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## INDUSTRY OVERVIEW

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*This section contains certain information, statistics and data 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. The market research report prepared by Euromonitor reflects estimates of market conditions based on publicly available sources and trade opinion surveys, and is prepared primarily as a market research tool. References to Euromonitor should not be considered as the opinion of Euromonitor as to the value of any security or the advisability of investing in our Group. 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, the [REDACTED], the [REDACTED] and the Underwriters or 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.*

*Our Directors have 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

In connection with the [REDACTED], we have commissioned a research report from Euromonitor, which is an Independent Third Party, and 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 [REDACTED] 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 [REDACTED], 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 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 relevant period up to 2019;
- The Hong Kong social, economic, and political environment is expected to remain stable in the relevant period up to 2019;

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- 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 estimated 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.

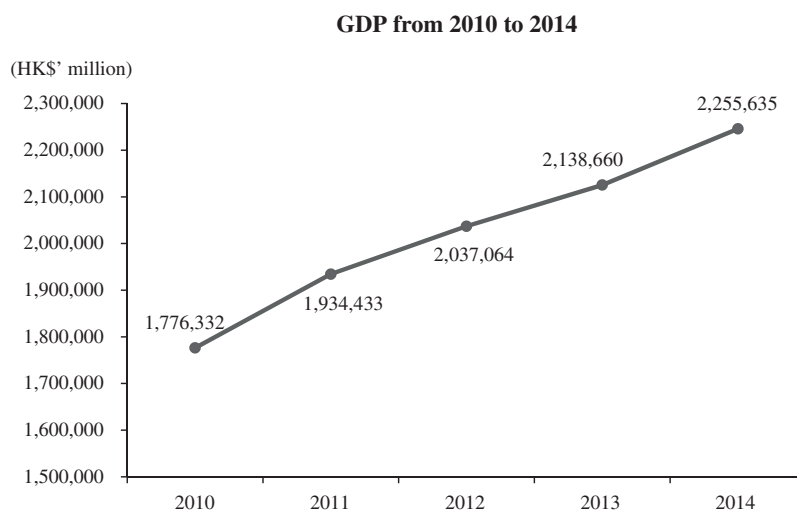
### DIRECTORS’ CONFIRMATION

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. Owing to the increase in government expenditure on capital investment including infrastructure and technology, the economy in Hong Kong rebounded strongly from recessionary pressures of 2009 to 2010, which was brought about by the global financial crisis. 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.



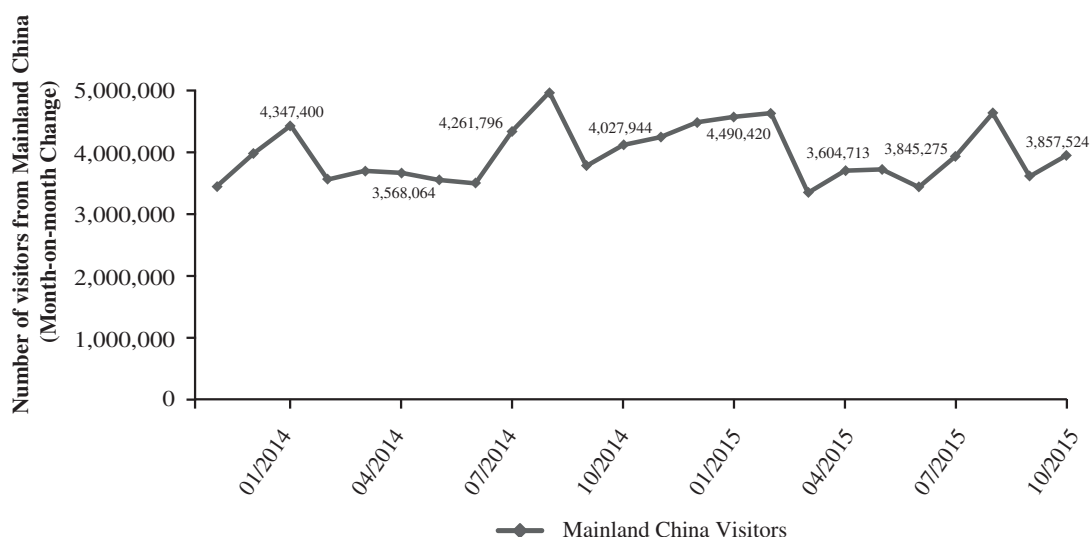
Source: Census and Statistics Department of Hong Kong, Hong Kong Tourism Board

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### Visitors from the PRC

According to the Hong Kong Tourism Board, the total number of visitors from the PRC to Hong Kong was in the region of approximately 3.4 million to 4.9 million during the period of January 2014 to October 2015.

The following chart and table set forth the number of visitors from Mainland China to Hong Kong from January 2014 to October 2015:



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

Number of arrivals/Month (Note 1)	% change		% change	
	2014	(monthly arrivals in 2014)	2015	(monthly arrivals in 2015)
January	4,347,400	–	4,490,420	2.01%
February	3,458,215	–20.45%	4,551,825	1.37%
March	3,601,086	4.13%	3,240,825	–28.80%
April	3,568,064	–0.92%	3,604,713	11.23%
May	3,452,734	–3.23%	3,625,308	0.57%
June	3,395,330	–1.66%	3,333,433	–8.05%
July	4,261,796	25.52%	3,845,273	15.35%
August	4,896,001	14.88%	4,550,148	18.33%
September	3,681,736	–24.80%	3,509,432	–22.87%
October	4,027,944	9.40%	3,857,524	9.92%
November	4,155,524	3.17%	N/A	N/A
			(Note 2)	(Note 2)
December	4,401,845	5.93%	N/A	N/A
			(Note 2)	(Note 2)

#### Notes

- The figures are based on the “Market Summary Sep 2015 – Mainland China” and the “Monthly Reports – Visitor Arrivals Statistics” published by the Hong Kong Tourism Board.
- The relevant figures have not been published as at the Latest Practicable Date.

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It is noted from the above table that in 2014, there was a significant decrease in the number of visitors from the PRC to Hong Kong in February and September 2014 respectively as compared to that of the preceding month in the same year. The Directors noted that in 2014, the Chinese New Year Holidays commenced from the end of January to the end of the first week of February whereby most PRC residents would visit Hong Kong in January 2014 and return to their hometown during the Chinese New Year and thus, the number of visitors to Hong Kong in February 2014 had dropped significantly. Moreover, the school summer holidays are normally ended by the end of August and thus, there was a significant decrease in the number of visitors from PRC in September in both 2014 and 2015. As concerns the significant decrease in the number of PRC visitors to Hong Kong in March 2015 as compared to that of in February 2015, our Directors noted that the Chinese New Year holiday only commenced from 18 February and thus, PRC visitors would visit Hong Kong right before or during the Chinese New Year and the number of PRC visitors therefore dropped in March 2015. In June 2015, the number of PRC visitors to Hong Kong showed a 8.1% decrease which, in the opinion of our Directors, was partially due to the implementation of the PRC government’s policy to restrict Shenzhen residents to visit Hong Kong to once a week instead of the previous multiple visits.

Looking forward, it is anticipated that the total spending from the Mainland visitors will increase by approximately 4.2% from 2015 to 2016 according to the Hong Kong Economic Monthly issued by Hang Seng Bank in May 2015, on the basis that the Mainland visitors may simply increase their spending per visit to compensate for the fact that they make fewer trips to Hong Kong.

### 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 services have optimised the overall selection and comprehensiveness of services available in Hong Kong.

Revenue of logistics industry was 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 the decline in the number of service providers amid global economic downturn. The trend stopped in 2012 and the revenue of logistics industry increased by 2.2% in 2013 and 1.0% in 2014 as interaction and trading with the Mainland China had increased gradually.

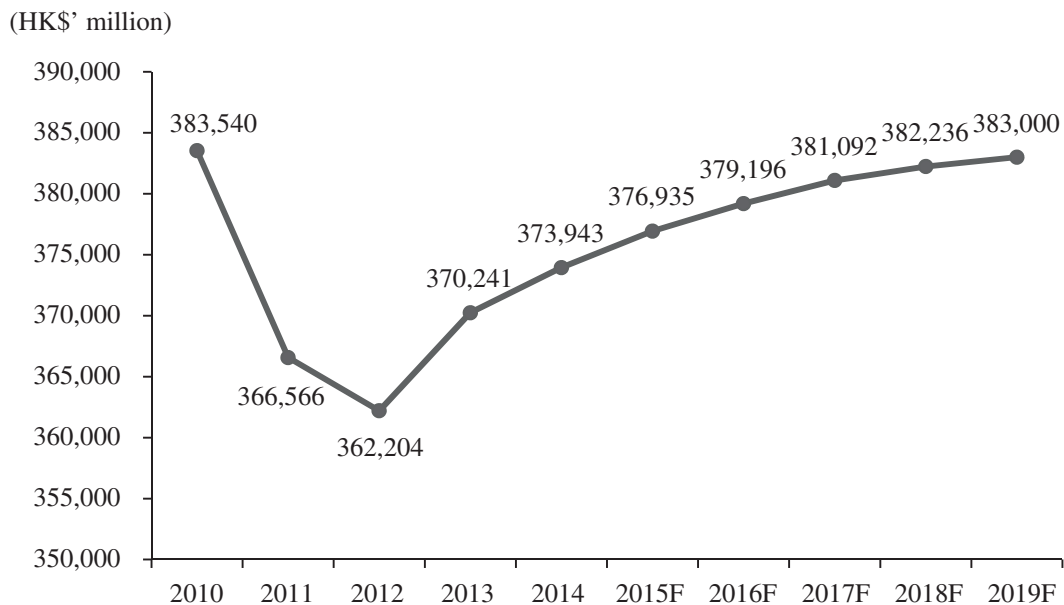
From 2015 to 2019, the logistics industry is expected to maintain a CAGR of 0.4%, with industry revenue reaching approximately HK\$383.0 billion in 2019. The growth of revenue will be affected by both excellent logistics facilities in Hong Kong as well as the repercussion of political tension between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

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### 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 include operation of storage and warehouse facilities for all kind of goods such as general merchandise warehouses, cold storage warehouses or storage tanks.

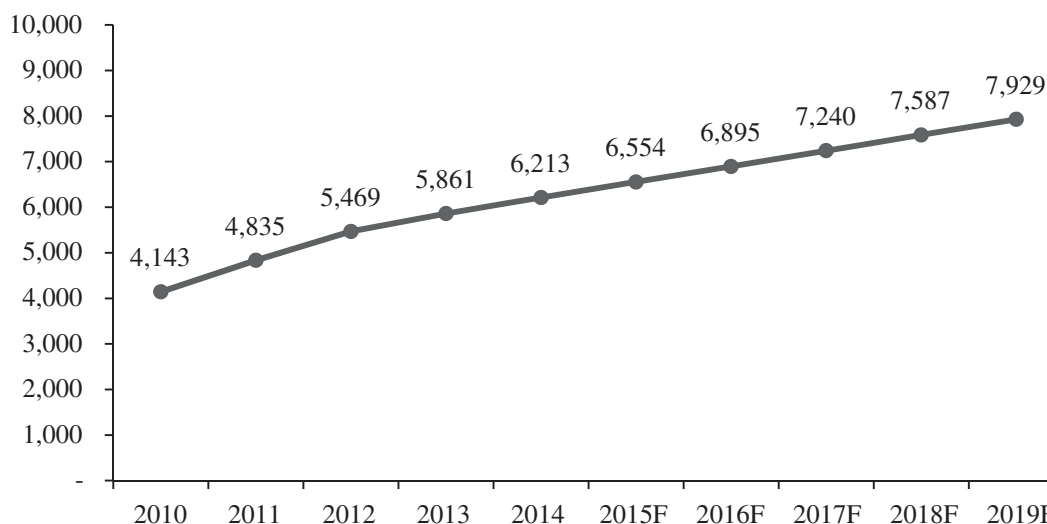
According to the Euromonitor Report, revenue of warehousing services in Hong Kong amounted to approximately HK\$6,213 million in 2014, representing a CAGR of 10.7% from 2010 to 2014. The overheated property market in Hong Kong drove up rental across Hong Kong, contributing to higher warehousing receipts.

From 2015 to 2019, the growth is expected to be moderate as growth in the property market in Hong Kong is expected to be stabilized and tourists from the Mainland China are expected to cut back their expenses in shopping in Hong Kong. Revenue of warehousing services is expected to have CAGR of 4.9% from 2015 to 2019, bringing revenue to HK\$7,929 million for the warehousing services by 2019.

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

(HK\$' million)



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. Although our Company contributed only approximately 0.04% to the total revenue of logistics industry in Hong Kong in 2013, we are one of logistics services providers out of a total of 663 logistic service providers in Hong Kong which business receipts were above HK\$50 million in 2013 according to Census and Statistics Department of Hong Kong SAR. As there is no specific requirement for entrants of the logistics industry in terms of professional qualifications etc., the market entry threshold is low, and the market is therefore fragmented with small and medium players.

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

In general, small-sized 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. These small-sized firms do provide more flexibility and more personalised services.

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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*

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### **Warehousing services**

There are 403 warehouses in Hong Kong in 2013. The top 20 companies providing warehousing service accounted for around 70% of the business receipts, while the remaining 383 warehouses only accounted for 30% of the industry’s receipts.

Leading players are companies with international or regional presence that has long term business relationship with multinational corporations which benefited from economies of scales due to large warehousing space and synergies from other sector of their business. Smaller players are often privately held and independently operated, targeting local business with competition primarily focused on price.

Our revenue generated from warehousing services amounted to HK\$53.5 million in 2014, representing a market share of 0.86% in 2014. Comparing to average industry revenue receipts of approximately HK\$15 million per warehouse, we were higher than the industry average. In addition, our revenue generated from warehousing service grew by 7.9%, from HK\$ 49.6 million in 2013 to HK\$ 53.5 million in 2014, which is above the industry growth rate of 6.0% for the same period.

### **BARRIERS TO ENTRY**

In general, there are not many barriers of entry to the logistic industry. The required capital for new comers to set up its business in Hong Kong is varied, depending on the types of logistics services it provides. The key difficulties for new comers in the industry are high operation cost and difficulty is recruiting 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 companies, ability to earn a decent profit margin. Hence new entrants’ abilities to withstand possible declines in business in the future are weak.

#### **Difficulties in recruiting talents**

Hong Kong is a well-developed city, and graduates or younger labour may not be interested to enter into the logistics industry, even though the basic salary of the workforce in logistics industry is generally higher than that in 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 experience in the industry. New comers often cannot find experienced employees without aggressively headhunting for talents.



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### 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 that customers are provided with efficient logistics solutions as well.

##### **Technology Innovation**

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

Future technology advancement also brings new demands for logistics services providers in Hong Kong. Such demands were generally resulted from the fast growing e-commerce business all over the world over the past three years.

##### **Integrated logistics services on the rise**

The logistics industry has evolved in sophistication over the years. There has been a shift from merely transportation and warehousing services to customised and integrated logistics service, which provides more new opportunities to the market. Value-added services such as repacking, labelling, and tag hanging will help customers in 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 in order to comply with the local packing or labelling rules and requirements.

##### **Online retailing creating new customer demands**

The development of online retail shops and logistic platforms open up a new source of demand for logistic service in Hong Kong. The online retail shops require 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 terms their mature distribution channel and experienced management system in handling orders, as compared to the 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 Hong Kong. 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.

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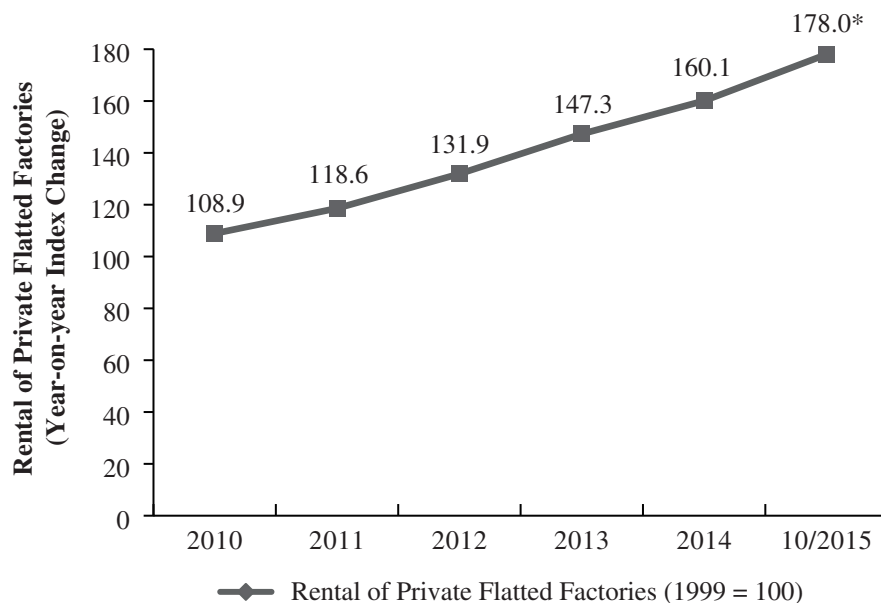
### Property prices in Hong Kong driving up rental costs

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 had recorded an increasing growth rate during the past decade from 108.9 in 2010 to the highest index 178.0 in October 2015 due to the higher demand but with limited supply of factory spaces.

Notwithstanding the general increasing trend of rents of private flatted factories since 2010, as noted by Jones Lang LaSalle Incorporated, the first half of 2015 experienced a slower growth of rents as compared to the second half of 2014. According to Jones Lang LaSalle Incorporated, rental growth, particularly in the warehouse market, continued to be hindered by the difficulties faced by third party logistics providers in passing higher rental costs onto their clients while rental growth in Flatted Factories were capped by increasing competition from industrial refurbishment projects.

Looking forward, it is anticipated that the warehouse rents will decline in 2016. In particular, according to Colliers International, due to softening demand, individual landlords became more flexible in lease negotiations, and it is anticipated that warehouse rents will decline 2% to 4% in 2016.

The following chart sets forth the price indices of private flatted factories from 2010 to October 2015:



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

\* Provisional figures

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### Fast growing competition from nearby ports

The competitors nearby, especially Shenzhen, the PRC, is offering a much lower cost for logistics services as compared to those in 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 supply of land for development of logistics infrastructure as well as the comparatively low labour cost in Shenzhen has made Shenzhen a competing market against Hong Kong for higher expansion potential for provision of logistics and warehousing services.

### COMPETITIVE LANDSCAPE OF COLD CHAIN LOGISTICS INDUSTRY IN HONG KONG

Under Food Business Regulation (Chapter 132X of the Laws of Hong Kong), a cold store licence must be obtained from Director of Food and Environmental Hygiene for the food business which involves the storage of articles of food under refrigeration in any warehouse in the territory before commencement of such business. In order to obtain such a licence, certain standard requirements in respect of plans, cold storage room, food inspection room, appointment of Hygiene Supervisor, etc., must be fulfilled. The following chart sets out the total number of licensed cold stores in Hong Kong during the period of 2005 to 2014:-



*Sources:* Hong Kong Annual Digest of Statistics 2009 Ed. – Census and Statistics Department; Hong Kong Annual Digest of Statistics 2015 Ed. – Census and Statistics Department

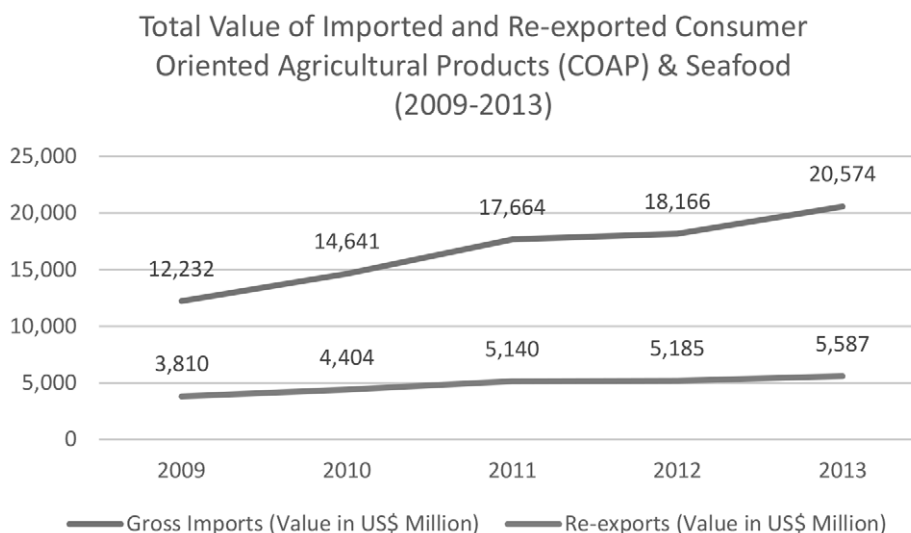
As indicated from the above figures, there has been an increasing trend in the number of licensed cold stores in the 10 year period, from 30 stores in 2005 to 41 stores in 2014 (i.e. 37%). The increasing number of cold stores could be seen as an indicator of the growing demand for cold storage warehouses in Hong Kong over the same period. There are 43 licensed cold stores in Hong Kong as at 20 May 2015. From those 43 licensed cold stores, we note there are around 17 cold chain logistics service providers, including Kerry Logistics Network Limited, Brilliant Cold Storage Management Limited, China Resources Logistics Limited and Chevalier Cold Storage and Logistics Limited. There exists no publicly available information in relation to the respective market shares of the cold chain logistics service providers in Hong Kong.

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### Future Opportunities of Cold Chain Logistics Industry

There is a promising future landscape of the cold chain logistics industry, which can be evidenced by the shift in investment of major logistics services providers towards cold storage and logistics. For instance, the leading market player in logistics industry, Kerry Logistics Network Limited, has in July 2015 disclosed to the media their plans to build more cold storage facilities to tap growing demand in the food and beverage sector.

Another major market player in logistics industry, Daido Group Ltd., has also described the general landscape of cold chain logistics in their 2014 annual report. In particular, it is noted that there is a constant demand in cold storage business as over 95% of food supply in Hong Kong is imported and a significant amount of Hong Kong imports are re-exported. The growing number of imported and re-exported Consumer Oriented Agricultural Products (COAP) and Seafood in Hong Kong over the period of 2009 to 2013 can be seen in the following chart:-



*Source:* GAIN Report – Retail Food Sector Annual 2014, USDA Foreign Agricultural Service, Global Agricultural Information Network

Further, a strong dining out culture of the local population will keep the demand up for frozen food, which requires cold chain logistics services.

### Threats to the Cold Chain Logistics Industry

As also highlighted by Daido Group, the major threat to the cold chain logistics industry is operating costs. For example, according to media, CLP Power Hong Kong Limited, the largest power supplier in Hong Kong, may increase its tariff in 2016, and such an increase will be translated into a rise in electricity cost. Other threats include increasing labour costs.