Cold Chain Investment in China

Risks and Opportunities, Key Factors for Success

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1. The Cold Chain Logistics Market in China – Supply

China Cold Chain Market Snapshot

- Short term overbuild

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>Latest vs 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cold storage</td>
<td>60.4M CBM</td>
<td>83M CBM/+37%</td>
<td>93.6M CBM</td>
<td>+55%</td>
</tr>
<tr>
<td>Cold trucks</td>
<td>0.552M units</td>
<td>0.76M units/+38%</td>
<td>0.8M units</td>
<td>+45%</td>
</tr>
<tr>
<td>Top 100 Revenue</td>
<td>RMB11B</td>
<td>RMB15B/+36%</td>
<td></td>
<td>+36%</td>
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</tbody>
</table>

- 1/3 of per capita cold storage capacity vs developed countries
- Decline in retail sales vs surge in e-commerce
- Cold chain logistics efficiency continues to be high on Central Government’s agenda, highlighted Government-led initiatives to refine industry standards in operations management, cold chain technology, professional training and so on.
- Much of the new investments uses traditional cold room rental model.

*2015 China Cold Chain Development Report, by CLFP*
1. The Cold Chain Logistics Market in China – Demand

- Accurate figures are difficult to obtain, but basically in line with capacity growth, i.e. 30+% from 2013
- Yield is under pressure because of increased capacity
- The key issue is the reservation to pay for higher quality, especially for locally produced fruits and vegetables
- Also driven by local distribution model. Most principals rely on wholesalers, who may be a lot more cost conscious and have less regard for cold chain integrity
- Emergence of e-commerce for the fresh and frozen sector drive the need for temperature controlled picking, packing and small quantity delivery
- Growth in food imports will fuel demand
2. Recent Development of the Food Sector in China

A. Increased prospect of imports

B. Goals for food safety, improved agricultural products distribution will continue to be the theme for cold chain logistics

C. Increase in higher logistics requirement due to FDA regulations

D. Disintermediation, probably driven by e-commerce, may cause more attention on brand owners’ quest for product integrity
3. Swire’s Cold Storage Investment in China

SPCS Vision and Strategy

“We aim to develop an end-to-end cold chain logistics network in China which provides world-class temperature controlled warehousing and related cold chain logistics services mainly for the food sector in China.”

Our Strategy:

**Network:** Nation-wide network of cold storage covering key clusters in China.

**Standards:** Customer-specific solutions using industry best-practice.

**Assets:** Self owned and managed facilities.

**Service:** Warehousing, Transportation, consolidation, most of all visibility of products over the logistics process.
3. Swire’s Cold Storage Investment in China

Our cold chain network in China 5 years after commencement

SPCS Network:
- 8 sites; 350,000 pallets+
- 40% of China Population
- 54% of China GDP
- Ports: Guangzhou, Shanghai, Ningbo
- Yangtze River: Shanghai, Ningbo, Nanjing

Guangzhou – in operation
Shanghai – in operation
LangFang – in operation
Ningbo – in operation
Nanjing – Nov. 2015
Chengdu – H2 2016
Xiamen – H2 2016
Wuhan – H2 2017
3. Swire’s Cold Storage Investment in China

Service infrastructure – capability to serve with cold storage network, transportation support by a robust IT platform.

- Finished goods and import
- Customer Pick-up
- Distributor
- Long-Haul Transportation
- Beijing In-city Delivery
- Shanghai In-city Delivery
- East China Delivery
- Customer 1
- Customer 2
- Customer 3
3. Swire’s Cold Storage Investment in China

Key Customer Sectors

Customers

- Packaged Frozen Food Manufacturers
- Upstream Food Processors
- Food & Ingredients Import/Exporters
- Seafood Wholesale and Distributors
- Modern Trade / Supermarket Chains
- Restaurants and Food Service Chains

Sales Pipeline of our customers

- B2B, B2C
- Five Star Hotel
- Top Restaurants
- Supermarkets
- Others

Product Category

- Beef
- Seafood
- Fruits
- Milk Product
- Ice Cream
- Cake
- Ingredients
- Frozen Ready Meals
- Others
3. Swire’s Cold Storage Investment in China

Services We Provide

- Cold Storage at Multiple Temperature Zones
- Warehousing and Inventory Management
- Order Management
- Full-Pallet In- & Out-bound Services
- Case-Picking / Packing Services
- Re-Packing / Labelling Services
- Reverse Logistics / Returns Management
- Consolidation for Multiple Drop-points Delivery
- In-City and Point-to-Point Delivery Planning and Execution
- Import & Customs Clearance*
- Customized reporting

* Through 3rd party
3. Swire’s Cold Storage Investment in China
4. Risks and Opportunities

Risks

• Systemic risks
  – Location
  – Regulatory
  – Currency

• Market risks
  – Speed in adoption
  – Rising costs
  – Complexity of food supply chain
4. Risks and Opportunities

Opportunities

a) Unsatisfied market potential

b) Growth in demand due to imports, urban renewal and quality focus

c) Demand driven quality improvement
5. Conclusion

**Market drivers**

- There is a general shortage of cold storages and transport. The Government is driving quality and quantity of cold chain logistics. Generally, current facilities, including some newly built and converted may not guarantee temperature integrity.
- Food safety is high on the Government’s and consumer’s agenda. Brand owners are looking for better ways to distribute, preferably with compliant quality and reduced costs.
- Emergence of e-commerce disrupts traditional distribution model. Food businesses are looking for direct distribution alternatives.
- However, the speed in adoption will be key for the success of these investments

**Opportunities**

- Government policy is key to create room to play for modern operators. This would include access to land, preferential investment terms and subsidies. Benefits modern and professional cold storages
- Benefits network operators which have more control over inventory and quality in the logistics process. Concentrated purchase helps reduce costs of management, inventory, wastage and direct logistics costs
- Efficient and large storage, distribution and sorting centres at good locations are in great demand. Key is the ability to convert facilities. 3PL has advantages to play.
- Lower yields than expected in the introductory stage
Thank you!