

# HONG KONG TELEVISION NETWORK LIMITED

(SEHK: 1137)

## Interim Results

### For the period ended 30 June 2020

27 August 2020

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# Agenda

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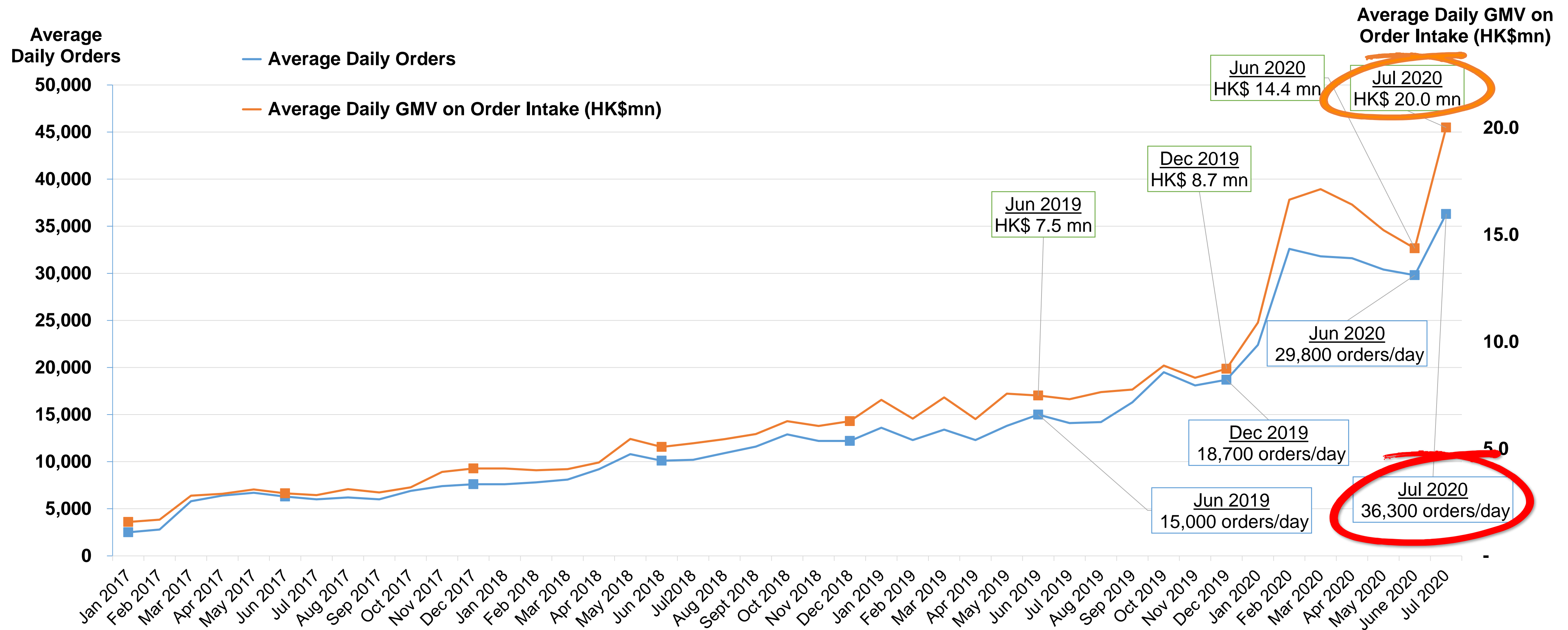
- **Part I: Operational and Financial Review**  
By Ms. Alice Wong, CFO
- **Part II: Business Review and Outlook**  
By Mr. Ricky Wong, CEO and Vice Chairman
- **Part III: Q & A**

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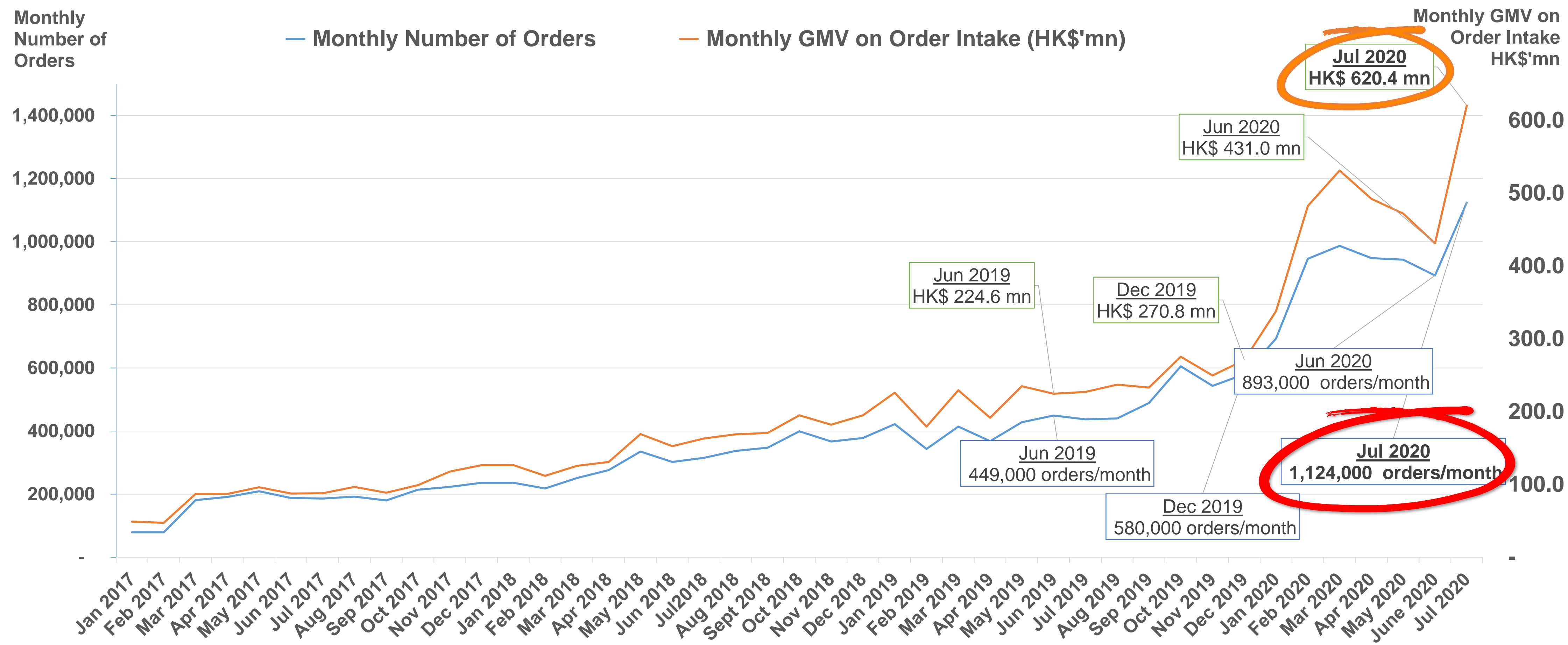
# Largest Online Ecosystem in Hong Kong – Growth Momentum Continued from 2019 + Acceleration from COVID-19 Pandemic



Source: GMV and Average Daily Order – Internal platform and system

Gross Merchandise Value (“GMV”) on order intake represents the total gross sales dollar value for merchandise sold through a particular marketplace over a certain timeframe, before deduction of any discounts offered by the marketplace, rebate used, cancellation and returns of merchandise sold.

# Annualized July 2020 Monthly GMV = HK\$7.4bn Home Grown Ecommerce Platform



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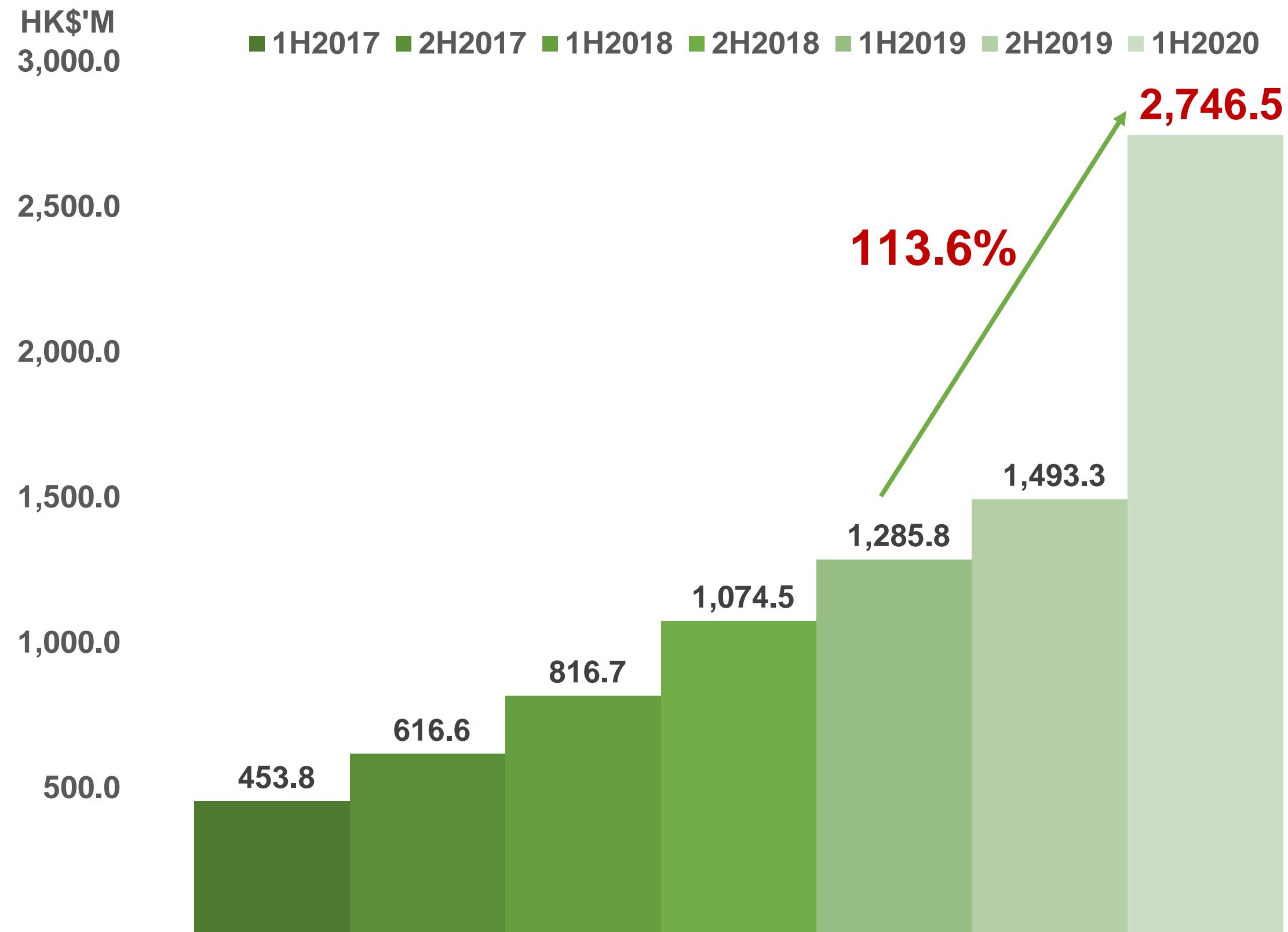
# Consolidated Income Statement – Turn Positive!

	1H2020 HK\$'000	1H2019 HK\$'000	Variance	
			HK\$'000	%
<b>GMV on Order Intake</b>	<b>2,746,512</b>	<b>1,285,809</b>	<b>1,460,703</b>	<b>114%</b>
<b>GMV on Completed Orders</b>	<b>2,689,307</b>	<b>1,234,627</b>	<b>1,454,680</b>	<b>118%</b>
<b>Turnover</b>	<b>1,339,982</b>	<b>625,547</b>	<b>714,435</b>	<b>114%</b>
<b>Cost of inventories</b>	<b>(676,483)</b>	<b>(375,485)</b>	<b>(300,998)</b>	<b>80%</b>
<b>Other operating expenses</b>	<b>(574,950)</b>	<b>(439,469)</b>	<b>(135,481)</b>	<b>31%</b>
<b>Valuation (losses)/gain</b>	<b>(4,400)</b>	<b>5,850</b>	<b>(10,250)</b>	<b>-175%</b>
Other income, net	31,530	32,641	(1,111)	-3%
Finance costs	(6,260)	(4,247)	(2,013)	47%
Income tax expenses	(142)	(228)	86	-38%
<b>Profit/(loss) for the period</b>	<b>109,277</b>	<b>(155,391)</b>	<b>264,668</b>	<b>-170%</b>
Profit/(loss) / GMV on Completed order (in %)	<b>4.1%</b>	<b>-12.6%</b>		
<b>EBITDA(EBITDA loss)</b>	<b>151,135</b>	<b>(123,921)</b>	<b>275,056</b>	<b>-222%</b>
<i>EBITDA/(EBITDA loss) / GMV on completed orders (in %)</i>	<b>5.6%</b>	<b>-10.0%</b>		
<b>Adjusted EBITDA(Adjusted EBITDA loss)</b>	<b>175,678</b>	<b>(132,699)</b>	<b>308,377</b>	<b>-232%</b>
<i>Adjusted EBITDA/(Adjusted EBITDA loss) / GMV on completed orders (in %)</i>	<b>6.5%</b>	<b>-10.7%</b>		

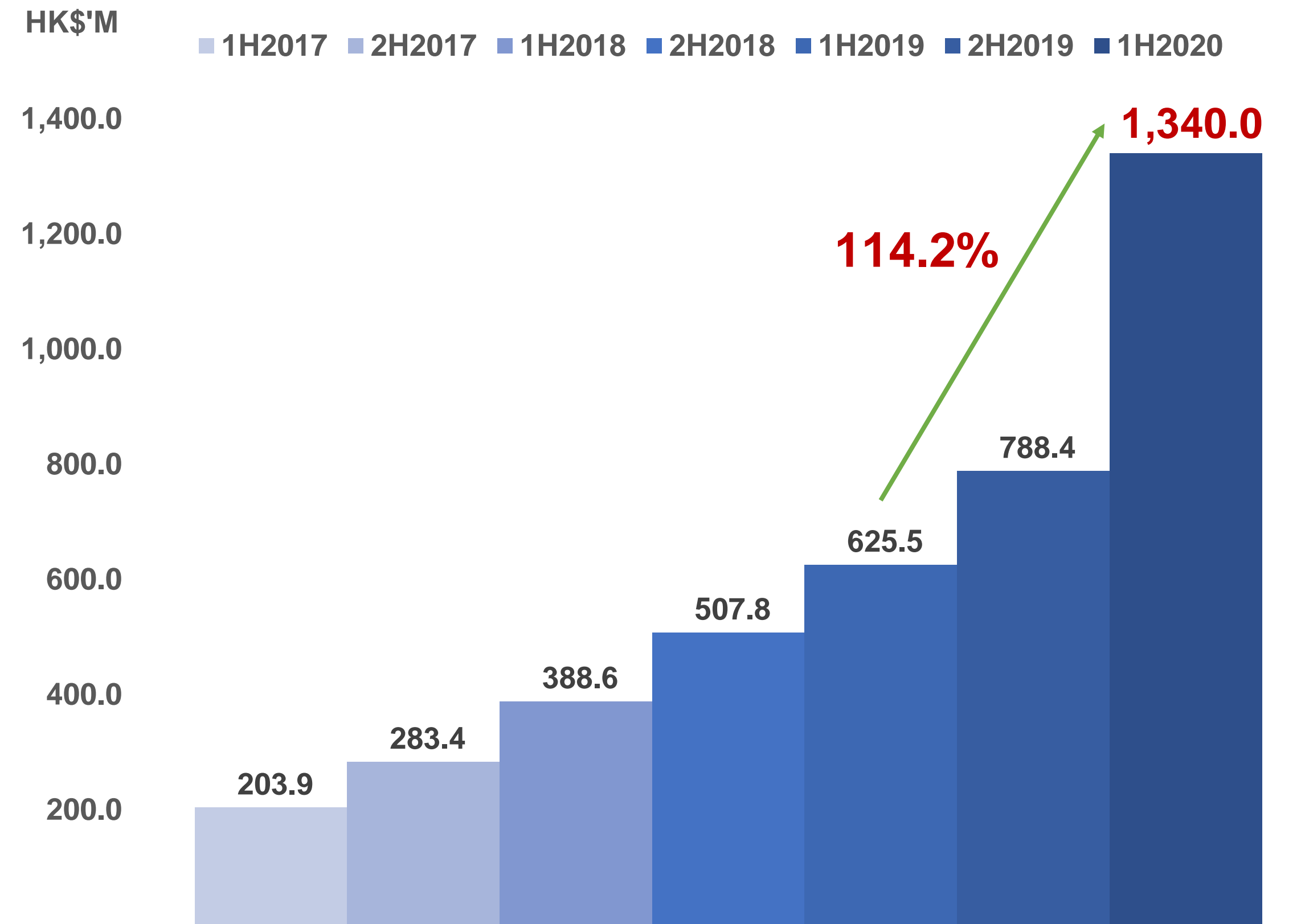
# Sustainable Growth Momentum



## GMV on order intake



## Turnover

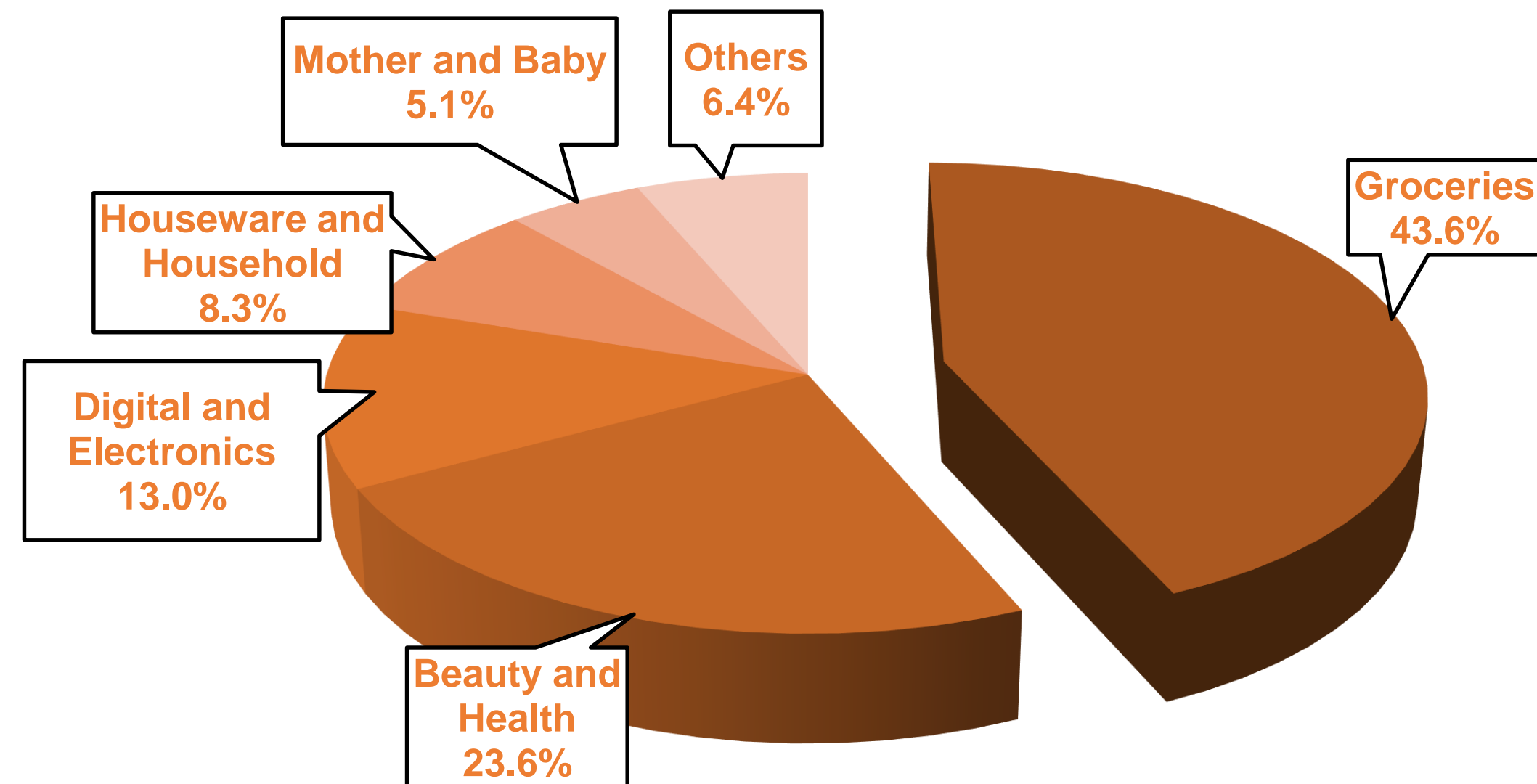


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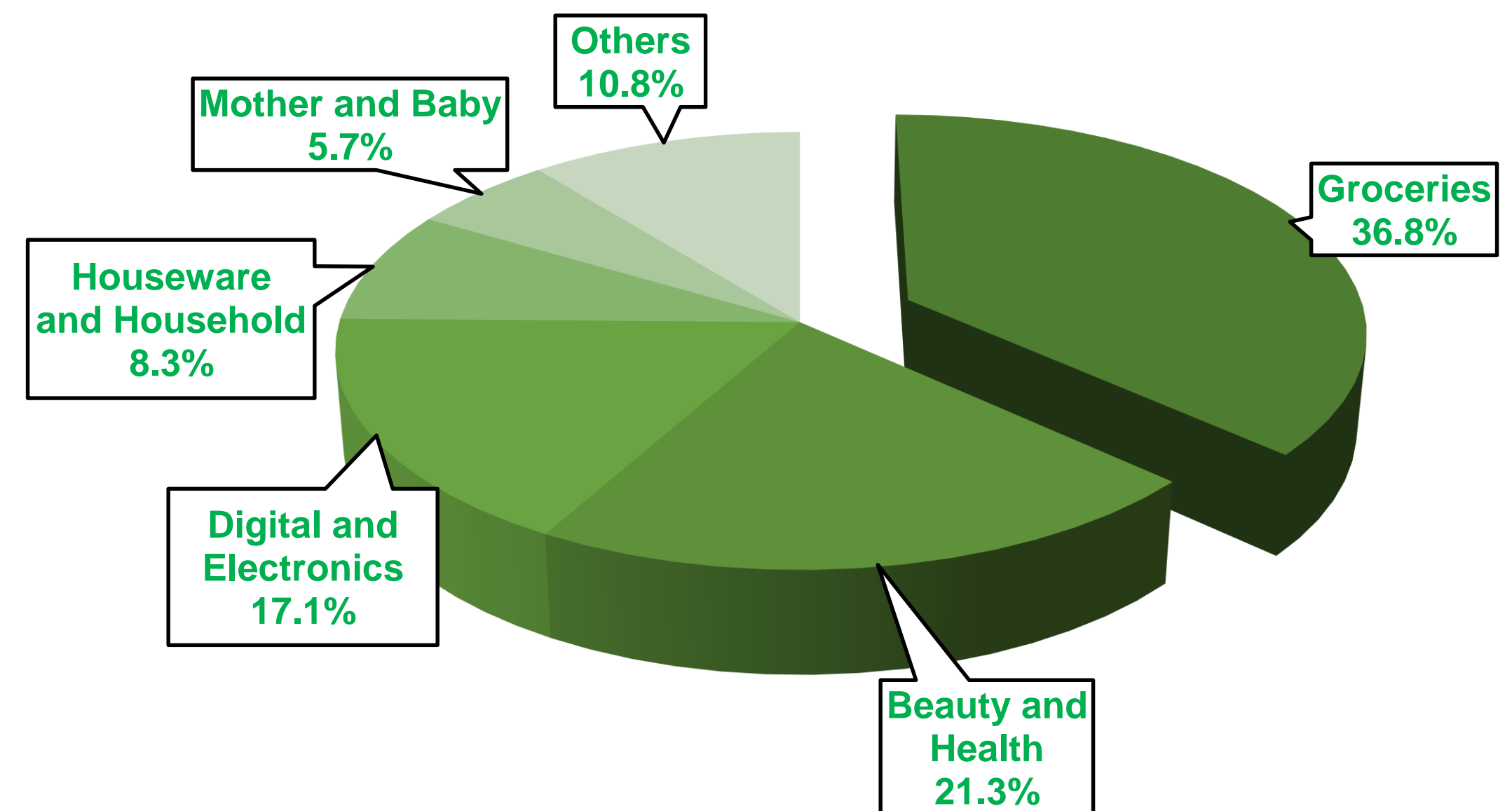


# Product Categories Mix – Groceries is the New customer entrance point, Recurring purchase catalyst and Foundation for cross selling!

## 1H2020 GMV on Completed Orders



## 1H2019 GMV on Completed Orders



GMV on completed orders represents the total gross sales dollar value for merchandise sold through a particular marketplace and the customer has obtained control of the promised goods and services ordered over a certain time frame, after deduction of any discounts offered by the marketplace, cancellation and returns of merchandise, and is before the deduction of HKTVmall Dollars and promotional coupon which is considered as advertising and marketing expenses under management reporting purpose.

# Growing Revenue and Margin reaching 24.8%, up by 3.6% vs. 1H2019

On Completed Orders and Adjusted Basis	1H2020 HK\$'000	1H2019 HK\$'000	Variance
<b>Direct merchandise sales</b>			
GMV on completed orders <sup>1,2</sup>	939,411	500,033	88%
Cost of Inventories	(676,483)	(375,485)	80%
Gross profit	262,928	124,548	111%
<b>Gross margin %</b>	<b>28.0%</b>	<b>24.9%</b>	
<b>Income from concessionaire sales and other service income</b>			
GMV on completed orders <sup>1</sup>	1,749,896	734,594	138%
Merchant payments (net off by annual fee, delivery and other service income) <sup>3</sup>	(1,346,737)	(597,277)	125%
Income from concessionaire sales and other service income	403,159	137,317	194%
<b>Blended commission rate</b>	<b>23.0%</b>	<b>18.7%</b>	
Total GMV on completed orders	<b>2,689,308</b>	<b>1,234,627</b>	<b>118%</b>
Total gross profit and income from concessionaries sales and other income	<b>666,088</b>	<b>261,865</b>	<b>154%</b>
<b>Blended GP/commission rate</b>	<b>24.8%</b>	<b>21.2%</b>	
<b>Other advertising income and licensing income</b>			
Net advertising income	9,950	1,868	433%
Other program license income	173	1,825	-91%
	10,123	3,693	174%

Remarks:

1. GMV on completed orders represents the total gross sales dollar value for merchandise sold through a particular marketplace and the customer has obtained control of the promised goods and services ordered over a certain time frame, after deduction of any discounts offered by the marketplace, cancellation and returns of merchandise, and is before the deduction of HKTVmall Dollars and promotional coupon which is considered as advertising and marketing expenses under management reporting purpose.

2. For Direct merchandise sales, the GMV on completed orders is before the deduction of HKTVmall Dollars of HK\$3,282,000 (1H2019: HK\$3,127,000) and use of promotional coupon of HK\$10,840,000 (1H2019: HK\$12,813,000).

3. For Income from concessionaire sales and other service income, it is before the addition of net HKTVmall Dollars of HK\$1,411,000 (1H2019: HK\$444,000) and included merchant annual fee amortisation and other service income.

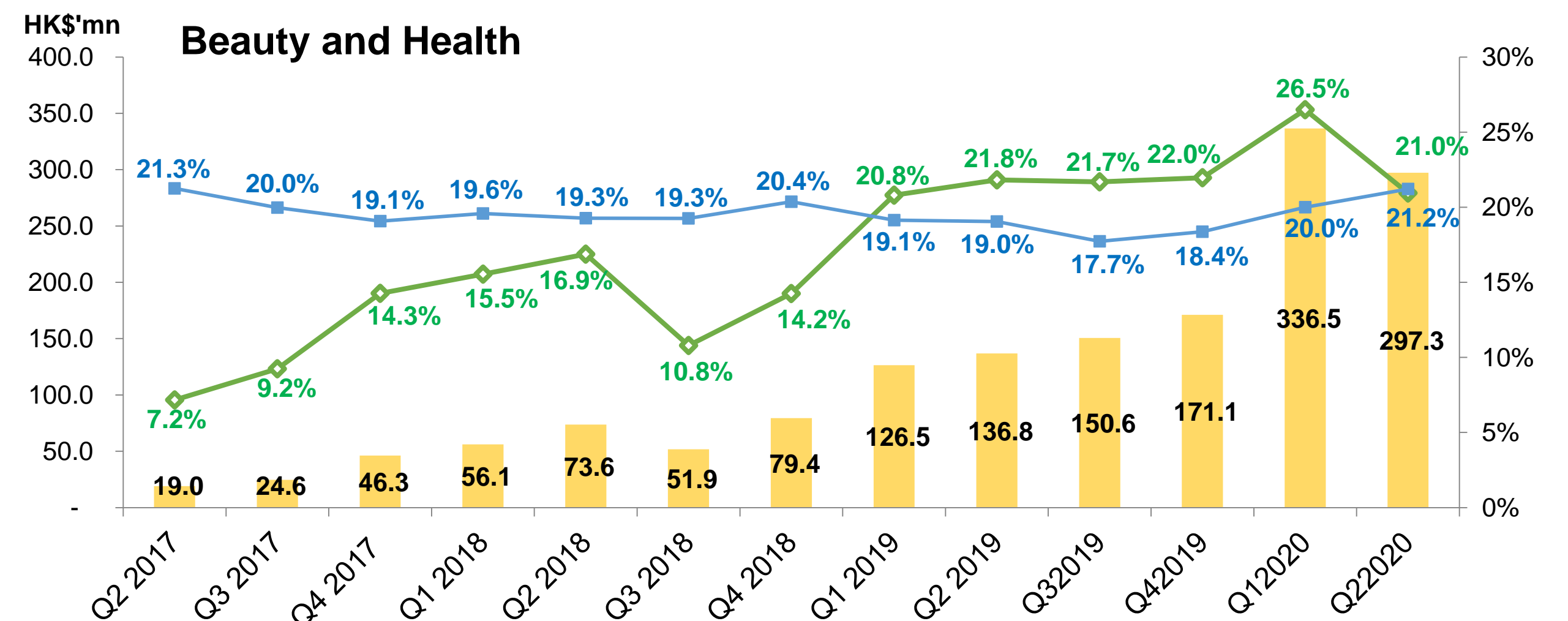
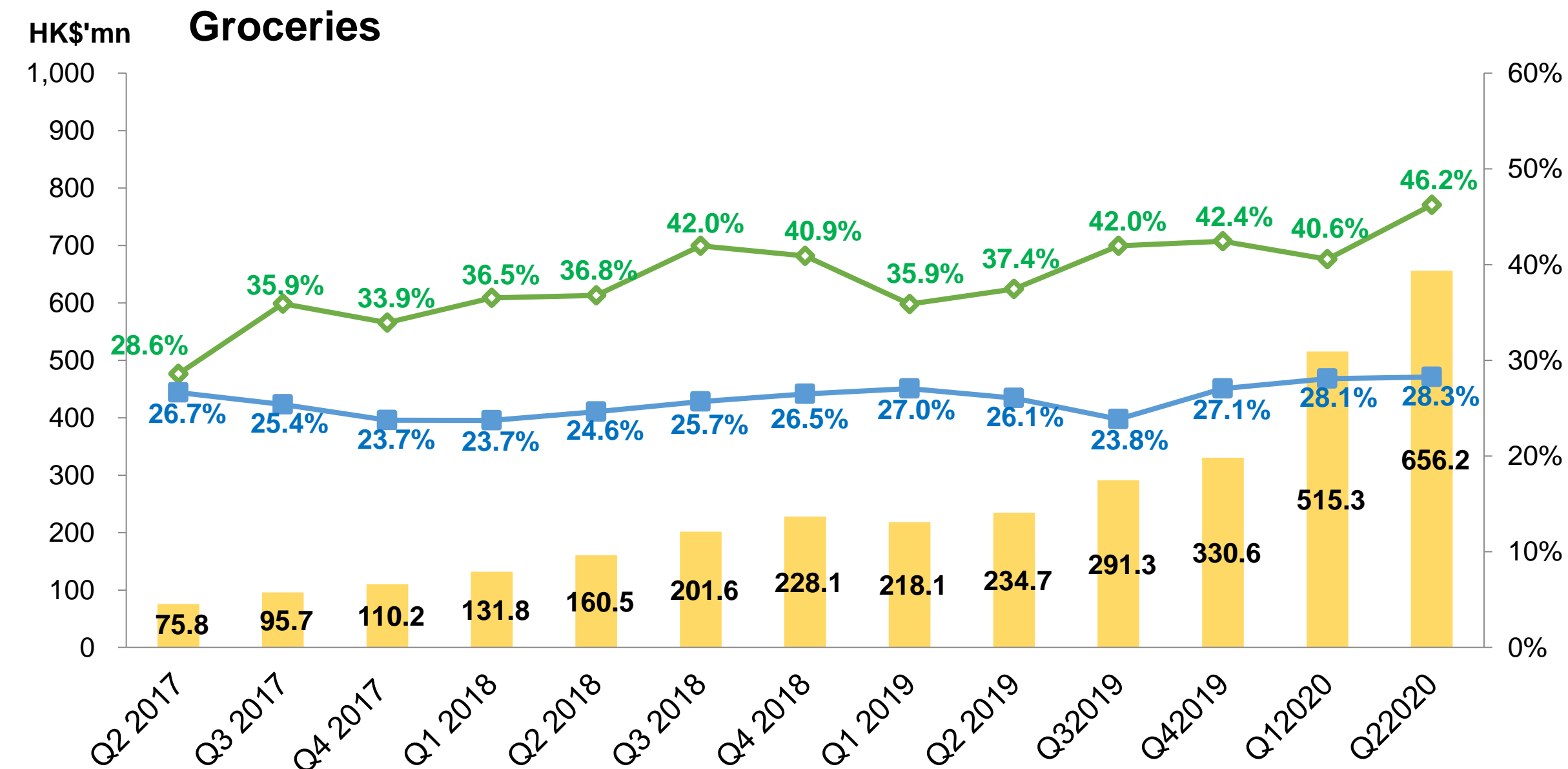
# Improvement on Gross Profit and Blended Commission Rate

## Standardized Commission Scheme and Annual Fee effective from 1 Jan 2020

- Standardized Categorical Commission Scheme
- Unified Delivery Method
- Annual fee with in-mall and digital advertising value

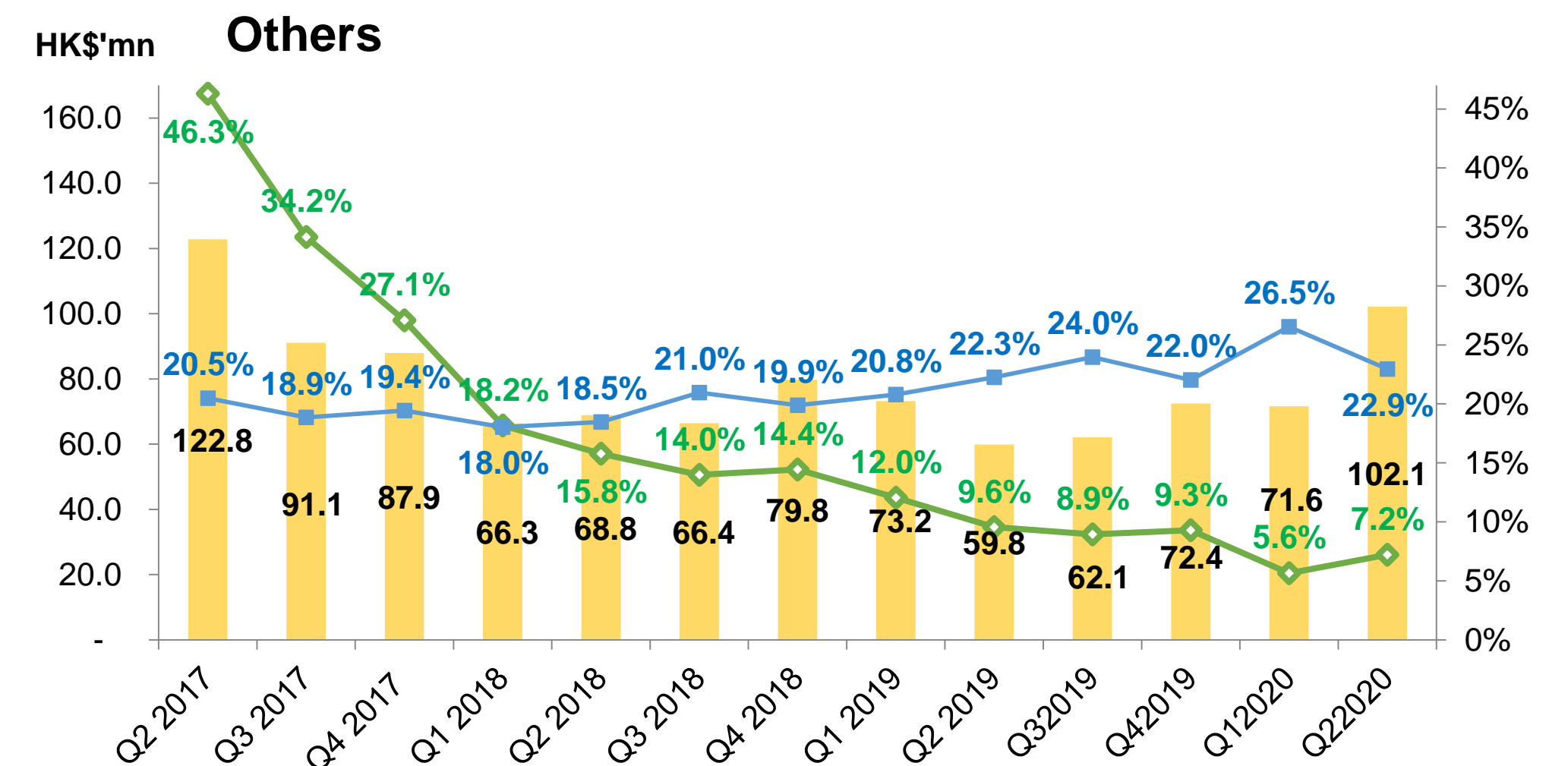
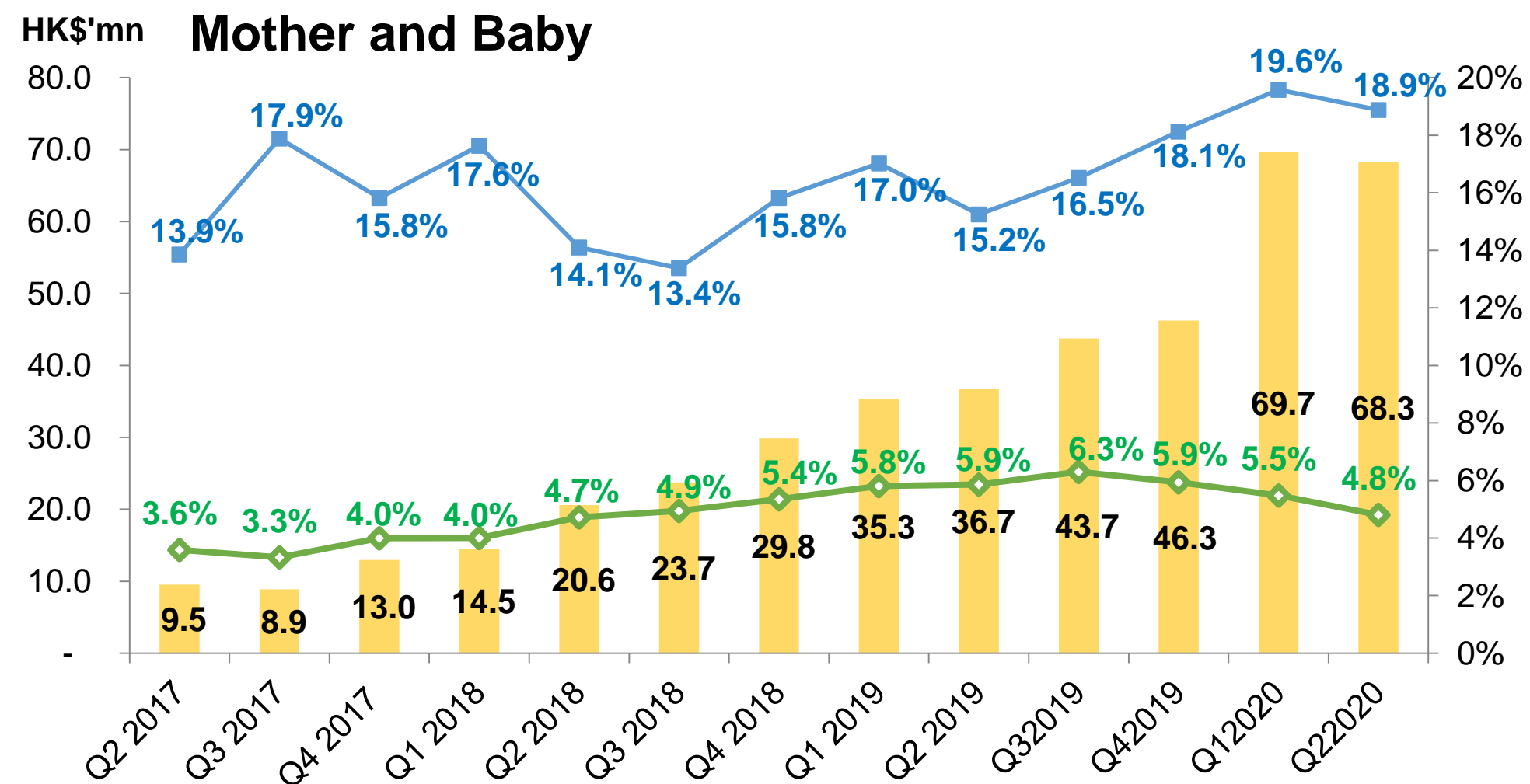
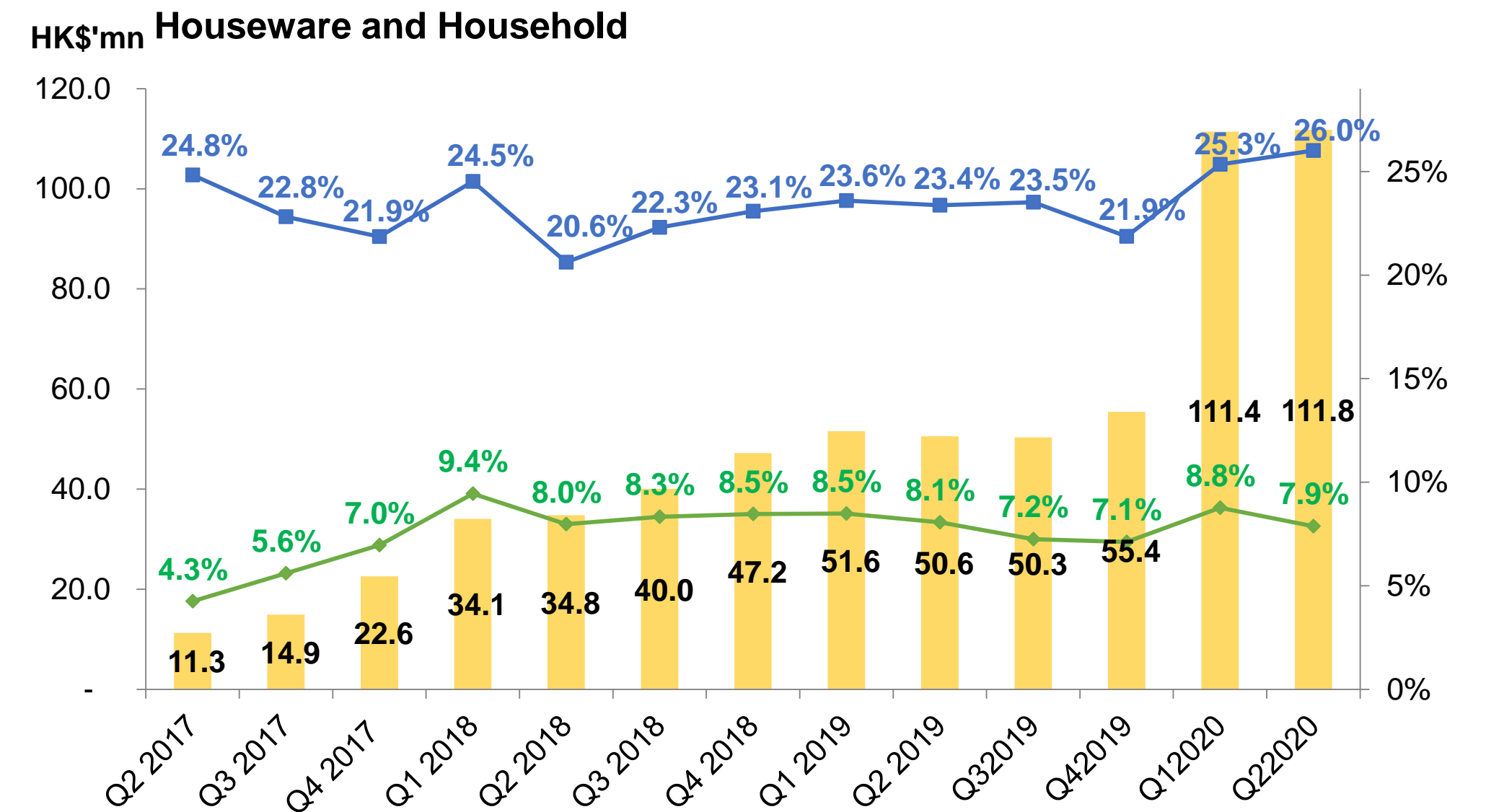
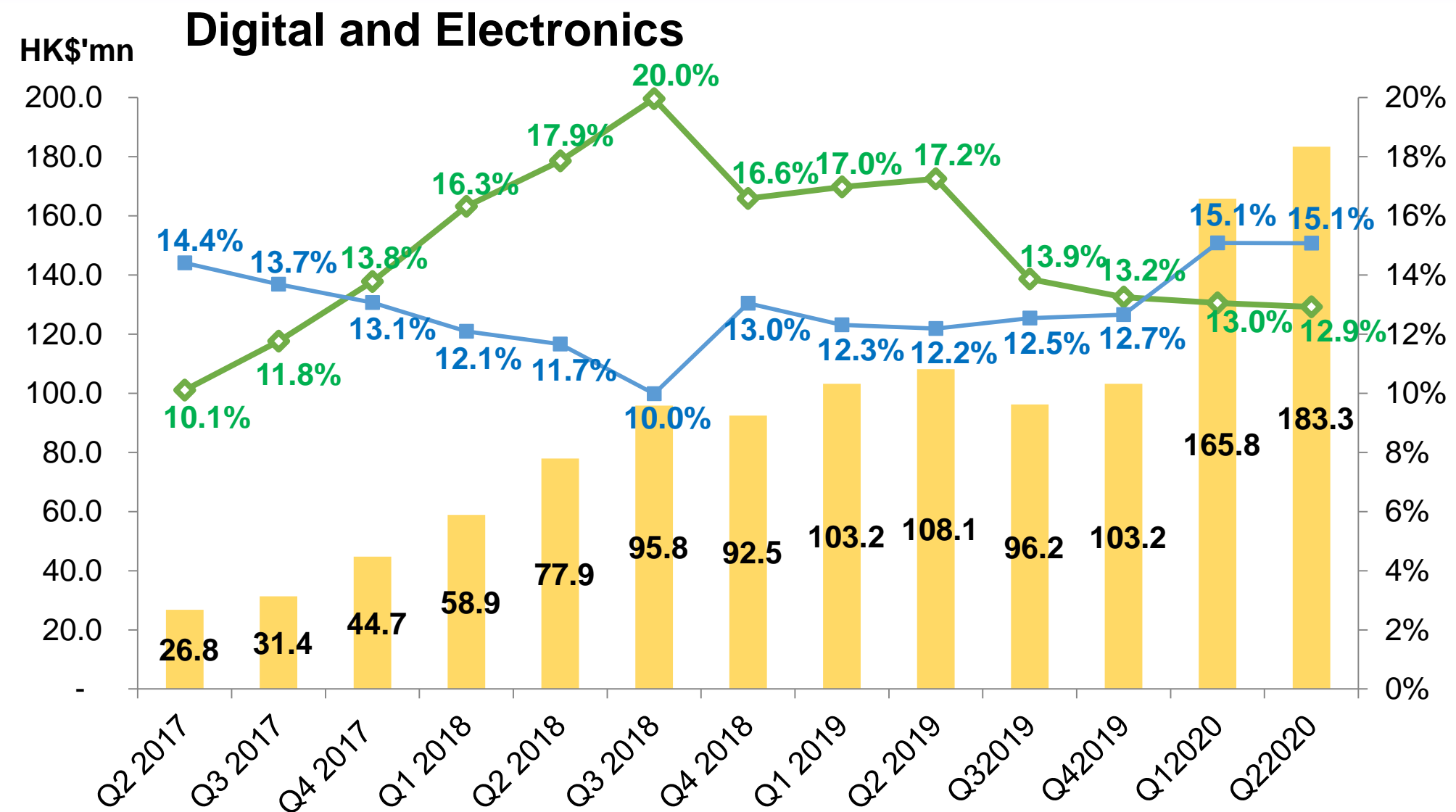
<https://cloud.marketing.hktvmall.com/aogplan>

- Quarterly GMV on completed order (HK\$'mn)
- ◆ Quarterly proportion of GMV on completed order (in %)
- Quarterly gross profit margin and blended commission rate (in %)





# Improvement on Gross Profit and Blended Commission Rate



■ Quarterly GMV on completed order (HK\$'mn)  
◆ Quarterly proportion of GMV on completed order (in %)  
■ Quarterly gross profit margin and blended commission rate (in %)

# Other Operating Expenses – narrowed by 14.2% as a % of GMV on completed orders

<u>Functions</u>	As a % of GMV on completed orders	1H2020 HK\$'mn	As a % of GMV on completed orders	1H2019 HK\$'000	Variance HK\$'mn	in %
Fulfillment cost (note 1)	11.4%	306.6	15.9%	196.6	110.0	-4.5%
Marketing and promotion including O2O shop (note 2)	2.5%	66.4	6.1%	75.1	(8.7)	-3.6%
Ecommerce operation and supporting functions	5.1%	136.6	9.6%	118.1	18.5	-4.5%
Non-cash items (note 3)	2.4%	65.4	4.0%	49.7	15.7	-1.6%
						0.0%
	21.4%	575.0	35.6%	439.5	135.5	-14.2%
<b>Total GMV on completed orders</b>		<b>2,689.3</b>		<b>1,234.6</b>		

Note 1: Included depreciation – right-of-use assets of HK\$20.9 million (1H2019: HK\$12.7 million), excluded interest on lease liabilities of HK\$3.0 million (1H2019: HK\$1.5 million).

Note 2: Excluded HKTVmall Dollars and promotional coupon of HK\$12.7 million (1H2019: HK\$15.5 million) being deducted in turnover, included depreciation – right-of-use assets of HK\$21.2 million (1H2019: HK\$16.7 million), and excluded interest on lease liabilities of HK\$1.3 million (1H2019: HK\$1.0 million).

Note 3: For comparison purpose, excluded depreciation – right-of-use assets of HK\$42.1 million (1H2019: HK\$29.4 million).

- **Fulfillment costs** : Efficiency improved from 15.9% in 1H2019 to 11.4% as a % of GMV on completed orders in 1H2020, mainly due to full effect of TKO automated sorting and storage system in 1H2020, new launch of cross-belt conveying system at Tuen Mun distribution centre since Feb 2020, plus efficiency gain from increase in number of orders.
- **Marketing and promotional costs** : if including the HK\$12.7mn mall dollars granted and promotional coupon used which was deducted in Turnover for reporting purpose, the total marketing and promotional costs accounted for 2.9% GMV on completed orders (1H2019: 7.3%). The efficiency was mainly due to nil TVC, reduced company out-of-pocket on digital advertising as most are bored by merchants and suppliers, and natural growth in online purchase demand in 1H2020. Moreover, increase in shop pick-up option by customers also resulted in increase in re-charges of shop expenses to Fulfillment costs.
- **Ecommerce operation and supporting functions**: stable operating costs caused efficiency gain reaching 5.1% of GMV on completed orders.

# Consolidated Statement of Financial Position – back by solid Liquidity and Properties

	Jun-20 HK\$'000	Dec 2019 HK\$'000	Variance	
			HK\$'000	in %
Property, plant and equipment	1,130,418	1,139,052	(8,634)	-1%
Right-to-use assets	242,695	270,764	(28,069)	NA
Intangible assets	67,189	73,723	(6,534)	-9%
Other financial assets (Fixed income and Equity investment)				
Non-current	349,760	472,284	(122,524)	-26%
Current	68,247	83,268	(15,021)	-18%
Other receivable, deposits and prepayments	127,292	114,779	12,513	11%
Inventories	119,568	95,763	23,805	25%
Pledged bank deposits	3,905	3,905	-	NA
Cash at bank, in hand and term deposits	669,371	149,713	519,658	347%
<b>Total Assets</b>	<b>2,778,445</b>	<b>2,403,251</b>	375,193	16%
Accounts payable	242,808	168,718	74,090	44%
Other payables and accrued charges	261,605	178,036	83,569	47%
Deposits received	5,757	5,757	-	0%
Bank loans	-	315,015	(315,015)	-100%
Lease liabilities	256,185	282,929	(26,744)	NA
Deferred tax liabilities	1,086	1,188	(102)	-9%
<b>Total Liabilities</b>	<b>767,441</b>	<b>951,643</b>	(184,202)	-19%
<b>NET ASSETS</b>	<b>2,011,004</b>	<b>1,451,608</b>	559,396	39%
Share capital	1,746,761	1,293,392	453,369	35%
Reserve	264,243	158,216	106,027	67%
<b>TOTAL EQUITY</b>	<b>2,011,004</b>	<b>1,451,608</b>	559,396	39%

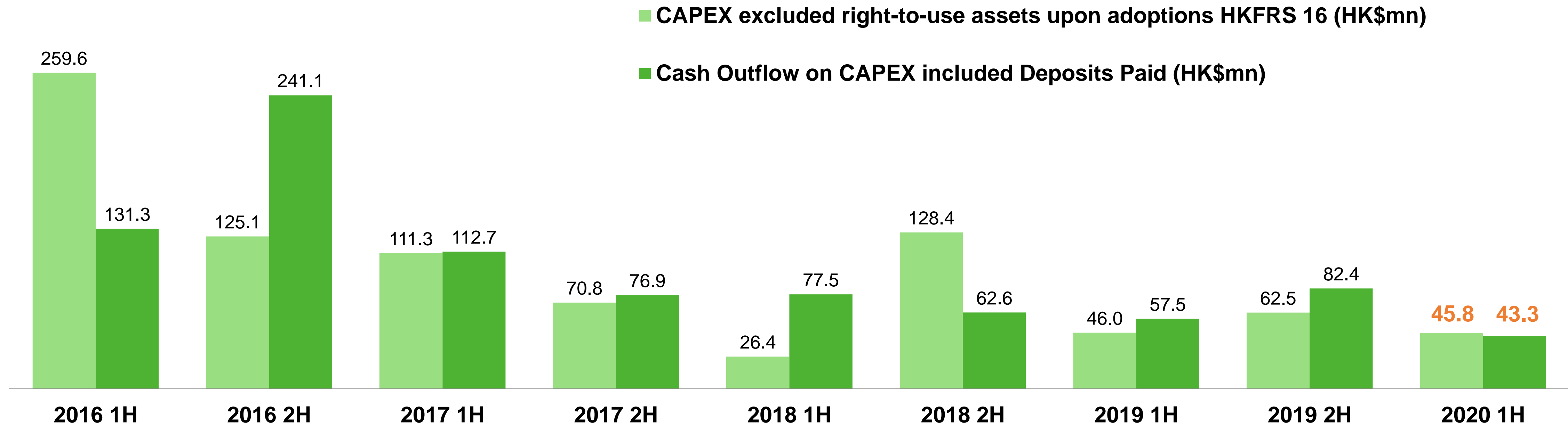
## 1. Property, plant and equipment:

- **Scalable Owned Infrastructure:** Included self-owned TKO Headquarters plus Fulfillment Centres of over 370,000 Sq. Ft;
- **Investment properties with secured long leased** of about 75,000 Sq. Ft.

## 2. Strong liquidity with investment in Other Financial Assets and cash balance of approximately **HK\$1.1 bn.**



# Managed CAPEX for Sustainable Growth



Additions for 1H2020 is mainly for automated fulfillment systems, warehouse equipment, additional multi-temperature delivery trucks, network server and capacity provisioning, O2O new shops renovation and equipment, etc.

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# Tipping Point

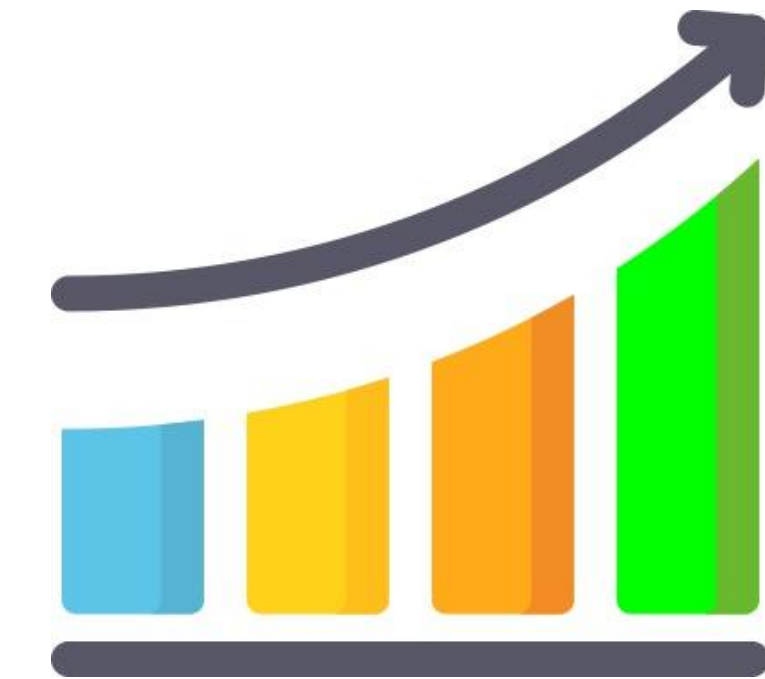
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- 1. “Online Supermarket” to “Online Shopping Mall”**
  - 2. Final Stage to build “Digital Ecosystem”**
    - Integral part of the digital lives of HK consumers
    - Centre of all digital commercial activities
  - 3. Commercialize our inhouse systems, provide an end-to-end technical solution to global markets**
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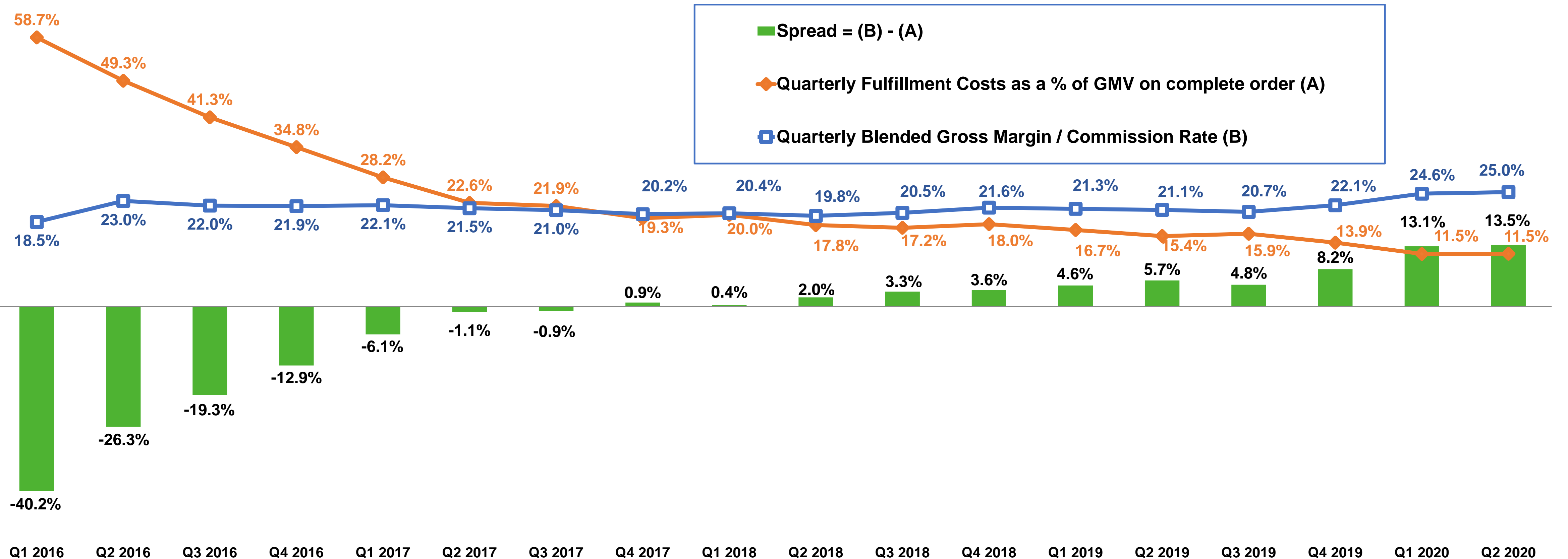


# The 1st Turnaround to Profit over 5 years!

- **Turnover increased significantly by 114.2% compared to 1H2019**
- **Gross profit margin (including the gross profit margin for HKTVmall self-operated stores and commission rates received from other merchants) increased from 21.2% in 1H2019 to 24.8% in 1H2020**
- **Fulfilment costs accounted for 11.4% of GMV, versus 15.9% in 1H2019**



# Managed Spread reached 13.5% in Q2 2020



**In 1H2020, other operating expenses including marketing and promotion, Ecommerce operation and supporting functions and non-cash items only accounted for 10% of the GMV on completed orders**

Remark:

1. Quarterly Fulfillment Costs as a % of GMV on complete order included the interest on lease liabilities under HKFRS 16 in relation to fulfillment centre, which is classified as finance costs in the consolidated income statement.
2. Blended Gross Margin / Commission Rate is calculated before deduction of HKTVmall Dollars and use of promotional coupon (if any), which is considered as advertising and marketing expenses under management reporting purpose.

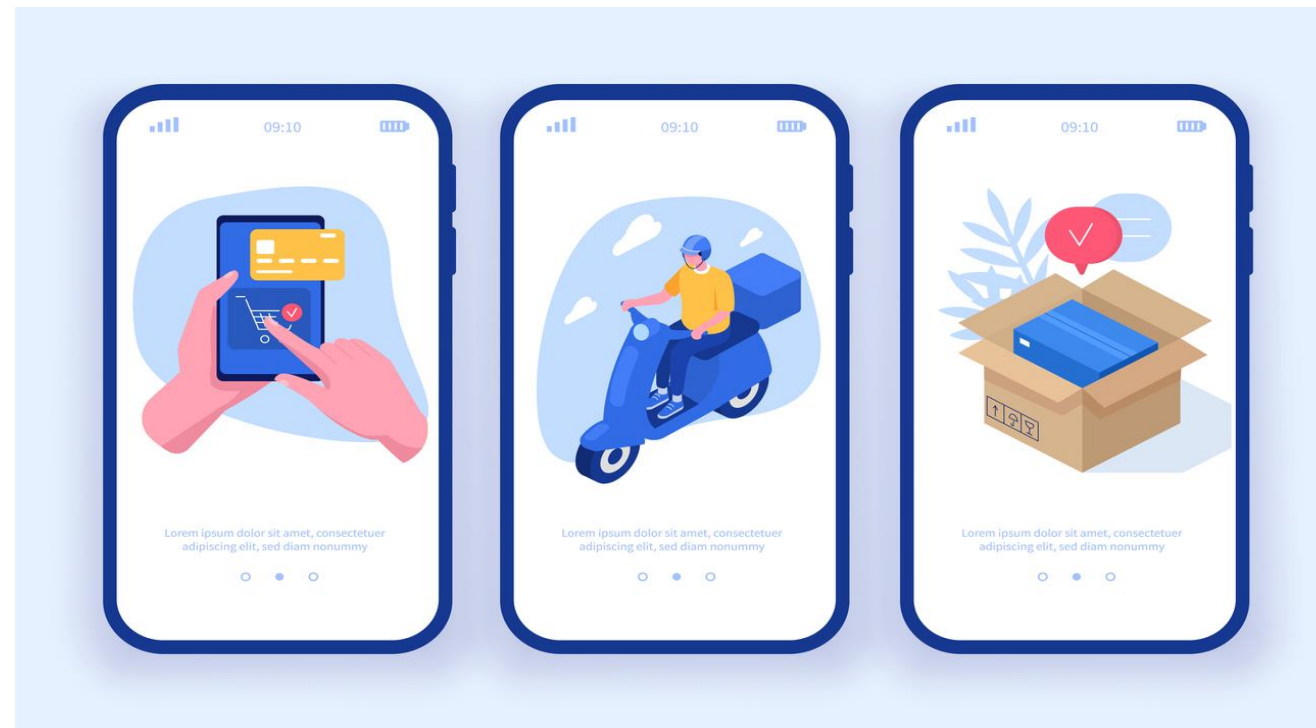
# Solid Foundation : Both Variable Cost % & Fixed Cost % Downward

	1H2020		1H2019		1H2018		1H2017	
	As a % of GMV on completed orders	HK\$ million	As a % of GMV on completed orders	HK\$ million	As a % of GMV on completed orders	HK\$ million	As a % of GMV on completed orders	HK\$ million
Fulfilment Costs	11.4%	306.6	15.9%	196.6	18.6%	148.4	24.8%	108.7
Marketing, promotional and O2O shop operating expenses	2.5%	66.4	6.1%	75.1	5.9%	47.1	5.6%	24.7
Ecommerce operation and Supporting functions	5.1%	136.6	9.6%	118.1	11.5%	92.0	18.1%	79.2
Major non-cash items	2.4%	65.4	4.0%	49.7	6.1%	48.8	8.0%	35.1
<b>Total Operating Expenses</b>	<b>21.4%</b>	<b>575.0</b>	<b>35.6%</b>	<b>439.5</b>	<b>42.1%</b>	<b>336.3</b>	<b>56.5%</b>	<b>247.7</b>

# 1<sup>st</sup> Question : Why only HKTVMall?

Answer : We own the technology & technical know-how

## Online Retail – fulfilment in Warehouse



- Product Description
- Search Engine
- Fulfilment Design and Automation
- Last Mile Routing Optimization and Planning

## Offline Retail – fulfilment in Store



- Store Location
- Store Renovation
- Racking Arrangement and Display

If offline retailers adopt the same operation and manual pick pack flow to online platform, will only bring

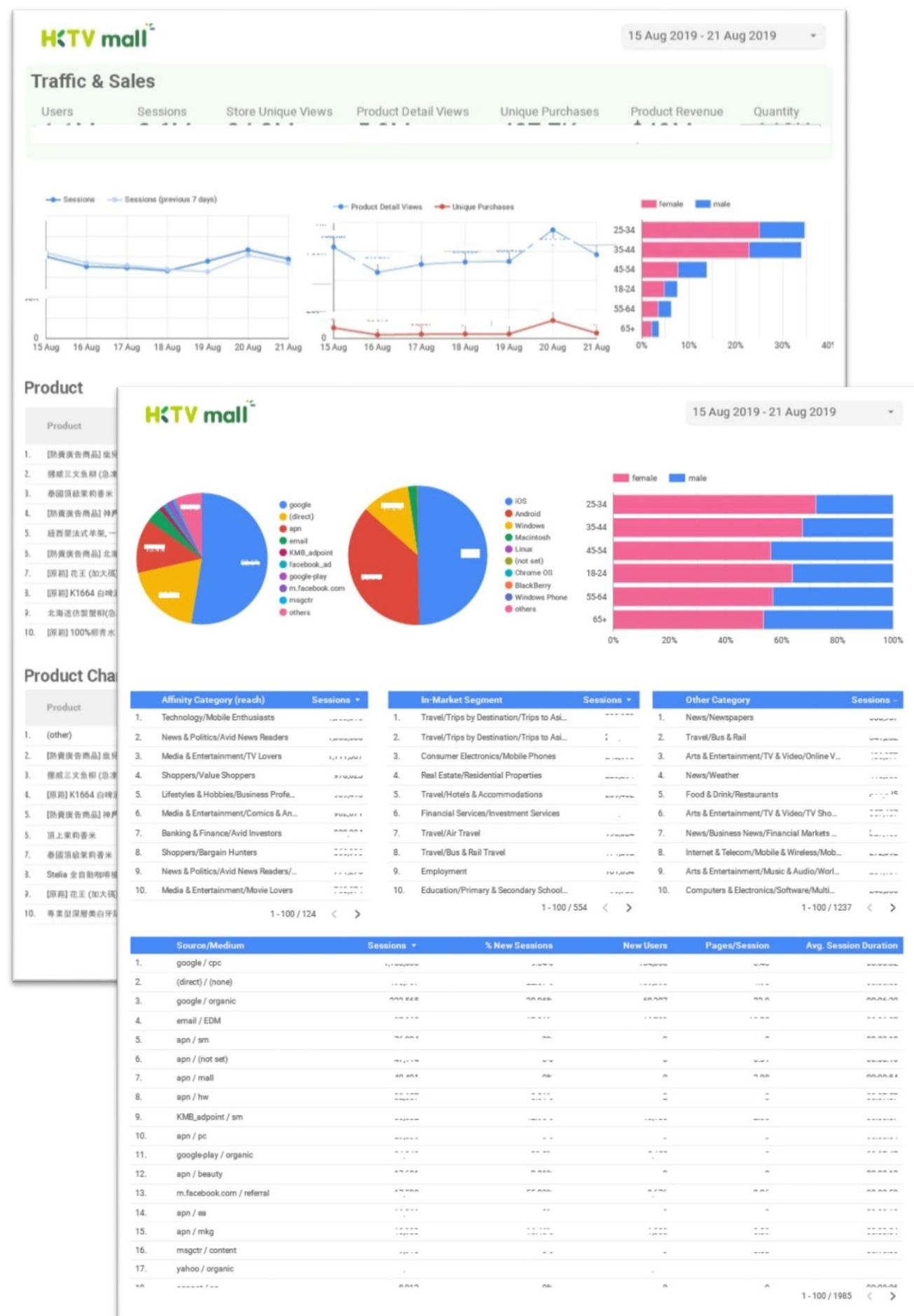
- low accuracy
- high picking cost
- infeasible and unsustainable business model



# Their successful experience from Offline does not apply to Online

## We successfully build up a profitable model which won't be easy to replicate

### Big Data Analysis



### 400,000 sq. ft. Auto Warehouses



### Largest HK Residential Distribution Network



**-18°C**  
compartment  
for frozen  
food



**0-4°C**  
compartment  
for chilled  
food



# Scalable Technology Deployed for Different Fulfilment Purposes





# 2<sup>nd</sup> Question: Would HKTVMall survive if Overseas giants march in HK market? Answer: Sustainable Dominant Position in Hong Kong



## Geographical Advantage

- Cultivated in local market for past 5 years, we are familiar with the unique consumer habits, operation cost structures, as well as the transportation and logistics system in Hong Kong



## High Barrier

- We built HKTVMall ridding on **“Infrastructure”** and being **“Open-minded”**, not on “Sales and Marketing” but **Technology**
- We invested 5-year to build high barriers for others to catch up



## Investment and Innovation

- We do not stop from where we are now, but **constantly think ways of doing better by innovation**
- Invest in various **Operational Engineering and TECH Projects** to strengthen our **dominant position** in the Hong Kong Online Ecosystem



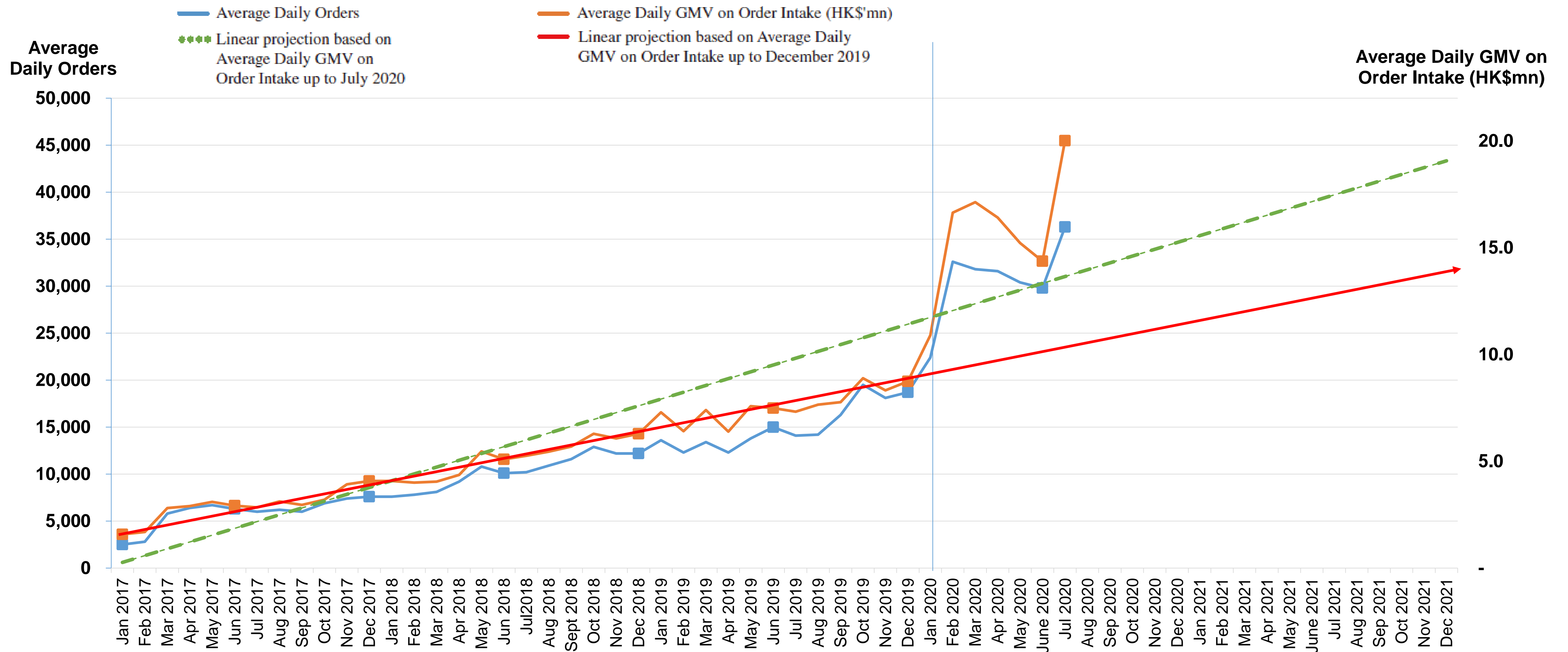


### 3<sup>rd</sup> Question: Will consumers go back offline after the pandemic? Answer: Once “Online”, hard to go back “Offline”



- The COVID-19 pandemic has not “changed” consumer behaviour, but has only “accelerated” the transformation of the consumer habits.
- In the first half of this year, new customers of HKTVmall only accounted for 16.3% of GMV on order intake, and most of our business growth came from existing customers acquired in 2019 or before.
- We believe, if customers maintain 5 to 6 times of purchase over a period of 6 months, “online shopping” will become a part of their consumption habits.

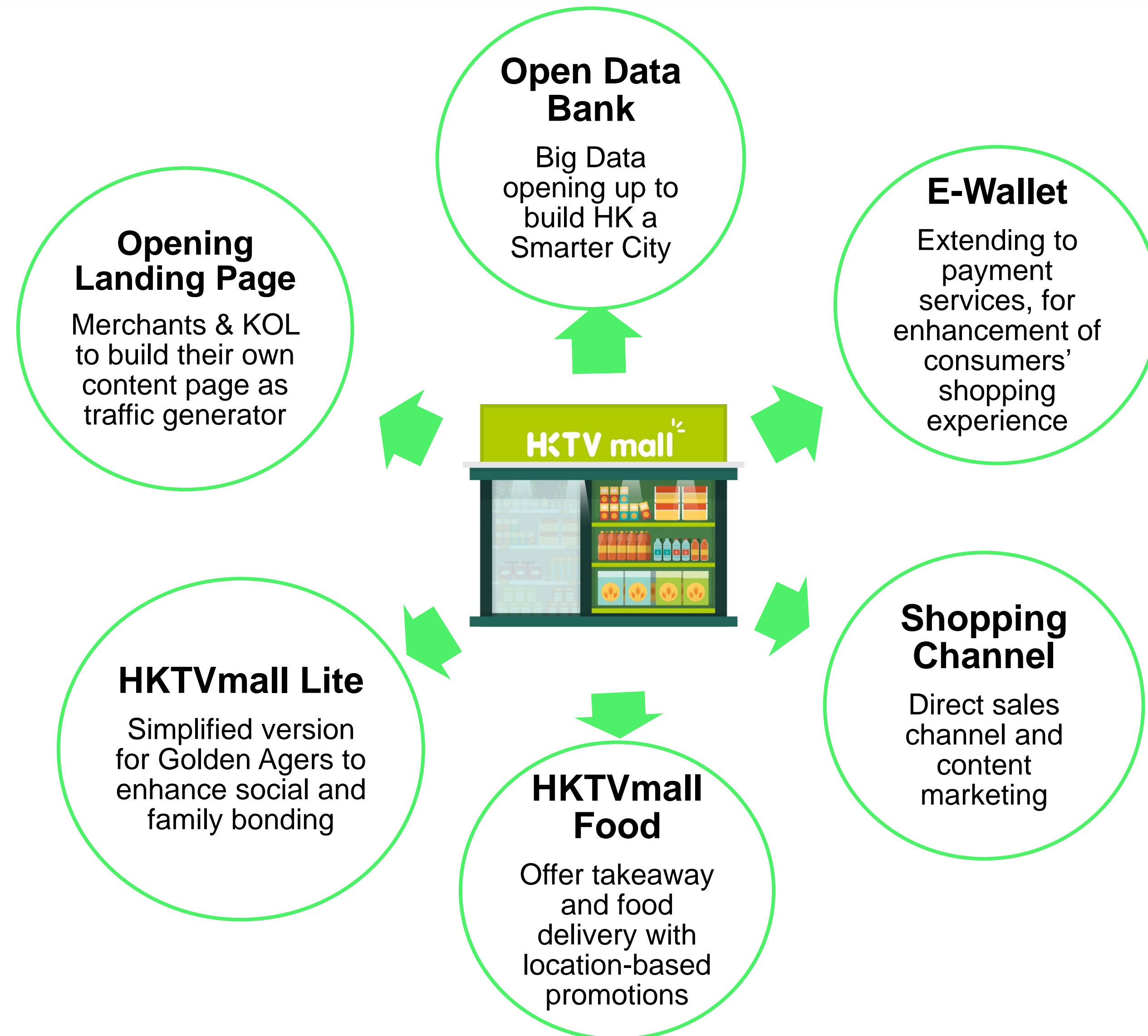
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# Realization of Digital Ecosystem





# Realization of Digital Ecosystem: Open Data Bank

## BIG DATA = OIL MINE

- Accumulated substantial customer data in **past 5 years**
- Open up data to fuel for real growth of HK digital ecosystem  
**E.g. : Sales Transaction / User Traffic / Logistics / Warehouse Performance etc.**



**1<sup>st</sup> Phrase:** Universities / Tertiary Institutions / Research Institutes / Digital Media Agencies / Banks

# Realization of Digital Ecosystem: Food Takeaway

## What we have ——



### Strong Customer Database

- No. of daily visitors: **250,000** customers
- 2020 first half year: **813,000** unique customers

**1 out of 10** HK people shopped in HKTVmall

### Connecting HKTVmall, Customers & Local Restaurants

- Target launch: **Sep – Oct 2020**
- **3,000** partnering restaurants



# Realization of Digital Ecosystem: eWallet



- **Customer Profiling:** by reviewing customers' online & offline purchasing data
- More integrated view on consumers' online & offline shopping behavior



# Realization of Digital Ecosystem: Live Shopping Channel

- More than a shopping mall
- Build stronger partnership with retail brand owners
- Create additional in-mall advertising income

8.17 - 8.22 電子電器節 預告

每晚9點 準時Facebook直播

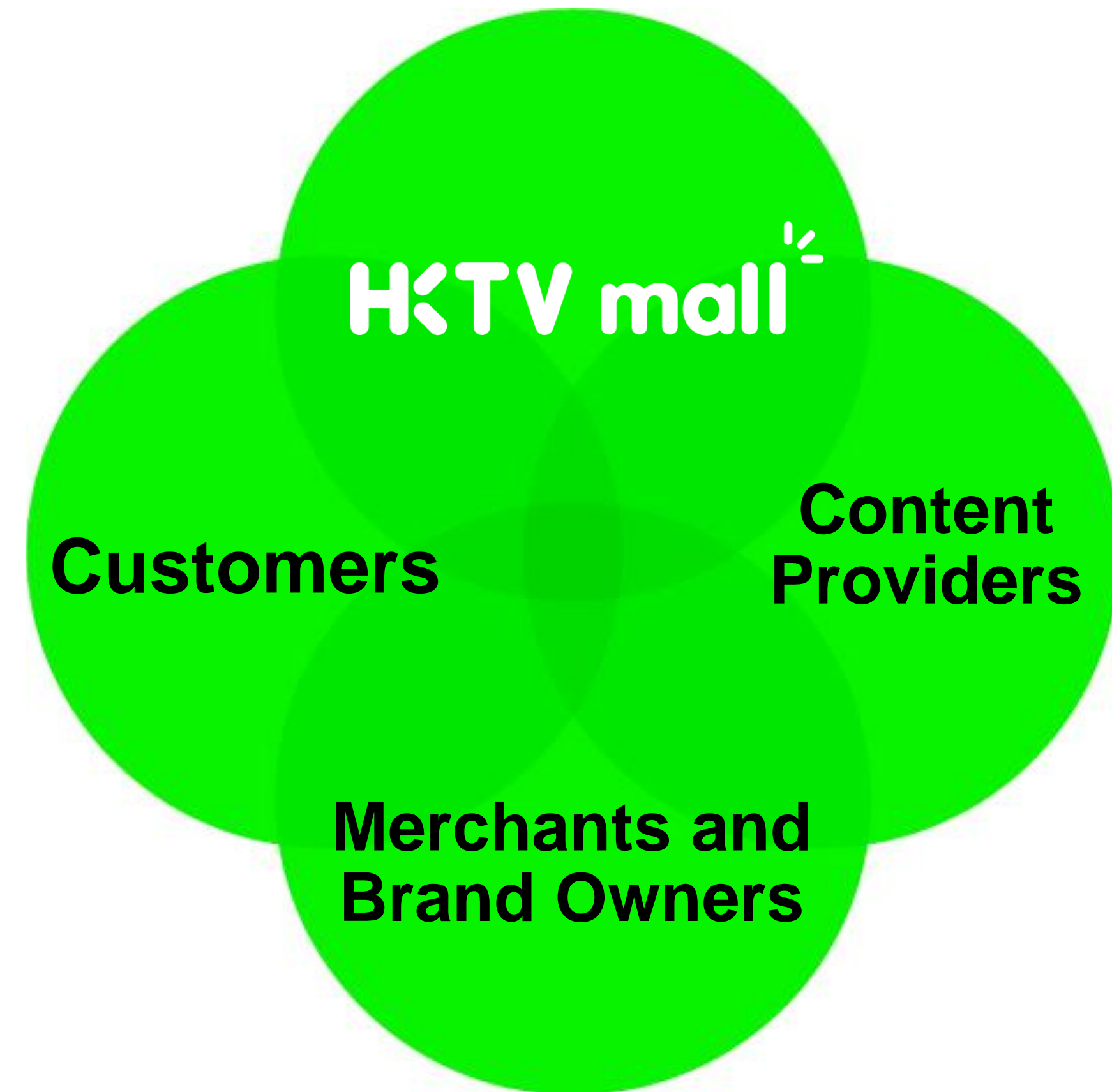
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- 嘉賓主持 尹嘉裕 KAKA
- 朱子穎 校長
- 資深電子產品主持 肥通
- 鞋佬生活百貨 鞋佬

電子電器節 HKTVM LIVE

1 récolte 氣炸鍋 \$699



# Realization of Digital Ecosystem: Open Landing Page

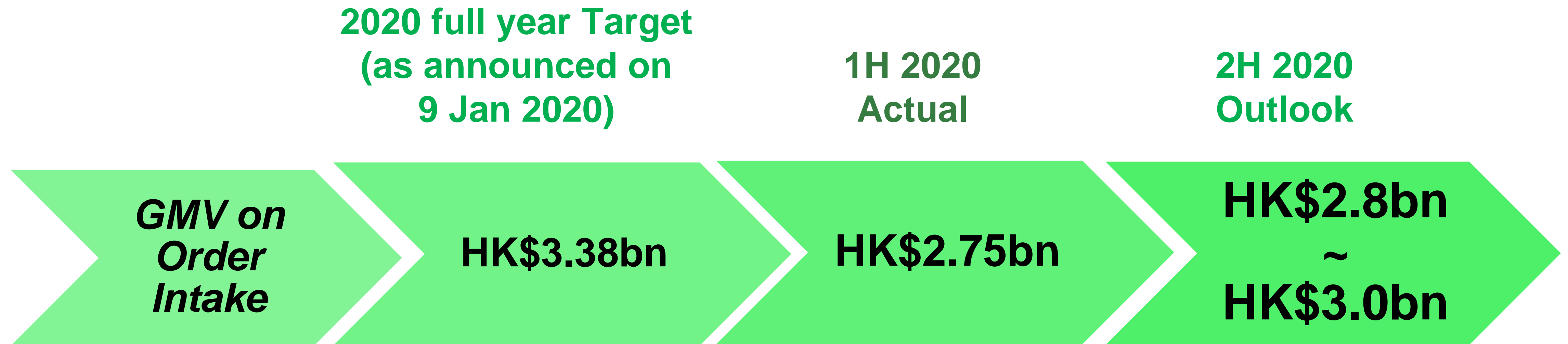


- Customized Product Introduction
- Allow content providers to build & manage their own content (E.g. Merchants, KOLs)

- Tighten the bonding

**Next 3 Years...?**

# Hong Kong Market 2020 Outlook and Target



- COVID-19 pandemic is not expected to slow down completely though people will have impulse to go out!
- Once go online, won't go back to offline!

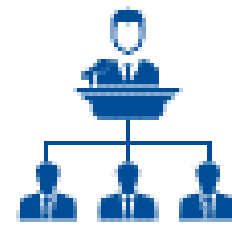


# Plan Ahead for Future – CAPEX plan in next 3 years



- **Current fulfilment systems are capable to handle additional 50% orders.**
  
- **Start to plan for the next Capacity Expansion**
  1. **Expansion of e-fulfilment centre at Tseung Kwan O Headquarters**
    - **Additional 50,000 square feet**
    - **Anticipated construction cost at around HK\$150 million**
    - **Cost for facilities at about HK\$50 million**
  
  2. **Adding the 6th fulfilment centre**
    - **Cost for facilities at about HK\$40 million**
  
  3. **Adding around 200 – 250 delivery trucks**
    - **Cost at about HK\$90 million to HK\$110 million**
  
  4. **Upgrade computer hardware and software**
    - **Cost at about HK\$50 million**

# COVID-19 Accelerates the Fundamental Trends in Global Retail



The rise of platforms is changing the retail landscape.

Trend 1  
**The Retail Business model is evolving.**



Customers want to buy from companies who stand for something bigger than profits.

Trend 2  
**Purpose moves to the forefront.**



Retailers take new approaches to cutting costs and driving profitable growth.

Trend 3  
**Rethinking the cost of doing business.**



As customers focus on availability over selection, all signs suggest discounters and platforms will thrive.

Trend 4  
**Customer choice comes under the microscope.**



# If I were a "Traditional Supermarket Operator" and wish to start online, what issues I need to deal with :

- Which and what kind of system/platform should I use?
- Self-built or using licensed platform?
- What is the business model? Traditional Buy & Sell? Or let FMCG brands to open stores inside the "Online Supermarket"?
- How to do the pick/pack fulfilment? Using "dark store", existing B-to-B warehouse or setting up a new B-to-C warehouse?
- How to design the B-to-C warehouse? Who can help (and who is not a competitor) to design the warehouse?
- What kind of automated machine(s) to be used? How to select? How to design to be feasible enough to meet the "unknown" and "dynamic" market?
- How to integrate and connect all these different kind of machines with their Warehouse Management System?
- How to do the packing for different type of products (frozen and chilled)?
- How to deliver? By own fleet or 3rd party?
- How to design the a system to optimize the truck utilization, routing, allocation between own fleet and 3rd party, and service monitoring
- .....
- .....

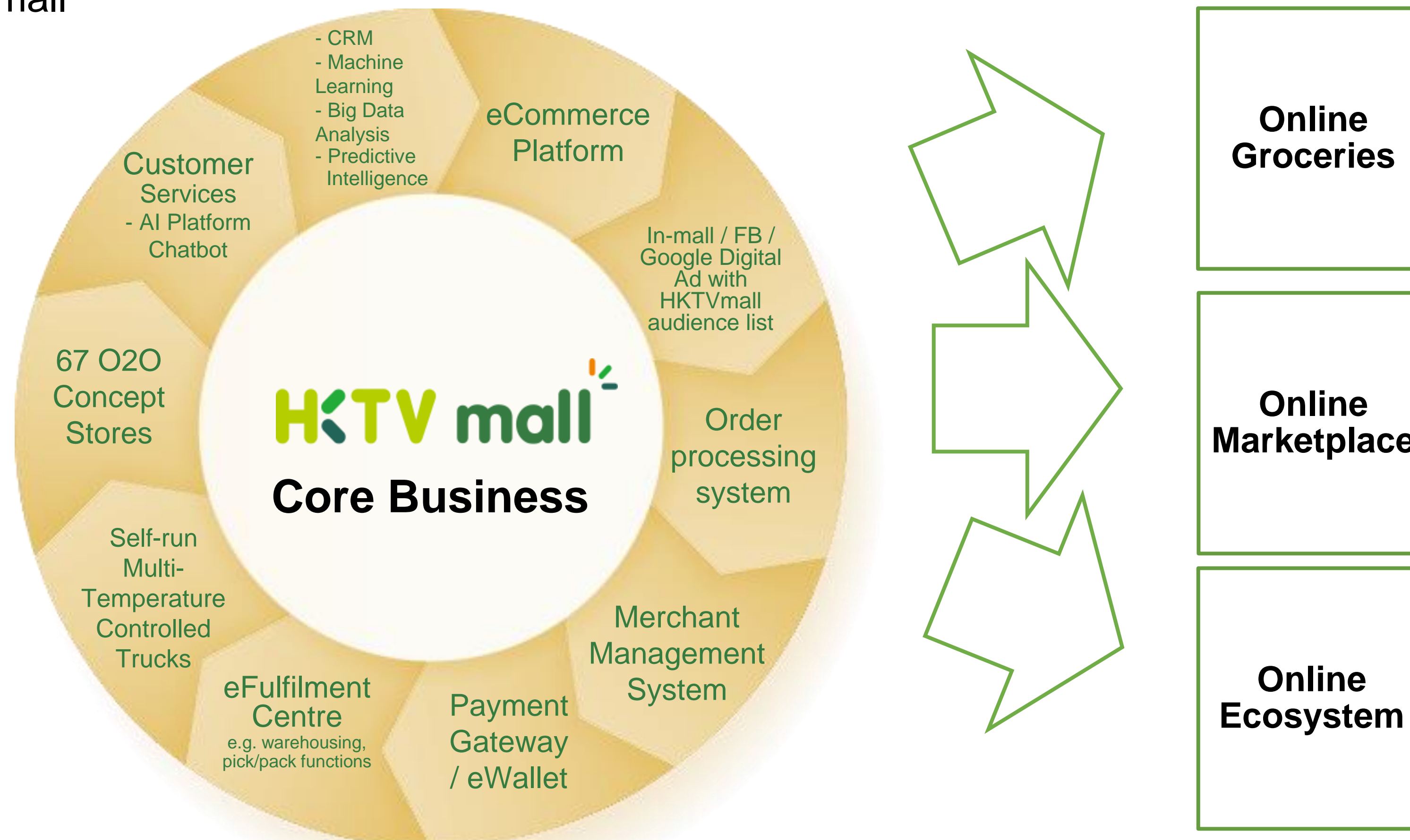


# Overseas Market

## Huge Global Demand for End-to-End Turnkey Solution

An extension from HKTVmall core business to beyond the geographical limitation

- a market-tested and proven profitable solution
- leveraging on our Self-build End-to-End Infrastructure and Technical Knowhow
- to transform and enable the traditional supermarket chains and retailer groups to replicate the unique success and capabilities of HKTVmall





# Plan to Provide a Turnkey Solution to Global “eCommerce Marketplace” Investors



- Only “piece by piece” “pure” software house & technical engineering company is available.
- No end-to-end turnkey solution provider (business model consulting, planning & construction of fulfilment centre, last mile delivery planning & analysis) is available in global market
- Except Ocado in UK, but Ocado only provides solutions for online grocery store, not for shopping mall/platform (i.e. Amazon model)
- We will set up 2-3 overseas offices to develop international business in coming 6 months

			
<b>Mission</b>	Providing <b>End-to-End technological solution</b> to set up online shopping mall/platform, including: <ul style="list-style-type: none"> <li>• Business model consulting service</li> <li>• Design &amp; Construction: automated, robotic warehouses</li> <li>• Last mile delivery system design</li> </ul>	Providing <b>End-to-End technological solution</b> to transform traditional offline grocery stores to online: <ul style="list-style-type: none"> <li>• Business model consulting service</li> <li>• Design &amp; Construction: automated, robotic warehouses</li> <li>• Last mile delivery system design</li> </ul>	Providing a friendly and easy to use system to help everyone set up their own online store for selling products
<b>Target Market Segment</b>	For who want to compete with Amazon in their own country: <ul style="list-style-type: none"> <li>• Traditional grocery retailers</li> <li>• Shopping malls</li> <li>• Forward thinking retailers</li> </ul>	Traditional (forward-thinking) grocery retailers who want to set up online store	SME Business Owner: who want to open their own online shop
<b>Solutions Provided</b>	<b>An All-Round Solution:</b> <ul style="list-style-type: none"> <li>• Migration path from an online grocery store to an online shopping mall; then to a digital eco-system</li> <li>• Design &amp; Build: I.T. Platform, pick-pack fulfilment centre, fleet management system</li> <li>• Focus on big data analysis and IT</li> </ul>	<b>An Online Grocery Store Total Solution</b> <ul style="list-style-type: none"> <li>• Set up an online grocery store</li> <li>• Design &amp; build-up robotic pick-pack facilities</li> </ul>	<b>An Online Store Front-end Solution</b> <ul style="list-style-type: none"> <li>• Set up an online store</li> </ul>

		 The online supermarket	
<b>IT Set-up Support (For shop/shopping mall)</b>	✓	✓	✓
<b>For Buy &amp; Sell Model (1PL)</b>	✓	✓	✗
<b>Open Model to All Merchants (3PL)</b>	✓	✗	✗
<b>Design of Pick &amp; Pack Robotic System</b>	✓	✓	✗
<b>Design &amp; Build Fulfilment Centre (For thousands of Merchant Orders)</b>	✓	✗	✗
<b>Last Mile Delivery System Deign</b>	✓	✓	✗



Hong Kong is a small city for e-Commerce & us

So we make it global

