

INDUSTRY OVERVIEW

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SOURCE OF INFORMATION

The Company have commissioned Frost & Sullivan, an Independent Third Party, to conduct a study of the jewellery industry in Hong Kong. The Company agreed to pay Frost & Sullivan a fee of HK\$570,000 for the preparation of the Frost & Sullivan Report, and the Directors consider that such fee reflects market rates.

The methodology used by Frost & Sullivan in gathering the relevant market data in compiling the Frost & Sullivan Report included secondary research and primary interviews. Secondary research involves information integration of data and publication from publicly available resources, including official data and announcements from Hong Kong government departments, and market research on industry and enterprise player information issued by the Group’s chief competitors. Primary interviews are conducted with relevant institutions to obtain objective and factual data and prospective predictions. Frost & Sullivan conducts research on market size, share and segmentation analyses, competitor tracking and corporate intelligence, etc. Except as otherwise noted, all of the data and forecasts contained in this section are derived from the Frost & Sullivan Report, various official government publications and other publications. Some of the information extracted from the Frost & Sullivan Report are also referred to in the sections headed “Summary”, “Risk factors”, “Business” and “Financial information” in this document. The Directors confirm that, after taking reasonable care, there is no adverse change in the market information since the date of the Frost & Sullivan Report which may qualify, contradict or have an impact on the information in this section.

Frost & Sullivan is a global consulting company founded in 1961 in New York and has over 40 global offices with more than 2,000 industry consultants, market research analysts, technology analysts and economists. Frost & Sullivan’s services include technology research, independent market research, economic research, corporate best practices advising, training, customer research, competitive intelligence and corporate strategy. Frost & Sullivan has four offices in China and direct access to the most knowledgeable experts and market participants in the jewellery industry.

Assumptions used in the Frost & Sullivan Report

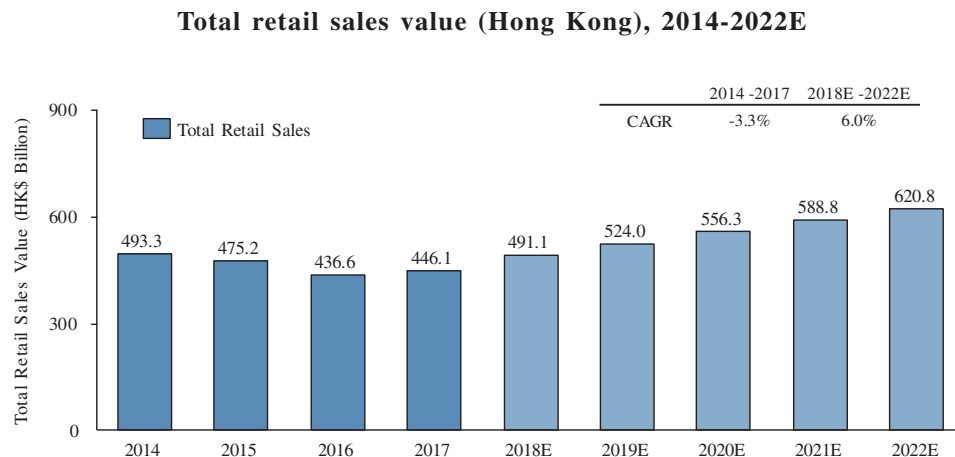
In compiling and preparing the Frost & Sullivan Report, Frost & Sullivan has adopted the following assumptions: (i) the economy of Hong Kong is assumed to maintain steady growth across the forecast period; (ii) the social, economic and political environments of Hong Kong are likely to remain stable in the forecast period, which ensure the stable and healthy development of the jewellery market; and (iii) there is no war or large scale disaster during the forecast period; and the following key parameters: (a) nominal GDP and GDP growth rate of Hong Kong; and (b) total retail sales value of Hong Kong.

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Reliability of information in the Frost & Sullivan Report

The Directors are of the view that the sources of information used in this section are reliable as the information was extracted from the Frost & Sullivan Report. The Directors believe that the Frost & Sullivan Report is reliable and not misleading as Frost & Sullivan is an independent professional research agency with extensive experience in its profession.

TOTAL RETAIL SALES VALUE OF HONG KONG



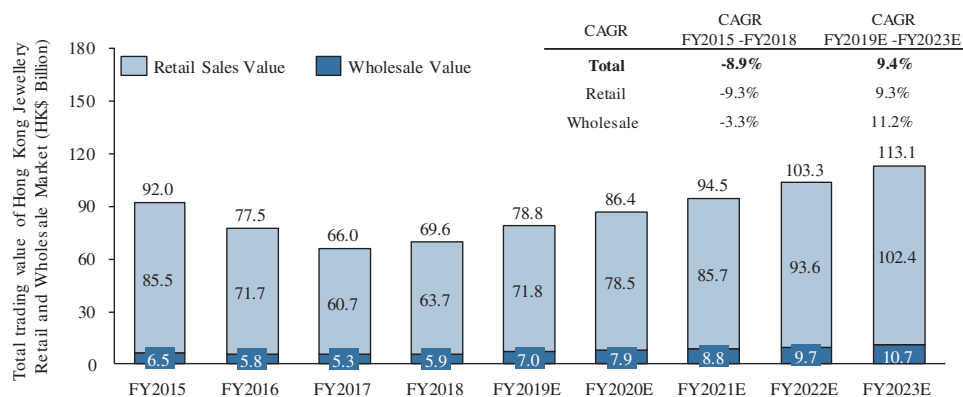
Note: “E” denotes estimate.

Sources: Census and Statistics Department of Hong Kong; Frost & Sullivan

From 2014 to 2017, the total retail sales value in Hong Kong remained quite stable, with a CAGR of approximately -3.3%. Due to some unexpected political issues and reductions in inbound tourists, the total retail sales value experienced decrease in 2015 and 2016, with growth rates of approximately -3.7% and -8.1%, respectively. However, in 2017, the total retail sales value recovered by approximately 2.2% as compared with 2016. It is expected that the retail sales value would remain relatively stable in the following years due to the growing consumption power of local residents and recovering macro economy and tourism industry.

OVERVIEW OF HONG KONG JEWELLERY RETAIL AND WHOLESALE MARKET

Total trading value of jewellery retail and wholesale market (Hong Kong), FY2015-FY2023E



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Note: “E” denotes estimate and “FY” refers to the financial year ended 31 March.

Source: Frost & Sullivan

Jewellery products in Hong Kong could be segmented into three segments by price. Luxury jewellery products refer to products with a retail price of above HK\$100,000 per piece. Luxury jewellery products are mainly high value gem-set jewellery products, which are usually provided in international luxury jewellery brand stores and large local brand stores. Mid-to-high-end luxury jewellery (or mass luxury jewellery) products refer to products with a retail price of from HK\$2,000 to HK\$100,000 per piece. Mid-to-high-end luxury jewellery products cover the most widely products. Mass jewellery products refer to products with a retail price of less than HK\$2,000 per piece. Mass jewellery products are mostly small jewellery products made by gold and platinum/karat gold, such as earrings, rings, pendants, necklaces, bracelets, etc., and silver jewellery products, which are usually provided in local brand stores and domestic brand stores.

The total trading value of jewellery retail and wholesale market in Hong Kong has witnessed a decline from approximately HK\$92.0 billion FY2015 to approximately HK\$66.0 billion in FY2017, driven by decreasing inbound tourists, especially from China. The market experienced a rebound afterwards to approximately HK\$69.8 billion in FY2018 due to the favourable overall retail market in Hong Kong. Retail is an important sector in the jewellery market in Hong Kong, accounting for approximately 91.5% of the total market in FY2018.

In 2017, the market of jewellery retail and wholesale in Hong Kong recovered due to consumers’ higher consumption motivation. The year of 2017 had double Lichun (立春) and leap month (雙春兼閏月) in terms of lunar calendar, and was considered as a year full of happiness and a suitable year to get married by Chinese people leading to a drive in demand of jewellery products, and it is a common practice for Chinese people to purchase jewellery as styling items, trousseau, and gifts for weddings. Furthermore, the market is expected to recover further in the following years and reach approximately HK\$113.1 billion in FY2023, representing a CAGR of approximately 9.4% from FY2019 to FY2023, driven by the overall rebound in Hong Kong’s tourism industry and total retail sales.

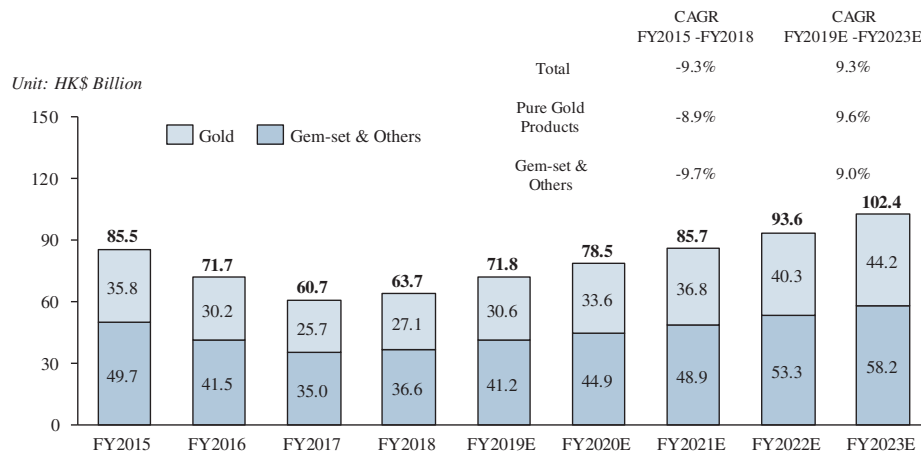
In particular, the tourism industry in Hong Kong recovered in 2017 with a growth rate of 3.9% after a drop from 2014 to 2016. During the period from 2013 to 2017, the visitor arrivals in Hong Kong from China grew from 40.7 million to 44.4 million, realising a CAGR of approximately 2.2%. According to the Immigration Department of Hong Kong, the tourism industry witnessed a sharp growth during the first nine months in 2018. The number of visitor arrivals from China grew 12.7% compared to the same period in 2017. Since Hong Kong is developing new attractions to maintain Hong Kong’s attractiveness to tourists from China, it is forecast that the number of visitor arrivals from China would keep the growing trend at a CAGR of 7.0% from 2017 to 2022, reaching 62.4 million in 2022.

Driven by the growing visitor arrivals and also the growing consumption power of local residents, the total retail sales value of jewellery, watches and clocks, and valuable gifts in 2017 grew at a year-to-year rate of 5.3%. In the first nine months of 2018, the value increased sharply at a rate of 20.1% compared with the same period in 2017. The recovering tourism shows a great opportunity for jewellery retailers in Hong Kong.

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Jewellery in Hong Kong could be segmented into the following categories: pure gold products and gem-set jewellery products.

Retail sales value breakdown of jewellery by product category (Hong Kong), FY2015 - FY2023E



Note: “E” denotes estimate and “FY” refers to the financial year ended 31 March.

Source: Frost & Sullivan

Pure gold products, is a major segment of Hong Kong jewellery market in terms of retail sales value, representing approximately 42.5% of the total jewellery retail market in FY2018. Gem-set and other jewellery products, representing approximately 57.5% of the total market in the same financial year. Gold jewellery is one of the representatives of Chinese-style jewellery products due to the long history of the Chinese culture in using gold as accessories, its proportion has been increasing from approximately 41.9% in FY2015 to approximately 42.5% in FY2018, and the trend is likely to sustain in the next several financial years due to the favourable local economic environment and increased consumption of both local residents and tourists. During the period from FY2015 to FY2018, the retail sales value of jewellery showed a downward trend mainly due to the decrease of tourism industry. The retail sales of gold products decreased from approximately HK\$35.8 billion in FY2015 to approximately HK\$27.1 billion in FY2018. The market recovered from FY2018 due to the recovering tourism market and the growing consumption of local residents.

Major market drivers

Growing consumption power

Per capita nominal GDP is expected to grow at a CAGR of approximately 4.8% from 2018 to 2022 and reach approximately HK\$442,567 in 2022. Purchasing power of Hong Kong citizens has been increasing accordingly, and is likely to sustain the growing trend with the favourable macro economic conditions forecast in Hong Kong. Increasing purchasing power of Hong Kong citizens is expected to drive the growth of overall retail market in Hong Kong, thus driving the recovery and future growth of Hong Kong jewellery retail and wholesale market.

Demand for well-designed jewellery

Consumers currently are putting great stress not only on quality but also design of jewellery products. In that case, it is necessary for jewellery manufacturers to make more effort on unique design and making technique. Innovative designs are important for jewellers differentiating from other jewellery brands.

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Increasing number of young consumers

An increasing number of younger consumers have become the new drivers for Hong Kong jewellery market. Young working groups aged from 20 to 25 are more fashion oriented and willing to buy fashionable fine jewellery products for daily wear. Those young consumers are likely to drive the potential growth in the next few years.

Seasonality

The jewellery market in Hong Kong has seasonal patterns. New couples prefer to get married in the years with double springs (雙春, i.e. years of 2012, 2014, 2017). Also, less weddings are held during the period from June to September than other months due to the hot and humid weather in summer in Hong Kong. The seasonality of wedding reflects on the market of jewellery in Hong Kong as most couples and their families would choose to buy jewellery products when getting married.

Opportunities

Increasing reliance on online marketing

Online marketing is becoming an essential part of effective promotion strategies since consumers can easily obtain information from and be influenced by comments on the internet. Strengthening marketing on the internet would be an effective way for companies to gain greater brand awareness and recognition. In addition, some companies that rely on sales to tourists faced a drop in sales due to the declining tourism industry. For these companies, enhancing their online to offline (O2O) and E-commerce channels would be an opportunity to develop local market targeted at young demographics and overseas markets.

One Belt One Road initiative

Hong Kong has evolved into a leading centre for the trading and distribution of jewellery due to the development of pearl industry in China and the implement of favourable policies including One Belt One Road. Based on One Belt One Road, which aims at accelerating the development of trading among countries and regions along the New Silk Road including China, Hong Kong, Southeast Asia, etc., Hong Kong General Chamber of Jewellery has set a platform as trading centre for jewellery and jewel materials. The Chamber encourages jewellery trading in Hong Kong and hope that Hong Kong could become the global distributing center of jewellery and jewel materials. With the favourable policies, it is likely that Hong Kong jewellery manufacturers and wholesalers would expand their businesses to China and overseas markets. The jewellery industry increases in line with the growing consumption power of Chinese consumers in recent years, providing a potential for Hong Kong jewellery retailers and wholesalers.

Increasing number of tourists

Supported by the increasing China city coverage of the Individual Visit Scheme, the construction of railway infrastructure between Hong Kong and the neighbouring Chinese cities, and the continual development of new tourist attractions of Hong Kong, the total visitor arrivals to Hong Kong are expected to witness a growing trend from 2017 to 2022, with an increasing number of visitors from approximately 58.5 million in 2017 to approximately 75.8 million in 2022. According to the Hong Kong Tourism Commission’s website, the total visitor arrivals rose by 9.7% to reach about 52.6 million in the first ten months in 2018 compared with the same period in 2017. The PRC, is Hong Kong’s largest source market accounting for 78.5% of its total arrivals, recorded a solid rebound of 13.0% in the number of visitors. Going forward, the increase in visitors from PRC is expected to have a positive effect on the Group’s business.

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Concentration of market players

The market is likely to be more concentrated since consumers would have more confidence on relatively large players. There will be more large and medium players acquiring small retailers due to their financial strength and cost efficiency.

Threats

Market condition of the local tourism industry

Affected by the anti-China activities, the outbreak of MERS in South Korea, and the stagnant global economy, Hong Kong's tourism industry observed a drop of 4.5% in 2016 in terms of total visitor arrival. China visitor arrivals, accounting for 75.5% of the overall market, dropped 6.7% in 2016. The potential fluctuations of the tourism industry pose challenge to the overall retail market and jewellery retail market in Hong Kong.

Fast-changing consumer appetite

In recent years, jewellerys are becoming more fashion oriented. Brand jewellery is following more closely with the fashion trends and targeting young consumers. Hence, it is becoming more important for manufacturers and distributors to keep up with the latest trends, to design and to extend the portfolio in order to attract more consumers and gain larger market size.

The ease of online retailing

Nowadays, consumers can access to almost all products and services via internet, contributed by the online retailing and emergence of various payment platforms. This somehow creates competition for traditional brick-and-mortar retailers (i.e. retailers with a physical shop), which refers to physical business that deal with customers face to face in stores, as customers can directly purchase online rather than buying from the retail stores. Apart from the strengthened convenience and the time-saving factor for jewellery consumers to purchase online, online jewellery retailing has further advantage in terms of cost, primarily the saving on the high rent in Hong Kong and the additional cost of involving specialised staff for on-site sales.

Competitive landscape of the Hong Kong jewellery retail and wholesale market

The jewellery retail and wholesale market in Hong Kong was concentrated in FY2018, with top five players together accounted for approximately 60.5% of the total jewellery retail and wholesale market in Hong Kong in terms of retail and wholesale sales value. It is expected that the top five companies in the retail and wholesale Hong Kong retail jewellery market will continue to maintain a large proportion of market share in the future. As of 31 March 2018, there were over 300 jewellery retailers and wholesalers in Hong Kong jewellery market according to Hong Kong General Chamber of Jewellery, the majority of which were small and medium local players, with revenue per store of less than HK\$30 million per year or total store number of less than 10 according to segmentation by the Hong Kong Jewelry Manufacturers' Association and Hong Kong Jewellers' & Goldsmiths' Association, which can be considered as industry benchmarks. In terms of revenue, small and medium local jewellery retailers and wholesalers together accounted for approximately 35.0% of the total jewellery retail and wholesale market in Hong Kong in FY2018.

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Top 15 players and the Group in the jewellery retail and wholesale market (Hong Kong), FY2018 (by revenue)

The following table sets forth the information of the major companies in Hong Kong jewellery market:

Ranking	Company Name	Approximate Revenue (HK\$ Million)	Market Share	Number of Retail Stores
1	Company A	19,947	28.7%	77
2	Company B	8,449	12.1%	66
3	Company C	8,340	12.0%	48
4	Company D	2,947	4.2%	44
5	Company E	2,398	3.4%	9
6	Company F	1,468	2.1%	30
7	Company G	626	0.9%	24
8	Company H	454	0.7%	10
9	Company I	319	0.5%	9
10	Company J	219	0.3%	10
11	Company K	184	0.3%	9
12	The Group	159	0.2%	7
13	Company L	137	0.1%	7
14	Company M	95	0.1%	5
15	Company N	92	0.1%	6
	Others	23,729	34.1%	
	Total	69,563	100%	

Notes:

- (1) Percentage may not total 100% due to rounding.
- (2) The number of retail store refers to self-operated stores, authorised retail stores are excluded.
- (3) The Group’s audited revenue refers to the financial year ended 31 March 2018.
- (4) The data is based on the annual reports of listed companies, Frost & Sullivan’s database and detailed primary interview with leading participants in the market.
- (5) Major companies refer to leading companies, including both Hong Kong and International based jewellery companies, in the market in terms of revenue.

Source: Frost & Sullivan

The top 5 small and medium local players in jewellery retail and wholesale market together accounted for approximately 1.0% of the total market.

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Top ten small and medium local players in the jewellery retail and wholesale market (Hong Kong), FY2018 (by revenue)

Ranking	Small and Medium Local Players	Revenue (HK\$ Million)	Market Share	Number of Stores
1	Company K	183.9	0.26%	9
2	The Group	159.1	0.23%	7
3	Company L	137.4	0.20%	7
4	Company M	95.4	0.14%	5
5	Company N	91.7	0.13%	6

Notes:

- (1) The number of retail stores refers to self-operated stores, authorised retail stores are excluded.
- (2) The Group's audited revenue refers to the financial year ended 31 March 2018.
- (3) The data is based on the annual reports of listed companies, Frost & Sullivan's database and detailed primary interview with leading participants in the market.

Source: Frost & Sullivan

Although small and medium local jewellery players in Hong Kong were inferior to leading players in terms of retail network and market penetration, they were gradually enhancing brand recognition and image by enhancing marketing and promotional activities in a more efficient manner, participating in large-scale jewellery exhibitions and trade shows, getting more fashion oriented to improve product designs and varieties. In addition, the small and medium local jewellery players in Hong Kong usually target local citizens rather than tourists as their main target customers. In that case, those local players are less likely to be influenced by the declined Hong Kong tourism market and decrease in the relative purchasing power of the PRC tourists.

Entry barriers

Initial investment

The value of jewellery products is comparatively high given that the raw materials used in the jewellery industry are all diamonds, gemstones or precious metals with high value. As a result, initial investments for new jewellery retailers and wholesalers can be substantial, which makes it very difficult for retailers without large amounts of capital to enter the jewellery market. Particularly if the player wants to have its own manufacturing capability, the start-up costs will be high. In other words, the capital barrier for jewellery market entry is rather high. Besides, the returns from jewellery investment can be slow if the sales volume is limited.

Building and operating sales network

A good sales network is a critical factor for a jewellery brand to gain market share, raise its brand awareness and enhance the added value of its products. However, it is not easy to build and operate such a network for new entrants. In order to be able to succeed in the jewellery business, mass scale business and chain stores operation are necessary. A long-term effort and large marketing investment are required to occupy these markets and build a well-developed network. Building and operating sales network is another barrier to entry.

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Brand recognition and awareness

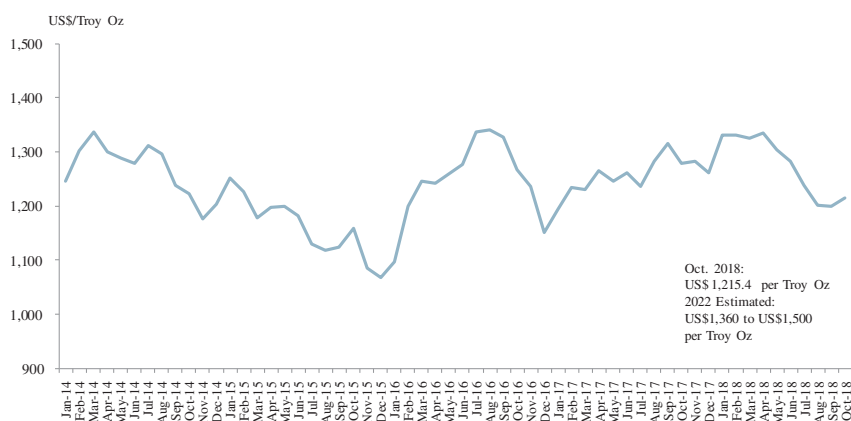
Existing leading market players have already gained high reputation among Hong Kong consumers. Meanwhile, it can be difficult for new enterprises to promote their brand awareness as well as to penetrate into the market. Hence it is extremely important for new entrants to invest more on promotion and improve their brand recognitions and awareness in order to gain market share. Without brand recognition and reputation, it might be hard for the new entrants to attract consumers.

To catch the market trend in a timely fashion

Design is essential for jewellery products since consumers are laying more emphasis on the style and jewellerys are becoming increasingly fashion oriented. For the new entrants with roughly no wholesaling or retailing experience, it is hard for them to catch the market trend in a timely fashion and hence attract more consumers comparing with existing players.

Historical price trends of raw materials and other major cost components

Monthly Average Price of Gold in the Global Market, January 2014-October 2018



Sources: World Gold Council, Frost & Sullivan

Gold is one of the most important commodities in the world, and gold is also the major raw material of jewellery. The yearly average price of gold in global market experienced a twisted period and varied from approximately HK\$12,946 per oz. in 2012 to approximately HK\$8,993 per oz. in 2015, and then recovered gradually to approximately HK\$9,797 per oz. in 2017. In the next few years, gold price is projected to remain steady and range between HK\$10,000 per oz. and HK\$11,000 per oz. in 2022. Gold price is influenced by global macro economy, exchange rate policies, inflation, and consumers' demands.

Recycled gold is another source of raw material of jewellery. Nearly all the jewellery retailers and wholesalers in Hong Kong purchase unwanted golden jewellery products from customers at a price that is slightly lower than the price of gold and then sell the recycled gold jewellery products to the goldsmith for reprocessing. The price of recycled gold is normally around 80% to 95% of the price of gold and is determined by the retailers in terms of physical properties, such as purity of the gold and weight loss, of the unwanted jewellerys. The value of recycled gold traded has been on a rise in Hong Kong in recent years, with market size by trading value (i.e. the value of recycled gold products collected from the mass public sellers) amounting to approximately HK\$4.7 billion, HK\$5.0 billion

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and HK\$5.3 billion respectively in 2014, 2015 and 2016. The decrease of the prices of raw materials enables the manufacturers and brand-owners to cut costs and hence lead to a lower price of final products.

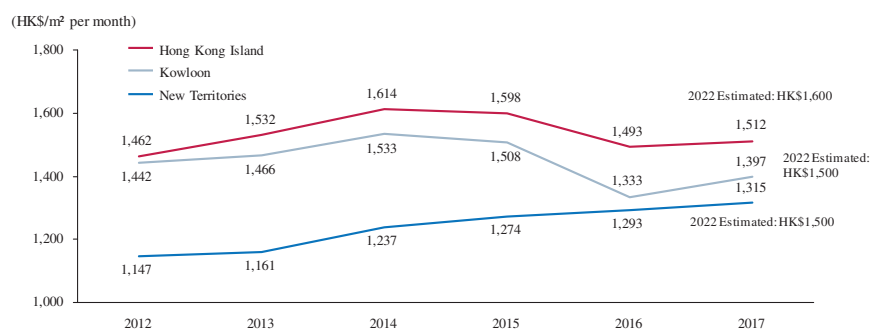
Polished Diamonds Price Index, January 2012-October 2018



Sources: General polished-diamond price index (PolishedPrices.com), Frost & Sullivan

The global polished diamonds price index refers to polished diamond prices screened for anomalies, factored, have various algorithms applied depending upon their position on the price grid and reflects the price of polished diamonds. The index showed a downward trend from 2012 to 2016, and it declined from 155.2 in January 2012 to 120.7 in October 2018. The index is likely to continue decreasing in the next 5 years and fall to approximately 100 in 2022. Slowing demand, combined with high inventory levels, contributed to a decline in polished diamonds price of 10.0% in 2015 and 6.8% in 2016, respectively. The retail price of diamond is largely decided by 4 Cs, which are color, cut, clarity, and carat. As such, the unit cost of diamonds below one carat are much lower than the unit cost of diamond above one carat. In 2017, a one-carat round diamond generally was priced between US\$7,000 per piece to US\$12,000 per piece.

Average Rents of Private Retail (Hong Kong), 2012-2017



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

The average rents of private retail in Hong Kong Island and Kowloon showed steady growth from 2012 to 2014. However, the rents declined in 2015 and 2016, and slightly recovered in 2017, realising CAGRs of approximately -0.3% and -1.2%, respectively, from 2012 to 2017. On the other hand, the rents in the New Territories increased gradually with a CAGR of approximately 3.2% from 2012 to 2017. The average rents of overall Hong Kong realised a CAGR of approximately 0.4% during the same period. The rents of private retail are expected to grow slightly due to the recovering retail market. The average rent of private retail in Hong Kong Island is forecast to reach HK\$1,600 per square metre per month, while the rents in Kowloon and New Territories are expected to reach HK\$1,500 per square metre per month in 2022.