

Industry Outlook and Trends in the Hong Kong Plastics Industry

July 2014

INDUSTRY OUTLOOK AND TRENDS: PLASTICS INDUSTRY

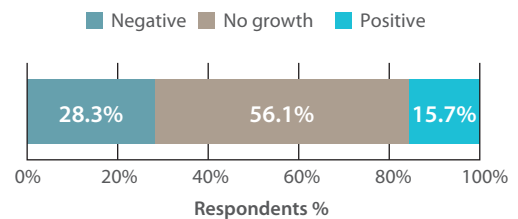
Highlights

- > 28.3% of respondents in the Hong Kong Plastics industry expect growth in revenues during the next 1-2 years, while 15.7% expect a drop.
- > The Hong Kong Plastics industry does not stand to greatly benefit from the growth in smart devices due to the focus on low-end parts.
- > Toys, previously a growth sector in the industry, are on the decline as substitute products – such as electronics - become available
- > New markets such as automotive, aviation and medical devices have high barriers to entry
- > 3D printing technology does not present great current opportunities due to the immaturity of the sector at this stage
- > The major challenges in the industry include rising raw material costs, increasing labour costs and global economic instability

CAPITAL INVESTMENT HURDLES WILL LIMIT THE ABILITY OF THE HK INDUSTRY TO BENEFIT FROM SMARTPHONE GROWTH INFRASTRUCTURES CREATE A GAP BETWEEN HK PLASTICS COMPONENTS AND SMART DEVICES MANUFACTURING

28.3% of respondents expect growth in revenues during the coming 1-2 years, while 15.7% expect a decline. There are two main sectors of plastic demand responsible.

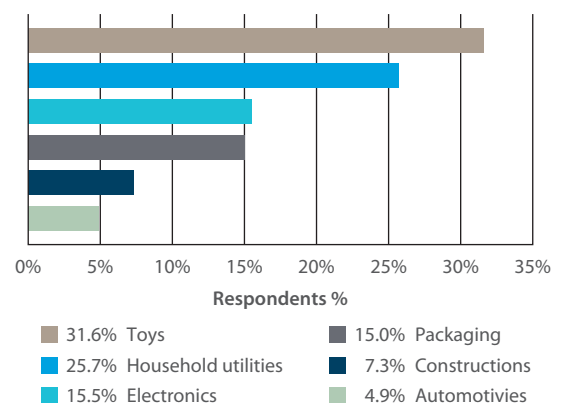
Expected Revenue Growth in Coming 1-2 Years



What Everyone Wants: Smart Devices

Plastics are a major material component of smart devices, resulting in expectations that the global plastics industry is expected to outperform in coming years. However, only 15.5% of plastics manufacturers in Hong Kong expect to benefit from it. Respondents suggested that the investment required to upgrade their machinery to produce high-end products is too large, therefore HK manufacturers will only focus on low-end parts such as connectors and chargers.

Products Supply to Customers



What HK Plastic Firms are Good at: Toys

On the other hand, 31.6% of respondents are doing business related to toys, a sector which is undergoing declining demand due to the substitution of toys by products such as electronics.

OPPORTUNITIES FOR THE HONG KONG PLASTICS INDUSTRY

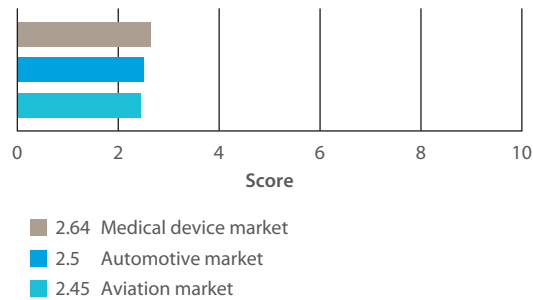
New Markets such as Automotive, Aviation and Medical Devices have High Barriers to Entry

The largest barrier for entry in the automotive market is finding customers. Since most automotive manufacturers have built long term relationships with their local suppliers, it is difficult for Hong Kong firms to enter the supply chain.

Most Hong Kong firms are not interested in exploring the aviation and medical device markets, which require stronger technical capability. Even though some are willing to invest in the technology, they are not confident that they can find customer demand to justify the investments.

Development in New Market

(0= No potential, 10 = Great potential)

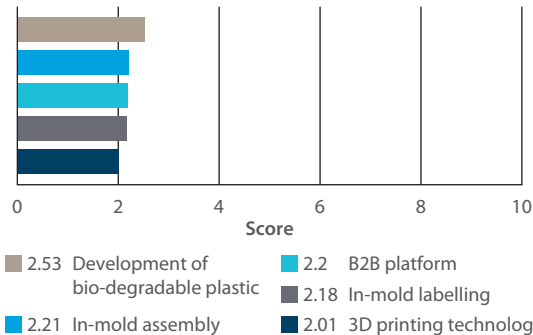


The 3D Printing Opportunity

The Hong Kong Industry did not indicate substantial interest in the development of 3D printing. With low functionality, the technology is still considered not mature enough. However, some manufacturers think the plastic materials used by the 3D printing machine could present a good business opportunity.

Impact on Plastics Industry Development

(0= Small impact, 10 = Great impact)



RAW MATERIAL, LABOUR COSTS AND GLOBAL ECONOMIC UNCERTAINTY PRESENT THE BIGGEST CHALLENGES

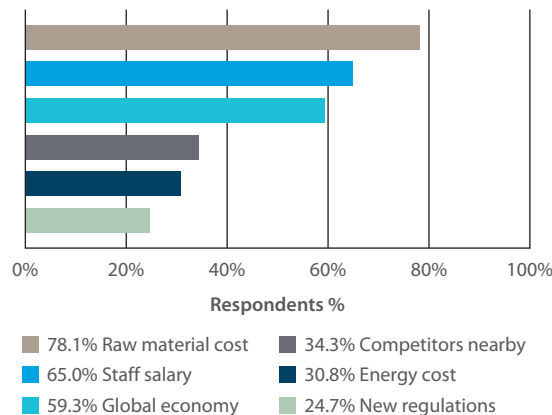
Operating Costs: Raw Materials and Labour Costs

78.1% of respondents indicated raw material cost as their number one challenge, while 65.0% of them chose labour costs. Other operating factors such as Energy costs were not of high concern. Environmental friendly materials will become a new trend, while manufacturers have been able pass on costs incurred to the customer.

For external factors, 59.3% respondents put instability in the global economy their number three challenge. Respondents indicated that the global business environment was directly affecting their partnerships with overseas firms and leading to increased bad debt expenses.

Challenges in Coming 1-2 Years

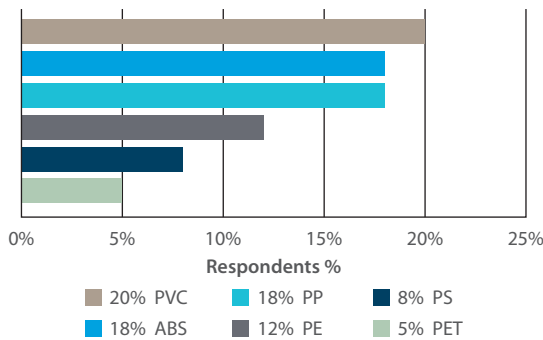
(% of respondents viewed as top 3 challenges)



APPENDIX

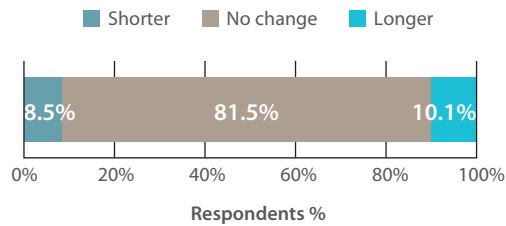
Manufacturing Related Statistics

Materials Distribution

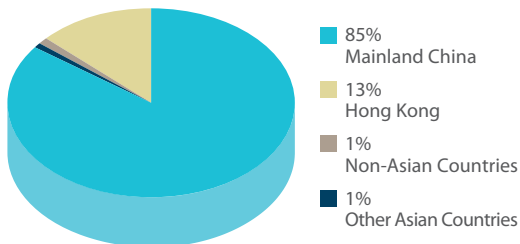


Working Capital Related Statistics

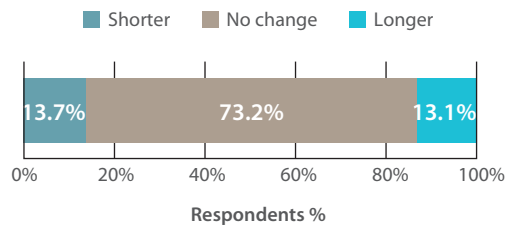
Change on Account Payable in Coming 1-2 Years



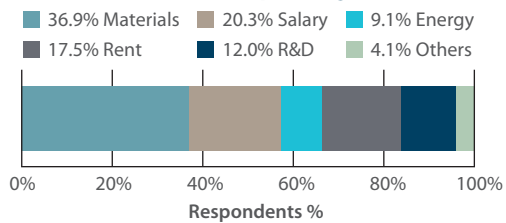
Locations of Manufacturing Facilities



Change on Inventory Turnover in Coming 1-2 Years



Distribution of Operating Costs



ABOUT THE SURVEY

The Australia and New Zealand Banking Group Limited (ANZ) conducted "The Survey on Industry Outlook and Trends" of Hong Kong Plastics industry during April to May of 2014 with the intention of understanding industry participants' views on future business performance and challenges. In this survey, 200 companies were interviewed and one focus group conducted for this industry.

ENQUIRY CONTACT

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