducted. Frost & Sullivan presented the figures for various market size projections from historical data analysis plotted against macroeconomic data, as well as data with respect to the related industry drivers and integration of expert opinions. Frost & Sullivan assumed that (i) the social, economic and political environment is expected to remain stable and (ii) key industry drivers are likely to continue to affect the market over the forecast period from 2015 to 2019.

ABOUT FROST & SULLIVAN

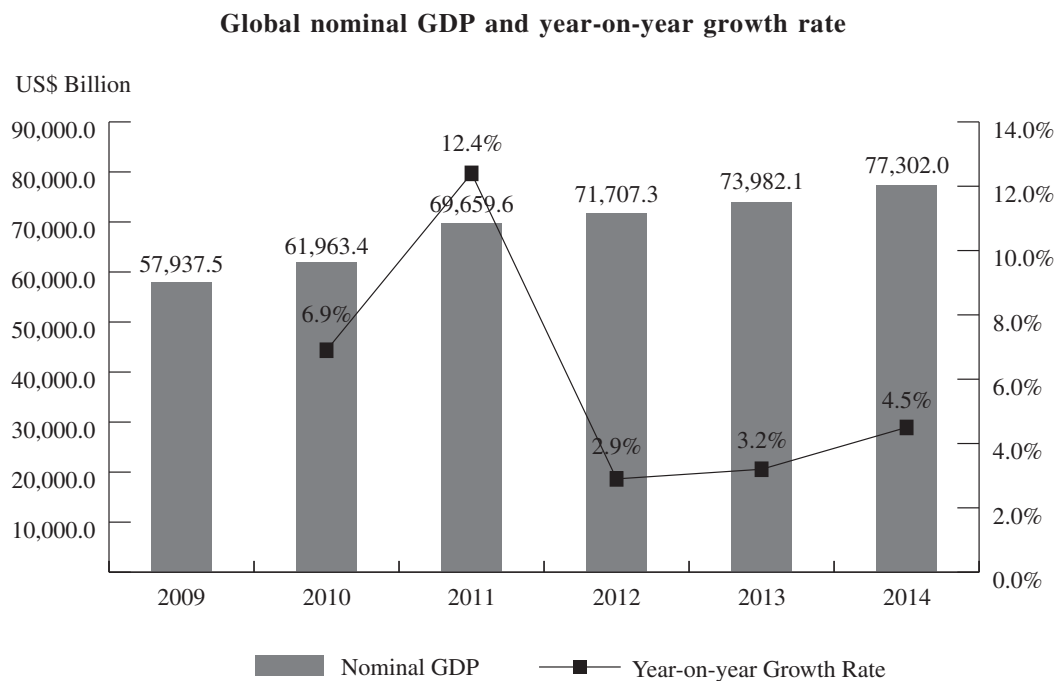
Frost & Sullivan is a global consulting company founded in 1961 with more than 1,800 industry consultants and analysts based in 40 global offices. Its professional services cover technology research, market research, mega trends, economic research, best practices, training, customer research, competitive intelligence, and corporate strategy.

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MACROECONOMIC ENVIRONMENT

Since the financial crisis which took place in late 2008, global economy has been in a period of adjustment and recovery. Despite the European debt crisis and slowdown of growth in emerging markets, driven by the recovery of the United States economy and continuous growth of the PRC, global nominal GDP has seen a CAGR of 5.9% from 2009 to 2014, arriving at US\$77,302.0 billion in 2014. Future growth is still expected to be driven by the United States and the PRC economies for a foreseeable period.

The chart below sets forth the global nominal GDP and year-on-year GDP growth rate from 2009 to 2014:

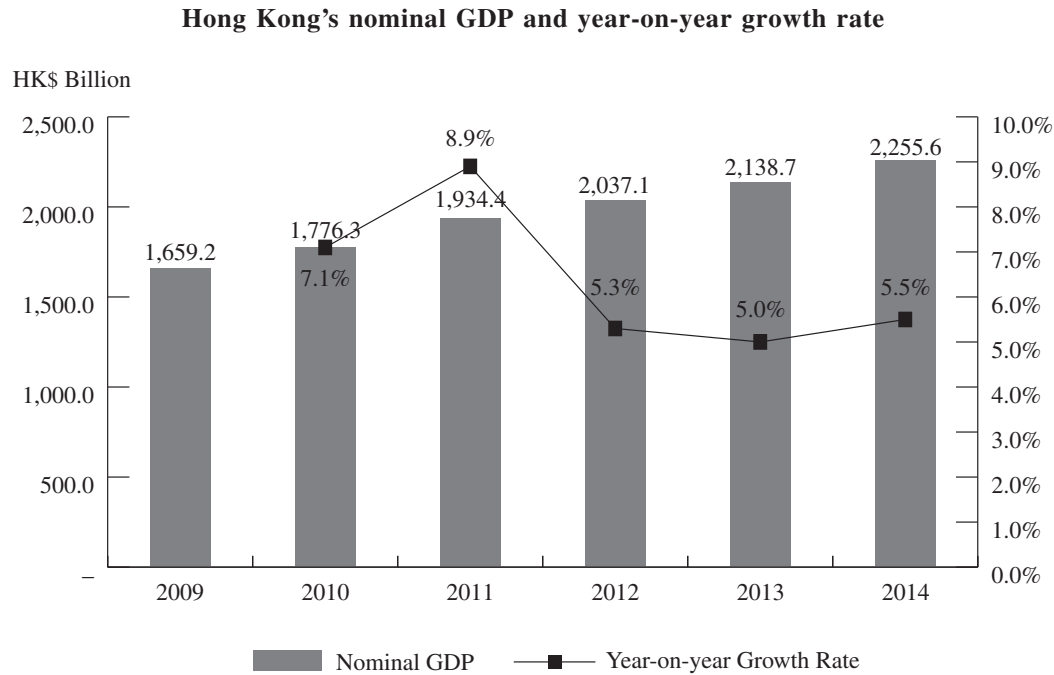


Source: International Monetary Fund

Hong Kong has shown a steady economic growth in the past few years, with the nominal GDP having increased from HK\$1,659.2 billion in 2009 to HK\$2,255.6 billion in 2014, which represented a CAGR of 6.3%. In the near future, Hong Kong’s economy is expected to maintain its stable growth driven by the remarkable potential of domestic demand and transit-trade export with mainland China.

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The chart below sets forth the GDP and year-on-year GDP growth rate in Hong Kong from 2009 to 2014:



Source: Census and Statistics Department Hong Kong Special Administration Region

RETAIL MARKET

Overview

Retail is the process of selling consumer goods and services to customers through channels of distribution. Within the retail market, the luxury goods and high-end fashion segment represents a group of high value, prestigious and exclusive consumer products which include jewelry, timepieces, leather goods, high-end apparel and accessories, retailed by global luxury brands, such as Graff Diamonds, Cartier, Rolex, Louis Vuitton, Chanel, Hermes, etc..

Global retail market

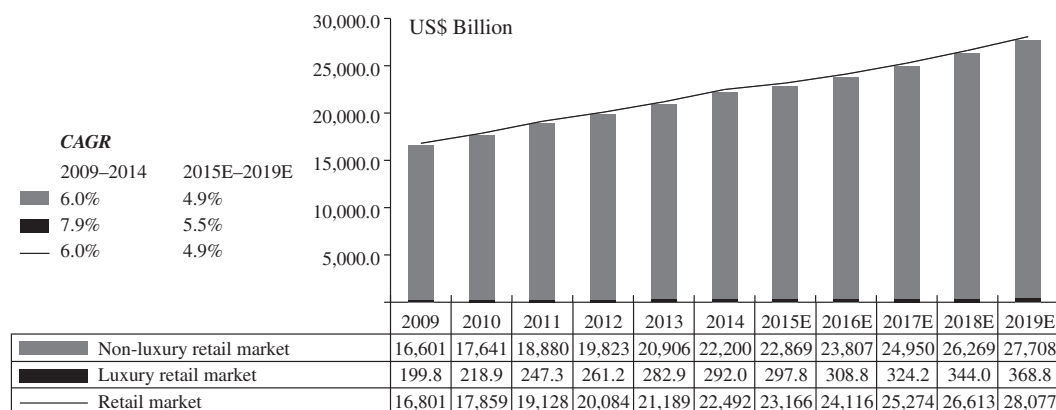
Global retail market has experienced a healthy growth and future incremental growth is estimated to remain stable. This is mainly attributable to the steady growth in global macro-economy, with the developed countries continuing to drive retail consumption while the developing countries heighten their consumption demand. Global retail market size achieved US\$22,492.0 billion in 2014, growing at a CAGR of 6.0% from 2009 to 2014, and is expected to realize a 4.9% CAGR from 2015 to 2019, representing a market size of US\$ 28,077.5 billion.

Global retail sales of luxury goods and high-end fashion in the retail market US\$292.0 billion in 2014, which increased at a CAGR of 7.9% over the past five year since 2009, and is expected to maintain growth with a CAGR of 5.5% from 2015 to achieve US\$368.8 billion in 2019.

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The chart below sets forth the global retail market size by segment from 2009 to 2019:

Global retail market size by segment, 2009–2019E



Source: Frost & Sullivan

Hong Kong market

Hong Kong is one of the best performing retail markets in the world. With only 0.1% of the global population, Hong Kong's retail market contributed to approximately 0.3% of the global retail market size in 2014. Given its international image, Hong Kong attracted 60.8 million visitors from overseas in 2014, which contributed to its remarkable retail sales performance. Benefiting from the continuous economic development in mainland China, tourists from mainland China have shown a strong demand for consumer goods, leading to a significant growth in retail market in Hong Kong. Visitor arrivals from mainland China have been increasing at a CAGR of 21.7% from 2009 to 2014, and reached 47.2 million in 2014, accounted for 77.6% of total visitors to Hong Kong. In addition, retail contributed approximately 21.9% in GDP in 2014, compared to 16.6% in 2009. Retail market will still be underpinning Hong Kong's economy to a great extent.

Hong Kong retail market has been growing vigorously over the past few years over 10% year-on-year growth in total retail sales since 2009. It reached a market size of HK\$493.2 billion in 2014, representing a CAGR of 12.4% from 2009 to 2014. This is propelled mainly by continuous visitor influx from mainland China. Along with the global economic downturn and declining number of visitor's arrival from mainland China, Hong Kong demonstrated a retail sales slowdown since 2014. According to the statistics from Hong Kong Tourism Board, the number of tourist arrivals from mainland China showed a negative growth of 3.0% in 2015, with a decrease in 1.4 million visitors. Retail market size by revenue in Hong Kong in 2015 was HK\$475.2 billion, representing a negative growth of 3.6%. However, as the recovery initiatives on tourism and retail are in place, Hong Kong retail market has a prospect of recovery in the near future. It is estimated that the retail market will achieve HK\$522.3 billion in 2019, growing at a CAGR of 2.4% from 2015 to 2019.

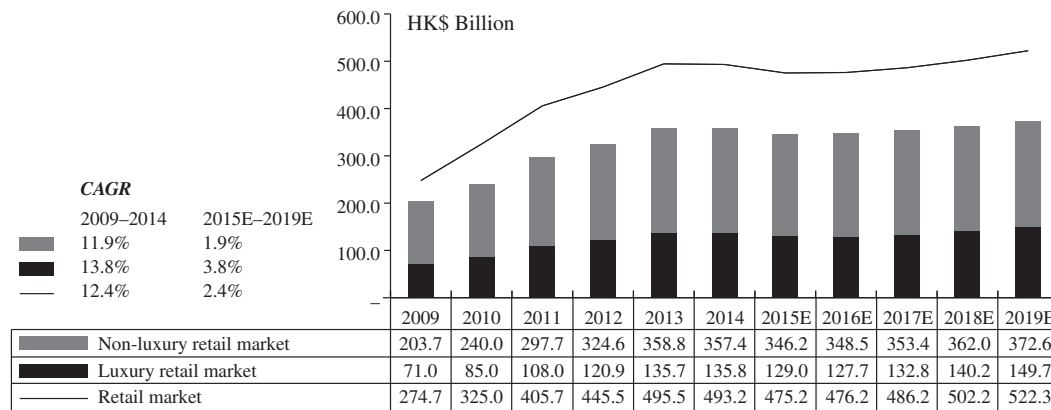
The luxury goods and high-end fashion retail segment in Hong Kong accounted for 6.0% of the global sales revenue in 2014, far higher than that in terms of overall retail sales. This indicated that Hong Kong is better known for its retail sales performance of global luxury goods and high-end fashion. It reached a sales revenue of HK\$135.8 billion in 2014, growing at a CAGR of 13.8% over the period

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from 2009 to 2014. It contributed to 27.5% of revenue in the retail market in Hong Kong. In the future, this segment is expected to continue to grow at a higher rate compared to overall retail market and contribute to 28.7% of the total retail market revenue by 2019.

The chart below sets forth the Hong Kong retail market size by segment from 2009 to 2019:

Hong Kong retail market size by segment, 2009–2019E

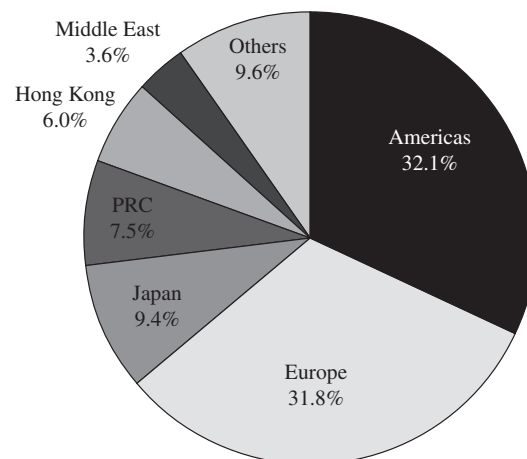


Source: Census and Statistics Department Hong Kong Special Administration Region, Frost & Sullivan

Globally, this market share was led by Americas and Europe, who took a combined share of 63.9% in 2014, followed by Japan, the PRC, Hong Kong and the Middle East, which contributed an aggregate high-end of 90.4% market share by revenue.

The chart below sets forth the global luxury goods and high-end fashion for retail by region in 2014:

Global retail of global luxury goods and high-end fashion by region, in 2014



Source: Frost & Sullivan

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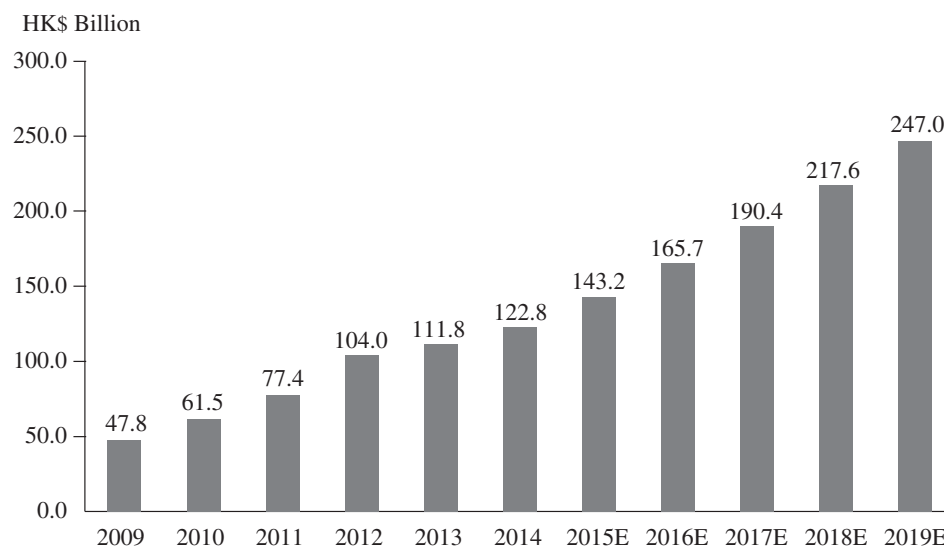
CONSTRUCTION WORK IN HONG KONG

Overview

Construction work in Hong Kong experienced a vigorous growth since 2014. Gross value of construction work in Hong Kong reached HK\$122.8 billion in 2014, representing a CAGR of 20.8% from 2009 to 2014. In 2012 the year-on-year growth rate reached 34.4%, which was mainly attributed to the rising visitor influx from mainland China and booming construction of retail-oriented commercial projects, and then underwent a slump in 2013, marking a 7.5% growth and then 9.8% growth in 2014. In the future period, with the increasing attention to private sector of construction work commissioned by private developers, gross value of construction work in Hong Kong is expected to reach HK\$247.0 billion in 2019, growing at a CAGR of 14.6% from 2015 to 2019.

The chart below sets forth the gross value of construction work in Hong Kong from 2009 to 2019:

Gross value of construction work in Hong Kong, 2009–2019E



Source: Census and Statistics Department of the Hong Kong Special Administration Region, Frost & Sullivan

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INTERIOR DESIGN FOR RETAIL OF GLOBAL LUXURY GOODS AND HIGH-END FASHION BRANDS

Overview

Interior design refers to the service of providing design solutions which mainly include design and management, construction and management (such as facade development and fabrication, fit-out construction), decorative materials provision (such as millwork and furniture). It encompasses a wide range of sub-specialties such as applications in residential, commercial (including retail and office building), industrial and infrastructural housing facilities.

Interior design for retail sector can be divided into two segments as follows:

Category	Feature	Typical Application
Interior design for retail stores of global luxury goods and high-end fashion	<ul style="list-style-type: none"> ● Shopping experience prioritized ● Unique and conceptual image ● High-class status ● One-to-one shopping guide ● Wide display and fitting space 	<ul style="list-style-type: none"> ● Luxury jewelry stores ● Luxury timepieces stores ● Luxury leather goods stores ● Luxury apparel and accessories stores
Interior design for stores of other retail goods	<ul style="list-style-type: none"> ● Shopping targets prioritized ● Logo image ● Convenience ● Limited shopping guide ● Limited display and fitting space 	<ul style="list-style-type: none"> ● Retail stores of other than global luxury goods and high-end fashion

Market Size

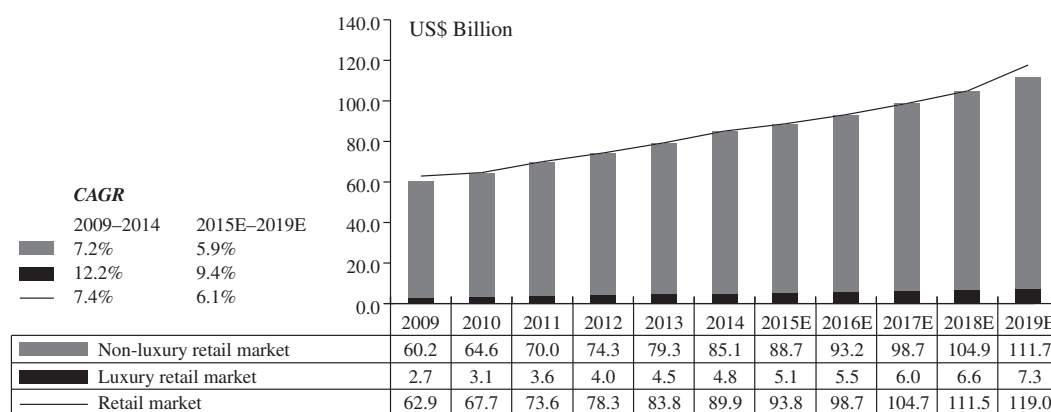
Global market

With the stable growth of global retail market, interior design serving global retail market has been growing at a CAGR of 7.4% from 2009 to 2014 reaching US\$89.9 billion in 2014. This market is expected to maintain its stable growth and will reach US\$119.0 billion in 2019. The segment of interior design for global retail of global luxury goods and high-end fashion brands took a share of 5.3% in the interior design industry in 2014, reaching US\$4.8 billion, and saw an increasing trend in terms of the proportion.

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The chart below sets forth the interior design for global retail market by segment from 2009 to 2019:

Interior design for global retail market by segment, 2009–2019E



Source: Frost & Sullivan

Hong Kong market

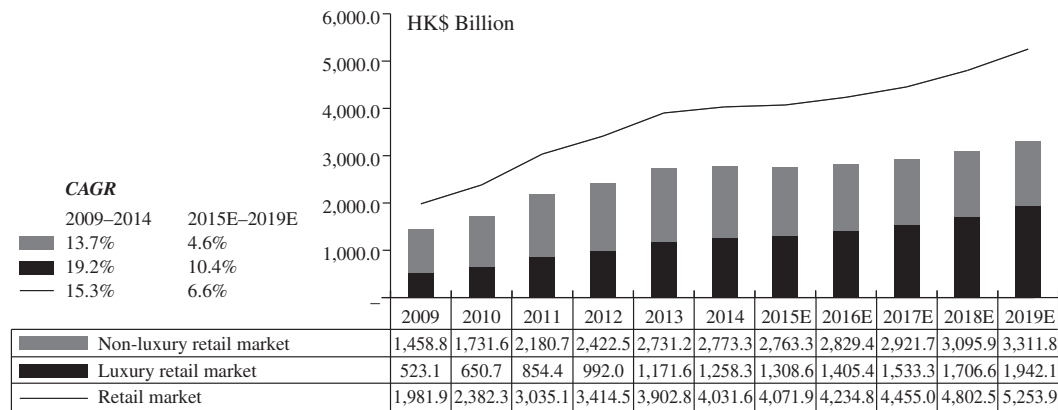
Attributed to the prosperous growth of retail market, interior design for overall retail market in Hong Kong reached HK\$4,031.6 million in 2014, increasing at a CAGR of 15.3% over the period from 2009 to 2014. Affected by the slowdown of retail market in 2014 and 2015, the interior design for retail market in Hong Kong is expected to receive the influence as well in these two years, but will maintain stable growth after 2015. The future CAGR from 2015 to 2019 would arrive at 6.6%.

In relation to the segment of global luxury goods and high-end fashion within the global retail market, the interior design segment tailored to the global luxury goods and high-end fashion contributed to 31.2% of the interior design industry in 2014 and reached a market size of HK\$1,258.3 million, growing at a CAGR of 19.2% from 2009 to 2014. In the future, this segment is expected to follow the trend of the corresponding segment in the retail market, undergoing a short recovery period in 2014 and 2015 and then embracing stable future growth at a CAGR of 10.4% over the period from 2015 to 2019.

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The chart below sets forth the interior design for Hong Kong retail market by segment from 2009 to 2019:

Interior design for Hong Kong retail market by segment, 2009–2019E

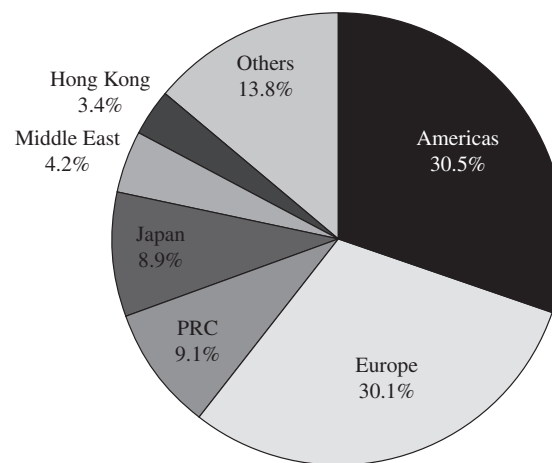


Source: Frost & Sullivan

This segment in Hong Kong accounted for 3.4% of its global sales revenue in 2014. Dominated by the Americas and Europe, with an aggregate of 60.6% market share, this market showed a consolidated landscape. Other leading territories include the PRC, Japan and the Middle East.

The chart below sets forth the interior design for global retail of global luxury goods and high-end fashion by region in 2014:

Interior design for global retail of global luxury goods and high-end fashion by region in 2014



Source: Frost & Sullivan

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Growth Drivers and Market Trends

The rapid growth of the interior design industry for retail of luxury goods and high-end fashion market in Hong Kong derived from demand and supply factors as follows:

Economic recovery and rising purchasing power. Given the export-oriented economic natures, international image and duty-free advantages of Hong Kong, visitor influx including businessmen and tourists are still regarded as the main consumers of prestigious fashion and luxury goods. Despite the economic slowdown in 2014 and 2015, the global economy is expected to show a recovering trend based on series of initiatives. National economic development in mainland China would drive this market, not only in Hong Kong, but also the overseas market with outbound travel for consumption of luxury goods and high-end fashion. This indicates huge market opportunities for interior design companies engaged in providing service in this segment.

Pursuit of premium shopping experience. Consumption upgrade represented a growing preference in pursuing better retail products and customer service, practically in the market with increasing consumer expenditure power. This premium shopping experience is realized at a complex of shopping environment and friendly guiding service. Retail of luxury goods and high-end fashion has a best-fit position in the correlation, catering well to the high-end consumers. Therefore, it drives the interior design market for these retail stores.

International exposure of luxury goods brands. Luxury brands commonly posed strategic deployment for store locations globally, which aim for absorbing the revenue inflow in a wider range and also reducing the diverse risks of local economic downturn and lack of consumption incentives. Currently, Hong Kong is undergoing sluggish retail sales due to falling consumer demand from mainland China, but they tend to utilize its strategic deployment to relocate stores to areas where they have competitive advantages. Furthermore, prestigious luxury goods brand owners usually launch new brand series in Hong Kong for trials, which relies on both mature luxury environment and huge consumer influx in Hong Kong. This premium shopping experience is realized at a complex of shopping environment and friendly guiding service. Retail of luxury goods and high-end fashion has a best-fit position in the correlation, catering well to the high-end consumers. Therefore, it drives the interior design market for these retail stores. Interior design companies are not usually affected by economic downturn as a whole.

New business strategies for luxury goods brands. Luxury goods brands are in the process of reinventing their business strategies to reduce the impact from global economic downturn. For instance, in mainland China, Chanel took the lead in lowering the retail sales price of its products, which leads to some other luxury goods brands’ following. Louis Vuitton refurbish its storefront to launch cafe parlor adjacent to its retail store at an attempt to extend the consumers’ time spent at its store. This brings about opportunities for refurbishment for interior design companies which focus on this segment.

Endeavor in occupancy of mark shares. Given the truth that global luxury goods brands place a strong emphasis to the Hong Kong market, interior design companies which focus on this segment have the potential to gain greater market share. In order to refresh brand’s seasonal image, high-end luxury stores usually revamp the interior designs of their retail boutiques every two to six months or relocate their stores to different regions in order to capture sales opportunities from different groups of affluent clientele. Furthermore, these stores also conduct regular renovation in brand concept every two to three years, which leads to stable refurbishment in interior design.

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The key trends observed in the high-end interior design market in Hong Kong are as follows:

Value chain integration. Beside the conventional interior design service, current interior design companies are evolving to provide integrated service including millwork and furniture, fit-out construction, facade decoration and refurbishment. They are growing to become an one-stop interior design solutions provider.

Business diversification. In response to the diminishing demand from luxury goods brands, some interior design companies with particular attention to this segment branched out to new client types, such as office building and high-end residential construction.

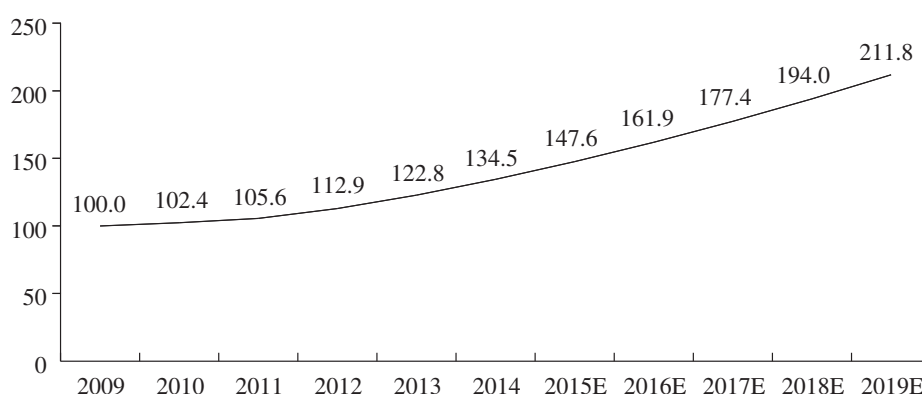
Ahead of schedule in research and development. Similar to technology companies, which devote resources to research and development, interior companies have also been investing in recruiting talents to work with existing clients closely for conceptual realization and proposal on new store layouts. This has become one of the key trends that companies engaged to succeed in the competition.

COST FACTORS

It is observed that the average wage of workers in the interior design market for retail of luxury goods and high-end fashion has been on upward trend, which is mainly attributed to the labor shortage in this industry, while the demand has been increasing robustly. It is estimated that this trend would keep going. However, given that interior design companies have been making effort in providing better services to their clients, labor cost is reflected in their overall service fees and would not be an obvious constraint.

The chart below sets forth the price index of average wage of workers in the interior design market for retail of prestigious fashion and luxury goods in Hong Kong from 2009 to 2019:

Price index of average wage of workers in the interior design market for retail of global prestigious luxury jewelry and fashion goods in Hong Kong, 2009–2019E



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

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Competitive Landscape of the Interior Design Market

Overview

There are over 350 companies in the interior design market for luxury goods and high-end fashion in Hong Kong, most of which are small-scale. The competition among companies in this industry focuses on business relationship and design capability. The companies capable of providing total design solutions with particular focus on luxury goods and high-end fashion brands are scarce, because usually the clients in this segment have much higher requirements on conceptual image and the capabilities to realize the ideas. Companies engaged in this area usually have extensive project experience. Overseas project experience contributes to their competitive advantages against peers. Interior design companies targeting the luxury goods and high-end fashion market in Hong Kong and globally are highly fragmented.

Top five Hong Kong-based interior design companies contributed to no more than 1.0% in aggregate for the luxury goods and high-end fashion brands globally in 2014. The table below sets forth the market shares in terms of revenue of the leading Hong Kong-based companies in the interior design market for the luxury goods and high-end fashion brands globally in 2014:

Company Names	Market Shares, 2014	Business Description
Our Group	0.31%	A Hong Kong based company with main business in one-stop interior design solutions for global luxury goods and high-end fashion brands
Company A	0.28%	A Hong Kong based company with main business in interior design service for retail, hotels and office buildings
Company B	0.19%	A Hong Kong based company with main business in interior design service for office buildings, hotels, residence and retail
Company C	0.12%	A Hong Kong based company with main business in design service for commercial and residential facade construction work
Company D	0.06%	A Hong Kong based company with main business in interior design service for global prestigious luxury brands

Source: Frost & Sullivan

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Top five global companies took a combined share of 19.4% in the interior design market for retail of luxury goods and high-end fashion in Hong Kong in 2014. The table below sets forth the market shares in terms of revenue of leading global companies in the interior design market for retail of luxury goods and high-end fashion brands in Hong Kong in 2014:

Company Names	Market Shares, 2014	Business Description
Company A	5.7%	A Hong Kong based company with main business in interior design service for retail, hotels and office buildings
Our Group	4.2%	A Hong Kong based company with main business in one-stop interior design solutions for global prestigious luxury brands
Company E	3.6%	A Singapore based company with main business in retail, office buildings, exhibitions and museums
Company B	3.3%	A Hong Kong based company with main business in interior design service for office buildings, hotels, residence and retail
Company F	2.6%	A Singapore based company with main business in provision of decorative materials and design service for residential and commercial properties, including retail

Source: Frost & Sullivan

Entry Barriers

Barriers to entry interior design market with total design solutions for luxury goods and high-end fashion brands are high. Design capability, industry experience, business relationship and reputation comprise the main barriers for new market entrants.

Extensive design capability. Extensive research and development capability enables a design company to realize conceptual and complicated design ideas, which are usually the requirements from the high-end clients. Design companies that are capable of providing integrated service like millwork and furnishing, fitting-out and facade decoration have better reinforce both the design and management over the process. Thus, business mindsets are expected to be cultivated and polished to serve the clients in a wide scope, which is essential to accomplish good design works in this industry.

Creditable quality of service. Given the positioning of luxury goods and high-end fashion market, their stores appeal to present delicate and decent image to consumers. The decorative materials for adoption in their store should be environment-friendly. Therefore, it is required to ensure the quality of the service, including fit-out construction, fabrication of facade, showcases, millwork, furniture, etc.. Usually these brand owners have nominated interior design solutions vendors, who have been authorized to be within the list of their qualified vendors and have credentials in ensuring the quality of service.

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Rich industry experience. Usually a design concept is abstract and unquantifiable. Potential customers tend to approach design companies that have rich portfolio in this industry. Comprehensive industry experience could also facilitate the design flow in both design and management aspect, such as the capability to coordinate with various parties in a project efficiently.

Business relationship and reputation. It is crucial to develop good business relationships with various parties, including customer relationship and other parties involved in the whole process. Strong client relationships can ensure stable project sources. Landlords of retail properties tend to recommend interior design companies that have good reputation. Also, most of the interior design companies specialize in particular area such as design, furnishing or facade decoration. Therefore, they might collaborate with their competitors in larger projects. So reputation is the key within the industry.