

An isometric illustration of a digital cityscape built on a smartphone screen. The city features various buildings, some with solar panels, a satellite in orbit, a wind turbine, and a car on a road. The background is a gradient of green and blue.

# Consumer Products: Finding success in Asia's eCommerce Gateway and Beyond

Explore Opportunities in  
Hong Kong's Digital Ecosystem

# eCommerce

Hong Kong's status as an international business hub has created a rapidly growing eCommerce ecosystem that is ripe with new opportunities. Beyond the eCommerce market within the city, Hong Kong is also immaculately positioned for businesses to tap into the coveted markets in Mainland China and ASEAN. The business-friendly environment, high quality talent, abundance of funding and logistical excellence of the city make it an ideal destination for eCommerce businesses looking to enter the region and access customers in Hong Kong, Mainland China and beyond.

## 2 Managing Your Asia Business From Hong Kong

Hong Kong is the world's freest economy<sup>3</sup> and has a business friendly environment that can be leveraged to establish a base to oversee APAC operations. Hong Kong consumers are well informed of international brands and are sophisticated shoppers who can serve as the perfect test market. In addition, the Hong Kong's digitally enabled talent and synergies with other GBA cities will benefit businesses looking to expand across Asia.

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Pg.6 - 17

## 1 Strong Retail + Digital Enablement = eCommerce Success

Retail and trading is a core pillar of Hong Kong's economy, and this strength has only been enhanced by the digital savviness of consumers in the city. With over 40 percent of the population being weekly online shoppers<sup>1</sup>, eCommerce is forecasted to nearly double by 2025<sup>2</sup>. Businesses looking to enter this growing market will be able to capitalise on informed customers who engage with brands digitally.



Pg.26 - 33

## 3 Hong Kong as a Regional Logistics Centre

Quick and efficient logistics create huge advantages for eCommerce businesses, and Hong Kong's dedication to being a world class logistics hub makes it an ideal location for distribution centres. Businesses in Hong Kong can benefit from its free port status, air cargo facilities and leading third party logistics partners to enhance fulfilment rate and access coveted markets in ASEAN and Mainland China.

<sup>1</sup> PwC's March 2021 Global Consumer Insights Pulse Surveys

<sup>2</sup> Euromonitor, 2021

<sup>3</sup> Fraser Institute, 2021

## 4 A Springboard for Funding and Growth

Hong Kong's status as a global financial hub creates an ideal environment for businesses to attract funding and support for growth. Hong Kong's inflow of global FDI ranks third in the world<sup>4</sup>, and international businesses also enjoy a stable exchange rate and easily convertible local currency. The government has over 40 funding schemes available to support business and technology development.



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Pg.39-47

## 5 Hong Kong, the Centre of Top eCommerce Growth Markets

Mainland China's eCommerce market is the largest in the world and will reach RMB5.95 trillion in 2021<sup>5</sup> and is a region that presents obvious opportunities for businesses. In addition, the ASEAN market is poised for significant growth in the next five years. Hong Kong is perfectly placed in the centre of these markets and businesses in the city will be well positioned to capture the significant eCommerce opportunities in the region, both now and in the future.

## 6 Hong Kong as the Cross-Border Entry Point to Mainland China

Operating cross-border from Hong Kong gives businesses access to the world's largest markets. There are many cross-border models to choose from, including operating a global website or selling via third party marketplace. Each model offers unique advantages and businesses can select the one that best fits their goals.



Pg.48 - 53

<sup>4</sup> United Nations Conference on Trade and Development, 2021

<sup>5</sup> Euromonitor, 2021



# Asia's eCommerce Gateway

Hong Kong is an international business hub that has the perfect conditions to accelerate an eCommerce business. With just under 1.4 million companies registered in Hong Kong<sup>1</sup>, there is a dense network of consumer facing businesses as well as supporting service providers and partners that help eCommerce businesses scale their growth.



The business-friendly environment of Hong Kong provides global retailers and brands with a prime destination for their Asia headquarters. The city's strategic advantages support key operational functions such as sourcing, logistics and financing for growth- all of which play a critical role in molding the global retail industry to how it is today. The experienced talent in this city understand the nuances of operating across APAC, and are confident navigating the growth opportunities in this dynamic global environment.

Online retail is a must-play, must-win for businesses and Mainland China has been at the forefront of this eCommerce success. Hong Kong enjoys the unique benefits of the "One Country, Two Systems" principle which offers a business friendly environment, while being a Special Administrative Region of the People's Republic of China.

Since the digital transformation of the economy continues to evolve at a rapid pace, the Hong Kong Inland Revenue Department has issued a document\* which sets out the taxation principles that broadly apply to eCommerce transactions and digital assets.



\*Scan here for more information on the taxation principles that broadly apply to eCommerce.



Scan here for more details and PwC's key takeaways on the revision.

<sup>1</sup> Company Registry, HKSAR Government 2021





Hong Kong eCommerce market is on a growth trajectory and is expected to maintain its momentum after the pandemic, benefiting from the fundamental changes in consumers demand and habits, emergence of new online shopping platforms, increased digitalisation of retailers, and development of digital payment options. It is fair to say that online shopping in Hong Kong is here to stay as major brands and shopping platforms are expanding their eCommerce and in the process, this presents enormous opportunities to digital-ready retailers. Quite a number of local eCommerce platforms have emerged successfully taking advantage of increased online traffic, social-commerce, and the prevalence trend of live streaming.

**Michael Cheng**

*RETAIL AND CONSUMER LEADER, PwC*



# 1 Hong Kong: Where Consumers are Ready for eCommerce

The foundation for eCommerce success is a strong retail market, populated by digital savvy customers – and Hong Kong has both. A fifth of Hong Kong's GDP is represented by the Retail and Trading sector<sup>2</sup>, making it an essential pillar of the economy. Consumer shopping behaviours have rapidly digitised. In fact, 97 percent of consumers in Hong Kong own a smart phone<sup>3</sup> and 40 percent shop online on a weekly basis<sup>4</sup> – totaling an average annual spend of up to HK\$15,004<sup>5</sup> on products online. This makes Hong Kong consumers the second highest spenders in APAC. This growth in the market shows no signs of slowing and the market size for eCommerce is forecasted to nearly double by 2025. To capitalise on this key driver of growth, eCommerce is a must-play, must-win channel.

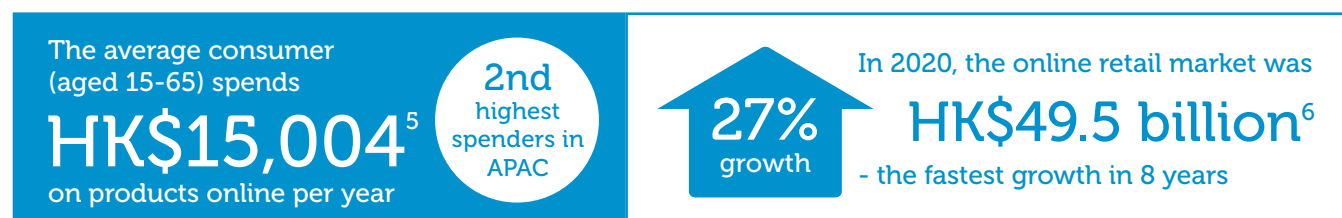
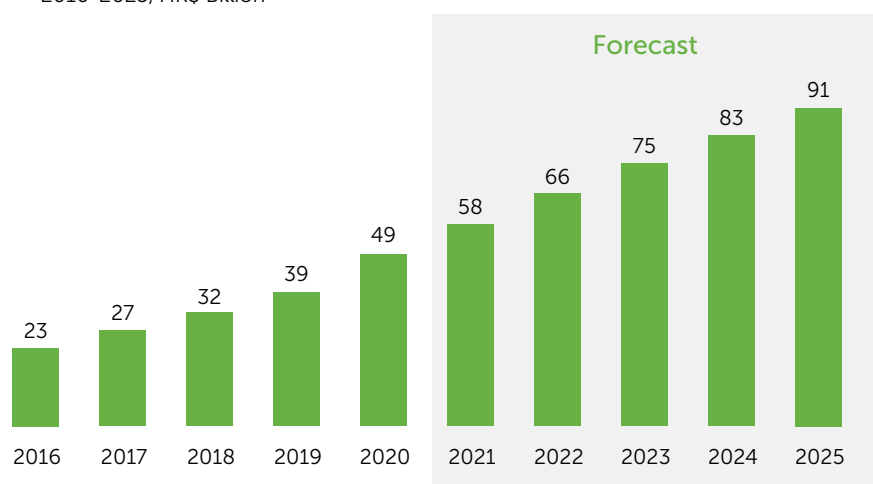


Figure 1 Hong Kong eCommerce Market Size<sup>6</sup>  
2016-2025, HK\$ Billion



8 percent of total retail sales in 2021 were generated online<sup>6</sup>

Source: Euromonitor, 2021

<sup>2</sup> Census and Statistics Department, HKSAR Government, 2020

<sup>3</sup> WeAreSocial Digital 2021

<sup>4</sup> PwC's March 2021 Global Consumer Insights Pulse Survey

<sup>5</sup> PwC Analysis, 2021

<sup>6</sup> Census and Statistics Department, HKSAR Government, June 2021

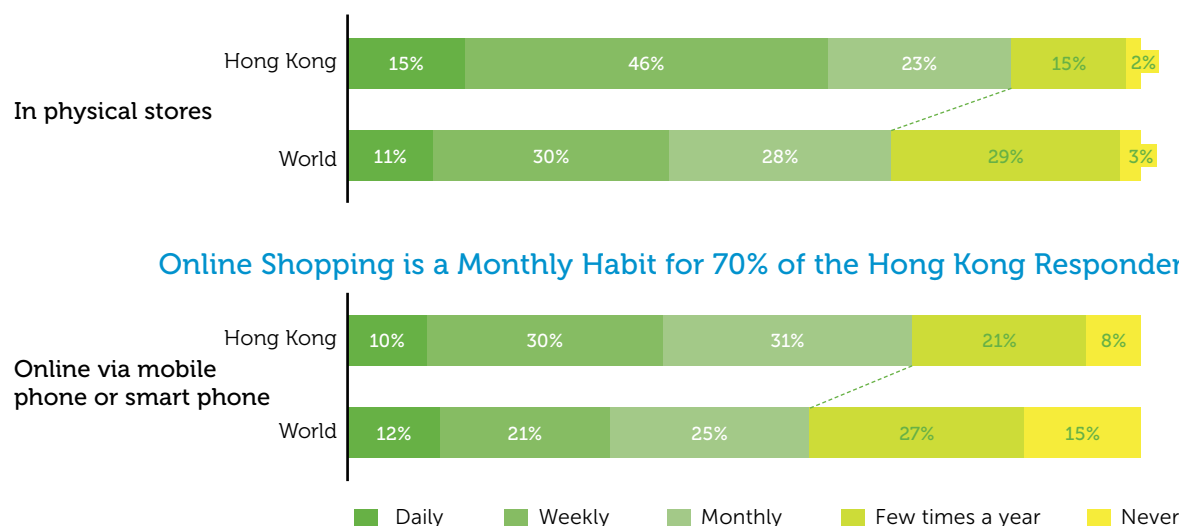
# eCommerce in Hong Kong is Booming

## Hong Kong: A City Full of Shoppers

With changing consumption patterns and lifestyles as well as rapidly developing online presence from retailers, more and more Hong Kong consumers transacting online. 40 percent are weekly online shoppers and 70 percent transact monthly (Figure 2). At the same time, Hong Kong shoppers are more informed and experienced in cross-border purchases as well as locally and are confident in going the

extra mile to purchase goods they desire at the best prices available. For instance, Tmall have stated that not only is Hong Kong's average income and spending is "relatively higher in the region", Hong Kong consumers also spend "3-5 times more" than consumers elsewhere in the region and as a result, Hong Kong is an "excellent market for brands".

**Figure 2** Hong Kong Consumers are More Avid Shoppers as Compared to Global Counterparts



### Online Shopping is a Monthly Habit for 70% of the Hong Kong Respondents

Source: PwC's March 2021 Global Consumer Insights Pulse Survey



I believe online and offline channels complement each other, while Hong Kong has well-developed offline shopping services with huge untapped potential for eCommerce. We have accumulated a vast base of Hong Kong consumers on Taobao, and to create synergies we have launched Tmall Hong Kong to provide a full spectrum of services for local customers and brands.<sup>7</sup>

**CK Chan**

HEAD OF HONG KONG AND MACAU,  
TMALL TAobao WORLD



<sup>7</sup> Alibaba Press Release, January 2021





For consumers in Hong Kong and Asia, eCommerce is no longer a discretionary activity, but an essential necessity. The real consumption power of the city is 3-4x that of its population size- and eCommerce growth in Hong Kong will not stop, especially as trends are developing rapidly on the fly.

**Wilson Chan**  
BUYANDSHIP, CEO



## Consumers Increasingly Opt for Cross-Border Purchases

Hong Kong online consumers are experienced with platforms available globally and are accustomed with buying from overseas. As of 2020, over 75 percent of online shoppers in Hong Kong have shopped cross-border.<sup>8</sup> There is no doubt that Hong Kong shoppers desire the same level of excellence from local platforms at a higher level of convenience and affordability (e.g., wide product variety, shopping festivals, speedy fulfilment, etc.).

Buyandship, a cross-border eCommerce gateway, helps facilitate the delivery of international packages for consumers who shop on overseas platforms. Their services enable consumers in Asia to access the global network of platforms and online shops that either do not provide international shipping or provide it at a prohibitive cost. BuyandShip noted that Hong Kong consumers tend to purchase

goods that have yet to capture the eCommerce opportunity in Hong Kong, such as Japanese products which only ship locally in Japan. BuyandShip is now moving a total of 750,000 shipments per month (25,000 shipments per day) to distribute locally and across Asia.

It is clear that consumer demand for international products is ubiquitous in Hong Kong and Asia, and importantly BuyandShip has observed that this demand comes from a diverse range of ages in Hong Kong, including a rising number of younger users who are shopping online. Retail businesses in Hong Kong have recognised this demand and consider capturing this online market share as a top priority.

Overseas brands looking to setup in Asia should capitalise on this business opportunity and locate specific business functions in Hong Kong.

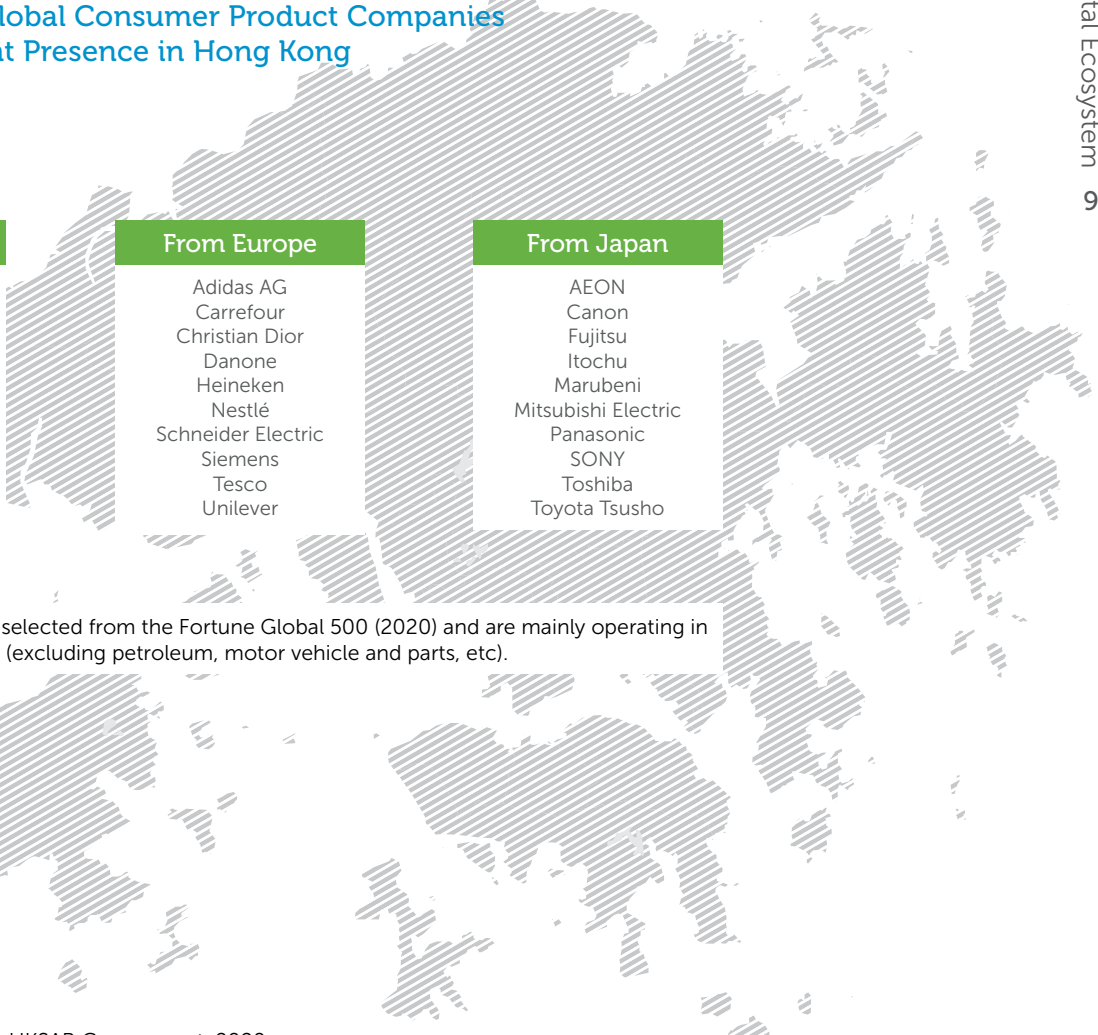
<sup>8</sup> JP Morgan E-commerce Payments Trends: Hong Kong, 2020

## Hong Kong is an Important Location for Brands and Retailers

Given the high levels of consumption in the city from both local consumers as well as the Mainland China and overseas visitors<sup>9</sup> that come to Hong Kong each year, over 4,000 international companies in the retail, wholesale and trading industry<sup>10</sup> have set up in Hong Kong.

The retail market benefits from the city's free port status, proximity to manufacturers around the region and zero custom duties on most imports and exports, greatly simplifying business processes and reducing costs. As a result, retailers see Hong Kong as a crucial location for both physical stores and other important functions such as trading, sourcing, warehousing and finance.

**Figure 3** Fortune 500 Global Consumer Product Companies with Significant Presence in Hong Kong



| From United States       | From Europe        | From Japan          |
|--------------------------|--------------------|---------------------|
| Costco Wholesale         | Adidas AG          | AEON                |
| General Electric         | Carrefour          | Canon               |
| Johnson & Johnson        | Christian Dior     | Fujitsu             |
| Nike Inc.                | Danone             | Itochu              |
| PepsiCo.                 | Heineken           | Marubeni            |
| Procter & Gamble         | Nestlé             | Mitsubishi Electric |
| Target                   | Schneider Electric | Panasonic           |
| The Home Depot           | Siemens            | SONY                |
| The Kroger Co.           | Tesco              | Toshiba             |
| Walgreens Boots Alliance | Unilever           | Toyota Tsusho       |

Notes: The above companies are selected from the Fortune Global 500 (2020) and are mainly operating in the consumer product industry (excluding petroleum, motor vehicle and parts, etc).

<sup>9</sup> Hong Kong Tourism Board, 2019

<sup>10</sup> Census and Statistics Department HKSAR Government, 2020

## Retailers are Evolving with the Digital Ecosystem to Go Online

Alongside the strengthening retail landscape, retailers have also transformed in the digital age. More players are joining the digital ecosystem and eCommerce businesses are expected to show an annual growth rate of 12 percent (CAGR 2021-2025), following a projected market volume of HK\$90.63 billion by 2025.<sup>11</sup>

Shopline, a Hong Kong eCommerce technology solution provider, reported that more than 50 percent of the Hong Kong eCommerce retailers on their platform own physical stores and found that in the

long term, 20 percent are considering fully adopting an O2O model, supplemented by pop-up stores. This widespread adoption to meet online demands also gives retailers a competitive edge as they can leverage online platforms to operate 24/7, no longer limited by business hours. Adopting an O2O model is a rising priority for traditional brick-and-mortar businesses in order to capture increased value from customers.

**78 percent of the merchants in Hong Kong believed that being operational round the clock would give them a competitive advantage.<sup>12</sup>**



<sup>11</sup> Statista – Digital Market Outlook: Retail eCommerce Sales CAGR in selected Markets, 2021-2025

<sup>12</sup> Hong Kong Statistics for Aspiring E-commerce Entrepreneurs, Osome, 2021



Hong Kong's leading home-grown online platform, HKTVMall has also grown significantly in popularity as it manages to address the growing online demands of Hong Kong consumers. In fact, in the last 4 years, their daily sales volume grew to 38,000 orders, marking a 14 times growth. In 2020, it was the second most searched keyword on Google Hong Kong and converted over one million unique shoppers (i.e. one in seven residents in Hong Kong)<sup>13</sup>. To further illustrate its popularity in HK, there are more searches of "Dyson" on HKTVMall than on Google.<sup>13</sup>

As eCommerce is increasingly integrated into daily life, businesses in all sectors are engaging their customers via digital platforms, products and multiple touchpoints. And businesses without physical products are relying on partnerships and co-branding to be more relevant to their consumers' lifestyle. For example, Citibank has collaborated with HKTVMall to create a co-branded credit card, providing benefits for customers' shopping on the platform.



COVID-19 didn't shift consumer mindset, it changed the merchant mindset and shifted reliance towards online, resulting in more merchants joining HKTVMall, creating a platform with broader choice thus increasing sales and overall revenue growth.

**Ricky Wong**

GROUP CEO, HONG KONG TECHNOLOGY  
VENTURE COMPANY LTD.



<sup>13</sup> HKTVMall internal sources, 2021

Retailers have the choice of creating their own digital ecosystems or joining platforms, and companies with existing online channels are investing further in their operational and omnichannel capabilities. Embracing an O2O model is creating increased value for businesses who can capture a greater number of customers.

For example, in 2019, Dairy Farm, the pan-Asian retailer who operates IKEA, 7-Eleven, 11 grocery brands and nearly 10,000 retail locations in Asia<sup>14</sup> invested in enhancing their website functionality for IKEA. They achieved double digit eCommerce penetration in 2020 as a result. They also piloted their loyalty program

yuu Rewards in Hong Kong, which achieved 98 percent brand awareness and had over three million members within five months of launching, making it the most downloaded app in HK in 2020. These are crucial milestones to building an omni-channel ecosystem that engages and retains customers.



**Figure 4** Brands Have Tested In the Online Market of Hong Kong and Have Invested in Omni-Channel Experience

| 2013 - 2017                                                                                                                                                                                                                                                        | 2018 - 2019                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | 2020 - 2021                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Exploration<br>Establish online presence and sales channels                                                                                                                                                                                                        | Building Online Functionality<br>Invest in digital and technology capabilities                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | Accelerating Omnichannel Experience<br>Blurring lines between online and offline retail                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| <p><b>Launch online shopping platforms and apps in Hong Kong</b></p> <ul style="list-style-type: none"> <li>• Most strategy focused on developing offline channels</li> <li>• Brands such as Starbucks, MUJI, Zara, H&amp;M, Sephora, Uniqlo, IKEA etc.</li> </ul> | <p><b>Invest and partnerships with technology solutions and experts to gain expertise</b></p> <ul style="list-style-type: none"> <li>• Alibaba and Guess partnered with The Hong Kong Polytechnic University to create AI powered store</li> <li>• L'Oreal acquired Modiface, an AR beauty app</li> <li>• Decathlon invested in AR, visual search, express deliveries and fast payments</li> <li>• Primer group partnered with local and foreign technology companies to gain eCommerce expertise</li> </ul> <p><b>Enhance existing technology infrastructure</b></p> <ul style="list-style-type: none"> <li>• IKEA enhanced website functionality by using a new website solution provider</li> <li>• Mannings invested in their eCommerce infrastructure</li> </ul> | <p><b>Offer fast delivery and instore pick up services</b></p> <ul style="list-style-type: none"> <li>• Marks&amp;Spencer offers next day delivery enhancing fulfilment capabilities</li> <li>• Zara focuses on omnichannel with buy online pick up in store and next day delivery</li> <li>• Sephora implements same day online delivery</li> </ul> <p><b>Build digital engagement and loyalty</b></p> <ul style="list-style-type: none"> <li>• Sephora launches their global customer loyalty programme in Hong Kong (Beauty Pass)</li> <li>• Dairy Farm launches a loyalty programme that connects 48 partners with over 2000 outlets (such as IKEA, 7-Eleven, Mannings, Wellcome and Maxims, Pizza Hut, KFC, Market Place)</li> </ul> <p><b>New brands launching shopping platforms with advance capabilities</b></p> <ul style="list-style-type: none"> <li>• Pricerite launched app and website with AR room staging, buy online in store pick up, delivery speed as fast as 4 hours and reverse image search</li> </ul> |

Source: PwC Analysis

<sup>14</sup> Dairy Farm Annual Report, 2019-2020

## GS1 Barcodes: Local Solutions for Local Businesses

As consumers increasingly shop online, it is important for businesses to empower omni-channel capabilities. Businesses registered in Hong Kong can benefit from GS1 Hong Kong Barcodes, which facilitate product listing on eCommerce platforms; help generate organic traffic directly to e-marketplaces or branded e-shops (stimulating online sales); and allow for identifying and tracking products as they move through the supply chain, ensuring consistency and efficiency across operations.

GS1 barcodes helps businesses connect online and offline channels seamlessly and improves online exposure and customer reach. Besides showcasing product information (e.g. ingredients, specifications, user manual, etc.) with a simple scan by smartphone, businesses can also generate a smart QR code to be displayed on the same product packaging to offer different surprises and promotions for their customers. This gives businesses an opportunity to share additional content, engage consumers with their brand and helps

drive traffic to their e-shops for free; ultimately helping the brand / product generate revenue.

The GS1 barcodes assist brands to go digital and promote for free – boosting visibility online, increasing conversion rates, improving search relevancy and enhancing the overall customer experience. In terms of operation, it allows businesses to automate and speed up work processes, eliminate human input error, facilitate data gathering, optimize inventory management, enhance efficiency and even gain insights from data analytics for predictive and preventive management.



Scan here for more information on GS1 Hong Kong barcodes.

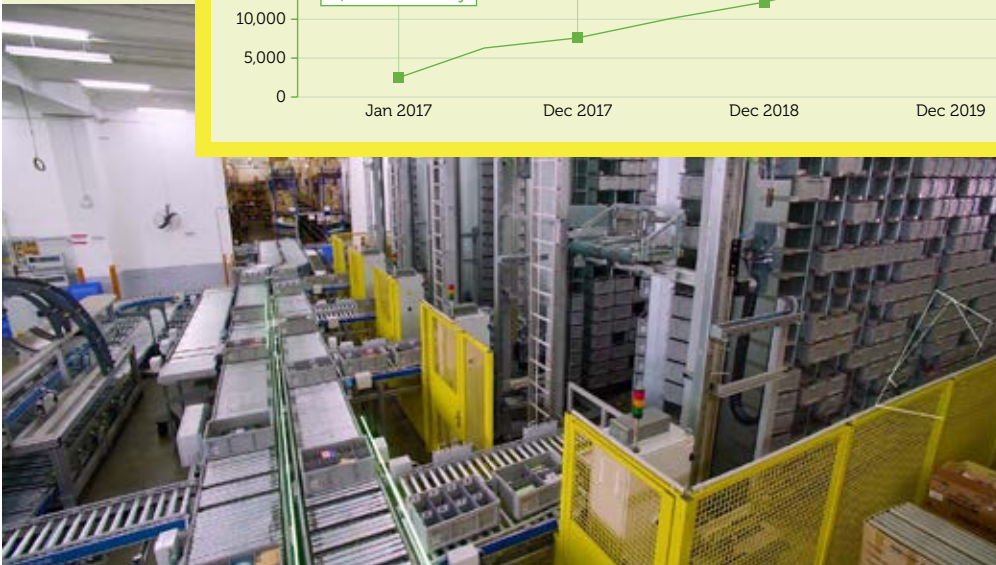
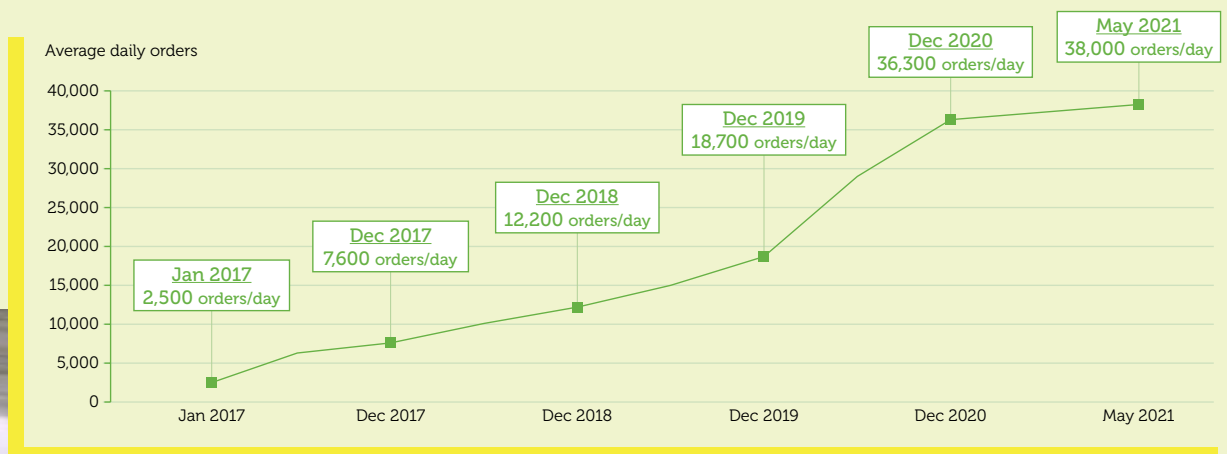


# The Leading Platform in Hong Kong Laying the Foundation for the eCommerce Ecosystem

Six years of eCommerce operation in Hong Kong has seen HKTVMall grow not only its own platform, but the entire eCommerce landscape in the city. In this short time, the company was able to create an eCommerce solution unique in Hong Kong: a true end-to-end pipeline with operational efficiency and capabilities similar to those of global eCommerce giants. Paving the way required vision, determination and resilience but more importantly was enabled by homegrown talent, partnerships and customer preferences in the city. HKTVMall is a strong example of eCommerce in Hong Kong, and it shows no signs of slowing its growth in the market.



From 2,500 to 36,300 orders a day, a 14x growth in 4 years



## Delivering Convenience and Choice Online

It's not about just building a marketplace... it's about delivering an end-to-end solution.

HKTVMall recognised the growth potential of eCommerce in Hong Kong from the very onset, and have capitalised upon every opportunity the city has presented. The company observed consumers' ready acceptance of new products and services as well as their bold purchasing behaviour. Hong Kong customers' seldom require testing products before purchase, even for relatively high priced items such as electronics which perfectly align with any eCommerce business. Since consumers in Hong Kong are blessed with the choice and convenience offered by the city, they knew that to succeed online they needed to do the same.

HKTVMall's convenient platform provides a consolidated marketplace for customers to purchase all categories of goods, from daily essential to luxury. The diversity of products available for purchase are unrivalled and draw huge amounts of traffic to HKTVMall. Stores on the platform can list ALL their inventory – no matter season, category or niche, all can generate value from the active customers. For example, Japanese retailer MUJI has an official store on HKTVMall to be part of their merchant ecosystem and access a plethora of customers online.

Aside from their sales platform, HKTVMall has invested in automation and tracking in its warehouses, fulfilment centers and delivery vehicles. These capabilities allowed for



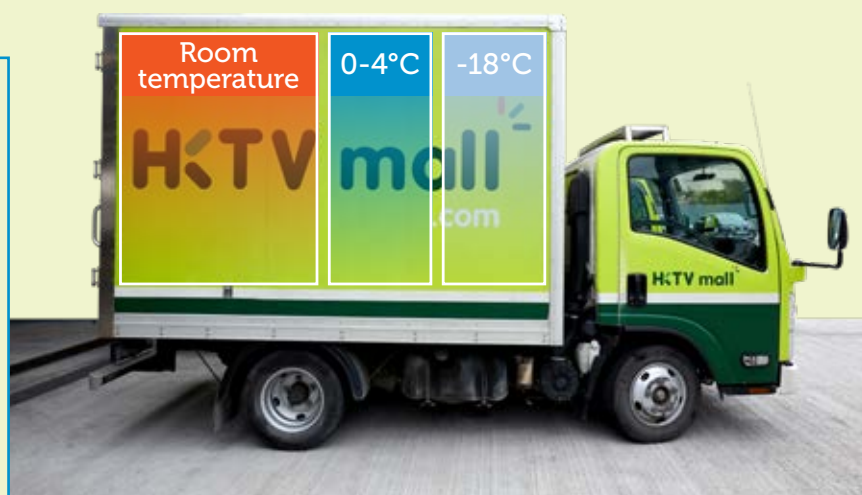
operational efficiency, ensuring that customers not only receive their products on time but truly get a differentiated online shopping experience. They also designed their own temperature-controlled delivery vehicles which enabled merchants to sell frozen and chilled food products and offered customers added convenience for their grocery orders.

### Exclusive tailor-made multi-compartment trucks with

- Real time temperature monitoring
- Door open time tracking
- Fast track of delivery progress

### which enabled

- 1 truck for multiple types of products
- Shortened delivery time
- Lowered transport cost
- Better customer experience



## Success of O2O Strategy

 You couldn't imagine how fast HK customers adapted to eCommerce.

With the world's highest mobile penetration rate and a customer base willing to spend, HKTVMall has seen its orders rise rapidly to a staggering 38,000+ orders per day - purchasing behaviour that has remained stable. To achieve this, the company understood the Hong Kong residents and catered to their habits. They discovered that some shoppers enjoyed running errands after work and had satisfaction picking out their fresh produce every day. While others worked in offices and needed time before they could pick up their online order with temperate sensitive products.

These insights led to HKTVMall adopting a hybrid O2O model by opening small physical stores dotted throughout the city's residential and high foot-traffic areas. Not only did these



one-stop-shops served pick up spots for packages and grocery items but also acted as a spotlight for the brand.

The hybrid model was hugely successful and the investments paid off, HKTVMall saw the online sales from the area surrounding their O2O stores double in the first two months of opening. Pick-up orders now account for 30 percent of all HKTVMall's sales, and they have expanded to 90+ shops, and aiming for 100 by end of 2021.

### Value creation - an online and offline integrated enterprise marketplace



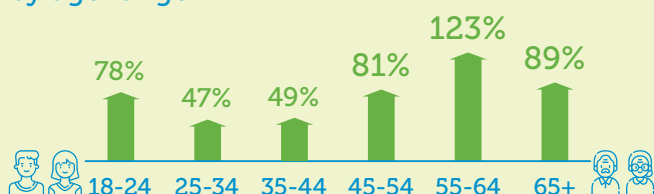


## Helping “Golden-Agers” Shop Online Effortlessly

In the past, online consumers were mainly aged under 35 years old, but now online shopping is no longer exclusive to the younger generations. The widespread use of mobile phones and tablets have now led more senior citizens, aged 60 or above become more active online shoppers.

This trend is true for HKTVmall too, they noticed that many elderly consumers like to visit their physical stores. The store staff at all locations act as brand ambassadors and educators who teach customers how

Growth in number of unique visitors by age range



\* growth from 2019 to 2020, as captured by Google Analytics

to navigate the company's app, going as far as helping elderly customers download the simplified version of the app, HKTVmall Lite.

HKTVmall Lite is designed with features for those who have never shopped online before – the interface has larger pictures and fonts, it supports voice searching and has the option of sharing cart for a friend to pay. These features are extremely helpful, especially for elderly who may not use credit cards or digital payments, or prefer to have their more digital-savvy family members look through before making the payment.



## Data is the New Currency



We want to learn and grow with our merchants.



HKTVmall offers a streamlined route into the Hong Kong eCommerce market for businesses of any scale. Smaller partners can make use of the logistical support and reduce their own overhead costs and risks, while larger brands can leverage the high amounts of traffic on the app to access large volumes of online customers.

However, the benefits that the platform provides its partners goes far beyond customer traffic. HKTVmall makes 13 months' rolling data

of sales transactions available for all merchants on the platform. This raw data is given at no additional cost, and is offered alongside industry and category data so that merchants can perform their own analysis and benchmarking. For smaller companies, HKTVmall also provides data processed by Microsoft tools (PowerBI, etc.) at a paid rate so that merchants can adjust their strategy according to their own unique business situation.

This data transparency is similarly offered to customers who are able to view the price trends of all products for the last 365 days so customers are always making an informed choice about the products they are interested in.

## 2 Hong Kong: Managing Your Asia Business

The fast-growing markets in Asia are attractive but entering successfully can be a complex task. Unfamiliar laws, language and cultures can make navigating the markets challenging. However, companies can leverage Hong Kong's business friendly environment to oversee their APAC operations. Not only is Hong Kong the freest economy in the world<sup>15</sup>, but it is also ranked in the top three easiest places to do business<sup>16</sup>. The city is conveniently located between Mainland China and ASEAN, offers low corporate taxes and is supported by many government funding programmes and initiatives.

### Hong Kong as a Test Market for New Products and Services

Over two thirds of International starts ups come to Hong Kong for business opportunity in Mainland China, as well as to access the international and regional market.<sup>18</sup>

Hong Kong is an important location for global retailers and their presence in the city has created a population of sophisticated, highly informed shoppers who are often early adopters of international trends.

Hong Kong customers present a broadly representative sample of consumption habits in Asia which businesses can leverage to trial products before launching across the region. For example, 69 percent of international starts ups come to Hong Kong for the business opportunity in Mainland China and 66 percent come to Hong Kong to access the international / regional market.<sup>18</sup>

\* Parent Companies located Outside of Hong Kong

<sup>15</sup> Fraser Institute, 2021

<sup>16</sup> Doing Business, World Bank Group, 2020

<sup>17</sup> Census and Statistics Department, HKSAR Government, 2020

<sup>18</sup> Survey of Companies in Hong Kong with Parent Companies located outside Hong Kong, InvestHK and Census and Statistics Department, HKSAR Government, 2020

Hong Kong  
is the  
world's freest  
economy<sup>15</sup>

As of 2020

there are  
**9,025**  
overseas and  
Mainland China  
companies\*

### Breakdown of Overseas and Mainland China Companies:<sup>17</sup>

1,504  
Regional HQs

2,479  
Regional Offices

5,042  
Local Offices



Hong Kong is an early barometer for the potential success or fit of a product for the bigger region. The people here are very forward thinking and open-minded which leads to a quicker adoption of products in the city.

**David Yeung**

FOUNDER AND CEO OF GREEN MONDAY





## Talent to Support Cross Region Growth

One company that has taken advantage of the opportunity in Hong Kong is Alpargatas S.A, Brazil's largest footwear company and owner of Havaianas. The company established their Asia Regional Headquarter (RHQ) in Hong Kong in 2018 and has since made significant strides in the region. Starting their journey with a single employee, they have grown to a team of 36 that operate in 12 major markets in Asia, and manage 16 distributors that operate over 200 stores.



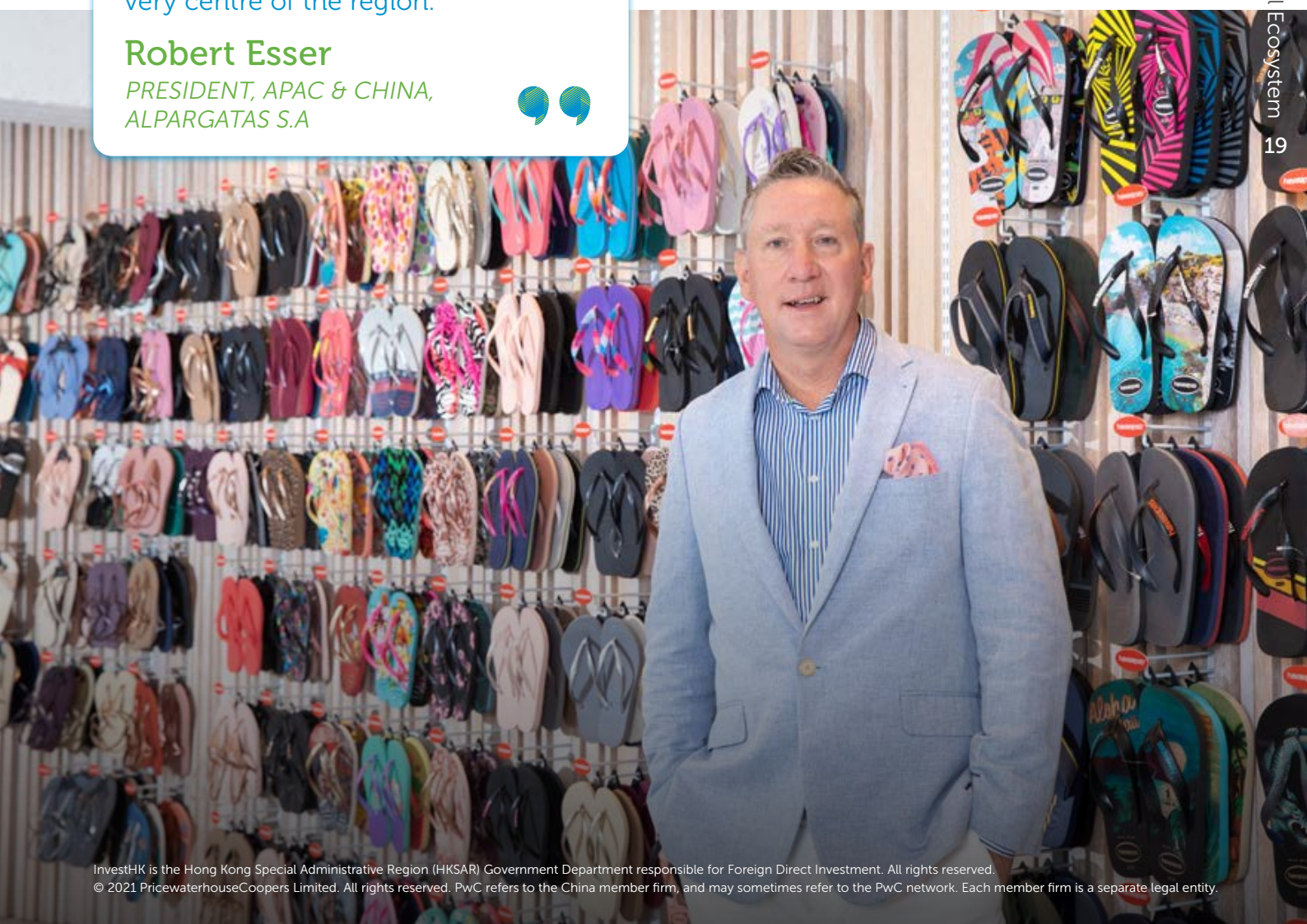
I don't see a business advantage for our business to be run anywhere but Hong Kong. If you're going to have one regional APAC office, geographically, Hong Kong wins hands down. You can manage the entire region from here, which is in the very centre of the region.

### Robert Esser

PRESIDENT, APAC & CHINA,  
ALPARGATAS S.A



Alpargatas' use a "Hub-and-Spoke" model where strategic decisions and technologies are managed centrally out of Hong Kong while their local distributors conduct the day to day online and offline operations across the region. The company believes that Hong Kong is "hands down" the best location for their RHQ due to the "abundant amount of highly qualified international talent" that helps them handle the Asia region out of one central office. They have swiftly built an experienced, multicultural, and multilingual team in Hong Kong who understand both APAC and global markets and can drive strategic objectives for the region.







Hong Kong has an abundant amount of highly qualified international talent which can help manage SEA and Asia Pacific markets.

**Robert Esser**

*PRESIDENT, APAC & CHINA,  
ALPARGATAS S.A*



Using Hong Kong as a central digital hub, Alpargatas benefits from the flexibility that Hong Kong provides them while scaling and growing. The team in Hong Kong are responsible for establishing the infrastructure of Havaianas' eCommerce websites, and manage the digital marketing in Asia to great success. Since launching three years ago, the Havaianas website now operates in 12 countries and they have additional presence on six eCommerce and social platforms (such as Shopee, Lazada, Tmall, JD, Douyin, RED). The multilingual capabilities of their RHQ allow them to leverage global content from their Brazil head office into relevant marketing material, translated into local languages. This is also helpful for operating in Mainland China, where the proximity of Hong Kong makes managing Mainland China straightforward and the Hong Kong team can easily support Alpargatas' Shanghai office.

These benefits are difficult to replicate in other regions and allow Alpargatas to expand into new territories without needing to invest in further branch offices. For instance, they

now manage operations in Japan purely from Hong Kong, where they have hired two full time Japanese staff. Working with a third party, Havaianas is sold across major platforms in Japan, and customer service, platform management and day to day operations are centrally controlled from Hong Kong.

Hong Kong has significant branding, creative and IT talent, as well as multilingual language capabilities that can help eCommerce companies scale quickly and efficiently. This allows for overseas brand managers to easily work with Hong Kong professionals to interpret and visualise international briefs as well as produce top notch creative solutions.

## Advantages of Hong Kong for High Value Retail Products and Luxury Goods

Hong Kong has long been known to be Asia's luxury goods' shopping hub. Despite the current circumstances of dealing with COVID-19, a recent study by Ruder Finn and Consumer Research group illustrated that around 48 percent of Hong Kong's luxury consumers are more inclined to buy luxury items after COVID-19<sup>19</sup> and 33 percent have spent more on luxury goods in 2020 than they had planned.<sup>19</sup> In the eyes of consumers and brands, Hong Kong is Asia's Luxury Hub.

Consumers and businesses today are more conscious of the environmental impact of fashion which has boosted the pre-loved market. Vestiaire Collective is an online designer goods market place that offers consumers the online platform to buy and sell pre-loved goods and have placed their Asia office in Hong Kong to capitalise on the hot market for designer goods. Companies can benefit from the proximity to Hong Kong's willing and purposeful consumers who take into account internal value of products and want to support businesses that they believe in. To support this secondhand marketplace for luxury goods, authentication and restoration services are also in Hong Kong to support this ecosystem. For example, Wristcheck is a new start up selling luxury watches. The company merges digital innovation with physical products through trading of luxury watches, and offering authentication services and price transparency.

Businesses are leveraging the business and tax benefits that Hong Kong has to offer. With a favourable tax regime, Hong Kong is one of the most advantageous places in the world to purchase luxury goods. As a free port, Hong Kong boasts a duty-free import policy, hence buying luxury goods here can benefit from being priced 20-30 percent lower than other regions.

In addition, luxury businesses can send and receive product samples from their business partners without incurring taxation or custom fees. This means that businesses can save time on customs clearance as well as additional savings on taxation costs. This is an important advantage of doing business in Hong Kong, given the tax for goods in other countries can be well over 20 percent.



<sup>19</sup> The 2020 China Luxury Forecast, 2020 (Ruder Finn and Consumer Research group)

# Pinkoi Empowers Local Designers to Reach Customers Worldwide

Hong Kong has been essential for our international expansion.

**Tina Lo**

CHIEF OPERATING OFFICER, PINKOI

Pinkoi is one of Asia's leading online marketplace for original design goods. They established their business in Taipei, and soon looked to international markets as their business grew. They decided to expand in Hong Kong – describing the city's business benefits as "cliché, but true". The language accessibilities, low tax and sound legal and financial systems gave Pinkoi and its venture capital investors confidence.

The company has found that in Hong Kong customers that are comfortable online, have



shopping habits that reflect a demand for fast fulfillment rates and accessible platforms. Customers' strong buying power and low price sensitivity also means that unique and well-designed products are always in demand – creating an advantageous environment for eCommerce marketplaces like Pinkoi to flourish.

## The Positive 'Ripple Effect' of Pinkoi's Hong Kong Office

Pinkoi's Hong Kong office has provided them with huge benefits, especially in terms of talent acquisition and business efficiency. The Hong Kong team has important cross regional experience and the mindset and soft skills to drive their international expansion strategy

forward. Their unique skill set has resulted in improvements in speed and efficiency, but even more importantly serve as a positive influence for other country teams. Pinkoi's Hong Kong team creates a positive ripple effect throughout the entire organisation, and increases the overall efficiency and international outlook.



Hong Kong has the much-needed talent with cross-regional experience that eCommerce businesses are looking for.



## Localised Service in Each City

Pinkoi's business philosophy has always been to build world class design brands, and are dedicated to helping their partners succeed. Sellers on the marketplace are considered valued partners, and Pinkoi do all they can to empower them without charging them any upfront fixed fees. Localised designer relations and business development teams are critical in providing support for partners operating on the marketplace. The company offers built-in digital marketing, upskilling courses and market insights at no additional cost. Additionally, Pinkoi complements this online support with offline

opportunities across APAC such as pop up stores and open-air markets. These O2O events add a human touch and experiential aspect to the otherwise digital-only marketplace.



## Ease of Licensing from Hong Kong

The efficiency and speed of global licensing in Hong Kong is a key advantage for Pinkoi, especially when building trust with sellers and other strategic partners. As Pinkoi experienced, IP licensors have trust in the Hong Kong rule of law, especially as legal matters can be handled in English, ensuring that nothing is lost in translation between international teams. These advantages lend Hong Kong international credibility and reduce the time and effort required to formulate agreements.

For example, Pinkoi was able to secure a licensing agreement for the popular fictional rabbit Miffy, signing a deal with the Dutch company who created the character. Pinkoi



was able to negotiate the license on behalf of their partners so that designers could apply their unique ideas to the Miffy character and were able to focus on their designs. Handling the agreement in Hong Kong, the process was straightforward and collaborations between Pinkoi's partners and Miffy were hugely successful.

To promote the collaboration, Pinkoi created a successful pop up in the K11 Art Mall (a popular museum & retail shopping mall concept in Tsim Sha Tsui), providing their partners access to high value customers in a high traffic area.



Hong Kong customers are ready for eCommerce, I encourage digital businesses to work together as partners to expand this ecosystem together.

## Leveraging the Specialised Capabilities of Hong Kong and Other GBA Cities

Businesses in Hong Kong will benefit from the network and economic strength of the Greater Bay Area (GBA). Each of the region's four Core Cities and seven Key Node Cities have specialised capabilities that empower businesses in Hong Kong.

Figure 5 Greater Bay Area Cities



### Hong Kong as IP Hub and Listing Vehicle for R&D Carried Out in Shenzhen

Shenzhen and Hong Kong are key area of focus for developing R&D capabilities in the GBA, and cooperation zones such as Qianhai are quickly becoming regional hubs. When Shenzhen's R&D capabilities and prototyping abilities are leveraged by businesses for innovative solution development, Hong Kong's robust legal system and unique advantages in financial services help to not only protect their IP but also gain international recognition and capital when they choose to go public.

## Hong Kong as a Sourcing and Trading Centre

Hong Kong's sourcing / trading companies and talents are the most active and experienced investors in GBA cities, with established relationships and a strong manufacturer network in the region. The GBA is one of the leading manufacturing centres in the world (for example, one in five smartphones in the world is produced in Dongguan)<sup>18</sup>. Hong Kong businesses are ideal partners for international

investors and companies looking to utilise the manufacturing expertise of the GBA. Leveraging the pillar industry of each GBA city and their specific advantage can expand manufacturing capacity and product variety. Furthermore, the GBA is well connected with roads and has access to international shipping lines and flights which ensure a reliable global supply chain.

**Figure 6** Manufacturing Specialisations of the GBA Key Node Cities

| Industry  | Electronics & equipment | Lighting & new energy | Textiles & garments | Medical & healthcare | Paper products | F & B processing | Auto parts | Shoes & accessories | Furniture |
|-----------|-------------------------|-----------------------|---------------------|----------------------|----------------|------------------|------------|---------------------|-----------|
| Dongguan  | ●                       | ●                     | ●                   |                      | ●              | ●                |            | ●                   |           |
| Huizhou   | ●                       | ●                     | ●                   |                      |                |                  | ●          | ●                   |           |
| Zhongshan | ●                       | ●                     | ●                   | ●                    |                |                  |            |                     | ●         |
| Zhuhai    | ●                       | ●                     |                     | ●                    | ●              |                  |            |                     |           |
| Jiangmen  | ●                       | ●                     | ●                   |                      | ●              | ●                | ●          |                     |           |
| Foshan    | ●                       | ●                     |                     | ●                    |                | ●                |            |                     |           |
| Zhaoqing  | ●                       | ●                     |                     | ●                    |                |                  |            |                     |           |

Source: PwC Analysis

## Hong Kong's Unique Logistics Connections in the GBA

Hong Kong's free port status and world class customs clearance is a sustainable and considerable advantage to shorten transit time. Compared to other shipping ports in the GBA region, port stay time is about two days shorter for cargo in Hong Kong and ocean transit time is about one day shorter. This advantage is the result of the many shipping lines using Hong Kong as the last port of call for export routes. Therefore, high value and time-sensitive cargo from GBA should be routed to Hong Kong for transit. Hong Kong has launched the Single

eLock Scheme (SELS)\* to expedite the flow of transshipment cargo and streamline cross-border clearance to and from the GBA. This will increase clearance points to 63 in Guangdong, and 13 in Hong Kong as well as raise number of transshipment cargo routes to 819.<sup>19</sup> By using electronic lock and GPS equipment, SELS can provide assurance that the goods are not tampered with during the transportation process and alleviates the need for repeated inspections on the same cargo by both Mainland and Hong Kong customs authorities.

\* Single eLock Scheme is a collaboration between Hong Kong and Mainland China's Customs to facilitate logistics flow through seamless clearance service.

<sup>18</sup> The Guangdong-Hong Kong-Macao Greater Bay Area Development Office

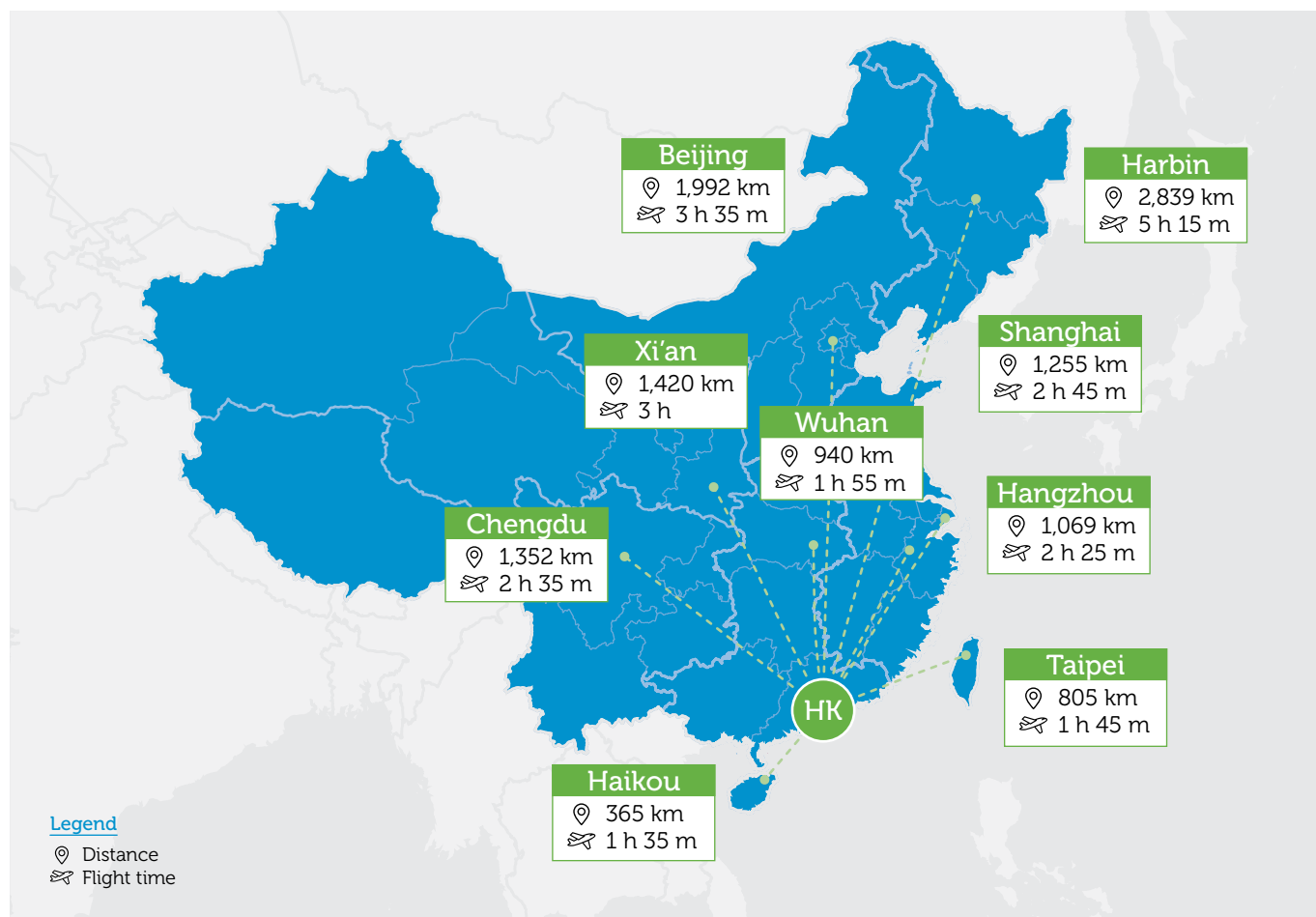
<sup>19</sup> Customs and Excise Department, HKSAR



# 3 Hong Kong: A Regional Logistics Centre

Hong Kong is a world class logistics hub, and businesses who place distribution centres here take advantage of the well-developed and interconnected air, sea and road transportation modes. The well-developed multi-modal transport network gives the industry flexibility in moving goods from one corner of the world to another. Businesses can therefore benefit from faster fulfilment rates, partnerships with leading third-party providers, access to frequent international flights and few customs tax.<sup>20</sup> In a world where shipping speed and reliability are key differentiators for customers, the speed and efficiency of Hong Kong's port can mitigate risk and create huge advantages for eCommerce and other time sensitive businesses.

Figure 7 Hong Kong Flight Connectivity to Greater China Region

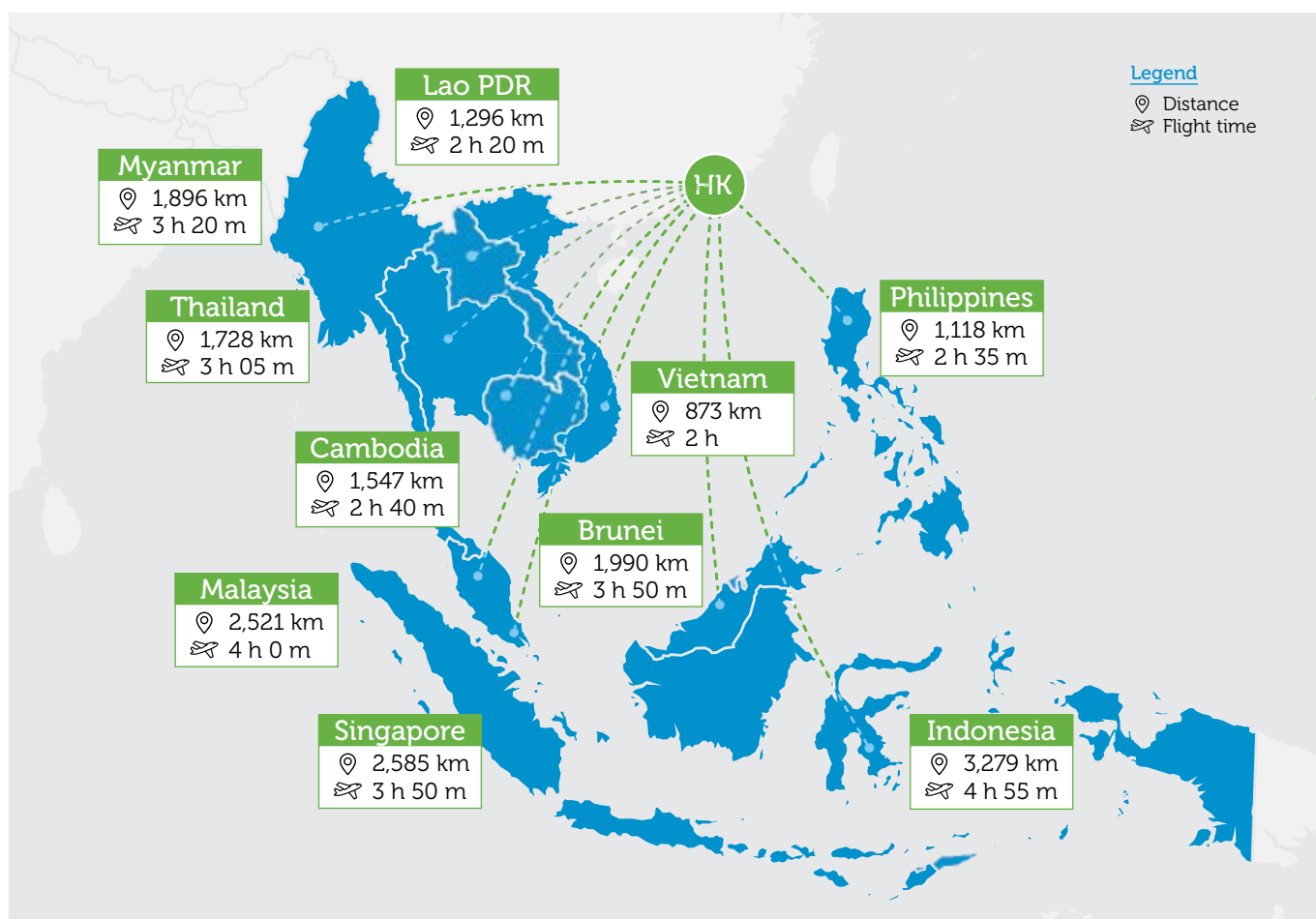


Source: Airport Authority Hong Kong, 2019

<sup>20</sup> Hong Kong Maritime and Port Board

Figure 8

## Hong Kong is within a Five Hour Flight to all ASEAN Countries



Source: Airport Authority Hong Kong, 2019

## Logistics as a Competitive Advantage and the Benefits of a Free Port

Hong Kong's logistics infrastructure can ensure rapid response and resilience, and this operational agility can provide significant benefits for delivering enhanced customer experiences, establishing competitiveness and adapting to changing social and economic climates.<sup>21</sup>

Hong Kong's sea and airports are ideal for companies that want access to the most comprehensive coverage of destinations, shipping lines and air freight carriers. With a combination of easy customs clearance, scale and physical efficiency offered by logistic operators, businesses can access the most competitive speed, price and agility with plenty of choice.

Operating as a free port, Hong Kong pursues a free trade policy where no tariff is levied on the import or export of nearly all goods. The only excise duties levied are on liqueurs, tobacco, hydrocarbon oil and methyl alcohol. As such, companies trading here can benefit from a simplified process in comparison to most other import procedures and operate in one of the most streamlined and efficient ports in the world.

<sup>21</sup> DHL eCommerce Report, 2020

## Hong Kong Shipping Port Statistics:

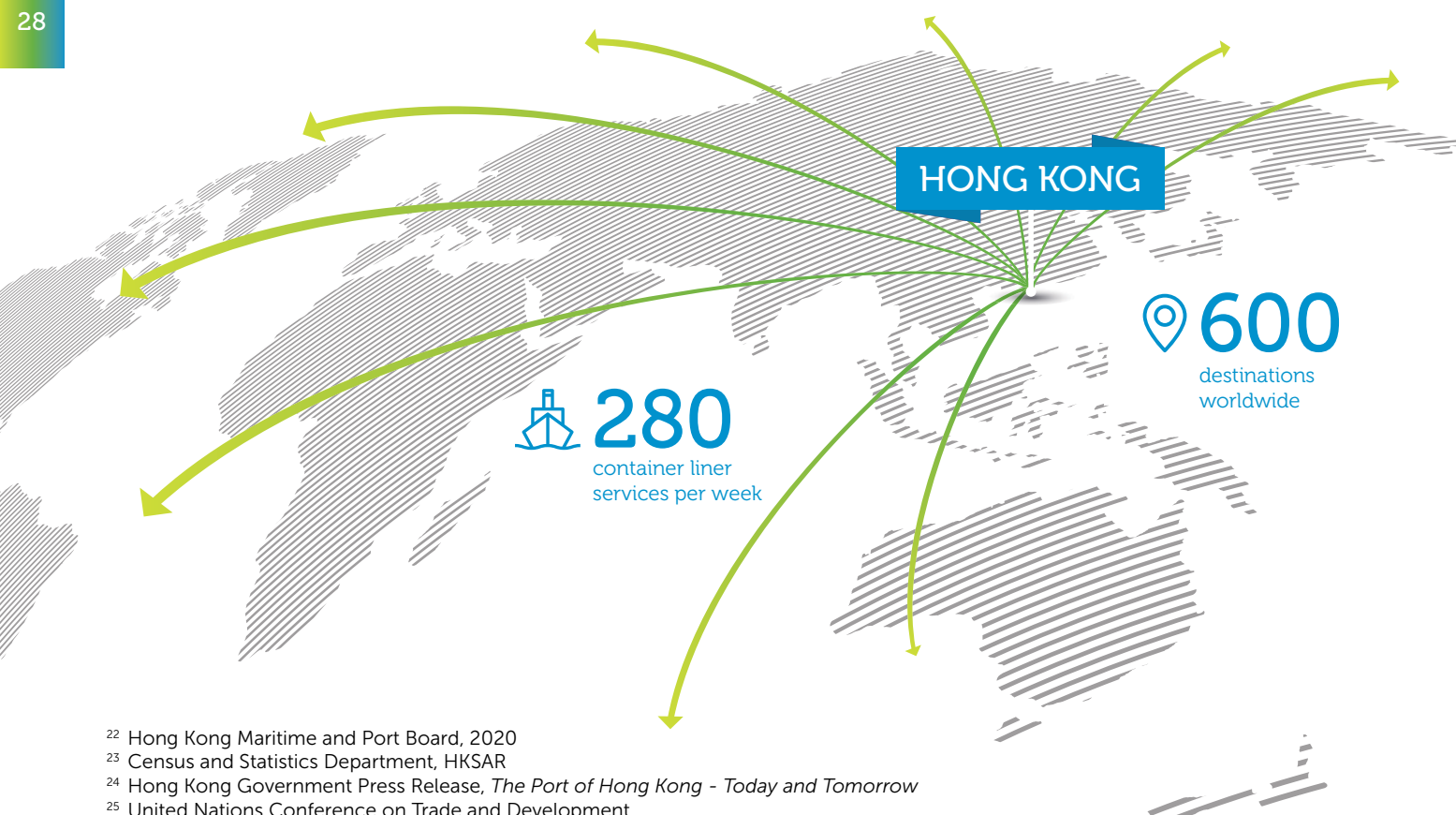
### Superb Connectivity

Recognised as one of the busiest ports in the world, Hong Kong's shipping ports connect 600 destinations worldwide, provide 280 container line services a week, has one of the shortest stay times, and handles around 18 million TEUs of containers<sup>22</sup> with a throughput of 249.3 million tonnes in 2020<sup>23</sup>.

### Average Stay Time

Hong Kong  
10 hours<sup>24</sup>

Global  
42 hours<sup>25</sup>



<sup>22</sup> Hong Kong Maritime and Port Board, 2020

<sup>23</sup> Census and Statistics Department, HKSAR

<sup>24</sup> Hong Kong Government Press Release, *The Port of Hong Kong - Today and Tomorrow*

<sup>25</sup> United Nations Conference on Trade and Development



## Access Asia's Best Air Cargo Facilities

Hong Kong International Airport (HKIA) is one of top two busiest airports by cargo traffic in the world, with a throughput of 4.5 million tonnes per year<sup>26</sup>. Since 2015, export air cargo reception takes Hong Kong's five cargo facilities only 15 minutes and import cargo collection takes only 30 minutes. All the facilities are automated and equipped with state-of-the-art technology.

HKIA is committed to increasing volume and efficiency to support the growing demand from global consumers and international business supply chains. The airport is building a new (third) runway and partnering with logistics providers to increase automation.



Export Air Cargo  
Collection



Import Air Cargo  
Collection

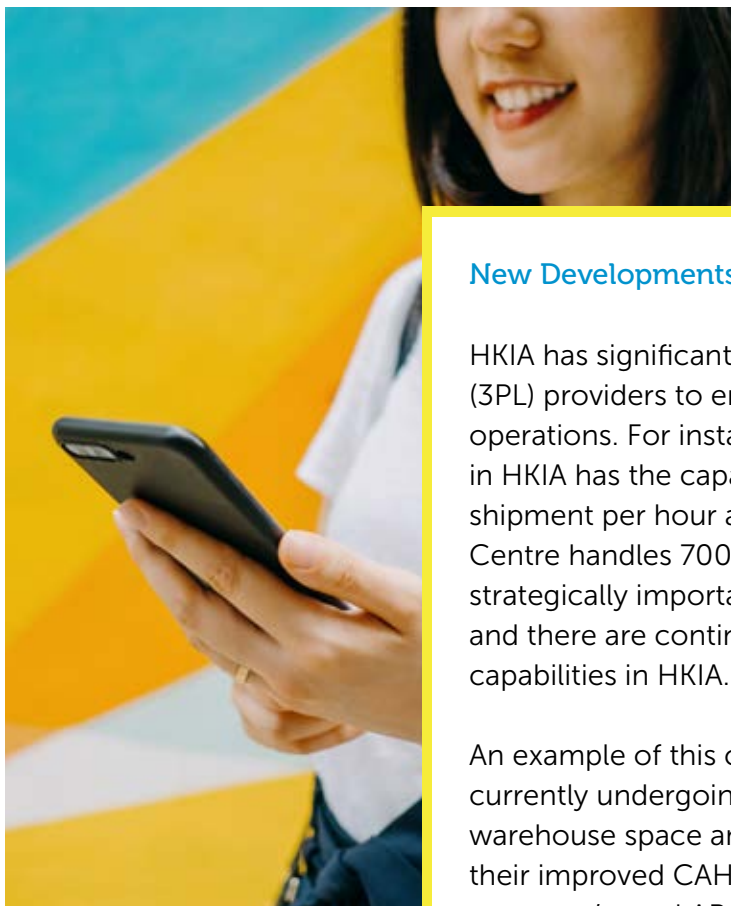
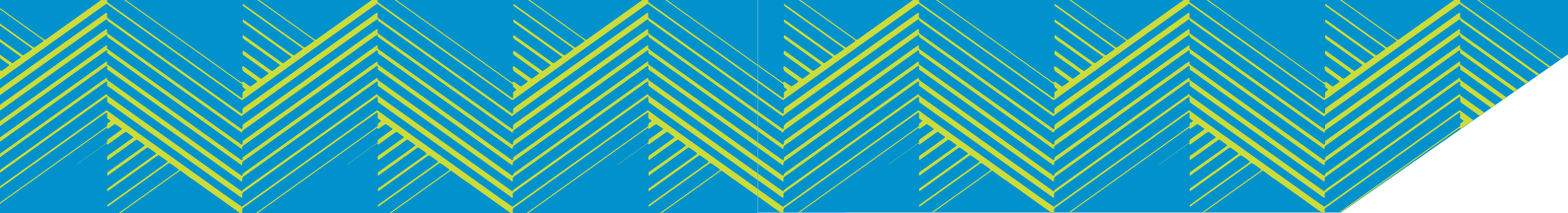
Upon completion of the third runway, HKIA will be able to handle around 100 million passengers and 8.9million tonnes of cargo annually by 2030.<sup>27</sup> HKIA is committed to enhancing its capabilities for digital cargo and has successfully trialled the International Air Transport Association's ONE Record. This is the new global standard for air cargo record keeping and will be a game changer for HKIA in terms of increasing visibility, transparency and efficiency through end-to-end tracking and instant notifications.

HKIA's 3rd  
Runway will  
increase passenger  
capacity by 33  
million per  
year<sup>28</sup>

<sup>26</sup> Airports Council International, 2021

<sup>27</sup> Hong Kong Maritime and Port Board Publications

<sup>28</sup> Airport Authority Hong Kong, 3 Runway System



### New Developments to Increase Capacity and Speed

HKIA has significant investment from third party logistics (3PL) providers to enable and scale eCommerce operations. For instance, DHL's Central Asia Hub (CAH) in HKIA has the capacity to handle 75,000 pieces of shipment per hour and Hong Kong Post's Air Mail Centre handles 700,000 items per day. Hong Kong is a strategically important location for global businesses, and there are continued investments in expanding capabilities in HKIA.

An example of this commitment is DHL, who are currently undergoing a large-scale expansion to increase warehouse space and throughput by 50 percent, and their improved CAH will handle over 40 percent of the company's total APAC shipment volume.<sup>29</sup> DHL have stressed the importance of Hong Kong as a "strategically important location" not only for APAC operational capacity, but also to facilitate "rapidly-growing international trade demands" across both the region and around the world.<sup>30</sup>

eCommerce will be further supported with the opening of the premium logistics centre by the Cainiao-CNAC-YTO joint venture in 2023. This Hong Kong hub is a key milestone to achieve their goal of 72-hour global delivery. The facility will implement automated warehouse technology and automated temperature control, with Cainiao pledging to aid the growth of SME's involved in cross-border eCommerce.<sup>31</sup>

<sup>29</sup> DHL eCommerce Report, 2020

<sup>30</sup> DHL Press Release, 2017

<sup>31</sup> Alizila, Alibaba

Figure 9 Hong Kong as Region's Logistic Hub for Cross-border eCommerce

| Proximity to Market                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | Infrastructure                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | Customs and Clearance                                                                                                                                                                                                                                                                                                                                        |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> <li>Strategically located at the heart of Asia and a gateway to Southern China</li> <li>Good connections with most Asian urban centres and half of the world's population is within five hours' flight time</li> <li>Under the Mainland and Hong Kong Closer Economic Partnership (CEPA), Hong Kong enterprises and overseas companies' setup in Hong Kong can enjoy preferential access to the vast Mainland China market.</li> <li>Frequent international flights for export/re-export of parcels (in particular to US and Europe)</li> </ul> | <ul style="list-style-type: none"> <li>Five first-tier cargo handling facilities, Hong Kong International Airport ranked as the world's busiest airport</li> <li>Nine container terminals for sea transport, ranked the eighth busiest port in the world</li> <li>Re-development of Air Mail Centre at the HKIA (2021/22 Hong Kong Budget)</li> <li>Large-scale expansion of DHL's Central Asia Hub equipped with automated x-ray inspection machines – enabling both shipment inspection and processing at speed.</li> <li>Development of Cainiao's premium logistics centre serving eCommerce businesses and capturing opportunities arising from cross-border eCommerce</li> </ul> | <ul style="list-style-type: none"> <li>No customers tariff / value-added tax on imports and exports across nearly all types of goods.</li> <li>Minimal licensing control on goods entering or leaving the territory</li> <li>One of the most efficient trade regimes in the world, with only three documents required for exporting and importing</li> </ul> |

Source: PwC Analysis

## Supply Chain Digitisation and Value-Added Services

Investments into digitisation and offerings in value-added services (e.g., drayage, security screening, relabelling/repackaging, collections) not only continuously help businesses' streamline operations but also enhance their customer experience. These factors cement Hong Kong's position as Asia's leading logistics hub, and the city has over 9,234 companies engaged in the air cargo and shipping business<sup>32</sup>.

Supply chain in Hong Kong is also empowered by 5G, enabling businesses to track goods and information in real time across the entire supply chain. 5G will also enhance the performance of automated equipment, channels and analytics, helping businesses handle goods with higher speed and efficiency.

### Pilot Subsidy Scheme for Third-party Logistics Providers

The Government has recently launched the "Pilot Subsidy Scheme for Third-party Logistics Providers", encouraging logistics providers to innovate, digitise and leverage technology to enhance their overall efficiency and productivity of value-added logistics processes. Each applicant enterprise is privy to a cap of HK\$ 1,000,000 across a maximum of 4 projects and a 24-month duration.



Scan here for more information on eligibility criteria, subsidy amount, application details, assessment criteria and more.

<sup>32</sup> Census and Statistics Department HKSAR, Quarterly Report of Employment and Vacancies Statistics, 2020



# Linking People, Delivering Business

Hongkong Post (HKP) is a key example of the city's government supporting the growth of eCommerce businesses through a wide range of delivery solutions that cater to the needs of shoppers, platforms and merchants. These solutions range from local to global, with services such as EC-Get, LCP, Speedpost, Vantage that enable simple, fast and reliable postage which can help overseas companies set up business in Hong Kong.



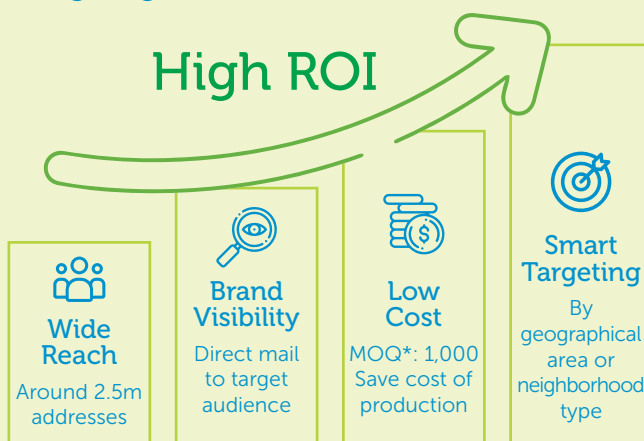
Scan for more information on HK Post's local and global eCommerce solutions

## Helping Merchants Reach all Households in Hong Kong

Companies rely on HKP to deliver materials to customers in Hong Kong as they are the only entity legally allowed to distribute to the 2.5+ million mailboxes across the city. This is enhanced by HKP's Circular Service – a simple but effective tool for businesses to get promotional materials to prospective customers. Circular Service helps companies target new customer segments (both commercial and consumer) and geographical ranges without the need for specific addresses.

HKP's detailed segmentation tool is called Mosaic, it is built from proprietary market research and utilises government statistics to segment households into twelve customer archetypes. eCommerce business can use Mosaic to target specific audiences and generate sales and traffic.

### Hongkong Post Circular Service



\*Minimum Order Quantity

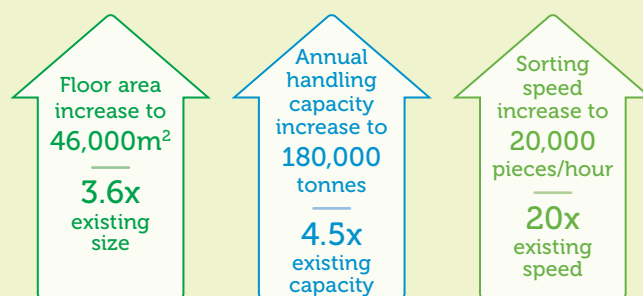
Sample of HKP's Mosaic segmentations to classify Hong Kong households into 12 groups and 38 types

|                                                                                                                                                                           |                                                                                                                                                            |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>A Global Elite</b><br>Highly-educated, high-earning families and individuals in Hong Kong's prestige housing districts<br>(3 Types) <b>4.58%</b> of HK household       | <b>B City Heights</b><br>Very well-off individuals in their prime years who live in sophisticated urban locations in Hong Kong<br>(4 Types) <b>9.60%</b>   |
| <b>C Urban Stability</b><br>Well-to-do more mature home owners who live in the northern part of Hong Kong Island or in urban centres in Kowloon<br>(2 Types) <b>6.15%</b> | <b>D Middle Class Achievement</b><br>Middle-aged home owning families with one or two members in comfortable salaried positions<br>(3 Types) <b>11.38%</b> |



## Infrastructure to Support for eCommerce Growth in the Region

The Hong Kong Government is investing HK\$4.6 billion into redevelopment of HKP's Air Mail Centre (AMC) to accommodate future needs rising from eCommerce. This will transform the AMC from a traditional mail centre for handling incoming and outgoing mail bags into one of the most strategic postal and high value-added logistics hubs in the Guangdong-Hong Kong-Macao Greater Bay Area.



Postal services are a vital part of eCommerce, with studies showing that 45-65 percent of the world's eCommerce delivery market share by volume belongs to postal channels. Hong Kong's investment into the AMC will enable HKP to support eCommerce in the region. The AMC will operate efficiently, with advanced design, expanded capacity equipped with intelligent technologies and machineries.

Located at the Hong Kong International Airport (HKIA), the AMC is well positioned to serve as a temporary storage facility for high-value Mainland China cross-border products (e.g., pharmaceutical products, electronics, etc.), taking advantage of the close proximity to the runways at the HKIA.

## iPostal Kiosks to Provide Round-the-Clock One Stop Service

The rise of eCommerce start-ups in Hong Kong has increased the need for convenient alternatives to traditional post office counters. HKP is launching many new iPostal Kiosks across the city that will provide automated posting services for mail items up to 2 kg each with a dimension up to 300 mm (W) x 300 mm (D) x 100 mm (H).



The kiosk will allow you to purchase postage labels and make postage enquiry. It is an excellent choice for eCommerce companies as it offers 24/7 service for both local and international postage at various price points and speeds. Easy access to these kiosks is an example of the city providing more convenience and simplicity to lives of customers and the needs of online businesses.



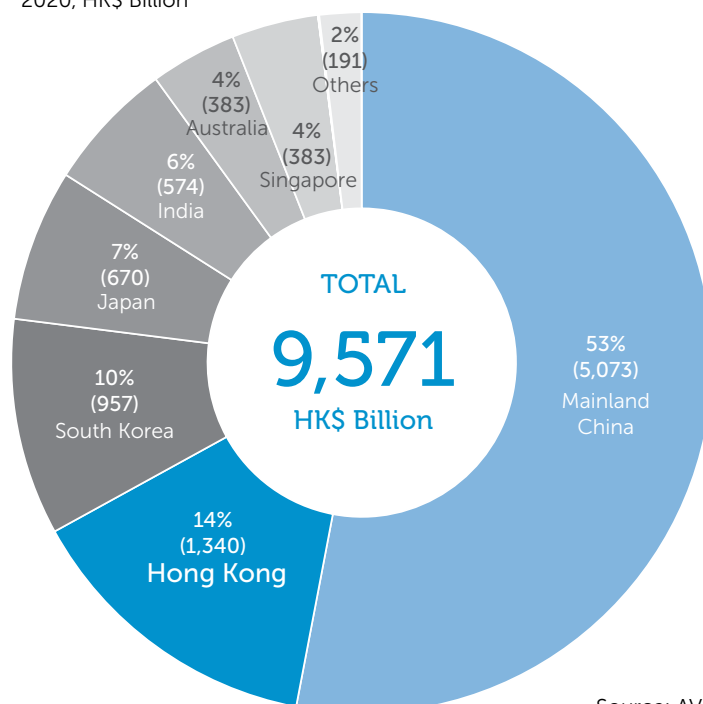
# 4 Hong Kong: A Springboard for Funding and Growth

The financial strength of Hong Kong is one of the biggest advantages that companies in the city benefit from. For companies that want to grow into Asia, Hong Kong's trusted currency, monetary and financial systems create a stable business destination to grow in, and scale from, before launching across the region. The city's business environment attracts a large amount of capital and investors that businesses in Hong Kong can leverage to find financial support throughout their growth journey, from start-up to IPO.

## Ample Funding for Businesses to Grow

Hong Kong hosts the second largest private fund pool available in Asia Pacific with over HK\$1.3 trillion<sup>33</sup>, and the city is known as Asia's largest international fund management hub, and private wealth management and hedge fund centre<sup>34</sup>.

**Figure 10** Accumulated Private Market Fund Pool in Asia Pacific  
2020, HK\$ Billion



Source: AVCJ, 2021

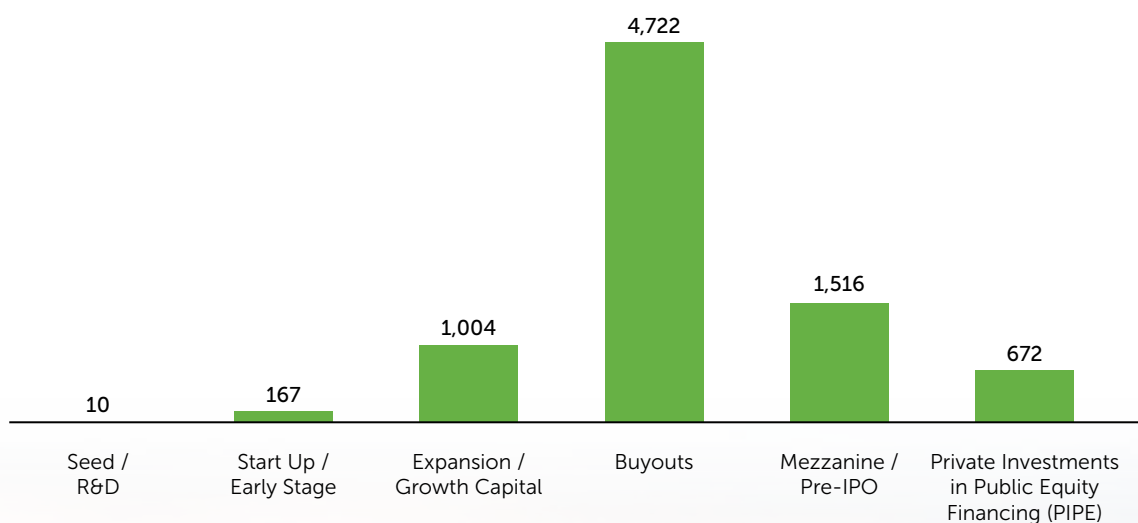
<sup>33</sup> AVCJ, 2021

<sup>34</sup> Hong Kong Monetary Authority, 2021



In 2020, there was a total of HK\$23.5 billion dollars invested into Hong Kong companies from private equity (PE) and venture capital (VC) firms, with deal sizes averaging HK\$1,103 million per investment from PEs and HK\$249 million per investment from VCs<sup>35</sup>.

**Figure 11** Average Deal Size in Private Investments in Hong Kong  
2020, HK\$ Million



Source: AVCJ, 2021

<sup>35</sup> AVCJ, 2021

# Start-up Success: From Hong Kong to the Rest of Asia

Retykle is a prime example of how Hong Kong can provide funding opportunities for businesses looking to scale. Retykle opened in 2016 as Asia's first online resale platform for children's and maternity clothing, creating a circular fashion site for sustainable online shopping. The success it has achieved in Hong Kong shows its potential to scale across APAC, and the funding network in the city is helping the company achieve its goals. During Retykle's latest seed funding rounds, it received funding from key investors such as Tim Rathe, founder of Lazada (leading eCommerce platform in Asia), and John Woods, key board member of Green Monday (a social venture in sustainability).

The online platform has grown to carry more than 2,000 brands at 50-90 percent off the original retail price. With an established business in Hong Kong and new funding received, Retykle can now expand their business internationally into Singapore and Australia as their next target markets.



Hong Kong embraces and supports new businesses and it doesn't take a big team or investment to succeed here. I bootstrapped the business to start and Retykle grew organically without incurring huge setup costs. The city's dynamic ecosystem of investors and start-ups powered our expansion and opened doors for me that I wouldn't have access to elsewhere.

**Sarah Garner**

FOUNDER, RETYKLE

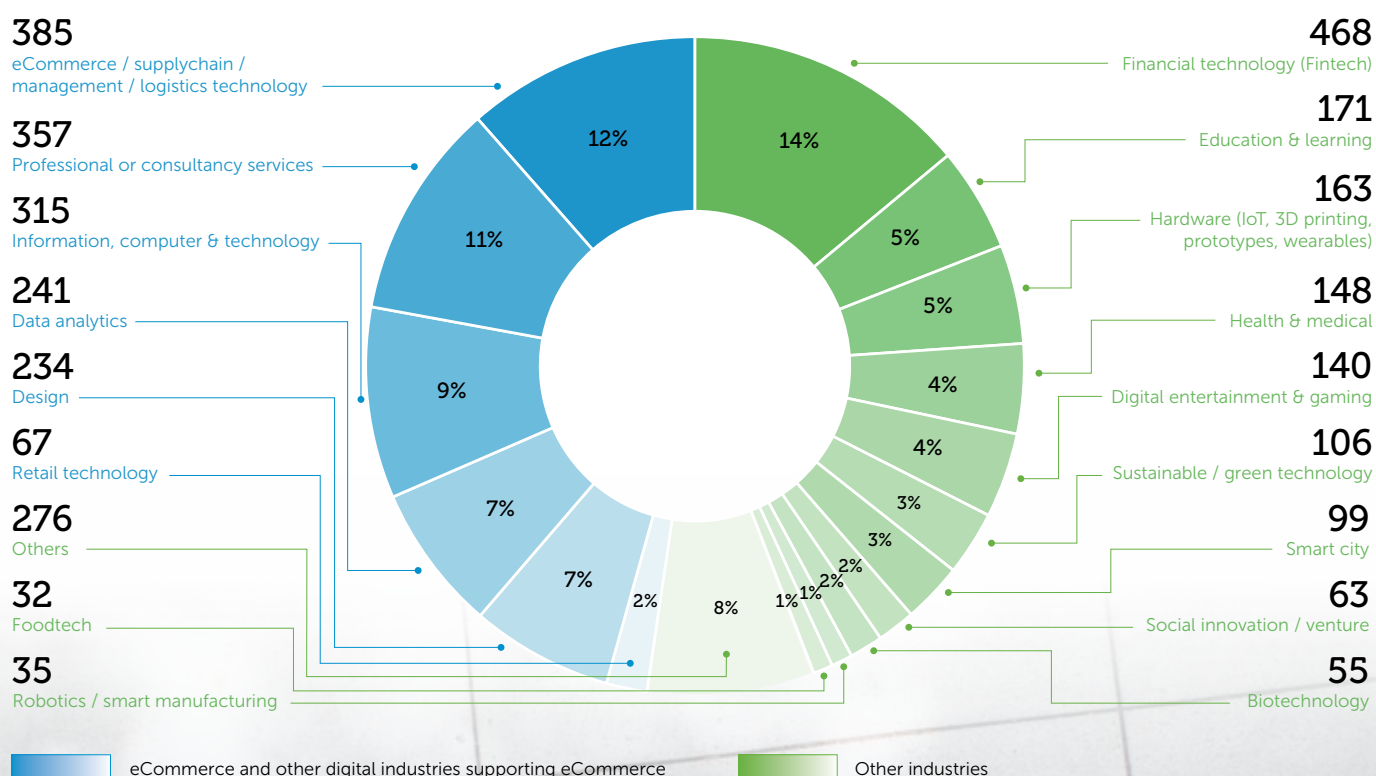




With many funding opportunities available to businesses in Hong Kong, the city draws a wide range of start-ups looking to use Hong Kong as their home base. Over 47 percent of Hong Kong's start-ups operate within eCommerce or other supporting digital industries, creating a dense network within the city that pushes innovative ideas and products to the Asian market.

Below is a breakdown by industry categories of which start ups in Hong Kong belong to:

**Figure 12** Start-ups Hub Extends Across a Wide Variety of Industries



Source: StartmeUp (InvestHK), FintechHK (InvestHK), HKMA, GovHK-Innovation and Technology Commission, 2020

PASSION LED US HERE



## Stable Environment for International Businesses

International businesses who set up in Hong Kong enjoy a stable exchange rate environment and an easily convertible local currency. Hong Kong's currency – the Hong Kong dollar, is pegged to the US dollar, which significantly reduces the risk of currency volatility for eCommerce businesses. Those based in Hong Kong with a global customer base can list and collect in multiple currencies and easily convert their profits back to Hong Kong dollars.

This benefit can also be similarly enjoyed by overseas investors whose profits or capital are

being repatriated to their home country. Hong Kong's capital account is also fully convertible and there are no restrictions on foreign exchange dealings, which means overseas businesses can invest freely.

For businesses looking to enter the region, the stable environment of Hong Kong reduces risks and complications that may arise when repatriating assets in other economies and makes it an excellent location to establish operations in Asia.

Figure 13 Legal and Tax Benefits for Investees in Hong Kong<sup>36</sup>



No restrictions on investments



No foreign exchange control



No withholding income taxes (dividend / interest)



Low corporate income tax rate - 8.25% on first HK\$2m of assessable profits; remainder at 16.5%



No tax on capital gains (for non-resident investors - conditions apply)

## Affordable Co-Working Spaces in Hong Kong

A common misunderstanding is that all office spaces in Hong Kong come with a high rental price tag. However, Hong Kong has been actively developing solutions to change this. One key example is the abundance of shared workspaces that can accommodate budgets of all sizes. The city is home to over 116 shared workspaces, which is beneficial for freelancers, start-ups or even multinational corporations who are looking to grow their business in the city and maintain a lean business model.<sup>37</sup>



Scan here for more information on the various shared working spaces available to start ups, enterprises and other businesses in Hong Kong.

<sup>36</sup> AVCJ, 2021

<sup>37</sup> StartmeupHK, 2021

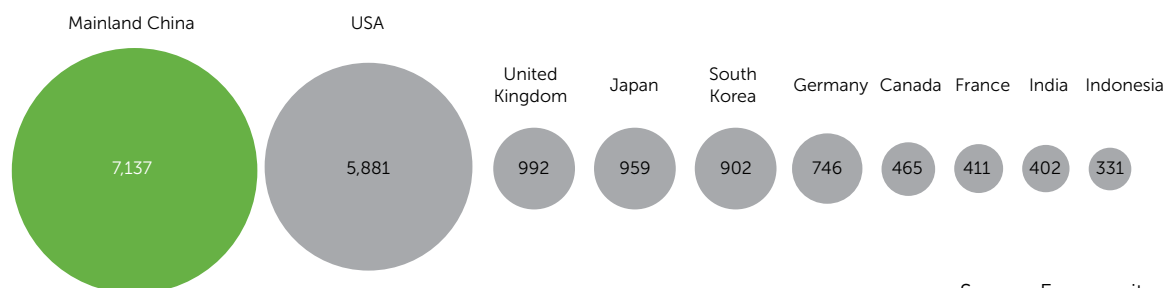
# 5 Hong Kong, the Centre of Top eCommerce Growth Markets

Hong Kong is the best location for companies to capture the current opportunity in Mainland China, and be in a position to capture the significant eCommerce growth in ASEAN in the next five years.

## Mainland China – The World's Largest eCommerce Market

Mainland China is the world's largest eCommerce market and is forecasted to generate HK\$7.14 trillion by the end of 2021, bigger than the next two largest markets combined (US and UK)<sup>38</sup>.

**Figure 14** Top 10 eCommerce Markets in the World  
2021, HK\$ Billion



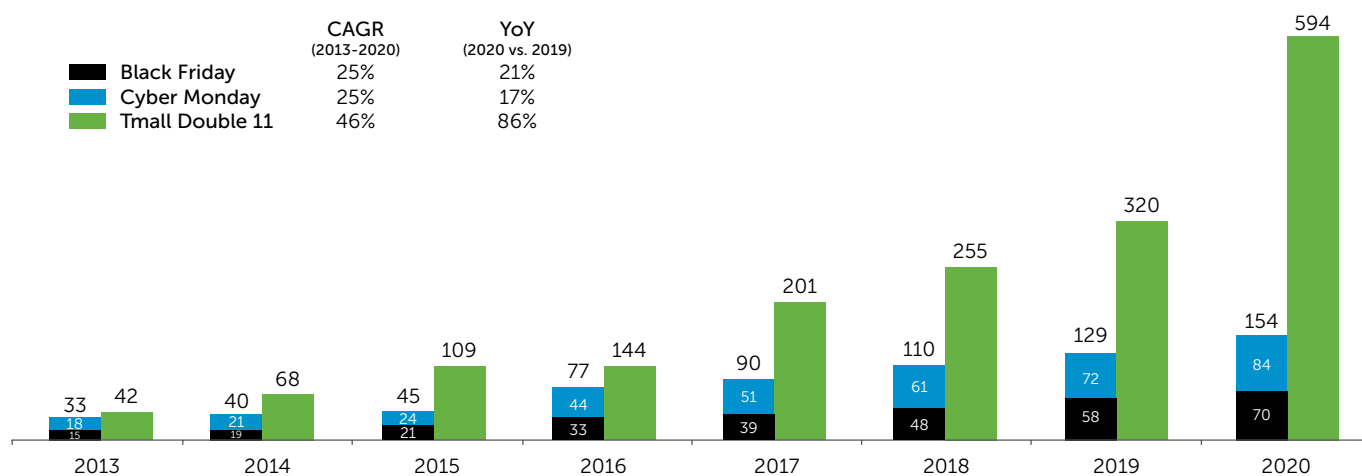
Source: Euromonitor

<sup>38</sup> Euromonitor, 2021

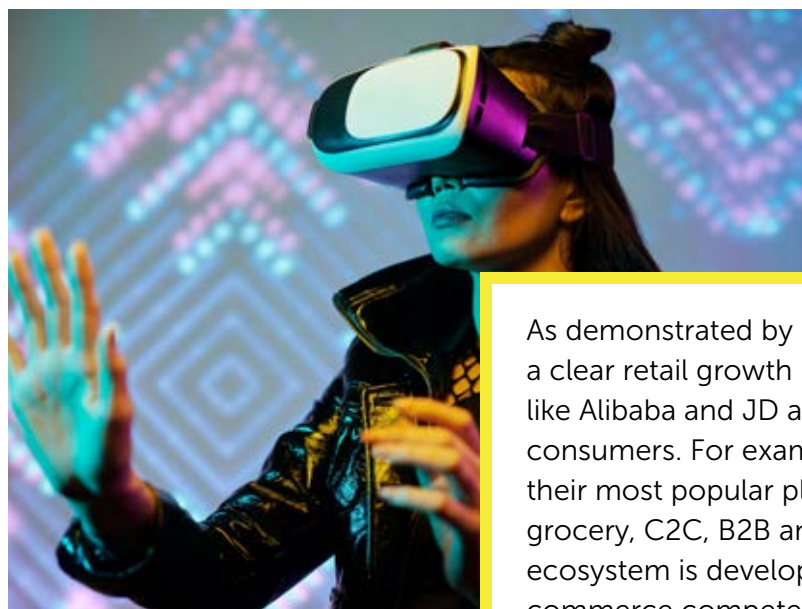
One can witness the scale of Mainland China's eCommerce market through its biggest shopping festival - "Double 11", which today is more than triple the size of US' Black Friday and Cyber Monday sales combined.

**Figure 15 Tmall Double 11 vs. Black Friday and Cyber Monday**

2013-2020, GMV US\$ Billion



Source: Alibaba, Adobe Analysis and PwC Analysis

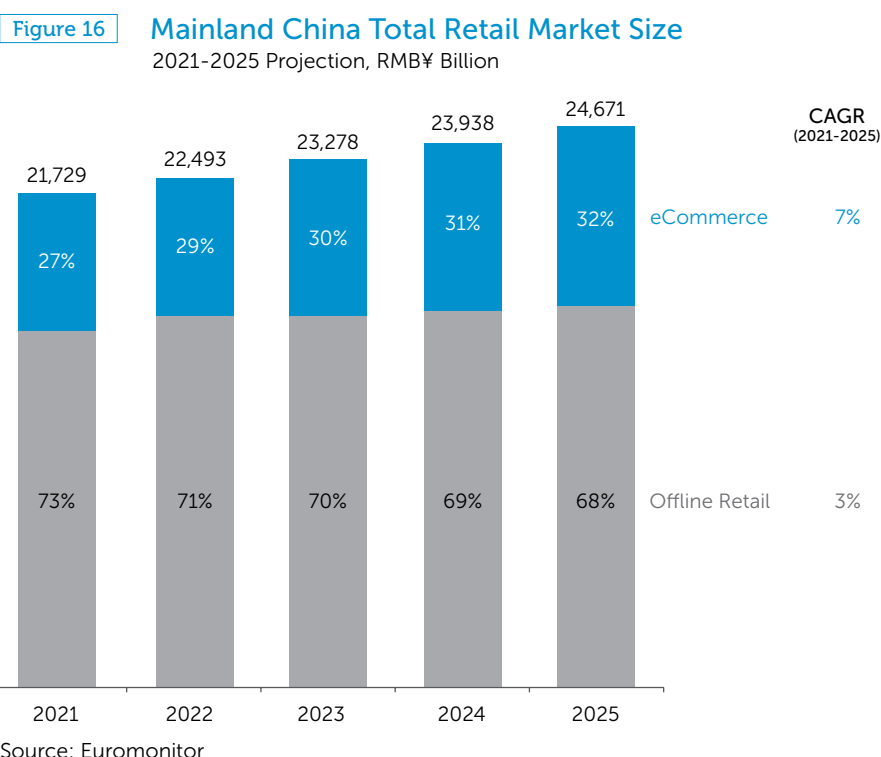


As demonstrated by Double 11, eCommerce has been a clear retail growth miracle for China. Tech giants like Alibaba and JD are creating novel experiences for consumers. For example, Alibaba has expanded from their most popular platforms (Taobao/Tmall) to include grocery, C2C, B2B and quick demand delivery. This ecosystem is developing far beyond Alibaba's core commerce competencies as we start to see investments across payments, logistics, digital engagement and innovative solutions to help merchants sell online. Both platforms are also available and actively used in Hong Kong, aiming to serve both cross-border and Hong Kong only transactions.



Mainland China's eCommerce is a diverse and intricate market. For instance, digital marketing in Mainland China is much more focused on rich media, with massive uptake in video content marketing and livestreaming. This model of eCommerce livestreaming was pioneered by Alibaba's "Taobao live" in 2016 and now is a feature on almost all platforms as they race to create their own versions to capture the "see now, buy now" consumer trend.

With the right tools available to succeed, Hong Kong companies can enter the Mainland China market. For instance, Hong Kong eCommerce Business Association has created an academy that trains students into becoming Key Opinion Leaders (KOL), equipped with the knowledge and skills to sell products into Mainland China from Hong Kong.



This innovation in eCommerce is driving the vast scale of Mainland China's market even further. Not only is it already the world's largest market, it is also set to grow at seven percent compounded annual growth rate<sup>39</sup> from 2021 to 2025. This growth is fuelled by Mainland China's large population of 1.4 billion, and the increasing buying power of the country's consumers, particularly in the country's lower tier cities.\* In fact, in 2021 eCommerce is 27 percent of the overall retail market, demonstrating a promising future of continued growth.

Previously, global brands have focused on top tier cities to reach consumers in Mainland China. However, over the past decades, urbanisation has migrated millions from rural areas to developing lower-tier cities (Figure 17). These new opportunities have accelerated local consumption, fuelled by the higher dispensable income.

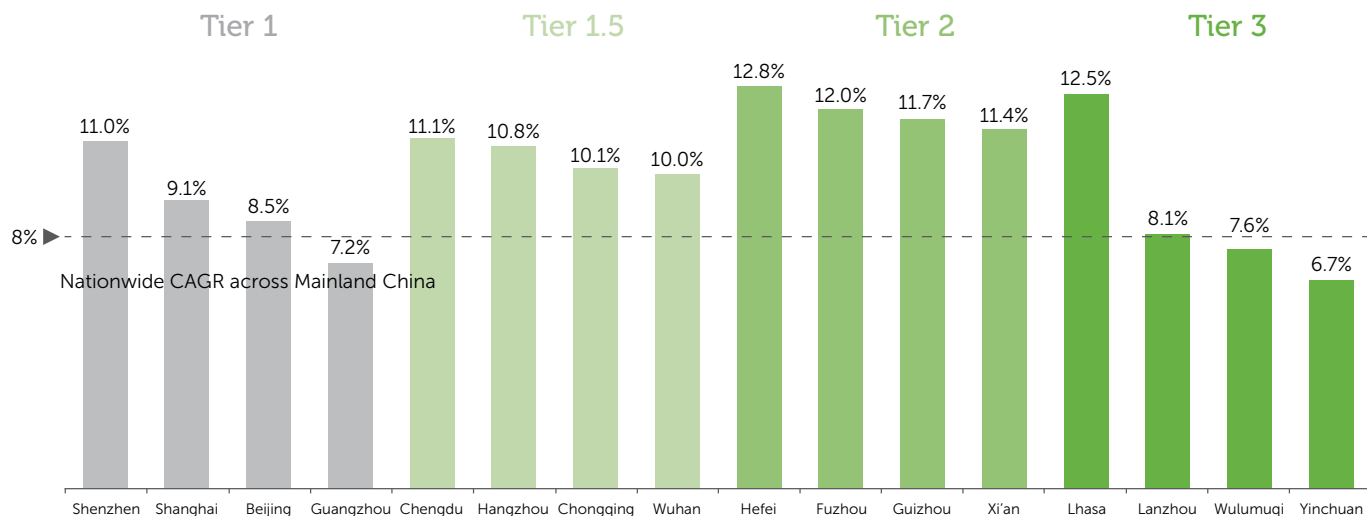
\* The Chinese city tier system is a hierarchical classification of Mainland Chinese cities. Cities in different tiers reflect differences in consumer behavior, income level, population size, consumer sophistication, infrastructure, talent pool, and business opportunities.

<sup>39</sup> Euromonitor, 2021

Figure 17

## Compounded Annual Growth Rate of Total Sales in Selected Cities

2013-2019, %



Source: China National Bureau of Statistics and PwC Analysis

The internet and high mobile adoption rates have also opened up new possibilities for retailers. Brands can capture the market by developing strategic partnerships with leading platforms. For global businesses with growth goals, this is an obvious opportunity - but it may not be as simple as "build it, and they will come".

Multinational businesses who enter Mainland China may face challenges in dealing with a new language and culture, relatively higher setup costs and competition from an ecosystem of experienced players. A viable

option for these companies is to operate cross-border from Hong Kong and benefit from the straightforward business environment whilst enjoying access to consumers.

## Fast, Smooth and Simple Access to Mainland China Market

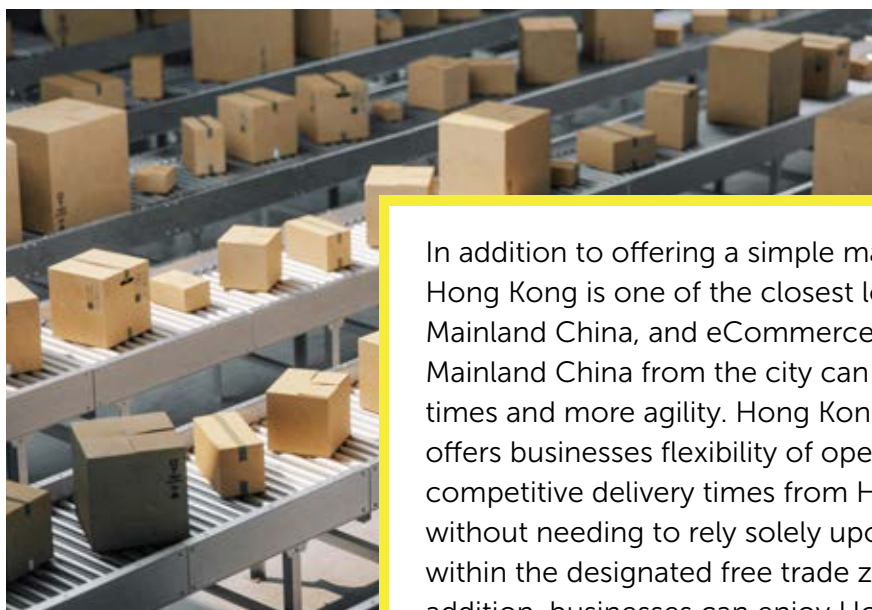
Setting up a Hong Kong company to conduct cross border B2C eCommerce in China provides relatively unrestricted access to the Mainland China market, without needing to overcome common challenges of navigating within Mainland China. Cross border eCommerce retailers in Hong Kong who are looking to sell to consumers in Mainland China:

- Can partner with registered cross border eCommerce marketplace
- Do not need to apply for an Internet Content Provider (ICP) license
- Do not need to establish an offline store

Hong Kong businesses can avoid:

- Establishing an entity in Mainland China
- Applying for ICP license
- Establishing offline store
- Restrictions on most merchandise types
- Lengthy/complex set up process
- Detailed product registration and certification requirements (such as for cosmetics)

The simplicity of a cross border business from Hong Kong allows businesses to set up operations quickly. For businesses who wish to target Mainland Chinese consumers and prioritise speed-to-market, these advantages are significant. Hong Kong allows companies to reduce regulatory and cost restrictions, and enables businesses to compete on innovation and novelty in the Mainland China market.



In addition to offering a simple market entry process, Hong Kong is one of the closest locations to directly access Mainland China, and eCommerce companies that sell to Mainland China from the city can benefit from shorter delivery times and more agility. Hong Kong's logistical strength also offers businesses flexibility of operations, as they can offer competitive delivery times from Hong Kong warehouses without needing to rely solely upon bonded warehouses within the designated free trade zones in Mainland China. In addition, businesses can enjoy Hong Kong's low tax regime and preferential import and export tax system.

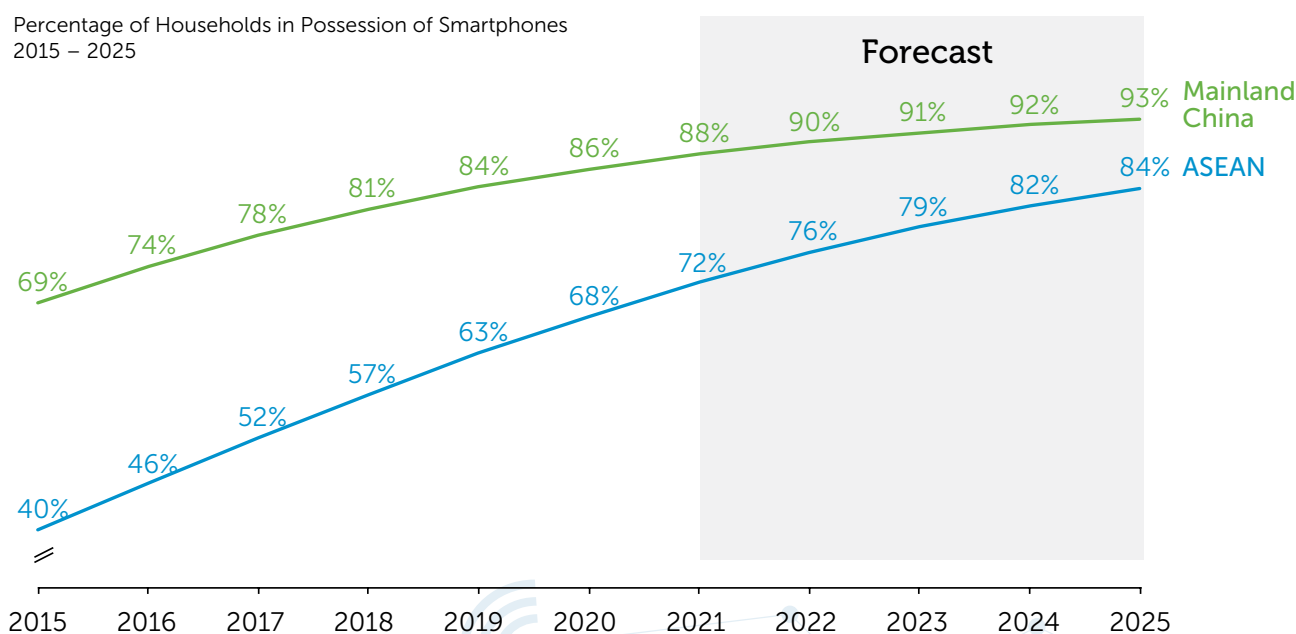


## Prepare for ASEAN, the Next eCommerce Miracle

Key factors that make Mainland China the biggest eCommerce are being demonstrated today in ASEAN – large population, growing consumer expenditure, high smartphone penetration. In fact, the eCommerce market in ASEAN is forecasted to triple in size between 2020 and 2025 and expected to reach a market size of HK\$1,462 Billion.<sup>40</sup>

**Figure 18** Mainland China vs. ASEAN's smartphone adoption

Percentage of Households in Possession of Smartphones  
2015 – 2025



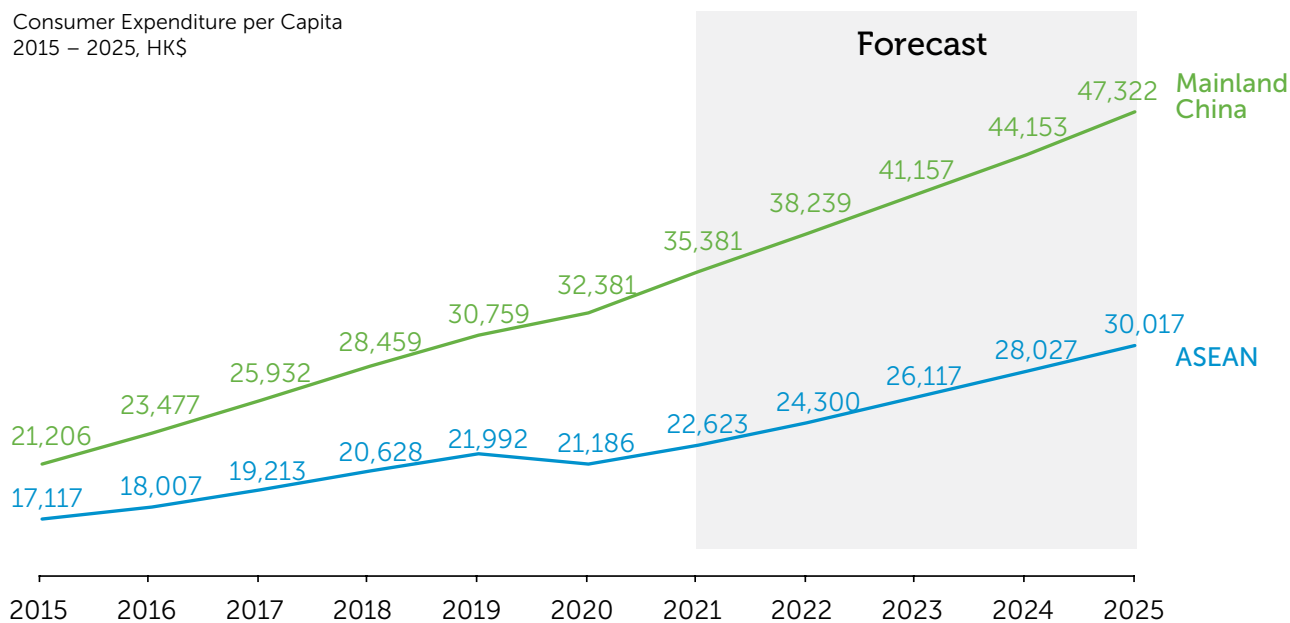
Source: PwC Analysis



<sup>40</sup> Euromonitor, 2021

**Figure 19** Mainland China vs. ASEAN's Annual Spending per Person

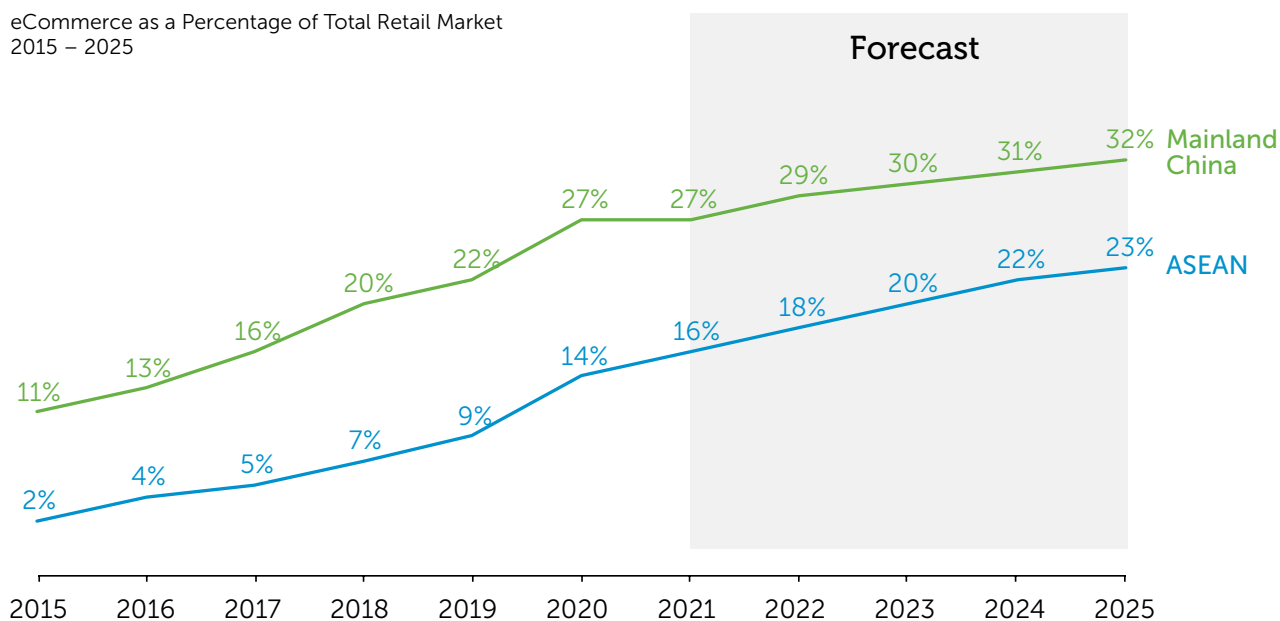
Consumer Expenditure per Capita  
2015 – 2025, HK\$



Source: PwC Analysis

**Figure 20** Mainland China vs. ASEAN's eCommerce Penetration

eCommerce as a Percentage of Total Retail Market  
2015 – 2025



Source: PwC Analysis

# Current Challenges to Overcome for eCommerce Success in ASEAN

## Fragmented Customers and Platforms

The main differences between Mainland China and ASEAN are the consumer demographics and the key players in each market. Whilst the 1.4 billion citizens in Mainland China share a common culture and language, the 661.5 million in ASEAN are spread across 10 countries, and most of them have different cultures, languages, religions which can even differ between different regions of the same country.

There are only a handful of major technology players in Mainland China and they have significant market share. The top two eCommerce players, Alibaba and JD.com represent over 70 percent of the total market<sup>41</sup>, and Tencent, the entertainment and gaming giant has 51 percent of the gaming market share<sup>42</sup>. As a result, the market is fairly consolidated especially since each of the tech giants have created entire ecosystems out of their core product offerings. Alibaba did so by introducing products like Alipay, Alicloud, Cainiao, and expanding beyond the eCommerce realm. Given their economies of scale and massive resources for R&D and investment, these platforms have propelled the Mainland Chinese eCommerce market to where it stands today.



## Logistics and Digital Payment Challenges

ASEAN is on a strong growth trajectory, but there are two main challenges to overcome for the region's eCommerce market to reach its full potential – the largely archipelago landscape and the significant unbanked population. Limited logistics has been a major drawback for eCommerce in the region. In the latest report, ASEAN countries on average scored 3.016 out of 5 on the World Bank's Logistics Performance Index<sup>43</sup>.

For eCommerce companies, the inability to acquire suitable capabilities to deliver products to customers efficiently has been an obstacle in carrying out transactions. The limited number of appropriate warehouses, customs policies and still-evolving last-mile infrastructure increase the risk for developing and transforming eCommerce businesses.

When it comes to eCommerce transactions, cash on delivery is still a popular payment choice in ASEAN given that almost half of the population (47 percent) do not have bank accounts. As a result, more than 74 percent of transactions are carried by exchanging physical cash for products at the time of delivery, which poses many risks for eCommerce providers.<sup>44</sup> Not only do cash payments pose more difficulty for returns, but this mode of payment increases the operating costs for eCommerce companies, as handling cash manually is more expensive when compared to the digital payments offered on the eCommerce platforms.

<sup>41</sup> Euromonitor, 2021

<sup>42</sup> iResearch & Statista, 2019

<sup>43</sup> The World Bank's Logistics Performance Index, 2018

<sup>44</sup> CGTN, 2020



## Investments that Support ASEAN's eCommerce Growth<sup>45</sup>

All the ASEAN countries are members of China's Belt and Road Initiative (A global infrastructure development strategy adopted by the Chinese government in 2013 to invest in nearly 70 countries to help them build roads, power plants, ports, railways, 5G networks, and fiber-optic cables). With the initiative well on its way, Chinese technology giants have started to grow their presence in ASEAN. Tencent and Alibaba have invested significantly in the local digital platforms and infrastructure space.

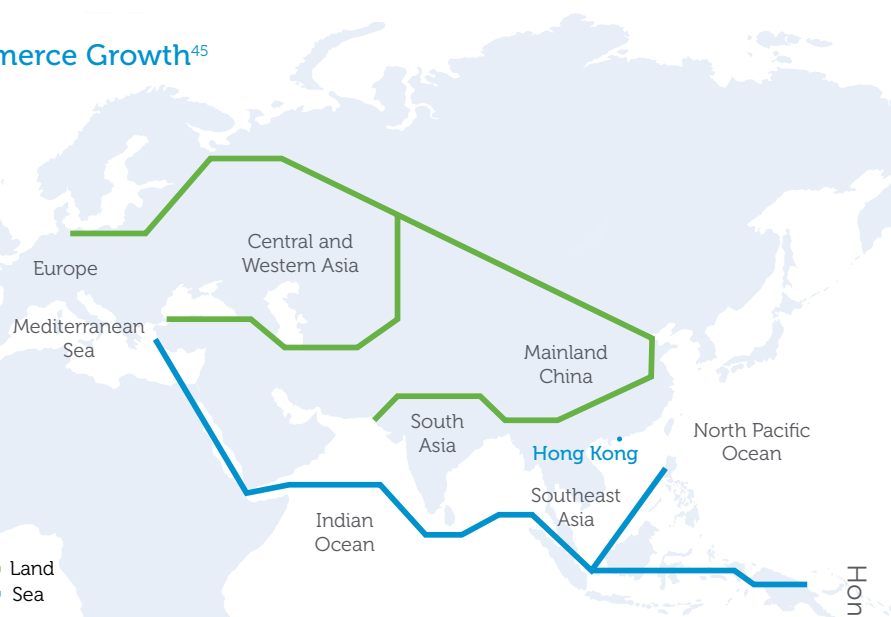


Figure 21

## Alibaba and Tencent's investment in ASEAN eCommerce and Relevant Services (non-exhaustive)<sup>46</sup>

|         | Demand Generation & Entertainment      | eCommerce                                                      | Payment                                                                                | Logistics                                                         | Cloud                                            |
|---------|----------------------------------------|----------------------------------------------------------------|----------------------------------------------------------------------------------------|-------------------------------------------------------------------|--------------------------------------------------|
| Alibaba | UC Browser [ASEAN]                     | Lazada [ASEAN]<br>Redmart [Singapore]<br>Tokopedia [Indonesia] | M-Daq [Singapore]<br>TrueMoney [Thailand]<br>AscendNano [Thailand]<br>HelloPay [ASEAN] | Singapore Post [Singapore]<br>Launched Free-trade Zone [Malaysia] | Data centre [Singapore, Malaysia, and Indonesia] |
| Tencent | Joox [Thailand]<br>PUBG Mobile [ASEAN] | Shopee [ASEAN]                                                 | PayMaya [Philippines]<br>ZaloPlay [Vietnam]                                            |                                                                   | Data centre [Indonesia]                          |

The opportunity in Mainland China is rewarding but comes with many requirements and investment costs. This is not ideal for companies who want to start with smaller pilots before scaling up. For example, operating an official B2C store on the largest platform, Alibaba's Tmall, is only possible for businesses who already have three plus years of operations in Mainland China or have significant expenditure to gain traction locally.<sup>46</sup> The ASEAN market on the other hand continues to evolve and is active in exploring growth in all areas related to digital.

This makes Hong Kong the ideal location for companies who want to grow their eCommerce business in Asia. From here, companies can easily set up a business entity, and can use this entity to operate a Tmall Global store or website that sells into Mainland China and across Asia to test and refine their products as well as build more scale and know-how. ASEAN continues and develop its eCommerce infrastructure, and with regional partnerships like RCEP in place, companies will be well positioned to enter and operate in this fast growing market.

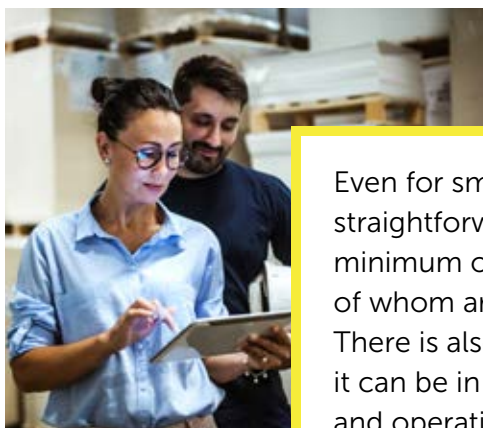
\* Tmall Global sellers are companies with corporate entities outside of China, selling imported products.

<sup>45</sup> PwC Analysis

<sup>46</sup> Tmall

# 6 Business Models and Company Structure for Cross-Border eCommerce

Unlike traditional trading, cross-border eCommerce to Mainland China helps businesses around the world to grow, flourish and capitalise on opportunities primarily due to more relaxed market entry regulations and lower taxation.



Even for smaller brands, setting up in Hong Kong is straightforward as brands can setup a business with a minimum of one shareholder and one director, neither of whom are not necessary to be Hong Kong residents. There is also no minimum share capital required and it can be in any currency. This simplicity of opening and operating a business in Hong Kong is beneficial for companies with limited resources looking to enter into and directly compete with pre-existing dominant platform players in Mainland China.

## Tax Benefits of Putting Your China eCommerce Operations in Hong Kong

As overseas companies seek entry into Mainland China's thriving eCommerce market through Hong Kong, it is essential to consider the tax implications to each entry strategy. Selling directly from Hong Kong through a global website, using a 3rd party platform or setting up in Mainland China and selling through a Mainland Chinese entity all carry different tax implications. In this regard, the

benefits of setting up business in Hong Kong are more apparent than ever, with a profits tax rate of 16.5 percent and no withholding income tax in Hong Kong (compared to Mainland China's 25 percent income tax rate and 10 percent dividend pay-out towards the overseas parent company). The table below outlines the pros and cons of each eCommerce business strategy from a tax perspective.

Figure 22 Tax Implications for Mainland China eCommerce Operations in Hong Kong

|                                | Global Website Model (Through Hong Kong Entity)                                                                  | Cross-Border eCommerce on 3rd Party Platform (Through Hong Kong Entity)                                          | Online Operations in Mainland China (Setting up Domestically in Mainland China)                      |
|--------------------------------|------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------|
| Sales company                  | In Hong Kong                                                                                                     | In Hong Kong                                                                                                     | In Mainland China                                                                                    |
| Import taxes responsible party | Consumers (who buy the goods online)                                                                             | Consumers (who buy the goods online)                                                                             | Mainland China importer (the seller)                                                                 |
| Corporate income tax location  | Jurisdiction of sales company (Hong Kong: 8.25% for first HK\$2 million of profits, 16.5% for remaining profits) | Jurisdiction of sales company (Hong Kong: 8.25% for first HK\$2 million of profits, 16.5% for remaining profits) | Mainland China company (normally at 25% or lower in certain cases)                                   |
| Withholding income tax         | No (no China company and no dividends)                                                                           | No (no China company and no dividends)                                                                           | Yes<br>10% for dividends pay-out towards overseas parent (or 5% under treaty rate towards HK parent) |

Source: PwC Analysis

## Sophisticated Cross-Border Models

Hong Kong has access to world-class eCommerce platforms for traffic acquisition and order fulfilment. Third parties such as Tmall and Lazada have established operations in Hong Kong to leverage the city's logistical strengths. Technology platforms and players have invested in building overseas fulfilment centres in Hong Kong so that businesses operating in the city can enjoy the one-stop services. There are many different cross-border eCommerce models to enter Mainland China via Hong Kong, and selecting the most suitable model is vital for companies to succeed.





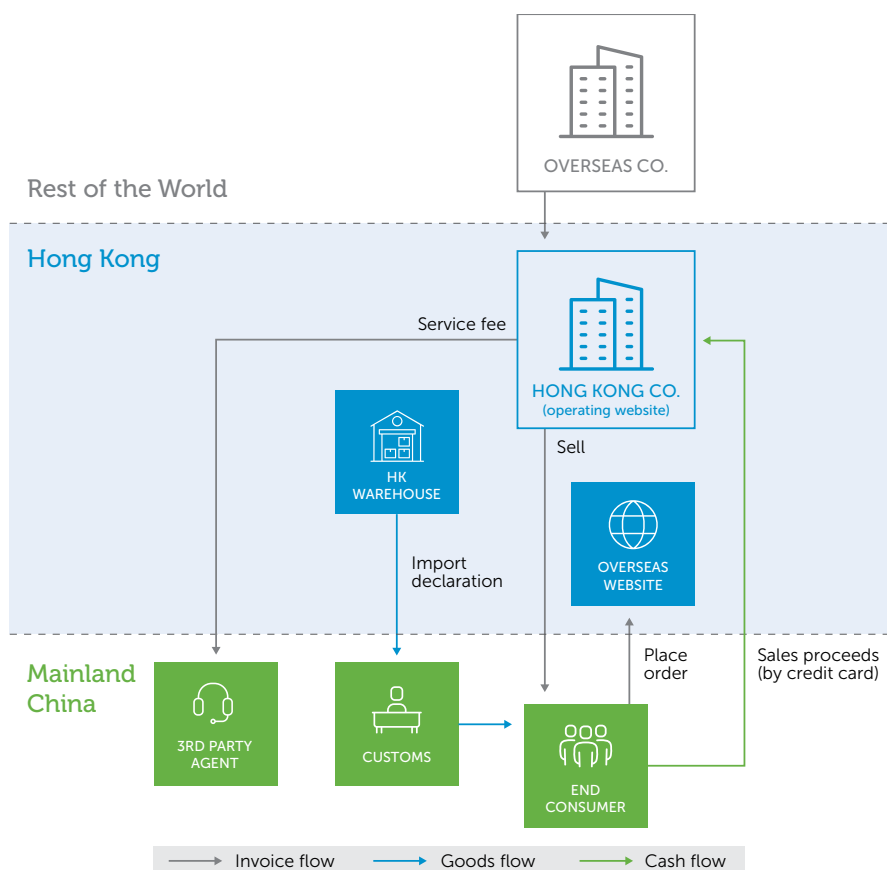


## Model One: Remote Sales - Global Website Model

The global website model works well for well-established global brands looking to sell directly to Mainland Chinese consumers via their existing global website or a Hong Kong website without an entity in Mainland China. Chinese consumers place orders directly on the company's overseas eCommerce website and orders are shipped from overseas or from

a Hong Kong warehouse. This option is a good way to test the market at a low cost and serves well as a starting point for established brands. However, if companies don't already have a well-known brand and want to grow their brand equity in Mainland China, this model may not be the ideal model to start with.

Figure 23 Global Website Model



### Merits

**No set-up needed:** Companies can leverage their original websites and entities

**Keep profits overseas:** Companies can keep their profit in Hong Kong and avoid the higher tax in Mainland China

### Who does this work for?

Well-established companies with strong existing sales and brand name

Companies with existing eCommerce website operations

## Model Two: Remote Sales – Sales Via Third Party Marketplace (Cross-Border eCommerce Platform)

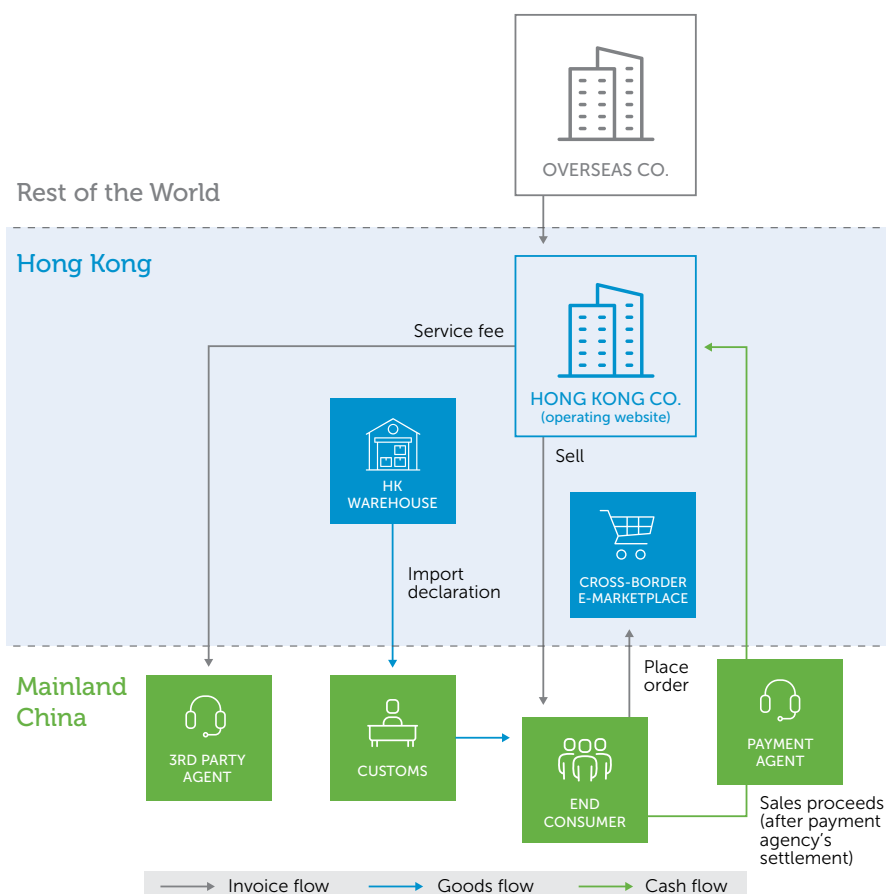
For companies with an established brand targeting to reach significant Mainland Chinese consumers through an “asset light” presence and looking for an easier market entry, the best option is the cross-border model that leverages a partnership relationship with an online third party platform.

In this model, brand and retailers typically set up an entity in Hong Kong and work with cross-border eCommerce marketplaces like Tmall Global and JD Global. The Hong Kong company is responsible for the company's eCommerce strategy and if needed, they will

also facilitate the movement of goods between the overseas company and the bonded warehouse located in Mainland China.

Third party cross-border platforms have back-end technology to link Chinese customs, products and payment all on one platform, making it easy for consumers to find products in one place and for brands to maintain compliance. Once a consumer places an order, the information will be connected through the platform and goods will be shipped from where they are stored, either overseas or bonded warehouses into Mainland China.

**Figure 24** Sales Via Third Party Marketplace  
(Cross-Border eCommerce Platform)



### Merits

**Higher traffic & publicity:** Cross-border eCommerce platforms like Tmall Global have 925 million monthly users<sup>43</sup> (the largest cross-border market share with 36%)

**Cost saving:** Eliminating operation cost of own website / platform

**Easy set-up:** Brands can set up a business in HK with just one shareholder and one director, and neither needs to be resident in HK. There is no minimum share capital required, and the capital can be dominated in any currency

**Low tax rate:** Profits are kept in Hong Kong, enjoy the low tax regime and preferential import tax policies

### Who does this work for?

Companies looking for a quick set up to test the market

Companies that want to eliminate costs of operating own website/ platform

Companies looking to gain market publicity easily

Companies that may transition to own website or local platform after gaining experience

## Tax Benefits of Using Cross-Border eCommerce Model

Companies in Hong Kong who want to sell into Mainland China go through the cross-border eCommerce channel to enjoy preferential tax rates, in addition to increasing speed to market.

If companies import their products directly into Mainland China, a General Trade Tax will apply (consisting of import tariff, value-added tax (VAT) and consumption tax (CT)). However, if they go for cross-border B2C eCommerce with third party marketplace, who has been properly registered with the Chinese customs and relevant government units, they

will be exempt from import tariffs and will enjoy a 30 percent discount on VAT and CT. Nonetheless, companies must be aware of the transaction limit of RMB5,000 per transaction and RMB26,000 per year. Please also note that only designated types of products enlisted by Customs are allowed to enter into Mainland China under this preferential import tax regime. Companies may conduct a feasibility study to check the product list, the costs in working with marketplace and third party operators (etc.) in order to validate the business model.

**Figure 25** Cross-Border eCommerce Tax is Lower than General Trade Tax

### Quota per capita

Within RMB 5,000 per transaction  
Within RMB 26,000 per year

|                   |                 |                        | Category & Rates     |                                                                         |                                                                       |                 |
|-------------------|-----------------|------------------------|----------------------|-------------------------------------------------------------------------|-----------------------------------------------------------------------|-----------------|
|                   |                 |                        | Consumer Electronics | Cosmetics                                                               | Clothing & Accessories                                                | Food Products   |
| General Trade Tax |                 | CBEC Comprehensive Tax |                      |                                                                         |                                                                       |                 |
| =                 |                 | =                      |                      |                                                                         |                                                                       |                 |
| 100%              | Import Tariff   | 0%                     | 0 - 8%               | 1 - 5%                                                                  | 6 - 10%                                                               | 0 - 25%         |
| +                 |                 | +                      |                      |                                                                         |                                                                       |                 |
| 100%              | Value Added Tax | 70%                    | 13%                  |                                                                         |                                                                       |                 |
| +                 |                 | +                      |                      |                                                                         |                                                                       |                 |
| 100%              | Consumption Tax | 70%                    |                      |                                                                         |                                                                       |                 |
|                   |                 |                        | Imported Tariff      |                                                                         |                                                                       |                 |
|                   |                 |                        | Value Added Tax      |                                                                         |                                                                       |                 |
|                   |                 |                        | Consumption Tax      |                                                                         |                                                                       |                 |
|                   |                 |                        | 0%                   | High-end cosmetics priced over 10 RMB/ml (mg) or over 15 RMB/piece: 10% | Luxury watches priced over RMB 10,000: 20%<br>Gems & Jewelleries: 10% | Wine: 10%       |
|                   |                 |                        |                      | High-end cosmetics priced over 10 RMB/ml (mg) or over 15 RMB/piece: 10% | Ordinary watches: 0%<br>Other Clothing and Accessories: 0%            | Other foods: 0% |



Cross border eCommerce is also advantageous for specific categories of products, in particular health, beauty, mom & baby products. These categories perform well because they tend to be lighter in weight and are easier to ship, and Chinese customers are more likely to value overseas brands for these product categories. There are also additional product testing requirements for health & beauty products in Mainland China, making lead times longer when selling through normal channels.





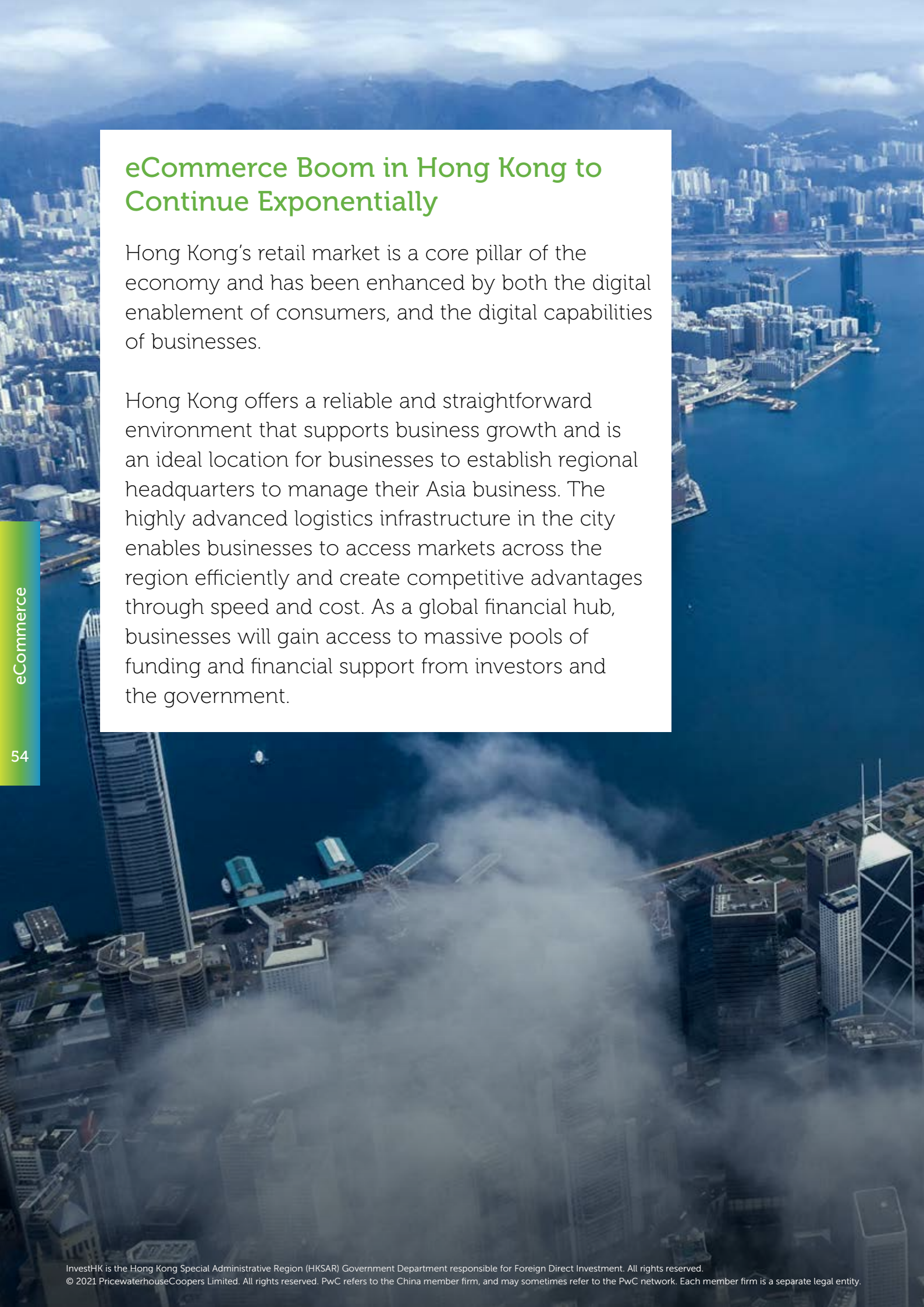
### Benefits of Storing Your Products in a Hong Kong Warehouse

With the rapid development of the eCommerce market, Mainland China has entered the era of "48-hour delivery", so that most consumers will receive the items they ordered online within two days. Mainland Chinese consumers are accustomed to and expect reliable and fast delivery for their orders.

However, global delivery to Mainland China generally takes 7 to 12 days including customs clearance. To meet the high expectation of the Mainland Chinese consumers, overseas brands need to set up a distribution centre in or near Mainland China to fulfil the last mile delivery.

|                                     | Hong Kong Warehouse                                                                                                 | Bonded Warehouse in China                                                                         |
|-------------------------------------|---------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------|
| Inbound and outbound limitation     | No limitation on inbound and outbound                                                                               | Only products listed on the 'positive list' can be imported. High requirements on inbound process |
| Taxation & flexibility of clearance | Multiple channels for customs clearance. Can choose a preferable way with the lowest tax                            | Limited customs clearance channels                                                                |
| Risk of unsalable inventory         | Low risk of unsalable inventory. Easy return and exchange as no tariff or import duty is imposed                    | High risk of unsalable inventory. Unable to provide return and exchange service                   |
| Timeliness of delivery              | Lead time might be subject to more difficult product registration and customs clearance                             | Short delivery time benefited from faster product registration and easier customs clearance       |
| Recommendation                      | Suitable for companies selling a variety of SKU and wanted to enjoy lower tax and avoid risk of unsalable inventory | Suitable for companies selling limited SKU at a high quantity                                     |

Preferable
  Neutral
  Unpreferable



## eCommerce Boom in Hong Kong to Continue Exponentially

Hong Kong's retail market is a core pillar of the economy and has been enhanced by both the digital enablement of consumers, and the digital capabilities of businesses.

Hong Kong offers a reliable and straightforward environment that supports business growth and is an ideal location for businesses to establish regional headquarters to manage their Asia business. The highly advanced logistics infrastructure in the city enables businesses to access markets across the region efficiently and create competitive advantages through speed and cost. As a global financial hub, businesses will gain access to massive pools of funding and financial support from investors and the government.





Businesses should think creatively how to structure their Asian operations, and strategically analyse the best location for key functions. Hong Kong has a robust local consumer market, as well as established digital, logistical and financial infrastructure to service the region. It is also important to be able forecast and respond to the rapid evolution of consumer tastes and habits. Being in Hong Kong, you can do all of this and more.

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