

INDUSTRY OVERVIEW

We have extracted and derived the information and statistics in the section below, unless otherwise specified, from the report prepared by Frost & Sullivan, which was commissioned by us. We believe that the sources of such information are appropriate and we have taken reasonable care in extracting and reproducing such information. We have 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 Sole Sponsor, the [REDACTED], the [REDACTED], the [REDACTED] or any other party involved in the [REDACTED] and no representation is given as to the accuracy or completeness of such information or statistics. The information and statistics may not be consistent with other information and statistics compiled within or outside Hong Kong and the information should not be relied upon in making, or refraining from making, any investment decision. Our Directors confirm that after making reasonable enquiries, there is no adverse change to the market information since the date of the commissioned report which may qualify, contradict or have an impact on the information in the section below.

SOURCES OF INFORMATION & RESEARCH METHODOLOGY

We have commissioned Frost & Sullivan, an Independent Third Party, to conduct market research and prepare a report entitled China's Furniture Market Study for a total sum of HK\$380,000. Frost & Sullivan is an independent global consulting firm, which was founded in 1961 in New York. It offers industry research and market strategies and provides growth consulting and corporate training.

The market research process for this study has been undertaken through detailed primary research which involves discussing the status of the industry with leading industry participants and industry experts. Secondary research involved reviewing company reports, independent research reports and data based on Frost & Sullivan's own research database. Projected total market size was obtained from historical data analysis plotted against macroeconomic data as well as specific related industry drivers.

Frost & Sullivan Report was compiled based on the assumptions below:

- China's economy is likely to maintain steady growth in the next decade;
- China's social, economic, and political environment is likely to remain stable in the forecast period; and
- market drivers like increasing wealth and consumption upgrade, continual urbanisation and the development of tertiary industry, enhancing manufacturing and innovation capability, and better regulated competitive environment and increasing industry concentration are likely to drive the growth of Sichuan's office furniture market.

Value and percentage figures in this report are all rounded. Figures may not add up to the respective totals owing to rounding. The base year is 2015. The historic period is from 2010 to 2014. The forecast period is from 2016 to 2020.

OVERVIEW OF THE FURNITURE MARKET IN CHINA

China is the largest manufacturer and consumer of furniture products in the world.

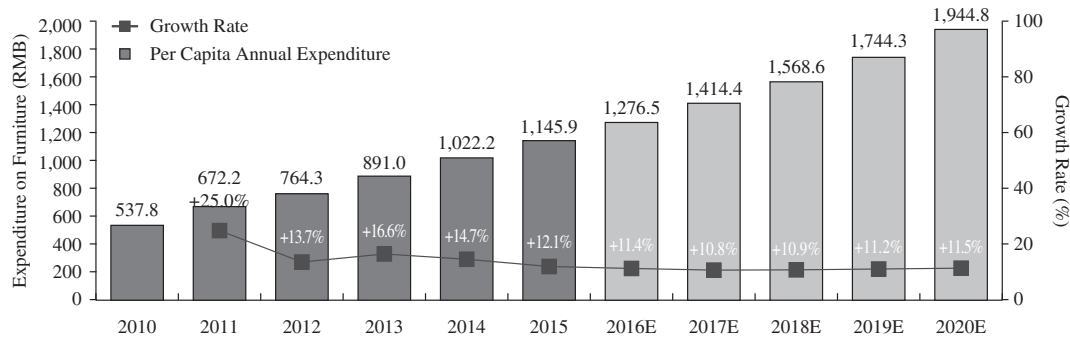
Besides China's large population base, demand in furniture products is supported by sustainable growth in the home furnishing market which is driven by:

- (i) economic growth in China which has led to increasing prosperity and accelerated urbanisation;
- (ii) general cycle of house and apartment refurbishment of approximately six to eight years; and
- (iii) increasing housing demand which is stimulated by many local government's ease on property restrictions and the establishment of affordable housing regimes.

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As illustrated in the following graph, the per capita annual expenditure on furniture in China rose sharply over the last five years at a CAGR of 16.3%, and it is expected to continue to grow at a CAGR of 11.2% in the next five years with per capita annual expenditure on furniture in China expected to reach RMB1,944.8 million in 2020.

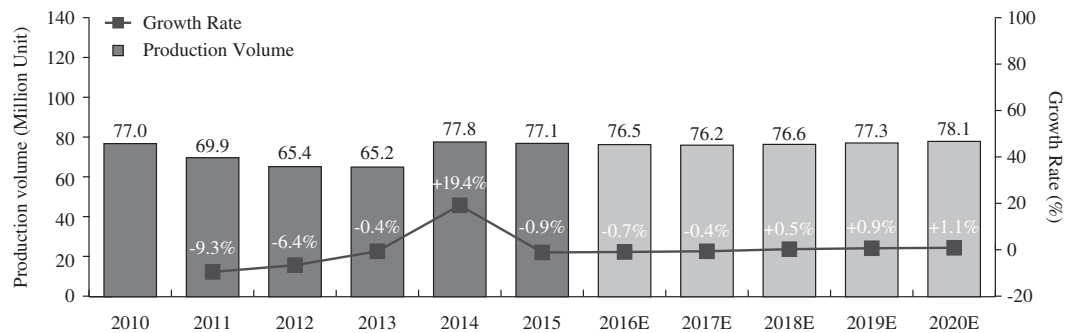
Per capita annual expenditure on furniture in China, 2010–2020E



Source: Frost & Sullivan analysis

Production volume of furniture in China on the other hand has been relatively stable in recent years where the production volume remained at approximately 77 million units annually over the period from 2010 to 2015. The production volume is expected to be maintained at a stable level going forward to meet the needs of new office furnishing and existing office refurbishment of customers.

Production volume of furniture market (China), 2010–2020E



Source:

1. Historical Data: National Bureau of Statistics of China
2. Forecast Data: Frost & Sullivan Analysis

As there is a direct correlation between customer spending on furniture and production volume (as furniture producers generally based their production on orders received), the stable development trend in production volume demonstrates that value growth of China's furniture market is expected to be primarily driven by consumption upgrade (i.e. consumers being willing to pay higher prices for better quality and experience from the use of products).

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OVERVIEW OF THE OFFICE FURNITURE MARKET IN CHINA

Office furniture products refer to furniture products intended for office use including office desk, office chairs, folding screens, filing and book cabinets, sofas and tables.

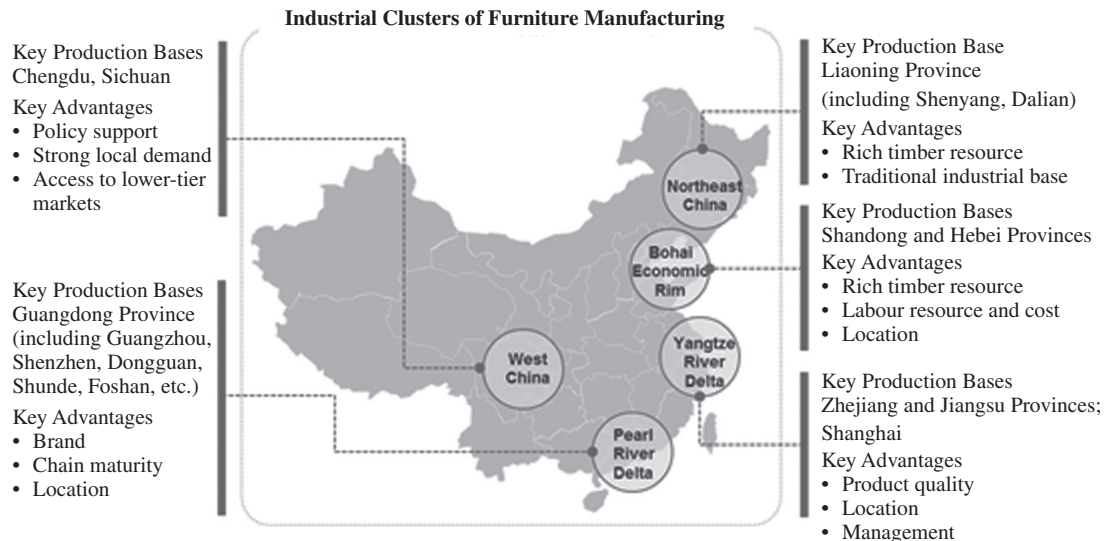
China's office furniture industry encompasses four key processes, namely:

- (i) upstream supply of raw materials (including solid wood, wooden panel, metal, plastics etc.) for furniture production;
- (ii) production of office furniture;
- (iii) distribution of office furniture through various methods including direct sales, competitive tenders, retail stores and home furnishing malls; and
- (iv) downstream consumption by public and private companies as well as government offices.

China's major office furniture production bases

Production of office furniture in China is highly developed into five main geographical clusters, namely the Yangtze River Delta, Northeast China, West China, the Pearl River Delta and the Bohai Economic Rim.

China's major office furniture production bases



Key production bases in the Pearl River Delta primarily refer to the Guangdong province (which includes Guangzhou, Shenzhen, Dongguan, Shunde and Foshan). Guangdong's mature industry chain and geographic advantages attracted many Hong Kong and Taiwan companies most of which have their own brands.

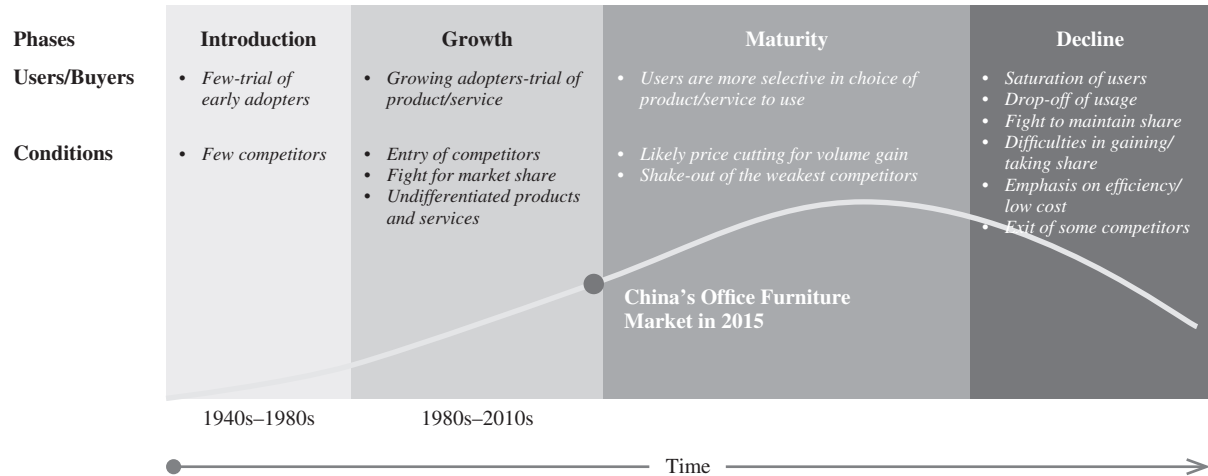
West China has also been rising in importance as a major office furniture production base, primarily owing to its promising prospect of local demand, which is supported by West China's strong economic development.

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Industry maturity of China's office furniture market

After decades of development, China's office furniture market is at the late growth stage in terms of industry life cycle and is approaching maturity, as illustrated in the chart below:

China's Office Furniture Market, 2015



At this stage of development, China's office furniture market is highly fragmented with a large number of local-based players whose scale of business is limited, and among these players the level of product differentiation in terms of product offerings and quality is relatively low. Nevertheless, as end users are becoming more selective and demanding when choosing their products, it is expected that players who possess competitive advantages in terms of quality, design and channel development are expected to strengthen their market position, resulting in the elimination of weaker players and the gradual increase in the level of concentration in market players as the market enters the maturity stage.

Revenue generated by office furniture manufacturers in China

Demand for office furniture in China is linked to the level of disposable income as well as the living standards of the Chinese people which are in turn affected by the state of China's macro economy.

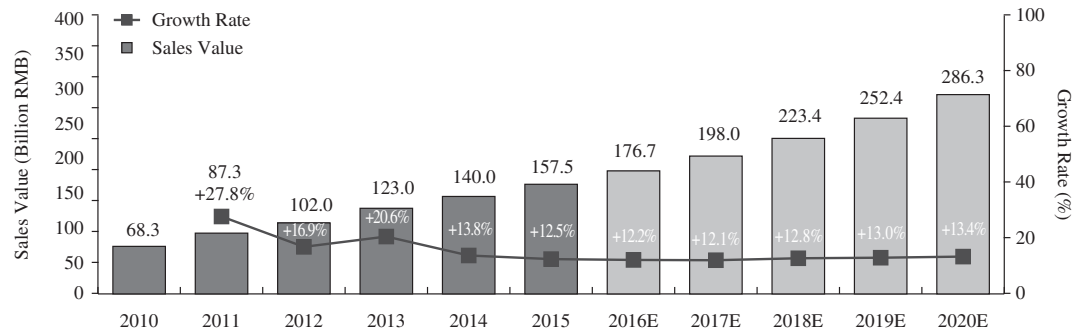
Over the past years, the Chinese economy has maintained solid growth (at CAGR of 10.6% from 2010 to 2015, with per capita nominal GDP increasing 10.1% to RMB49,351 over the same period) despite the world financial crisis, mainly attributable to effective stimulus policies which were implemented by the Chinese Government and accelerating urbanisation in the PRC. It is expected that the Chinese economy will keep growing at a CAGR of 7.8% from 2015 to 2020 (and the per capita nominal GDP to grow at a CAGR of 7.2% to RMB69,823 over the same period), according to the IMF, as China shifts from an investment-driven economy to a consumption-driven economy.

The rise in per capita nominal GDP in China has led to an increase in the level of disposable income as well as an improvement in the living standards of the Chinese people, and this has in turn led to an increase in demand for office furniture. China's furniture market grew at fast pace during the past years, with total sales value increasing (at a CAGR of 18.2%) from RMB68.3 billion in 2010 to RMB157.5 billion in 2015.

It is expected that the total market revenue of China's office furniture industry will continue growing at a relatively fast pace, and total market revenue is likely to reach RMB286.3 billion in 2020 based on a CAGR of 12.7%.

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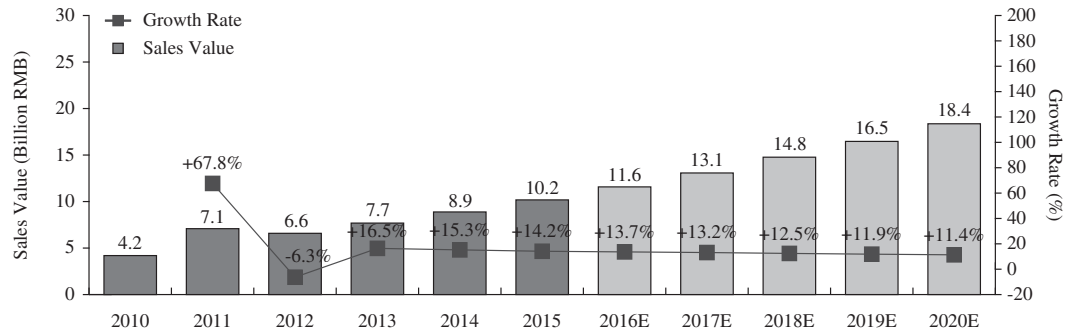
Total revenue generated by office furniture manufacturers in China



Source: Frost & Sullivan Analysis

As Sichuan province has continued to be an important furniture production base in China and the PRC Government’s initiatives to boost the economies of western provinces (resulting in increasing levels of disposable income of people in Sichuan), the Sichuan office furniture market is expected to continue to grow at a fast rate (at a CAGR of 12.5% in the next five years), as illustrated in the chart below:

Total revenue generated by office furniture manufacturers in Sichuan province



Source: Frost & Sullivan Analysis

Raw material price analysis for China’s office furniture market

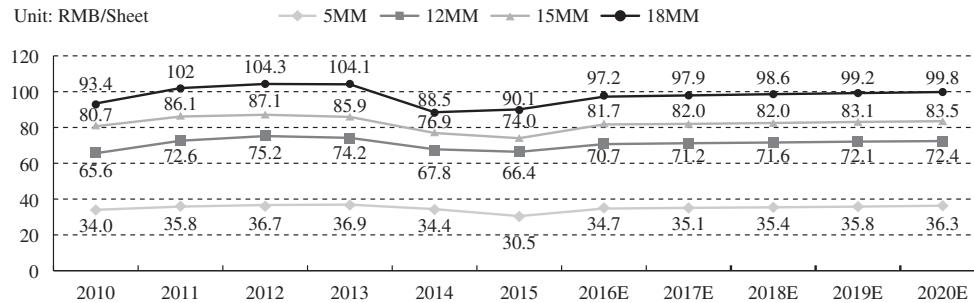
Medium-density fibreboard is the major raw material for office furniture manufacturing in China, the prices of which differ based on thickness. During the observation period, prices of 12mm, 15mm, and 18mm reached their peak values in 2012, while the price of 5mm reached peak value in 2013 before declining in the period therefrom until 2016. The average prices of 5 mm, 12 mm, 15 mm and 18 mm medium-density fibreboard per sheet were RMB30.5, RMB66.4, RMB74.0, and RMB90.1 respectively in 2015. In 2016, all selected thickness medium-density fibreboard observed rebound in prices, and the trend is expected to continue.

Panel manufacturers are key upstream suppliers of China’s office furniture industry, and China’s panel manufacturing industry is highly fragmented, with around 5000 of above scale manufacturers. Shandong, Jiangsu, Guangxi, Anhui, Henan, and Hebei are major provinces for panel manufacturing in China, which together account for approximately 60% to 70% of total panel production in China in terms of volume.

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Raw material price analysis for China's office furniture market

Price of Medium-Density Beaverboard* (China), 2010–2016



Source: Frost & Sullivan Analysis

Note: *Beaverboard refers to wooden fibreboard

"E" denotes expected forecast figures

Major drivers of growth in the office furniture market in China

The following are the major drivers of growth in the office furniture market in the PRC (especially in Sichuan province):

(1) Increasing wealth and consumption upgrade

Consumption upgrade, the trend whereby consumers become increasingly willing to pay higher prices for better quality and experience from the use of products, is expected to be a major driver of growth in the office furniture market in China, especially in Sichuan province. Continuing economic development and increasing wealth is expected to drive and enable end users of office furniture to opt for better quality, more user-friendly and higher performance products. From the supply side, such demand of end users is expected to be matched by increasing product diversity and development of quality and branded products. These two forces together are facilitating a consumption upgrade which drives the growth of the market.

(2) Urbanisation and the development of tertiary industry

China, especially West China with Sichuan province as a representative province, is expected to continue its economic development and urbanisation trends, which are likely to drive the demand for the decoration of new offices and the refurbishment of existing offices, supporting the growth of the office furniture market.

(3) Enhancing manufacturing and innovation capability

Office furniture manufacturers in China are experiencing a transition from one which is accustomed to imitating product designs and service models of developed economies to one which explores innovative solutions, based on accumulation of knowhow and experience as well as enhancement in amount of capital and other resources. Also, local manufacturers have started to adopt advanced branding and marketing schemes. Effectiveness gains from such strengthened innovation capability is expected to deliver long-term growth for the office furniture market in China.

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(4) Better regulatory and competitive environment

The office furniture market in China is relatively fragmented with a large number of small participants whose processes and materials are outdated and non-environmental. National and local governments have been introducing new and revised regulations which serve to eliminate these uncompetitive groups and create a better industrial environment for sustainable development of the industry.

Major drivers		Impact (1–2 years)	Impact (3–5 years)
1	Increasing wealth and consumption upgrade	High	High
2	Continual urbanisation and the development of tertiary industry	High	High
3	Enhancing manufacturing and innovation capability	Medium	High
4	Better regulated competitive environment	Medium	High

Source: Frost & Sullivan Analysis

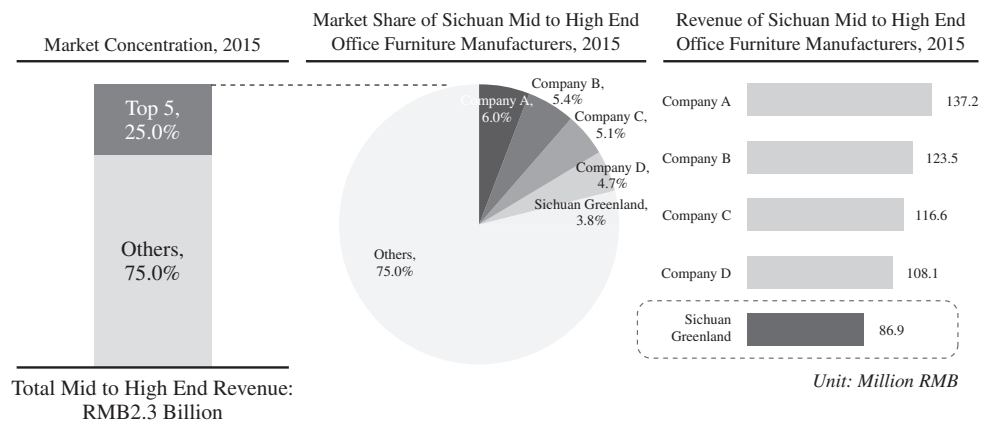
OVERVIEW OF COMPETITIVE LANDSCAPE OF MID TO HIGH END OFFICE FURNITURE MANUFACTURING IN SICHUAN

Sichuan Greenland is a manufacturer of mid to high end office furniture. A mid to high end office furniture manufacturer is one whereby (i) mid to high end furniture products in terms of quality make up over 60% of its revenues; (ii) its products are generally around 5 to 10% more expensive than mass market products, primarily justified by their better quality (in terms of such factors as quality of raw materials used, functional performance, design styles and durability); and (iii) it generally has in-house design capacity.

In terms of size of the mid to high end furniture market relative to the entire office furniture market, in 2015, mid to high end furniture manufacturers represented (i) around 30% of the market share of the office furniture market in China in terms of revenue; (ii) around 23% of the market share of the office furniture market in Sichuan province in terms of revenue. In Sichuan province, there are around 50 mid to high end office furniture manufacturers which operate at a gross profit margin of about 25 to 40%, whereas there are around 1,000 mass market office furniture manufacturers which operate at a gross profit margin of about 10 to 20%. Customer bases of mid to high office furniture manufacturers are usually less fragmented with long term cooperation with key clients such as large enterprises and government institutions, whereas mass market furniture manufacturers focuses mainly on retail sales.

Competitive landscape of the mid to high end office furniture market in Sichuan province

Revenue of Sichuan mid to high end office furniture manufacturers



Source: Frost & Sullivan Analysis

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In 2015, total revenue of mid to high end office furniture manufacturers in Sichuan province reached approximately RMB2.3 billion, and the top five players took a combined share of 25.0%.

Ranking of our Group

Company A and Company B ranked 1st and 2nd with total revenue amounting to approximately RMB137.2 and RMB123.5 million respectively, followed by Company C and Company D with total revenue amounting to approximately RMB116.6 million and RMB108.1 million respectively. Our Group ranked 5th with total revenue amounting to approximately RMB86.9 million, representing a 3.8% market share.

Profiles of key competitors and Sichuan Greenland

The following table set out the profiles of our key competitors:

Headquarter	Company A	Company B	Company C	Company D	Sichuan Greenland
Year of establishment	1997	1995	1998	1997	1996
Mid to high end office furniture revenue (2015)	RMB137.2 million	RMB123.5 million	RMB116.6 million	RMB108.1 million	RMB86.9 million
Product category	Office desk, chair, table, folding screen, sofa, filing cabinet	Filing cabinet, office desk, sofa, chair, table	Office desk, filing cabinet, table, sofa, folding screen, pantry cabinet	Office desk and chair, conference table and chair, filing cabinet, folding screen, table, sofa	Office desk, chair, folding screen, sofa, table, filing cabinet, book cabinet
Geographical coverage	Southwest China, primarily Sichuan province	Southwest China, primarily Sichuan province	Southwest China	Sichuan province, Chongqing city	Southwest China, primarily Sichuan province
Major customer groups	<ul style="list-style-type: none"> ● Government offices ● Private and public enterprises 	<ul style="list-style-type: none"> ● Government offices ● Public enterprises and institutions 	<ul style="list-style-type: none"> ● Public enterprises and institutions ● Private enterprises 	Primarily government offices and public institutions	<ul style="list-style-type: none"> ● PRC governmental departments ● financial institutions (state-owned and private) ● other entities (state-owned and private)
Sales channel (Note 1)	80% Direct sales: 20% Distributor Sales	100% Direct sales	70% Direct sales: 30% Distributor Sales	80% Direct sales: 20% Distributor Sales	100% Direct sales

Note 1: For the purpose of the Frost & Sullivan's Report, sales by tender is categorised under direct sales.

The table above illustrates that the profiles of competitors of Sichuan Greenland are not materially different from that of Sichuan Greenland.

Product pricing of mid to high end office furniture

The average selling price for mid to high end office furniture products is generally around 5% to 10% higher than mass market products of same category. For the forecast period from 2015 to 2020, the average prices of mid to high end office furniture are likely to continue increasing based on the general increasing trend of commodity price levels in the PRC, the trend of consumption upgrade for office furniture products among consumers in the PRC and the increasing environmental and quality standard that drive up the costs of production. The averages prices of mid to high end office furniture are forecasted to grow at a CAGR of around 5% to 8% from 2015 to 2020.

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From 2014 to 2016, the average selling prices of all major categories of mid to high end office furniture in the PRC observed an upward trend, with a CAGR of around 4% to 6%. Our Group's average selling prices of each major category during the Track Record Period were similar to average selling prices of mid to high end office furniture of same category and comparable features, primarily materials and sizes in the PRC.

Future outlook of the office furniture market in China and the Sichuan province

It is expected that the office furniture market in China and the Sichuan province will be affected by the following factors in the future:

(1) Increase in demand for environmental friendly furniture

As Chinese consumers are becoming increasingly aware of environmental issues, their increasing consciousness is expected to lead to an increase in demand for environmental friendly office furniture. Chinese consumers may opt for more eco-friendly office furniture (as an alternative to less eco-friendly office furniture) despite their higher costs as the disposal income of the Chinese people continues to rise. Meanwhile, the tightening of controls and improvements in the PRC regulatory framework regarding environment standard for office furniture manufacturing is expected to further support such trend.

(2) Technological innovation

Smart office is becoming an increasingly popular concept as with the proliferation of the internet and digital technology. Thus the integration of advanced digital technologies with office furniture is expected to be a key development trend for the office furniture market. Acceleration in such innovation is expected as more resources are being devoted by local manufacturers for the purpose of carrying out independent research (as the PRC office furniture manufacturing industry is undergoing a transition from one which is accustomed to imitating product designs and service models of developed economies to one which will innovate and develop original designs and business models).

(3) West China Economic Development

West China has been rising in importance as a major office furniture production base, primarily owing to its promising prospect in terms of local demand, which is supported by West China's strong economic development and policies which had led to rapid urbanisation and increase in income and wealth in the region. As part of West China, it is expected that production volume of furniture in the Sichuan province will grow at a much stronger rate than the rest of China during the period from 2015 to 2020.

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Threats to the office furniture market in China and the Sichuan province

Office furniture manufacturers in China and Sichuan province are faced with the following threats:

(1) *Government's promotion of frugality*

Since May 2011, the PRC Government has advocated for and introduced regulations designed to reduce administrative costs for government and public institutions. Such regulations explicitly prohibits government agencies from purchasing luxury items, goods or commodities above standards, as well as defines a frugal working style for the country's civil servants. To comply with such regulations, PRC state ministries and government offices have taken active measures to limit their expenditure on office furniture and equipment. Such calls for prudent spending by the PRC Government would favour manufacturers of mass market products with more economic pricing but would be a threat for mid to high end office furniture manufactures.

(2) *Expatriate brands*

Expatriate brands are continuing to penetrate the Chinese and Sichuan office furniture market, primarily through the distribution and selling their products through distributors in China. These market participants typically target customers which demand high end or premium office furniture. These expatriate brands poses a threat to local mid to high end office furniture manufacturers with whom they may be in direct competition with. However, some of these expatriate brands may be discouraged by the PRC Government's promotion of frugality as described in the preceding paragraph.

(3) *Substitutability of office furniture by household furniture*

Some office furniture may be substituted by household furniture, especially those with creative designs which may make them suitable for use in the office. While office furniture manufacturers continue to innovate and develop a wide range of products and designs to counter the effects of substitutability of household furniture, such substitutability still poses as a threat to office furniture manufacturers in China.

(4) *Price competition*

The Sichuan office furniture market is highly fragmented with a large number of local-based players whose scale of business is limited and the level of differentiation is fairly low. Nevertheless, the level of concentration is expected to gradually increase as the market continues to develop and mature. Competition among market participants are expected to intensify which will lead to a downward pressure on pricing whereby less competitive interest participants will be eliminated. This may potentially destabilise the highly concentrated office furniture market in the Sichuan province.

Entry barriers to the mid to high end office furniture market

The following are the key entry barriers faced by new entrants to the mid to high end furniture market in Sichuan province:

(1) *Green barriers*

As explained in the previous section, there is an increasing demand for eco-friendly office furniture given the increasing awareness of Chinese consumers with environmental issues and the rise of their disposal income despite the higher price of eco-friendly office furniture. Major consumer groups of mid to high end office furniture include large enterprises and government offices which pay attention to whether their suppliers comply with environment or green standards

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when evaluating their bids for their purchase orders. However, a commitment to manufacturing eco-friendly office furniture products would require committing substantive resources (including locating reliable eco-friendly suppliers and verifying their eco-friendly claims) and often the relevant sustainable raw materials are not available in the domestic market which increases costs of production. The amount of resources to keep up with such trend can be a challenge for new entrants.

(2) Reputation and customer network

Reputation and track record are important factors that affect customers' choice over office furniture suppliers as customers generally prefer recognised manufacturers with a strong track record of delivering quality products to mitigate their risk exposure. While leading manufacturers of mid to high end office furniture manufacturers often have established and long-term cooperation with key customers such as large enterprises and governmental institutions, new entrants often do not have such customer network or long-term relationships, both of which take years of operations to build. Securing and maintaining customers may pose as a challenge for new entrants to the office furniture market for mid to high end office furniture.

(3) Capital investment

New entrants to the mid to high end office furniture market need a high level of initial and operating investment, for establishment of a system that delivers quality products that meet expected standards of target customers of mid to high end office furniture. Specifically, new entrants need to have sufficient capital support for land, equipment, staff hiring, quality and system control, and continuous expenditure on quality raw materials. Therefore capital investment serves as an entry barrier to this market.