
INDUSTRY OVERVIEW

This section contains certain information which is derived from various official government or publicly available sources and from the market research report prepared by Euromonitor which was commissioned by us, unless otherwise indicated. We believe that the sources of such information are appropriate and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading in any material respect or that any fact has been omitted that would render such information false or misleading in any material respect. The information has not been independently verified by us, our Controlling Shareholders, the Sole Sponsor, any other party involved in the [REDACTED] or their respective directors, officers, employees, advisers, agents and no representation is given as to the accuracy or completeness of such information. Accordingly, such information should not be unduly relied upon.

The Sole Sponsor and our Directors have exercised reasonable care in reproducing market data disclosed in this document, and have no reasonable ground to believe and do not believe that any such information being included in this document is untrue. Our Directors have further confirmed that, after taking reasonable care, there is no adverse change in the market information since the date of the Euromonitor Report, which may qualify, contradict or have an impact on the information as disclosed in this section.

SOURCE OF INFORMATION

Euromonitor Report & research methodology

Euromonitor, an Independent Third Party, is a global research organisation and provider of international market intelligence on consumer products, services and lifestyles. It was commissioned by our Group in June 2015 to produce the Euromonitor Report on the logistics industry in Hong Kong, at a fee of US\$46,200 (equivalent to approximately HK\$359,436). Figures and statistics provided in this document and attributed to Euromonitor or the Euromonitor Report have been extracted from the Euromonitor Report and published with the consent of Euromonitor.

For the market data disclosed in this document, Euromonitor primarily undertook top-down central research with bottom-up intelligence to present a more comprehensive and accurate picture of the logistics industry in Hong Kong. The information quoted from Euromonitor Report is not official government information. Methodology conducted by Euromonitor provides a roadmap to interpret the reasonable ground.

Euromonitor’s detailed primary research involved (a) detailed desk research using information from its database, regulatory authorities in Hong Kong’s trade associations and companies’ annual reports and where national statistics are quoted in its report, these were taken from the most updated published official statistics, where available; and (b) trade interviews with trade associations and leading industry players.

The bases and assumptions for the projections in the Euromonitor Report include the following:

- The Hong Kong economy is expected to maintain steady growth over the forecast period;
- The Hong Kong social, economic, and political environment is expected to remain stable in the forecast period;

INDUSTRY OVERVIEW

- There will be no external shock, such as financial crisis or raw material shortage that affects the demand and supply of the logistics industry in Hong Kong during the forecast period;
- Key market drivers such as strong performance of total trade and healthy retail industry performances are expected to boost the development of the logistics industry; and
- Key drivers including increasing popularity of contract logistics is likely to drive the future growth of the logistics industry.

The research results may be affected by the accuracy of these assumptions and the choice of these parameters. The market research was completed in September 2015 and all statistics in the Euromonitor Report are based on information available at the time of reporting. Euromonitor’s forecast data comes from analysis of historical development of the market, the economic environment and underlying market drivers, and is cross-checked against established industry data and trade interviews with industry experts.

DIRECTORS’ CONFIRMATION

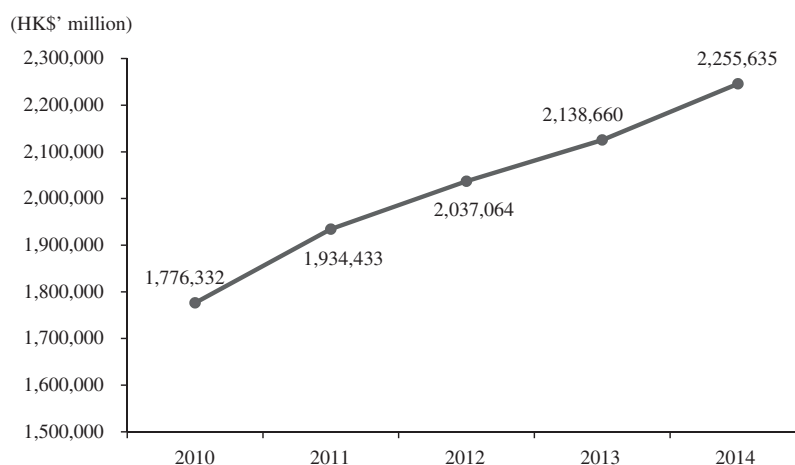
Our Directors confirm that after taking reasonable care, there is no material adverse change in the market information since the date of the Euromonitor Report which may qualify, contradict or have an impact on the information in this section.

OVERVIEW OF HONG KONG MACRO-ECONOMIC ENVIRONMENT

GDP

Hong Kong enjoyed steady economic expansion from 2009 to 2014, recording 6.2% CAGR over the five-year period. The economy rebounded strongly from recessionary pressures of 2009 to 2010, brought about by the global financial crisis, largely due to increased government expenditure on capital investment including infrastructure and technology. Although Hong Kong was left largely unscathed by the financial contagion, it remains vulnerable to the global slowdown in export demand. Despite these headwinds, Hong Kong’s GDP rose 5.5% in 2014, totaling approximately HK\$2,255.6 billion.

GDP from 2010 to 2014



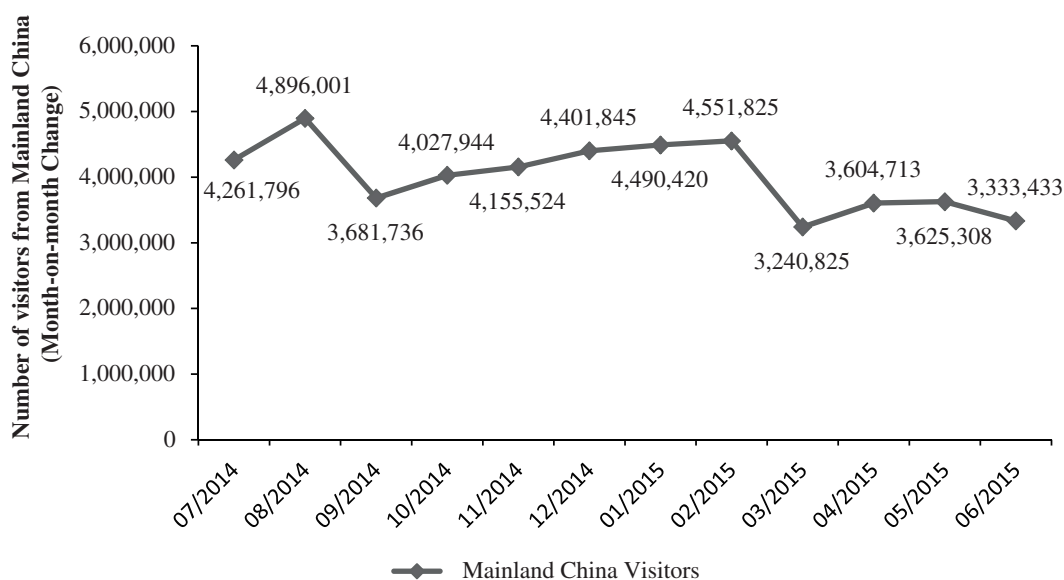
Source: Census and Statistics Department of Hong Kong, Hong Kong Tourism Board

INDUSTRY OVERVIEW

Visitors from the PRC

The number of visitors from the PRC increased from approximately 4.26 million in July 2014 to 4.90 million in August 2014 and then dropped to approximately 3.68 million in October 2014. For the following five consecutive months, the number has slightly increased until February 2015 with the visitor numbers of approximately 4.55 million. After the Chinese New Year holiday, the number of visitors from the PRC dropped again to approximately 3.24 million in March 2015 and increased to approximately 3.6 million in April 2015. After the announcement that Shenzhen residents would be limited to one visit per week instead of multiple-entry individual visit from 13 April 2015, the number of visitors from the PRC in May 2015 was as stable as April 2015 with the number of visitors of approximately 3.6 million, but then reduced by 8.05% to 3.3 million in June 2015.

The following chart sets forth the number of visitor from Mainland China to Hong Kong from July 2014 to June 2015:



Source: The Hong Kong Tourism Board, Monthly Reports – Visitor Arrivals Statistics

Retail sales

Total retail sales

The retail trade is one of the largest service sectors in Hong Kong with about 65,900 establishments in the trade, accounting for 4.3% of Hong Kong’s GDP in 2014. Total retail sales in Hong Kong grew from approximately HK\$325.0 billion in 2010 to HK\$493.2 billion in 2014, registering a strong CAGR of 11%. The overall strong growth of retail value sales from 2010 to 2014 were mainly fuelled by sales of high-ticket items such as cosmetics and skincare products, clothing, jewellery and watches. Luxury products were particularly favoured by Mainland China visitors due to the tax difference and quality assurance. Strong growth in disposable income among local consumers has also supported development of retailing industry in Hong Kong.

INDUSTRY OVERVIEW

There was a slight decline in total value of retail sales from 2013 to 2014 because retail and commercial businesses within tourist and central business district areas including Central and Mongkok have been negatively affected by the Occupy Central movement occurred in the 4th quarter of 2014. While trade respondents shared that Occupy Central movement has eroded 20% to 30% of the average receipts as compared to the previous year in the affected areas but most remain optimistic of minimal spillover effects of the civil demonstration into 2015.

Retail sales for food, alcoholic drinks, and tobacco

Value of retail sales for food, alcoholic drinks, and tobacco grew from approximately HK\$68.4 billion in 2010 to HK\$89.5 billion in 2014, registering a CAGR of 6.9% from 2010 to 2014. Growth of sales on food items were supported by increasing sophistication and improved disposable incomes, which enable local customers to be more appreciative of premium products. Hikes in raw material costs have further spurred value growth of food items as well.

	2010 <i>HK\$'</i> <i>million</i>	2011 <i>HK\$'</i> <i>million</i>	2012 <i>HK\$'</i> <i>million</i>	2013 <i>HK\$'</i> <i>million</i>	2014 <i>HK\$'</i> <i>million</i>
Value of total retail sales	324,966	405,732	445,498	494,451	493,236
Value of retail sales for food, alcoholic drinks and tobacco	68,438	75,324	80,567	84,914	89,511

Source: Census and Statistics Department of Hong Kong, Hong Kong Tourism Board

OVERVIEW OF LOGISTICS INDUSTRY

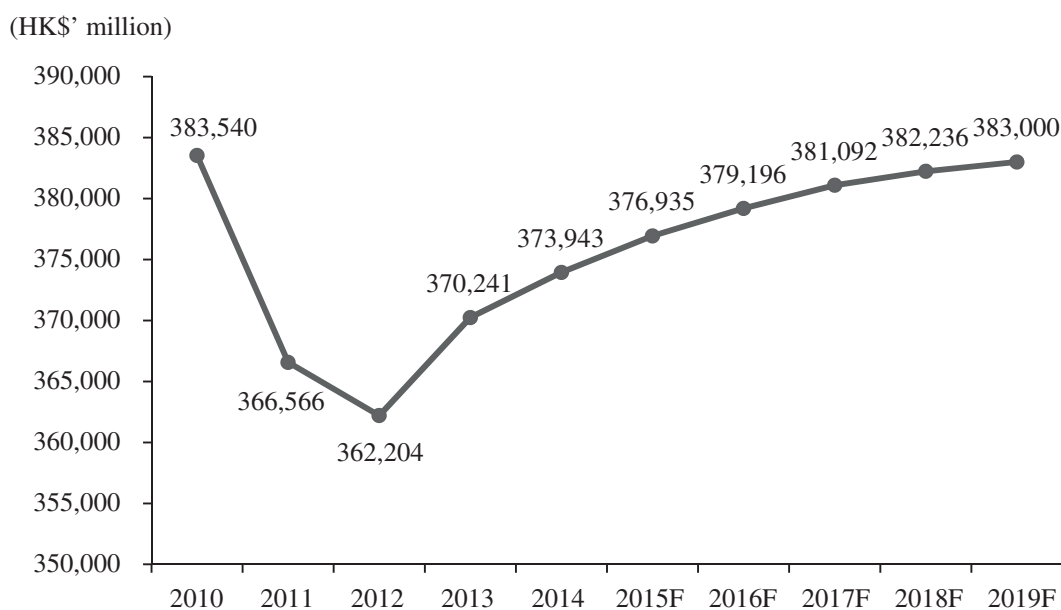
Hong Kong, as one of the busiest transportation hub in the world, provides a diverse range of logistics service for buyers, manufacturers as well as retailers. The industry is largely dominated by freighting and warehousing services, while other valued added services such as third party forwarding, packing, sorting and distribution has optimise the overall selection and comprehensiveness of services available in Hong Kong.

Revenue of logistics industry were largely influenced by global economy. In 2014, revenue of logistics industry amounted to approximately HK\$373.9 billion. Revenue of logistics industry declined from 2010 to 2012 due to decline in the number of service providers amid global economic downturn. The trend stopped in 2012 and the revenue of logistics industry rise by 2.2% in 2013 and 1.0% in 2014 as interaction and trading with mainland China picked up gradually.

INDUSTRY OVERVIEW

From 2015 to 2019, the industry is expected to maintain a CAGR of 0.4%, with industry revenue reaching approximately HK\$383.0 billion in 2019. The growth of revenue will be affected by both excellent logistics facilities in Hong Kong as well as the repercussion of political tension between Hong Kong and mainland China after outbreak of Occupy Central movement which happened during the end of 2014.

Total revenue of logistics industry in Hong Kong from 2010 to 2019F



Source: Euromonitor estimates from desk research and trade interviews with owners/ landlords of private commercial retail property and the relevant associations

Warehousing services

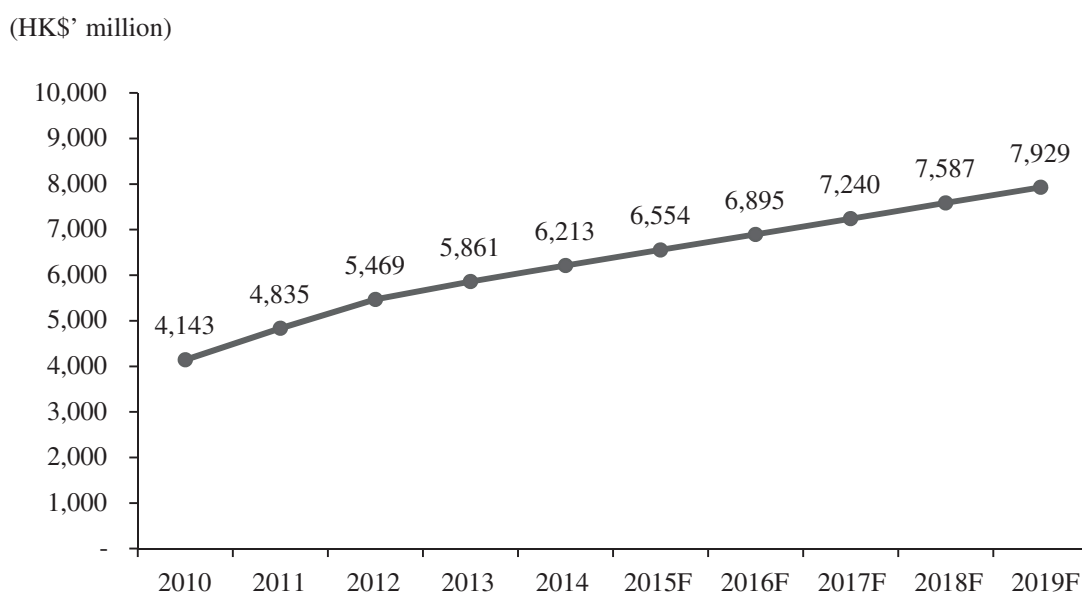
Warehousing services in Hong Kong includes operation of storage and warehouse facilities for all kind of goods such as general merchandise warehouses, refrigerated warehouses or storage tanks. There are 403 warehousing establishments in Hong Kong in 2013.

According to the Euromonitor Report, revenue of warehousing services in Hong Kong amounted to approximately HK\$6,213 million in 2014, registering a CAGR of 10.7% from 2010 to 2014. The overheated property market in Hong Kong drove up rental across the island, contributing to higher warehousing receipts.

From 2015 to 2019, the growth will moderate as growth of property prices stabilize and Mainland China tourists cutting back shopping in Hong Kong. Revenue of warehousing services will have CAGR of 4.9% from 2015 to 2019, bringing revenue to HK\$7,929 million for the warehousing services by 2019.

INDUSTRY OVERVIEW

Total revenue generated from warehousing services in Hong Kong from 2010 to 2019



Source: Euromonitor estimates from desk research and trade interviews with owners/landlords of private commercial retail property and the relevant associations

COMPETITIVE LANDSCAPE OF LOGISTICS INDUSTRY IN HONG KONG

According to Euromonitor, there are over 5,000 logistics service providers in Hong Kong in 2013. As there is no professional requirement for the logistics industry, the market entry threshold is low, and the market is fragmented with small and medium players.

The leading logistics service providers have more business resources to sign global servicing contract with multi-national companies, they tend to provide comprehensive services from freight forwarding, supply chain management solutions, customs clearance, freight tracking and monitoring, to distribution solutions.

In general, the smaller freight forwarders provide more basic and economical services. Related services involved in the import/export process, such as the preparation of shipping documentation, customs clearance and logistics, may be undertaken by the import and export traders or their agents. The smaller firms do provide more flexibility and more personalised services.

INDUSTRY OVERVIEW

The table below sets forth the five leading logistics service providers in terms of revenue receipts in Hong Kong in 2014:

Ranking	Company Name	Service offering	Listed or unlisted	Company Background
1	Company A	Logistics, warehousing, freight forwarding	Listed in Hong Kong	Company A is the largest logistics company in the PRC, with business covering various aspects of logistics business, including ocean transportation, air transportation, trucking, freight forwarding, storing and warehousing business.
2	Company B	Logistics, warehousing, freight forwarding, express cargo	Listed overseas	Company B is a leading global brand in the logistics industry. It provides customers with logistics services along the entire supply, offering warehousing, distribution, managed transport and value-added services as well as business process outsourcing, supply chain management and consulting solutions.
3	Company C	Logistics, warehousing, freight forwarding	Listed in Hong Kong	Company C has a large distribution network and hub operations in the PRC. Services provided by Company C encompass integrated logistics, international freight forwarding and supply chain solutions.
4	Company D	Logistics, warehousing, freight forwarding	Unlisted	Company D is a full service transportation and logistics company with freight management and contract logistics operations spanning 950 locations in 170 countries. It focuses on market segments such as automotive, tires, hi-tech and electronics, consumer/ retail, publishing and media industries.
5	Company E	Logistics, warehousing, freight forwarding	Listed overseas	Company E is a Swiss company, which provides forwarding and logistics services, specializing in intercontinental air and ocean freight and associated supply chain management solutions.

Source: Euromonitor estimates from desk research and trade interviews with owners/ landlords of private commercial retail property and the relevant associations in Hong Kong

INDUSTRY OVERVIEW

BARRIERS TO ENTRY

In general, there are little barriers of entry to the industry. The required capital for new comers to set up its office in Hong Kong depends on the types of services it provides. The key difficulties for new comers in the industry are high operation cost and difficult to acquire talent.

High operation costs

The operating cost for logistics services industry is high, mainly due to the high labour cost and high insurance fee for vehicles, labour and vessels. The nature of high operating cost has weakened the ability for companies to earn a decent profit margin; hence the ability for new comers to withstand possible future declines in demand is weak.

Difficulties in acquiring talents

Hong Kong is a well-developed city, graduates or younger labour has less intention to work as a low-skilled labour, even with the basic salary of logistics industry higher than some of the other industries in Hong Kong. On the other hand, to succeed in the logistics industry requires extensive industry knowledge and expertise, which can only be obtained through years of working in the industry. New comers often cannot find experienced employees without aggressively headhunting for talents.

FUTURE OPPORTUNITIES AND THREATS TO THE LOGISTICS INDUSTRY

Opportunities

Free trade economy and low tax regime

The combination of free trade economy and low tax regime is the unique competitive advantage for Hong Kong that competing ports in the PRC could not replicate, which will continue to sustain Hong Kong’s position as logistics centre for East Asia in the future. In addition, the advanced infrastructure of logistics services in Hong Kong will ensure customers are provided with efficient logistics solutions as well.

Technology Innovation

Technology advancement such as the automation system and supply chain monitoring software could drive the growth of the industry by reducing the labour intensity for logistics service providers, hence lower the cost and increase the revenue receipt of the industry going forward.

Future technology advancement also brings new demands for logistics services providers in Hong Kong. Such demands are come from the fast growing ecommerce business all over the world over the past three years.

INDUSTRY OVERVIEW

Integrated logistics services on the rise

The logistics industry has evolved in sophistication over the years. A shift from merely transportation and warehousing services to customized and integrated logistics service is presenting new opportunities to the market. As outsourcing continue its momentum, value-added services such as repacking, labelling, and tag hanging will help customers of the logistics industry, like Food and beverage and retailing to reduce cost and enhance value chain management. In addition, customers can also have their products and goods repacked or relabeled to comply with the local packing or labelling rules and requirements.

Online retailing creating new customer demands

The development of online retailing and logistic platform opens up a new source of demand for logistic service in Hong Kong. The online retailing sector requires a reliable and efficient logistics service providers to handle numerous orders, and small sized orders.

The logistics services providers in Hong Kong have the advantage in their matured distribution channel and experienced management system to handle such orders, compared to services providers in China. By utilising the competitive advantages for the industry players in Hong Kong, logistics service providers could catch the opportunities by adapting to the change in the retailing model in the market, in order to achieve a higher growth rate on the revenue receipt for the overall industry.

Threats

Rising labor costs squeezing profit margins for players

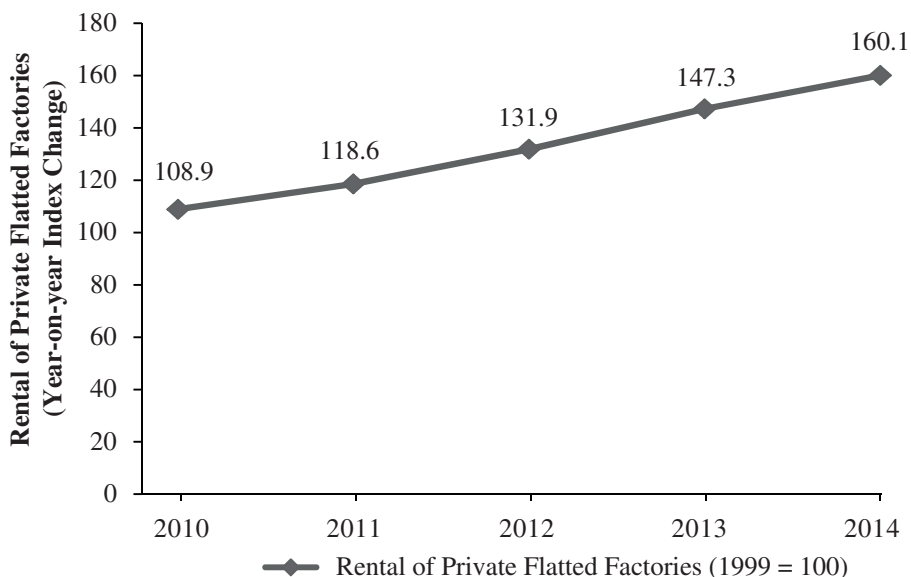
Labor costs are rising due to shortage of low-skilled labour to join the logistics industry as well as implementation of minimum wages. In 2015, the Hong Kong government revised the minimum wage upwards from HK\$30 per hour to HK\$32.5 per hour after adjusting from HK\$28 to HK\$30 in 2013. The adjustment had immediate impact on the logistics industry.

Property prices in Hong Kong driving up rental costs

The rental cost is also one of the main contributors on the rising operating cost in Hong Kong, especially during the overheated period of the property market from 2010 to 2013. With an average factory rental index base 100 of year 1999, the rental price index has recorded an increasing growth rate during the past decade from 108.9 in 2010 to the highest index 160.1 in 2014 due to the higher demand but with limited supply of factory spaces.

INDUSTRY OVERVIEW

The following chart sets forth the price indices of private flatted factories from 2010 to 2014:



Source: Rating and Valuation Department, *Hong Kong Property Review – Monthly Supplement August 2015*

Fast growing competition from nearby ports

The competitors nearby, especially Shenzhen, the PRC, is offering a much lower cost for logistics services compare to Hong Kong. The low cost advantage as well as the fast growing economy of the PRC has shifted the focus of some logistics service providers from Hong Kong to Shenzhen and Shanghai, hence negatively affecting the growth of industry receipts. The abundant land for development of logistics infrastructure as well as low waged labor is posing Shenzhen for higher expansion potential.