HONG KONG FOOD AND BEVERAGE MARKET

MARKET OVERVIEW

2016
Business Sweden Hong Kong
HONG KONG IS PART OF CHINA BUT OPERATES UNDER DIFFERENT POLITICAL, ECONOMIC AND LEGAL SYSTEMS

Under the principle of “One Country, Two Systems”, the socialist system and policies shall not be practised in the HKSAR and its previous capitalist system and life-style shall remain unchanged for 50 years (i.e. year 2047)

The Central People’s Government (CPG) is responsible for defence and foreign affairs relating to the HKSAR

Source: Hong Kong Census & Statistic Department; The World Bank

POPULATION
7.3 million (2015)

AREA
1 104 km²

GDP
BUSD 308 (2015)

GDP PER CAPITA PPP
USD 42,200 (2015)

Major Differences from China

High
degree of autonomy from the Mainland

Free
movement of capital, talent, goods and information

Freedom
of expression, press, travel, assembly and religion

English
is widely used in the Government and by the legal, professional and business sectors

Common Law System
is used in Hong Kong and it is different from China’s civil law system
Hong Kong is an import-dependent market with 95% of food and beverage products imported from around the world.

Consumption – In round figures, the daily fresh food consumption by Hong Kong’s population is 869 tonnes of rice, 2 258 tonnes of vegetables, 4 573 head of pigs, 49 head of cattle and 23 tonnes of poultry in 2015. Much of this is imported, but Hong Kong’s primary producers help to satisfy some of the demand.

Local production – The gross value of local agricultural production totalled MUSD 122 in 2015. 2% of the vegetables Hong Kong people consumed, together with 95% of the live poultry and 6% of the live pigs, come from local farms. Local production is geared to complement rather than compete with other major market suppliers.
TOTAL F&B IMPORTS TO HONG KONG REACHED BUSD 24 IN 2015

HONG KONG IMPORTS OF F&B FROM TOP 10 COUNTRIES OF ORIGIN, 2015

USD BILLION

<table>
<thead>
<tr>
<th>Country</th>
<th>Value (BUSD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>5.2</td>
</tr>
<tr>
<td>USA</td>
<td>3.8</td>
</tr>
<tr>
<td>Brazil</td>
<td>1.8</td>
</tr>
<tr>
<td>France</td>
<td>1.4</td>
</tr>
<tr>
<td>Netherlands</td>
<td>1.2</td>
</tr>
<tr>
<td>Australia</td>
<td>1.1</td>
</tr>
<tr>
<td>Japan</td>
<td>1.1</td>
</tr>
<tr>
<td>Thailand</td>
<td>1.1</td>
</tr>
<tr>
<td>Chile</td>
<td>0.5</td>
</tr>
<tr>
<td>UK</td>
<td>0.5</td>
</tr>
</tbody>
</table>

RELATED INFORMATION

- Total F&B imports to Hong Kong reached BUSD 24 in 2015, compare to BUSD 25.7 in 2014.
- China, followed by USA and Brazil is Hong Kong’s largest import market of F&B related products.
- Over 70% of the total F&B imports to Hong Kong is represented by ten countries.
- China imports represent over 20% of the imported F&B.
- Other meat and edible meat offal, and meat of bovine animals and fruit and nuts are the most imported F&B commodities to Hong Kong.

SOURCE: HONG KONG CENSUS AND STATISTICS DEPARTMENT

*EXCHANGE RATES OF 19-10-2016*
MEAT PRODUCTS ALONG WITH FRUIT AND NUTS ARE THE MOST IMPORTED COMMODITIES

HONG KONG’S TOP IMPORTED F&B COMMODITIES IN BILLION USD 2015

<table>
<thead>
<tr>
<th>Commodities</th>
<th>Imports</th>
<th>Re-exports</th>
<th>Re-exports (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fruit and nuts (not including oil nuts), fresh or dried</td>
<td>3.73</td>
<td>14.7</td>
<td>51%</td>
</tr>
<tr>
<td>Other meat and edible meat offal, fresh, chilled or frozen (except meat and meat offal unfit for human consumption)</td>
<td>3.70</td>
<td>1.74</td>
<td>47%</td>
</tr>
<tr>
<td>Alcoholic beverages</td>
<td>2.03</td>
<td>1.16</td>
<td>57%</td>
</tr>
<tr>
<td>Crustaceans, molluscs &amp; aquatic invertebrates; crustaceans, in shell, cooked by boiling in water; flours, meals &amp; pellets of crustaceans, fit for human consumption</td>
<td>1.64</td>
<td>0.43</td>
<td>26%</td>
</tr>
<tr>
<td>Milk and cream and milk products other than butter or cheese</td>
<td>1.62</td>
<td>0.43</td>
<td>26%</td>
</tr>
<tr>
<td>Edible products and preparations, n.e.s.</td>
<td>1.55</td>
<td>0.28</td>
<td>18%</td>
</tr>
<tr>
<td>Meat of bovine animals, fresh, chilled or frozen</td>
<td>1.52</td>
<td>0.30</td>
<td>20%</td>
</tr>
<tr>
<td>Fish, fresh (live or dead), chilled or frozen</td>
<td>1.08</td>
<td>0.17</td>
<td>16%</td>
</tr>
<tr>
<td>Meat and edible meat offal, prepared or preserved, n.e.s</td>
<td>0.88</td>
<td>0.10</td>
<td>12%</td>
</tr>
<tr>
<td>Non-alcoholic beverages, n.e.s.</td>
<td>0.84</td>
<td>0.05</td>
<td>6%</td>
</tr>
<tr>
<td>Others</td>
<td>5.37</td>
<td>0.82</td>
<td>15%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>23.97</strong></td>
<td><strong>7.37</strong></td>
<td><strong>31%</strong></td>
</tr>
</tbody>
</table>

HONG KONG IS A MAJOR TRADING HUB WHERE CONSUMER ORIENTED PRODUCTS ARE TRANSSHIPPED TO OTHER PARTS OF ASIA

SOURCE: HONG KONG CENSUS AND STATISTICS DEPARTMENT

"EXCHANGE RATES AS OF 19-10-2016"
REMARKS

- Hong Kong is a trading hub for exports into mainland China
- Hong Kong companies understand Chinese culture and the needs of mainland consumers
- Hong Kong is generally recognized as the trend-setter by mainland consumers, so whenever they come to Hong Kong for business or pleasure, they will invariably buy some food as gifts or for self-consumption
- Hong Kong can also act as a product sale and market testing platform for foreign food companies planning to develop the mainland market, and can formulate the right marketing and promotional strategies for the products
- Hong Kong has a relaxed regulatory environment for imported F&B
THE TOTAL VALUE OF SWEDISH F&B EXPORTS TO ASIA WAS MUSD 291 IN 2015

SWEDISH F&B EXPORTS TO SOME OF THE ASIAN COUNTRIES, 2015

USD MILLION

<table>
<thead>
<tr>
<th>Country</th>
<th>Value (MUSD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>47.3</td>
</tr>
<tr>
<td>Japan</td>
<td>29.1</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>19.6</td>
</tr>
<tr>
<td>Singapore</td>
<td>8.1</td>
</tr>
<tr>
<td>Malaysia</td>
<td>7.61</td>
</tr>
<tr>
<td>Thailand</td>
<td>5.6</td>
</tr>
<tr>
<td>Taiwan</td>
<td>8.5</td>
</tr>
<tr>
<td>Korea</td>
<td>1.6</td>
</tr>
<tr>
<td>Macau</td>
<td>1.6</td>
</tr>
</tbody>
</table>

TOTAL SWEDISH F&B EXPORTS TO ASIAN COUNTRIES BY MARKET, 2015

- Other: 57%
- China: 14%
- Japan: 10%
- Hong Kong: 7%
- Korea: 3%
- Taiwan: 3%
- Singapore: 2%
- Thailand: 2%
- Malaysia: 2%

EXCHANGE RATES AS OF 19-10-2016

SOURCE: SCB 2015
**HONG KONG F&B IMPORTS FROM SWEDEN INCREASED WITH MUSD2.6 BETWEEN 2010 AND 2015**

**SWEDISH F&B EXPORTS DEVELOPMENT TO HONG KONG AND CHINA BETWEEN 2000 - 2015**

USD MILLION

<table>
<thead>
<tr>
<th>Year</th>
<th>Hong Kong</th>
<th>China</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>6.2</td>
<td>2.2</td>
</tr>
<tr>
<td>2005</td>
<td>14.3</td>
<td>8.3</td>
</tr>
<tr>
<td>2010</td>
<td>24.7</td>
<td>16.9</td>
</tr>
<tr>
<td>2014</td>
<td>46.7</td>
<td>47.2</td>
</tr>
<tr>
<td>2015</td>
<td>19.5</td>
<td></td>
</tr>
</tbody>
</table>

142%

**HONG KONG’S AND CHINA’S MOST IMPORTED F&B COMMODITIES FROM SWEDEN, 2015**

<table>
<thead>
<tr>
<th>Hong Kong</th>
<th>MUSD</th>
<th>China</th>
<th>MUSD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Edible products and preparations n.e.s</td>
<td>5.6</td>
<td>Margarine and shortening</td>
<td>14.0</td>
</tr>
<tr>
<td>Meat other than bovine, fresh, chilled or frozen*</td>
<td>3.6</td>
<td>Fruit, prepared or preserved</td>
<td>8.8</td>
</tr>
<tr>
<td>Preparations of cereals, flour, starches</td>
<td>2.6</td>
<td>Milk and cream</td>
<td>7.0</td>
</tr>
<tr>
<td>Milk and cream</td>
<td>2.0</td>
<td>Edible products and preparations n.e.s</td>
<td>4.1</td>
</tr>
<tr>
<td>Alcoholic beverages</td>
<td>1.7</td>
<td>Preparations of cereals, flour, starches</td>
<td>3.7</td>
</tr>
</tbody>
</table>

*) “Chilled” and “frozen” refers to food stored at 0 to 4°C, respectively -18 °C or below

SOURCE: SCB 2015

*EXCHANGE RATES AS OF 19-10-2016
EXAMPLES OF SWEDISH F&B PRODUCTS THAT CAN BE SEEN IN THE HONG KONG RETAIL MARKET

Alcoholic beverages (e.g. cider)

Sweets

Fish sticks

Salmon

Smoothie drinks

Caviar (roe)

Throat pastilles

Crispbread

Pork and beef (e.g. meatballs)

Coffee

Biscuits (e.g. gingerbread)

Muesli

Dairy (e.g. cheese)
HONG KONG CONSUMERS HAVE BECOME MORE AWARE OF FOOD SAFETY AND NUTRITION VALUES

REMARKS ON F&B TRENDS IN HONG KONG

- There has been an increasing trend in Hong Kong towards the consumption of healthy, quality, functional and organic foods
- Increasing demand for food that are time saving, yet healthy
- Driving forces are demographics changes, busy lifestyles, food safety incidents etc.
- In particular, ageing populations and a rise in health consciousness are creating a receptive environment for products that aid the “maintenance” of health, such as cholesterol-lowering spreads and high calcium milk
- While health issues are creating new openings, convenience foods such as microwaveable and packaged foods, also looking promising in growth terms
- Frozen ready meals and other frozen processed food are also becoming more popular in Hong Kong. Frozen processed food is perceived to be healthier than canned/preserved food

SOURCE: HONG KONG TRADE DEVELOPMENT COUNCIL, AP, REUTERS
In Hong Kong, the wet markets are strong in fresh foods, while supermarkets are strong in processed, chilled and frozen, high added value, and canned food products. The competition between wet markets and supermarkets has intensified in recent years.
HONG KONG F&B RETAIL SALES CONTINUE TO GROW – SUPERMARKETS HAVE THE GREATEST SHARE OF SALES

F&B RETAIL SALES*, 2015

USD BILLION

<table>
<thead>
<tr>
<th>Year</th>
<th>Supermarket/Department stores</th>
<th>Other outlets</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>4,0</td>
<td>4,6</td>
</tr>
<tr>
<td>2011</td>
<td>4,3</td>
<td>5,2</td>
</tr>
<tr>
<td>2012</td>
<td>4,4</td>
<td>5,8</td>
</tr>
<tr>
<td>2013</td>
<td>4,6</td>
<td>6,2</td>
</tr>
<tr>
<td>2014</td>
<td>4,9</td>
<td>6,6</td>
</tr>
<tr>
<td>2015</td>
<td>5,2</td>
<td>6,7</td>
</tr>
</tbody>
</table>

*) Numbers include tobacco

RELATED FACTS

- F&B retail sales grew ~3.5% in 2015
- More and more customers prefer packaged food because of the product quality, nutritional value and convenient packaging or usage
- While both wet market and supermarket sales are increasing, supermarkets are taking a greater share of total sales
  - Two supermarket chains, Wellcome and PARKnSHOP, account for ~75% of the supermarket turnover
- Cold chain and distribution channels for food products are generally efficient and dependable, as is the customs clearance process
HONG KONG SUPERMARKET CHAINS ARE DOMINATED BY WELLCOME AND PARKNSHOP

<table>
<thead>
<tr>
<th>Name of retailer</th>
<th>Ownership</th>
<th># of outlets in Hong Kong</th>
<th># of outlets in China</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wellcome</td>
<td>Hong Kong</td>
<td>280+</td>
<td>-</td>
</tr>
<tr>
<td>PARKnSHOP</td>
<td>Hong Kong</td>
<td>300+</td>
<td>60</td>
</tr>
<tr>
<td>China Resources Vanguard</td>
<td>China</td>
<td>90</td>
<td>360</td>
</tr>
<tr>
<td>DCH Food Mart</td>
<td>Hong Kong</td>
<td>70+</td>
<td>-</td>
</tr>
<tr>
<td>AEON Store*</td>
<td>Japan</td>
<td>13</td>
<td>~50</td>
</tr>
<tr>
<td>City super</td>
<td>Hong Kong</td>
<td>4</td>
<td>3</td>
</tr>
</tbody>
</table>

*) Number includes general merchandise stores and independent supermarkets
SOURCE: WEBSITE’S OF THE ABOVE SUPERMARKETS
TWO LARGE GROUPS DOMINATE THE MARKET OF F&B RETAIL CHAINS IN HONG KONG

**A.S. Watson Group**

PARKnSHOP is one of Hong Kong’s largest supermarket chains. PARKnSHOP sells a wide range of products under generic brands, both "private label" and "Best Buy" branding.

International by PARKnSHOP is an international supermarket concept that provides different flavours of East and West, catered for International Asian and Western customer segments.

Taste, an international Asian superstore concept, provides customers with "More than Food". The range spans from fresh and ready-to-eat food, in-store bakery, imported specialist items and a wine cellar.

Fusion by PARKnSHOP is an international superstore concept that combines the freshness produce with a wide selection of western delicacies.

Gourmet Food Hall offer selected fresh produce to ready-prepared meals and light bites.

GREAT Food Hall is targeting high income consumer segments with an international range of food and beverage.

SU-PA-DE-PA is a new concept destination store that is a combination of a supermarket and department store to cater for all customers’ daily needs - food, clothing, living and entertainment.

滋味佳 is a Japanese and Korean snack specialty store.

Express is a convenience store concept that serves cosmopolitan customers for take-away.

PARKnSHOP Frozen Food provides daily frozen and chilled food. Basic grocery and drinks are also available.

**Dairy Farm**

Wellcome is one of Hong Kong’s largest supermarket chains. Wellcome sells a wide range of products. Yu Pin King, First Choice and Surebuy are the company’s corporate brands.

ThreeSixty is a organic and natural food store and boasts a range of healthy foods, as well as environmentally friendly household and personal care products.

Jasons MarketPlace is a lifestyle supermarket catering for discerning consumers seeking quality gourmet groceries, fine wines and top brand health and beauty products.

Oliver’s The Delicatessen offers a wide range of high quality gourmet food and fine wine and high quality products from around the world.

7-Eleven, a convenience store that offers convenient products and services to customers with a variety of ready-to-eat snacks and meals.

IKEA in Hong Kong and Taiwan is operated by Dairy Farm on a franchise basis.

SOURCE: WEBSITE’S OF DAIRY FARM AND WATSON GROUP
IN NOVEMBER 2015, MARKS & SPENCER OPENED ITS LARGEST FOOD STORE IN ASIA IN HONG KONG

A 360 SQM STORE FEATURES 2 400 HIGH QUALITY, INNOVATIVE FOOD AND DRINKS

- Marks & Spencer is targeting the high-end food consumers in Hong Kong
- Popular items are sandwiches, salads, as well as a range of popular prepared meals
- Favorites among Hong Kong customers are houmous (dip) and redcurrant puffs
- M&S is also introducing its Hot Food to Go concept for the first time in Asia including hot sausage rolls, croissants, toasties, baguettes, soup and hot dogs
- For Christmas festive treats, the shops will stock special items like butter rich mince pies, our classic Christmas pudding and our show-stopping Christmas cakes

Expansion plan in Hong Kong
- Currently 7 food stores including a new shop at convenient travel location, the Central MTR station, was opened also in November 2015 to reach even more customers
- M&S will continue to expand its presence in Hong Kong with three further new food stores during 2016-2017
“…Hong Kong is one of the world’s leading gourmet dining centers. The city’s creativity, curiosity and culture openness constantly enriches one of the most dynamic gourmet dining scenes anywhere. A city of exchanges, encounters, cross-cultural experiences and inspiration, Hong Kong has become an undisputed leader in the international culinary landscape.”

MICHAEL ELLIS, INTERNATIONAL DIRECTOR OF THE MICHELIN GUIDES
THE HONG KONG RESTAURANT INDUSTRY GENERATED OVER BUSD 13,4 IN SALES IN 2015

HONG KONG RESTAURANT PURCHASES AND RECEIPTS

USD BILLION

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchases by Restaurants</td>
<td>4,8</td>
<td>4,4</td>
<td>4,6</td>
<td>+2.3%</td>
</tr>
<tr>
<td>Restaurant receipts</td>
<td>12,5</td>
<td>12,9</td>
<td>13,4</td>
<td>+3.8%</td>
</tr>
</tbody>
</table>

REMARKS

- Hong Kong restaurant industry’s purchase of BUSD 4,6 in F&B generated sales of BUSD 13,4 in 2015
- Restaurant receipts in Hong Kong are rising, thanks to a local population that loves eating out and record visitor numbers (over 59 million visitor arrivals)
- Hong Kong, as one of Asia’s most cosmopolitan city, offers a wide range of world cuisine
  - There are around 14 000 restaurants and over 1 000 bars, pubs and other eating and drinking establishments
  - 56% non-Chinese restaurants, 37% Chinese restaurants and 7% fast food outlets
  - Many celebrity chef’s have opened restaurants in Hong Kong, e.g. Jamie Oliver, Gordon Ramsey and Jason Atherton
  - 65 restaurants in Hong Kong were awarded Michelin-star in 2015 and 2016 Björn Frantzén opened his high-end restaurant

SOURCE: HONG KONG CENSUS AND STATISTICS DEPARTMENT, CNN.COM

*EXCHANGE RATES OF 19-10-2016
LOCAL PLAYERS IN HORECA INDUSTRY ARE OPEN TO NEW PRODUCTS, BASED ON BUSINESS SWEDEN’S INTERVIEWS

“We have a tempting array of Western and Asian dishes. We are open to all kinds of products, including Swedish F&B”

Assistant Director of F&B - Island Shangri-La

“We are interested in distributing all kinds of products that are not on the Hong Kong market yet”

Sourcing/purchasing Department – local distributor with focus on mainstream F&B

"F&B is not the first on my mind when I think of Sweden. I do not have much experience of Swedish F&B, and thus I am not aware of any Swedish products”

Director of F&B - Four Seasons Hotels and Resorts

“We do not distribute Swedish F&B, but we would be interested in for example Swedish seafood”

Sales Manager - local distributor who is specialized in distributing fine foods
The Hong Kong F&B market has low barriers to entry, with transparent and efficient customs clearance procedures, and a much relaxed import regulations on F&B products.

Foreign F&B companies are recommended to develop an efficient and effective logistics strategy for the Asian market.
THE MOST COMMON WAY TO ENTER THE HONG KONG MARKET IS THROUGH AN ESTABLISHED LOCAL AGENT

REMARKS

- Using an agent is the most common approach
  - Extensive distribution network
  - Marketing and advertising support
- Selling direct to supermarkets in Hong Kong
  - Usually require exclusive rights in selling the products through their own outlets only and listing fee may be charged
  - Large supermarket chains obtain supplies of products through local agents
- Major supermarkets works with consolidators to introduce new products, usually in small quantities to test the market
- **HORECA sector**, second-tier supermarket groups and local convenience stores, which do not have their own warehousing facilities, generally source selected product items from overseas via importers
- Distribution to traditional markets such as wet markets, groceries, hawkers and small corner stores is handled by a number of intermediary provision wholesalers

FOREIGN COMPANIES CAN CONSIDER SETTING UP A REPRESENTATIVE OFFICE IN HONG KONG AS A NEXT STEP TO ENTER THE MARKET
HONG KONG DOES NOT LEVY ANY CUSTOMS DUTIES ON FOOD IMPORTS

**Hong Kong is a free port, levying no customs tariff on imports and exports**
- Excise duties are levied only on four types of dutiable commodities, namely:
  - Liquor (for those with an alcoholic strength of more than 30% by volume)
  - Tobacco
  - Hydrocarbon Oil
  - Methyl Alcohol
- No tariff quota or surcharge, nor value added and general services taxes

**F&B importation to Hong Kong is simple and straightforward**
- Only certain high risk imported food like game, meat and poultry, milk and milk beverages, frozen confections are subject to regulatory control
- Import of other food (i.e. low risk products) into Hong Kong does not require prior permission or license
- Importers are encouraged to provide health certificates issued by health authorities of exporting countries
- There are labelling requirements for certain types of F&B items

**Hong Kong serves as a distribution center for imported F&B destined for the Asia Pacific region**
- Before the market demand for a new product reaches a stable level, the supplier/distributor would not import large quantities of the product in order to lower risks related to tax payment and other costs (such as logistics, transportation and warehousing)
- Importers can first ship the products to Hong Kong and then transship the right quantities to different cities in the Asia Pacific region according to the demand of the local markets, enjoying great flexibility in operation

SOURCE: HKSAR GOVERNMENT
LOGISTICS IS AN IMPORTANT COMPONENT TO OVERALL EXPORT PROCESS, BUT IS OFTEN BEING OVERLOOKED

- Logistics impact on customer satisfaction, company’s costs, revenues and ultimately profitability
- Many exporters overlook the time and resource that needs to be dedicated to shipping and freighting
  - Deficient logistics capabilities can severely impact customer service and satisfaction
  - Due to the risky and perishable nature of many F&B products, the delivery failures will result in a higher financial and time costs
- It is important for Swedish F&B exporters to:
  - Have a competent logistics partner
  - Think through what logistics services are needed
  - Ask the right questions to get right quotations from the logistics service provider
  - Ensure customers do not end up dealing with your logistics problems