Agenda

- Logistics Industry Overview

- Challenges Faced by the Logistics Industry
  - Upward Trend on Operating Costs
  - Change of Supply Chain Model
  - Fast Pace Development of nearby areas
  - Human Resources & Talents

- Way Forward
Trends
Fast & Fundamental Global Change is upon us

Globalization moves to a Multi-Polar world
- Indian population grows as fast in 1 week as the EU population does in 1 year
- The Chinese middle class is consuming more and more of what it makes
- Major new hubs are being built around the world

Technology led complexity accelerates
- Much of the world is now on-line, mobile commerce is developing quickly
- Humble delivery equipment (containers, totes, hangers) become intelligent
- Increasing dependence on automation

Cost and Time to Market Pressure
- Rising oil prices slowing the growth in global trade
- Marked shift from Air to Ocean par in Technology and Healthcare companies
- Shorten lead time/production cycle; quick turnover

Terrorism has created a new cost pressure
- Container scanning will slow ports down, compliance will tie up management
- Security issues can cost hundreds of dollars

The Smarter are getting Greener
- Carbon: Sustained investment hampered by short term who pays argument
- Energy costs steeply rising; Efficiency/carbon abatement actions needed
- Water supply is becoming the next sustainability issue for some

Who will win the War for Talent?
- Imbalance of “white-collar” talent is limiting growth in the developing world
- Wal-mart report “Blue-collar” labour shortage in the US as a growing issue
- “Employers of choice” make training a priority

..these are opportunities if we grasp them, real threats if we do not
Characteristics
Evolving Business Models in Logistics Outsourcing

Traditional
- Single function transactional relationship
- Local / regional reach
- Physical asset heavy, process execution
- Cost plus management fee
- Fixed upfront cost to change

Typical
- Strategic multi-functional partnerships
- Global, door-to-door coverage
- Bring integrated IT solutions ready to use
- Continuous innovation (cost & service)
- Risk/Gain share
- Reduced need for capital
Trading & Logistics is one of the four key industries in Hong Kong contributing approximately 25.5% of the total GDP.

Hong Kong International Airport has been named the busiest cargo airport which handled over 4 million tons of freight.

Hong Kong Container Port’s throughput ranked the 3rd among world’s port in 2012 which handling 23 million TEU.

Excellent Port Infrastructure

Presence of over 3000 logistics service providers
Hong Kong’s airfreight export has been dropping while re-export volume continues to grow.

Sources: Hong Kong Census and Statistics Department
The throughput of Guangdong ports (adding up Shenzhen & Guangzhou) has already surpassed Hong Kong.
Cost competitiveness is a prime reason.
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Challenges Faced by the Logistics Industry

1. Upward Trend on Operating Cost
   - Labour cost has been increasing in logistics sector over past 10 years
   - The increase in last 3 years was particularly sharp

Indices of Payroll per person by Industry 2002-2012

<table>
<thead>
<tr>
<th>Year</th>
<th>Payroll Indices</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>101</td>
</tr>
<tr>
<td>2003</td>
<td>100.2</td>
</tr>
<tr>
<td>2004</td>
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<td>110.7</td>
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<td>2007</td>
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<td>2010</td>
<td>112.2</td>
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<tr>
<td>2011</td>
<td>115.7</td>
</tr>
<tr>
<td>2012</td>
<td>122</td>
</tr>
</tbody>
</table>

Sources: Hong Kong Census and Statistics Department
Challenges Faced by the Logistics Industry

- Lack of supply of new logistics land/facilities
- Shortage of warehouse facilities and the occupancy rate is up to 96% in 2011
- Lease went up average 10% every year

### Stock and Vacancies of Warehouse Facilities 2006 - 2011

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Number of Warehouse</th>
<th>Amount of Vacant</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>3430</td>
<td>101</td>
</tr>
<tr>
<td>2007</td>
<td>3421</td>
<td>96</td>
</tr>
<tr>
<td>2008</td>
<td>3418</td>
<td>99</td>
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<tr>
<td>2009</td>
<td>3428</td>
<td>177</td>
</tr>
<tr>
<td>2010</td>
<td>3416</td>
<td>107</td>
</tr>
<tr>
<td>2011</td>
<td>3473</td>
<td>131</td>
</tr>
</tbody>
</table>

Sources: Hong Kong Census and Statistics Department
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- Hong Kong Air Freight and Logistics Industry Overview
- Challenges Faced by Air Freight and Logistics Industry
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2. Change of Supply Chain Model

Macro-environment has been changing rapidly and the expectation from customer changes as well:

- Shorter supply chain cycle
- Smaller lot size and shorter inventory & production cycle
- Growth of E-business
- Demand for E2E solutions

➢ Demand for more customer-oriented, solution based, responsive and flexible services
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3. Shift of Production Pattern

- Labour intensive production in China has been shifting from Pearl River Delta area to mid-west area
- Highest growth of industrial GDP was seen among mid-west provinces such as Qinghai, Anhui, Shanxi, Xichuan, etc
- Guangdong industrial sector growth has slowed down and only ranked among the least growing provinces
- Other than domestic shift, many production plants are also moved to other developing countries in ASEAN such as Indonesia, Vietnam

- Needs international outlook, language and cultural sensitivities to overcome the fast paced changes and expansion

<table>
<thead>
<tr>
<th>Province</th>
<th>GDP Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Qinghai (青海)</td>
<td>32.28%</td>
</tr>
<tr>
<td>Anhui (安徽)</td>
<td>30.60%</td>
</tr>
<tr>
<td>Hunan (湖南)</td>
<td>28.83%</td>
</tr>
<tr>
<td>Shanxi (陕西)</td>
<td>28.49%</td>
</tr>
<tr>
<td>Shanxi (山西)</td>
<td>27.95%</td>
</tr>
<tr>
<td>Xichuan (四川)</td>
<td>27.71%</td>
</tr>
<tr>
<td>Ninxia (宁夏)</td>
<td>27.02%</td>
</tr>
<tr>
<td>Hubei (湖北)</td>
<td>26.93%</td>
</tr>
<tr>
<td>Qongqing (重庆)</td>
<td>26.84%</td>
</tr>
<tr>
<td>Neimenggu (内蒙古)</td>
<td>26.40%</td>
</tr>
<tr>
<td>Guangdong (广东)</td>
<td>14.85%</td>
</tr>
</tbody>
</table>

Sources: National Bureau of Statistics of China
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Human Resources and Talents are critical in the industry

- Increase in Labour costs
- High Staff Turnover
- Lack of new joiners (par. junior/operation levels)
- Work conditions less attractive (paper works, warehouse, long working hours, location …etc)
- Changing skills requirements (like customer service, solutions design)
- Mobility and language capabilities
Agenda

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Way Forward

- In order to maintain Hong Kong’s competitiveness:
  
  1. Increase the supply of logistics infrastructure
  
  2. Upgrade of logistics capabilities
  
  3. Increase the efficiency and provide more value-added services
  
  4. Strengthen entre port capabilities
  
  5. Enhance Export and Import Ordinances
  
  6. Offer trainings and develop logistics professionals