

INDUSTRY OVERVIEW

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The Ipsos Report

We commissioned Ipsos to undertake research on the IT services and solutions industry in Hong Kong, which includes IT application and solution development, secondment services, maintenance and support services, and IT infrastructure solutions at a fee of approximately HK\$356,000. The research is set out in the Ipsos Report. Our Directors confirm that Ipsos including all of its subsidiaries, divisions and units, is independent of and not connected with us in any way. Ipsos, on behalf of itself, its subsidiaries and units, has confirmed that the Ipsos Report was prepared in its ordinary course of business, and has given its consent for us to quote from the Ipsos Report and to use the information contained in the Ipsos Report in this [REDACTED].

Ipsos, having offices in over 80 countries, is a market research and consulting firm that provides insight, to its clients to drive their brands competitiveness, and, products and customer relations strategies. Ipsos is engaged in the provision of various services including market survey, market profiling, market sizing, share and segmentation analysis, distribution and value analysis, competitor tracking and corporate intelligence.

The information contained in the Ipsos Report is derived by means of data and intelligence gathering methodology which includes: (i) desk research; (ii) client consultation; and (iii) primary research by interviews with key stakeholders and industry experts in Hong Kong including association and experts, IT solutions providers and software providers.

The Ipsos Report is based on the following assumptions: (i) the economy environment in Hong Kong will maintain a steady growth across the forecasted period; (ii) there will be no external factors such as financial crisis or natural disasters to affect the demand for and supply of IT services and solutions services during the forecast period; (iii) the demand for IT services and solutions services will be stable during the forecast period; and (iv) there will be no material change of government policies, measures and attitudes in IT services and solutions services since 2012, and up to 2017.

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The following parameters were considered in the market sizing of the Ipsos Report, (i) GDP growth rate from 2008 to 2012; (ii) inflation from 2013 to 2017; (iii) average annual customer spending on IT services and solutions services; and (iv) number of IT services and solutions service providers.

This [REDACTED], particularly in the sections headed "Industry overview" and "Business" contains some information extracted from the Ipsos Report.

OVERVIEW OF IT SERVICE AND SOLUTION INDUSTRY IN HONG KONG

IT services and solutions in the IT service industry broadly include the below solution categories:

Categories	Product and service involved
IT integration solution	<ul style="list-style-type: none">• IT application and solution development is the formation of a computer operating environment by combining hardware platforms, network systems, system software and application software targeting the specific computing needs of the customers. It involves systems design, network design, planning, installation, product screening, software development, consultancy services, training etc.• Secondment service is referred to as contract staff services where IT service and solution providers send their IT professionals to client's site to perform IT services according to clients' instruction, while working under the direct employment of the IT service and solution providers.• Maintenance and support service refer to the system maintenance or after-sales computer services.
IT infrastructure solutions	<ul style="list-style-type: none">• IT infrastructure solutions is the resell of hardware and software of different brands which incorporates additional services and/or modifications to enhance its functions through integration, customisation, consultation, training, implementation etc.

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THE MARKET SUPPLY

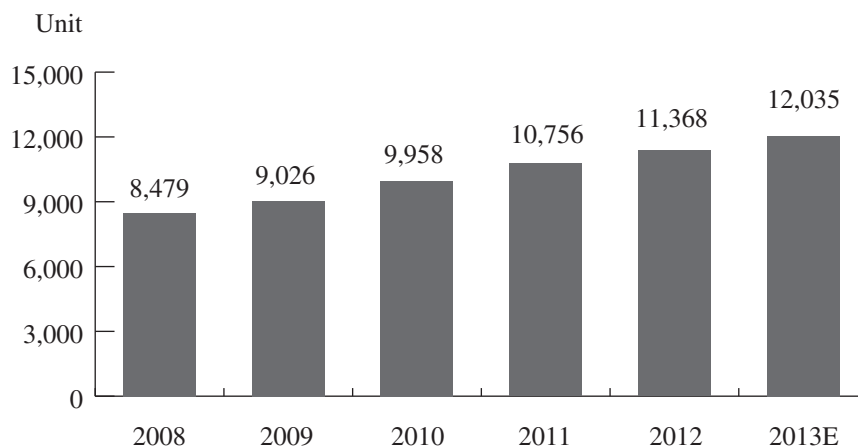
Number of IT services and solutions providers in Hong Kong

According to Ipsos, IT services and solutions providers in Hong Kong can be divided into software and hardware service providers:

- Hardware service providers are distributors of large international computer companies, and the largest ones combine the provision with software development and consultancy.
- Software service providers include value-added resellers, customer software developers/ software houses, system and network integrators, electronic data processing departments, information system consultants, and hardware manufacturers who also design operating systems.

According to Ipsos, the IT services and solutions industry in Hong Kong is highly intensive with large number of service providers. The number of IT services and solutions providers in Hong Kong had been increasing since 2008 as a result of the stable economic growth in Hong Kong. The total number of IT services and solutions providers grew from approximately 8,479 in 2008 to approximately 12,035 in 2013, at a CAGR of approximately 7.3%. Approximately 80% of the service providers were small-scale enterprises with less than 20 employees.

Total number of IT services and solutions providers in Hong Kong



Note: Number of service providers include technology and communications establishments in Hong Kong as defined by the Hong Kong Census and Statistics Department.

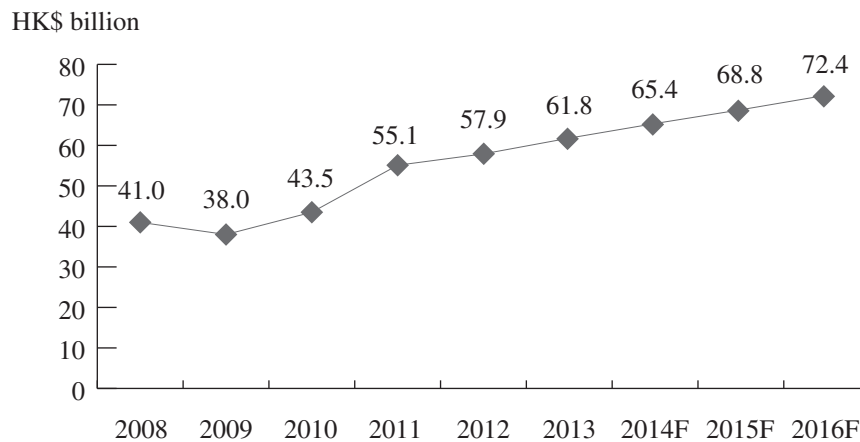
Sources: Hong Kong Census and Statistics Department; Ipsos Report

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THE MARKET SIZE

Customer spending on IT services and solutions in Hong Kong

Customer spending on IT services and solutions in Hong Kong (Note)



Sources: Science and Technology Statistics Section, Hong Kong Census and Statistics Department, Ipsos Report

Note: Customer spending includes both the business and the government sector for overall IT services, which include spending on IT and solution services, as well as other IT related services, such as agency fees, and after-sales caring and maintenance fees.

Total customer spending on IT services and solutions industry in Hong Kong, including both the business and the government section for overall IT service and solution, increased from approximately HK\$41.0 billion in 2008 to approximately HK\$61.8 billion in 2013, at a CAGR of approximately 8.6%. The global financial crisis in 2008 caused enterprises to reduce their IT expenditure, as a result, customer spending on IT services and solutions slumped by approximately 7.1% in 2009. Total customer spending picked up in 2010 along with robust economic recovery.

The business sector dominated customer spending on IT service and solution at approximately 91.4% in 2011, while the government shared approximately 8.6% in the same year.

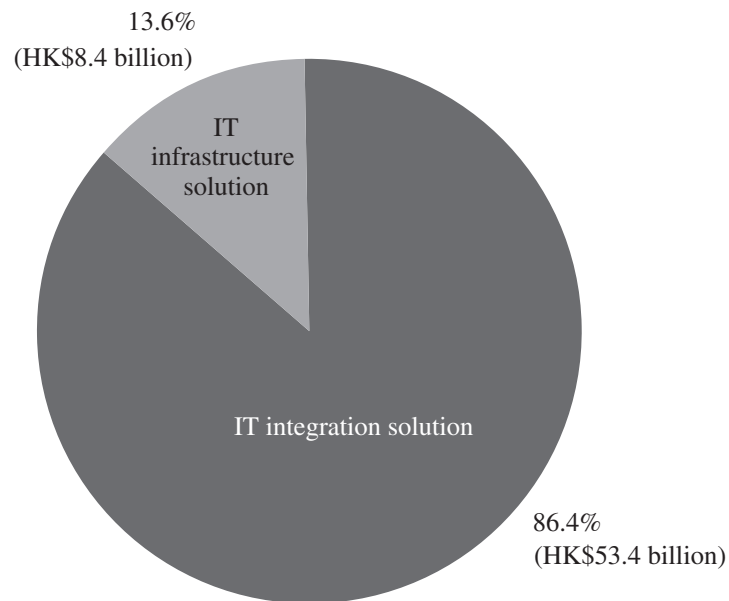
It is expected that the total customer spending on IT services in Hong Kong will grow at a CAGR of approximately 5.4% from 2014 to 2016. The launch of Windows 8, touchscreen tablets and the trend to mobility will fuel demand for new IT services such as virtualisation and cloud computing. Key industries such as banking, finance and logistics are expected to continue investing in modernisation which will sustain their spending on IT services and solutions, including IT integration service and IT infrastructure solutions in Hong Kong.

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Segmentation of customer spending on IT services and solutions in Hong Kong

Spending on IT integration solution is the major type of customer spending on IT services and solutions in Hong Kong, which accounted for approximately 86.4% of the total spending on IT services and solutions in Hong Kong in 2013.

Customer spending on IT services and solutions industry in Hong Kong in 2013 by categories (Note)



Sources: Science and Technology Statistics Section, Hong Kong Census and Statistics Department, Ipsos Report

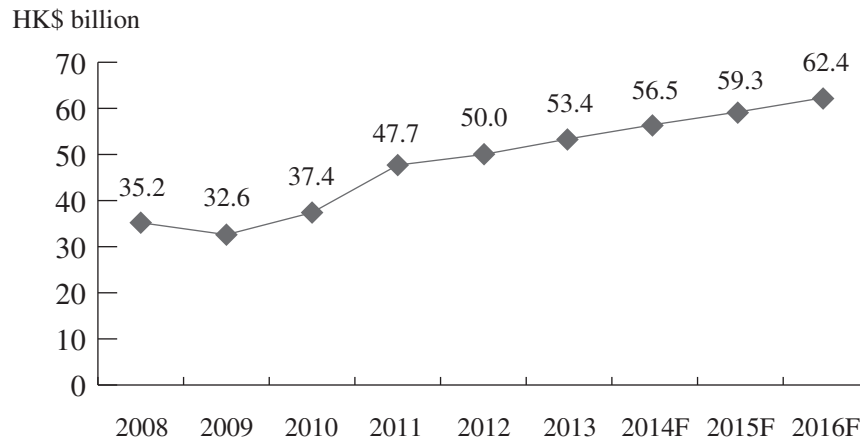
Note: Customer spending includes both the business and the government sector for overall IT services, which include spending on IT and solution services, as well as other IT related services, such as agency fees, and after-sales caring and maintenance fees.

Customer spending on IT integration solutions is higher than the spending on IT infrastructure solutions in Hong Kong as IT integration solutions cover a larger variety of IT services, such as workplace transformation services, data center transformation services, network transformation services and operations transformation services. Besides, the HKSAR government also drove the demand for IT integration solution service in Hong Kong. For example, the HKSAR government launched programmes, such as the Digital 21 Program, to support the development of Cloud computing in Hong Kong, and determined that Hong Kong should emerge as a regional Cloud computing hub. Apart from the government sector, private companies has an increasing demand for enterprise resource planning (ERP) systems, which integrate internal and external management of information across an entire organisation-embracing finance/accounting, manufacturing, sales and service, customer relationship management, etc. ERP facilitates information flow between all business functions inside the organisation, and manages connections to outside stakeholders.

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Total revenue of IT services and solutions industry in Hong Kong

Total revenue of IT service and solution industry in Hong Kong (Note)



Sources: Science and Technology Statistics Section, Hong Kong Census and Statistics Department, Ipsos Report

Note: Revenue includes only the revenue received by IT services and solutions providers in the industry in Hong Kong.

Revenue of IT service and solution industry in Hong Kong increased from approximately HK\$35.2 billion in 2008 to HK\$50.0 billion in 2012, at a CAGR of approximately 8.7%.

The global financial crisis in 2008 caused enterprises to reduce their IT expenditure, as a result, the revenue on IT service and solution slumped by approximately 7.4% in 2009. Revenue of IT service and solution industry in Hong Kong picked up in 2010 along with robust economic recovery. The increase in IT spending in the government sector also boosted the revenue of the IT service and solution industry from 2008 to 2013. The government launched the Digital 21 Programme starting from 2008 to encourage the development of informatisation in Hong Kong. The government's IT plan includes an emphasis on cloud computing, with around 300 government services already available in the government's cloud catalogue in 2012.

Furthermore, the growth in revenue of IT services and solutions industry in Hong Kong was driven by the increase in newly established companies. The number of newly registered local companies hit a record high of 174,031 in 2013, and the number of foreign companies establishing a place of business in Hong Kong grew to 780 in the same year. In light of increasing office rentals and a limited supply of offices, the government has increased support for the sector by releasing land for office buildings, and has planned to transform and develop Kowloon East into another business district. Therefore, the increase in the number of companies in Hong Kong drove the demand for IT services and solutions industry.

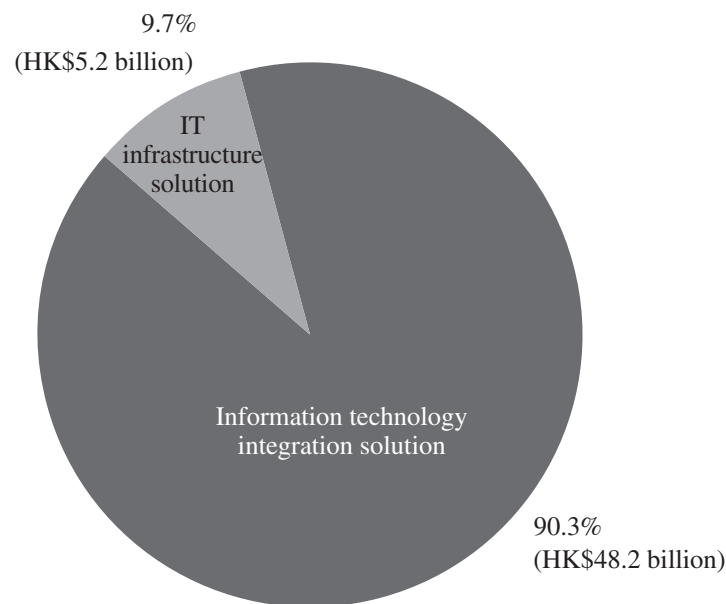
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The total revenue of IT services and solutions industry in Hong Kong is expected to grow due to the demand from both the public and private sectors. According to Ipsos, the revenue of IT services and solutions industry in Hong Kong will grow at a CAGR of approximately 5.3% from 2014 to 2016. It is expected that both the private and public sectors will continue to invest in modernisation which will sustain their spending on IT services, including IT integration services and IT infrastructure solutions in Hong Kong. For example, the Hong Kong government budgeted US\$31 million for building a larger-scale government Cloud platform, called GovCloud in 2013. The system will host computing resources for 30 bureaus and departments within the Hong Kong government and cloud-ready systems such as e-procurement, e-information management and e-human resources management.

Segmentation of revenue of IT services and solutions industry in Hong Kong

Revenue derived from IT integration solutions is the major source of customer revenue of IT services and solutions industry in Hong Kong, which accounted for approximately 90.3% of the total revenue of IT services and solutions in Hong Kong in 2013.

Total revenue of IT service and solution industry in Hong Kong in 2013 by categories *(Note)*



Sources: Science and Technology Statistics Section, Hong Kong Census and Statistics Department, Ipsos Report

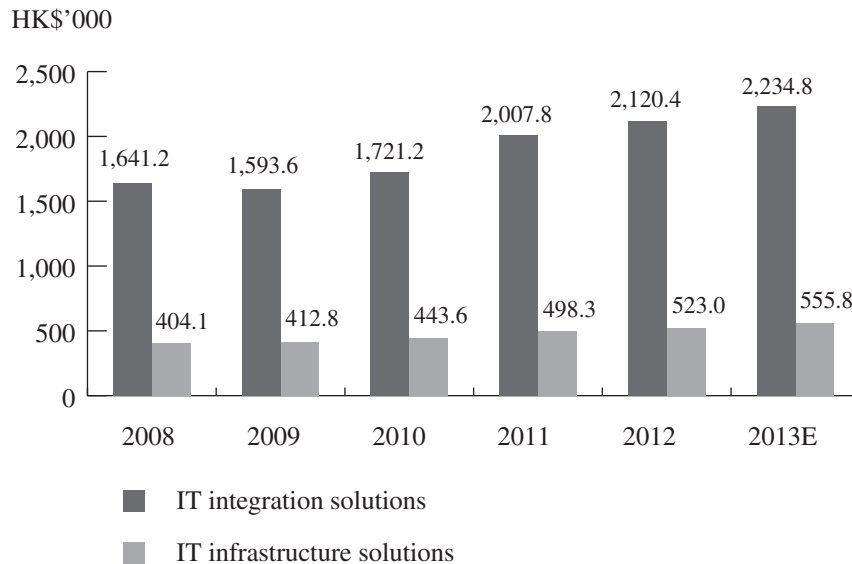
Note: Revenue includes only the revenue received by IT services and solutions providers in the industry in Hong Kong.

According to Ipsos, provision of IT integration solution services has higher profit margin than IT infrastructure solutions as companies do not have to pay the cost of hardware when providing IT integration solutions service, causing more IT service companies to offer such service in the market. Traditional hardware providers also started to offer IT integration solutions and consulting services to the market in order to obtain higher profit margin.

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Price trend of IT services and solutions in Hong Kong

Average price of IT services and solutions (per contract) in Hong Kong (Note)



Source: Ipsos Report

Note: Based on revenue received by IT services and solutions providers in the industry in Hong Kong only.

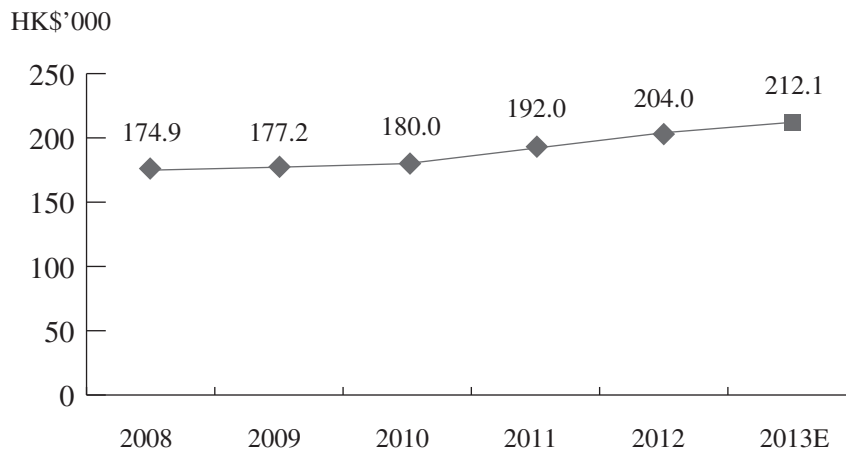
The average contract price of IT integration solutions increased at a CAGR of approximately 6.4%, from approximately HK\$1,641,200 in 2008 to approximately HK\$2,234,800 in 2013. The increase in average contract price of IT integration solution is mainly due to the higher demand for the service resulted from factors mentioned above.

The average contract price of IT infrastructure solution increased at a CAGR of approximately 6.6%, from approximately HK\$404,100 in 2008 to about HK\$555,800 in 2013. The increase in average contract price of IT infrastructure solutions was mainly due to the increase in selling price for hardware and software products over the period from 2008 to 2013.

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Average salary trend of IT professionals in Hong Kong

Average annual salary of IT professionals in Hong Kong



Source: Ipsos Report

According to Ipsos, salary of IT professionals is the major cost of IT services and solutions providers. The persistent demand for skilled IT professionals in Hong Kong has caused the steady growth in the salary of IT professionals in Hong Kong.

The average annual salary of IT professionals in Hong Kong grew steadily from approximately HK\$174,900 in 2008 to approximately HK\$212,100 in 2013, at a CAGR of approximately 3.9%. Recovery from the global financial crisis and the positive outlook of the PRC and other emerging markets boosted the demand for IT professionals in Hong Kong from 2008 to 2013. Despite the difficult economic conditions in other parts of the world as a result of the deepening European debt crisis, Hong Kong still saw strong salary growth in 2013.

Although the supply of IT professionals in Hong Kong were largely in line with the growing demand in Hong Kong, the quality of supply currently lags behind. IT professionals in Hong Kong continued to be of high demand in the industry for the following reasons:

- Hong Kong's infrastructure, development and business markets remain active, therefore, skilled professionals are in high demand.
- There remains a trend for enterprises on outsourcing and using systems integrators and vendors rather than developing their own internal supporting team.
- The growing popularity of Cloud computing and the use of data centres raises the demand for IT professionals skilled in Cloud computing and working within data centres.

As a result, the average salary of IT professionals in Hong Kong is expected to continue along the growing inflation in Hong Kong.

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COMPETITIVE ANALYSIS OF IT SERVICES AND SOLUTIONS INDUSTRY IN HONG KONG

Competitive situation of the IT services and solutions industry in Hong Kong

The IT services and solutions industry is fragmented; there were approximately 12,035 IT services and solutions providers in Hong Kong in 2013. The majority of these providers are engaged in IT integration solution services with approximately 80% of them being small and medium enterprises with less than 20 employees. Larger-scale IT services and solutions service providers generally are able to provide one-stop services and serve multi-national enterprises and government bureaus due to their reputation and track record. The top five IT services and solutions providers only accounted for approximately 5.4% of the market share. Service providers mainly compete on brand name, reputation, customer relationship and service scope in the market.

Top five IT services and solutions providers in Hong Kong

Top five IT services and solutions providers in Hong Kong in 2013 are as follows:

Rank	Company	Headquarters	Background	Revenue in 2013 <i>(HK\$ million)</i>	Share of total industry revenue <i>(%)</i>
1	Competitor A	Hong Kong	A listed company in Hong Kong involved in IT integration solution and IT infrastructure solution	1,293.3	2.4%
2	Competitor B	Hong Kong	A member of a listed company in London with a diversified business group focused principally on Asia, including IT integration solution and IT infrastructure solution	671.3	1.3%
3	Competitor C	US	A listed company in New York involved in IT integration solution and IT infrastructure solution	305.0	0.5%
4	Our Group	Hong Kong	Involved in IT integration solution and IT infrastructure solution	190.0	0.4%
5	Competitor D	Hong Kong	A listed company in Hong Kong involved in IT integration solution and IT infrastructure solution	180.4	0.3%
Others				47,502.9	94.6%
Total				53,400	100%

Sources: Ipsos Report

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Factors of competition

Brand name and reputation, relationships with customers and one-stop services are the key factors of competition in the IT services and solutions industry.

Brand name and reputation

Reputation of IT services and solutions service providers is built on trust and sense of security. IT services and solutions service providers are involved in handling internal IT and security systems which are highly confidential. Their strong reputation can give confidence to clients in data security and reliable services. In addition, IT services and solutions service providers are striving to enhance their brand name and reputation to attract new clients. A stronger reputable brand name enables service providers to compete with other players and gain business from large enterprises.

Relationships with customers

Customers tend to engage the same service provider for IT services and solutions services, because service providers need to have deep knowledge and understanding about the internal IT systems of the customers. Hence, IT services and solutions service providers are competing in order to broaden their customer base and maintain the relationship with existing clients to sustain their business.

One-stop services

IT services and solutions service providers which able to provide one-stop service from IT integration solution to IT infrastructure solution are able to attract clients as clients can obtain a one-stop service from the same service provider, and therefore save their time in searching for other service providers. Larger-scale IT services and solutions service providers, which accounts for approximately 20% of the total market players in Hong Kong, generally are able to provide one-stop services.

Entry barriers

According to Ipsos, partnership with renowned hardware/software manufacturers and lack of skilled talents set barriers for new entrants into the IT services and solutions industry in Hong Kong.

Partnership with renowned hardware/software manufacturers

IT applications and solutions development involves combining the information technology of various hardware manufacturers and software developers, by integrating products of different brands. Such relies on good relationships with leading hardware or software manufacturers. New entrants without partnership relationships with renowned manufacturers will face high entry barrier into the industry.

Lack of skilled talents

The IT service and solution industry is a skill intensive industry, the quality of IT services and solutions services highly depends on the skill and experience of the staff. It requires the staff to have sound technical knowledge with the relevant computer systems.