

## BATEMAN BEIJING AXIS

A China-focused Global Procurement House  
Projects | Equipment | Commodities



A Joint Venture between Bateman Engineering N.V. and THE BEIJING AXIS Ltd.

### CHINA SOURCING

For ASSOCIATED BRITISH FOODS PLC

Shanghai, 26 January 2010

Kobus van der Wath  
Founder and Group Managing Director, THE BEIJING AXIS  
CEO, BATEMAN BEIJING AXIS

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## THE BEIJING AXIS AT THE HIGHEST LEVEL

### 3 Synergistic Cross-border China Businesses

**THE BEIJING AXIS** is a cross-border business bridge to/from China in three principal areas: Strategy, Sourcing and Investment

Since our establishment in 2002, we have successfully worked with many international and Chinese MNC clients across various sectors and industries, but our core focus is on the Chinese mining and resources sector, and on China's burgeoning industrial and engineering sector. Our work is always cross-border — supporting international firms as they act in unfamiliar territory in China, or supporting Chinese firms as they venture out and 'go global.' We are committed to safety and sustainability, and our solutions emphasise 'actions and transactions'

**THE BEIJING AXIS** is organised along 3 synergistic cross-border China businesses: TBA China Strategy Group, TBA China Sourcing Unit and TBA China Capital Advisors



## BATEMAN AT THE HIGHEST LEVEL

### Strategic Business Units, Global Footprint, Technology as Differentiator

- Bateman Engineering Projects
- Bateman Engineered Technologies



AGENDA

**China in the World**

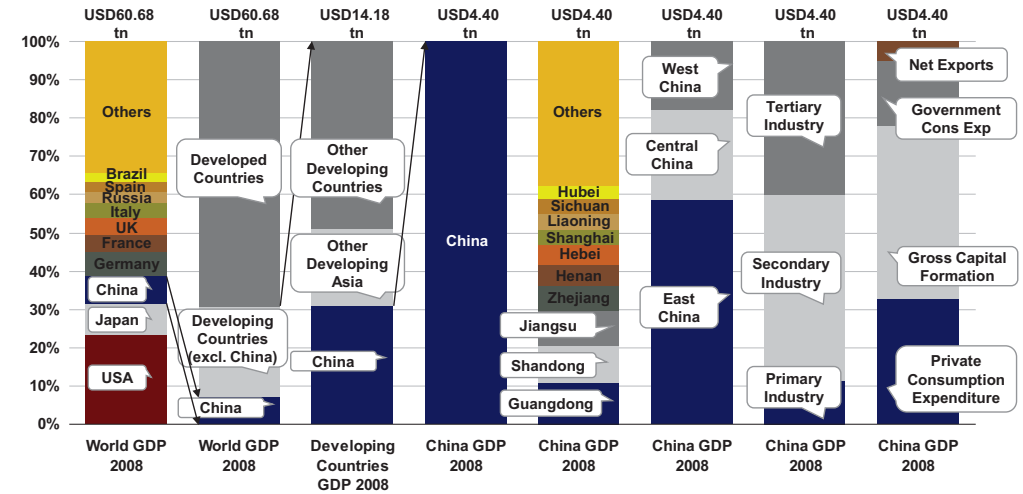
China's Recovery – Is it Sustainable?

China Sourcing – Why? What? How?

What about FMCG?

Final Word

**A HIGH LEVEL OVERVIEW OF CHINA'S CURRENT POSITION IN THE WORLD AND ITS FUNDAMENTAL ECONOMIC CHARACTERISTICS**

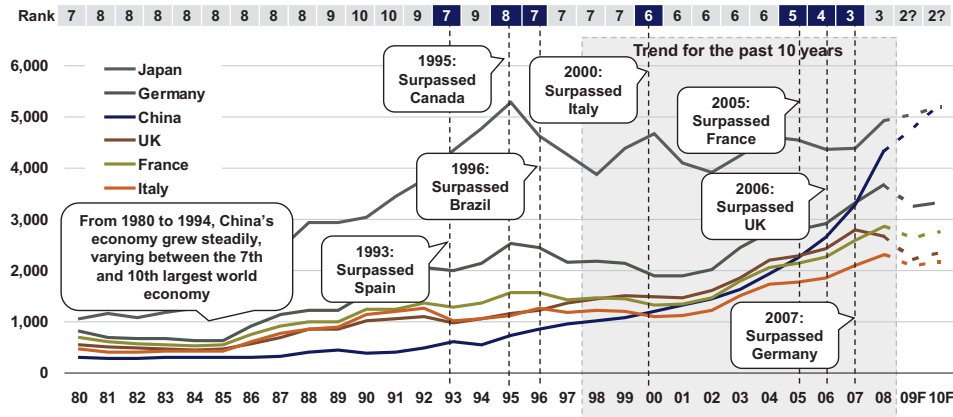


Source: IMF; China Statistical Yearbook 2008; THE BEIJING AXIS Analysis

**CHINA'S ECONOMY HAS RECORDED DRAMATIC GROWTH IN THE PAST TEN YEARS**

With a fourfold increase since 1998, China was the 3<sup>rd</sup> largest economy after the US and Japan in 2008; 2<sup>nd</sup> largest in 2009?

Top 6 Economies GDP excl. USA (USD bn, 1980-2010F)

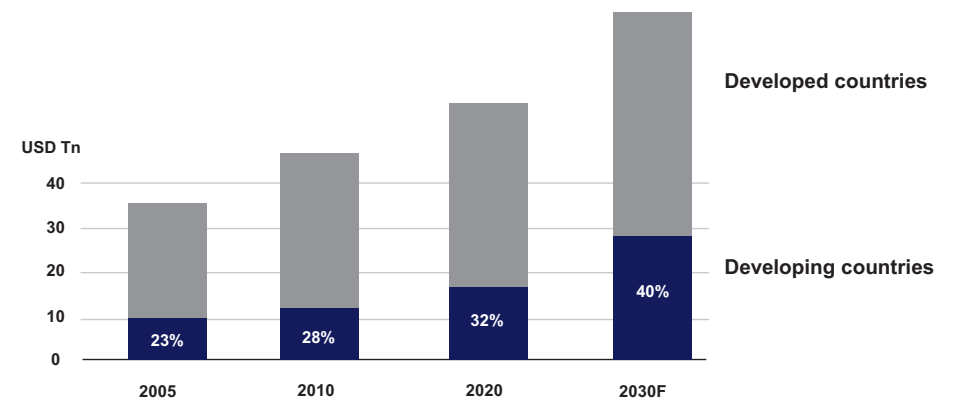


Source: CEIC Data; IMF; THE BEIJING AXIS Analysis

**THE DEVELOPING WORLD IS BECOMING A LARGER PLAYER IN THE GLOBAL ECONOMY**

For example, BRIC countries today account for 14% of world GDP, increasing from 9% ten years ago

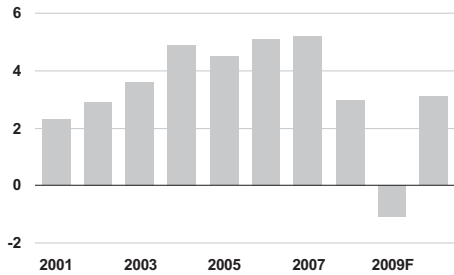
Share of World GDP (%), 2005–2030F



Source: World Bank; IMF; THE BEIJING AXIS Analysis

## CAN YOU IGNORE ASIA? NOT WHEN IT COMES TO LCC THINKING

### World Real GDP Growth (Annual percentage change)



### Emerging Economies Real GDP Growth by Region (Annual percentage change)

	2006	2007	2008	2009F	2010F
Region Total	7.9	8.3	6.0	1.7	5.1
Commonwealth of Independent States	8.4	8.6	5.5	-6.7	2.1
Central and Eastern Europe	6.6	5.5	3.0	-5.0	1.8
Africa	6.1	6.3	5.2	1.7	4.0
Middle East	5.8	6.2	5.4	2.0	4.2
<b>Developing Asia</b>	<b>9.8</b>	<b>10.6</b>	<b>7.6</b>	<b>6.2</b>	<b>7.3</b>

China and India's growth is central to this story

## A WORLD GDP GROWTH COMPARISON SHOWS SHARP CONTRASTS

China's GDP growth rate has been resilient, notwithstanding the drastic impact of the global economic crisis

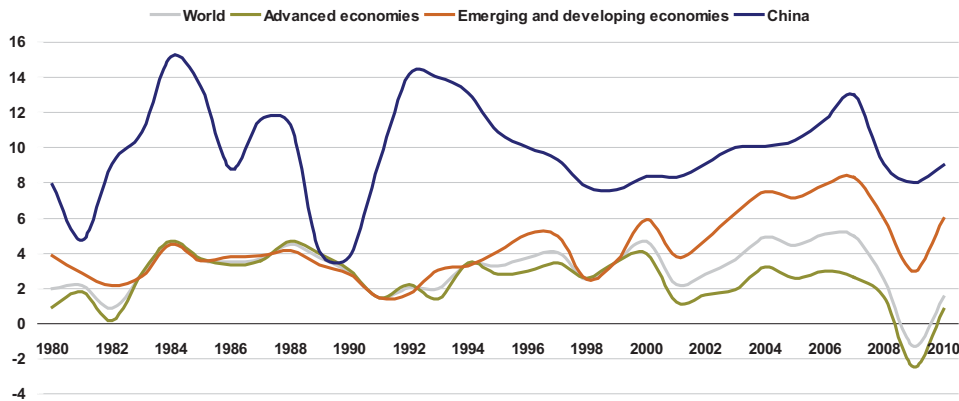
### World Quarterly GDP Growth Rate Comparison (2008–2009F)

	2008				2009			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4F
World	4.4	3.7	2.6	-0.1	-2.7	-2.4	-1.4	0.7
Advanced economies	2.3	1.7	0.3	-2.2	-4.6	-4.4	-3.4	-1.3
Emerging economies	7.9	7.2	6.5	3.3	0.4	1.0	1.7	3.9
Euro Area	2.2	1.5	0.5	-1.7	-4.9	-4.7	-4.3	-2.5
ASEAN	6.0	5.8	5.2	1.5	-1.1	-0.2	-0.4	2.3
USA	2.0	1.6	0.0	-1.9	-3.3	-3.9	-2.6	-1.1
Japan	1.4	0.7	-0.3	-4.5	-8.4	-7.2	-5.1	-1.3
India	8.5	7.9	7.6	5.9	5.7	6.2	5.6	5.2
South Africa	3.9	4.5	3.0	1.0	-0.8	-2.6	-2.1	n/a
Russia	8.7	7.3	5.7	0.9	-9.8	-10.9	-6.9	-2.6
<b>China</b>	<b>10.6</b>	<b>10.1</b>	<b>9.0</b>	<b>6.8</b>	<b>6.1</b>	<b>7.9</b>	<b>9.1</b>	<b>10.7*</b>

\*Note: Q4 GDP figure for China is not a forecast.  
Source: IMF Global Outlook Database; NBSC

## CHINA IS SET TO OUTPERFORM OTHER DEVELOPING AND DEVELOPED ECONOMIES

### World GDP growth (% y-o-y, 1990-2010F)



## AGENDA

### China in the World

#### China's Recovery – Is it Sustainable?

#### China Sourcing – Why? What? How?

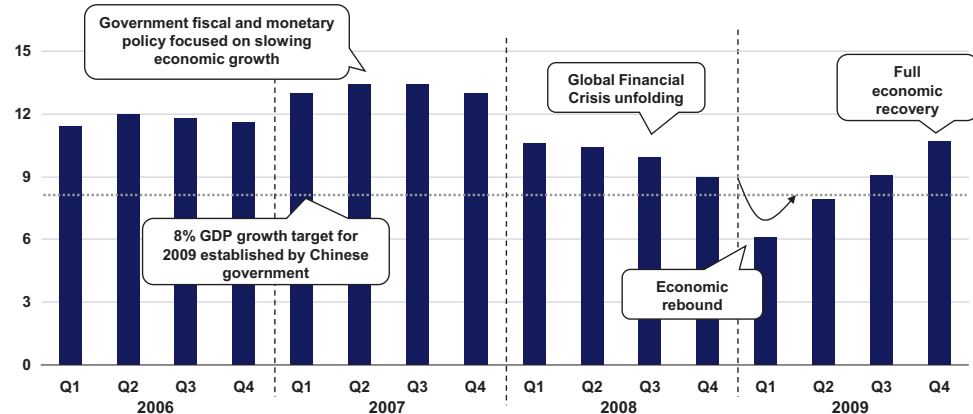
#### What about FMCG?

#### Final Word

## CHINA'S ECONOMY HAS DEFINITELY MOVED FROM REBOUND TO RECOVERY

For the whole year 2009, China's economy grew 8.7% y-o-y; Q4 growth of 10.7% surpassed even optimistic expectations

China Quarterly GDP Growth Rate (% , 2006–Q42009)



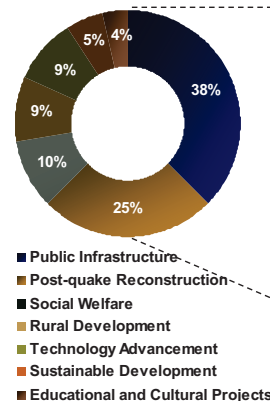
Source: National Bureau of Statistics of China

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## ONE OF THE MAJOR FACTORS FOR THIS ACHIEVEMENT IS CHINA'S SUCCESSFUL RMB 4 TRILLION STIMULUS PACKAGE

Over 50% of the stimulus package was aimed at infrastructure projects which will support employment and sustainability for large companies through the crisis

Breakdown of China's Stimulus Package



COMPOSITION OF RMB 4 TRILLION FISCAL STIMULUS PACKAGE

SECTOR	AMOUNT ALLOCATED RMB bn
Public Infrastructure	1,500
Post-quake Reconstruction	1,000
Social Welfare	400
Rural Development	370
Technology Advancement	370
Sustainable Development	210
Educational and Cultural Projects	150
<b>TOTAL</b>	<b>4,000</b>

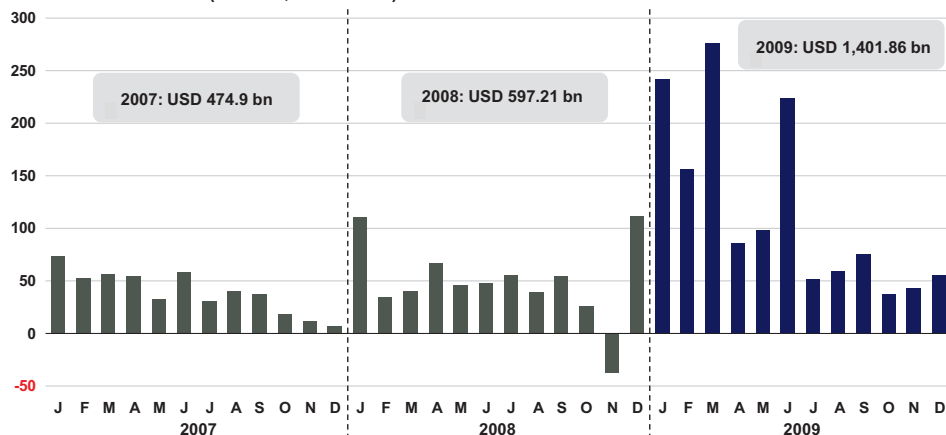
Source: National Development and Reform Commission (NDRC)

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## LOOSE MONETARY AND FISCAL POLICIES BOLSTERED CHINA'S ECONOMIC STANCE IN 2009

During 2009, China's new loans reached USD 1.4 trillion, a 135% increase from 2008

Total New RMB Loans (USD bn, 2007–2009)



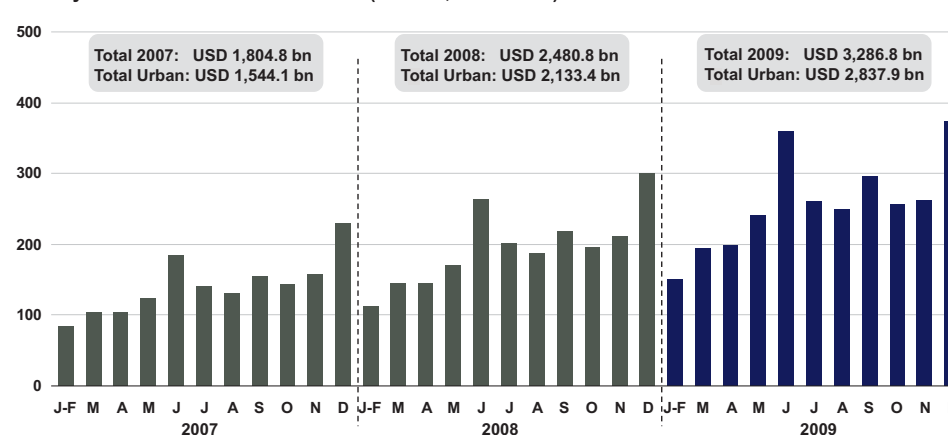
Source: Ministry of Finance of The People's Republic of China

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## FIXED ASSET INVESTMENT EXPERIENCED RAPID GROWTH AS A DIRECT RESULT OF THE STIMULUS PACKAGE

During 2009, total fixed asset investment increased by 30.1% over 2008 to USD 3,287 billion

Monthly Urban Fixed Asset Investment (USD bn, 2007–2009)



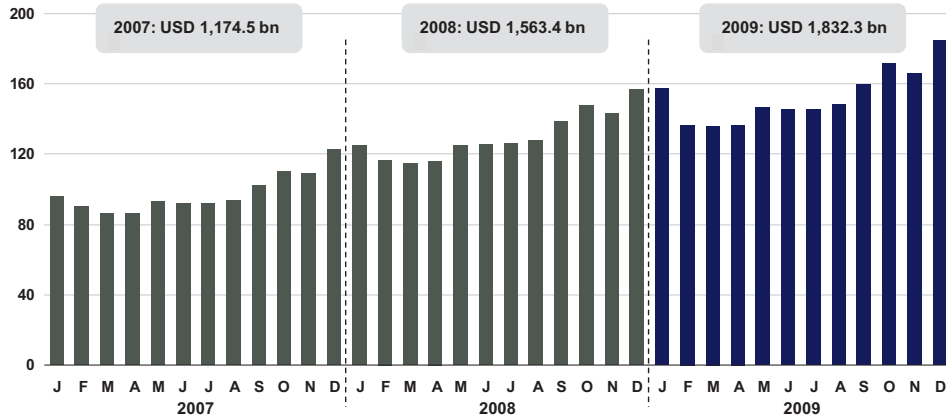
Source: National Bureau of Statistics of China

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### THROUGH THE STIMULUS PACKAGE THE GOVERNMENT ALSO MANAGED TO STIMULATE DOMESTIC DEMAND

During 2009, China's retail sales of consumer goods increased by 15.5% over 2008, reaching a total of USD 1,832 billion

Monthly Retail Sales of Consumer Goods (USD bn, 2007–2009)



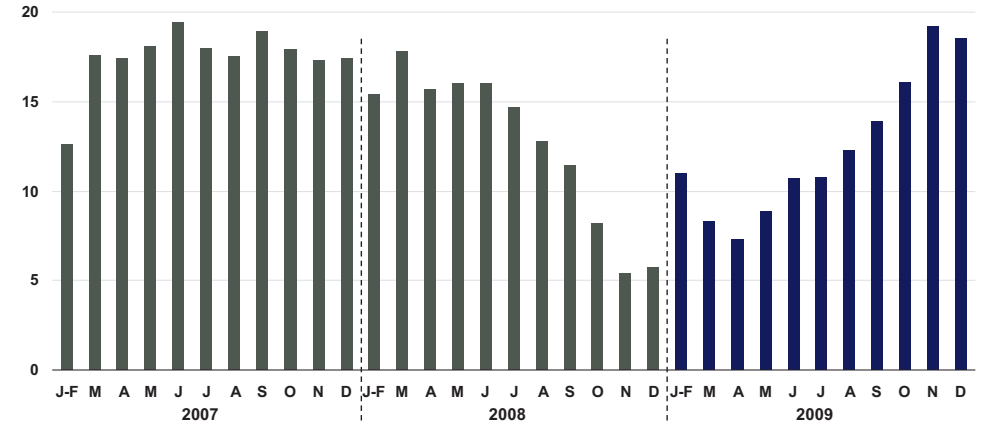
Source: National Bureau of Statistics of China

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### CHINA'S INDUSTRIAL PRODUCTION CONTINUED TO RECOVER DURING 2009, AGAIN DRIVEN BY DOMESTIC DEMAND

In 2009, the 'value added' of industrial enterprises was up by 11%, 1.9 percentage points lower than that in 2008

Growth Rate of Value-Added of Industry (% y-o-y, 2007–2009\*)



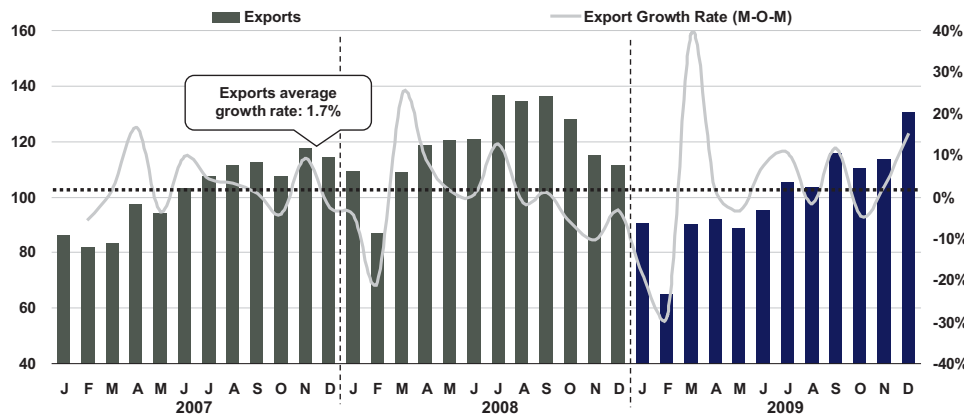
\*Note: National Bureau of Statistics does not publish industrial production information for the month of January  
Source: National Bureau of Statistics of China

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### THE DECLINE IN TOTAL EXPORTS CONTINUED TO BE THE MAIN GROWTH CONSTRAINT DURING 2009

However, a small revival in exports occurred towards the end of 2009, elevating China's total for the whole year to USD 1,201.7 billion, still 16% less than 2008

Monthly Exports (USD bn, 2007–2009)

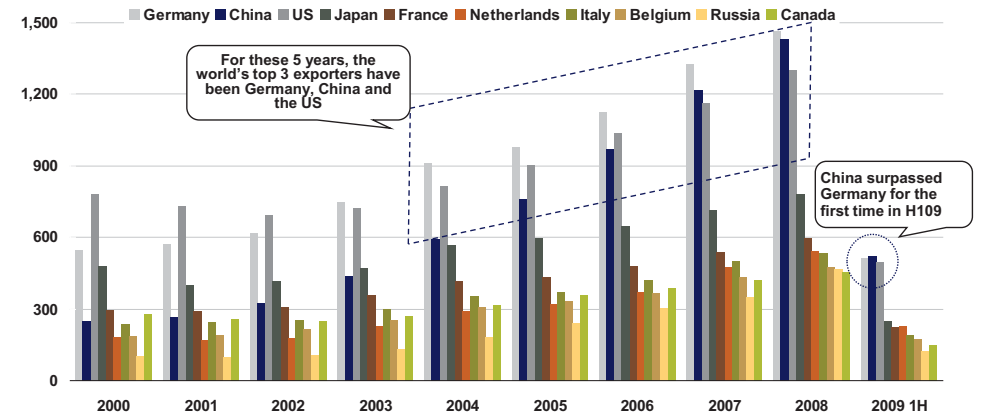


Source: MOFCOM

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### IN FACT, IN 2009 CHINA FINALLY SURPASSED GERMANY AS THE WORLD'S LARGEST EXPORTER

Top Ten Exporters Ranked By 2008 Values (USD bn, 2000–H12009)



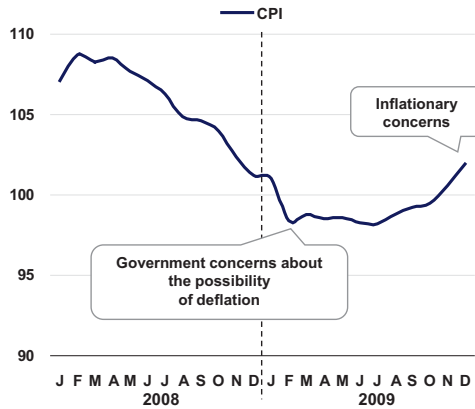
Source: UN Comtrade; WTO; THE BEIJING AXIS Analysis

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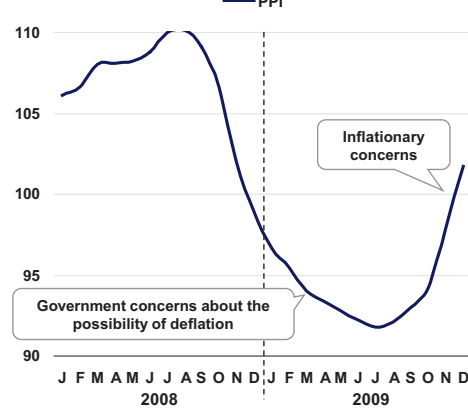
**HOWEVER, CHINA'S INFLATION FIGURES HAVE ALSO EXCEEDED CONSENSUS EXPECTATIONS**

CPI and PPI increased at an annual pace of 1.9% and 1.7% in Q4 compared to the same period in 2008

CPI Monthly (2008–2009)



PPI Monthly (2008–2009)



Source: National Bureau of Statistics of China

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**IN 2009, CHINA SUSTAINED AN IMPRESSIVE GROWTH RATE LARGELY DUE TO DOMESTIC DEMAND**

However, the future of Chinese economic growth still faces a number of challenges

- China has successfully completed the transition from rebound to recovery – 8.7% GDP growth in 2009 was driven mostly by domestic demand
- China's GDP is expected to continue its steady growth during 2010, while the other developed economies will continue to recover at a much slower pace – China is driving global economic growth
- The stimulus package and loose fiscal and monetary policies have been critical components of growth in 2010. However, in order to achieve sustainable growth over the medium and long-term, the economy must be successfully rebalanced from government spending to domestic consumption
- China's strong growth has erased concerns during the height of the global financial crisis of a long recession and replaced them with renewed fears of domestic inflation
- Total exports continued to be the major obstacle to China's economic growth, due largely to persistent weak global demand. In addition, China's export growth continues to be challenged by international trade protectionism

Source: National Bureau of Statistics of China

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**AGENDA**

China in the World

China's Recovery – Is it Sustainable?

**China Sourcing – Why? What? How?**

What about FMCG?

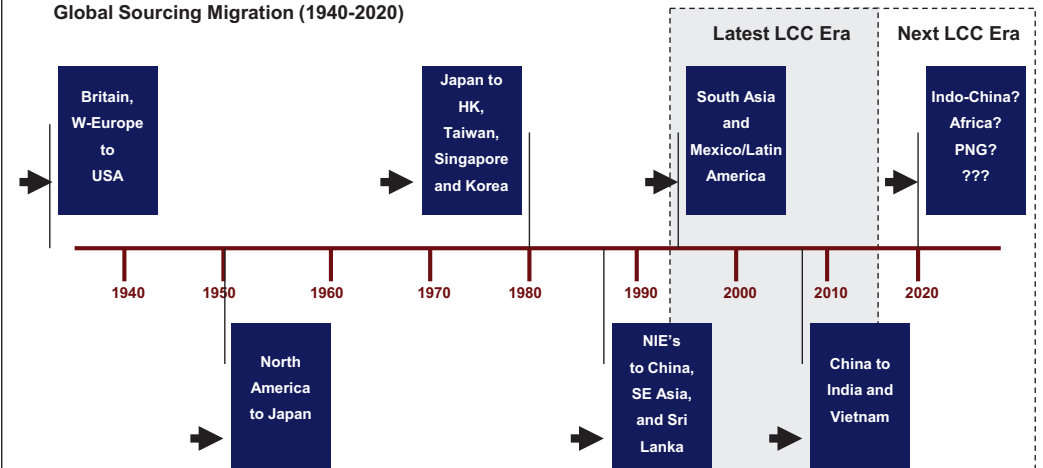
Final Word

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**THERE IS A DYNAMIC GLOBAL SOURCING TIMELINE**

From Western Europe to North America in the 50's, to Japan to NIEs, to new Dragons, to China, to India and Vietnam ... (and next Myanmar, Laos, Cambodia, Africa?)

Global Sourcing Migration (1940-2020)

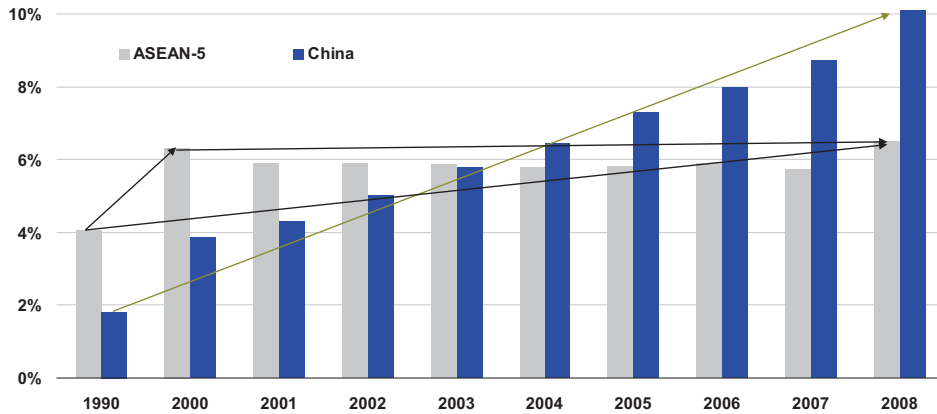


Source: Dennis Arnold, 'Textile & Apparel Sourcing: the complexity behind low cost labour in supply chains'

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## CHINA IS TAKING GLOBAL EXPORT MARKET SHARE FROM ASEAN AND THE REST OF ASIA

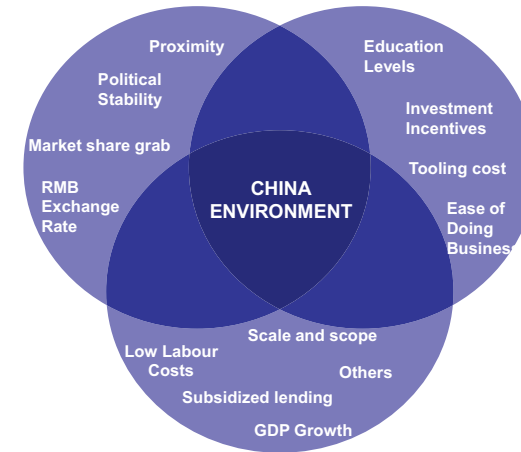
Asia's Share of World Exports (1990–2008)



Source: WTO; UN Comtrade; THE BEIJING AXIS Analysis

## THERE ARE MANY REASONS FOR CHINA'S EXPORT GROWTH

However, the answer lies not in one or two factors but in the combination of different factors that create an ideal environment for China



Are these forces sustainable?

Source: THE BEIJING AXIS Analysis

## CHINA HAS A WIDE SET OF COMPETITIVE ADVANTAGES FOR GLOBAL SOURCING

**COMPETITIVE ADVANTAGES of Sourcing from China**

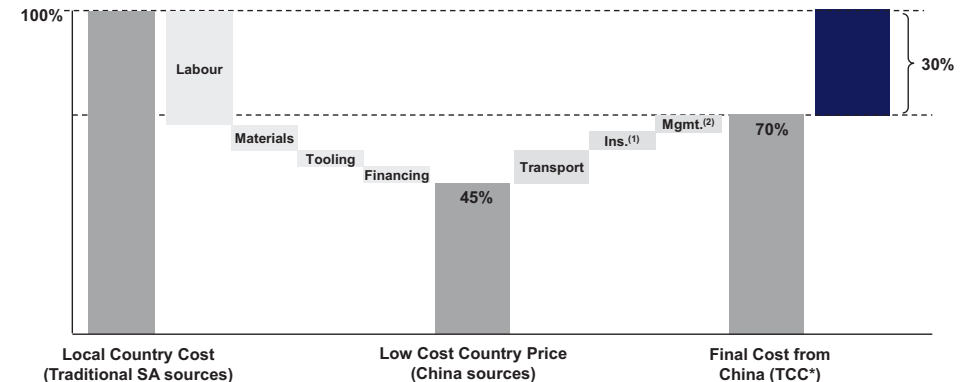
- Low Labour Costs**
  - Companies can obtain direct cost savings due to China's lower cost base, specifically in the areas of utility costs, raw materials and overall labour costs
  - This has enabled foreign and Chinese companies to produce high-value products while retaining competitive pricing
- Large Market Size**
  - In the past decade, the Chinese economy has grown at an extremely rapid pace, resulting in a huge increase in the number and purchasing power of Chinese consumers
  - This has enabled foreign and Chinese manufacturers to expand operations, produce larger volumes and obtain larger profits to re-invest in product development, R&D etc.
- Production Capacity**
  - Growing overseas and domestic demand together with a favourable investment environment has allowed many companies to expand production capacity in China in many industries
- Quality Improvements**
  - The quality of the products made in China is increasingly achieving western standards/levels; in fact, in many cases even surpassing the quality standards of foreign-made products
  - High quality combined with low price can be achieved in China
- Infrastructure**
  - China is investing heavily in improving its transport infrastructure, especially its railway and road networks
  - China has some of the world's busiest ports like Shanghai, Shenzhen and Guangzhou, among others
- Supportive Policy Environment**
  - Since joining the WTO, China has opened or partially opened to foreign investment previously protected industries such as telecommunication, finance and trade & distribution
  - Strong regulatory and policy support through export incentives, tax holidays and establishment of special economic zones in coastal areas

Source: THE BEIJING AXIS Analysis

## CHINA SOURCING: VALUE PROPOSITION AND ANTICIPATED SAVINGS

Significant cost savings can be achieved, but do your homework and mitigate the risks

Anticipated Savings when Sourcing from China - BATEMAN BEIJING AXIS Case Study



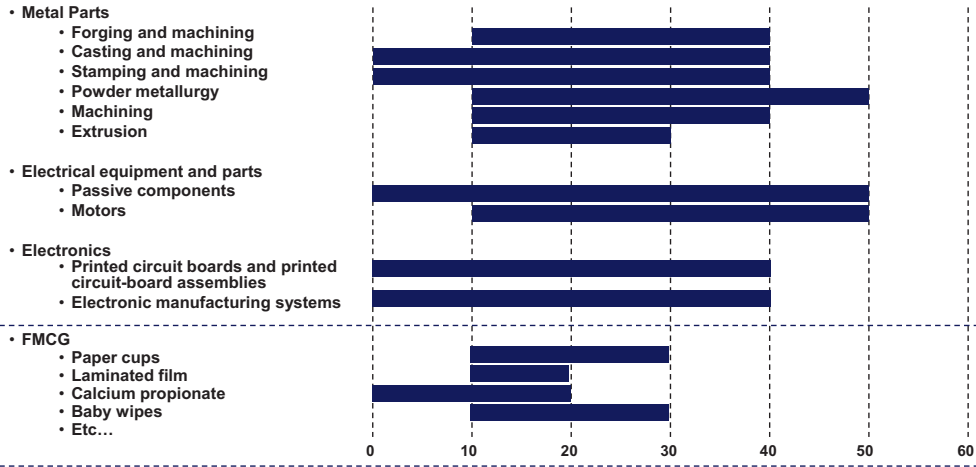
(1) Insurance, including duties and other charges  
 (2) Management, including Risk Management, Consultants, QA/QC, Trips, Time and related 3rd Parties  
 (3) \*TCC = Total Cost to Company

Source: THE BEIJING AXIS Analysis

## THERE IS MUCH POTENTIAL TO REDUCE PROCUREMENT COSTS WHEN SOURCING FROM CHINA

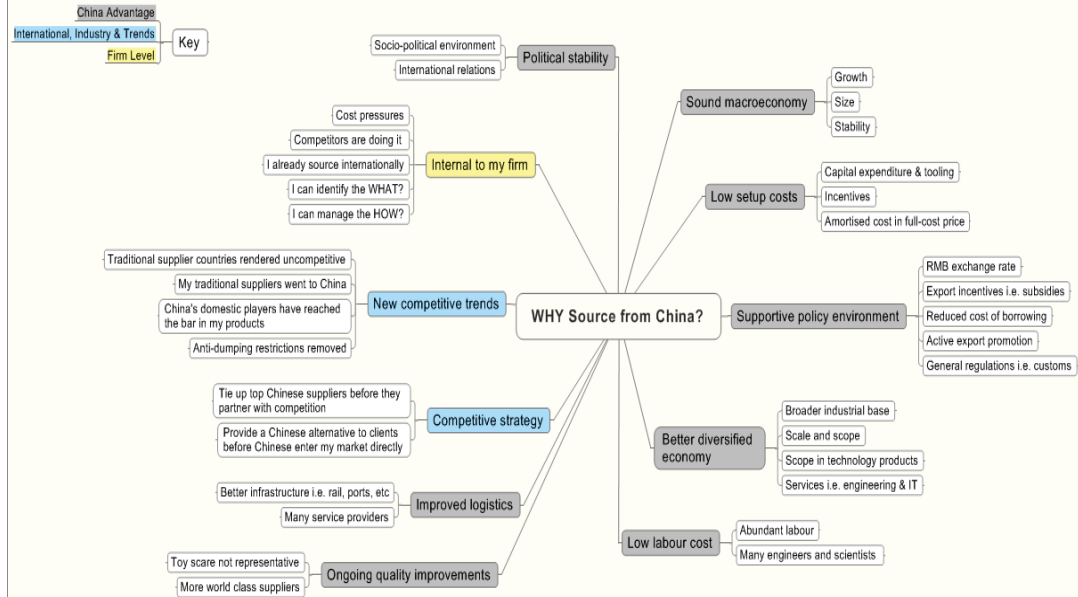
### Up to 30% cost savings can be achieved when sourcing FMCG

Range of Landed-cost Savings on Products Sourced from China (%)



Source: Leading China Sourcing Practices, BCG study 2007, Various

## WHY SOURCE FROM CHINA?



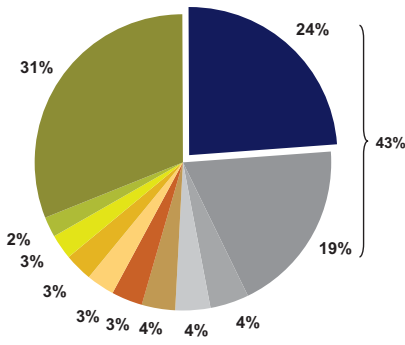
Source: THE BEIJING AXIS Analysis

## WHAT IS CHINA EXPORTING?

43% of China's exports are directly related to machinery, mechanical appliances, electrical equipment and parts and accessories of such articles

China's Export Mix (%), 2008

Total Exports: USD 1,428.69 bn



China's Top 10 Export Commodities (2008)

- Electrical machinery and equipment and parts thereof; sound recorders and reproducers
- Nuclear reactors, boilers, machinery and mechanical appliances, parts thereof
- Articles of apparel and clothing accessories, knitted or crocheted
- Iron and steel
- Articles of apparel and clothing accessories not knitted or crocheted
- Articles of iron or steel
- Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus
- Furniture; bedding, mattresses, mattress supports, cushions and similar stuffed furniture
- Vehicles other than railway or tramway rolling stock, parts and accessories thereof
- Toys, games and sports requisites, parts and accessories thereof
- Others

Source: UN Statistical Database; THE BEIJING AXIS Analysis

## WHAT IS CHINA EXPORTING? (II)

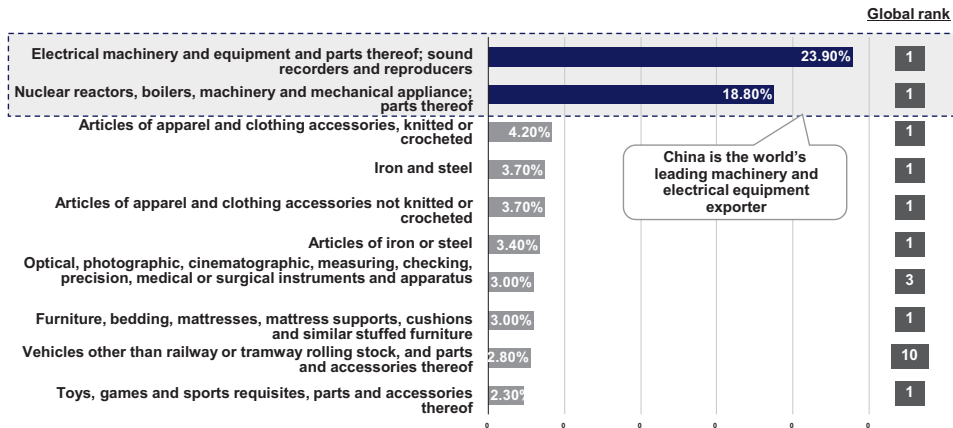
...with telephones, computers, monitors and projectors, electronic integrated circuits, printing machinery and related parts taking the largest share

1. **Electrical machinery and equipment and parts thereof; sound recorders and reproducers (23% of total exports)**
  - Telephone sets (26%)
  - Monitors and projectors (10%)
  - Electronic integrated circuits (7%)
  - Diodes, transistors and similar semiconductor devices (5%)
  - Electrical transformers, static converters (5%)
2. **Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof (19% of total exports)**
  - Automatic data processing machines and units thereof (39%)
  - Parts and accessories (12%)
  - Printing machinery (7%)
  - Taps, cocks, valves and similar appliances (4%)
  - Air conditioning machines (4%)
3. **Articles of apparel and clothing accessories, knitted or crocheted (4% of total exports)**
  - Jerseys, pullovers, cardigans, waistcoats (26%)
  - Women's or girls' suits (16%)
  - T-shirts, singlets (13%)
  - Men's or boys' suits (11%)
  - Women's or girls' slips (7%)
4. **Iron and steel (4% of total exports)**
  - Flat-rolled products of iron or non-alloy steel (37%)
  - Other bars and rods of other alloy steel (11%)
  - Ferro-alloys (11%)
  - Flat-rolled products of other alloy steel (7%)
  - Bars and rods, hot-rolled (6%)
5. **Articles of apparel and clothing accessories not knitted or crocheted (4% of total exports)**
  - Women's or girls' suits, ensembles (27%)
  - Men's or boys' suits (18%)
  - Women's or girls' overcoats (10%)
  - Men's or boys' overcoats (7%)
  - Brassières, girdles, corsets, braces (7%)
6. **Articles of iron or steel (3% of total exports)**
  - Structures and parts (19%)
  - Tubes, pipes and hollow profiles (19%)
  - Screws, bolts, nuts (9%)
  - Other articles of iron or steel (9%)
  - Tube or pipe fittings (6%)
7. **Optical, photographic, cinematographic, measuring, precision, medical etc. (3% of total exports)**
  - LCD, lasers etc. (54%)
  - Instruments and appliances used in medical, surgical etc. (6%)
  - Optical fibres (5%)
  - Automatic regulating or controlling instruments (4%)
  - Lenses, prisms, mirrors (4%)
8. **Furniture; bedding, mattresses, mattress supports, cushions and similar stuffed furnishings etc. (3% of total exports)**
  - Other furniture and parts (32%)
  - Seats (31%)
  - Lamps and lighting fittings (22%)
  - Mattress supports (11%)
  - Prefabricated buildings (3%)
9. **Vehicles other than railway or tramway rolling stock and parts and accessories thereof (3% of total exports)**
  - Parts and accessories (37%)
  - Motorcycles (12%)
  - Motor vehicles for the transport of goods (9%)
  - Other parts and accessories (8%)
  - Motor cars and other motor vehicles (8%)

Source: UN Statistical Database; THE BEIJING AXIS Analysis

## CHINA IS A GLOBAL LEADER IN MANY OF ITS MOST EXPORTED CATEGORIES OF GOODS

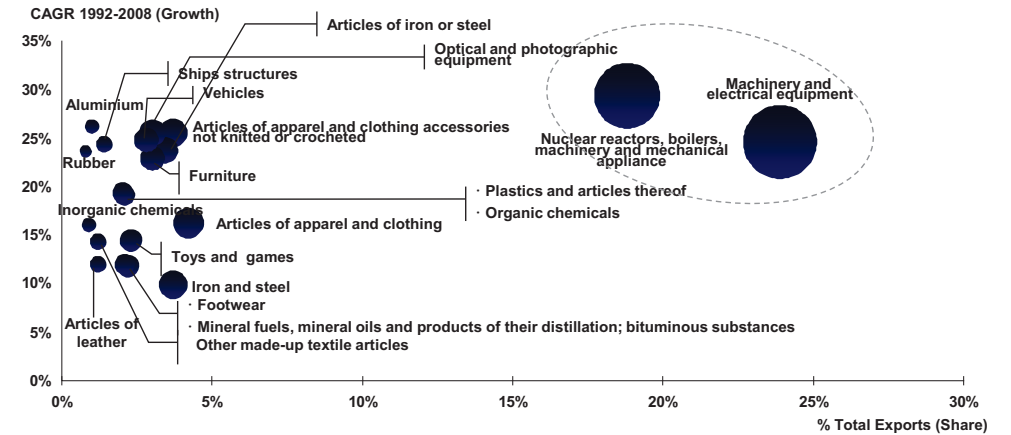
China Top 10 Export Commodities and % Share of Total Exports, (HS 2007 2digits, 2008)



Source: UN Statistical Database; THE BEIJING AXIS Analysis

## IN WHICH EXPORT CATEGORIES HAS CHINA RECORDED THE HIGHEST GROWTH RATE? For the past two decades, machinery and electrical equipment-related products have registered the highest growth in exports

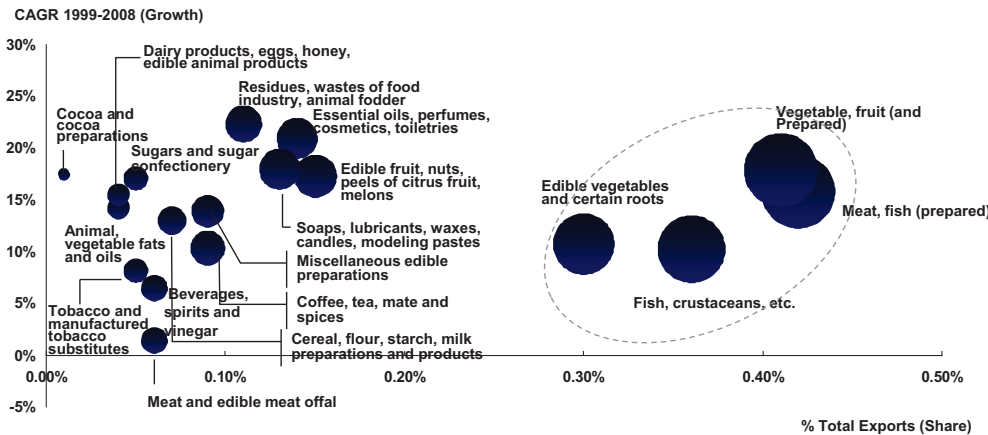
Export Growth and Share of China's Commodities (% total exports 2008, 1992-2008)



Source: UN Statistical Database; THE BEIJING AXIS Analysis

## CHINA ALSO EXPORTS A WIDE RANGE OF FAST MOVING CONSUMER GOODS (FMCG) Although FMCG-related products are a smaller share of total exports, they have registered outstanding export growth in the last decade

Export Growth of China's Selected FMCG (% total exports 2008, 1999-2008)



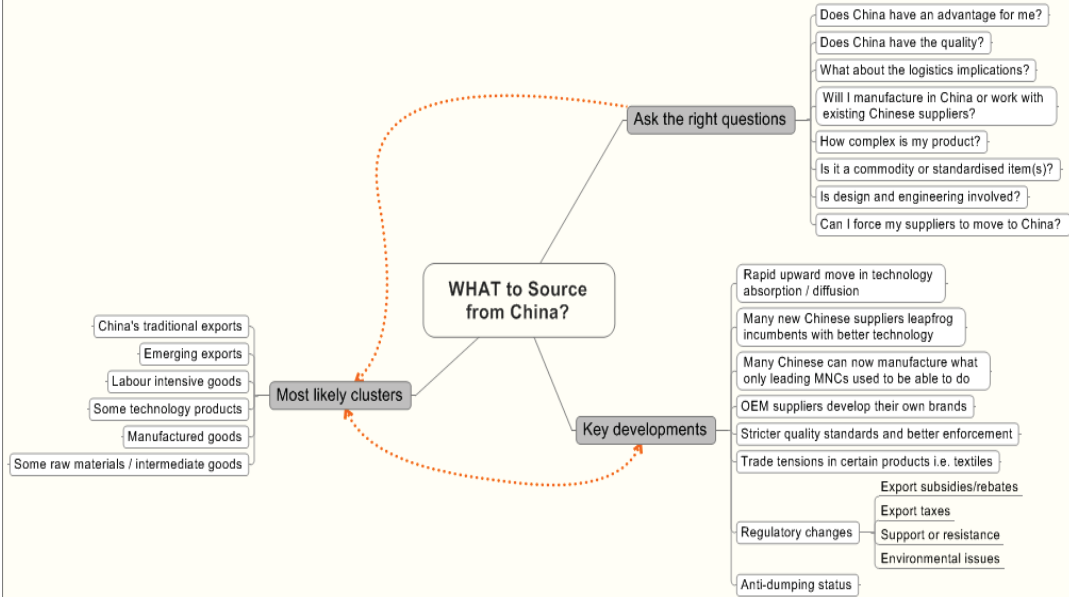
Source: UN Statistical Database; THE BEIJING AXIS Analysis

## CRUSTACEANS, PREPARED FISH, FRUIT, NUTS, JUICES AND DRY VEGETABLES ARE SOME OF THE MOST EXPORTED FMCG

- Meat, fish and seafood preparations (0.42% of total exports)
  - Crustaceans, mollusks and other aquatic invertebrates (43%)
  - Prepared or preserved fish (38%)
  - Other prepared or preserved meat (17%)
  - Sausages and similar products (2%)
- Vegetables, fruit, nuts, etc. food preparations (0.41% of total exports)
  - Fruit, nuts and other edible parts of plants (31%)
  - Fruit juices and vegetable juices (22%)
  - Other vegetables prepared or preserved (15%)
  - Tomatoes prepared or preserved (14%)
  - Mushrooms and truffles (11%)
- Fish, crustaceans, mollusks, aquatic invertebrates (0.36% of total exports)
  - Fish fillets and other fish meat (50%)
  - Fish, frozen (13%)
  - Mollusks (12%)
  - Live fish (9%)
  - Crustaceans (7%)
- Edible vegetables and certain roots and tubers (0.30% of total exports)
  - Dried vegetables (22%)
  - Dried leguminous vegetables (20%)
  - Onions, shallots, garlic, etc. (19%)
  - Vegetables frozen (16%)
  - Vegetables provisionally preserved (5%)
- Edible fruit, nuts, peel of citrus fruit, melons (0.15% of total exports)
  - Apples, pears and quinces, fresh (46%)
  - Citrus fruit, fresh or dried (22%)
  - Fruit and nuts (12%)
  - Other nuts (10%)
  - Grapes (5%)
- Essential oils, perfumes, cosmetics, toiletries (0.14% of total exports)
  - Beauty or make-up preparations (39%)
  - Shaving preparations (29%)
  - Preparations for oral (9%)
  - Mixtures of odoriferous substances (8%)
  - Preparations for use on hair (7%)
- Soaps, lubricants, waxes, candles, modeling pastes (0.13% of total exports)
  - Candles, tapers and the like (39%)
  - Organic surface-active agents (36%)
  - Soap (13%)
  - Lubricating preparations (5%)
  - Polishes and creams (4%)
- Residues, wastes of food industry, animal fodder (0.11% of total exports)
  - Preparations of a kind used in animal feeding (57%)
  - Oil-cake and other solid residues (17%)
  - Residues (14%)
  - Bran, sharps and other residues (5%)
  - Vegetable materials & waste (4%)
- Coffee, tea, mate and spices (0.09% of total exports)
  - Tea (52%)
  - Pepper of the genus piper (21%)
  - Ginger, saffron, turmeric etc. (18%)
  - Coffee (5%)
  - Cinnamon and cinnamon-tree flowers (2%)

Source: UN Comtrade Database; BATEMAN BEIJING AXIS Analysis

## WHAT TO SOURCE FROM CHINA?

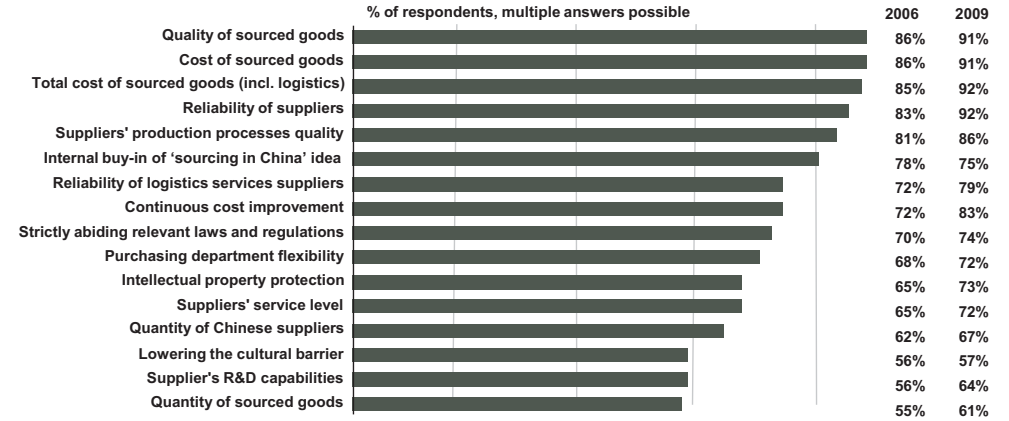


Source: THE BEIJING AXIS Analysis

## SUCCESSFUL CHINA SOURCING IS A TALL ORDER

There are many critical success factors and risks

### Critical Success Factors / Risks in Sourcing from China

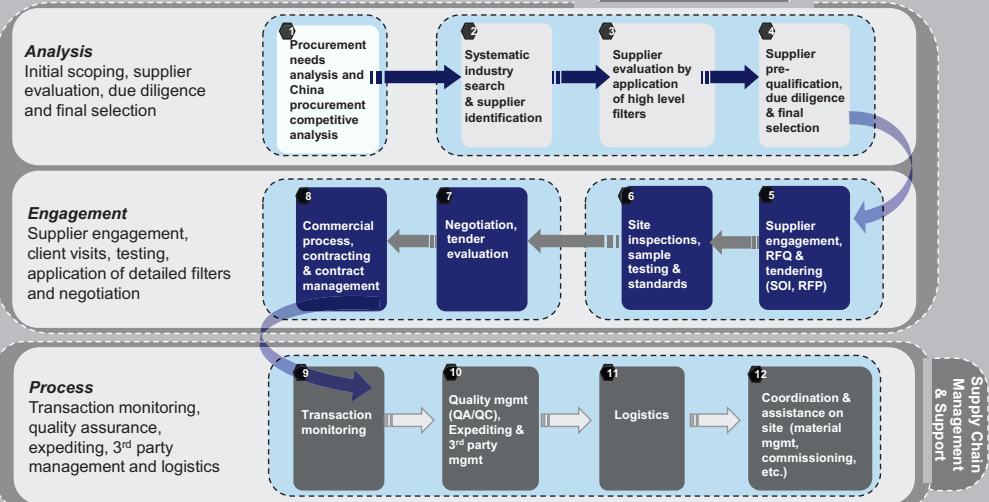


Source: Bearing Point; THE BEIJING AXIS Analysis

## BATEMAN BEIJING AXIS PROCUREMENT SERVICE DELIVERY PLATFORM & METHODOLOGY

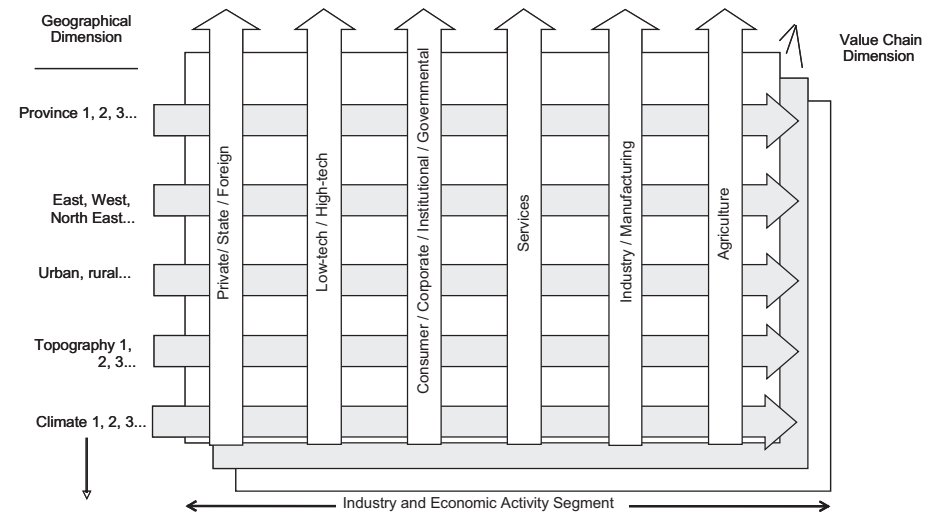
- Overall Project Management
- Holistic Risk Management
- Strategic Relationship Management

### Strategic Sourcing



## CHINA IS BIG, COMPLEX AND WITH MUCH SYSTEMIC VARIABILITY AND CHANGE

Implications for Strategy & Implementation? Be Rigorous



Source: THE BEIJING AXIS Analysis

## CHINA'S SIZE MAKES A SIGNIFICANT DIFFERENCE

It makes it better and worse, more opportunity but greater complexity

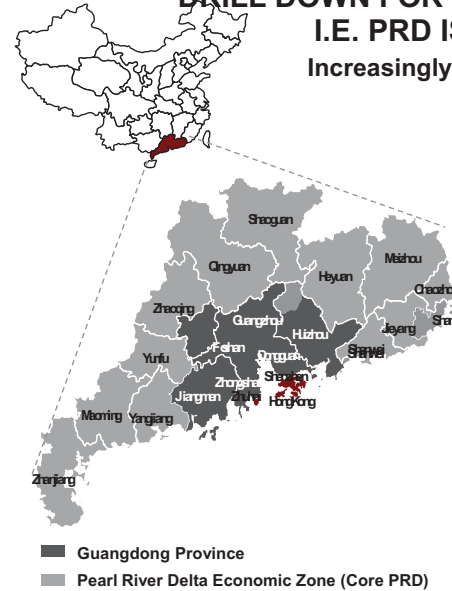
China Provincial GDP: Comparison with National Economies of the same size (2008)

	Pop. in Mn	Pop. % of Total	GRP* in USD bn	% of GDP	Comparable Size Economy		Pop. in Mn	Pop. % of Total	GRP* in USD bn	% of GDP	Comparable Size Economy
Anhui	61	4.7	77	2.6	Morocco	Jiangxi	43	3.3	60	2	Slovakia
Beijing	16	1.2	101	3.3	Peru	Jilin	27	2.1	55	1.9	Slovakia
Chongqing	28	2.2	45	1.5	Croatia	Liaoning	43	3.3	119	4	Philippines
Fujian	36	2.8	98	3.3	Peru	Ningxia	6	0.5	9	0.3	Nepal
Gansu	26	2	29	1	Sri Lanka	Qinghai	5	0.4	8	0.3	Afghanistan
Guangdong	93	7.2	336	11.3	Austria	Shaanxi	37	2.9	58	2	Slovakia
Guangxi	47	3.6	62	2.1	Vietnam	Shandong	93	7.2	283	9.6	South Africa
Guizhou	38	3	29	1	Sri Lanka	Shanghai	18	1.4	133	4.5	Singapore
Hainan	8	0.6	13	0.5	Ethiopia	Shanxi	34	2.6	61	2.1	Vietnam
Hebei	69	5.3	149	5	Chile	Sichuan	82	6.3	111	3.7	Egypt
Heilongjiang	38	2.9	79	2.7	Morocco	Tianjin	11	0.9	56	1.9	Slovakia
Henan	94	7.3	160	5.4	Colombia	Tibet	3	0.2	4	0.1	Niger
Hubei	57	4.4	97	3.3	Peru	Xinjiang	21	1.6	39	1.3	Sudan
Hunan	63	4.9	97	3.3	New Zealand	Yunnan	45	3.5	51	1.7	Libya
Inner Mongolia	24	1.9	61	2.1	Vietnam	Zhejiang	50	3.9	202	6.8	Portugal

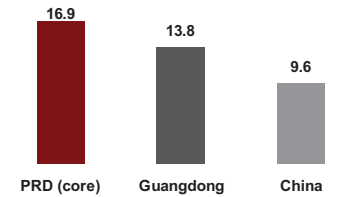
Notes: GRP – Gross Regional Product  
Source: China Statistical Yearbook 2007

## DRILL DOWN FOR BEST EXPORT/SOURCING RESULTS: I.E. PRD IS A KEY MANUFACTURING CLUSTER

Increasingly high-end goods can be sourced with success



GDP Growth Rates (% , 1980-2007)

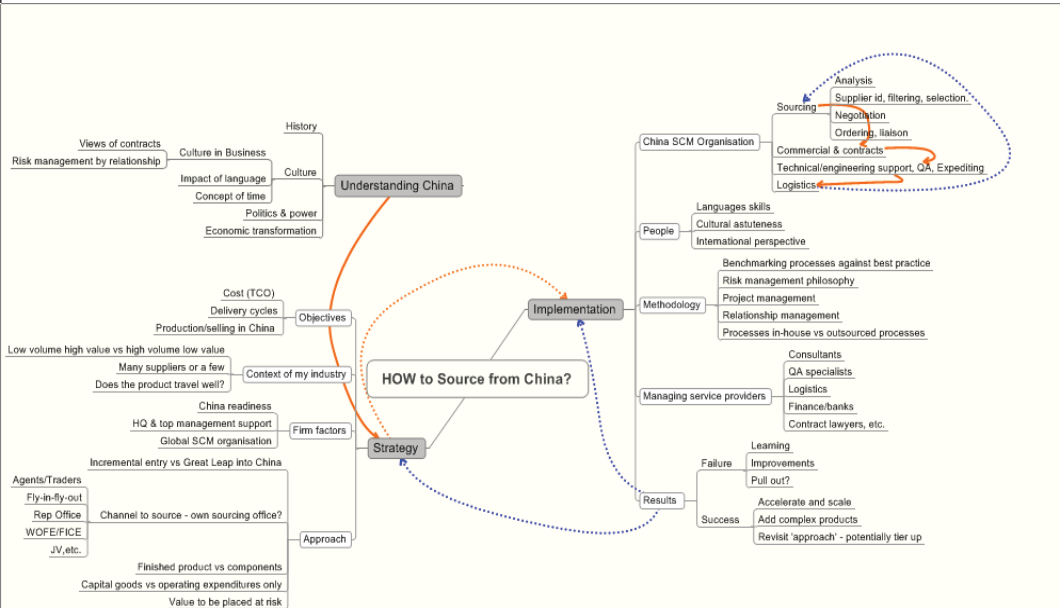


Delta's Portion of Mainland Output

- |  |  |
|--|--|
| <p><b>IT and Electronics</b></p> <ul style="list-style-type: none"> <li>78.8% Telephones</li> <li>60.2% Printers</li> <li>55.8% Fax Machines</li> <li>50.7% Digital Switches</li> <li>43.6% Video Recorders</li> <li>35.5% VCD Players</li> <li>31.1% LS Semiconductors</li> <li>24.3% CRTs</li> <li>23.0% PCs</li> <li>19.1% Mobile Phones</li> </ul> | <p><b>Electrical Appliances</b></p> <ul style="list-style-type: none"> <li>88.2% Electrical Fans</li> <li>80.4% Hi-Fi Equipment</li> <li>79.0% Elect Rice Cookers</li> <li>72.1% Microwave Ovens</li> <li>64.3% Cameras</li> <li>58.4% Gas Water Heaters</li> <li>37.5% Air-conditioners</li> <li>34.8% Color TVs</li> <li>25.1% Refrigerators</li> <li>24.9% Vacuum Cleaners</li> </ul> |
|--|--|

Source: Guangdong Statistical Yearbook, China Statistical Yearbook

## HOW TO SOURCE FROM CHINA?



Source: THE BEIJING AXIS Analysis

## AGENDA

China in the World

China's Recovery – Is it Sustainable?

China Sourcing – Why? What? How?

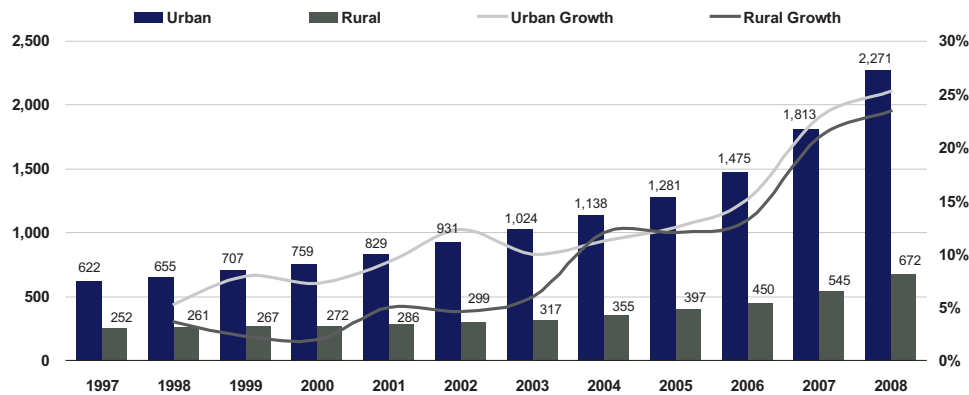
What about FMCG?

Final Word

## CHINA'S RAPID ECONOMIC DEVELOPMENT IS DRIVING AN INCREASE IN PURCHASING POWER

Urban households initially saw a higher growth rate than their rural counterparts, but this disparity in growth rates has decreased in recent years

Annual Disposable Income of Urban Households and Net Income of Rural Households Per Capita (USD, 1997-2008)



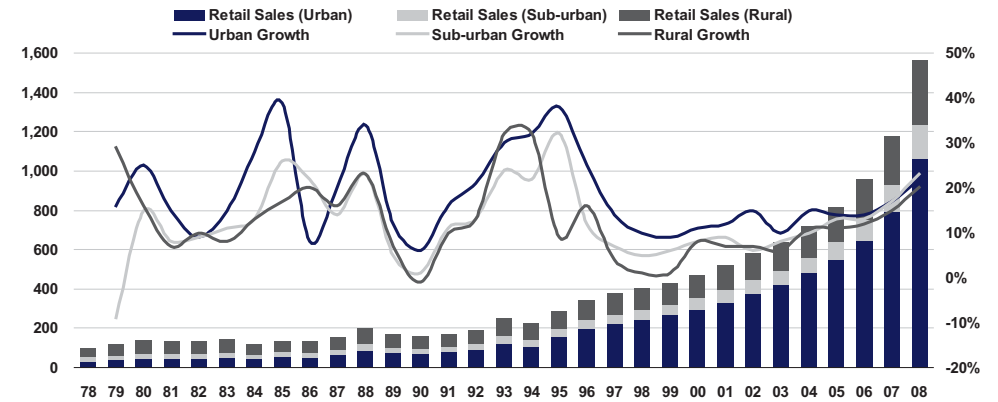
Note: Growth rates are calculated at current prices  
Source: National Statistics Database; THE BEIJING AXIS Analysis

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## PRIVATE CONSUMPTION IS DRIVING THE DOMESTIC FMCG MARKET

Whereas retail sales were quite volatile in the 1980s and 1990s, there has been substantial, stable growth in the past decade

Annual Retail Sales and Growth Rate by Administrative Level (USD bn<sup>1</sup>, 1978-2008)



1. Figures converted from RMB to USD using the average exchange rate for the respective years; however, the growth rate does not factor in exchange rate fluctuations  
Source: China Statistical Yearbook; China Monthly Economic Indicators; THE BEIJING AXIS Analysis

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## THE GROWTH POTENTIAL HAS ATTRACTED MAJOR GLOBAL PLAYERS TO CHINA (FOR BOTH SOURCING AND SELLING)

The world's leading brands have expanded their investments in China

- **Coca Cola**
  - In 2009 Coca Cola announced that it would invest USD 2 billion in China for the next three years
- **Unilever**
  - In December 2009 Unilever announced that its China sales had reached USD 1.46 billion and that annual growth is expected to be at least 15%
  - During a visit to China the CEO of Unilever Paul Polman mentioned that they will continue to invest in China in order to capitalise on China's growth
- **Nestle**
  - In August 2009 Nestle announced that they expected sales revenue from China to grow 20% over the next few years
  - Nestle also announced the opening of a new production line for Nescafe coffee in Shanghai with a total cost of USD 8.78 million



Source: Various press releases; THE BEIJING AXIS Analysis

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## WHEN SOURCING FMCG FROM CHINA, SEVERAL KEY FACTORS SHOULD BE CONSIDERED

- **Quality/Safety**
  - Food safety is now one of the key issues in China
  - It is set to remain an international trade issue – implications for procurement
  - For example, China's food producers use growth hormones and fertilisers
- **Recognising Risk**
  - Rising awareness of the need for tight controls on food hygiene – Corporate and Government
  - Government has set up the China Food and Drug Administration (CFDA) in 2002, a monitoring mechanism for the processing and sale of food products, including pre-market checks on food
  - Practices will change slowly - risks are significant
- **Good Processes**
  - Need for sourcing processes – right people
  - Need for trusted 'food inspectors' across suppliers – regular / periodical checks
  - Need to spend more time with suppliers
  - Costly – but still economic
- **Third Parties!**

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## DIFFERENT APPROACHES AND ISSUES FOR CHINA SOURCING

- Do it in house and/or via good intermediaries
  - Due diligence on intermediaries, not just suppliers
- Adept at working with 3<sup>rd</sup> parties
  - Understand deliverables/liability
  - Do not trust
- Change risk management to suit deep-level involvement
- Develop best practice
- Establish SC for low risk leaders first

## AGENDA

China in the World

China's Recovery – It is Sustainable?

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**Final Word**

## FINAL WORD

- The world is looking at sourcing from LCCs – its a global phenomenon and its changing from 'additional competitive advantage' to a prerequisite for survival and development
- Developing countries are becoming more important as new supply bases, this is truly an Asian story
- China ranks at the top of the LCC equation; India still searching for its place in the global production chain but is positioned in the flying geese formation (also Vietnam, Malaysia, Thailand, Indonesia, etc.)
- Ignoring China (and India et al) is no longer possible or wise
  - Threat, opportunity
  - Soon: Made in China ... 'Coming to a place near you' ; 'preemptive China sourcing'
  - Must form part of a 'global supply chain portfolio'
- Very complicated - many risks i.e. quality/safety, counterparty risk, financing, complexity, contracts, language, trade protectionism, etc – Watch out!
- Use information well – but the right information – this is the main aid in risk mitigation
- Communicate well and often, manage engagement – both with HQ at home and with Chinese counterparties
- Good strategy, good implementation – processes, systems and people (and partners across SC)
- Act now – ask yourself, Why? What? How?