

INDUSTRY OVERVIEW

This and other sections of this document contain information relating to the industry in which we operate. Certain information and statistics contained in this section have been derived from various official and publicly available sources. In addition, certain information and statistics set forth in this section have been extracted from a market research report commissioned by us and prepared by Ipsos, an independent market research agency. We believe that the sources of such information and statistics are appropriate and have taken reasonable care in extracting and reproducing such information and statistics. We have no reason to believe that such information or statistics is false or misleading in any material respect or that any fact has been omitted that would render such information or statistics false or misleading in any material respect. However, such information and statistics have not been independently verified by us, the Sole Sponsor, the [REDACTED], the [REDACTED], any of the [REDACTED], our or their respective directors and officers or any other parties involved in the [REDACTED]. No representation is given as to the accuracy.

SOURCE AND RELIABILITY OF INFORMATION

We commissioned Ipsos, an independent market research consulting firm, to conduct an analysis of, and to report on fitting-out works industry in Hong Kong. A total fee of HK\$478,000 was charged by Ipsos for the preparation of the Ipsos Report. Except as otherwise noted, the information and statistics set forth in this section have been extracted from the Ipsos Report. The payment of such amount was not conditional on our Group’s successful [REDACTED] or on the results of the Ipsos Report. Our Directors confirm that, after making reasonable enquiries, there is no adverse change in the market information since the date of the Ipsos Report which may qualify, contradict or have an impact on the information in this section.

Ipsos has been engaged in a number of market assessment projects in connection with initial public offerings in Hong Kong. Ipsos is part of a group of companies which employs approximately 16,600 personnel worldwide across 88 countries. Ipsos conducts research on market profiles, market sizes and market shares and performs segmentation analysis, distribution and value analysis, competitor tracking and corporate intelligence.

The Ipsos Report includes information on the fitting-out works industry in Hong Kong. The information contained in the Ipsos Report is derived by means of data and intelligence gathering which include: (i) desktop research; and (ii) primary research, including interviews with key stakeholders including fitting-out and building works service providers, architects, quantity surveyors and industry experts and associations in Hong Kong, etc.

Information gathered by Ipsos has been analysed, assessed and validated using Ipsos in-house analysis models and techniques. According to Ipsos, this methodology ensures a full circle and multilevel information sourcing process, where information gathered can be cross-referenced to ensure accuracy. All statistics are based on information available as at the date of the Ipsos Report. Other sources of information, including government, trade associations or marketplace participants, may have provided some of the information on which the analysis or data is based.

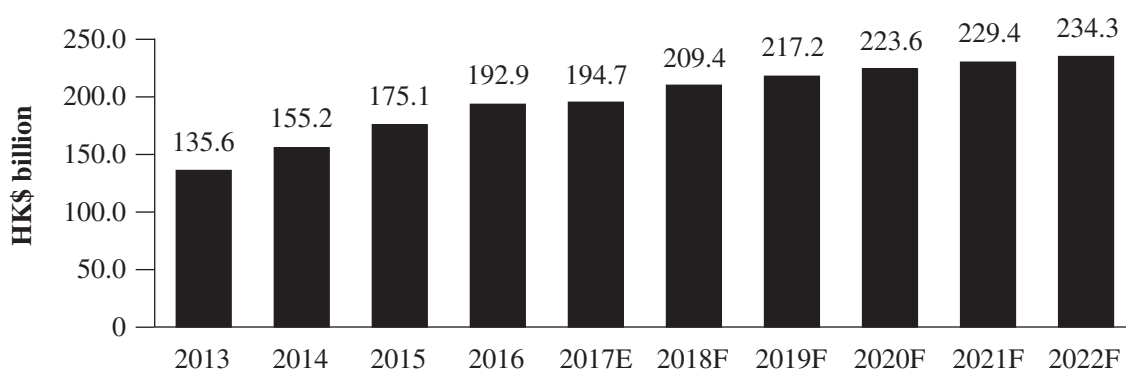
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Ipsos developed its estimates or forecasts on the following principal bases and assumptions: (i) it is assumed that the global economic growth remains steady across the forecast period; and (ii) it is assumed that there is no external shock such as financial crisis or natural disasters to affect the demand and supply of the construction industry in Hong Kong during the forecast period.

CONSTRUCTION INDUSTRY OVERVIEW

The construction industry in Hong Kong recorded a stable growth from 2013 to 2017. The total gross output value of construction works increased from approximately HK\$135.6 billion in 2013 to approximately HK\$194.7 billion in 2017 at a CAGR of approximately 9.5%.

Gross output value of construction works in Hong Kong from 2013 to 2022



Note:

- (1) The letter “E” denotes as estimated figures
- (2) The letter “F” denotes as forecasted figures

Source(s): Hong Kong Census and Statistics Department; The Ipsos Report

Construction projects in Hong Kong can be generally categorised into public sector projects and private sector projects. Public sector projects refer to projects of which the main contractors are employed by the Government or other statutory bodies, while private sector projects refer to projects that are not public sector projects. Public sector has contributed to a larger gross output value with an aggregate amount of approximately HK\$457.1 billion as compared to the aggregate amount of private sector with a value of approximately HK\$396.4 billion from 2013 to 2017.

The construction industry experienced a stable growth in the past few years mainly due to the rising demand for commercial and residential buildings as well as for infrastructure. The public sector was supported by some large public infrastructure projects such as the Public Housing Development Program and Ten Major Infrastructure Projects, which include the South Island Line, Sha Tin to Central Link, Lok Ma Chau Loop, Guangzhou-Shenzhen-Hong Kong Express Rail Link, Tuen Mun-Chek Lap Kok Link and Tuen Mun Western Bypass, West

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Kowloon Cultural District, Kai Tak Development, Hong Kong-Zhuhai-Macao Bridge, North East New Territories New Development Areas, and Hong Kong-Shenzhen Western Express Line. In private sector, the growth was attributable to the Government’s initiative to increase private residential units supply and land supply for commercial and economic activities.

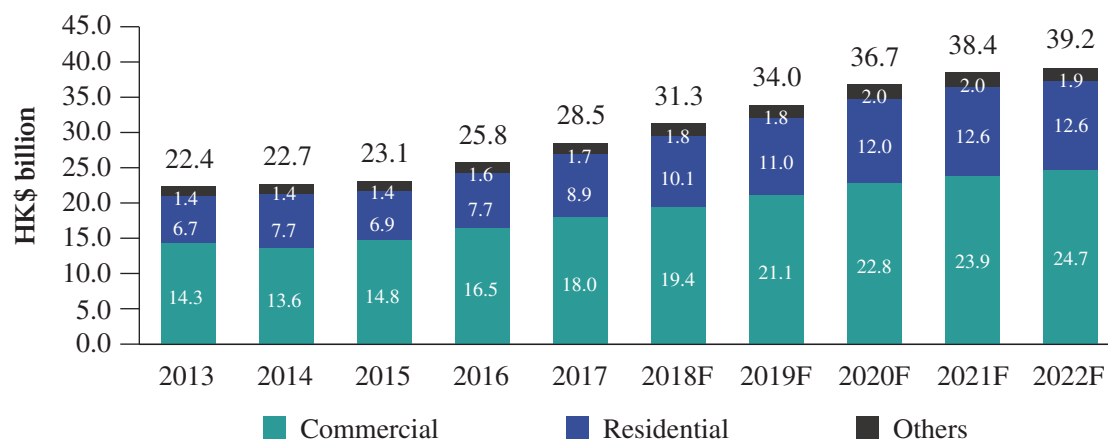
To cater for the continuous demand in residential units and commercial sites, the government has announced in the 2017 Policy Address to further provide approximately 460,000 housing supply for the next decade; which includes approximately 200,000 public rental housing (PRH) units, approximately 80,000 subsidized sale flats and approximately 180,000 private housing units. To address the latter, suitable Government, Institution or Community (GIC) sites will be converted to commercial use and to develop Kowloon East as a secondary core business district. Such plans will further facilitate the construction industry and the gross output value of construction is thus forecasted to grow at a CAGR of about 2.8% from 2018 to 2022.

FITTING-OUT INDUSTRY OVERVIEW

In the Hong Kong construction industry, main contractors are primarily in charge of the entire construction project and typically outsource construction works to subcontractors in accordance to their specialties and knowledge.

Fitting-out industry is one of the specific areas of the Hong Kong construction industry, while the development of fitting-out industry and construction industry are correlated. Fitting-out works are commonly demanded in commercial and residential construction projects. In 2017, the total gross output value of fitting-out industry accounted for approximately 14.6% of the total gross output value of construction works in Hong Kong. From 2013 to 2017, the total gross output value of fitting-out industry grew from approximately HK\$22.4 billion to approximately HK\$28.5 billion, at a CAGR of approximately 6.2%.

Gross output value of fitting-out industry in Hong Kong from 2013 to 2022



Source(s): Ipsos research and analysis

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Residential fitting-out works mainly include fitting-out works which apply to residential buildings and their attached facilities such as clubhouse. Commercial fitting-out works mainly include fitting-out works which apply to commercial buildings such as offices, shopping malls and hotels. Other fitting-out works are fitting-out works which neither fall into the category of residential or commercial, which mainly include fitting-out works which apply to industrial buildings, hospital, airport terminal, etc.

The growth of fitting-out industry from 2013 to 2017 was mainly supported by constant demand of fitting-out work due to continuing new building construction completion and the launch of Mandatory Building Inspection Scheme (MBIS) and the Mandatory Window Inspection Scheme (MWIS) by the Buildings Department in 2012, being schemes that require inspection, repair and maintenance to be performed on old buildings which are over 30 years old and 10 years old respectively. In addition, Rating and Valuation Department recorded a total commercial completion area of 161,100 m² in 2013 to 400,200 m² in 2017 at a CAGR of approximately 25.5%. Other noteworthy landmark property development projects that contributed to the gross output value of the fitting-out industry over the past years include YOHO Mall, a North-West New Territories flagship shopping mall, that was completed in 2015, and the redevelopment of Shanghai Commercial Bank Tower that was completed in 2016, all of which that supported growth in commercial fitting-out value.

Moving forward, the total gross output value of fitting-out industry is forecasted to increase from approximately HK\$31.3 billion to approximately HK\$39.2 billion at a CAGR of about 5.8% from 2018 to 2022 due to the expected growth in both residential and commercial fitting-out industry.

The gross output value generated from residential fitting-out works is forecasted to increase from approximately HK\$10.1 billion in 2018 to approximately HK\$12.6 billion in 2022 at a CAGR of about 5.7%. The residential property market in Hong Kong is expected to remain resilient in the coming years due to shortage of residential units. According to Rating and Valuation Department, 19,526 private residential units are forecasted to be completed in 2018. More residential projects to look forward to from 2019 to 2022 include Astro Far East Estate at Cheung Sha Wan, Kwun Tung Town Centre, and Lohas Park Phase V and VI at Tseung Kwan O which is expected to contribute to the growth of residential fitting-out industry.

The gross output value generated from commercial fitting-out works is forecasted to increase from approximately HK\$19.4 billion in 2018 to approximately HK\$24.7 billion in 2022 at a CAGR of about 6.2%. There has recently been a growing establishment of new and secondary business districts outside of the Central area due to the Government initiated to energise Kowloon East in accordance to the 2011–2012 Policy Address, which will increase the number of new office, so will increase the demand for fitting-out works. Also, there are several luxury hotel projects that are expected to be completed in the coming years, such as The Hong Kong Ocean Park Marriott Hotel and the Fullerton Hotel, which are expected to be opened in 2018 and 2020 respectively, which are likely to contribute to the output value of fitting-out industry.

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According to the Ipsos Report, fitting-out works usually involve wall, ceiling finishes, partition, furniture finishing, and common installation services like doors, and flooring. In addition, some fitting-out contractors may also provide related services such as renovation, interior design and repair, maintenance alteration and addition (RMAA) work. While often property developers and property owners will directly engage fitting-out contractors for fitting-out works, main contractors that win tenders from customers may also engage fitting-out contractors to subcontract partial or majority of the undertaken fitting-out works according to its own capacity, the timeline and complexity of the projects.

INDUSTRY DRIVERS

Since the development of fitting-out industry is correlated with the construction industry, the fitting-out industry in Hong Kong is expected to benefit from the following industry drivers:

1. Redeveloping old and dilapidated buildings

The Government is taking on a basket of strategies to refurbish and redevelop old and dilapidated buildings for a better living environment. As addressed in the 2017 Policy Address, the Government will launch “Operation Building Bright 2.0”, where HK\$3.0 billion funds will be used to subsidize owner-occupiers for undertaking rehabilitation works on aged buildings in need of repair. Based on the “Hong Kong 2030+” report, it is expected that the number of residential and composite buildings aged 30 or more will reach approximately 40,000 by 2046. As of November 2017, there were approximately 6,863 private buildings aged over 50 in Hong Kong. Many of these neglect and decay buildings that need redevelopment will drive the demand for fitting-out works in the future.

2. Increase in demand for micro residential units

The demand and supply for micro residential units have been increasing in recent years. Micro residential units have been growing in popularity in Hong Kong due to its slightly more affordable price in a smaller size as compared to the high end large property units. Nevertheless, these types of micro flats typically have small space area, i.e. less than 200 square feet per unit, such as T Plus in Tuen Mun. This trend creates more residential units under the same developed gross floor area, which leads to an increase in the demand of fitting-out works. Also, due to the lack in space, property developers will engage fitting-out services to maximise space utilisation for each unit by applying more complex fitting-out works. The demand on higher value-added fitting-out works is likely to increase the value generated by the fitting-out industry.

3. Government’s plan to increase land supply for residential and commercial uses

As announced in the 2017–2018 Land Sale Program, there will be a total of 28 residential sites capable of providing nearly 19,000 flats. Besides, railway property development projects by the MTR Corporation at LOHAS Park, Ho Man Tin Station, Wong Chuk Hang Station, Yao Tong Ventilation Building and West Rail project is expected to

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further provide about 8,030 flats. For commercial buildings, there will be three commercial/business sites and one hotel site which can provide nearly 172,000 square metres of floor area and 550 rooms at Kai Tak and Cheung Sha Wan. Besides exploring new sites, the Government is also converting suitable Government sites for commercial use while relocating their Government offices from core business districts. Some notable Government building area include the three Government towers at Wan Chai, TID Tower in Mong Kok, Murray Road public carpark in Central and the middle road carpark in Tsim Sha Tsui. The additional sites provided by the Government will increase the supply of land for development, which will lead to the increase in the demand for the construction industry, subsequently benefitting the fitting-out industry.

COMPETITIVE LANDSCAPE AND ENTRY BARRIERS

The five largest players in the Hong Kong fitting-out industry in 2017

According to the Ipsos Report, the top five fitting-out contractors (in terms of market share in the fitting-out industry in Hong Kong in 2017) and their respective backgrounds are as follows:

Ranking	Contractor	Key type of works performed	Approximate market share
1	A contractor based in Hong Kong, which is listed on the Main Board of the Stock Exchange	Fitting-out works, alteration and addition; manufacturing, sourcing and distribution of interior materials	5.3%
2	A contractor based in Hong Kong, which is listed on the Main Board of the Stock Exchange	Fitting-out works, including design and building; alteration and addition	3.4%
3	A contractor based in Hong Kong, which is a subsidiary of a company listed on the Main Board of the Stock Exchange	Fitting-out works, including design and building	2.9%
4	A contractor based in Hong Kong	Fitting-out works, interior design and building, alteration and addition, interior contracting	2.2%

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Ranking	Contractor	Key type of works performed	Approximate market share
5	A contractor based in Hong Kong	Fitting-out works, including initial feasibility studies, cost estimation, design to management, construction and maintenance	1.8%
Total			15.6%

Factors influencing competition among fitting-out contractors

Business relationships, industry reputation and experience in fitting-out project management are major factors of competition among contractors in the fitting-out industry in Hong Kong.

Fitting-out contractors with a proven track record and positive reputation in the industry are more competitive based on their proven reliability and experience in completing fitting-out works. Main contractors usually prefer to work with subcontractors whom they have long standing relationships with and have proven high-quality work to be delivered on time. Established long-term business relationships with construction materials suppliers and main contractors provide subcontractors with better flexibility in negotiating prices, allocating resources and executing projects compared with their competitors.

In addition, a fitting-out contractor’s experience in fitting-out project management will determine its efficiency and effectiveness in sourcing and allocating resources including labour and construction materials to complete works on time and within a competitive budget. Technical expertise and experience in fitting-out project management are also important to meet project timeline, quality and budget. With an experienced project management team having good technical understanding of fitting-out works, a contractor is able to address different issues that may arise during project execution, and foresee potential problems during the project.

Our Group’s market share in the fitting-out industry

The total revenue of the fitting-out industry in Hong Kong in 2017 was approximately HK\$28.5 billion according to the Ipsos Report. The total revenue of our Group for FY2016/17 was HK\$331.9 million. Based on these figures, it is estimated that our Group’s market share in the fitting-out industry in Hong Kong is approximately 1.2%.

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Entry barriers of the fitting-out industry in Hong Kong

1. High and stable capital requirement

Construction industry is a high operating expense industry in nature including fitting-out services. A large amount of capital is needed for project initiation and operating management such as surety bond payment, engaging subcontractors, recruitment of skilled labours, experience management and raw materials purchase. Particularly, a large amount of upfront cost payment is often involved when undertaking fitting-out projects, which require substantial working capital and healthy cash flow. Hence, new entrants who do not have an adequate amount of capital may face consequences of delayed project executions and ultimately, losing their reputations.

2. An experienced team of industry expertise

An experienced team of industry expertise could provide advices and customise solutions on fitting-out projects that best fulfil the needs of the clients. Due to the competitive environment in the fitting-out industry, it is challenging for companies to recruit an experienced team. Therefore, having and maintaining an experienced team will be a significant entry barrier for new entrants in the fitting-out industry to handle projects effectively.

3. Proven track records

In general, customers award tenders based on the contractors’ track record and experience to assess their abilities in undertaking projects. Customers of fitting-out works will evaluate contractor’s ability to meet the technical, safety, time and budget requirements of a project. Thus, new entrants with little fitting-out work track record would undergo a lack of proven project management and work experience to support their capabilities during tender.

4. Relationship with property developers and main contractors

Fitting-out works of large property projects are usually awarded through an invitation to tender process. Customers, such as property developers or main contractors of the construction projects, may send tender invitation to those contractors with good working relationship and track record in the past. New entrants of the fitting-out industry may find it difficult to blend into the market and obtain tender invitations as they have yet to build up cooperative relationship and network with main contractors and property developers.

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Potential challenges

1. Labour shortage

The ageing workforce and the decreasing number of youngsters joining the construction and fitting-out industry have led to the problem of labour shortage. According to the Construction Industry Council (CIC), about 43.1% of the 466,737 registered workers were aged over 50 as of March 2018. Separately, shortage of both general welders and plasterers is expected from 2018 to 2022 with only around 500-1500 labour supply in the fitting-out market as reported in the Report on Manpower Research for the Construction Industry in Hong Kong by CIC December 2017 issue.

2. Increase in operating cost

The issue of high operating cost has long ensued the overall construction industry. The average wages of construction workers has been driven up by the need to retain skilled labour and attract young entrant workers, resulting in an overall higher operating cost in the construction industry. The average daily wage of fitting-out workers has increased from approximately HK\$939.9 in 2013 to approximately HK\$1,285.0 in 2017, at a CAGR of 8.1%. Please refer to the paragraph headed “Price trend of major fitting-out cost components” in this section for further information.

3. Increasing competition

Competition has intensified in Hong Kong’s fitting-out industry. Specifically, some contractors are now raising capital by way of [REDACTED] in the Stock Exchange to expand the scope of their services and business volume. Such business expansion plans of fitting-out contractors in Hong Kong has led to an increase in competition for available fitting-out projects.

PRICE TREND OF MAJOR FITTING-OUT COST COMPONENTS

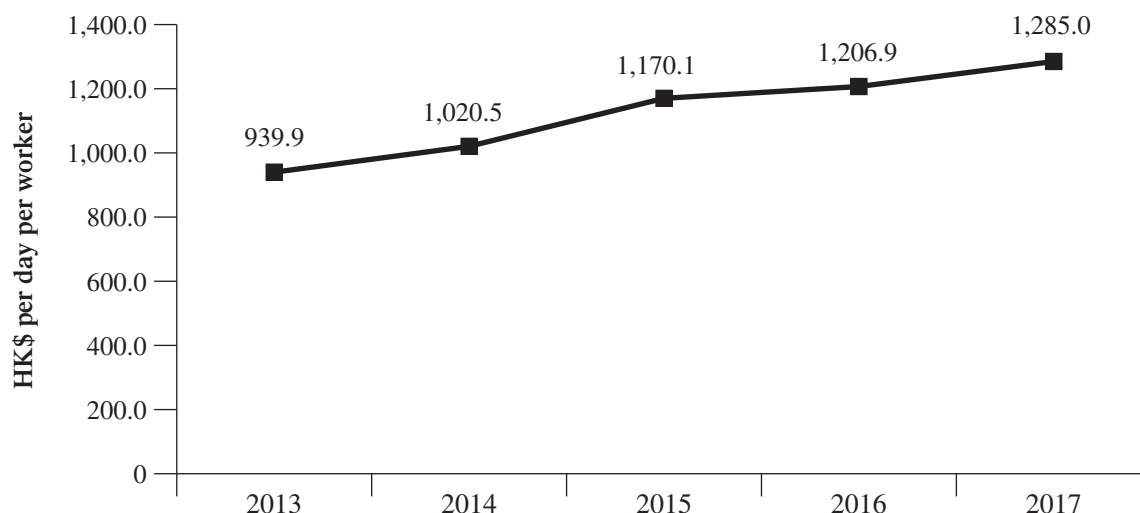
The major fitting-out cost components of our Group’s operation include, among others, direct labour cost, and main materials such as glass and timber products.

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Average wages of fitting-out workers in Hong Kong

The average daily fitting out worker wage is computed using the average wages of bricklayers, general welders, joiners, painters and decorators, plasterers and general workers. The average wages of fitting out workers has increased from approximately HK\$939.9 in 2013 to approximately HK\$1,285.0 in 2017, at a CAGR of approximately 8.1%.

Average wages of fitting-out workers in Hong Kong from 2013 to 2017



Source(s): Hong Kong Census and Statistics Department; The Ipsos Report

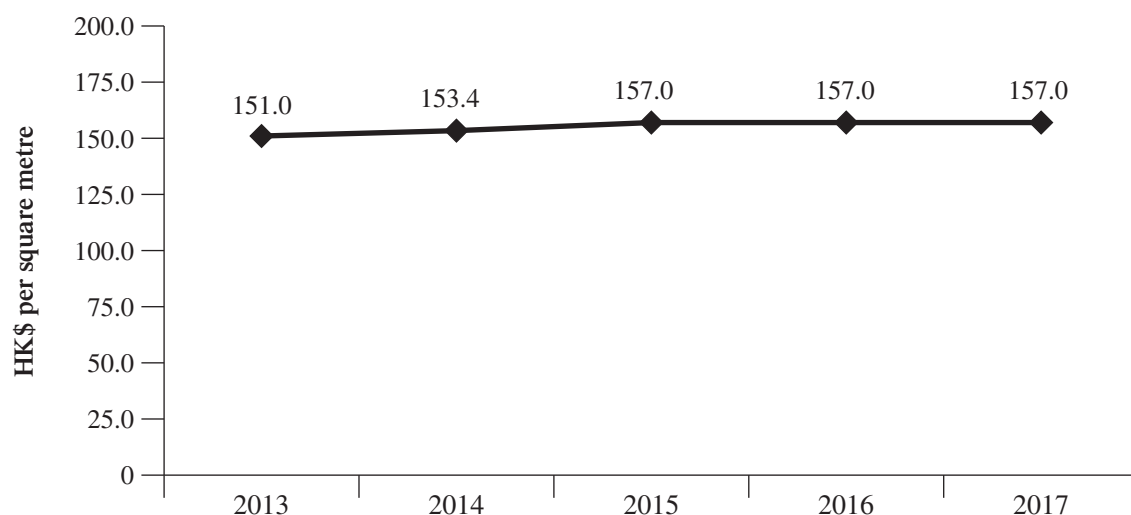
According to the Ipsos Report, the increasing trend in average wages for fitting-out workers was caused by a lack of new entrant workers and an ageing labour force. The Government is encouraging youngsters to enter the industry by providing funds for training schemes and the increase in wages aims to attract more skilled and young labour to join the workforce. However, it only had a limited effect due to a lack of career prospect. The problem of labour shortage in the fitting-out industry is exacerbated by an aging workforce, as old and skilled construction workers approach retirement and leave the industry. For these reasons, it is expected that the average daily wage of fitting-out worker in Hong Kong will continue to rise in the coming years.

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Average wholesale price of glass in Hong Kong

From 2013–2017, the average wholesale prices for glass exhibited a modest growth with a recorded CAGR of approximately 1.0%, an increase from approximately HK\$151.0 to approximately HK\$157.0 per square metre.

Average wholesale price of glass in Hong Kong from 2013 to 2017



Source(s): Hong Kong Census and Statistics Department; The Ipsos Report

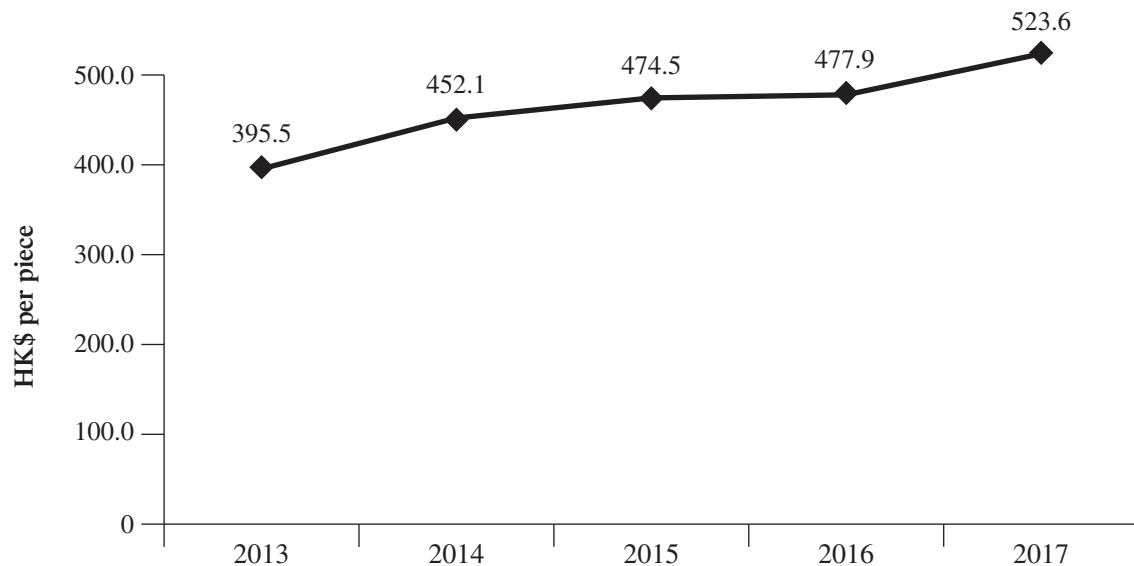
The modest price trend could be attributed to the tight competition among glass suppliers. A slight increase in price will drive customers to seek for other supplier or product substitution considering glass is a product with minimal product variance and easily substitute product. Hence, the average wholesale price of glass has remained relatively stable over the years.

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Average import prices of timber products in Hong Kong

The major fitting-out timber products of our Group’s operation include, among others, wooden furniture, timber door and timber flooring.

Average import price of wooden furniture in Hong Kong from 2013 to 2017



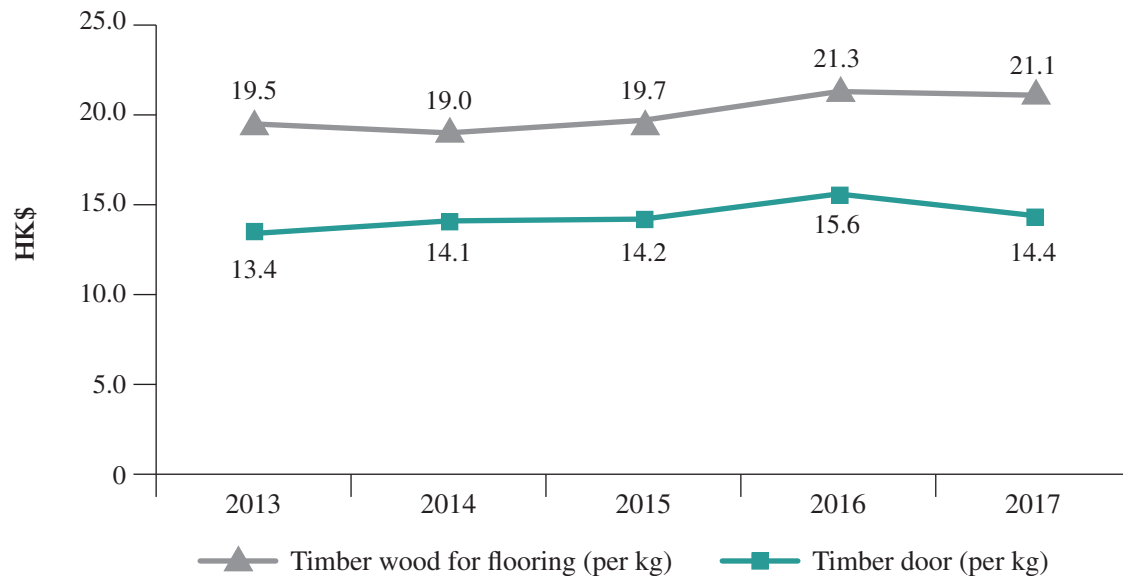
Note(s): Historical price trend of wooden furniture is weighted average import price based on import quantity of fitting-out wooden furniture which include; (i) wooden furniture used in the bedroom, such as wardrobes and beds (SITC code: 82155); (ii) other wooden furniture, such as desk tables and bookcases (SITC code: 82159); and (iii) wooden furniture for kitchen use (SITC code: 82153)

Source(s): Hong Kong Census and Statistics Department; The Ipsos Report

The average import price for per piece of wooden furniture in Hong Kong increased from approximately HK\$395.5 to approximately HK\$523.6 per piece from 2013 to 2017, at a CAGR of approximately 7.3%, which was mainly attributable to the increased demand for wooden furniture using solid wood due to users’ rise of taste and living standard. As wooden furniture that use solid wood is generally more expensive, the increasing trend of using solid wood furniture has driven up the average import price of wooden furniture. Also, solid wood used for manufacturing wooden furniture, such as the Mongolian Oak and Chinese Ash, were limited in supply and without close substitutes, which has further increase the average price of solid wood furniture when facing an increasing demand.

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Average import prices of timber wood for flooring and timber doors in Hong Kong from 2013 to 2017



Note(s): Historical price trend of timber wood for flooring is weighted average import price based on import quantity of (i) wood of non-coniferous species (including strips and friezes of parquet flooring, not assembled) (SITC code: 24850); and (ii) assembled flooring panels (SITC code: 63534)

Source(s): Hong Kong Census and Statistics Department; The Ipsos Report

The average import price of timber flooring changed from approximately HK\$19.5 per kg to approximately HK\$21.1 per kg, at a CAGR of approximately 2.0% from 2013 to 2017; while the average import price of timber door changed from approximately HK\$13.4 per kg to approximately HK\$14.4 per kg, at a CAGR of approximately 1.8% from 2013 to 2017. The price of both timber flooring and timber door was in a steady trend, while the little fluctuation in price trend for both timber door and timber flooring was mainly due to the varied demand from Hong Kong and the increasing supply of cheaper alternative imported from the PRC.