

*BABY FOODS*  
*IN CHINA:*  
*A MARKET*  
*ANALYSIS*



# China Contact

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# Introduction

## Report Coverage

This report covers the market for baby foods in the People's Republic of China. The report covers the following sectors:

- **Formula milks**
- **Dried baby foods**
- **Other baby foods, including wet foods in jars, chilled foods and canned foods**

## Executive Summary



Baby-specific advertising is growing in China  
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China's consumer market has developed very rapidly in recent years, and this has created much greater demand for more modern food products. Increased levels of average income have allowed consumers to buy better quality, more sophisticated food products, and nowhere has this been more in evidence than in the baby food market.

Because of the One Child Policy, where most Chinese families are only allowed by the state to have a single child, or face strong penalties, parents tend to lavish a great deal of time, money and attention on their children. Not only parents, but the extended family also lavish attention on all children within the family. Such treatment has led to a phenomenon, whereby Chinese children have come to be dubbed "little emperors" due to the power they seem to wield within their own families. These children are lavished with the best foods, toys, educational equipment and attention.

This has therefore had a direct effect on spending on baby foods, so important for the nutrition of young children in their crucial formative years. The demand for better quality products has come from parents being able to afford more to spend on feeding their babies. With more cash, parents have been looking for better quality products, and a greater variety of foods, in order to give their children a better, balanced diet.

This demand is also leading to the development of more products containing added vitamins and minerals, along with products containing herbal medicines to help prevent diseases. The baby food market in China has therefore become much more sophisticated, especially as foreign competition has become ever more prevalent within the market. This more sophisticated market is creating whole new sets of opportunity for companies looking to become actively involved.



## Other Access Asia Reports of Possible Interest

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- Powdered Milk in China: A Market Analysis
- Breakfast Cereals in China: A Market Analysis
- Ready Meals in China: A Market Analysis
- Dairy Products in China: A Market Analysis
- Dried Foods in China: A Market Analysis
- Canned Foods in China: A Market Analysis
- Chilled Food in China: A Market Analysis
- Confectionery in China: A Market Analysis
- Soft Drinks in China: A Market Analysis
- Savoury Snacks in China: A Market Analysis
- Fresh Food in China: A Market Analysis
- Frozen Food in China: A Market Analysis
- Fruit & Vegetables in China: A Market Analysis
- Fresh & Processed Meat in China: A Market Analysis
- Soya Products in China: A Market Analysis
- Baked Goods in China: A Market Analysis
- Salt in China: A Market Analysis
- Sugar in China: A Market Analysis
- Honey in China: A Market Analysis
- Eggs in China: A Market Analysis
- Cereal Products in China: A Market Analysis
- Retailing in China – A Two-Volume Study: A Market Analysis
- Convenience Store Retailing in Shanghai: A Market Briefing
- Fast Food & Organised Catering in China: A Market Analysis

## Glossary

AICs	– Administrations of Industry and Commerce
BOC	– Bank of China
CAA	– China Advertising Association
CASS	– Chinese Academy of Social Studies
CCFA	– China Chain Store & Franchise Association
CCP	– Chinese Communist Party
CCTV	– China Central Television
CDMA	– China Direct Marketing Association
CICT	– Consolidated Industrial and Commercial Tax
CNDFMC	– China National Duty Free Merchandise Corporation
COFCO	– China National Cereals, Oils & Foodstuffs Import and Export Corporation
CRFT	– China Radio, Film and Television Group
C-store	– convenience store
DIY	– do-it-yourself
ETC	– Economic and Trade Commission
FDI	– foreign direct investment
FIE	– foreign-invested enterprise
FMCG	– fast-moving consumer goods
GATT	– General Agreement on Trade & Tariffs
GDP	– gross domestic product
HoReCa	– hotel, retail & catering
IPO	– initial public offering
ISO	– International Standard Organisation
JV	– joint venture
KG	– kilogram
MII	– Ministry for Information Industries
MIT	– Ministry of Internal Trade

ML – millilitres

MNC – multinational company

MOFTEC – Ministry of Foreign Trade and Economic Relations

Mofcom – Ministry of Commerce (successor to Moftec, the Ministry of Foreign Trade and Economic Cooperation)

Mu – Chinese measurement of land

NBS – National Bureau of Statistics

OTC – over the counter

PBOC – People's Bank of China

PoS – point-of-sale

PRC – People's Republic of China

PRD – Pearl River Delta

RMB– Renminbi, China's unit of currency

SAIC – State Administration of Industry & Commerce

SAM – Self-Administered Municipality

SARFT – State Administration of Radio, Film and Television

SAR – special administrative region

SARS – severe acute respiratory syndrome

SDA – State Drug Administration

SETC – State Economic Trade Commission

SEZ – special economic zone

SOE – state-owned enterprise

SPPA – State Press and Publication Administration

TCM – traditional Chinese medicine

TEDA – Tianjin Economic Development Area

VAT – Value-Added Tax

WOFE – wholly owned foreign enterprise

WHO – World Health Organisation

WTO – World Trade Organisation

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# 1 China's Baby Foods Market

## 1.1 Overview



Baby formula powderd advertised from a lightbox on a residential wall in Shanghai.  
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- Total value sales of baby foods in China increased in value to RMB51.97bn (US\$6.28bn) by 2004, rising in value by 98.08% over 1998. During the same period, total volume sales of baby foods in China increased to 619.12 thousand tonnes, rising by 51.07% over 1998.
- The baby foods market has risen in significance to the overall food market, rising from 1.77% in 1998, to 2.04% by 2004.
- The main bulk of the baby food market is derived from sales of powdered formula milk, which was valued at about RMB46.55bn (US\$5.62bn) in 2004, having risen in value by 99.10% since 1998.
- The rising spend by Chinese parents on their “little emperors” is prompting new marketing strategies in the country. Targeting parents has become especially crucial for Western food companies as they introduce products unfamiliar to the Chinese palate.
- 404 million children have been born since 1983, the first year China strictly enforced the one-child policy. However officials continue to struggle to enforce family-planning rules in poorer rural areas.

## 1.2 China's Total Food & Beverage Market

### 1.2.1 Total Food Market: Food and Non-food Sales

An historical comparison of food and non-food retail sales provides an insight into the evolving habits of the Chinese consumer. Over the past five years, non-food sales have gradually overtaken food sales in terms of value.

**Table 1.1 TOTAL CURRENT VALUE RETAIL SALES BY FOOD AND NON-FOOD, 1998-2004\***

<i>RMB bn, current prices</i>	1998	1999	2000	2001	2002	2003	2004
Food	1,483.44	1,532.22	1,685.03	1,811.32	2,050.60	2,255.09	2,543.28
Non-food	1,528.54	1,666.98	1,823.99	1,974.79	2,255.93	2,488.74	2,828.08
TOTAL	3,011.97	3,199.20	3,509.02	3,786.11	4,306.52	4,743.83	5,371.36

Source: Access Asia, China Economic Quarterly, NBS

Note\*: 2004 interim data based on historical growth rates and Chinese government estimates

This reflects a move away from essential purchases (typically fresh market produce required for day-to-day living) towards desired purchases (more expensive durable consumer goods for China's growing number of urban households).

The slower rate of growth in food sales also underlines a growing tendency amongst China's emerging urban middle class to buy fewer groceries and to eat out more - thus contributing to food services, which are not included in food retail sales. Average food price indices have also remained slow in growth, adding to the slow value growth rate.

### 1.2.2 Total Food Market: Food/Non-food Sales Split

Retail food sales have consistently declined as a proportion of total retail sales – thanks largely to higher disposable incomes and an increasing tendency to eat out. Although the value of average weekly grocery shopping is higher than ever, the contents of shopping baskets have changed. Local consumers are now buying more packaged and processed foods, which command higher prices.

**Table 1.2 % BREAKDOWN OF SALES BY FOOD AND NON-FOOD, 1998-2004\***

%	1998	1999	2000	2001	2002	2003	2004
Food	49.25	47.89	48.02	47.84	47.62	47.54	47.35
Non-food	50.75	52.11	51.98	52.16	52.38	52.46	52.65
TOTAL	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Source: Access Asia, China Economic Quarterly, NBS

Note\*: 2004 interim data based on historical growth rates and Chinese government estimates

However, the major development in spending has been in fast-moving consumer goods (FMCG) sectors such as clothing, footwear, personal products - cosmetics, eyewear, jewellery - and durable goods such as mobile phones. Furthermore, consumers are spending more on big-ticket items for

the home: such as personal computers, DVD players, white goods, electronic toys and home furnishings.

### 1.2.3 Total Food Market: Urban and Rural Split

Overall food spending has declined as a proportion of overall retail sales in both urban and rural areas. Although more expensive food products are available, fiercer competition in the retail food market and the rapid growth in restaurants – notably fast-food outlets – have helped to keep prices down.

The split between food and non-food sales is very similar between rural and urban regions, with food sales continuing to represent the most significant portion of spending throughout.

**Table 1.3 TOTAL CURRENT VALUE RETAIL SALES BY FOOD AND NON-FOOD, 1998-2004\***

<i>RMB bn, current prices</i>	1998	1999	2000	2001	2002	2003	2004
<b>Urban retail sales</b>							
Food	897.10	946.62	1,046.62	1,126.65	1,284.16	1,412.71	1,513.02
Non-food	674.30	748.17	833.58	935.04	1,087.74	1,202.19	1,307.45
Urban total	1,571.40	1,694.79	1,880.20	2,061.68	2,371.90	2,614.90	2,820.47
<b>Rural retail sales</b>							
Food	586.33	585.60	638.40	684.68	766.44	842.38	1,030.26
Non-food	854.24	918.81	990.41	1,039.75	1,168.19	1,286.55	1,520.63
Rural total	1,440.58	1,504.41	1,628.81	1,724.43	1,934.63	2,128.93	2,550.89
<b>TOTAL RETAIL SALES</b>	<b>3,011.97</b>	<b>3,199.20</b>	<b>3,509.02</b>	<b>3,786.11</b>	<b>4,306.52</b>	<b>4,743.83</b>	<b>5,371.36</b>
<b>% analysis</b>							
Urban food	29.78	29.59	29.83	29.76	29.82	29.78	28.17
Urban non-food	22.39	23.39	23.76	24.70	25.26	25.34	24.34
Rural food	19.47	18.30	18.19	18.08	17.80	17.76	19.18
Rural non-food	28.36	28.72	28.22	27.46	27.13	27.12	28.31
<b>TOTAL RETAIL SALES</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>

Source: Access Asia, China Economic Quarterly, NBS

Note\*: 2004 interim data based on historical growth rates and Chinese government estimates

### 1.2.4 Total Food Market: Total Value Trends

Higher average incomes and increased product choice have enabled local consumers to become more choosy, with urban consumers buying more expensive cuts of meat, fresher seafood and even organic vegetables. Wealthier consumers are celebrating more – encouraged by longer public holidays – and spending more on alcoholic drinks. Urban consumers in particular have also developed more of a taste for dairy and bakery products – items not traditionally associated with the Chinese diet. And increasing prosperity has allowed consumers to lavish more attention on their children, with sales of confectionery and baby food surging in recent years.

The fast uptake in modern trade – chain store outlets such as Shanghai's ubiquitous c-stores – and increased purchasing power of teenagers and pre-teens has pushed snack food sales upwards. Japanese food products in supermarkets and an increasing number of Japanese restaurants in major cities are contributing to a trend for Japanese food in China. Sushi, udon, soba and ready-to-eat meals are especially popular amongst younger consumers.

**Table 1.4** CURRENT VALUE OF FOOD SALES BY MAJOR PRODUCT CATEGORY, 1998-2004\*

<i>RMB bn, current prices</i>	1998	1999	2000	2001	2002	2003	2004
Fresh and dry vegetables	249.23	249.12	276.81	296.58	332.45	364.03	406.07
Fresh meat	187.38	190.75	213.49	230.85	261.25	288.31	324.84
Tobacco	188.92	175.73	194.43	206.05	223.60	239.47	259.79
Cereal products	183.80	200.46	211.98	225.61	256.75	280.55	317.10
Edible oils	83.89	80.29	87.89	92.42	101.14	108.81	118.69
Fresh fruit	86.10	90.66	96.67	102.26	115.20	125.13	140.16
Alcoholic drinks	197.40	221.50	242.08	264.18	307.54	344.06	399.24
Fresh seafood	43.01	44.64	50.27	54.79	62.58	69.52	78.96
Eggs	39.81	39.60	43.97	47.07	52.64	57.58	64.04
Sauces and condiments	33.94	36.45	39.66	42.70	48.79	53.75	60.97
Dairy	36.35	39.66	45.31	50.60	58.99	66.75	77.55
Bakery products	19.52	20.24	23.10	25.53	29.26	32.81	37.51
Bean curd	3.69	3.97	4.34	4.70	5.39	5.97	6.81
Baby foods	26.24	28.93	31.90	34.91	40.43	45.13	51.97
Canned food	12.00	11.67	12.72	12.33	15.57	18.27	22.17
Spreads	3.28	3.73	4.08	4.43	5.17	5.76	6.67
Soft drinks	19.30	21.26	23.85	26.37	30.67	34.44	39.83
Hot Drinks	12.60	13.53	14.76	15.83	18.07	19.84	22.48
Sugar	8.01	8.18	8.94	9.56	10.74	11.75	13.12
Confectionery	5.41	5.77	6.56	7.26	8.39	9.43	10.85
Salt	4.19	4.24	4.74	5.12	5.78	6.36	7.14
Savoury snacks	3.51	3.58	4.15	4.57	5.24	5.86	6.71
Frozen food	27.38	29.51	33.53	36.99	42.92	48.17	55.49
Dried food	2.36	2.34	2.48	2.59	2.84	3.04	3.32
Chilled food	6.10	6.43	7.29	8.02	9.23	10.32	11.81
TOTAL	1,483.44	1,532.22	1,685.03	1,811.32	2,050.60	2,255.09	2,543.28

Source: Access Asia, NBS

Note\*: 2004 interim data based on historical growth rates and Chinese government estimates

### 1.2.5 Total Food Market: Urban Value Trends

The fastest and slowest growing sectors in the urban retail food market were, respectively, dairy products (109.47%) and dried food (38.01%). The fast-growing popularity of dairy products - a comparatively new component of the Mainland Chinese diet - typifies the encroachment of western eating habits amongst younger urban consumers in China.

An underlying trend in overall food spend in China's major cities is the shift away from basic daily shopping at the local wet market towards more expensive convenience foods. This trend will continue to develop: urban consumers, due to busier lifestyles and increased average incomes, have become much more reliant on convenience foods and eating out, and so have increased spending on both of these at a much greater rate than they have increased spending on basic foods.



**Table 1.5 URBAN FOOD SALES CURRENT VALUE BY MAJOR PRODUCT CATEGORY, 1998-2004\***

<i>RMB bn, current prices</i>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
Fresh and dry vegetables	151.75	155.07	173.38	186.68	211.55	233.60	250.42
Fresh meat	114.14	118.73	133.73	145.33	166.14	184.62	198.79
Tobacco	117.48	112.33	124.63	130.26	142.63	155.17	164.08
Cereal products	111.91	124.79	132.77	142.01	163.25	177.26	188.49
Edible oils	51.08	49.98	55.05	58.17	64.46	70.36	74.60
Fresh fruit	52.43	56.43	60.55	64.37	73.29	79.43	84.37
Alcoholic drinks	118.64	136.05	149.64	163.44	190.59	211.29	227.61
Fresh seafood	26.19	27.79	31.49	34.48	39.77	44.38	47.98
Eggs	24.24	24.65	27.54	29.63	33.51	36.99	39.63
Sauces and condiments	20.57	22.59	24.73	26.75	30.86	33.90	36.36
Dairy	22.13	24.69	28.38	31.85	37.44	42.51	46.34
Bakery products	12.58	13.33	15.31	17.01	19.67	22.29	24.19
Bean curd	2.25	2.48	2.72	2.96	3.42	3.79	4.07
Baby foods	15.97	18.01	19.98	21.97	25.67	28.58	30.87
Canned food	8.11	7.89	8.60	8.31	8.60	6.74	4.89
Spreads	1.94	2.24	2.47	2.68	3.15	3.46	3.77
Soft drinks	13.65	15.32	17.23	18.96	22.07	24.82	27.14
Hot Drinks	7.25	7.87	8.61	9.15	10.46	11.45	12.34
Sugar	4.80	5.00	5.50	5.89	6.67	7.34	7.89
Confectionery	1.46	1.59	1.84	2.03	2.38	2.70	2.95
Salt	2.51	2.59	2.92	3.15	3.59	3.99	4.31
Savoury snacks	0.17	0.17	0.20	0.20	0.23	0.26	0.27
Frozen food	13.47	14.52	16.50	18.25	21.18	23.77	27.33
Dried food	0.22	0.22	0.24	0.24	0.27	0.29	0.30
Chilled food	2.16	2.30	2.62	2.87	3.31	3.71	4.02
<b>TOTAL</b>	<b>897.10</b>	<b>946.62</b>	<b>1,046.62</b>	<b>1,126.65</b>	<b>1,284.16</b>	<b>1,412.71</b>	<b>1,513.02</b>

Source: Access Asia, NBS

Note\*: 2004 interim data based on historical growth rates and Chinese government estimates

### ***1.2.6 Total Food Market: Rural Value Trends***

Fruit and vegetable sales growth have been unspectacular, thanks principally to increased self-sufficiency amongst rural consumers – thus reducing retail demand for these goods. Liberalisation of sugar and tobacco prices has raised competition and lowered average spend on these products.

Meanwhile, fierce rivalry between baby food manufacturers has kept prices down, slowing market value growth, while the effects of the One Child Policy – particularly in rural areas - have also played a part.

**Table 1.6**      **VALUE OF RURAL FOOD SALES CURRENT VALUE BY MAJOR PRODUCT CATEGORY, 1998-2004\***

<i>RMB bn, current prices</i>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
Fresh and dry vegetables	97.48	94.04	103.43	109.90	120.89	130.42	155.65
Fresh meat	73.25	72.01	79.76	85.52	95.10	103.69	126.04
Tobacco	71.44	63.41	69.80	75.79	80.97	84.31	95.72
Cereal products	71.89	75.68	79.21	83.60	93.49	103.30	128.61
Edible oils	32.81	30.31	32.84	34.25	36.68	38.44	44.09
Fresh fruit	33.67	34.23	36.12	37.89	41.90	45.70	55.79
Alcoholic drinks	78.76	85.45	92.44	100.74	116.95	132.77	171.63
Fresh seafood	16.82	16.85	18.78	20.31	22.81	25.13	30.98
Eggs	15.57	14.95	16.43	17.44	19.14	20.59	24.41
Sauces and condiments	13.37	13.86	14.94	15.96	17.93	19.85	24.61
Dairy	14.22	14.97	16.93	18.75	21.55	24.25	31.21
Bakery products	6.94	6.91	7.80	8.52	9.59	10.52	13.32
Bean curd	1.44	1.50	1.62	1.74	1.97	2.18	2.75
Baby foods	10.26	10.92	11.92	12.94	14.76	16.54	21.10
Canned food	3.90	3.78	4.12	4.02	6.96	11.53	17.27
Spreads	1.34	1.48	1.61	1.75	2.03	2.30	2.90
Soft drinks	5.64	5.94	6.61	7.41	8.60	9.61	12.70
Hot Drinks	5.35	5.66	6.15	6.68	7.61	8.39	10.14
Sugar	3.20	3.18	3.44	3.67	4.07	4.40	5.23
Confectionery	3.96	4.18	4.73	5.23	6.01	6.73	7.90
Salt	1.68	1.65	1.83	1.97	2.19	2.38	2.82
Savoury snacks	3.34	3.41	3.95	4.37	5.01	5.61	6.44
Frozen food	13.91	14.99	17.03	18.75	21.75	24.40	28.17
Dried food	2.14	2.11	2.24	2.35	2.57	2.75	3.01
Chilled food	3.94	4.13	4.67	5.15	5.91	6.60	7.79
<b>TOTAL</b>	<b>586.33</b>	<b>585.60</b>	<b>638.40</b>	<b>684.68</b>	<b>766.44</b>	<b>842.38</b>	<b>1,030.26</b>

Source: Access Asia, NBS

Note\*: 2004 interim data based on historical growth rates and Chinese government estimates

## 1.3 China's Baby Food Market

### 1.3.1 Baby Food Market: Total Market Size

Total value sales of baby foods in China increased in value to RMB51.97bn (US\$6.28bn) by 2004, rising in value by 98.08% over 1998. During the same period, total volume sales of baby foods in China increased to 619.12 thousand tonnes, rising by 51.07% over 1998.

The continuing One-Child Policy of the Chinese government, which allows most Chinese families only to have one child or face stiff penalties (both financial and social), ensures that the majority of families only have one child. This might be seen as a restriction to the potential of the baby foods market in China, but this is not the case.

The fact that most families only have one child, means that more attention is lavished on those children, both by parents and grandparents. Increased average incomes also mean that families have more to spend on caring for their children. This means that spending per child is relatively very high.

This has meant that demand for better quality, higher priced baby foods has mushroomed, leading to strong growth in the overall market. This has attracted many newcomers to the market, and created demand for many more new and increasingly sophisticated products, which in turn has created the circumstances for ever higher levels of spending on baby foods.

**Table 1.7 TOTAL CURRENT VALUE MARKET FOR BABY FOODS IN CHINA, 1998-2004**

	<i>RMB bn, current prices</i>	<i>% annual growth</i>
<b>1998</b>	26.24	8.87
<b>1999</b>	28.93	10.27
<b>2000</b>	31.90	10.25
<b>2001</b>	34.91	9.45
<b>2002</b>	40.43	15.80
<b>2003</b>	45.13	11.63
<b>2004</b>	51.97	15.16

Source: Access Asia, NBS

### 1.3.2 Baby Food Market: Total Market Size in Volume Terms

Total volume sales of baby foods in China increased to 619.12 thousand tonnes, rising by 51.07% over 1998.

The rate of growth for baby foods might have slowed down since 1998, but this is only a reflection of the general slowing down of the previously very rapid growth in consumer spending overall.

The market has been aided in its growth by the gradual spread of more organised retail chains, which are both increasing supply, and creating stronger retail competition, which is, in turn, forcing retailers to compete on margins, thus curbing the rate of price increases.

**Table 1.8 TOTAL MARKET VOLUME FOR BABY FOODS IN CHINA, 1998-2004**

	<i>'000 tonnes</i>	<i>% annual growth</i>
<b>1998</b>	409.82	6.94
<b>1999</b>	412.70	0.70
<b>2000</b>	435.42	5.51
<b>2001</b>	467.07	7.27
<b>2002</b>	526.72	12.77
<b>2003</b>	566.42	7.54
<b>2004</b>	619.12	9.30

Source: Access Asia, NBS

### ***1.3.3 Baby Food Market: Total Food Market Significance***

The baby foods market has risen in significance to the overall food market, rising from 1.77% in 1998, to 2.04% by 2004. This rise reflects the rise in spending on children as a proportion of overall household spending, which is reflected not only in baby food spending, but also in other non-food product areas.

This growth also reflects the increasing range of baby-specific food products now on the domestic market. The increased range of foods available has come from the rising number of companies competing in this market. The strength of competition is such that although the quality and variety of products available has increased significantly, prices have not risen as fast as the value of the market. Whereas the value of the market has risen by over 98.08% since 1998, the average cost of baby foods has only risen by about 31.12%, and that rate of price increase has slowed over the last two years to about 2% per annum, until 2004, when the average price rose by 5.35%.

This means that as average incomes continue to rise rapidly, more consumers are able to afford the more expensive, higher quality products that have come into the market more recently. The effect of this is to reduce the market for cheaper, lower quality products, thus forcing manufacturers to improve their products further in order to remain competitive.

**Table 1.9 BABY FOODS MARKET AS A PROPORTION OF TOTAL CURRENT VALUE FOOD SALES IN CHINA, 1998-2004**

	<i>Baby foods</i>	<i>Total food</i>	<i>% baby food</i>
<b>1998</b>	26.24	1,483.44	1.77
<b>1999</b>	28.93	1,532.22	1.89
<b>2000</b>	31.90	1,685.03	1.89
<b>2001</b>	34.91	1,811.32	1.93
<b>2002</b>	40.43	2,050.60	1.97
<b>2003</b>	45.13	2,255.09	2.00
<b>2004</b>	51.97	2,543.28	2.04

Source: Access Asia, NBS

### 1.3.4 Baby Food Market: Refrigerator Ownership

The gradual rise in ownership of refrigerators, amongst urban households especially, has meant that more households are now equipped to store more fresh and chilled foods at home. This has created new opportunities for developing the markets for fresh and processed fish and seafood, which need to be refrigerated prior to cooking at home. Consequently, the real and potential demand for more of these products is now increasingly great.

**Table 1.10 HOUSEHOLD OWNERSHIP OF REFRIGERATORS BY URBAN/RURAL DIVIDE, 1998-2004\***

<i>Ownership per 100 households, year end</i>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
Urban refrigerators	76.1	79.9	83.3	86.6	90.1	93.5	97.0
Rural refrigerators	9.3	10.9	12.4	13.8	15.3	16.7	18.1

Source: Access Asia, NBS

Note\*: 2004 interim data based on historical growth rates and Chinese government estimates

### 1.3.5 Baby Food Market: Child Population Trends

Birth rates have continued to fall in China, partly because of the One Child Policy imposed by the government, but also because many more workers are delaying getting married and having children in order to pursue careers. The fact that an increasing number of rural workers now work away from their home towns, generally in construction sites in the major cities, means that they are living away from their home environment, and so are reluctant to have children until they are back home.

The result of the slowdown in child birth rates is clear in terms of how the under 4 age groups had shrunk as a proportion of the total population. Children under the age of 4 now represent 6.50% of the total population, whereas in 1998, this age group represented 6.85%. However, although the Chinese are having fewer children, they tend to have more money to spend on each child.

For the baby food market, this means that although volume sales are likely to either remain flat, or decline slightly, spending on baby foods is likely to increase. The reason for this is that as average incomes rise, so the ability of households to buy more expensive better-quality baby foods increases. Subsequently the average product purchase price will tend to rise, and baby foods become an increasingly significant portion of the average, weekly, household grocery bill.

**Table 1.11 BIRTH RATES AND INFANT POPULATION TRENDS IN CHINA, 1998-2004**

	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
<i>(Births per 1,000 population)</i>							
Birth rate	15.64	14.64	14.03	13.38	12.88	12.25	11.61
<i>(Millions)</i>							
Female population under age 4	41.98	42.06	40.33	41.65	41.01	41.10	41.19
% total female population	7.06	6.96	6.66	6.78	6.60	6.55	6.51
Male population under age 4	41.72	41.79	43.70	42.51	43.31	43.37	43.43
% total male population	6.66	6.63	6.80	6.57	6.63	6.57	6.50
Total population under age 4	83.70	83.85	84.03	84.16	84.32	84.47	84.62
% total population	6.85	6.79	6.73	6.67	6.62	6.56	6.50

Source: Access Asia, NBS

### **1.3.6 Baby Food Market: Working Mothers**

#### **Childcare Provision**

Children enter elementary school at age 6. There are three types of early childhood program for children under 6: nurseries, kindergarten and pre-primary programs.

Nurseries serve children under age 3. Small group size and many caregivers assure prompt, abundant care. Since physical care and nurturing are the primary goals, the caregivers are trained as "nurses" rather than teachers. Programs for 2-year-olds are often combined with kindergartens.

A combination of social and economic factors has driven the evolution of childcare policy in China. Increases in women's non-agricultural employment, along with family planning and changes in family structure, have contributed to the development of childcare programs across the country. Rapid economic development has not only provided the resources necessary for the creation of such institutions but also increased the demand for a skilled labor force, which further increased the interest in early childhood institutions. In response, the state has called for the development of nurseries and kindergartens at many levels in order to help working mothers take care of and educate their children.

However, the current rate of provision of childcare institutions throughout China is very low. This means that working mothers still rely largely on their extended families for childcare if they wish to return to work after giving birth. With the social fabric of Chinese society having changed so much in recent years, especially in urban areas, many extended families no longer live in close proximity, and so the logistics of delivering children to a relative for them to look after, before going into work each day, is becoming less of an option for many working mothers in China.

However, there also seems to be a low uptake of childcare centre services throughout the country, particularly in rural areas. This can only be attributed to the cost of childcare, and families ability to afford such childcare.

In order for the Chinese economy to continue to grow as quickly as it is now, the number of economically active women will also need to increase. This can only happen if there is a much higher level of childcare provision across the country, and more affordable services. The Chinese government seems to have become much more conscious of this problem, which is leading to increased government investment in state-run childcare centres. Likewise, there are growing opportunities for the development of private childcare centres, especially in the wealthier urban areas.

The significance of this for the baby food industry is twofold. Firstly, more Chinese women need to work in order to maintain income levels. This means that as they take on work, they will have less time in order to prepare fresh food for their children, and this creates an opportunity for manufacturers of packaged baby foods to increase their penetration into the market. Secondly, with the rise in number of childcare centres likely to be significant over the coming years, as the government pushes for better childcare provision for working parents, so the institutional market for baby food products is also likely to grow.

**Table 1.12 DISTRIBUTION OF CHILD CARE CENTER AVAILABILITY, CENTER CARE USE AND MOTHER'S WORK STATUS, 2002**

<i>%</i>	<i>Urban</i>	<i>Rural</i>
<b>Childcare Centre Availability</b>		
(% of population with any type of child care centre in their community)	27.2	14.4
<b>Childcare Centre Use</b>		
(% of children of working mothers receiving care at a childcare centre)	15.9	2.5
<b>Mother's Work</b>		
(% of mothers participating in wage work)	34.0	5.2

Source: Access Asia from RAND

## Number of Working Mothers

78.7% of all working women are mothers in China, with children between the ages 0 and 16. In less developed, more rural provinces, working mothers make up even more of the female workforce, often over 90%. On the other hand, in the main urban centres, where women tend to put off having children until later on in life, in order to pursue a career, the percentage of working mothers can even be as low as 50%.

The fact that there has been little change in the proportion of working mothers can also be attributable to the constraints that many women face when attempting to re-enter the workplace following childbirth. Firstly, there are significant social prejudices that maintain that women should continue to nurse babies for much longer than is the trend in many Western European countries, and in North America.

There is also the lack of childcare provision to contend with. State-owned companies used to provide their staff with childcare, but the costs of such generosity are now unable to be met by most state-owned companies, most of which are technically bankrupt. Where the state-run commercial sector has pulled out, local government has had to step in, but there has been a delay in this process, and much of the childcare provision that used to exist now no longer does. This situation should continue to improve as government and private investment into new childcare centres develops. However, this factor will continue to be a significant factor in restricting women from returning to work after giving birth.

Finally, the competition for jobs in China is now so intense that many women with children find it difficult to find employment in a job market where employers see younger, unmarried women with no children as being less likely to need extra time off to take care of family.

**Table 1.13 WORKING MOTHERS BY PROVINCE IN CHINA, 2000/2001**

<i>Million</i>	Total working women		Total working mothers	
	2000	2001	2000	2001
Beijing	2.61	2.70	1.31	1.35
Tianjin	1.31	1.35	0.84	0.87
Hebei	15.43	15.97	12.12	12.54
Shanxi	7.35	7.61	6.76	7.00
Inner Mongolia	5.47	5.66	4.46	4.62
Liaoning	9.50	9.83	6.02	6.24
Jilin	6.15	6.37	3.94	4.08
Heilongjiang	6.42	6.65	4.58	4.74
Shanghai	2.90	3.00	1.50	1.56
Jiangsu	16.62	17.20	7.27	7.53
Anhui	12.34	12.77	10.60	10.98
Fujian	7.35	7.61	6.63	6.86
Jiangxi	10.02	10.37	9.46	9.79
Shandong	20.88	21.61	15.52	16.07
Henan	21.85	22.61	18.37	19.01
Hubei	13.54	14.02	10.72	11.10
Hunan	15.20	15.73	12.40	12.83
Guangdong	15.66	16.21	13.65	14.12
Guangxi	10.43	10.79	8.89	9.20
Hainan	1.65	1.71	1.58	1.64
Chongqing	6.75	6.98	4.98	5.15
Sichuan	19.40	20.08	14.18	14.68
Guizhou	8.31	8.60	7.59	7.85
Yunnan	9.01	9.32	8.06	8.35
Tibet	0.55	0.57	0.52	0.54
Shaanxi	8.08	8.36	7.28	7.54
Gansu	5.70	5.90	5.14	5.32
Qinghai	1.17	1.21	1.00	1.04
Ningxia	1.22	1.27	1.14	1.18
Xinjiang	3.83	3.97	3.37	3.49
TOTAL	266.70	276.03	209.90	217.25

Source: Access Asia, NBS, trade sources and other agency estimates

## Maternity Leave

Maternity leave, as proscribed by the Chinese government, lasts for 90 days, on full pay, with the employer being responsible for paying full wages during maternity leave. During the period of pregnancy, maternity leave or nursing period, the employer cannot terminate the working contract with its female staff. Also, women workers who are more than six months pregnant are to be allowed to shift to doing lighter work. However, the full pay for maternity benefit is only for one child. Any further children nullifies any right to maternity benefits under State Law.



## 1.4 Regional Markets

### 1.4.1 Regional Markets: Provincial Values

**Table 1.14** BABY FOOD CURRENT RETAIL MARKET VALUE BY PROVINCE IN CHINA, 1998-2004

<i>RMB m, current prices</i>	1998	1999	2000	2001	2002	2003	2004
Anhui	1,113.43	1,215.12	1,357.19	1,476.14	1,714.30	1,952.46	2,267.47
Beijing	872.35	976.01	1,084.90	1,189.96	1,378.91	1,511.46	1,830.05
Chongqing	555.42	595.67	639.31	680.73	787.04	878.52	1,015.73
Fujian	933.45	1,066.90	1,182.34	1,302.89	1,510.03	1,648.05	1,910.09
Gansu	339.13	376.76	416.44	454.70	526.80	578.84	644.25
Guangdong	2,921.68	3,215.89	3,527.05	3,825.60	4,427.18	4,899.39	5,669.89
Guangxi	720.32	806.31	896.56	983.69	1,139.89	1,249.87	1,390.66
Guizhou	285.85	313.79	343.38	371.84	430.45	475.79	529.98
Hainan	151.29	170.08	189.92	208.98	242.25	265.52	307.81
Hebei	1,431.34	1,572.78	1,722.74	1,866.81	2,161.21	2,392.57	2,769.91
Heilongjiang	665.89	738.17	814.47	887.90	1,028.36	1,168.82	1,309.28
Henan	1,309.77	1,430.36	1,559.13	1,682.57	1,947.58	2,212.58	2,561.09
Hubei	1,411.27	1,587.30	1,771.64	1,949.80	2,259.80	2,569.80	2,978.39
Hunan	1,056.98	1,168.66	1,286.60	1,400.12	1,621.48	1,842.83	2,134.19
Inner Mongolia	333.06	369.77	408.44	445.74	516.33	586.91	657.50
Jiangsu	1,249.31	1,329.39	1,448.16	1,475.64	1,712.45	1,949.27	2,262.10
Jiangxi	580.46	644.40	712.04	777.09	900.27	1,023.45	1,185.68
Jilin	603.93	670.96	741.72	809.85	938.08	1,066.31	1,235.16
Liaoning	1,492.55	1,646.97	1,810.29	1,967.38	2,278.15	2,588.91	2,997.87
Ningxia	59.19	66.37	73.96	81.24	94.06	106.87	123.73
Qinghai	56.13	61.76	67.78	73.56	85.22	96.87	108.53
Shaanxi	484.75	533.62	585.43	635.26	735.67	813.43	942.01
Shandong	1,511.24	1,657.57	1,843.41	2,342.75	2,706.10	2,974.24	3,405.58
Shanghai	833.10	870.60	960.20	973.41	1,124.07	1,256.48	1,450.98
Shanxi	436.07	483.89	534.38	583.00	675.35	746.75	832.13
Sichuan	1,372.62	1,536.22	1,708.01	1,873.75	2,171.37	2,401.06	2,676.04
Tianjin	422.31	482.36	540.55	604.56	698.00	767.81	886.49
Tibet	28.94	31.79	34.75	37.65	43.59	48.20	53.69
Xinjiang	271.71	306.58	343.42	378.95	439.33	485.86	541.63
Yunnan	464.52	511.64	561.52	609.47	705.70	780.18	903.37
Zhejiang	2,267.15	2,492.05	2,730.64	2,959.76	3,426.68	3,788.16	4,385.79
TOTAL	26,235.20	28,929.72	31,896.36	34,910.78	40,425.71	45,127.27	51,967.07

Source: Access Asia, trade sources, NBS

### 1.4.2 Regional Markets: Provincial Value Shares & Growth

**Table 1.15      % BREAKDOWN & PERIOD GROWTH OF BABY FOOD CURRENT RETAIL SALES VALUE BY PROVINCE IN CHINA, 2004**

	<i>% breakdown 2004</i>	<i>% annual growth 1998-2004</i>
Anhui	4.36	103.65
Beijing	3.52	109.79
Chongqing	1.95	82.88
Fujian	3.68	104.63
Gansu	1.24	89.97
Guangdong	10.91	94.06
Guangxi	2.68	93.06
Guizhou	1.02	85.40
Hainan	0.59	103.45
Hebei	5.33	93.52
Heilongjiang	2.52	96.62
Henan	4.93	95.54
Hubei	5.73	111.04
Hunan	4.11	101.91
Inner Mongolia	1.27	97.41
Jiangsu	4.35	81.07
Jiangxi	2.28	104.26
Jilin	2.38	104.52
Liaoning	5.77	100.86
Ningxia	0.24	109.05
Qinghai	0.21	93.35
Shaanxi	1.81	94.33
Shandong	6.55	125.35
Shanghai	2.79	74.17
Shanxi	1.60	90.82
Sichuan	5.15	94.96
Tianjin	1.71	109.92
Tibet	0.10	85.56
Xinjiang	1.04	99.34
Yunnan	1.74	94.47
Zhejiang	8.44	93.45
TOTAL	100.00	98.08

Source: Access Asia, trade sources, NBS

### 1.4.3 Regional Markets: Provincial Per Capita Spend

**Table 1.16 PER CAPITA RETAIL SPENDING ON BABY FOOD BY PROVINCE IN CHINA, 1998-2004**

<i>RMB per capita</i>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
Anhui	18.33	19.78	21.86	23.53	27.04	30.48	35.04
Beijing	62.82	69.51	76.43	82.93	95.08	103.12	123.56
Chongqing	18.37	19.48	20.68	21.78	24.91	27.51	31.47
Fujian	28.30	32.00	35.08	38.25	43.87	47.38	54.35
Gansu	13.28	14.59	15.95	17.22	19.74	21.45	23.62
Guangdong	38.73	42.17	45.76	49.11	56.24	61.60	70.55
Guangxi	15.68	17.36	19.10	20.74	23.78	25.81	28.43
Guizhou	7.76	8.43	9.13	9.79	11.21	12.27	13.53
Hainan	19.69	21.90	24.20	26.35	30.23	32.80	37.63
Hebei	22.13	24.05	26.06	27.94	32.01	35.07	40.18
Heilongjiang	18.79	20.60	22.49	24.25	27.79	31.25	34.64
Henan	14.18	15.32	16.52	17.64	20.20	22.71	26.02
Hubei	24.49	27.24	30.08	32.76	37.57	42.29	48.51
Hunan	16.81	18.39	20.03	21.57	24.72	27.81	31.87
Inner Mongolia	14.51	15.93	17.42	18.80	21.56	24.26	26.90
Jiangsu	17.93	18.87	20.34	20.50	23.54	26.52	30.46
Jiangxi	14.41	15.83	17.30	18.68	21.42	24.10	27.63
Jilin	23.48	25.81	28.24	30.51	34.99	39.37	45.15
Liaoning	37.72	41.16	44.76	48.12	55.14	62.00	71.05
Ningxia	10.85	12.04	13.27	14.42	16.52	18.58	21.29
Qinghai	11.12	12.10	13.13	14.09	16.14	18.15	20.11
Shaanxi	13.93	15.17	16.47	17.68	20.27	22.18	25.43
Shandong	17.57	19.06	20.97	26.37	30.14	32.78	37.15
Shanghai	63.94	66.05	72.03	72.21	82.47	91.18	104.16
Shanxi	13.76	15.12	16.47	17.84	20.43	22.37	24.67
Sichuan	15.77	17.46	19.20	20.84	23.89	26.14	28.84
Tianjin	44.15	50.27	53.99	60.21	69.38	75.59	85.85
Tibet	11.09	12.13	13.21	14.26	16.44	18.11	20.10
Xinjiang	14.96	16.70	18.50	20.20	23.17	25.35	27.97
Yunnan	11.18	12.19	13.23	14.21	16.29	17.82	20.43
Zhejiang	49.56	53.88	58.41	62.64	71.76	78.51	89.96
TOTAL AVERAGE	21.48	23.44	25.56	27.68	31.72	35.04	39.94

Source: Access Asia, trade sources, NBS

### 1.4.4 Regional Markets: Provincial Volumes

**Table 1.17**      **BABY FOOD CURRENT RETAIL MARKET VOLUME BY PROVINCE IN CHINA, 1998-2004**

<i>'000 tonnes</i>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
Anhui	20.14	22.11	24.31	26.46	29.53	32.44	35.34
Beijing	7.68	7.97	8.31	8.81	9.72	10.23	11.01
Chongqing	10.14	10.10	9.98	10.13	11.62	12.30	13.52
Fujian	12.20	12.88	13.99	15.38	16.79	18.06	19.43
Gansu	5.66	5.81	6.09	6.48	7.51	8.14	8.85
Guangdong	30.29	29.69	31.95	34.58	38.59	41.42	45.03
Guangxi	13.53	14.31	14.68	15.37	18.33	19.90	22.39
Guizhou	5.55	5.84	5.76	5.86	6.88	7.41	8.26
Hainan	2.86	2.89	3.21	3.56	4.15	4.50	5.01
Hebei	25.56	25.46	27.73	30.32	33.72	36.46	39.64
Heilongjiang	13.75	12.07	13.02	14.13	15.73	16.78	18.20
Henan	24.72	26.59	28.17	30.13	33.57	36.21	39.38
Hubei	26.61	26.94	29.33	32.07	36.28	39.24	43.04
Hunan	20.58	19.48	19.83	20.63	24.22	26.14	29.17
Inner Mongolia	6.40	6.56	7.34	7.66	8.55	9.13	9.92
Jiangsu	17.63	16.79	17.62	17.67	19.88	21.14	23.04
Jiangxi	11.10	11.86	12.71	13.73	15.23	16.39	17.78
Jilin	10.02	10.49	11.73	13.09	13.84	14.70	15.49
Liaoning	27.50	24.33	25.73	27.49	31.29	33.99	37.41
Ningxia	0.98	1.03	1.08	1.10	1.28	1.36	1.50
Qinghai	0.78	0.80	0.84	0.81	0.95	0.98	1.09
Shaanxi	9.37	9.10	9.40	9.87	11.24	12.16	13.38
Shandong	23.99	24.32	26.32	33.19	36.76	40.01	43.47
Shanghai	7.13	6.29	6.49	6.34	7.10	7.24	7.80
Shanxi	8.27	8.70	9.68	10.18	11.68	12.64	13.96
Sichuan	24.51	25.33	25.71	26.74	30.86	33.11	36.61
Tianjin	4.93	5.00	5.42	5.99	6.10	6.41	6.58
Tibet	0.29	0.32	0.29	0.28	0.32	0.33	0.36
Xinjiang	4.09	4.28	4.93	5.23	5.84	6.26	6.81
Yunnan	6.49	7.13	7.62	8.20	8.83	9.54	10.20
Zhejiang	27.07	28.21	26.16	25.61	30.31	31.81	35.45
<b>TOTAL</b>	<b>409.82</b>	<b>412.70</b>	<b>435.42</b>	<b>467.07</b>	<b>526.72</b>	<b>566.42</b>	<b>619.12</b>

Source: Access Asia, trade sources, NBS

### 1.4.5 Regional Markets: Provincial Volume Shares & Growth

**Table 1.18      % BREAKDOWN & PERIOD GROWTH OF BABY FOOD CURRENT RETAIL SALES VOLUME BY PROVINCE IN CHINA, 2004**

	<i>% breakdown 2004</i>	<i>% annual growth 1998-2004</i>
Anhui	5.71	75.46
Beijing	1.78	43.45
Chongqing	2.18	33.25
Fujian	3.14	59.21
Gansu	1.43	56.49
Guangdong	7.27	48.68
Guangxi	3.62	65.44
Guizhou	1.33	48.98
Hainan	0.81	75.07
Hebei	6.40	55.09
Heilongjiang	2.94	32.33
Henan	6.36	59.32
Hubei	6.95	61.75
Hunan	4.71	41.73
Inner Mongolia	1.60	55.06
Jiangsu	3.72	30.70
Jiangxi	2.87	60.13
Jilin	2.50	54.57
Liaoning	6.04	36.07
Ningxia	0.24	53.70
Qinghai	0.18	38.46
Shaanxi	2.16	42.83
Shandong	7.02	81.22
Shanghai	1.26	9.35
Shanxi	2.25	68.88
Sichuan	5.91	49.34
Tianjin	1.06	33.41
Tibet	0.06	23.16
Xinjiang	1.10	66.37
Yunnan	1.65	57.12
Zhejiang	5.73	30.97
TOTAL	100.00	51.07

Source: Access Asia, trade sources, NBS

### 1.4.6 Regional Markets: Provincial Per Capita Volume Consumption

**Table 1.19 PER CAPITA RETAIL VOLUME CONSUMPTION OF BABY FOOD BY PROVINCE IN CHINA, 1998-2004**

<i>KG per capita</i>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
Anhui	0.33	0.36	0.39	0.42	0.47	0.51	0.55
Beijing	0.55	0.57	0.59	0.61	0.67	0.70	0.74
Chongqing	0.34	0.33	0.32	0.32	0.37	0.39	0.42
Fujian	0.37	0.39	0.42	0.45	0.49	0.52	0.55
Gansu	0.22	0.22	0.23	0.25	0.28	0.30	0.32
Guangdong	0.40	0.39	0.41	0.44	0.49	0.52	0.56
Guangxi	0.29	0.31	0.31	0.32	0.38	0.41	0.46
Guizhou	0.15	0.16	0.15	0.15	0.18	0.19	0.21
Hainan	0.37	0.37	0.41	0.45	0.52	0.56	0.61
Hebei	0.40	0.39	0.42	0.45	0.50	0.53	0.58
Heilongjiang	0.39	0.34	0.36	0.39	0.42	0.45	0.48
Henan	0.27	0.28	0.30	0.32	0.35	0.37	0.40
Hubei	0.46	0.46	0.50	0.54	0.60	0.65	0.70
Hunan	0.33	0.31	0.31	0.32	0.37	0.39	0.44
Inner Mongolia	0.28	0.28	0.31	0.32	0.36	0.38	0.41
Jiangsu	0.25	0.24	0.25	0.25	0.27	0.29	0.31
Jiangxi	0.28	0.29	0.31	0.33	0.36	0.39	0.41
Jilin	0.39	0.40	0.45	0.49	0.52	0.54	0.57
Liaoning	0.69	0.61	0.64	0.67	0.76	0.81	0.89
Ningxia	0.18	0.19	0.19	0.20	0.22	0.24	0.26
Qinghai	0.16	0.16	0.16	0.15	0.18	0.18	0.20
Shaanxi	0.27	0.26	0.26	0.27	0.31	0.33	0.36
Shandong	0.28	0.28	0.30	0.37	0.41	0.44	0.47
Shanghai	0.55	0.48	0.49	0.47	0.52	0.53	0.56
Shanxi	0.26	0.27	0.30	0.31	0.35	0.38	0.41
Sichuan	0.28	0.29	0.29	0.30	0.34	0.36	0.39
Tianjin	0.52	0.52	0.54	0.60	0.61	0.63	0.64
Tibet	0.11	0.12	0.11	0.11	0.12	0.12	0.14
Xinjiang	0.23	0.23	0.27	0.28	0.31	0.33	0.35
Yunnan	0.16	0.17	0.18	0.19	0.20	0.22	0.23
Zhejiang	0.59	0.61	0.56	0.54	0.63	0.66	0.73
TOTAL AVERAGE	0.34	0.33	0.35	0.37	0.41	0.44	0.48

Source: Access Asia, trade sources, NBS

## 1.5 Sector Breakdown

### *1.5.1 Sector Breakdown: Sector Values & Volumes*

The retail market for baby foods has grown strongly over the past seven years, thanks to several key factors, these being:

- Increased consumer spending power, leading to raised consumer aspirations and the ability to make more frequent purchases of processed baby foods, as well as purchases of more expensive products;
- Rationalisation and consolidation of the domestic industry, which has improved industry productivity and profitability, and its raised the level of market supply;
- Development of more integrated distribution systems and infrastructure throughout China, leading to better distribution around the country, from manufacturer to retailer, and;
- Increased market penetration of more organised retail outlets, creating a larger overall outlet for baby foods.

The factors combined have led to not only raised consumer demand, but also improvements in the ability of the manufacturing and distribution industries to get products to consumers, in better condition. The manufacturing industry has also helped by improving the variety of product that it is able to supply.

The main bulk of the baby food market is derived from sales of powdered formula milk, which was valued at about RMB46.55bn (US\$5.62bn) in 2004, having risen in value by 99.10% since 1998.

Dried baby meals represented just under RMB4.75bn (US\$573.81m) of the retail market for baby foods in 2004, up by 88.63% on 1998.

Wet baby meals (which includes foods packaged in jars and cans) grew to a value of RMB665.53m (US\$80.41m) by 2004, up by 98.09% since 1998. The majority of new products are to be found in this sector.

Formula milk has grown in popularity as a nutritional substitute in China with more parents opting for it. This is backed up by expanded advertising by the formula milk companies and the greater availability of the product in stores.

The current value growth rates for each sector over the 1998-2004 historical review period by sector are as follows:

<i>Sector</i>	<i>% growth 1998-2004</i>
Dried Baby Foods	88.63
Formula Milk	99.10
Other Baby Foods	98.09
TOTAL	98.08

The volume growth rates for each sector over the 1998-2004 historical review period by sector are as follows:

<i>Sector</i>	<i>% growth 1998-2004</i>
Dried Baby Foods	39.67
Formula Milk	56.36
Other Baby Foods	53.14
TOTAL	51.07

**Table 1.20      BABY FOOD CURRENT VALUE & VOLUME RETAIL SALES BY SECTOR IN CHINA, 1998-2004**

	1998	1999	2000	2001	2002	2003	2004
<i>RMB m, current prices</i>							
Dried Baby Foods	2,517.85	2,785.28	3,006.34	3,254.92	3,748.04	4,150.96	4,749.47
Formula Milk	23,381.37	25,770.79	28,480.55	31,208.76	36,159.42	40,398.55	46,552.07
Other Baby Foods	335.98	373.65	409.47	447.10	518.25	577.75	665.53
TOTAL	26,235.20	28,929.72	31,896.36	34,910.78	40,425.71	45,127.27	51,967.07
<i>'000 tonnes</i>							
Dried Baby Foods	124.59	124.07	127.98	135.55	151.28	160.54	174.02
Formula Milk	257.40	260.34	277.57	299.51	339.23	366.95	402.48
Other Baby Foods	27.82	28.28	29.87	32.01	36.20	38.93	42.61
TOTAL	409.82	412.70	435.42	467.07	526.72	566.42	619.12

Source: Access Asia, trade sources, NBS

### **1.5.2 Sector Breakdown: Sector Shares**

Formula milk represented 89.58% of the total market value in China in 2004. Consumers find these products more convenient than other forms of baby food, largely because it can be bought in bulk, and can be stored for long periods of time. Consumers also like the fact that such products provide added vitamins and minerals, which gives parents the confidence that they are fulfilling the basic dietary requirements for their children's needs. This has also been the focus of several government-sponsored campaigns in recent years raising awareness of the benefits of good diet for babies.

Dried baby meals have seen a decline in significance in the market, largely due to more parents being encouraged to buy formula milk, this being a result of strong advertising campaigns by the larger formula milk manufacturers.

Wet baby meals, especially those in jars, have tended to be more expensive, and so have seen sales restricted to the wealthier sections of the population. Such foods also compete with home-made foods, which, though less convenient, are still more cost-effective for the majority of middle- and low-income families.



**Table 1.21      % BREAKDOWN OF BABY FOOD CURRENT VALUE & VOLUME  
RETAIL SALES BY SECTOR IN CHINA, 1998-2004**

	1998	1999	2000	2001	2002	2003	2004
<i>% value</i>							
Dried Baby Foods	9.60	9.63	9.43	9.32	9.27	9.20	9.14
Formula Milk	89.12	89.08	89.29	89.40	89.45	89.52	89.58
Other Baby Foods	1.28	1.29	1.28	1.28	1.28	1.28	1.28
TOTAL	100.00	100.00	100.00	100.00	100.00	100.00	100.00
<i>% volume</i>							
Dried Baby Foods	30.40	30.06	29.39	29.02	28.72	28.34	28.11
Formula Milk	62.81	63.08	63.75	64.13	64.40	64.78	65.01
Other Baby Foods	6.79	6.85	6.86	6.85	6.87	6.87	6.88
TOTAL	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Source: Access Asia, trade sources, NBS

### *1.5.3 Sector Breakdown: Growth Rates*

All sectors of the market saw growth rates slow down until 2000 and 2001, when growth rates began to rise again. The previous slowdown was partly due to the market becoming more mature in itself, but is also due to the slowdown in the consumer economy in general.

However, the consumer market is slowing down from a period of very rapid growth, which has continued since the economy was opened up in the early 1980s. As the rate of growth has diminished, so manufacturers have been forced to compete more for market share. This has caused an expansion in the variety of products, and price points, thus creating a greater depth to the market, characterised by an increasing number and variety of products and brands, aimed at different consumer groups.

More recent acceleration in growth can be attributed to consumers becoming more confident in the economy since 2000/2001, when there were concerns about the state of the Chinese economy. As consumers have become more confident, so their spending has increased, and this has affected most consumer markets, including baby foods. Recent health scares have also meant that consumers have become much more concerned about the quality and safety of the food products they buy, particularly for their children, and this has led to an increase in purchasing of prepared baby foods, rather than home-made food prepared from fresh produce bought.

The growth in number and the spread in terms of outlets of the supermarket and convenience store chains has also added to the penetration of baby foods into the urban consumer market, making it easier for people to buy the goods. This has also added to the market penetration of baby foods, again helping the rise in sales in more recent years.

However, this process is not only occurring in the cities, but is gradually extending out into more rural regions. The rural market is still relatively under-developed, and so many manufacturers are now developing more products aimed at the spending level of rural consumers, which tends to be less than that of the average urban family.

**Table 1.22      % ANNUAL GROWTH FOR BABY FOOD CURRENT VALUE & VOLUME  
RETAIL SALES BY SECTOR IN CHINA, 1998-2004**

	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
<i>% current value annual growth</i>							
Dried Baby Foods	5.80	10.62	7.94	8.27	15.15	10.75	14.42
Formula Milk	9.23	10.22	10.51	9.58	15.86	11.72	15.23
Other Baby Foods	7.21	11.21	9.59	9.19	15.91	11.48	15.19
TOTAL	8.87	10.27	10.25	9.45	15.80	11.63	15.16
<i>% volume growth</i>							
Dried Baby Foods	4.67	-0.42	3.15	5.91	11.61	6.12	8.40
Formula Milk	8.17	1.14	6.62	7.91	13.26	8.17	9.68
Other Baby Foods	6.10	1.65	5.63	7.16	13.10	7.54	9.45
TOTAL	6.94	0.70	5.51	7.27	12.77	7.54	9.30

Source: Access Asia, trade sources, NBS

## 1.6 Urban & Rural Retail Sales of Baby Food in China

### 1.6.1 Urban & Rural Market: Total Sales

The urban retail market for baby food is by far the majority of the market in China. This reflects the greater spending power in urban areas, and the higher penetration of baby foods through the more developed retail chains in the main cities and towns. Per capita spending on baby food products is also marginally higher in urban areas, where there are more products available, including more expensive products, but generally, baby food prices have stayed low, and this has helped to spread consumption over a wide consumer constituency.

**Table 1.23 THE CURRENT VALUE RETAIL MARKET FOR BABY FOOD BY URBAN & RURAL SALES IN CHINA, 1998-2004**

<i>RMB bn, current prices</i>				
	Urban sales	Rural sales	Urban as a % of total sales	Rural as a % of total sales
<b>1998</b>	15.97	10.26	60.89	39.11
<b>1999</b>	18.01	10.92	62.24	37.76
<b>2000</b>	19.98	11.92	62.63	37.37
<b>2001</b>	21.97	12.94	62.94	37.06
<b>2002</b>	25.67	14.76	63.50	36.50
<b>2003</b>	28.58	16.54	63.34	36.66
<b>2004</b>	30.87	21.10	59.40	40.60

Source: Access Asia, trade sources, NBS

### 1.6.2 Urban & Rural Market: Growth Rates

In general, the market had continued to grow faster in the cities, with lesser growth seen in the rural areas. This reflected the lower incomes for the average consumer in the countryside as well as more restricted access to the major distribution points for chilled food products, such as supermarkets and department stores. However, the rural market is now growing at a much faster rate than is the case in urban areas, thanks to faster rises in average incomes in rural areas, coupled with a recent surge in retail sector growth into more rural areas.

**Table 1.24 % GROWTH OF THE CURRENT VALUE RETAIL MARKET FOR BABY FOOD BY URBAN & RURAL MARKETS IN CHINA, 1998-2004**

<i>% annual growth</i>	Urban growth	Rural growth	Total growth
<b>1998</b>	10.06	7.07	8.87
<b>1999</b>	12.72	6.46	10.27
<b>2000</b>	10.95	9.11	10.25
<b>2001</b>	9.98	8.56	9.45
<b>2002</b>	16.83	14.05	15.80
<b>2003</b>	11.35	12.11	11.63
<b>2004</b>	7.99	27.53	15.16

Source: Access Asia, trade sources, NBS

## 1.7 Market Shares

### 1.7.1 Market Shares: Company Shares

The baby foods market in China has increasingly become dominated by western multinational companies. The reason for this is that the multinationals have greater resources than their domestic Chinese counterparts, and are more highly skilled in marketing and distributing their products economically. This makes them both more competitive, and able to make their products more appealing to consumers through strong advertising campaigns.

Many have also sought to gain official endorsement for their products, and have even been included in government-run nutritional improvement schemes, so that once consumers have tried the products for free, they are more likely to continue buying their products after the initial campaign has ended. Such activities, especially by companies such as Nestlé, has aroused much suspicion amongst both government officials and local people, who feel that these companies are exploiting poor people to make profit.

However, despite the poor press in some quarters, Nestlé has carved a very convincing lead in the market, mainly through sales of its dried milk products. This lead has extended rapidly, and Nestlé now has an estimated one-fifth of the total market in China.

**Table 1.25 LEADING BABY FOOD COMPANY SHARES OF RETAIL SALES IN CHINA, 1999/2002**

<i>% sector share</i>	<b>1999</b>	<b>2002</b>
Nestlé	15.9	21.4
Heinz	8.7	11.2
Wei Chuan	6.0	16.0
Wyeth	5.7	12.7
Lactogen	5.5	10.5
Heilongjiang Dairy Ltd	3.0	8.0
Hangzhou Foodstuffs	2.0	7.0
Shijiazhuang Sanlu Group	3.7	0.2
Hangzhou Food Factory	1.3	1.6
Heilongjiang Hailun Milk	2.0	1.2
Others	46.2	10.2
<b>TOTAL</b>	<b>100.0</b>	<b>100.0</b>

Source: Access Asia from trade sources

### 1.7.2 Market Shares: Powdered Milk National Market Shares

The Tables below indicate both total Chinese market shares and market shares by major city and market. This breakdown reveals that a number of brands, notably Nestle, Anlene, Yili and Sanlu are popular nationwide, while many regions have locally strong brands without national distribution such as Bright in Shanghai or Shancheng in Chongqing and Sichuan.

Hui Shi is a strong national brand due to being widely used in hospitals and clinics for babies unable to breast-feed. It is not widely available through retail channels and therefore does not appear on local market share tables.

Nestle is the one brand to have achieved national exposure with a resultant strong market share.

**Table 1.26 LEADING COMPANY SHARES OF RETAIL POWDERED MILK SALES IN CHINA, 2002**

	<i>% sector share</i>
Nestlé	21.5
Anlene	6.3
Hui Shi	4.9
Yili	4.3
Sanlu	3.4
Others	59.6
TOTAL	100.0

Source: Access Asia from trade sources

### ***1.7.3 Market Shares: Powdered Milk Beijing Market Shares***

In Beijing, Nestlé's strong brand image has been eroded somewhat by Red Star and Wandashan. Red Star which is strong throughout northern and northeastern China (including particularly Shenyang).

Strong dairy brands in Beijing such as Wandashan, Anlene, Yili and Sanyuan are also strong in the powdered milk sector.

Shanghai's Guangming 'Bright' Dairy has entered the Beijing market relatively successfully.

**Table 1.27 LEADING COMPANY SHARES OF RETAIL POWDERED MILK SALES IN BEIJING, 2000-2002**

<i>% Sector share</i>	<b>2000</b>	<b>2002</b>
Nestlé	21.3	12.3
Red Star	18.0	20.8
Wandashan	16.5	15.1
Anlene	13.0	11.1
Sanyuan	5.4	8.8
Yili	4.7	5.1
Bright	-	6.8
Others	21.1	20.0
TOTAL	100.0	100.0

Source: Access Asia from trade sources

### 1.7.4 Market Shares: Powdered Milk Shanghai Market Shares

Shanghai's powdered milk sector is dominated by the leading local producer of fresh milk Shanghai Bright Dairy. Shanghai Bright has strong distribution throughout the city and surrounding hinterland as well as prominent placement in convenience stores and supermarkets and an established delivery service.

Two other brands also strong locally are Anlene and Dumex while higher than national average incomes also mean that Shanghai consumers purchase strong national brands such as Yili as well as Nestle. Campina is a successful new entrant in the market.

**Table 1.28 LEADING COMPANY SHARES OF RETAIL POWDERED MILK SALES IN SHANGHAI, 2000/2002**

<i>% Sector share</i>	<b>2000</b>	<b>2002</b>
Shanghai Bright Dairy	46.4	34.3
Nestlé	13.8	16.6
Anlene	13.0	17.7
Campina	-	10.6
Birth Tree	11.9	-
Dumex	2.4	1.1
Yili	2.1	5.7
An Man	-	2.6
Others	10.4	11.4
<b>TOTAL</b>	<b>100.0</b>	<b>100.0</b>

Source: Access Asia from trade sources

### 1.7.5 Market Shares: Powdered Milk Guangzhou Market Shares

Guangzhou has several local brands that are strong in the powdered milk market including Daqing and Dutch Lady. However both Nestlé and Anlene are leading brands indicating that Guangzhou's higher than national average incomes allow for purchasing high-end brands. As elsewhere Nestlé appears to be losing market share to local competition. Shanghai's Bright Dairy is a new entrant in the southern Chinese market.

**Table 1.29 LEADING COMPANY SHARES OF RETAIL POWDERED MILK SALES IN GUANGZHOU, 2000/2002**

<i>% Sector share</i>	<b>2000</b>	<b>2002</b>
Nestlé	34.2	20.2
Anlene	17.3	19.4
Yili	-	14.0
Daqing	16.7	5.4
Dutch Lady	6.5	7.1
Shanghai Bright Dairy	-	5.4
Others	25.3	28.5
<b>TOTAL</b>	<b>100.0</b>	<b>100.0</b>

Source: Access Asia from trade sources

### 1.7.6 Market Shares: Powdered Milk Chengdu Market Shares

Chengdu and Sichuan province has one particularly strong brand of dairy and powdered milk, namely Nestlé which controls over 35% of the local powdered milk sector.

However, there are indications of growing brand awareness and consumer wealth in Chengdu with nationally popular brands such as Yili, Wandashan and others performing well too. Yang Ping is a well-known local brand in Sichuan.

**Table 1.30 LEADING COMPANY SHARES OF RETAIL POWDERED MILK SALES IN CHENGDU, 2002**

	<i>% Sector share*</i>
Nestlé	35.8
Yang Ping	15.3
Yili	8.9
Wandashan	6.7
Dumex	4.9
Sanlu	4.4
Others	24.0
TOTAL	100.0

Source: Access Asia from trade sources

Note\*: This is the first year Access Asia has been able to obtain data for Chengdu

### 1.7.7 Market Shares: Powdered Milk Wuhan Market Shares

As with Chengdu, Wuhan has one particularly strong local brand, Yangzijiang. Yangzijiang has over 40% of the local market but little share elsewhere in China. However, as additional newcomers have entered the market – such as Shanghai Bright and Dumex – they have captured share from Yangzijiang. National brands such as Nestlé, Yili and Sanlu comprise the rest of the market.

**Table 1.31 LEADING COMPANY SHARES OF RETAIL POWDERED MILK SALES IN WUHAN, 2000/2002**

<i>% Sector share</i>	<b>2000</b>	<b>2002</b>
Yangzijiang	53.2	40.8
Nestlé	19.0	19.5
Yili	11.2	12.9
Shanghai Bright Dairy	-	9.2
Dumex	-	2.0
Sanlu	3.4	1.8
Others	13.2	13.8
TOTAL	100.0	100.0

Source: Access Asia from trade sources

### 1.7.8 Market Shares: Powdered Milk Xi'an Market Shares

Xi'an has one particularly strong local brand of powdered milk that has strong consumer loyalty and a good local reputation, namely Qinyang. Qinyang is extremely dominant in the Xi'an marketplace and controls over 66% of the sector leaving little room for further penetration by the national brands such as Nestlé, Sanlu and Yili who are all left with minority shares in the market. Several new entrants to the market such as Shanghai Bright Dairy and Yinqiao have squeezed Qinyang's hold on the market in the last year.

**Table 1.32 LEADING COMPANY SHARES OF RETAIL POWDERED MILK SALES IN XI'AN, 2000/2002**

<i>% Sector share</i>	<b>2000</b>	<b>2002</b>
Qinyang	70.3	66.2
Shanghai Bright Dairy	-	5.6
Yinqiao	-	4.6
Nestlé	4.7	4.6
Wandashan	-	3.9
Sanlu	4.7	2.4
Yili	3.0	2.9
Others	17.3	9.8
<b>TOTAL</b>	<b>100.0</b>	<b>100.0</b>

Source: Access Asia from trade sources

### 1.7.9 Market Shares: Powdered Milk Shenyang Market Shares

Shenyang is a relatively diverse market though has the presence of several strong brands throughout northeastern China, namely Red Star, Hewang and Jinxing. Red Star is popular throughout the region as far south as Beijing but has little exposure south of the capital. Again new brands entering the market have taken share from the market leaders – Hewang appears to be the biggest loser from this process.

**Table 1.33 LEADING COMPANY SHARES OF RETAIL POWDERED MILK SALES IN SHENYANG, 2000/2002**

<i>% Sector share</i>	<b>2000</b>	<b>2002</b>
Red Star	22.1	26.6
Hewang	15.4	3.8
Jinxing	13.9	12.7
Wandashan	9.1	8.4
Nestlé	6.7	14.2
Sanlu	3.8	4.3
Yili	3.8	11.3
Others	25.2	18.7
<b>TOTAL</b>	<b>100.0</b>	<b>100.0</b>

Source: Access Asia from trade sources



## 1.8 Prices

### 1.8.1 Prices: Retail Price Indices

Retail prices in China have declined gradually since 1997, thanks to a slowdown in market competition. The rise in food prices used to be one of the most worrying trends in the domestic economy for the government, especially as these rises were creating substantial difficulties for many lower-income households, and the threat of social unrest should these difficulties persist. Price controls brought in for the sake of keeping basic food prices at a level to suit poorer households included the reintroduction of rationing on products such as grain and oil.

However, these measures were restricted in geographical spread and duration and generally prices have been allowed to increase according to the laws of the market economy. Moreover, as the internal market has matured, so the rise in spending has settled, and thus prices have also started to become less volatile. Over the last few years, the rise in competition in most consumer product markets has forced consumer prices down. Indeed, the Chinese economy is now facing chronic deflation due to the decline in consumer prices. This deflation was becoming more acute due to the lack of upward movement in property prices in China, largely due to oversupply in sectors of the property market.

However, since 2003, prices have begun to rise again due to a resurgence in spending by consumers, largely caused by a recovery in the retail market after the SARS episode, and people spending less on cars and property, following changes in legislation that has made it harder for people to take out loans on vehicles and property.

**Table 1.34 RETAIL PRICE INDICES BY BROAD SECTOR, 1998-2004**

<i>1997=100.0</i>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
Food	99.40	96.79	98.28	99.03	99.03	99.70	100.42
- canned food	99.40	98.07	99.59	100.36	100.34	101.04	101.77
- grain	99.40	89.29	90.69	91.37	91.37	92.00	92.66
- edibles oils & fats	99.40	98.55	100.07	100.84	100.83	101.53	102.26
- meat, poultry & eggs	99.40	98.24	99.77	100.54	100.52	101.22	101.95
- aquatic produce	99.40	98.16	99.68	100.45	100.43	101.13	101.86
- vegetables	99.40	96.48	97.96	98.72	98.71	99.38	100.10
- fresh fruits	99.40	89.32	90.71	91.41	91.40	92.02	92.68
- dried fruits	99.40	103.38	104.99	105.80	105.78	106.51	107.28
Catering trade	99.40	101.52	103.10	103.89	103.88	104.59	105.34
Beverages, tobacco & liquor	99.40	98.17	99.69	100.45	100.45	101.13	101.86
Clothing and footwear	99.40	100.36	101.92	102.70	102.68	103.40	104.15
Textiles	99.40	98.79	100.32	101.09	101.08	101.77	102.50
Medicines	99.40	101.25	102.81	103.60	103.59	104.31	105.06
Cosmetics	99.39	99.19	100.72	101.50	101.49	102.18	102.92
Newspapers & magazines	99.40	109.37	111.06	111.91	111.89	112.67	113.48
Stationery & sports goods	99.39	98.61	100.13	100.91	100.89	101.58	102.31
Daily use articles	99.39	99.18	100.72	101.48	101.48	102.17	102.91
Household appliances	99.40	92.74	94.18	94.89	94.90	95.54	96.23
Jewellery	99.40	94.82	96.30	97.03	97.03	97.69	98.39
Fuels	99.40	104.07	105.69	106.50	106.49	107.22	107.99
Building decoration materials	99.40	96.00	97.51	98.24	98.23	98.90	99.61
Mechanical/electrical products	99.40	92.61	94.05	94.77	94.77	95.41	96.10
AL RETAIL PRICES	99.40	97.69	99.21	99.97	99.95	100.65	101.38

Source: Access Asia, China Economic Quarterly, NBS

### 1.8.2 Prices: Average Unit Values

**Table 1.35 AVERAGE UNIT RETAIL PRICES ON BABY FOOD PRODUCTS BY SECTOR IN CHINA, 1998-2004**

<i>RMB/kg, current prices</i>	1998	1999	2000	2001	2002	2003	2004
Dried Baby Foods	20.21	22.45	23.49	24.01	24.78	25.86	27.29
Formula Milk	90.84	98.99	102.61	104.20	106.59	110.09	115.66
Other Baby Foods	12.08	13.21	13.71	13.97	14.32	14.84	15.62
MARKET AVERAGE	64.02	70.10	73.25	74.74	76.75	79.67	83.94

Source: Access Asia, China Economic Quarterly, NBS

### 1.8.3 Prices: Average Unit Value Growth Rates

**Table 1.36 % ANNUAL GROWTH OF AVERAGE UNIT RETAIL PRICES ON BABY FOOD PRODUCTS BY SECTOR IN CHINA, 1998-2004**

<i>% annual average current price growth</i>	1998	1999	2000	2001	2002	2003	2004
Dried Baby Foods	1.08	11.09	4.64	2.22	3.17	4.36	5.55
Formula Milk	0.99	8.97	3.66	1.55	2.30	3.28	5.06
Other Baby Foods	1.05	9.41	3.75	1.90	2.49	3.67	5.25
MARKET AVERAGE	1.80	9.50	4.50	2.03	2.68	3.81	5.35

Source: Access Asia, China Economic Quarterly, NBS

### 1.8.4 Prices: Average Unit Values Powdered & Formula Milk

Average unit retail prices in the dairy products sector have tended to maintain an upward, inflationary trend. This being still a relatively new market in China, the growth in consumer demand is still strong, allowing for the market to continue to expand. This allows manufacturers to place a higher margin on their costs, thus increasing profit, without losing sales due to price sensitivity of consumers.

**Table 1.37 AVERAGE UNIT RETAIL PRICES ON POWDERED FORMULA MILK IN CHINA, 1998-2004**

	1998	1999	2000	2001	2002	2003	2004
Formula milk (avg. retail unit current price)	90.85	98.99	102.62	104.21	106.54	108.24	112.59
% annual change in average retail unit price	1.00	8.96	3.67	1.55	2.24	1.60	4.02

Source: Access Asia, China Economic Quarterly, NBS

### 1.8.5 Prices: Average Regional Unit Prices

**Table 1.38 AVERAGE RETAIL PRICES OF BABY FOOD PRODUCTS BY PROVINCE IN CHINA, 1998-2004**

<i>RMB/kg</i>	1998	1999	2000	2001	2002	2003	2004
Anhui	55.28	54.95	55.82	55.78	58.05	60.19	64.16
Beijing	113.62	122.40	130.48	135.11	141.86	147.69	166.16
Chongqing	54.76	58.99	64.05	67.17	67.73	71.43	75.15
Fujian	76.51	82.80	84.50	84.74	89.93	91.26	98.33
Gansu	59.96	64.89	68.36	70.18	70.11	71.11	72.79
Guangdong	96.47	108.31	110.41	110.62	114.73	118.29	125.91
Guangxi	53.22	56.33	61.09	64.01	62.20	62.82	62.11
Guizhou	51.54	53.76	59.62	63.42	62.57	64.22	64.14
Hainan	52.90	58.77	59.16	58.69	58.40	59.02	61.47
Hebei	56.00	61.79	62.12	61.58	64.09	65.62	69.87
Heilongjiang	48.43	61.17	62.56	62.85	65.38	69.66	71.96
Henan	52.98	53.79	55.34	55.84	58.02	61.10	65.03
Hubei	53.04	58.93	60.41	60.80	62.30	65.48	69.21
Hunan	51.35	59.98	64.89	67.88	66.95	70.50	73.16
Inner Mongolia	52.07	56.41	55.68	58.19	60.41	64.27	66.29
Jiangsu	70.87	79.16	82.21	83.53	86.13	92.20	98.19
Jiangxi	52.27	54.32	56.01	56.61	59.10	62.44	66.68
Jilin	60.25	63.99	63.26	61.87	67.76	72.52	79.72
Liaoning	54.28	67.68	70.37	71.56	72.81	76.18	80.13
Ningxia	60.46	64.63	68.56	73.66	73.44	78.60	82.24
Qinghai	71.63	77.38	80.25	91.04	89.70	98.82	100.02
Shaanxi	51.75	58.63	62.28	64.33	65.42	66.89	70.41
Shandong	63.00	68.14	70.03	70.59	73.61	74.34	78.34
Shanghai	116.86	138.32	147.99	153.64	158.23	173.58	186.12
Shanxi	52.76	55.60	55.23	57.29	57.80	59.10	59.62
Sichuan	55.99	60.65	66.42	70.07	70.37	72.51	73.10
Tianjin	85.60	96.43	99.68	100.93	114.40	119.86	134.69
Tibet	98.57	97.82	119.59	135.04	135.63	145.95	148.51
Xinjiang	66.43	71.66	69.60	72.50	75.25	77.64	79.59
Yunnan	71.56	71.75	73.73	74.33	79.90	81.77	88.57
Zhejiang	83.76	88.35	104.40	115.58	113.05	119.08	123.72
TOTAL AVERAGE	64.02	70.10	73.25	74.74	76.75	79.67	83.94

Source: Access Asia, China Economic Quarterly, NBS

### 1.8.6 Prices: Average Regional Unit Price Growth

**Table 1.39**      **% ANNUAL GROWTH OF AVERAGE RETAIL PRICES OF BABY FOOD PRODUCTS BY PROVINCE IN CHINA, 1998-2004**

<i>% annual growth</i>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
Anhui	2.91	-0.59	1.58	-0.07	4.06	3.70	6.59
Beijing	5.42	7.72	6.61	3.55	4.99	4.11	12.50
Chongqing	1.75	7.73	8.58	4.87	0.83	5.47	5.21
Fujian	3.48	8.23	2.05	0.28	6.13	1.47	7.75
Gansu	-0.83	8.22	5.34	2.67	-0.09	1.42	2.37
Guangdong	1.70	12.28	1.93	0.19	3.72	3.10	6.44
Guangxi	-1.82	5.85	8.44	4.79	-2.83	1.00	-1.14
Guizhou	1.22	4.31	10.90	6.38	-1.34	2.64	-0.12
Hainan	-4.52	11.11	0.65	-0.78	-0.50	1.07	4.15
Hebei	0.58	10.34	0.54	-0.87	4.08	2.39	6.48
Heilongjiang	1.27	26.30	2.29	0.46	4.03	6.55	3.29
Henan	3.67	1.53	2.88	0.90	3.91	5.30	6.43
Hubei	0.41	11.09	2.52	0.63	2.47	5.12	5.69
Hunan	-1.42	16.81	8.18	4.61	-1.37	5.31	3.76
Inner Mongolia	3.89	8.34	-1.30	4.52	3.80	6.40	3.14
Jiangsu	1.94	11.70	3.85	1.61	3.11	7.05	6.49
Jiangxi	5.02	3.91	3.12	1.08	4.39	5.65	6.79
Jilin	8.75	6.21	-1.15	-2.19	9.52	7.02	9.93
Liaoning	-0.74	24.68	3.97	1.69	1.75	4.62	5.18
Ningxia	1.79	6.89	6.08	7.44	-0.29	7.03	4.63
Qinghai	3.27	8.03	3.71	13.44	-1.47	10.17	1.22
Shaanxi	2.06	13.31	6.22	3.28	1.70	2.24	5.26
Shandong	3.20	8.17	2.76	0.81	4.27	0.99	5.38
Shanghai	4.57	18.36	7.00	3.81	2.99	9.70	7.23
Shanxi	1.39	5.38	-0.66	3.73	0.90	2.24	0.88
Sichuan	1.75	8.32	9.52	5.49	0.42	3.05	0.81
Tianjin	6.24	12.66	3.36	1.25	13.35	4.77	12.37
Tibet	-0.20	-0.77	22.26	12.91	0.44	7.61	1.75
Xinjiang	2.22	7.88	-2.88	4.17	3.79	3.18	2.51
Yunnan	3.97	0.26	2.76	0.81	7.50	2.35	8.32
Zhejiang	2.12	5.47	18.17	10.71	-2.19	5.33	3.90
TOTAL AVERAGE	1.80	9.50	4.50	2.03	2.68	3.81	5.35

Source: Access Asia, China Economic Quarterly, NBS

## 1.9 Outlook

### Statistical Note

All value forecast data is based upon per capita historical volume growth trends, being extrapolated into future years, and then multiplied by forecast population statistics, and calculated at constant 2004 prices

### 1.9.1 Outlook: Forecast Trends

- The total market is expected to grow to a value of RMB64.88bn (US\$7.84bn) by 2009 at constant 2004 prices, up by 26.32% on 2005.
- The formula milk sector is forecast to rise in significance, up to 90.09% of the market by 2009.
- The market will see growth promoted by greater sales in rural areas, helped by improved distribution, the spread of supermarkets and convenience stores and increase domestic output.
- Consumer spending on children is expected to remain strong as children continued to be highly valued in Chinese society. Additionally, spending on children tends to be one of the last sectors of expenditure to suffer if recession occurs.

### 1.9.2 Outlook: Total Market Size In Value Terms

The Chinese government has indicated that it might be ready to scrap the One-Child Policy, and this might create circumstances for renewed growth in child birth, which could add impetus to the market in the longer term. Initially, it is envisaged that urban professional families may be able to have more than one child. Already, two only children marrying are allowed to have two children themselves.

Both these factors provide new growth potential for the market, which is expected to grow to a value of RMB64.88bn (US\$7.84bn) by 2009 at constant 2004 prices, up by 26.32% on 2005.

**Table 1.40 FORECAST TOTAL VALUE MARKET FOR BABY FOOD IN CHINA, 2005-2009**

	<i>RMB bn, constant 2004 prices</i>	<i>% annual growth</i>
<b>2005</b>	51.36	-1.17
<b>2006</b>	54.65	6.42
<b>2007</b>	58.01	6.13
<b>2008</b>	61.41	5.87
<b>2009</b>	64.88	5.64

Source: Access Asia

### 1.9.3 Outlook: Total Market Size In Volume Terms

Much of the strong growth in previous years has centred on the mainly urban markets, and the large rural market has yet to be fully developed, indicating that there is still plenty of scope for strong market growth.

During the forecast period, the volume market is forecast to grow to nearly 803.17 million KGs by 2009, up by 25.27% on 2005.

**Table 1.41 FORECAST TOTAL VOLUME MARKET FOR BABY FOOD IN CHINA, 2005-2009**

	<i>'000 tonnes</i>	<i>% annual growth</i>
<b>2005</b>	641.13	13.19
<b>2006</b>	680.64	6.16
<b>2007</b>	720.82	5.90
<b>2008</b>	761.66	5.67
<b>2009</b>	803.17	5.45

Source: Access Asia

### 1.9.4 Outlook: Sector Values

Formula milk is expected to remain the most significant sector of the market in the coming years, as it has done over the previous historical period.

However, as the urban markets continue to grow in sophistication, so the demand for more elaborate products will rise in significance. This will give rise to a much more significant demand for wet products and other fresh foods.

Dried meals continue to be a strong growth sector, with flavoured rice powders being highly important amongst these.

Flavours that are continuing to grow in importance include fish and meat flavours. However, the most popular flavours also include vegetables, such as carrots and green vegetables, due to their high vitamin content.

The value growth rates for each sector over the 2005-2009 forecast period by sector are as follows:

<i>Sector</i>	<i>% growth 2005-2009</i>
Dried Baby Foods	21.55
Formula Milk	26.81
Other Baby Foods	25.72
<b>TOTAL</b>	<b>26.32</b>

The volume growth rates for each sector over the 2005-2009 forecast period by sector are as follows:

<i>Sector</i>	<i>% growth 2005-2009</i>
Dried Baby Foods	21.55
Formula Milk	26.81
Other Baby Foods	25.72
TOTAL	25.27

**Table 1.42 FORECAST VALUE & VOLUME SALES OF BABY FOOD BY SECTOR IN CHINA, 2005-2009**

	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
<i>RMB m, constant 2004 prices</i>					
Dried Baby Foods	4,609.13	4,851.58	5,097.97	5,348.30	5,602.56
Formula Milk	46,092.53	49,105.17	52,168.96	55,283.90	58,449.99
Other Baby Foods	656.01	697.15	738.98	781.51	824.73
TOTAL	51,357.67	54,653.91	58,005.92	61,413.70	64,877.27
<i>'000 tonnes</i>					
Dried Baby Foods	178.26	187.64	197.17	206.85	216.68
Formula Milk	418.67	446.03	473.86	502.15	530.91
Other Baby Foods	44.20	46.98	49.80	52.66	55.57
TOTAL	641.13	680.64	720.82	761.66	803.17

Source: Access Asia

### 1.9.5 Outlook: Sector Breakdown

Powdered milk will continue to be important as more parents become aware of the need for calcium in their children's diets. The formula milk sector will in fact rise in significance, rising to about 90.09% of the market by 2009.

The government's promotion of more dairy products in the diet, so that children receive higher intakes of calcium, which is important in the growth of bones and teeth, continues as a key policy in improving average diets.

**Table 1.43 FORECAST PERCENTAGE VALUE & VOLUME BREAKDOWN OF BABY FOOD BY SECTOR IN CHINA, 2005-2009**

	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
<i>% value</i>					
Dried Baby Foods	8.97	8.88	8.79	8.71	8.64
Formula Milk	89.75	89.85	89.94	90.02	90.09
Other Baby Foods	1.28	1.28	1.27	1.27	1.27
TOTAL	100.00	100.00	100.00	100.00	100.00
<i>% volume</i>					
Dried Baby Foods	27.80	27.57	27.35	27.16	26.98
Formula Milk	65.30	65.53	65.74	65.93	66.10
Other Baby Foods	6.89	6.90	6.91	6.91	6.92
TOTAL	100.00	100.00	100.00	100.00	100.00

Source: Access Asia

### 1.9.6 Outlook: Sector Growth

Although the market is expected to see a slowdown in growth over the forecast period, all sectors are expected to see continued positive growth. New growth in rural regions will be a significant part of this, but the value market will grow less strongly than volume sales, as average prices of products sold will come down to fit the less wealthy rural consumer pocket.

The spread of supermarkets and convenience stores will help to generate much more significant growth in the less well-developed regional markets, as will an increase in output and improved distribution.

**Table 1.44 FORECAST ANNUAL VALUE & VOLUME GROWTH OF BABY FOOD BY SECTOR IN CHINA, 2005-2009**

<i>% value growth</i>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
Dried Baby Foods	-2.95	5.26	5.08	4.91	4.75
Formula Milk	-0.99	6.54	6.24	5.97	5.73
Other Baby Foods	-1.43	6.27	6.00	5.75	5.53
TOTAL VALUE	-1.17	6.42	6.13	5.67	5.64
TOTAL % VOLUME GROWTH	3.56	6.16	5.90	5.67	5.45

Source: Access Asia



## 1.10 Current Issues

### *1.10.1 Current Issues: Food Legislation*

Over the course of the past decade, the Chinese government has focused on the need to significantly improve levels of nutrition for infants and small children. In 1988, the State Council of the People's Republic of China (highest governing body of the government) directed the State Planning Council to prepare a strategic plan to address this as a high priority issue.

A new food safety department, which began operations in January 2000, plans to order studies on genetically modified products (GM foods), dioxin contamination and viruses. The Food and Environmental Hygiene Department wants to do more food-related research and bring in pioneering laboratory technology. A food-incidents response team will be set up, with staff on call 24 hours to deal with food crises and large-scale food poisoning.

The Chinese Department of Health recorded 515 food-poisoning cases from January to November, affecting 2,374 people. Extra effort will be put into follow-up action, with more nurses to interview patients and their families. Apart from routine surveillance, the department will do research into the activities of mosquitoes and rats to assess their risk to the public. The department also plans to conduct studies on the possible risk caused by dioxin and the safety of GM foods.

The Department of Health was also active in banning baby-milk formulas and infant food from Belgium, France, Germany and the Netherlands amid fears of contamination by cancer-causing contaminants, dioxin. The safety of GM food was also under the spotlight recently, with green groups and the Consumer Council pressing for mandatory labelling.

### *1.10.2 Current Issues: Packaging Legislation*

The most recent government legislation of relevance to the baby foods market relates to packaging, hygiene and product labelling. The government introduced new hygiene regulations in 1995, which mean that product lines are now inspected, and those products that have passed the inspection can place a hologram label on their product, to show consumer that their product is hygienically manufactured.

The government has also brought out strict codes on the labelling of product ingredients, and has tightened up laws concerning marketing claims for products, in order to clamp down on companies making false claims about the benefits of their products.

Packaging legislation relates more to hygiene issues, but the government has also been keen to encourage local companies to improve packaging used, and the presentation of products, in order that Chinese products can compete more strongly against foreign ones. Chinese companies have certainly responded well, and there has been a marked improvement in food product packaging over the last few years.

### ***1.10.3 Current Issues: Food Safety***

#### **Food Safety Monitoring**

A new food safety department, which began operations in January 2000, has conducted studies on genetically modified products, dioxin contamination and viruses. The Food and Environmental Hygiene Department wants to do more food-related research and bring in pioneering laboratory technology. A food-incidents response team will be set up, with staff on call 24-hours to deal with food crises and large-scale food poisoning.

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The safety of GM food was also under the spotlight recently, with green groups and the Consumer Council pressing for mandatory labelling.

#### **Packaging, Hygiene and Product Labelling**

The most recent government legislation of relevance to the alcoholic drinks market relates to packaging, hygiene and product labelling. The government introduced new hygiene regulations in 1995, which mean that product lines are now inspected, and those products that have passed the inspection can place a hologram label on their product, to show consumer that their product is hygienically manufactured.

The government has also brought out strict codes on the labelling of product ingredients, and has tightened up laws concerning marketing claims for products, in order to clamp down on companies making false claims about the benefits of their products.

Packaging legislation relates more to hygiene issues, but the government has also been keen to encourage local companies to improve packaging used, and the presentation of products, in order that Chinese products can compete more strongly against foreign ones. Chinese companies have certainly responded well, and there has been a marked improvement in alcoholic drinks product packaging over the last few years.

### ***1.10.4 Current Issues: Organic Foods***

Currently, China exports around US\$15m worth of organic foods per year, and sells around RMB100m (US\$12.1m) domestically.

China has established 670,000 mu (110,369 acres) of land dedicated to growing organic food since the Organic Food Development Center of the State Administration of Environmental Protection of China was set up in 1994.

This land produces over 100 types of organic food, including grains, vegetables, fruits, livestock and poultry, honey and seafood. Organic soybeans, rice, peanuts, tea, fruit, honey and herbal medicines are already being exported to the European Union.

### **1.10.5 Current Issues: Breast Feeding**

Being charged with subversion of breast feeding to capture emerging markets is nothing new to Nestlé. A recent article in the *Financial Times of London*, reports that the UK charity, Save the Children, has requested the Chinese government investigate Nestlé's violations of the International Code in the Yunnan province. According to Save the Children, Nestlé "is sending large quantities of free samples of baby milks to local hospitals." In a survey of seven hospitals in the provincial capital, Kunming, every mother was given a package of Lactogen on hospital discharge. Nestlé denied the charges and ordered a full and independent investigation. However, the UK charity refuted many of Nestlé's dismissals and questioned the independence of the Nestlé investigation team.

This is an ongoing row between Nestlé and several charities and organisations. The Chinese government, whilst promoting breast feeding through health education campaigns, has also been promoting a greater inclusion of dairy products in the Chinese diet, especially for children, so as to increase the average levels of calcium included in the average diet. It is certainly the case that some hospitals have been offering free samples of products. This is viewed as being detrimental to the promotion of breast feeding of infants, which is important in providing very young babies with the antigens that protect against most common illnesses.

As the Chinese economy has grown, so consumers have become more sophisticated, and better informed about products. Consumers are basing their choice of baby foods very much on the basis of scientific studies into nutritious, and take great pains to identify the best products for their children, no matter what the cost. However, most Chinese consumers still live on or close to the poverty line, and are not able to afford balanced infant foods, and thus come to rely on cheap products such as milk powder. It is this poorer consumer group which would seem to be most at risk from being marketed to through unfair means. It is also this low-income group that needs the most education about the need to breast feed.

China launched its "Baby-Friendly Hospital Initiative" in 1992, in response to a call by UNICEF and the WHO for better childcare in China's hospitals. In participating hospitals, infants are given to their mothers to breast-feed immediately after birth. Doctors and nurses teach mothers about breast feeding and baby care.

A sample survey in eight provinces showed that 91% of infants are now breast-fed in hospitals, and that the breast-feeding rate has come up to 85.8% among babies four months old and below. The Chinese vice-minister of Health has stated the Chinese government will continue its effort to spread baby-friendly action and increased incidence of breast feeding to more areas in the country.

On the whole, childcare levels are high in China, with most children receiving inoculations at birth. However, there are issues concerning adoptions of orphaned children, many of who spend most of their childhood in under-funded, state-run orphanages, due to the lack of parents adopting children, despite government subsidies to those who do. This failure of more parents to adopt tends to be due to social conventions which mean that most people find the idea of adoption alien.

### ***1.10.6 Current Issues: Chinese Breast Feeding Rates & Policies***

The Chinese government and health authorities have been encouraging breast feeding throughout the country. Throughout China's 5,000 maternity and child care organisations as well as county level family planning organisations breast-feeding is actively promoted. Additionally, China's 15,000 dedicated maternity hospitals also promote breast-feeding among mothers.

Over 6,000 Chinese hospitals also participate in the World Health Organisation (WHO) and UNICEF's Baby Friendly Hospital Initiative, which was launched in 1992 to provide breast feeding support in hospitals. In China this project involves trained nurses providing breast feeding education and promotion in maternity hospitals. It should be noted that designated Baby-Friendly Hospitals do not accept free or low cost breast milk substitutes, feeding bottles or teats from manufacturers or other charities/organisations. These hospitals also use cup feeding of breast milk for babies who for whatever reason cannot breast feed (such as being confined to an incubator, extremely premature etc.).

In part this campaign promoting breast feeding has been organised in a similar manner to that of promoting iodised salt throughout the country which led to China have high levels of iodised salt and so counter acting many diseases in children. The breast feeding campaign has highlighted the effectiveness of breast milk in countering diarrhoea and acute respiratory infections, two major causes of infant mortality in China.

In rural areas breast-feeding is also promoted as an economical method of child rearing. For many low-income rural families the cost of formula or powdered milk can be a severe drain of a family's income. There is also a saving in cost to the overall healthcare budget in China through savings in imported formula.

However, there is one potential problem with breast-feeding in China. The government and healthcare authorities are starting to become concerned regarding the spread of AIDS in China. In most cases this appears to have been due to the use of contaminated blood and shared needles in hospitals rather than sexually transmitted or drug related. Despite this the number of HIV/AIDS patients is growing and HIV is contractable via breast milk (approximately 1 in 7 infants with HIV contract the virus via breast milk globally).

One additional factor specific to China is the duration of lactational amenorrhea, or the time span of breast-feeding. Typically worldwide this tends to be four months, a figure considered normal in most developed nations as well as developing nations such as India and those of Africa and Latin America. However, in China breast feeding often continues up to nine months from birth according to the WHO studies.

In rural China breast-feeding tends to be higher and the duration longer (often nine months though in some extremely poor areas up to two years breast-feeding is not uncommon). This is due in part to educational programmes promoting breast-feeding but mostly due to scarce resources and low incomes. In the urban areas breast feeding rates are lower and where breast feeding is exclusively used tend to be for shorter duration's (typically up to four months). This is due in part to the availability of formulas and powdered milks, higher than average incomes and the increasing incidence of working mothers who find breast-feeding

inconvenient. Additionally, it should be noted that refrigerated storage of breast milk for later feeding is not common in China.

**Table 1.45 EXCLUSIVE BREAST-FEEDING RATES IN CHINA, 1992-1999**

	<b>1992</b>	<b>1999</b>
Rural	29	68
Urban	10	48

Source: Access Asia/WHO/UNICEF/national statistics

### ***1.10.7 Current Issues: Comparative Global Breast Feeding Rates***

Exclusive breast feeding is defined as no other food and drink, not even water, except breast milk for at least four and if possible six months of life, but allows the infant to receive drops and syrups (such as vitamins, minerals and medicines).

Exclusive breast-feeding is divided between those countries where there is little choice and those countries that are able to choose. For instance countries with extremely low incomes such as those of Africa and some Asian countries including Mongolia (bordering china) have high rates of exclusive breast feeding due to lack of fresh drinking water, low incomes and scarce availability of alternative formulas.

However, there is a growing trend towards exclusive breast-feeding in richer parts of the world such as northern Europe where the decision is based upon healthcare and lifestyle factors rather than lack of alternatives.

It is perhaps useful to note that artificially feeding a baby requires an average of three litres of drinkable water per day – one litre to mix the formula and two litres to sterilise the bottles and teats. This may involve quantities of scarce firewood or coal to heat the water too.

**Table 1.46 EXCLUSIVE BREAST FED RATES UP TO FOUR MONTHS**

	<i>% babies exclusively breast-fed</i>
<b>North Asia</b>	
Mongolia	93
<b>Southeast Asia</b>	
Thailand	6
Papua New Guinea	75
<b>Europe</b>	
Sweden	61
Poland	17
Armenia	21
<b>Middle East</b>	
Egypt	68
Saudi Arabia	55
<b>South Asia</b>	
Pakistan	25
Nepal	83
<b>Americas</b>	
Bolivia	59
Colombia	19
Dominican Republic	14
Chile	77
Cuba	76
<b>Africa</b>	
Rwanda	90
Burundi	89
Ethiopia	74
Uganda	70
Eritrea	66

Source: Access Asia from WHO

Ever breast-fed means non-exclusive and means that the infant's predominant source of nourishment is breast milk. However, the infant may also have received water and water-based drinks such as sweetened and flavoured waters, teas, infusions etc. as well as fruit juice or formula.

**Table 1.47 EVER BREAST FED RATES**

	<i>% of babies ever breast-fed</i>
<b>Southeast Asia</b>	
Thailand	99
<b>Europe</b>	
Sweden	98
<b>Americas</b>	
Chile	97
Colombia	95
Ecuador	96

Source: Access Asia from WHO

### ***1.10.8 Current Issues: Nitrite Levels in Formula Milk***

In 2002 China forced the withdrawal from retailers shelves of Wyeth-Ayerst's 'Promise' brand milk powder after declaring the product to have "unacceptable levels of nitrite". Some experts believe high levels of nitrite to be harmful to health.

Wyeth-Ayerst China, the manufacturers, though the batch was originally produced in Ireland, responded by aiding the withdrawal from sale and refunding customers and substituting similar products for Promise.

## 2 Marketing & Distribution

### 2.1 Marketing & Advertising

China's advertising market has experienced extraordinary growth over the past two decades, and continues to see robust growth in the face of a worldwide economic slowdown. This steady growth stems from five main factors. First, membership of the World Trade Organisation (WTO) is bringing greater liberalisation to China's consumer market, promoting additional competition and introducing new foreign and domestic brands into the market that require advertising services to promote themselves and attain market share.

Second, consumers are spending more as a younger generation with fewer scruples about saving and a fresh receptiveness to sophisticated product and brand marketing goes out shopping on a more recreational basis.

Third, the perception that China's economy is weathering the global recession more successfully than other markets – a perception reflected in local consumer spending, which has remained relatively strong – and has prompted more multinational companies (MNCs) to raise their mainland ad spend budgets.

Fourth, local players in the advertising industry have responded to growing international competition. According to the US-based media specialist firm AC Nielsen, advertising expenditure by local manufacturers accounted for more than two-thirds of total advertising expenditure in China's FMCG market in 2002.

Finally, China's emergence as a world power makes it increasingly visible in the global media. International events such as the Olympics, to be held in Beijing in 2008, have already attracted massive advertising budgets as FMCG firms sign up as international sponsors. Other events – notably Shanghai's hosting of the World Expo in 2010 – will help to propel China further into the limelight.

Retailers have been at the forefront of developing new advertising and marketing strategies along with manufacturers, and as the retail industry has become more stratified and sophisticated, so the means and techniques used have become more numerous.

Electronic appliance companies are increasingly offering technical innovation and after-sales service. Marketing monitoring research indicates that amongst total promotions, publicity and display of new products and the strengthening of after-sales service grew 16% and 7%, respectively – with only price promotions seeing greater growth. High-level competition is gradually taking shape in the industry.

According to US market research firm AC Nielsen, China's advertising expenditure grew by around 20% to US\$ 13.4 billion in 2002 – helped by increased adspend on the back of the soccer World Cup hosted by Japan and South Korea – in which China participated for the first time. Adspend in the third quarter of 2002 alone climbed 27% year-on-year to reach US\$ 4 billion. This growth is broadly consistent with China's performance since the mid-1990s. From 1996 to 2001, China's adspend averaged a growth rate of nearly 21.5%.



Meanwhile, the number of advertising agencies reached more than 78,000, with over 700,000 people working in the industry – according to figures released at the annual Ninth China Advertising Festival, which was held in the northern Chinese city of Dalian in October 2002.

## 2.2 Consumers

### *2.2.1 Consumer Profile: Broad Consumer Trends*

Economic development in the fast-growing coastal provinces of eastern and southern China has led to the emergence of a burgeoning middle class with increasing enthusiasm for imported consumer goods. Consumer spending is strongest in densely populated urban markets in these regions - notably Beijing, Shanghai and the fast growing cities of Guangdong province - and consequently these areas have the most developed retail trade environments.

Average per capita retail sales in coastal urban markets already exceeds RMB 10,000 (US\$1,208) a year. Not surprisingly, the greatest concentration of young consumers and professionals is to be found in the top three cities of Beijing, Shanghai and Guangzhou.

Many advertisers now are targeting China's middle class. Yet just how big is this segment? China's National Bureau of Statistics (NBS) and the Chinese Academy of Social Sciences (CASS) do not refer to a middle class – the word 'class' still has negative political connotations in China – but do refer to a 'middle stratum' or 'those with high incomes'. CASS estimates that there are some 110 million people in the 'middle stratum', though its definition of 'middle stratum' not available.

Foreign companies have slightly lower estimates – though again, these depend on key criteria. Deutsche Bank, for example, reckons that the upper middle-income consumer market is around 50 million. It adds that some 130 million consumers are able to buy mid-priced consumer goods, while a total of 250 million can afford basic consumer necessities.

Meanwhile, research commissioned by MasterCard International of the US and carried out by Fudan University's School of Management in Shanghai in the first half of 2003 calculated China's middle-class segment to total 60 million in 2002 (with middle-class consumers being defined as those people earning US\$ 5,000 or more a year). The research added that this figure would rise to 160 million by 2010.

Access Asia believes that there are currently some 120-150 million people who can afford to buy mid-priced FMCG products. Access Asia's statistics are a little higher than the national estimate since we have tried to factor in the 'grey' economy, which can boost incomes.

The Chinese State Information Service is predicting 200 million middle-income consumers by 2005. Access Asia believes that the figure by 2005 will be approximately 175 million, since economic growth will be constrained by negative effects in the economy - rising unemployment, a growing social welfare burden and depressed incomes.

Economic growth in China's inland provinces lags behind that of the country's coastal provinces. However, a central goal of the Tenth Five-Year Plan (2001-2005) - the government's economic blueprint - is development of the Chinese hinterland. Beijing is therefore investing heavily in infrastructure and encouraging greater foreign investment in inland markets

- such as Chongqing (a municipality since 1997), Chengdu, Wuhan and Xi'an.

While these efforts are bolstering economic development in China's inland regions and fostering a nascent consumer class, foreign consumer-goods companies are concentrating mainly on the increasingly active consumer markets in coastal regions, where disposable incomes and spending levels are rising steadily. This scenario is likely to remain the case for the next five to ten years.

### ***2.2.2 Consumers: Baby Food Consumer Profile***

The main consumer group for infant foods is parents. However, grandparents and other members of the extended family are also important in influencing buying decisions - as many parents will trust the advice of a more experienced member of their family regarding what to feed a child.

The extended family, although having its role in modern Chinese society reduced, continues to play a central role in Chinese society. Thus marketers need to convince the whole adult family that they agree that a food is good for the precious child that might be one of only a few children in a family allowed under the One Child Policy.

Parents will also be heavily influenced by government guidelines and public information and press coverage of baby food products. Previously such reports were restricted to government public information broadcasts and dry newspaper articles. However, many parents will now read health and lifestyles magazines to find out about infant food and care, and so reaching parents through the glossy magazines is now an important marketing consideration.

Parents, as with all other consumers, are also heavily influenced by how they perceive the companies that make the products. Widespread advertising tends to be something that only rich companies can afford, and rich tends to correlate to successful, and in the mind of consumers, success has to be based on a product being good. Thus brand awareness is a key factor in developing consumer interest, and initial trust.

Consumers are bombarded with media images in China, just as they are elsewhere, but this media awareness is still tempered by being well-informed on the basis of information gleaned from official and family sources. Generally, the poorer consumers are, the more susceptible they are to media marketing, but in China government education campaigns are pervasive, and family networks still count for a lot, especially in rural China, and so these influences on consumer spending decisions remain as powerful as ever.

**Table 2.1** POPULATION NUMBERS AND % BREAKDOWN BY AGE GROUP, 1998-2004

	1998	1999	2000	2001	2002	2003	2004
<i>Million people</i>							
0 to 4 years	83.70	83.85	84.03	84.16	84.32	84.47	84.62
5 to 9 years	123.00	123.22	123.49	123.69	123.91	124.13	124.36
10 to 14 years	100.62	100.80	101.01	101.18	101.36	101.54	101.72
15 to 19 years	91.68	92.84	94.05	95.20	96.36	97.53	98.70
20 to 29 years	235.79	238.76	241.90	244.83	247.82	250.82	253.83
30 to 39 years	196.65	199.12	201.74	204.19	206.68	209.18	211.70
40 to 49 years	161.55	163.58	165.73	167.74	169.79	171.84	173.91
50 to 59 years	99.91	101.18	102.48	103.73	105.00	106.28	107.55
60 to 64 years	43.19	43.74	44.31	44.85	45.40	45.94	46.50
65 years and over	85.05	87.27	89.38	91.68	93.91	96.13	98.35
TOTAL	1,221.14	1,234.36	1,248.11	1,261.25	1,274.53	1,287.85	1,301.24
<i>% of total population</i>							
0 to 4 years %	6.85	6.79	6.73	6.67	6.62	6.56	6.50
5 to 9 years %	10.07	9.98	9.89	9.81	9.72	9.64	9.56
10 to 14 years %	8.24	8.17	8.09	8.02	7.95	7.88	7.82
15 to 19 years %	7.51	7.52	7.54	7.55	7.56	7.57	7.58
20 to 29 years %	19.31	19.34	19.38	19.41	19.44	19.48	19.51
30 to 39 years %	16.10	16.13	16.16	16.19	16.22	16.24	16.27
40 to 49 years %	13.23	13.25	13.28	13.30	13.32	13.34	13.37
50 to 59 years %	8.18	8.20	8.21	8.22	8.24	8.25	8.27
60 to 64 years %	3.54	3.54	3.55	3.56	3.56	3.57	3.57
65 years and over %	6.96	7.07	7.16	7.27	7.37	7.46	7.56
TOTAL	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Source: Access Asia, China Economic Quarterly, NBS, international statistical estimates

### 2.2.3 Consumer Profile: Powdered & Formula Milk

The main consumer group for formula milk is parents. However, grandparents and other members of the extended family are also important in influencing buying decisions - as many parents will trust the advice of a more experienced member of their family regarding what to feed a child.

The extended family, although having its role in modern Chinese society reduced, continues to play a central role in Chinese society. Thus marketers need to convince the whole adult family that they agree that a food is good for the precious child that might be one of only a few children in a family allowed under the One Child Policy.

Though the majority of Chinese consumers never purchase or consume powdered milk – over 60% - a significant number do. Nearly 10% consumer it daily and it is assumed that this is the purchasing population with babies consuming formula milk.

**Table 2.2**      **FREQUENCY OF POWDERED MILK CONSUMPTION IN CHINA, 2002**

	<i>% consuming</i>
Daily	9.4
3 times or more per week	6.3
1 or 2 times per week	10.2
2 or 3 times per month	5.6
once a month or less	3.1
never	65.4
<b>TOTAL</b>	<b>100.0</b>

Source: Access Asia

Parents will also be heavily influenced by government guidelines and public information and press coverage of baby food products. Previously such reports were restricted to government public information broadcasts and dry newspaper articles. However, many parents will now read health and lifestyles magazines to find out about infant food and care, and so reaching parents through the glossy magazines is now an important marketing consideration.

Parents, as with all other consumers, are also heavily influenced by how they perceive the companies that make the products. Widespread advertising tends to be something that only rich companies can afford, and rich tends to correlate to successful, and in the mind of consumers, success has to be based on a product being good. Thus brand awareness is a key factor in developing consumer interest, and initial trust.

**Table 2.3**      **CONSUMER CONSIDERATIONS WHEN PURCHASING POWDERED MILK IN CHINA, 2002**

<i>Reason for purchase</i>	<i>% responding yes*</i>
taste	50.7
price	40.7
nutritional content	37.9
brand awareness	32.2
easy to buy	23.4
date of production	13.7
dissolubility	11.4
habit	8.5
discounted price	2.8
friends introduction to brand	2.6
influential advertising	2.0
packaging appeal	1.4
shop assistant recommendation	0.6

Source: Access Asia

Note\*: Multiple answers may apply

Consumers are bombarded with media images in China, just as they are elsewhere, but this media awareness is still tempered by being well informed on the basis of information gleaned from official and family sources. Generally, the poorer consumers are, the more susceptible they are to media marketing, but in China government education campaigns are pervasive, and family networks still count for a lot, especially in rural China, and so these influences on consumer spending decisions remain as powerful as ever.

## 2.3 Wholesale Distribution

### *2.3.1 Wholesale Distribution: Milk Distribution to Schools*

High-quality milk will be available to 500,000 primary and middle school students in Shanghai by the end of 2001. A three-year programme has been launched by Shanghai municipal government to deliver packaged milk directly to students. Shanghai is one of five pilot cities in China to carry out "Students Milk Plan", a programme to popularise the drinking of milk among students, and enhance their physical fitness.

The milk, called Students' Drinking Milk, must be provided by designated producers who meet all the requirements concerning producing, storing and transporting the drink. The milk can only be bought from schools by students, at a price lower than that of similar products on market. Since 1999, Students Milk Plan has seen initial achievements in Beijing, Shanghai, Tianjin, Guangzhou and Shenyang. With a daily milk consumption of two tons, around 21,000 students in Guangzhou already benefit from the programme. The scheme is expected to expand to other large cities.

According to an academic report from the fourth symposium of Danone Institute China, 100 grams of milk contain 100 milligrams of calcium, more than 10 times the amount of calcium provided by meat of the same weight. Over 40% of milk calcium can be taken in by the body, eight times the assimilation rate of calcium from spinach. Despite the fact that 50% of newly-born babies in China suffer from rickets, and increasingly more old people suffer from osteoporosis - diseases caused by the lack of calcium - milk is still excluded from many people's daily diet.

According to a document issued by the Food and Agriculture Organisation of the United Nations in 1997, the yearly consumption of milk products per person is about 258 kilograms in developed countries, such as France and England. Although the number has gradually increased to 90 over the years in many developed countries, it is still limited to five in China. According to dietary experts, milk is an indispensable nutrient for people aged from six to 18 for bone growth and brain development.

Japanese youths in puberty, on average, are said to outgrow Chinese youths. Experts attribute this to the years of efforts made by the Japanese Government to raise the public's awareness of the importance of milk - especially on students - and the many measures taken to guarantee students with pure, sterilised and low-priced milk.

### 2.3.2 Wholesale Distribution: Leading Wholesalers

**Table 2.4 LEADING WHOLESALERS OF BABY FOODS, 2002**

Company	Location	Telephone	Fax
Beijing Chaoyang Non-staple Foodstuffs General Company	Beijing	010-6501-6285	010-6501-6285
Beijing Sugar, Cigarette & Wine Company	Beijing	010-6721-0304	010-6721-0310
Shanghai Sugar, Cigarette & Wine Group Co., Ltd.	Shanghai	021-6322-4190	021-6322-3169
Jiangsu Sutang Sugar & Wine Co., Ltd.	Nanjing, Jiangsu	025-666-1088	025-666-1088
Fujian Commerce Group Co., Ltd.	Fuzhou, Fujian	0591-784-7148	0591-784-7145
Yantai Changyu Pioneer Winery Co., Ltd.	Yantai, Shandong	0535-660-2730	0535-621-4078
Blue Ribbon Beer Sales Co., Ltd.	Zhaoqing, Guangdong	0758-286-2322	0758-286-2424
Fujian Shenlong Development Co., Ltd.	Fuzhou, Fujian	0591-750-3218	0591-750-3068
Guangdong Sugar, Cigarette & Wine Group Company	Guangzhou, Guangdong	020-8356-6131	020-8356-1421
Shunde Daliang Sugar, Cigarette & Wine Group Co., Ltd.	Shunde, Guangdong	0765-223-1804	0765-222-2300

Source: Access Asia, NBS

## 2.4 Retail Distribution

Supermarkets and hypermarkets have become increasingly important for dairy products sales over the past few years, increasing to take 50.10% of the market in 2004, from almost nothing at the start of the 1990s. Small, individually owned stores continue to dominate most of the market, these stores being the largest network of grass roots retailers, with high concentration within urban and rural residential areas.

Convenience stores continue to have a powerful influence on the urban markets, being the leading outlets for introducing new products to the market in China. General grocery, general and other food stores all continue to play an major role in dairy products distribution, but are now declining in their significance, due to increased competition from supermarket and convenience store chains.

A recent survey of Chinese retail outlets has shown that dairy cabinets are to be found in 48% of food shops, versus frozen cabinets, which are in 1% of food stores.

**Table 2.5      % BREAKDOWN OF BABY FOOD PRODUCTS SALES BY RETAIL OUTLET TYPE IN CHINA, 1998-2004**

<i>% breakdown of sales value</i>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
Supermarkets and hypermarkets	28.80	32.50	36.20	40.00	43.71	47.45	49.21
Independent food & grocery stores	35.50	35.00	34.50	34.00	33.50	33.00	31.00
Convenience stores	13.50	14.00	14.50	15.00	15.50	16.00	16.50
Confectionery specialist & CTN's	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Other	21.20	17.50	13.80	10.00	6.29	2.55	2.29
<b>TOTAL</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>

Source: Access Asia, NBS, trade sources

## 3 Sources of Supply

### 3.1 Manufacturing

#### 3.1.1 Manufacturing: Product Quality

In 2000, some leading enterprises adopted certain measures to improve product quality, in order to improve the market and industry reputation amongst consumers. At the same time, some local governments brought in regulations on quality management to protect the interest of consumers. Therefore, the quality of dairy products has been improved across the whole industry, but it is still to be further developed to bring standards in line with the foreign countries.

Also in 2000, certain provincial departments, in the process of supervising quality of dairy production, conducted sample tests on dairy products being produced in certain provinces. The results of the survey showed that the lowest frequency of products passing quality standards for yoghurt was 56.7% in Shanxi province, while the highest is 88.2% in Chengdu. This indicates the disparity in terms of quality from region to region.

It was found that some enterprises had not organised production in accordance with fixed standards, and that the nutritional content of products was too low. Also, certain products exceeded the fixed hygiene index, while some product labels were confusing for consumers in regard to product content. Some enterprises also were producing fake products using low-grade ingredients. This shows that some enterprises in China are still going after short-term interest, and that the quality supervision system still needed further improved.

By the end of 2000, State Bureau of Quality and Technological Supervision publicised the result of quality sample tests for the intensified milk powder in the whole country. Among these milk powder producers, 53 of them were found to be unqualified, most of which were located in Inner Mongolia and Heilongjiang, including an enterprise set-up with 100% foreign capital investment. Most of the unqualified products have no additives for nutrition improvement and are low content of vitamins and trace elements. Also, some products were found to have inadequate net content.

**Table 3.1**      **SAMPLE TEST ON DAIRY QUALITY IN PART, 2000**

<i>Location</i>	<i>Product description</i>	<i>Qualifying rate (%)</i>
Shanxi	Yoghurt	56.7
Lanzhou	Milk and yoghurt	72.7
Chengdu	Milk	88.24
Henan	Liquid	68.13

Source: EU Commission in China, the Group on the National Program of School Milk



**Table 3.2 UNQUALIFIED PRODUCER NUMBER OF MILK POWDER, 2000***Enterprises found to have low quality*

	<b>Low net content</b>	<b>Low vitamin &amp; trace elements</b>	<b>No nutritional additives</b>	<b>Low Calcium</b>	<b>Low fat &amp; protein levels</b>
Inner Mongolia	3	3	10	5	3
Heilongjiang	1	7	3	1	1
Guangxi	0	0	2	2	2
Guangdong	0	1	1	1	0
Jiangsu	0	0	1	1	1
Zhejiang	0	0	0	0	1
Beijing	0	1	0	0	0
<b>TOTAL</b>	<b>4</b>	<b>12</b>	<b>17</b>	<b>10</b>	<b>8</b>

Source: EU Commission in China, the Group on National Program of School Milk

### 3.1.2 Manufacturing: Raw Milk Quality Problems

Chinese dairy products have a relatively low level in quality and one of the reasons is the low quality of raw milk. Nearly all processing enterprises complain of problems with raw milk that they receive. However, 80% of milk produced is done so by hand milking. Added to this, most individual dairy farmers pay little heed to the need for disease management of cattle herds, nor to dangers of high concentrations of antibiotics.

The quality of raw milk is therefore hard for processors to monitor, especially with the current shortage of raw materials and lack of testing methods. To avoid problems, many of the leading processing enterprises have begun to manage their own cattle herds, so as to control the quality of raw milk used. Many have also invested in establishing their own milking establishments in order to better manage hygiene.

### 3.1.3 Manufacturing: Infant Food Trade, Production and Apparent Consumption by Segment

**Table 3.3 CHINA INFANT FOOD IMPORTS, EXPORTS, PRODUCTION & APPARENT & RETAIL CONSUMPTION VOLUME & VALUE, 1998-2004**

<b>RMB '000, current prices</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
Retail sales	26,235	28,930	31,896	34,911	40,426	45,127	51,967
Domestic production	6,350	6,985	7,640	8,341	9,698	10,910	12,547
Imports	712,196	712,130	866,336	1,089,157	1,081,215	952,250	1,048,414
Exports	23,292	22,671	23,838	26,072	21,380	18,671	20,725
Apparent consumption	695,255	696,444	850,138	1,071,426	1,069,533	944,488	1,040,237
<b>Tonnes</b>							
Retail sales	409,817	412,696	435,424	467,072	526,715	566,418	619,116
Domestic production	396,793	398,585	417,192	446,369	505,451	547,754	597,931
Imports	13,716	14,949	19,501	21,686	22,410	19,700	22,343
Exports	692	838	1,269	983	1,146	1,036	1,158
Apparent consumption	409,817	412,696	435,424	467,072	526,715	566,418	619,116

Source: Access Asia from trade sources and national statistics

## 3.2 Dairy Substitutes Industry

*Note: It should be noted that in the following sections, the revenues and profits stated include values for total revenues and profits for the companies whose business is predominantly the production and sales of dairy foods, but that these will also include revenues and profits derived from non-dairy foods business activities. Also, it should be noted that the companies included in the following sections are only those classified by the Chinese authorities as being medium- to large-scale enterprises, and do not include statistics for small-scale enterprises, which represent about 50% of the total number of dairy products manufacturers in China.*

### 3.2.1 Dairy Substitutes Manufacturing Industry: Industry Manufacturers & Revenue

As with in other sectors in the dairy industry, the dairy substitutes sector saw significant consolidation in 1998, with the number of companies falling from 30 in 1996, down to 8 in 1999, but rising again to 33 by 2002. This rationalisation of the sector has helped to improve the financial health of the companies that are left, with both total and average revenues improving greatly after 1998 (rising by 1,098.13% between 1995 and 2002), while total industry revenues have grown by 1,481.53% over the same period.

**Table 3.4 TOTAL NUMBER OF DAIRY SUBSTITUTES MANUFACTURERS AGAINST INDUSTRY REVENUES, 1995-2002**

	<i>Companies</i>	<i>% annual growth</i>	<i>Total revenues (RMB m)</i>	<i>% annual growth</i>	<i>Average revenue</i>
<b>1995</b>	25	-	102	-	4.08
<b>1996</b>	30	20.00	46	-54.90	1.53
<b>1997</b>	28	-6.67	71	54.35	2.54
<b>1998</b>	10	-64.29	113	59.15	11.30
<b>1999</b>	8	-20.00	148	30.97	18.50
<b>2000</b>	11	37.50	243	64.19	22.09
<b>2001</b>	17	54.55	378	55.56	22.24
<b>2002</b>	33	94.12	1,613	326.76	48.88

Source: Access Asia from trade sources

### 3.2.2 Dairy Substitutes Manufacturing Industry: Industry Revenue & Profit

The dairy substitutes sector has seen general improvements in profitability since the 1998 reorganisation, as well as in total and average revenues, indicating that the industry is much healthier following its reorganisation in 1998. Despite dipping in 2000, the average profitability for the industry reached a relatively high 11.06% by 2002, up from 0.98% in 1995.

**Table 3.5 DAIRY SUBSTITUTES INDUSTRY REVENUE & PROFIT COMPARED, 1995-2002**

	<i>Total revenues (RMB m)</i>	<i>% annual growth</i>	<i>Total profits (RMB m)</i>	<i>% annual growth</i>	<i>Profitability %</i>
<b>1995</b>	102	-	1	-	0.98
<b>1996</b>	46	-54.90	-11	-1,200.00	-23.91
<b>1997</b>	71	54.35	-2	81.82	-2.82
<b>1998</b>	113	59.15	7	118.21	6.19
<b>1999</b>	148	30.97	9	28.57	6.08
<b>2000</b>	243	64.19	-9	-200.00	-3.70
<b>2001</b>	378	55.56	-2	77.78	-0.53
<b>2002</b>	1,613	326.76	178	9,021.35	11.06

Source: Access Asia from trade sources

### 3.2.3 Dairy Substitutes Manufacturing Industry: Regional Output Volume

Dairy substitutes are manufactured in 15 out of China's 31 provinces, regions and municipalities. Shanghai, Beijing and Guangdong are the most important production bases for these products in China, on a revenue basis, with Liaoning providing the majority of industry profits.

**Table 3.6 REGIONAL STATISTICS OF CHINA'S LEADING DAIRY SUBSTITUTES MANUFACTURERS, 2002**

	Number of Companies	Total no. of employees	Avg. no. of employees	Total revenue (RMB m)	Avg. revenue (RMB '000)	Total profit (RMB m)	Avg. profit (RMB '000)	Labour productivity
Hebei	1	26	26	13.25	13,246	1.57	1,569	509.46
Shanxi	1	589	589	260.88	260,880	8.29	8,285	442.92
Liaoning	1	290	290	135.85	135,854	54.73	54,732	468.46
Jilin	2	100	50	1.48	739	-0.41	-205	14.78
Shanghai	9	1,179	131	337.74	37,527	26.13	2,903	286.47
Jiangsu	2	204	102	142.98	71,491	-7.92	-3,962	700.89
Fujian	1	121	121	11.86	11,864	-2.13	-2,131	98.05
Shandong	2	186	93	10.88	5,440	0.27	137	58.49
Henan	5	540	108	166.34	33,268	5.38	1,076	308.04
Hubei	1	80	80	43.15	43,150	0.00	0	539.38
Hunan	1	240	240	62.82	62,823	28.94	28,941	261.76
Guangdong	2	482	241	217.86	108,928	50.41	25,203	451.98
Shaanxi	3	1,650	550	193.24	64,412	12.88	4,294	117.11
Gansu	1	20	20	8.10	8,100	-0.28	-283	405.00
Ningxia	1	60	60	6.73	6,732	0.58	579	112.20
China Total	33	5,767	175	1,613.16	48,884	178.43	5,407	279.72

Source: NBS, Access Asia

### 3.3 Key Dairy Substitutes Manufacturers

#### 3.3.1 Key Dairy Substitutes Manufacturers: Key Statistics

Shaanxi Shenguo Stock was the industry leader in China in 2001, with revenues of RMB80.35m (US\$9.71m). In 2002, Shanxi Hengkang Daily was the market leader, with revenues in that year of RMB260.88m (US\$31.52m). The company generating the largest profits in 2001 was Shaanxi Shenguo Stock (with profits of RMB4.67m – US\$0.56m), and the leader in terms of profits in 2002 (with profits of RMB54.73m – US\$6.61m) was the Zhen'ao Group.

**Table 3.7 SUMMARY STATISTICS OF CHINA'S LEADING DAIRY SUBSTITUTES MANUFACTURERS, 2001**

<i>RMB m</i>	Revenue	Profit	Assets	Number of employees
Shaanxi Shenguo Stock Co., Ltd.	80.35	4.67	103.81	420
Danisco (China) Co., Ltd.	78.16	0.00	184.57	118
Shanxi Hengkang Daily Co., Ltd.	45.00	0.00	141.35	550
Mengzhou Maiteling Co., Ltd.	25.97	0.18	10.46	58
Mengzhou Changxin Malt Dextrine Factory	20.03	0.20	6.50	50
Ruzhou Julong Starch Factory	19.27	0.59	7.74	60
Wuhan Miaoshi Organic Dairy Industry Co., Ltd.	13.58	0.00	9.84	80
ADD LTP Co., Ltd.	10.95	0.00	49.54	133
Zhengding Longhua Food Factory	9.50	1.05	1.63	26
Heilongjiang Longgang Food Co., Ltd.	3.74	0.00	16.18	41

Source: Trade statistics and company sources

**Table 3.8 SUMMARY STATISTICS OF CHINA'S LEADING DAIRY SUBSTITUTES MANUFACTURERS, 2002**

<i>RMB m</i>	Revenue	Profit	Assets	Number of employees
Shanxi Hengkang Daily Co., Ltd.	260.88	8.29	356.15	589
Zhongshan Perfect Co., Ltd.	209.52	50.28	259.99	381
Zhen'ao Group Co., Ltd.	135.85	54.73	242.33	290
Shaanxi Hongda Industrial Co., Ltd.	86.00	0.39	40.76	730
Shaanxi Shenguo Stock Co., Ltd.	84.67	11.90	112.64	880
Changsha Wahaha Changrong Drink Co., Ltd.	62.82	28.94	40.33	240
Ruzhou Julong Starch Factory	38.90	1.50	14.03	129
Mengzhou Maiteling Co., Ltd.	34.27	0.40	9.30	65
Shanghai Dahan Glossy Ganoderma Health Products Co., Ltd.	26.93	0.33	7.34	144
Mengzhou Changxin Malt Dextrine Factory	24.18	0.39	7.50	50

Source: Trade statistics and company sources

### 3.3.2 Key Dairy Substitutes Manufacturers: Industry Revenue Shares

In 2001, the top three manufacturers in China combined represented 53.84% of total sector revenues. The top five manufacturers represented 66.01% of total revenues, while the top ten represented 81.10% of total revenues in 2001.

In 2002, the top three manufacturers in China combined represented 37.58% of total sector revenues. The top five manufacturers represented 48.16% of total revenues, while the top ten represented 59.76% of total revenues in 2002.

**Table 3.9 CHINA'S LEADING DAIRY SUBSTITUTES MANUFACTURERS' % SHARE OF INDUSTRY REVENUES, 2001**

	<i>% share of industry revenues</i>
Shaanxi Shenguo Stock Co., Ltd.	21.26
Danisco (China) Co., Ltd.	20.68
Shanxi Hengkang Daily Co., Ltd.	11.90
Mengzhou Maiteling Co., Ltd.	6.87
Mengzhou Changxin Malt Dextrine Factory	5.30
Ruzhou Julong Starch Factory	5.10
Wuhan Miaoshi Organic Dairy Industry Co., Ltd.	3.59
ADD LTP Co., Ltd.	2.90
Zhengding Longhua Food Factory	2.51
Heilongjiang Longgang Food Co., Ltd.	0.99
Others	18.90
<b>TOTAL</b>	<b>100.00</b>

Source: Trade statistics and company sources

**Table 3.10 CHINA'S LEADING DAIRY SUBSTITUTES MANUFACTURERS' % SHARE OF INDUSTRY REVENUES, 2002**

	<i>% share of industry revenues</i>
Shanxi Hengkang Daily Co., Ltd.	16.17
Zhongshan Perfect Co., Ltd.	12.99
Zhen'ao Group Co., Ltd.	8.42
Shaanxi Hongda Industrial Co., Ltd.	5.33
Shaanxi Shenguo Stock Co., Ltd.	5.25
Changsha Wahaha Changrong Drink Co., Ltd.	3.89
Ruzhou Julong Starch Factory	2.41
Mengzhou Maiteling Co., Ltd.	2.12
Shanghai Dahan Glossy Ganoderma Health Products Co., Ltd.	1.67
Mengzhou Changxin Malt Dextrine Factory	1.50
Others	40.24
<b>TOTAL</b>	<b>100.00</b>

Source: Trade statistics and company sources

### 3.3.3 Key Dairy Substitutes Manufacturers: Industry Profit Shares

In 2001, the top ten companies in the industry in China together represented 334.85% of total domestic industry profits, while the top three manufacturers share was 233.60%. Outside the top 10, nearly all the companies were loss making.

By 2002, the combined share of total domestic industry profits held by the top ten companies in the industry in China had fallen to 88.07%, while the top three manufacturers share had fallen to 63.50%. This indicates a decline in the degree of concentration within the industry in 2002, as competition across the market increased, while many of the loss-making companies below the top 10 went out of business, or became profitable.

**Table 3.11 CHINA'S LEADING DAIRY SUBSTITUTES MANUFACTURERS' % SHARE OF INDUSTRY PROFITS, 2001**

	<i>% share of industry profits</i>
Shaanxi Shenguo Stock Co., Ltd.	233.60
Danisco (China) Co., Ltd.	na
Shanxi Hengkang Daily Co., Ltd.	na
Mengzhou Maiteling Co., Ltd.	9.15
Mengzhou Changxin Malt Dextrine Factory	10.15
Ruzhou Julong Starch Factory	29.40
Wuhan Miaoshi Organic Dairy Industry Co., Ltd.	na
ADD LTP Co., Ltd.	na
Zhengding Longhua Food Factory	52.50
Heilongjiang Longgang Food Co., Ltd.	0.05
Others	-434.85
<b>TOTAL</b>	<b>100.00</b>

Source: Trade statistics and company sources

**Table 3.12 CHINA'S LEADING DAIRY SUBSTITUTES MANUFACTURERS' % SHARE OF INDUSTRY PROFITS, 2002**

	<i>% share of industry profits</i>
Shanxi Hengkang Daily Co., Ltd.	4.64
Zhongshan Perfect Co., Ltd.	28.18
Zhen'ao Group Co., Ltd.	30.67
Shaanxi Hongda Industrial Co., Ltd.	0.22
Shaanxi Shenguo Stock Co., Ltd.	6.67
Changsha Wahaha Changrong Drink Co., Ltd.	16.22
Ruzhou Julong Starch Factory	0.84
Mengzhou Maiteling Co., Ltd.	0.22
Shanghai Dahan Glossy Ganoderma Health Products Co., Ltd.	0.18
Mengzhou Changxin Malt Dextrine Factory	0.22
Others	11.93
<b>TOTAL</b>	<b>100.00</b>

Source: Trade statistics and company sources

### 3.3.4 Key Dairy Substitutes Manufacturers: Profitability

The list of the top 10 companies in the market in 2001, ranked by profitability, does not correspond with the ranking in terms of revenue. In this case, ninth placed Zhengding Longhua Food Factory was the leading company in terms of profitability in 2001, with a profit margin of 11.05%. This was followed by the second-placed company, as ranked by revenues, (Shaanxi Shenguo Stock), which had a profit margin of 5.81%.

In 2002, the ranking by profitability had changed again. In this case, sixth-placed Changsha Wahaha Changrong Drink was the leading company in terms of profitability in 2002, with a profit margin of 46.07%. This is higher than the leading company ranked by revenue in 2002 (Shanxi Hengkang Daily), whose profit margin was 3.18%.

**Table 3.13 CHINA'S LEADING DAIRY SUBSTITUTES MANUFACTURERS' PROFITABILITY, 2001**

	<i>Profits as a % of revenues</i>
Shaanxi Shenguo Stock Co., Ltd.	5.81
Danisco (China) Co., Ltd.	na
Shanxi Hengkang Daily Co., Ltd.	na
Mengzhou Maiteling Co., Ltd.	0.70
Mengzhou Changxin Malt Dextrine Factory	1.01
Ruzhou Julong Starch Factory	3.05
Wuhan Miaoshi Organic Dairy Industry Co., Ltd.	na
ADD LTP Co., Ltd.	na
Zhengding Longhua Food Factory	11.05
Heilongjiang Longgang Food Co., Ltd.	0.03
Others	-12.17
TOTAL	-0.53

Source: Trade statistics and company sources

**Table 3.14 CHINA'S LEADING DAIRY SUBSTITUTES MANUFACTURERS' PROFITABILITY, 2002**

	<i>Profits as a % of revenues</i>
Shanxi Hengkang Daily Co., Ltd.	3.18
Zhongshan Perfect Co., Ltd.	24.00
Zhen'ao Group Co., Ltd.	40.29
Shaanxi Hongda Industrial Co., Ltd.	0.45
Shaanxi Shenguo Stock Co., Ltd.	14.05
Changsha Wahaha Changrong Drink Co., Ltd.	46.07
Ruzhou Julong Starch Factory	3.86
Mengzhou Maiteling Co., Ltd.	1.16
Shanghai Dahan Glossy Ganoderma Health Products Co., Ltd.	1.22
Mengzhou Changxin Malt Dextrine Factory	1.59
Others	3.28
TOTAL	11.06

Source: Trade statistics and company sources

### 3.3.5 Key Dairy Substitutes Manufacturers: Revenue Per Employee

In terms of revenue per employee in the market, although these were generally quite low, they did rise between 2001 and 2002 for most of the companies in the top 10. Total national industry average revenue per employee rose significantly from RMB0.19m in 2001, to RMB0.28m in 2002.

**Table 3.15 CHINA'S LEADING DAIRY SUBSTITUTES MANUFACTURERS' AVERAGE REVENUES PER EMPLOYEE, 2001**

	<i>Revenue per employee (RMB m)</i>
Shaanxi Shenguo Stock Co., Ltd.	0.19
Danisco (China) Co., Ltd.	0.66
Shanxi Hengkang Daily Co., Ltd.	0.08
Mengzhou Maiteling Co., Ltd.	0.45
Mengzhou Changxin Malt Dextrine Factory	0.40
Ruzhou Julong Starch Factory	0.32
Wuhan Miaoshi Organic Dairy Industry Co., Ltd.	0.17
ADD LTP Co., Ltd.	0.08
Zhengding Longhua Food Factory	0.37
Heilongjiang Longgang Food Co., Ltd.	0.09
Others	0.17
<b>TOTAL</b>	<b>0.19</b>

Source: Trade statistics and company sources

**Table 3.16 CHINA'S LEADING DAIRY SUBSTITUTES MANUFACTURERS' AVERAGE REVENUES PER EMPLOYEE, 2002**

	<i>Revenue per employee (RMB m)</i>
Shanxi Hengkang Daily Co., Ltd.	0.44
Zhongshan Perfect Co., Ltd.	0.55
Zhen'ao Group Co., Ltd.	0.47
Shaanxi Hongda Industrial Co., Ltd.	0.12
Shaanxi Shenguo Stock Co., Ltd.	0.10
Changsha Wahaha Changrong Drink Co., Ltd.	0.26
Ruzhou Julong Starch Factory	0.30
Mengzhou Maiteling Co., Ltd.	0.53
Shanghai Dahan Glossy Ganoderma Health Products Co., Ltd.	0.19
Mengzhou Changxin Malt Dextrine Factory	0.48
Others	3.50
<b>TOTAL</b>	<b>0.28</b>

Source: Trade statistics and company sources



### 3.4 Imports/Exports

China's total import trade value hit US\$126.67M in 2004, up 47.26% over 1998, while exports value declined by 10.99% to US\$2.50m. Total volume of imports grew 62.90% to 22.34 million KGs, while total volume exports grew by 67.36% to 1.16 million KGs in 2004.

**Table 3.17      INFANT FOOD IMPORT & EXXPORT VOLUME & VALUE, 1998-2004**

	1998	1999	2000	2001	2002	2003	2004
Imports (Tonnes)	13,716	14,949	19,501	21,686	22,410	19,700	22,343
Exports (Tonnes)	692	838	1,269	983	1,146	1,036	1,158
Imports (US\$ '000)	86,014	86,006	104,630	131,382	130,424	115,006	126,666
Exports (US\$ '000)	2,813	2,738	2,879	3,145	2,579	2,255	2,504

Source: Access Asia, FAOSTAT (2004), NBS

## 4 SWOT Analysis

### 4.1 Strengths

- The baby foods market is currently enjoying continued growth in consumer interest thanks to the sustained favourable economic circumstances in China.
- Better infant nutrition is also being promoted by the government, which is helping to boost consumer awareness of the need for buying baby foods which contain all the right nutrients.
- The government's signal that it might be ready to get rid of, or reduce the severity of the One Child Policy, is also encouraging, as this would help to increase birth rates, and thus the potential market for baby foods.
- The rise in incomes is permitting purchasing of better quality, more expensive baby foods.
- The increase in ownership of refrigerators and freezers in China has also meant that people are now buying more fresh and wet foods, as opposed to dry powder foods.

### 4.2 Weaknesses

- The continuing problems of opening up the rural market has begun to be addressed by the spread of more retail chains into rural areas, but this rural market continues to be difficult to reach, and will remain so for a long while yet, thus reducing the potential expansion of the market.
- Consumer mistrust of certain products linked to food scares in Europe have not helped the manufacturers of foods with ingredients containing dairy products and beef.
- Consumers are also becoming wary of multinationals, and their involvement in giving free samples of baby foods out from hospitals, in order to create local monopolies.
- Chinese consumers are only just becoming aware that this is an issue, but should the government become more active in preventing such practices, as seems likely, then the companies involved will risk losing the long-term confidence of Chinese consumers.

## 4.3 Opportunities

- Developing new regional markets and new product sectors will continue to be areas of opportunity. The provinces along the Yangzi River valley are now opening up more to investment, and are becoming prime new consumer markets to target.
- Urban consumers are also developing tastes for more “exotic” products and flavours and are becoming much more attracted by foods with added vitamins and minerals.
- Baby foods are now also a means of broadening the Chinese palate to include western foods and flavourings.
- The urban areas remain the major concentration of sales of baby foods, however, the rural areas are ripe for exploitation.
- E-commerce may also provide some opportunity for baby food manufacturers. Initially, this may involve information only sites to raise awareness of brands and products as well as the need for specific baby food and nutritional needs.

## 4.4 Threats

- The main threat to the baby food market comes from the possible detrimental effects of an emerging number of fake branded baby foods being produced by unlicensed manufacturers.
- Such goods do not conform to strict government guidelines, and should they cause any real harm to consumers, this could harm consumer confidence in the bone fide manufacturers, and the baby food market in general.
- There have been problems with some imported milk powders, including several from the US, which the Chinese have banned from sale in the PRC due to high levels of nitrate.

## 5 Company Profiles

### 5.1 ADD LTP Co., Ltd.

#### 5.1.1 ADD LTP: Company Details

Address: Putian City, Fujian, PR China

Tel: +86-594-369-3188  
Fax: +86-594-369-3010

Main products: Powdered milk.

Year established: 1996.

Ownership type: Overseas Chinese-funded.

#### 5.1.2 ADD LTP: Financial Summary

**Table 5.1      ADD LTP CO., LTD.: FINANCIAL RESULTS, 2001**

	<b>2001</b>
Revenue ( <i>RMB m</i> )	10.95
Profit ( <i>RMB m</i> )	na
Profit as a share of revenues (%)	na
Assets ( <i>RMB m</i> )	49.54
Number of employees ( <i>number</i> )	133
Average revenue per employee ( <i>RMB '000</i> )	82.33
Average profit per employee ( <i>RMB '000</i> )	na

Source: Access Asia from NBS, company information

## 5.2 Beijing Sanyuan Foods Company Ltd

### 5.2.1 Beijing Sanyuan Foods: Company Details

Beijing Enterprises Holdings Limited: 34th Floor, Shun Tak Centre West Tower, 168-200 Connaught Road, Central, Hong Kong SAR

Tel: +852-2915-2898

Fax: +852-2857-5084

Key personnel: Hu Zhaoguang – chairman, Yi Xiqun - vice chairman, Xiong Daxin - executive vice chairman & president, Bai Jinrong - vice president.

Ticker: Beijing Enterprises Holdings Ltd: HKSE – 0392, Shanghai SE - 600429



### 5.2.2 Beijing Sanyuan Foods: Company Background & China Activities

Beijing Sanyuan is a major Chinese company in the milk production sector, which is a division of the red-chip conglomerate Beijing Enterprises Holdings Ltd.

The Group is currently engaged in four major sectors of business: consumer goods, infrastructure, services and technology. Consumer goods sector includes manufacture, distribution and sale of beer, wine, dairy products and processed meat and seafood products. Infrastructure sector includes management and operation of the Capital Airport Expressway and the operation concession of a water treatment plant. Services sector includes provision of tourism, retail and hotel services. Technology sector is mainly represented by the Group's 40 % interest in BISC, which is a joint venture with Siemens AG producing switching system. The Group has also started several technology-related projects.

Sanyuan controls 90% of Beijing's milk market and owns 50% of Beijing McDonald's, the operator of the McDonald's fast food chain in Beijing. Additionally, Sanyuan is a major supplier of milk to schools in Beijing and provides 200 millilitres of milk per student each day in the capital.

Sanyuan is 72%-owned by Beijing Enterprises, though is preparing split from its parent company in order to list A shares on the Shanghai Stock Exchange.

Beijing Enterprises is engaged in four sectors of business: consumer goods, infrastructure, services and technology. Consumer goods sector includes manufacture, distribution and sale of beer, wine, dairy products and processed meat and seafood products. Infrastructure sector includes

management and operation of the Capital Airport Expressway and the operation concession of a water treatment plant. Services sector includes provision of tourism, retail and hotel services. Technology sector is mainly represented by the Group's 40% interest in BISC, which is a joint venture with Siemens producing switching system. The Group has also started several technology related projects.

The company has recently purchased 85% of the foreign-owned shares in the China operations of Kraft Foods Inc. (a division of Philip Morris). Prior to the acquisition Sanyuan Food owned 15% of the Kraft unit making Sanyuan the sole owner. Sanyuan is now marketing dairy products under the Kraft brand name in Beijing. Kraft is now focusing on soft drinks, confectionery, coffee and biscuit products in China.

The acquisition of a majority stake in Kraft China was made with the aim of expanding Sanyuan's market share in China, and strengthening its competitiveness upon accession to WTO. Sanyuan acquired collectively 85% equity interests of Kraft China in a consideration of approximately US\$ 12.44 million.

According to assets appraisal report issued by Beijing Development Evaluation Company, the adjusted net assets value of Kraft China was RMB 150 million and there is a 20% discount in this acquisition. Sanyuan will also sign Trademark Licence Agreement with Kraft Foods, Inc. relating to the use of Kraft trademark for a period of one year.

Upon completion, Sanyuan became the major shareholder, while Beijing General Corporation of Agriculture Industry and Commerce owns the remaining 15% equity interests in Kraft China. The company anticipates that the acquisition will not only enable Sanyuan to increase its production capacity, as result of fully utilising the production assets of Kraft China, but also enhance Sanyuan's market expansion. This market expansion is to be developed on the back of the fact that Kraft China already has strong market share with a reputable brand name and extensive dairy foods products throughout China.

### 5.2.3 Beijing Sanyuan Foods: Financial Summary

In local currency terms, Beijing Sanyuan Food sales revenue was RMB1,007.08m (US\$121.63m) in 2001, rising to RMB1,307.03m (US\$157.85m) in 2003, a rise of 29.78% between 2001 and 2003. Meanwhile, the company saw its profits rise by 3.21% in 2002, over 2001, but decline by 78.89% in 2003, largely thanks to the effects of SARS, which caused wide consumer concerns about the safety of dairy products, amongst other food products.

**Table 5.2 BEIJING SANYUAN FOODS CO., LTD.: FINANCIAL RESULTS, 2001-2003\***

<i>RMB mn</i>	<b>2001</b>	<b>2002</b>	<b>2003</b>
Revenues	1,007.08	1,116.37	1,307.03
Pre-tax profits	58.83	60.71	12.82
Revenue growth (%)	-	10.85	17.08
Profit growth (%)	-	3.21	-78.89
Profit as % of revenues	5.84	5.44	0.98
Total assets	1,211.32	1,486.72	1,578.44

Source: Access Asia from company information

Note\*: Financial year ends March 31<sup>st</sup>

## 5.3 Danisco (China) Co., Ltd.

### 5.3.1 Danisco (China): Company Details

Danisco (China) Co., Ltd.: 168 Nanbang Lu, Kunshan Economic & Technical Development Zone, Kunshan, Jiangsu 215300, PR China

Tel: +86-512-5770-3888

Fax: +86-512-5770-7000

Main products: Food additives and powdered milk.

Year established: 1998.

Ownership type: Foreign-funded.

Key personnel: Dr. Yongjing Li – general manager.

### 5.3.2 Danisco (China): Company Background

Danisco (China) Co., Ltd. was established on 22 December 1995, and inaugurated on 28 May 1999, by Danisco A/S for the purpose of producing food ingredients, including emulsifiers and functional systems, and to sell most of Danisco's ingredients to the food industry in China as well as abroad.

On 19 July 2002, Danisco Ingredients (Shanghai) Co., Ltd. was established as a trading company in Shanghai Waigaoqiao Free Trade Zone. In October 2002, its flavour plant in Kunshan was inaugurated. A Danish-Chinese joint venture, Danisco Tianguan, was set up on 2 April 2004, in the centre of Henan for the production of Xanthan gum. In November 2004, Danisco A/S signed a joint venture agreement with Chinese company Henan Tangyin Yuxin Co., Ltd. in Henan Province. The joint venture, in which Danisco holds a majority, manufactures Xylitol and Xylose.

### 5.3.3 Danisco (China): Financial Summary

**Table 5.3 DANISCO (CHINA) CO., LTD.: FINANCIAL RESULTS, 2001**

	<b>2001</b>
Revenue ( <i>RMB m</i> )	78.16
Profit ( <i>RMB m</i> )	na
Profit as a share of revenues (%)	na
Assets ( <i>RMB m</i> )	184.57
Number of employees ( <i>number</i> )	118
Average revenue per employee ( <i>RMB '000</i> )	662.41
Average profit per employee ( <i>RMB '000</i> )	na

Source: Access Asia from NBS, company information

## 5.4 Dumex

### *5.4.1 Dumex: Company Details*

China HQ address: 188 Ning Qiao Lu, Jin Qiao Exporting Processing Zone, Pudong, Shanghai 201026, PR China

Tel: +86-21-5899-0899

Fax: +86-21-5899-5155

URL: [www.dumex.com.my](http://www.dumex.com.my)

Established: 1946, launched in Asia – 1953



### *5.4.2 Dumex: Company Background*

Dairy producer Dumex is one of Asia's market leaders in the infant milk market, and aims to achieve Asian regional sales of US\$400m by 2005. To accomplish the goal, the company will have to capture approximately 30% of the Asian market. This will require that the company increase its significance within the Chinese market, which has so far been overshadowed by Nestlé and Heinz.

The projected US\$400m of turnover by 2005, represents a doubling of growth over the estimated US\$200m in 1999. Dumex plans to invest in some countries apart from its existing plants in Malaysia, Thailand and Shanghai, China.

Currently, Dumex Malaysian operations contribute the most business to Dumex, followed by Thailand. Sales in Thailand were expected to record Baht 2 bn in 1999, a 10% to 15% growth over 1998. Ultimately, all the trademarks of Dumex products are owned by the International Nutrition Company (INC) of Copenhagen, Denmark a fully owned subsidiary of The East Asiatic Company Limited (EAC) which is also a Danish group with Asian headquarters in Singapore. Dumex is an acronym for Danish United Medical Exports.

Dumex nutrition products are marketed and distributed in China, Singapore, Malaysia, Thailand and Vietnam as well as the Middle East, Africa, Caribbean and Europe. Dumex attained ISO 9002 Certification in China in October 1996.

In Shanghai Dumex operates International Nutrition Co., Ltd. (INC – see separate profile below), a wholly owned Danish operation with The East Asiatic Company, Nutrition Division and IFU (Industrialisation Fund for Developing Countries) as shareholders. The company's plant is located in the Jinqiao Export Processing Zone, Pudong, Shanghai. INC Shanghai manufactures and markets the Dumex brand of Infant, Growing-up and Full Cream milk powder as well as Yoplait yoghurt, which is operated under license from Danone. INC Shanghai is also the marketing & sales for Sunquick fruit concentrates under co-operation agreement with CO-RO Food A/S of Denmark. Sales coverage of Dumex in China is now across 24 provinces and 160 cities.



## 5.5 Gerber Products Company

### *5.5.1 Gerber Products Company: Company Details*

HQ address: 445 State Street, Fremont, Michigan 49413-0001, USA

URL: [www.gerber.com](http://www.gerber.com)



### *5.5.2 Gerber Products Company: Company Background*

Gerber began its baby food manufacturing operations in the US in 1928. Gerber has continued to grow throughout the years, and now manufactures 190 food products, labelled in 16 languages and distributed to about 80 countries, including China. Gerber has maintained one of the world's largest private research facilities dedicated exclusively to infant nutrition.

In 1997, Gerber introduced the Tender Harvest line, made with organic fruits, vegetables and grains. The 1999 introduction of the unique NatureLock cooking process to Gerber Fruits and Vegetables helps to retain more of the fresh-picked taste nature intended.

Gerber began its baby care line in 1960, and now markets more than 350 Gerber and NUK branded products including bottles, teethingers, breast feeding accessories and spill-proof cups. In 1967, the Gerber Life Insurance Company was formed as a subsidiary of Gerber Products Company, and is now a leading producer of juvenile life insurance, having more than US\$ 9 billion of life insurance in force throughout the US.

In 1994, Gerber merged with Sandoz Ltd. Gerber is now a part of the Novartis group of companies formed in December 1996 by the merger of Ciba-Geigy Ltd. and Sandoz Ltd.

## 5.6 Groupe Danone

### *5.6.1 Groupe Danone: Company Details*

HQ Address: 17,Boulevard Haussmann, 75009 Paris, France Tel: +33-1 44 35 20 20 Fax: +33-1 42 25 67 16
Guangzhou Danone Yoghurt Co. Ltd.: Shatai gonglu, Meihuayuan, Panlonggeng, Guangdong Province 510510, PR China Tel: +86-20-8770-6365 Fax: +86-20-8770-6391
Hangzhou Wahaha Group Corporation: 128-1, Qiutao Beilu, Hangzhou, Zhejiang 310009, PR China Tel: +86-571-695-2046 Fax: +86-571-695-0150
Danone Consulting Company Ltd: 19th Floor, Kerry Center, 1515 Nanjing West Road, Shanghai 200040, PR China Tel: +86-21-6289-3377 Fax: +86-21-5298-6800
Shanghai Danone Biscuits Foods Company Ltd: 440 Cao Bao Road, Shanghai 200233, PR China Tel: +86-21-6482-3280 Fax: +86-21-6475-2874
Shanghai Danone Yoghurt Co. Ltd.: 3100, Changzhong Lu, Shanghai 200435, PR China Tel: +86-21-5691-3600 Fax: +86-21-5688-1855
Shenzhen Danone Health Drinks Co. Ltd.: Shizi Shan, Shangwu Cun, Bao'an Qu - Shiyan Zhen, Shenzhen, Guangdong, PR China Tel: +86-755-760-8698 Fax: +86-755-760-8092
Tangshan Universal Haomen Brewery Co., Ltd.: Haomen Road, Yutian County, Tangshan City, Hebei 064100, PR China Tel: +86-315-611-2273 Fax: +86-315 611-0893
Wuhan Dongxihu Brewery: Dongxihu, Yanjiadu, Wuhan, Hubei 430047, PR China Tel: +86-278-389-1851 Fax: +86-278-389-2932
URL: <a href="http://www.danone.com">www.danone.com</a>
Employees: 75,965 (worldwide)
Established: 1966
Key personnel: Franck Riboud – CEO, Qin Pen - president of China operations.



### ***5.6.2 Groupe Danone: Company Background***

Groupe Danone is a large and diversified multinational food corporation based in France and operating in 120 countries worldwide. The company is the leading global brand in the fresh dairy foods sector and in cookies as well as being the second largest bottled water company through the Evian and Volvic brands.

The company controls three of the world's leading food and drink brands in Danone, LU and Evian though also has strong dairy brands including Dannon, Galbani and La Serenisima as well as several strong water brands in Evian, Volvic, Ferrarelle, Aqua, Villa del Sur. In the biscuits sector the company controls a number of leading brands including Heudebert, Opavia, Bagley, Britannia. The company also controls the Amoy brand of Hong Kong Chinese sauces and mixes which it acquired in 1991. The company also has brands in various other food sectors including pasta, condiments and sauces.

Danone is also a major packaging manufacturer through a partnership with Gerresheimer, a leading German glassmaker.

Since 1993 Danone has been concentrating on international expansion and building up a portfolio of global brands. Since May 1997 this strategy has been further refined to focus on three main market sectors: dairy products, biscuits and beverages. These activities now represent approximately 85% of total group sales.

### ***5.6.3 Groupe Danone: China Operations***

Groupe Danone has several joint ventures in China, covering biscuits, beer and dairy products manufacture. The company claims to be the leading competitor in the small, but growing dairy beverages sector, with its drinking yoghurt products. The Group has three dairy products manufacturing joint ventures, one each in Guangzhou, Shanghai and Hangzhou, the latter being with the Hangzhou Wahaha Group.

Danone's dairy product operations in Shanghai and Guangzhou are expanding steadily, backed by successful new-product launches. The company is also promoting its sauces and heat-and-serve specialities under the Amoy brand.

In November 2000, Danone formed an alliance with Shanghai Guangming (Bright) Dairy & Food Company Ltd (*see separate profile below*), one of China's largest dairy producers, by taking a minority 5% stake in the company. At the same time two other local companies also purchased minority stakes in Shanghai Bright. This dairy venture will support Danone's major dairy operation in China, Shanghai Danone Yogurt Company, established in 1994.

In December 2000, Danone acquired a 50% stake in Shanghai Aquarius Drinking Water Co. and a 10% interest in Aquarius Shopping Net, an e-commerce Web site operated by Shanghai Aquarius. The transaction, valued at RMB180mn (US\$21.7mn), follows Danone's acquisition of controlling interest in Robust Corp. and a minority stake in Shanghai Guangming (Bright) Dairy and Food Co. (*see separate profile below*).

The acquisition brings the number of domestic companies in which the Danone Group has substantial investments to 10.

## 5.7 Heilongjiang Wandashan Group

### *5.7.2 Heilongjiang Wandashan Group: Company Details*

HQ address: Mishan City, Heilongjiang Province 158300, PR China

Tel: +86-453-508-5168

Fax: +86-453-508-5417

Key personnel: Zheng Xinming – president, Wandashan Milk Product Group

### *5.7.2 Heilongjiang Wandashan Group: Company Background*

The Wandashan Group, originated from the ten small-sized milk powder enterprises under the Mudanjiang River Farming System, has now become the second largest milk powder producer in China.

Wandashan has introduced advanced equipment for the production of the pasteurised milk, fresh milk, UHT milk, yoghurt, chilled foods and milk beverages. They have also concentrated on improving sourcing and marketing channels, as well as strengthening their own brand reputation.

Wandashan Group is best known in China for its olostrums powder. However, the company is now also producing 410 tonnes of fluid milk per day and 100,000 tonnes annually. The group is the major supplier of powdered milk for Heilongjiang province.

Wandashan has ten milk producing plants, one confectionery producing plant, one non-alcoholic drinks producing plant, a single milk juice producing plant and four soya powder production plants. In total, Wandashan operates grassland of 44,000 Hectares with 35,000 Holstein-Friesian cows. The company has 18 milk production lines.

Wandashan's brands include No. 1 Milk Powder, No.2 Milk Powder and pure milk products including milk flavoured with coca malt, honey soya powder. Wandashan branded milk powders are sold in 27 cities throughout China.

Wandashan's total sales in 1998, were approximately RMB220m with profits of RMB 29 million. The company has a reported RMB237m in fixed assets. By 2000, Wandashan's sales revenue reached RMB676.49m.

## 5.8 H.J. Heinz Company

### *5.8.1 H.J. Heinz Company: Company Details*

Address: H.J. Heinz Company, P.O. Box 57, Pittsburgh, Pennsylvania 15230-0057, USA

Tel: +1-412-456-5700

Website: [www.heinz.com](http://www.heinz.com)

Key personnel: William R. Johnson - president & CEO

Products and brands: Heinz manufactures and sells sauces and condiments, infant foods, tuna, convenience meals, frozen foods and pet food.

Ticker: NYSE – HNZ



### *5.8.2 H.J. Heinz Company: Company Background*

The H.J. Heinz Company is a worldwide provider of processed food products. Heinz's products now number more than 5,700 worldwide, and its business extends to more than 200 countries and territories. The company's two strongest global brands are Heinz and Weight Watchers.

Nearly half of company sales come from non-U.S. operations, and nearly 70% of sales are from products without the Heinz brand name. 90% of Heinz sales come from its top 10 business segments: foodservice, sauces & tomato products, baby food, tuna, pet food, frozen potatoes & vegetables, frozen meals & desserts, soup, beans & pasta.

Restaurants, cafeterias earned Heinz US\$ 1.5 billion, almost one-fifth of 1999 annual sales. Heinz is the world's largest tomato processor. Heinz tomato ketchup claims over more than half the ketchup market.

Worldwide, Heinz sells almost US\$ 1 billion annually in jarred baby foods, cereals, formulas, juices and biscuits.

### *5.8.3 H.J. Heinz Company: Asia-related Activities*

Heinz in Asia is run from its regional headquarters in Auckland, New Zealand. This division, H.J. Heinz Pacific Rim, was established in 1996, and controls nine subsidiaries in Asia, these being:

- H.J. Heinz Australia Ltd. Established 1935. Doveton, Victoria, Australia.
- Heinz-Wattie Limited. Acquired 1992. Auckland, New Zealand.
- Heinz Japan Ltd. Established 1961. Tokyo, Japan.

- Heinz-UFE Ltd. Established 1984. Guangzhou, People's Republic of China.
- Seoul-Heinz Ltd. Established 1986. Inchon, South Korea.
- Heinz Win Chance Ltd. Established 1987. Bangkok, Thailand.
- Heinz India (Private) Limited. Acquired 1994. Mumbai, India.
- PT Heinz ABC Indonesia. Acquired 1999. Jakarta, Indonesia.
- PT Surya Pratista Utama. Acquired 1997. Surabaya, Indonesia.

#### ***5.8.4 H.J. Heinz Company: China-related Activities***

In China, Heinz-Cosco Tianjin Food Ltd has recently begun manufacturing 15 kinds of bottled baby food at the new plant near Qingdao. The company is a joint venture of HJ Heinz Co, Tianjin Ocean Shipping Co and Qingdao Taifa Group Co. The products are initially being sold in the Beijing and Tianjin markets. The products are comprised of various mashed vegetables and fruit as well as fruit juice. Company nutritionists have said the new Heinz infant foods are suitable complementary foods to breast milk which can help babies grow healthily.

Heinz now has two joint ventures in Guangzhou (Heinz-UFE, Ltd) and Qingdao, but still seeks more new partners in China to develop local production of core products such as sauces and condiments, infant foods, canned tuna, packaged convenience meals, frozen foods and pet food.

Heinz conducted extensive research on infant feeding practices in China before launching the new foods. Hundreds of mothers and their babies in Beijing and other cities throughout China participated in research and later evaluated potential ingredients and product recipes before the company made its final selections.

The new Heinz facility, which covers 50,000 square meters in Qingdao, was completed in September 1999. Other investors in building the new plant include Alberto Bertuzzi SpA, a leading Italian equipment manufacturer.

Heinz also opened its second infant foods unit in China in 2000, through a joint venture that is producing its first line of jarred baby food at a newly constructed factory in Qingdao.

In terms of condiments and sauces, Heinz has tended to concentrate on the foodservice sector for most of its sales, retail sales being less important at present. The company is establishing its brand presence in China through its sauces being distributed through many fast food outlets, especially the western chains such as McDonald's and KFC. Although the company does sell its sauces retail, most of these are through foreign-owned retail chains, and are generally restricted in their penetration into the market. Key product lines are Heinz ketchup and mayonnaise.

### 5.8.5 H.J. Heinz Company: Financial Results

Sales for 2003/04 increased by 2.16% to US\$8.41bn from US\$8.24bn in 2002/03. Operating income also grew, up by 17.50% in 2003/04, compared with a decline of 9.70% in 2002/03, indicating that the company has brought many unnecessary costs under control. Sales in Asia-Pacific grew by 16.66% in 2003/04 to US\$1.26bn, with operating income growing by a very large 45.52%, to reach US\$146.19mn.

**Table 5.4 H.J. HEINZ COMPANY: FINANCIAL RESULTS, 2002-2004\***

<i>US\$ m</i>	<b>2002</b>	<b>2003</b>	<b>2004</b>
<i>Global</i>			
Sales	7,614.04	8,236.84	8,414.54
Operating income	1,299.87	1,173.82	1,379.26
Sales growth (%)	-	8.18	2.16
Operating income growth (%)	-	-9.70	17.50
Profit as % of turnover	17.07	14.25	16.39
Assets	10,278.35	9,224.75	9,877.19
<i>Asia/Pacific</i>			
Sales	912.58	1,078.85	1,258.56
Operating income	71.51	100.46	146.19
Sales growth (%)	-	18.22	16.66
Operating income growth (%)	-	40.49	45.52
Profit as % of turnover	7.84	9.31	11.62
Assets	916.48	1,088.46	1,242.95

Source: Access Asia from NBS, company information

Note: Year ended 28<sup>th</sup> of April 2004.

### 5.8.6 H.J. Heinz Company: Future Strategies

Heinz future strategy in China is based on looking for new joint venture partnerships through which to build up its local presence. This includes all of the company's main product segments, including sauces and condiments, infant foods, tuna, convenience meals, frozen foods and pet foods.

Heinz is attempting to expand in China through creating new manufacturing joint ventures, and becoming better organised in terms of managing marketing, distribution and advertising spending. Heinz is taking a lot more care about how it approaches the Chinese market, and is increasing its market research activities in the market in order to better tailor its products to the tastes of local consumers. However, Heinz is also introducing well-established foreign brands into China also, in order to test these products in the Chinese market. Such introductions include the recent arrival of Heinz baked beans from the company's UK subsidiary.



## 5.9 Inner Mongolia Mengniu Dairy Co., Ltd.

### *5.9.1 Inner Mongolia Mengniu Dairy: Company Details*

Listed company address: Unit 1001, 10th Floor, Jubilee Centre, 18 Fenwick Street, Wanchai, Hong Kong SAR

China address: Hohhot City, Inner Mongolia, PR China

Tel: +86-471-592-2220

Fax: +86-471-692-5703

URL: www.mengniu.com.cn

Main products: Dairy products.

Year established: 1999.

Ownership type: Joint stock.

Ticker: HKSE 2319

### *5.9.2 Inner Mongolia Mengniu Dairy: Company Background*

Mengniu Dairy is one of China's leading dairy product manufacturers and was rated by the China General Chamber of Commerce as the top liquid milk producer in China by sales volume in 2003. The company made a successful debut on the Hong Kong Stock Exchange in 2004.

The company commenced business in 1999, and is one of the leading dairy product manufacturers in China. Its principal product categories are liquid milk, ice cream and other dairy products, such as milk powder, milk tea powder and milk tablets.

### *5.9.3 Inner Mongolia Mengniu Dairy: Financial Summary*

**Table 5.6** INNER MONGOLIA MENGNIU DAIRY CO., LTD.: FINANCIAL RESULTS, 2003/2004

<i>RMB m</i>	<b>2003</b>	<b>2004</b>
Net revenue	4,071.47	7,213.83
Pre-tax profit	293.79	410.56
Net profit	232.33	392.10
Sales growth	-	77.18
Pre-tax profit growth	-	39.75
Net profit growth	-	68.77
Net profit % of sales	5.71	5.44

Source: Access Asia from NBS, company information

## 5.10 Inner Mongolia Yili Industrial Co., Ltd.

### *5.10.1 Inner Mongolia Yili Industrial: Company Details*

HQ address: 8 Jinsi Road, Jinchuan Development Zone, Hohhot City, Inner Mongolia 010080, PR China

Tel: +86-471-360-1621

Fax: +86-471-360-1615

URL: [www.yili.com](http://www.yili.com)

Key personnel: Zheng Junhuai - chairman, Li Yunqing – vice chairman, Yang Guiqin – vice chairman, Pan Gang – president, Zhan Yongkuan – vice president, Zhang Xianzhu – company secretary.

Ticker: Shanghai SE: 600887



### *5.10.2 Inner Mongolia Yili Industrial: Company Background*

The Yili Industrial has a basis in one of the world's largest pasturelands, the Inner Mongolian steppe. It is this vast resource of dairy production that supplies Yili with its basic product. This base is also very close to key northern markets such as Beijing and Tianjin, plus other rich provinces in the north, such as Liaoning and Hebei.

Yili has successfully promoted its Bitter Coffee brand of flavoured ice cream in the Beijing and Tianjin areas, through strong TV advertising. The company now hopes to expand its distribution to compete in markets further afield, such as Shanghai, Wuhan and eventually the key cities of Guangdong Province.

Recently, Yili Group's vice-president Lu Changquan, a marketing expert who was in charge of the company's sales of ice-cream products has stepped down from his post. Yili has been the top player in the domestic ice-cream market for many years. But since 1999, the gap between the company and its rivals has narrowed sharply. As a result, the company installed Lu as its vice-president last year. With Lu's restructuring of the company's sales network and new marketing strategy, the company's sales jumped 80% during the ice-cream selling season. Yili's rivals are encouraged by Lu's resignation, but Fu Yongjun, Lu's successor, believes it will not have a major negative impact on his company's sales.

### ***5.10.3 Inner Mongolia Yili Industrial: Dairy Activities***

The company manufactures six food product groups, including frozen food, dairy products, quick-frozen foods, beverages, flour and starch, with dairy products being the core activity of the company. The Yili Group Natural Dairy Company is the dairy wing of the Yili Group.

Yili has also incorporated a locally established foreign ice cream company, Perfetti's. Italian-based Perfetti was loss making in China.

Yili is now concentrating its dairy developments on the Shanghai and Eastern China market and has established two factories in the city. The campaign in eastern China has included the launch of 12 new products all priced between RMB 1 to RMB 3 (US\$ 0.12 to US\$ 0.36). Prices for the new products are low both to compete in Shanghai's competitive ice cream market and due to simplified packaging.

In September 2001, Yili launched a plant in Beijing. Yili invested about RMB110m (US\$13.3m) in the first phase of the plant, which aims to diversify its product mix by mainly manufacturing fresh milk and yoghurt. Yili falls behind other companies in fresh milk sales. The second phase of the new plant, which will manufacture cheese and desserts, is slated to open within two years.

In 2002, Yili passed the necessary quarantine checks to begin selling in Hong Kong. The company has launched its 250-millilitre packages of pure milk priced 5% per cent higher than that in the Mainland Chinese market. Yili is now looking to expand into Cambodia, India and other Asian countries.

### ***5.10.4 Inner Mongolia Yili Industrial: Financial Summary***

Yili's product success, fuelled by a strong advertising push, has helped to increase the company's sales by 50% in 1997 over 1996. Increased production capability brought in through investment in new machinery has also provided the added production output to help increase the amount of product the company can get to market, and therefore sell. Continued strong financial growth has followed strong growth in the dairy market, and Yili's success in marketing and distributing its product to a wide market across China. Since 2001, the company has seen its revenues and profits grow very strongly, with net revenue growth at close to or above 50% per annum in both 2002 and 2003, and just below 40% in 2004.

According to the management analysis in the 2004 annual financial report, of the company's total revenues in 2004, 95.63% was derived from liquid milk and milk products manufacturing, 1.06% from convenience foods manufacturing, and the remaining 3.31% was derived from combined animal feeds manufacturing. In terms of core operating profits in 2004, 98.39% came from liquid milk and milk products manufacturing, 0.37% from convenience foods manufacturing, and the remaining 1.24% was derived from sales of combined animal feeds.

Of the core dairy sector revenues in 2004, 66.79% of total revenues came from liquid milk, 16.24% from chilled drinks lines, 12.60% from milk powder and other milk-based products. In terms of total core operating profits in 2004, 70.13% of total profits came from liquid milk, 15.76% from

chilled drinks lines, 12.50% from milk powder and other milk-based products.

**Table 5.7**      **INNER MONGOLIA YILI INDUSTRIAL CO. LTD:**  
**FINANCIAL RESULTS, 2001-2004**

<i><b>RMB m</b></i>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
Net revenue	2,702	4,010	6,299	8,735
Core operating expenses	1,917	2,675	4,274	6,139
Core operating profit	776	1,319	1,997	2,557
Other income	5	10	9	6
Operating profit	141	221	308	383
Pre-tax profit	141	213	319	379
Net income	120	142	200	239
Net revenue growth (%)	-	48.41	57.09	38.67
Net income growth (%)	-	18.33	40.85	19.56
Net profitability (%)	4.44	3.54	3.17	2.74
Fixed assets	776	1,170	1,637	1,879
Current assets	797	1,654	2,317	2,869
Cash	324	780	776	1,601

Source: Access Asia from company information

Note\*: Financial year-end December 31<sup>st</sup>

## 5.11 International Nutrition Company

### ***5.11.1 International Nutrition Company: Company Details***

Office address: Jinqiao Exporting Processing Zone, 88 Bei'er Lu, Pudong, Shanghai 201026, PR China

Tel: +86-21-5899-0899

Fax: +86-21-5899-5155/5058

EAC (East Asiatic Co.): Shanghai Office, 2nd Floor - Kai Yue Building, 58, Yueyang Road, Shanghai 200031, PR China

Tel: +86-21-6474-6500

Fax: +86-21-6474-8500

### ***5.11.2 International Nutrition Company: Company Background***

International Nutrition Co., Ltd. (INC) is a wholly owned Danish operation with The East Asiatic Company, Nutrition Division and IFU (Industrialisation Fund for Developing Countries) as shareholders. Located in Jinqiao Export Processing Zone of Pudong New Area of Shanghai, INC Shanghai has one of the most advanced dairy plants in China.

INC, under close supervision of Dumex International Research Institute in Denmark, emphasises research including the study of infant and child development at all stages in order to develop high-quality nutrition products with complete nutrients that are suitable for infants and children of different ages. It engages a large group of qualified doctors, nurses and midwives specialising in paediatrics, obstetrics, nursery or nutrition with years of experience in the medical field. They are trained and developed to provide professional medical detailing and community services in key cities and townships in China, updating local communities with the latest health, nutrition and child-care information practices.

From its own milk supply, INC Shanghai manufactures and markets the "Dumex" brand of Infant, Growing-up and Full Cream milk powder to international quality standards. The product range is supplemented by the manufacturing and marketing of "Yoplait" yoghurt, which is operated under license from its French owners. INC's operations were accredited with the ISO9002 certification in October 1996.

The product range consists of: Dumex; Dumex Infant formula: for newborns 0 to 12 months; Dumex Follow-on formula: for infants 6 months to 3 years; Dumex 1Plus and 3Plus Growing-up milk: for children 1 to 3 & 3 to 6 respectively. The company also sells a range of Yoplait brand products, including: 150g cup yoghurt in 4 flavour variants; 100g cup fruit yoghurt in 4 flavour variants; 125ml and 450ml bottle drinking yoghurts in 3 flavour variants.

INC set up a joint venture in 1992, investing RMB 236 million which came from DOK, in a partnership with Shanghai Xin'an Dairy Company.

### 5.11.3 International Nutrition Company: Financial Summary

In 2000, the company's sales revenues reached RMB434.74m.

**Table 5.8**      **SHANGHAI INTERNATIONAL NUTRITION DAIRY CO., LTD.: FINANCIAL RESULTS, 2001/2002**

	<b>2001</b>	<b>2002</b>
Revenue ( <i>RMB m</i> )	605.26	687.46
Revenue growth (%)	-	13.58
Profit ( <i>RMB m</i> )	146.91	122.75
Profit growth (%)	-	-16.45
Profit as a share of revenues (%)	24.27	17.86
Assets ( <i>RMB m</i> )	393.09	494.64
Number of employees ( <i>number</i> )	544	556
Average revenue per employee ( <i>RMB '000</i> )	1,112.60	1,236.44
Average profit per employee ( <i>RMB '000</i> )	270.06	220.77

Source: Access Asia from NBS, company information

## 5.12 MeadJohnson (Guangzhou) Co., Ltd.

### 5.12.1 MeadJohnson (Guangzhou): Company Details

Address: Guangzhou City, Guangdong, PR China

Tel: +86-20-82221-9180

Fax: +86-20-8221-1277

Main products: Dairy-based baby foods.

Year established: 1993.

Ownership type: Foreign-funded.

### 5.12.2 MeadJohnson (Guangzhou): Company Background

In 2005, Mead Johnson Nutritionals is commemorating its 100th anniversary. The company was founded in 1905 by Edward Mead Johnson, Sr., who created Dextri-Maltose, a specialty carbohydrate product and the first clinically supported, physician recommended infant food in the US. Introduced in 1911, Dextri-Maltose was used in hospital and home infant feeding preparation for almost 60 years.

### 5.12.3 MeadJohnson (Guangzhou): Financial Summary

**Table 5.9 MEADJOHNSON (GUANGZHOU) CO., LTD.: FINANCIAL RESULTS, 2001/2002**

	<b>2001</b>	<b>2002</b>
Revenue ( <i>RMB m</i> )	367.96	524.44
Revenue growth (%)	-	42.53
Profit ( <i>RMB m</i> )	105.92	122.83
Profit growth (%)	-	15.96
Profit as a share of revenues (%)	28.79	23.42
Assets ( <i>RMB m</i> )	303.38	459.30
Number of employees ( <i>number</i> )	256	147
Average revenue per employee ( <i>RMB '000</i> )	1,437.33	3,567.61
Average profit per employee ( <i>RMB '000</i> )	413.77	835.59

Source: Access Asia from NBS, company information

## 5.13 Mengzhou Changxin Malt Dextrine Factory

### *5.13.1 Mengzhou Changxin Maltodextrine Factory: Company Details*

Address: Jiaozuo City, Henan, PR China

Tel: +86-391-853-1377

Fax: +86-391-853-1351

Main products: Maltodextrine and powdered milk.

Year established: 1995.

Ownership type: Privately-funded.

### *5.13.2 Mengzhou Changxin Maltodextrine Factory: Financial Summary*

**Table 5.10**      **MENGZHOU CHANGXIN MALTODEXTRINE  
FACTORY: FINANCIAL RESULTS, 2001/2002**

	<b>2001</b>	<b>2002</b>
Revenue ( <i>RMB m</i> )	20.03	24.18
Revenue growth (%)	-	20.75
Profit ( <i>RMB m</i> )	0.20	0.39
Profit growth (%)	-	89.66
Profit as a share of revenues (%)	1.01	1.59
Assets ( <i>RMB m</i> )	6.50	7.50
Number of employees ( <i>number</i> )	50	50
Average revenue per employee ( <i>RMB '000</i> )	400.50	483.60
Average profit per employee ( <i>RMB '000</i> )	4.06	7.70

Source: Access Asia from NBS, company information



## 5.14 Mengzhou Maiteling Co., Ltd.

### 5.14.1 Mengzhou Maiteling: Company Details

Address: Jiaozuo City, Henan, PR China

Tel: +86-391-853-1148

Fax: +86-391-853-1148

Main products: Maltodextrine and powdered milk.

Year established: 1995.

Ownership type: Joint stock.

### 5.14.2 Mengzhou Maiteling: Financial Summary

**Table 5.11** MENGZHOU MAITELING CO., LTD.: FINANCIAL RESULTS, 2001/2002

	2001	2002
Revenue ( <i>RMB mn</i> )	20.03	34.27
Revenue growth (%)	-	71.14
Profit ( <i>RMB mn</i> )	0.20	0.40
Profit growth (%)	-	95.07
Profit as a share of revenues (%)	1.01	1.16
Assets ( <i>RMB mn</i> )	6.50	9.30
Number of employees ( <i>number</i> )	50	65
Average revenue per employee ( <i>RMB '000</i> )	400.50	527.23
Average profit per employee ( <i>RMB '000</i> )	4.06	6.09

Source: Access Asia from NBS, company information

## 5.15 Morinaga Milk Industry

### *5.15.1 Morinaga Milk Industry: Company Details*

Company HQ: 5-33-1, Shiba 5-Chome, Minato-Ku, Tokyo 108-8384, Japan

Tel: +91-03-3798-0111

Fax: +91-03-3456-1809

China HQ: Room 201, 313, Hanghua Yi Chun, Hanghua Road (East), Shanghai, PR China

Tel: +86-21-6420-2653

Fax: +86-21-6420-2653

URL: [www.morinagamilk.co.jp](http://www.morinagamilk.co.jp)

Key personnel: Akira Ohno – president, Koichi Furukawa – president.

### *5.15.2 Morinaga Milk Industry: Company Background*

Morinaga is the third largest manufacturer of dairy products in Japan, and is a sister company to Morinaga and Co., which is a technology manufacturer. The company has an expanding dairy drinks business, including milk drinks and yoghurt drinks. The company has links with Kraft General Foods of the US in the production of cheese, and with Sunkist Growers as a licensed user of their trade mark.

Harbin Morinaga Milk Ltd. was established in November 1994, in the northeastern Chinese city of Harbin, between Morinaga, Mitsui & Co. and the Harbin Comprehensive Dairy. In February 1995, the joint venture began producing Morinaga brand powdered infant formula and powdered milk for sale to the domestic market in China.

### **Harbin Jinxin Dairy (Group) Co. Ltd.**

Located in the northeastern Chinese city of Harbin, Jinxin is one of the leading producers of raw milk and milk derivatives in China. The company achieved sales of RMB317.01m in 2000, and is one of the top-10 domestic dairy enterprises.

In November 1994, Morinaga, Mitsui & Co. and the Harbin Jinxin Dairy jointly formed Harbin Morinaga Milk Ltd. In February 1995, the joint venture began producing Morinaga brand powdered infant formula and powdered milk for sale to the domestic market in China.

### 5.15.3 Morinaga Milk Industry: Financial Summary

Morinaga obtains 95% of its business from sales of food products it manufactures. The company has seen continued good growth in both sales revenues and profits over recent years, and is strongly placed for further future expansion.

**Table 5.12 MORINAGA MILK INDUSTRY CO., LTD.: FINANCIAL RESULTS, 2002-2004\***

<i>Yen bn</i>	<b>2002</b>	<b>2003</b>	<b>2004</b>
Sales	527.86	558.30	565.54
Operating profit	10.70	13.80	13.23
Current profit	11.33	14.73	15.14
Net profit	4.56	4.82	6.46
Sales growth	-	5.77	1.30
Net profit growth	-	5.73	34.08
Net profit % of sales	0.86	0.86	1.14

Source: Access Asia from company information

Note\*: Financial year ends March 31<sup>st</sup>

## 5.16 Nestlé

### *5.16.1 Nestlé SA: Company Details*

HQ address: Avenue Nestlé 55, CH-1800, Switzerland

Tel: +21 924 2111

URL: [www.nestle.com](http://www.nestle.com)

Key Personnel: P. Brabeck-Letmathe – CEO

Main products: Powdered soft drinks.

### *5.16.2 Nestlé SA: China Operations*

Nestlé makes food products which can be broadly split into nine categories: Baby Foods & Cereals; Milk & Dairy Products; Breakfast Cereals; Desserts, Snacks & Ice Creams; Chocolate & Confectionery; What's Cooking (which includes convenience and prepared foods); Hot & Cold Beverages; Mineral Water; Pet Care.

Nestlé's history of trading in Asia dates back nearly 100 years. At the beginning of this century, Nestlé had a network of branch offices throughout the region and a warehouse in Singapore. By 1913, Nestlé was distributing its products throughout Asia from warehouses in Hong Kong, Calcutta, Madras, Bombay, Colombo and Japan. Soon after this the company began local production for the Asian market, and in 1933, manufacturing of Nestlé products in Japan was entrusted to an all-Japanese company.

Nestlé makes at least 8,500 products into the market. Nestlé produces anywhere between 10 and 11 million tonnes of food and beverages each year. The only real diversification food and beverages include the acquisition of Alcon Laboratories Inc. in Fort Worth, Texas, a pharmaceutical company specialising in eye care; and Nestlé's minority interest in cosmetics producer L'Oréal.

Each year, new factories come on-line. In the last few years, a major effort was made in Asia, especially in China, because of a very rapid growth in demand there. Nestlé stock is now listed on the exchanges in Basel, Geneva, Zurich, Amsterdam, Brussels, Frankfurt, London, Paris, Tokyo and Vienna.

Nestlé set up three joint venture companies in Tianjin in 1994, namely the Tianjin Nestlé Company, Tianjin Nestlé Dairy Company and the Tianjin Nestlé Candy Company, investing US\$ 60 million in total. The partner for the ventures is the Tianjin Economic and Technological Development Zone Corporation.

Nestlé has been importing its chocolate into China for some time, and so has established good brand recognition amongst Chinese consumers. The new production base for its chocolate within China should allow Nestlé to increase their market share. The company is also heavily involved in the dairy market, and is one of the key foreign players involved in making prepared baby foods in China.

Nestlé's principle China operations include:

**Table 5.13 NESTLÉ: PRINCIPLE OPERATING COMPANIES IN CHINA, 2003**

<i>Company</i>	<i>% Share Holding</i>
Nestlé Shuangcheng Ltd Shuangcheng	97
Nestlé Dongguan Ltd Dongguan	100
Maggi Dongguan Ltd Dongguan	100
Nestlé Tianjin Ltd Tianjin	100
Nestlé Qingdao Ltd Qingdao	100
Nestlé Shanghai Ltd Shanghai	95
Nestlé Dairy Farm Tianjin Ltd Tianjin	100
Nestlé Dairy Farm Qingdao Ltd Qingdao	100
Nestlé Dairy Farm Guangzhou Ltd Guangzhou	90
Guangzhou Refrigerated Foods Ltd Guangzhou	90
Shanghai Fuller Foods Co.Ltd Shanghai	100
Shanghai Nestlé Product Services Ltd Shanghai	97
Shanghai Totole Flavouring Food Co.Ltd.Shanghai	80
Shanghai Jiale Flavouring Food Sales Co. Ltd. Shanghai	80
Nestlé Hong Kong Ltd Hong Kong	100
Nestlé Dairy Farm Hong Kong Ltd Hong Kong	100
Alcon (China) Ophthalmic Product Co., Ltd Beijing	100

Source: Access Asia from company information

### 5.16.3 Nestlé: Financial Summary

#### Nestlé Shuangcheng Co., Ltd.

Address: Harbin City, Heilongjiang, PR China

Tel: +86-451-312-3734

Fax: +86-451-312-3712

Main products: Dairy products.

Year established: 1990.

Ownership type: Foreign-funded.

**Table 5.14 NESTLÉ SHUANGCHENG CO., LTD.: FINANCIAL RESULTS, 2001/2002**

	<b>2001</b>	<b>2002</b>
Revenue ( <i>RMB m</i> )	1,373.71	1,819.64
Revenue growth (%)	-	32.46
Profit ( <i>RMB m</i> )	139.80	389.37
Profit growth (%)	-	178.51
Profit as a share of revenues (%)	10.18	21.40
Assets ( <i>RMB m</i> )	1,008.74	1,077.41
Number of employees ( <i>number</i> )	2,818	557
Average revenue per employee ( <i>RMB '000</i> )	487.48	3,266.86
Average profit per employee ( <i>RMB '000</i> )	49.61	699.05

Source: Access Asia from NBS, company information

**Nestlé Shanghai Co., Ltd.**

Address: Shanghai City, Shanghai, PR China

Tel: +86-21-5774-1718

Fax: +86-21-5774-1706

Main products: Powdered soft drinks.

Year established: 1994.

Ownership type: Foreign-funded.

**Table 5.15 NESTLÉ SHANGHAI CO., LTD.: FINANCIAL RESULTS, 2002**

	<b>2002</b>
Revenue ( <i>RMB mn</i> )	144.10
Profit ( <i>RMB mn</i> )	15.37
Profit as a share of revenues (%)	10.67
Assets ( <i>RMB mn</i> )	125.80
Number of employees ( <i>number</i> )	170
Average revenue per employee ( <i>RMB '000</i> )	847.63
Average profit per employee ( <i>RMB '000</i> )	90.43

Source: Access Asia from NBS, company information

**Nestlé Sources Shanghai Co., Ltd.**

Address: Shanghai City, Shanghai, PR China

Tel: +86-21-5854-9988

Fax: +86-21-5854-1188

Main products: Mineral water.

Year established: 1996.

Ownership type: Foreign-funded.

**Table 5.16 NESTLÉ SOURCES SHANGHAI CO., LTD.: FINANCIAL RESULTS, 2002**

	<b>2002</b>
Revenue ( <i>RMB mn</i> )	93.09
Profit ( <i>RMB mn</i> )	0.00
Profit as a share of revenues (%)	0.00
Assets ( <i>RMB mn</i> )	96.29
Number of employees ( <i>number</i> )	496
Average revenue per employee ( <i>RMB '000</i> )	187.68
Average profit per employee ( <i>RMB '000</i> )	0.00

Source: Access Asia from NBS, company information

## Dongguan Nestlé Co., Ltd.

Address: Dongguan City, Guangdong, PR China

Tel: +86-769-240-4088

Fax: +86-769-240-2804

Main products: Powdered soft drinks.

Year established: 1988.

Ownership type: Foreign-funded.

**Table 5.17 DONGGUAN NESTLÉ CO., LTD.: FINANCIAL RESULTS, 2001/2002**

	2001	2002
Revenue ( <i>RMB mn</i> )	767.35	1,023.20
Revenue growth (%)	-	33.34
Profit ( <i>RMB mn</i> )	176.05	222.72
Profit growth (%)	-	26.51
Profit as a share of revenues (%)	22.94	21.77
Assets ( <i>RMB mn</i> )	522.20	870.80
Number of employees ( <i>number</i> )	352	828
Average revenue per employee ( <i>RMB '000</i> )	2,179.98	1,235.75
Average profit per employee ( <i>RMB '000</i> )	500.13	268.98

Source: Access Asia from NBS, company information

## Shanghai Fuller Foods Co., Ltd.

Address: Shanghai City, Shanghai, PR China

Tel: +86-21-5899-5352

Fax: +86-21-5899-2702

Main products: Ice cream.

Year established: 1993.

Ownership type: Foreign-funded.

Shanghai Fuller Foods Ltd. was build in Shanghai's Jinqiao district in 1993, where it developed its Fuller Milk and San Marlo brand of ice cream. The San Marlo brand achieved market leadership in Shanghai, and subsequently, Shanghai Fuller Foods was sold to Nestlé in late 1997.

**Table 5.18 SHANGHAI FULLER CO., LTD.: FINANCIAL RESULTS, 2002**

	<b>2002</b>
Revenue ( <i>RMB m</i> )	64.41
Profit ( <i>RMB m</i> )	0.00
Profit as a share of revenues (%)	0.00
Assets ( <i>RMB m</i> )	93.13
Number of employees ( <i>number</i> )	380
Average revenue per employee ( <i>RMB '000</i> )	169.49
Average profit per employee ( <i>RMB '000</i> )	0.00

Source: Access Asia from NBS, company information

## Nestlé

In 2003, sales declined by 1.32%, although total operating profit grew by 0.60%.

**Table 5.19 NESTLÉ: FINANCIAL RESULTS, 2001-2003\***

<i>CHF m, current prices</i>	<b>2001</b>	<b>2002</b>	<b>2003</b>
Sales	84,698	89,160	87,979
Operating income	9,987	10,940	11,006
Sales growth (%)	-	5.27	-1.32
Operating income growth (%)	-	9.54	0.60
Profit as % of turnover	11.79	12.27	12.51

Source: Access Asia from company information

Note\*: Financial year-end 31<sup>st</sup> December

Asia represents the largest part of the company's Africa, Asia and Oceania operations division, this total division now accounting for some 16.69% of total worldwide revenues for the Group.

**Table 5.20 NESTLÉ: SALES RESULTS BY GEOGRAPHICAL AREA, 2001-2003**

<i>CHF m</i>	<b>2001</b>	<b>2002</b>	<b>2003</b>
<b>Zone Europe</b>	<b>26,742</b>	<b>28,754</b>	<b>28,068</b>
Western	24,655	26,000	25,814
Eastern & Central	2,087	2,574	2,254
<b>Zone Americas</b>	<b>26,598</b>	<b>27,655</b>	<b>29,293</b>
United States & Canada	15,548	19,089	19,425
Latin America & Caribbean	11,050	8,566	9,868
<b>Zone Asia, Oceania &amp; Africa</b>	<b>15,458</b>	<b>14,432</b>	<b>14,880</b>
Oceania & Japan	4,998	4,497	4,757
Other Asian markets	6,380	5,819	6,234
Africa & Middle East	4,080	4,116	3,889
<b>Nestlé Waters</b>	<b>7,418</b>	<b>8,066</b>	<b>7,720</b>
Europe	-	4,067	3,504
United States & Canada	-	3,545	3,739
Other regions	-	454	477
Other Activities (a) (b)	8,482	9,252	9,199
<b>Total Group</b>	<b>84,698</b>	<b>87,979</b>	<b>89,160</b>

Source: Access Asia from company information



**Table 5.21 NESTLÉ: OPERATING INCOME RESULTS BY GEOGRAPHICAL AREA, 2001-2003**

<i>CHF m</i>	<b>2001</b>	<b>2002</b>	<b>2003</b>
Zone Europe,	3,561	3,442	2,942
Zone Americas	4,150	4,189	3,593
Zone Asia, Oceania & ,Africa	2,508	2,564	2,653
Nestlé Waters	782	696	622
Other activities	1,537	1,517	1,536
EBITA Subtotal	12,538	12,408	11,346
Unallocated items	(1,532)	(1,468)	(1,359)
EBITA Total Group	11,006	10,940	9,987

Source: Access Asia from company information

**Table 5.22 NESTLÉ: SALES RESULTS BY MAIN PRODUCT GROUP, 2001-2003**

<i>CHF m</i>	<b>2001</b>	<b>2002</b>	<b>2003</b>
<b>Beverages</b>	<b>24,023</b>	<b>23,325</b>	<b>23,520</b>
Soluble coffee	8,937	8,287	8,046
Nestlé Waters	7,418	7,720	8,066
Other	7,668	7,318	7,408
<b>Milk products, nutrition &amp; ice cream</b>	<b>23,041</b>	<b>23,376</b>	<b>23,283</b>
Milk products	13,061	12,339	11,208
Nutrition	5,366	5,143	5,003
Ice cream	3,770	5,010	6,147
Other	844	884	925
<b>Prepared dishes &amp; cooking aids</b>	<b>15,092</b>	<b>15,834</b>	<b>16,068</b>
Frozen & chilled	7,566	8,711	9,484
Culinary & other	7,526	7,123	6,584
<b>Chocolate, confectionery &amp; biscuits</b>	<b>11,244</b>	<b>10,774</b>	<b>10,240</b>
Chocolate	8,745	8,493	8,155
Confectionery	1,377	1,306	1,231
Biscuits	1,122	975	854
<b>PetCare</b>	<b>6,232</b>	<b>10,719</b>	<b>9,816</b>
<b>Pharmaceutical products</b>	<b>5,066</b>	<b>5,132</b>	<b>5,052</b>
Alcon	4,624	4,661	4,579
Pharma & cosmetic joint ventures	440	471	473
<b>Total Group</b>	<b>84,698</b>	<b>89,160</b>	<b>87,979</b>
<b>Nestlé Foodservices</b>	<b>6,733</b>	<b>6,606</b>	<b>6,541</b>
Zone Europe	2,633	2,849	3,029
Zone Americas	2,130	1,971	1,935
Zone Asia, Oceania & Africa	1,970	1,786	1,577

Source: Access Asia from company information

**Table 5.23**      **NESTLÉ: OPERATING INCOME RESULTS BY  
MAIN PRODUCT GROUP, 2001-2003**

<i>CHF m</i>	<b>2001</b>	<b>2002</b>	<b>2003</b>
Beverages	4,259	4,075	4,038
Milk products, nutrition & ice cream	2,578	2,756	2,796
Prepared dishes & cooking aids	1,573	1,712	1,884
Chocolate, confectionery & biscuits	1,234	1,180	1,047
PetCare	453	1,418	1,444
Pharmaceutical products	1,249	1,267	1,329
of which Alcon	1,166	1,188	1,234
EBITA Subtotal	11,346	12,408	12,538
Unallocated items	-1,359	-1,468	-1,532
EBITA Total Group	9,987	10,940	11,006

Source: Access Asia from company information

## 5.17 Numico

### *5.17.1 Numico: Company Details*

Company HQ: Koninklijke (Royal) Numico, Rokkeveenseweg 49  
2712 PJ Zoetermeer, The Netherlands

Tel. +31-79-353-9000  
Fax +31-79-353-9620

Nutricia Shanghai Representative Office: 1502-1504, Westgate Male, 1038  
Nanjing Road West, 200041 Shanghai, PR China

Tel.: +86-21-6267-6340  
Fax: +86-21-6267-6324

URL: [www.nutricia.com.cn](http://www.nutricia.com.cn)

Nutricia Pharmaceutical (Wuxi) Co., Ltd.: 17, Xinming Road, Xishan  
Economic Development Zone, Jiangsu Province, PR China

Tel.: +86-510-827-0123/827-0158  
Fax: +86-510-827-0701

Nutricia Nutritionals Company Ltd of Heilongjiang: 278, Rubin Street,  
Yushutun, Angangxi, Qiqihar, Heilongjiang 161033, PR China

### *5.17.2 Numico: Company Background*

Numico was established over 100 years ago as a small dairy producer in Zoetermeer, the Netherlands. The company has now developed into a multinational company with subsidiaries all over the world. In 1997, the company was granted the title “Royal” and was renamed Numico as of 1998.

In addition to baby and toddler foods and clinical nutrition products, Nutricia has introduced a line of branded consumer products. During the 1930’s, Chocomel was brought onto the market as the first long storage life chocolate milk, and in the late 1940’s, Nutricia was the first manufacturer to offer coffee milk (Nutroma) packaged in bottles.

Numico is a public company listed on the Amsterdam Stock Exchange, operating in over 100 countries and employing more than 28,500 people worldwide.

In China, the company produces a range of dairy-based health drinks and infant/toddler foods through its several subsidiaries there.

In early 2005, the company announced its acquisition of the Qihe Dairy Co., Ltd. of Heilongjiang. This company focuses on the production of consumer products, infant milk formula and baby food for the Chinese market. The company has a capacity of approximately 10,000 tonnes per year, and current sales amount to NLG7m. The company employs 215 persons.

Previously, Numico had no production facilities in China and imported infant milk formula and baby food from The Netherlands. The production of these imports will be transferred to China, while production of infant milk formula, which was handled by third parties, will also be transferred.

Also in early 2005, Numico acquired all shares in Wuxi Chia-Tai Pharmaceutical Co., Ltd. This company will be used to start production of enteral clinical nutrition for the Chinese market, apart from the pharmaceutical products that are already manufactured in this facility now. Current sales amount to approx. EUR3.5m per annum. The company employs approximately 145 persons. Numico has a market share of 55% in enteral clinical nutrition in China, all products now being imported under a special license.

### ***5.17.3 Numico: Financial Summary***

The Asia, Africa and Americas regional division of Numico reached a total sales value of Euros 336 million in 2000, up by 53.4% on 1999, and representing 14.6% of total company sales revenue.

**Table 5.24 NUMICO: FINANCIAL RESULTS, 2003/2004\***

<b>€m</b>	<b>2003</b>	<b>2004</b>
Net sales	3,151	1,722
Production costs	-1,163	-486
Gross profits	1,988	1,236
Other income	59	23
Net profits	2,047	1,259
Net income	252	204
Total operating expenses	-1,775	-941
Pre-tax profit	-748	263
Net profits	-504	145
Revenue decline (%)	-	-45.35
Gross Profit decline (%)	-	-37.83
Net income decline (%)`	-	-128.77
Gross Profit as % of revenues	63.09	71.78

Source: Access Asia from company information

Note\*: Financial year ends December 31<sup>st</sup>

## 5.18 Ruzhou Julong Starch Factory

### *5.18.1 Ruzhou Julong Starch Factory: Company Details*

Address: Pingdingshan City, Henan, PR China

Tel: +86-375-697-1921

Fax: +86-375-697-1998

Main products: Starch and powdered milk.

Year established: 1997.

Ownership type: Joint stock.

### *5.18.3 Ruzhou Julong Starch Factory: Financial Summary*

**Table 5.25 RZHOUE JULONG STARCH FACTORY:  
FINANCIAL RESULTS, 2001/2002**

	<b>2001</b>	<b>2002</b>
Revenue ( <i>RMB m</i> )	19.27	38.90
Revenue growth (%)	-	101.83
Profit ( <i>RMB m</i> )	0.59	1.50
Profit growth (%)	-	155.10
Profit as a share of revenues (%)	3.05	3.86
Assets ( <i>RMB m</i> )	7.74	14.03
Number of employees ( <i>number</i> )	60	129
Average revenue per employee ( <i>RMB '000</i> )	321.23	301.55
Average profit per employee ( <i>RMB '000</i> )	9.80	11.63

Source: Access Asia from NBS, company information

## 5.19 Shaanxi Hongda Industrial Co., Ltd.

### 5.19.1 Shaanxi Hongda: Company Background

Address: Xianyang City, Shaanxi, PR China

Tel: +86-910-246-3189

Fax: +86-910-246-3176

Main products: Dairy products, including powdered milk.

Year established: 1986.

Ownership type: Limited liability.

### 5.19.2 Shaanxi Hongda: Financial Summary

**Table 5.26**      **SHAANXI HONGDA IND. CO., LTD.: FINANCIAL RESULTS, 2002**

	<b>2002</b>
Revenue ( <i>RMB m</i> )	86.00
Profit ( <i>RMB m</i> )	0.39
Profit as a share of revenues (%)	0.45
Assets ( <i>RMB m</i> )	40.76
Number of employees ( <i>number</i> )	730
Average revenue per employee ( <i>RMB '000</i> )	117.81
Average profit per employee ( <i>RMB '000</i> )	0.53

Source: Access Asia from NBS, company information

## 5.20 Shaanxi Shenguo Stock Co., Ltd.

### 5.20.1 Shaanxi Shenguo Stock: Company Background

Address: 1 Wei'er Road Yangling Agriculture High-Tech Demonstration Zone Xianyang City, Shaanxi, PR China

Tel: +86-910-749-6067, 749-6013

Fax: +86-910-749-6007

URL: www.shenguo.com.cn

Main activities: Dairy food and milk powder production, beverage processing, transport, cold storage, building material, breeding, advertising and real estate development.

Year established: 1998.

Ownership type: Joint stock.

### 5.20.2 Shaanxi Shenguo Stock: Company Background

Shaanxi Shenguo Co., Ltd. is located in the western part of the Guanzhong Plain of Shaanxi Province. The company has RMB61m in fixed assets and one RMB180m in total capital funds. The company's production site covers an area of 15 hectares, and employs 880 people. Shenguo has two modern multi-purpose milk powder production lines and four beverage production lines. The company's activities include dairy food and milk powder production, beverage processing, transportation, cold storage, building materials, livestock breeding, advertising and real estate development. It is currently one of the largest dairy products manufacturers in Northwest China.

### 5.20.3 Shaanxi Shenguo Stock: Financial Summary

**Table 5.27 SHAANXI SHENGUO STOCK CO., LTD.: FINANCIAL RESULTS, 2001/2002**

	2001	2002
Revenue (RMB m)	80.35	84.67
Revenue growth (%)	-	5.37
Profit (RMB m)	4.67	11.90
Profit growth (%)	-	154.64
Profit as a share of revenues (%)	5.81	14.05
Assets (RMB m)	103.81	112.64
Number of employees (number)	420	880
Average revenue per employee (RMB '000)	191.31	96.21
Average profit per employee (RMB '000)	11.12	13.52

Source: Access Asia from NBS, company information

## 5.21 Shanghai Dahan Glossy Ganoderma Health Products Co., Ltd.

### *5.21.1 Shanghai Dahan Glossy Ganoderma Health Products: Company Details*

Address: Shanghai City, Shanghai, PR China

Tel: +86-21-6469-7805

Fax: +86-21-6428-8436

Main products: Health foods and powdered milk.

Year established: 1996.

Ownership type: Overseas Chinese-funded.

### *5.21.2 Shanghai Dahan Glossy Ganoderma Health Products: Financial Summary*

**Table 5.29 SHANGHAI DAHAN GLOSSY GANODERMA HEALTH PRODUCTS CO., LTD.: FINANCIAL RESULTS, 2002**

	<b>2002</b>
Revenue ( <i>RMB m</i> )	26.93
Profit ( <i>RMB m</i> )	0.33
Profit as a share of revenues (%)	1.22
Assets ( <i>RMB m</i> )	7.34
Number of employees ( <i>number</i> )	144
Average revenue per employee ( <i>RMB '000</i> )	187.03
Average profit per employee ( <i>RMB '000</i> )	2.28

Source: Access Asia from NBS, company information



## 5.22 Shanghai Guangming (Bright) Dairy & Food Co. Ltd.

### *5.22.1 Shanghai Guangming: Company Details*

HQ Address: 578, Wuzhong Road, Shanghai 201103, PR China
Tel: +86-21-5458-4520
Fax: +86-21-6401-3337
Factory Address: Bo'ai Building, Bo'ai Road, Changzhou, Jiangsu Province 213017, PR China
Tel: +86-519-811-6786
Fax: +86-519-811-6786
Order hotline: +86-21-6272-1919
URL: <a href="http://www.brightdairy.com">www.brightdairy.com</a>
Ticker: Shanghai SE 600597
Key personnel: Wang Jiafen – chairman, Zhu Jianyi – company secretary.

### *5.22.2 Shanghai Guangming: Company Background*

In 1911, a number of local, Shanghai farmers began to sell milk to a few, few rich customers in the foreign concessions. Out of this, the British Kedi Milk Company was founded. In 1949, Shanghai's milk market reached its lowest point as a result of US milk powder flooding the market and a severe inflation.

From 1949 to 1956, the dairy farming industry in Shanghai developed slowly. In 1949, the First Yimin Plant was established, mainly producing milk powder. When in 1952, Jiang Zemin became the director of the First Yimin Plant, the Bright brand was registered.

In 1956, the Shanghai Dairy Group (SDG), combining both state and farmers' capital, was founded by Shanghai Agricultural Bureau. It chiefly produced liquid milk and a small amounts of butter and yoghurt. SDG assumed all the production of milk powder of the First Yimin Plant, as the latter lacked milk sources.

From 1958 to 1978, the output of SDG fell short of demand for the planned economy. SDG continued to mainly produce milk powder and maintained a low amount of liquid milk output.

From 1978 to 1992, the Shanghai Municipal Government made efforts to improve the milk supply as the country adopted the policy of reform and opening-up. Production orientation began to shift from milk powder to liquid milk, and the company set up nine dairy production plants and registered several new brand names.

With the introduction of the market economy, SDG's supply exceeded demand amidst keen competition. The company broadened its operation in order to become a leading dairy, which included unified its different brands, its sales activities and establishing a sales department.

In 1995, a plan was brought about to build the company into a national market leader and extend its sales abroad. The ultimate aim was to turn the company into the country's largest dairy and food enterprise. In 1996, this led to SDG and the Shanghai Industry Food Co., Ltd. Jointly setting up Shanghai Guangming (Bright) Dairy & Food Co., Ltd., with each holding a 50% share. Financial operations of the new company were based upon international standards, and were focused on investment return.

1997 saw the new company beginning to concentrate on developing the "Bright" brand. This led to the development of a new development strategy in 1998. This strategy include shaping the company into one whose production was targeted the local markets while its brand would be promoted to become nationally recognised. The company aimed also at industrialising the milk industry by removing the region barriers and ownership restraints. Also in 1998, the company combined its production and asset operations, and set up production bases in Heilongjiang and Inner Mongolia.

By 1999, the Bright brand had become a prominent brand name nationwide. New plants set up in Beijing, Xi'an and Wuhan and a sales centre was established in most provinces of the country. Between 1993 and 2000, the company's volume of crude milk gathering, sales revenue and the output of liquid milk ranked first within the whole of China, and achieved an average growth rate of 30%. The company is planning to list on the Shanghai Stock Exchange in 2002.

### ***5.22.3 Shanghai Guangming: Structural Background***

Shanghai Guangming (Bright) Dairy & Food is a joint-venture set up by six enterprises including Shanghai Dairy (Group) Co., Ltd. (30.78%), Shanghai Industry Food Co., Ltd. (30.78%), Dazhong Communications (Group) Co. Ltd. (3.85%), East Hope Investment Co. Ltd. (5%), Shanghai State-owned Assets Operation Co. Ltd. (3.85%), Orient Hope Group (3.85%) and Danone (Asia) Co., Ltd. (5%). Danone (*see separate profile above*) purchased its share of Guangming for approximately RMB500m (US\$60m) following the restructuring of Guangming Dairy as a share holding company in November 1999. Danone's role in the company will primarily be to introduce more modern management into the company.

The company's main subsidiaries are:

- Shanghai Guangming Dairy Industry Sales Co., Ltd. (Dairy products marketing)
- Shanghai Yaoqing Electronics Commercial Services Co., Ltd. (Online dairy products marketing)
- Shanghai Kedi Convenience Store Co., Ltd. (Retailing)
- Shanghai Dairy Factory No. 4 Co., Ltd. (Dairy products manufacturing and marketing)
- Nanjing Guangming Dairy Co., Ltd. (Dairy products manufacturing and marketing)
- Heilongjiang Bright Pine Crane Milk Products Co., Ltd. (Dairy products manufacturing and marketing)

- Shanghai Yong'an Dairy Co., Ltd. (Dairy products manufacturing and marketing)
- Shanghai Daneng Stay-fresh Dairy Products Co., Ltd. (Dairy products manufacturing and marketing)
- Shanghai Daneng Yoghurt Co., Ltd. (Dairy products manufacturing and marketing)
- Guangming Dairy Industry (Jingyang) Co., Ltd. (Dairy products manufacturing and marketing)
- Guangming Dairy Industry (Dezhou) Co., Ltd. (Dairy products manufacturing and marketing)
- Beijing Guangming Jianneng Dairy Industry Co., Ltd. (Dairy products manufacturing and marketing)
- Guangzhou Guanming Dairy Co., Ltd. (Dairy products manufacturing and marketing)
- Hunan Guanming Paipai Dairy Co., Ltd. (Dairy products manufacturing and marketing)
- Tianjin Guanming Mengde Dairy Co., Ltd. (Dairy products manufacturing and marketing)
- Guangzhou Daneng Yoghurt Co., Ltd. (Dairy products manufacturing and marketing)
- Jiangxi Guanming Hero Dairy Stock Co., Ltd. (Dairy products manufacturing and marketing)
- Wuhan Guanming Dairy Co., Ltd. (Dairy products manufacturing and marketing)
- Shanghai Guangming Hesidanmu Co., Ltd. (Purchasing-in and production of milk)

#### ***5.22.4 Shanghai Guangming: Dairy Activities***

Guangming manages the largest pasture area of any dairy company in East Asia, it uses first-class milking and constant-temperature refrigeration systems and advanced dairy processing technology and equipment. Guangming also possesses China's top dairy technology centre, dairy testing centre and milk output evaluation system.

With a 500,000-tonne annual capacity, the company churns out a host of dairy products like disinfected milk, fresh milk, yoghurt, UHT milk, milk powder and juice, all of which has passed the attestation of the ISO9002 Quality Assurance System.

Aiming to become a nationwide prominent enterprise, Guangming has set up two joint-venture milk source bases in Inner Mongolia and Heilongjiang. It has also established numerous urban fresh milk plants in Xi'an, Beijing, Wuhan, Wuxi and Nanjing, each covering a certain market radius. By the end of 2000, more than 45% of Guangming's whole revenues came from the sales in the markets outside Shanghai.

The company sells in all of China's provinces with the exception of Qinghai and Tibet, sourcing its milk supplies in Heilongjiang, Inner Mongolia, Beijing, Dezhou, Xi'an, Wuhan, Jiangsu, Shanghai, Zhejiang and Guangzhou. The company has factories in Heilongjiang, Inner Mongolia, Beijing, Xi'an, Wuhan, Nanjing, Wuxi, Shanghai, Hangzhou, Jinhua and Guangzhou.

In addition to the establishment of a logistics centre and a series of convenience shops, Guangming has also embraced E-commerce by setting up an online platform ,www.net1717.com, That sells food, dairy products (milk and yoghurt) and drinking water to consumers online. The company provides a home delivery service to milk boxes placed on outside of customers' homes.

More recently, Guangming has erected a 200-tonne-capacity milk powder tower at the Guangming Songhe Dairy Product, Co., Ltd. In June 2001. The building of the tower is part of the construction of a production line for instant functional milk powder, the largest project carried out in Heilongjiang by Guangming over the next three years. The building of the tower, with a total investment of RMB 70 million, concludes the introduction of a whole set of imported desiccation equipment, the completion of the accessory domestic pre-processing facilities and some public projects.

With a height of 45.4 meters and construction area of 4460m<sup>2</sup>, the construction was finished at the end of October, 2001. The tower was formally put into use on June 1, 2002. Upon the use of the tower, the company had a capacity to produce 650 tons of fresh milk every day.

According to China's Temporary Regulations on the Plan of Student Milk Development and the Temporary Provisions on Designating the Official Producer of Student Milk upon Application, Shanghai Guangming Dairy & Food Co., Ltd., together with six other enterprises, has been designated as an official producer of the milk for students. The validity period is three years.

### ***5.22.5 Shanghai Guangming: Financial Summary***

According to the statistical comparative analysis on Shanghai's industry economy recently issued by Shanghai Municipal Statistics Bureau and Shanghai Statistical Centre for Modern Industry Development, Guangming Dairy has leaped to 30<sup>th</sup> in the rank of Shanghai's top 500 industry enterprises measured by the sales revenue in 2000. Guangming is now eight places ahead of where it was placed in 1999. The statistical analysis conducted by Shanghai Municipal Statistics Bureau has now become an important indicator for the enterprises in Shanghai to weigh them and trace the industrial development. Since 1998, Guangming Dairy has been making an eight-place jump each year.

In a survey about China's top 5,000 enterprises conducted by Fortune magazine in June 2001, Guangming Dairy ranked 44<sup>th</sup> of the 50 most approved foreign enterprises. The survey was conducted among more than 5000 senior management personnel from virtually every industry. In 2003, Guangming's sales revenue reached RMB5.98bn, with profits of RMB282.46mn, growing on 2002 results by 19.11% and 24.81% respectively.

Bright Dairy has the largest pasture in Far East, the first-class milking and constant-temperature refrigerating system, advanced dairy processing technology and equipment. Bright Dairy also possesses the country's top technology centre, testing centre and milk output evaluation system. With a

500,000-ton yearly capacity, we churns out a host of dairy products like disinfected milk, fresh milk, yoghurt, UHT milk, milk powder and juice.

Bright Dairy has achieved a successive growth rate of 30% in the past few years. From 1996-2002 Bright Dairy ranked first among the country's dairy enterprises in terms of its overall competitiveness. Its turnover ranked the 2nd last year reaching RMB5.981bn and RMB3.3bn in the 1st half of 2004. In addition to the establishment of a logistics centre and a series of convenience shops, Bright Dairy's industry chain also includes the online business by setting up an online platform [www.net1717.com](http://www.net1717.com) to provide consumers with more convenient and responsive services.

As for foodservice, it sells its products through its agent network. It only occupies a very small proportion of Guangming's turnover and has not yet been so successful. The company plans to enlarge this part of its business by launching two new series of beverages for foodservices. In the last five years, the company has enhanced the industrialization of the milk industry by removing the region barriers and ownership restraints, and by setting up production bases in Heilongjiang, Inner Mongolia and many other provinces.

According to the management analysis in the 2004 annual financial report, of the company's total revenues in 2004, 79.86% was derived from liquid milk and milk products manufacturing, 18.70% from retailing and commercial activities, and the remaining 1.43% was derived from chilled drinks manufacturing. In terms of core operating profits in 2004, 86.95% came from liquid milk and milk products manufacturing, 12.01% from retailing and commercial activities, and the remaining 1.04% was derived from chilled drinks manufacturing. 28.53% of revenues was derived from sales in the Shanghai area, while the remaining 71.47% was derived from sales across other parts of China.

Of the core dairy sector revenues in 2004, 66.79% of total revenues came from liquid milk, 16.24% from chilled drinks lines, 12.60% from milk powder and other milk-based products. In terms of total core operating profits in 2004, 70.13% of total profits came from liquid milk, 15.76% from chilled drinks lines, 12.50% from milk powder and other milk-based products.

**Table 5.30 SHANGHAI GUANGMING (BRIGHT) DAIRY & FOOD CO. LTD: FINANCIAL RESULTS, 2001-2004**

<i>RMB m</i>	2001	2002	2003	2004
Net revenue	3,520.00	5,021.50	5,981.05	6,785.68
Core operating expenses	2,330.00	3,295.00	4,022.36	4,595.89
Core operating profit	1,183.00	1,715.00	1,945.91	2,173.19
Other income	15.00	13.00	68.75	85.66
Operating profit	224.00	384.00	391.80	392.58
Pre-tax profit	221.00	372.00	390.92	381.96
Net income	163.00	226.00	282.46	317.97
Net revenue growth (%)	-	42.66	19.11	13.45
Net income growth (%)	-	38.65	24.98	12.57
Net profitability (%)	4.63	4.50	4.72	4.69
Fixed assets	741.00	1,071.00	1,555.57	1,662.76
Current assets	957.00	1,709.00	1,715.49	1,780.77
Cash	414.00	1,113.00	800.76	749.96

Source: Access Asia from company information

Note\*: Financial year-end December 31<sup>st</sup>

## Wuhan Guangming Milk Products Co., Ltd.

Address: Wuhan City, hubei, PR China

Tel: +86-27-8389-2495

Main products: Dairy drinks.

Year established: 1998.

Ownership type: Limited-liability.

**Table 5.31      WUHAN GUANGMING MILK PRODUCTS CO., LTD.: FINANCIAL RESULTS, 2002**

	<b>2002</b>
Revenue ( <i>RMB m</i> )	98.33
Profit ( <i>RMB m</i> )	1.74
Profit as a share of revenues (%)	1.77
Assets ( <i>RMB m</i> )	49.74
Number of employees ( <i>number</i> )	200
Average revenue per employee ( <i>RMB '000</i> )	491.66
Average profit per employee ( <i>RMB '000</i> )	8.71

Source: Access Asia from NBS, company information

## Heilongjiang Bright Pine Crane Milk Products

Address: Qiqihar City, Heilongjiang, PR China

Tel: +86-452-312-3888

Fax: +86-452-313-6576

Main products: Dairy products.

Year established: 1996.

Ownership type: State-owned enterprise.

**Table 5.32      HEILONGJIANG BRIGHT PINE CRANE MILK PRODUCTS CO., LTD.: FINANCIAL RESULTS, 2002**

	<b>2002</b>
Revenue ( <i>RMB m</i> )	383.99
Profit ( <i>RMB m</i> )	8.10
Profit as a share of revenues (%)	2.11
Assets ( <i>RMB m</i> )	372.74
Number of employees ( <i>number</i> )	1,033
Average revenue per employee ( <i>RMB '000</i> )	371.73
Average profit per employee ( <i>RMB '000</i> )	7.84

Source: Access Asia from NBS, company information

## 5.23 Shanghai Kanglin Milk Products Company No.1 Factory

### *5.23.1 Shanghai Kanglin Milk Products Company No.1 Factory: Company Details*

HQ address: 271 Anhua Road, Shanghai, PR China  
Tel: +86-21-6210-0292  
Fax: +86-21-6210-0267

Key personnel: Wang De Xin – MD

### *5.23.2 Shanghai Kanglin Milk Products Company No.1 Factory: Company Background*

Shanghai Kanglin Milk is a major supplier of milk and dairy to Shanghai and the city's surrounding hinterland. The company produces the Shanghai Milk and Zhengyuan brands of packaged fresh milk, flavoured milk, lactobacillus milk, student nutrient milk, and "Ai De" branded milk. The factory produces 220,000 bottles of packaged milk daily. In 1998 the company's annual production value was RMB 50 million with recorded profits of RMB 5 million. Shanghai Milk's production centre has a dairy herd of 2,000 cows.

## 5.24 Shanxi Gucheng Dairy Products Group Ltd.

### *5.24.1 Shanxi Gucheng Dairy Products Group: Company Details*

HQ address: Shanyin Town, Shanyin County, Shanxi 038400, PR China
Tel: +86-349 708 1098/1088/1004
Fax: +86-349 708 1001
URL: <a href="http://www.shanxigucheng.com">www.shanxigucheng.com</a>
Established: 1986
Employees: 1,200
Key personnel: Qiao Jiuchong – chairman & CEO, Liu Yong – general manager, Wang Yu-bao – director.

### *5.24.2 Shanxi Gucheng Dairy Products Group: Company Background*

Shanxi Gucheng Dairy was formerly known as Shangyincheng Dairy Powder Mill, though changed its name since restructuring in 1997. The group's shareholders include Shanxi Gucheng Yimeikou Dairy Products Corporation Ltd, Shansi Gucheng Dairy Products Corporation Ltd and the Shanyin Star Dairy Products Ltd. The group also include the Gucheng Colour Printing House, a carton and packaging factory, a fodder factory and a cow farm as its core enterprises. The group also owns an interest in the Shanyuin Cereal Mill. Shanxi Gucheng Dairy operates a herd of 18,000 cattle.

The Group has total reported assets of RMB173m and can process 300 tonnes of milk daily with a potential annual output of 30,000 tons. Of this 10,000 tons are milk powder, 15,000 tons is sterilised milk, and the remaining 5,000 tons are for dairy drinks. The group has invested in excess of RMB80m in new technology including a powder spray tower and aseptic canning line.

Shanxi Gucheng Dairy's products include milk powder (sweet and non-flavoured), low-fat milk powder (also sweet and non-flavoured), milk powder for school students, milk powder for senior citizens, the pregnant and milk powder with added iodine, zinc and selenium. Additionally, the Group produces calcium rich milk, low fat milk powder, pure fresh milk, fruit flavoured milk, sweetened milk, coffee flavoured milk, special flavoured milks and sterilised milks. Flavoured milks include Melon Yang Yang Child, Golden Torch, Snow Bar, Space Bar, Little Singer and others.

Gucheng has a 60% market share in Shaxi Province and 2.8% across the whole of China. Shanxi Old City Dairy saw its 2000 sales revenue rise to RMB305.01m.



## 5.25 Shanxi Hengkang Daily Co., Ltd.

### 5.25.1 Shanxi Hengkang Dairy: Company Background

Address: Taiyuan City, Shanxi, PR China

Tel: +86-351-724-1168

Fax: +86-351-733-5430

Main products: Dairy products, including powdered milk.

Ownership type: Privately-owned.

### 5.25.2 Shanxi Hengkang Dairy: Financial Summary

**Table 5.33 SHANXI HENGKANG DAIRY CO., LTD.: FINANCIAL RESULTS, 2001/2002**

	<b>2001</b>	<b>2002</b>
Revenue ( <i>RMB mn</i> )	45.00	260.88
Revenue growth (%)	-	479.73
Profit ( <i>RMB mn</i> )	0.00	8.29
Profit growth (%)	-	na
Profit as a share of revenues (%)	0.00	3.18
Assets ( <i>RMB mn</i> )	141.35	356.15
Number of employees ( <i>number</i> )	550	589
Average revenue per employee ( <i>RMB '000</i> )	81.82	442.92
Average profit per employee ( <i>RMB '000</i> )	0.00	14.07

Source: Access Asia from NBS, company information

## 5.26 Shijiazhuang Sanlu Group Company Ltd

### *5.26.1 Shijiazhuang Sanlu Group: Company Details*

HQ address: 539 Heping Xilu, Shijiazhuang, Hebei Province 50070, PR China

Tel: +86-311 704 4184/704 6841

Fax: +86-311 705 5423

Shijiazhuang Sanlu Group Company Ltd., 21 Jichang Road, Shijiazhuang, Hebei Province, PR China

E-mail: sanlu@clii.com.cn

Key personnel: Ms. Tian Wenhua – general manager, Liu Honghua – factory manager.

Products and brands: Sanlu brand milk powder.

### *5.26.2 Shijiazhuang Sanlu Group: Company Background*

The Shijiazhuang Sanlu Group is a large-scale state-owned enterprise, which combines dairy cow raising, dairy processing, packaging and scientific research.

Since 1993, both output and sales volume of its formula milk powder have occupied first place in the sector nationwide. The company is one of the top 100 food processing companies in China and one of the top 10 dairy enterprises nationwide.

The company's products include over 60 varieties. Sanlu formula milk powder, the leading product, was awarded the titles of the province- and ministry- level quality product and the state and international gold medal. The product sells well all over the country, its demand exceeds supply.

### *5.26.3 Shijiazhuang Sanlu Group: Dairy Activities*

In the last five years, Sanlu has invested RMB 350 million in building three new production lines for the production of cold drinks, formula milk and milk powder with the capacity of over 10,000 tonnes per annum. In the dairy field the company is involved in dairy herd raising, dairy processing, packaging decoration and scientific research. The company covers an area of 270,000 square metres, with a construction area of 100,000 square metres, it processes over 300 tons of fresh milk daily.

The company's major investment has been US\$ 3.6 million for a Finnish-made UHT-milk production line, which produces 80 tons of UHT milk daily.

In the formula milk sector the company has been a market leader since 1993 in terms of both output and sales volume. Sanlu produces seven brands in over 60 varieties. The best known and performing brand is Sanlu formula milk powder.

### 5.26.4 Shijiazhuang Sanlu Group: Financial Summary

By 2000/2001, the sales income of the group reached RMB 1,778.05 million, with pre-tax profit of RMB 150 million. This rose to well over RMB2bn by 2001/2002, and then to over RMB3bn by 2002/2003, indicating continued strong sales growth for Sanlu.

**Table 5.34 SHIJIAZHUANG SANLU GROUP CO. LTD.: FINANCIAL RESULTS, 2001/2002**

	2001	2002
Revenue ( <i>RMB m</i> )	2,357.22	3,073.56
Revenue growth (%)	32.57	30.39
Profit ( <i>RMB m</i> )	175.30	244.25
Profit growth (%)	16.87	39.34
Profit as a share of revenues (%)	7.44	7.95
Assets ( <i>RMB m</i> )	976.24	1,667.78
Number of employees ( <i>number</i> )	4,016	5,714
Average revenue per employee ( <i>RMB '000</i> )	586.96	537.90
Average profit per employee ( <i>RMB '000</i> )	43.65	42.75

Source: Access Asia from NBS, company information

## 5.27 Uni-President

### *5.27.1 Uni-President: Company Details*

HQ address: 301 Chungcheng Road, Yungkang, Tainan County, Taiwan ROC

Tel: +886-6-253-2121

Shanghai tel: +86-21-6406-3610

Employees: 6,200 (worldwide)

Key personnel: Shiuchi Wu – chairman, Chinyen Kao - vice chairman, Changsheng Lin – president

Ticker: Taiwan – T1216

### *5.27.2 Uni-President: Company Background*

Taiwanese food giant Uni-President Enterprises Corporation is a leading food manufacturer in Taiwan producing consumer foods including noodles, dairy products, soft drinks, soy sauce, canned pickle, meat products, milk powder, bread, cereal, and frozen foods. The company also produces basic foodstuffs including animal feeds, edible oil, and flour.

The company is also engaged in various other activities including distribution, retailing through convenience stores, vending machines and operating a franchised bakery chain store.

President also sells popular boxed juices under the He brand in 250 ml Tetra Brik aseptic packs with straws attached. The juices come in a variety of flavours including orange.

### *5.27.3 Uni-President: China Activities*

Taiwanese food giant President, is another company from the other side of the Taiwan Straits, which has carved out a large sector within the instant noodle sector. President increased its interests in the mainland to the tune of US\$ 17 million in 1995, building up the strength of its several mainland production bases, all of which produce different types of foods and food packaging. Uni-President recently introduced its 'Fruit au Lait' range of fruity milk drinks in boxes of 330ml. Flavours include peach and others.

Uni-President Foods first established a presence in China in 1992. By 2001, it has 17,000 employees working in over a dozen subsidiaries across China. The total registered capital investment in China had reached RMB4.50bn, with 2001 total sales revenues of RMB4.52bn, of which RMB240m was paid in taxes in China, and RMB0.70bn went on domestic material costs.

## Shenyang President Enterprises Co., Ltd.

**Shenyang President Enterprises Co., Ltd.:** 156, Economic & Technical Development Zone, Shenyang, Liaoning, PR China

Tel: +86-24-2581-1001

Fax: +86-24-2581-1019

Shenyang President Enterprises Co., Ltd., was incorporated on June 16, 1995 with its first facility built on 2 November 1996. The company has approximately 1,000 employees. Total investment is valued at US\$25m with a registered capital amounting to US\$19.9m. In September 1999, the company was approved ISO 9002. Total production capacity is maximized at 2.4 million cartons of instant noodle monthly, serving the provinces of Liaoning and Jilin. Also, the company owns nine branches and fourteen sales offices in the following locations: Dalian, Anshan, Jinzhou, Dandong, Changchun, Jilin, Yanji, Dunhua and Tieling. In February 2001, when it first received its exporting license, the company started exporting worldwide, including Australia.

In 2001, the company invested US\$4.9M to build a beverage factory. It introduced one PET line from Taiwan and Japan, with a monthly production capacity of 900,000 cartons, and two TP lines from Sweden, with a monthly production capacity of 310,000 cartons. The factory has been in operation since March 8, 2002.

## Harbin President Enterprises Co., Ltd.

**Harbin President Enterprises Co., Ltd.:** Qingdao Road, Comprehensive Industrial Development Section, Harbin Economic & Technical Development Zone, Harbin, Heilongjiang, PR China

Tel: +86-451-652-3601

Fax: +86-451-652-3600

Harbin President Enterprises Co., Ltd. was founded in February 1998, and on January 6, 1999, its first facility was built. The investment totalled US\$25m, with registered capital amounting to US\$15m. As of 2004, Harbin President had approximately 458 employees. Five automatic production lines and fifteen packaging machines are employed to produce a total of 50,000 cartons daily (1,500,000 cartons monthly). Also, at Red-star (OEM factory for dairy production), one Tetra-Pak machine was installed to deliver monthly production of 200 tonnes Tetra Prism and Tetra Fino drinks cartons.

Harbin President operates exclusively in the instant noodle industry. The products are sold throughout Heilongjiang, Jilin, Inner Mongolia and Russia from four sales offices in Harbin, Daqing, Qiqihar and Jiamusi. From August 2002, instant noodle and beverage products were distributed by a local sales network across Russia.

## Beijing President Food Co., Ltd.

**Beijing President Food Co. Ltd:** 301, Baige Road, Jingchang Highway, Changpin District, Beijing, PR China

Tel: +86-10-6077-2828

Fax: +86-10-6077-1789

Beijing President Foods Co., Ltd. is an instant noodle manufacturer formed through a joint venture with Beijing Old Boat Flour Group, Beijing Royal City Foodstuff Corporation and Uni-President Investment (China) Corp., in April 1992. The investment totalled US\$29.8m and has a registered capital of US\$12.4m. As of 2004, Beijing President has approximately 1,490 employees. The company's products are targeted at consumers throughout the cities of Beijing and Tianjin, and the provinces of Hubei, Hunan, Shanxi and Inner Mongolia. In 2002, the corporation was approved by ISO 9001, and again in 2000.

## Beijing President Enterprises Drinks & Food Co., Ltd.

Beijing President Enterprises Drinks and Foods Co.,Ltd. was set up on February 20, 2001, and went into operation on June 8, 2001. It markets drinks products in Beijing, Tianjin, Hebei, Shanxi and Inner Mongolia. Investments in the company totalled US\$18.75m, and it has a registered capital of US\$7.5M, with over 800 employees.

The beverage factory has two PET lines and two TP lines, which are able to produce a monthly total of 2 million drinks packed in 330ml TP and 500-1,500ml PET packs. The company has developed two principal beverage brand lines: Uni-President tea and Uni-President fresh juice. The company's sales network is structured with five branches located in Beijing, Tianjin, Shijiazhuang, Taiyuan and Baotou, whilst sales units and sales support units cover second-tier cities. The company was approved ISO9000 in March 2002.

## Tianjin President Enterprises Food Co., Ltd.

**Tianjin President Enterprises Food Co., Ltd.:** 1988, Sanhuai Road, Tangsu District, Tianjin, PR China

Tel: +86-22-2571-3820

Fax: +86-22-2571-2614

The company was established on April 1, 1993, and the first mill was built on July 16, 1994. Between December 20, 1998 and January 20, 1999, the company installed its second production line for moistened wheat. On January 23, 2002, a new roller mill was officially in operation. Investment for the enterprise totalled RMB160m with a registered capital of RMB98m. The company employs 104 people.

Tianjin President Enterprises Food Ltd. continues to develop new product varieties. It manufactures and sells 30 kinds of flour products in four different categories: high-gluten bread flour, medium-gluten frozen food flour, low-gluten cake flour and pastry flour (cookie use).

## Tianjin President International Food Co., Ltd.

**Tianjin President International Food Co., Ltd.:** Yixingbu, Nanxiawei Street, Beichen District, Tianjin, PR China

Tel: +86-22-2642-9364

Fax: +86-22-2642-9364

Tianjin President International Food Co., Ltd. is a large food corporation owned by Uni-President Group. Its registered capital amounts to US\$11m. The company produces the following range of food products:

- Mini wafers (High-fibre germ egg milk, chocolate vanilla, milk calcium sour milk, milk calcium blueberry flavour);
- Cookies (fresh, cocoa, milk flan, chocolate chip flavour);
- Crackers (milk, chocolate flavour);
- Teddy bear cookies (strawberry, milk, cocoa flavour);
- Shredded meats (original, spicy flavour);
- Puffed foods (original flavour).

## Kunshan President Enterprises Co., Ltd.

**Kunshan President Enterprises Co., Ltd.:** 301, Qinyang Road (South), Kunshan, Jiangsu, PR China

Tel: +86-512-5770-6666

Fax: +86-512-5770-6888

Founded in May 1993, Kunshan President Enterprises Co., Ltd. is focused on instant noodle and beverage production for the eastern China market. The company began operations in September 1994, and now sells through its sales distribution networks into Shanghai, Jiangsu, Zhejiang, Anhui, Shandong and Henan. The company is the largest in terms of the investment scale in China within the Uni-President Group, with a total investment of US\$90m, and some 3,000 employees. The company has 19 beverage production lines and 8 instant noodle production lines, making 8 million cartons monthly. As of 2001, the company hit an annual sales level of RMB1.2bn. In 2001, it was approved by ISO 9001. Since 2002, Kunshan President has become involved in the soy sauce and dairy industries.

## Hefei President Enterprises Co., Ltd.

**Hefei President Enterprises Co., Ltd.:** Hefei Economic & Technological Development Zone, Jingxiu Avenue, Hefei, Anhui, PR China

Tel: +86-551-381-3333

Fax: +86-551-381-2188

Hefei President Enterprises Co., Ltd. was established in April 1998. Its major market is aimed at Anhui. The first plant was built in September 1999, with an investment of US\$25m, and has a registered capital of US\$10m. The company has four instant noodle production lines with a daily capacity of

50,000 cartons, and one beverage production line with daily capacity of 30,000 cartons.

### **Changjiagang President Nisshin Food Co., Ltd.**

In March 1996, Uni-President Enterprises Corp., Nisshin Oil Corp. and Mitsubishi Corp. entered into a joint venture business, Changjiagang President Nisshin Foods, with a total investment value of US\$19m. The company has 130 employees, and automatic production facilities acquired from Europe, the US, Japan and Taiwan. Since 1999, the company has focused on the development of animal and vegetable oil refinement, high, medium and low artificial oil for baking, shortening and frying, as well as oil for cookies and confectionery products.

### **Qingdao President Feed & Livestock Co., Ltd.**

**Qingdao President Feed & Livestock Co., Ltd.:** Zhanggezong Town, Pingdu City, Shandong, PR China

Tel: +86-532-231-3506

Fax: +86-532-231-3568

Qingdao President Feed & Livestock Corporation is wholly owned by Uni-President Group. It was formed on April 10, 1998, with an initial investment of US\$29.9m, and a registered capital of US\$15m. From January 1, 2000, the company was officially began operations, and now has an annual capacity of 400,000 tonnes. The company manufactures over ninety kinds of rich and diverse feeds, including mixed, concentrated and premixes feeds, ingredient for poultry and livestock, as well as mixed aquatic baits ingredients.

### **Shanghai President Enterprises Livestock Food Co., Ltd.**

Shanghai President Enterprises Livestock Food was founded on 1 July, 1992, with registered capital of US\$8m, and a total investment of US\$14m. I has 150 employees. The company produces and sells animal feeds and aquatic feeds and is involved in abattoir processing. Annual production is 100,000 tons of mixed feeds, 40,000 tons of concentrated feeds, 20,000 tons of aquatic feeds and 10,000 tons of premix feeds. The company' products are mainly sold in eastern China, and its pet food series is marketed under the "Petlife" brand.

### **Shanghai Songjiang President Enterprises Co., Ltd.**

Shanghai Songjiang President was established on May 22, 2001, with a registered capital of US\$8m, and a total investment of US\$12m. The Songjiang Processing District was chosen as its main base owing to the ideal situation that serves as a convenient transportation route by land or by sea. The company leases a land space of 52,000 square feet.

The company produces particle, inflated and powder mix feeds used in aquatic feeders. Its facility is capable of producing 100,000 tonnes of mixed feeds annually. The main products comprise premium feeds for eels, turtles, bullfrogs, shrimps, crabs, sturgeons and snack feeds for pet fishes, pets and baits. The products are targeted at Shanghai and eastern China.

### **Shanghai President International Food Co., Ltd.**



**Shanghai President International Food Co., Ltd.:** 580, Laohumin Road, Xuhui District, Shanghai, PR China

Tel: +86-21-6235-0777

Fax: +86-21-6235-0778

Founded on 1 June 1994, this company has been in operation since 1 January, 1995, and has a registered capital of US\$13m, and total investment of US\$18.8m. The company has 190 employees. The company has production lines for cookies, cakes and moon cakes, with hourly production of 600kg of cake and 3,600 pieces of moon cakes. Product categories include snack cakes, cookies, Swiss rolls and gateaux and Uni-President moon cake gift packs. Major service areas include Beijing, Tianjin, Shanghai, eastern and northern China. Sales offices are located in Shanghai, Nanjing and Hangzhou, with a sales support unit in Wuxi. The products are also sold through Tianjin President Enterprises Food Corp.

### **President Fuche (Qingdao) Foods Co., Ltd.**

This company was established through the joint venture of Meishan President Feeds and Oil Corp. and Fuche Frozen Foods Corp. The total investment in the venture was US\$1.42m, and has a registered capital of US\$1m. On March 29, 2002, the company held a groundbreaking ceremony for the new plant, which has operated since August 2002. The company manufactures, processes and sells a wide range of eggs, agricultural products, animal and aquatic products. Preliminary daily production capacities are 6.6 stewed chicken eggs and 28.8 quail eggs. Initially this joint venture company mainly processed on stewed chicken eggs and quail eggs, but is expected to incorporate more and higher value-added eggs and agriculture products in the near future.

### **Kushan President Kikkoman Biotechnology Corp.**

Kushan President Kikkoman Biotechnology Corp. is a soy sauce brewer formed through a joint venture agreement between Kikkoman of Japan and Uni-President, in May 2000. It has a registered capital of US\$11m. The plant has operated since spring 2002, and has an annual production of 14,000 litres of soy sauce.

### **Guangzhou President Enterprises Co., Ltd.**

**Guangzhou President Enterprises Co., Ltd.:** 788 Nangangshangzhu Industrial District, Yunpu Development Zone, Guangzhou, Guangdong, PR China

Tel: +86-20-8224-0088

Fax: +86-20-8223-5768

Founded on December 5, 1994, Guangzhou President Enterprises Co. Ltd. held a ground breaking ceremony on 24 March, 1995, and began operations on May 6, 1996. It has a registered capital value of US\$48m, with a total investment of US\$80m. The company has seven lines for instant noodle production, one aseptic seasoning pack line, four TP tea/juice beverage lines, two PET tea/juice beverage lines, two TP yogurt lines and one CB bottle blowing line. Products are sold in Guangdong, Hainan and Guangxi, and are exported to Hong Kong, Singapore, Malaysia, the US, Canada and Italy.

### **Fuzhou President Enterprises Co., Ltd.**

Fuzhou President Enterprises Co., Ltd. was established on July 19, 2001 and has a registered capital of US\$10m, and a total investment value of US\$25m. The beverage facility started production in July 2002, and later on, instant noodles production was added. In its preliminary stage, one PET beverage production line was built in with annual production of 10 million cartons. The current business includes three PET beverage production lines, four TP beverage lines and five instant noodle lines. Main products are instant noodles, beverages and dairy products; the brands for instant noodles being Tongyi 100, Premium Bowl, One More Cup and Imperial Big Meal; and for beverages are President Ice Tea, Ice Green Tea, Oolong Tea, Milk Tea and Juicy Fruit; and for dairy are Little Raccoon and Milk e-Home.

### **Zhongshan President Enterprises Co., Ltd.**

**Zhongshan President Enterprises Co., Ltd.:** Industrial Area, Fusa County, Zhongshan, Guangdong, PR China

Tel: +86-760-340-3601

Fax: +86-760-340-2699

Zhongshan President Enterprises Co., Ltd. was founded on June 14, 1995. It is one of the national largest aquatic businesses that produces and sells aquatic feeds. Feeds for edible fishes are sold in Guangdong, Henan, Fujian and Guangxi, and further extended to nearby provinces and Southeast Asian countries. Feeds for pet fish are marketed nationwide.

The company employs several automatic lines for producing aquatic feeds in powder, particle and inflated feeds. The range of Petlife-branded products includes feeds for brocaded carp, pet fish, cats and dogs. In 2001, the company was approved ISO 9001.

### **Wuhan President Enterprises Co., Ltd.**

**Wuhan President Enterprises Co., Ltd.:** Wujiashan Economic Development Zone, Dongxihu District, Wuhan, Hubei, PR China

Tel: +86-27-8389-1886

Fax: +86-27-8389-2507

Wuhan President was established in July 1993, with a total investment of US\$65.3m, and a registered capital of US\$29.6m. The company employs 1,500 people. The company has set up a sales network servicing Hubei, Hunan and Jiangxi. The company has six instant noodle production lines with 2.1 million cartons monthly output capacity, one PET line production with 65,000 cartons monthly output capacity and one bottle blowing line with monthly production of 570,000 bottles. In June 2002, two TP beverage production lines were added to improve production to 22,000 cartons monthly. In 2000, the company constructed its second production foundation in Nanchang. Expected within the next two years, more dairy production lines and soy sauce factories will be built.

## Nanchang President Enterprises Co., Ltd.

Nanchang President Enterprises Co. was formed through a joint venture between President Enterprises ( China ) Investment Co. and Wuhan President, and was licensed for operation in May 2001. Its investment totalled US\$30m, of which registered capital was US\$12m. The company has 391 employees, manning six instant noodle and two beverage production lines in the preliminary stage. In the first stage of the project, two instant noodle production lines were installed to manufacture bag noodle under the Hao-Jin-Dao, Tongyi 100, Little Raccoon and Little Housekeeper brands, and reached a capacity of 4.3 million cartons annually. In the second stage of the project, the company installed one PET beverage line, with a monthly production of 0.9 million cartons, including Tongyi Fresh Orange, Peach, Green Tea, Ice Tea, Ice Green, Black Tea and Teguan Yin in PET 500ml and PET 1.5L family packs. The company's sales region consists of 11 cities and towns in Jiangxi.

## Chengdu President Enterprises Food Co., Ltd.

**Chengdu President Enterprises Food Co., Ltd.:** Chengdu Industrial Park for Taiwanese and Foreign Investment, Tianfu Town, Wenjing County, Chengdu, Sichuan, PR China

Tel: +86-28-263-0888

Fax: +86-28-263-0777

Chengdu President Enterprises Food Co., Ltd. was founded in May 1993, with a registered capital of US\$20m, and investment totalling US\$50m. Ever since it began operations in November 1994, the company has focused on the southwest and northwest China market. It has six branches in Sichuan, Chongqing, Yunnan, Shaanxi, Gansu and Guizhou, and has over 1,500 employees. The sales network consists of 23 sales offices and 32 sales support units.

The company combines the production and marketing of instant noodles, beverage and meat products. Instituted facilities include five instant noodle production lines, two PET beverage production lines, one TC beverage production line, one bottle blowing line and a meat production line. They were all approved by ISO9001-2001 in October 2001.

## Meishan President Feed & Oil Co., Ltd.

**Meishan President Feed & Oil Co., Ltd.:** Xincun, Dongpo Town, Meishan District, Sichuan, PR China

Tel: +86-833-798-9888

Fax: +86-833-798-9600

Meishan President Feed & Oil Co. was formed on September 18, 1993, and started operation in November 1995. At present, product ranges include mixed animal feeds for pigs, fish, chickens, ducks and rabbits, and concentrated feeds for pigs, and pre-admixture feeds for pigs and chickens. Businesses including oil and flour will take place in the near future. The company's products are sold in cities in Sichuan, Yunnan, Guizhou and Ningxia. Distributed volume is totalled at 30,000 to 40,000 monthly. On September 2, 1999, the company was approved ISO 9002.

## Xinjiang President Enterprises Food Co., Ltd.

The history of Uni-President in China stretches back to January 13, 1992 when Xinjiang President Enterprises Food Co. was established. The plant was in operation on April 26, 1992, and has a registered capital of US\$13.5m, and a total investment of US\$29.9m, with 231 employees and three sales offices in Kowloon, Yining and Kuitan.

The company combines the production of tomato-based products, instant noodles and beverages. Instant noodles and beverages are marketed in Xinjiang, Ningxia and Gansu, and have gradually been extended to Central Asia, whilst the tomato-based products are currently exported to Japan and Southeast Asia.

### 5.27.4 Uni-President: Financial Summary

During the third quarter of 2000, sales at Uni-President Enterprises totalled NT\$ 24.22 billion. This represented an increase of 6.2% from the NT\$ 22.81 billion in sales at the company during the third quarter of 1999.

Uni-President Enterprises reported sales of NT\$ 80.75 billion (US\$ 2.50 billion) for the year ending December 1999. This represents an increase of 15.1% over 1998, when the company's sales were NT\$ 70.17 billion.

President has carved out a presence within both the biscuits and the instant noodle sector. President increased its interests in Mainland China to the tune of US\$ 17 million in 1995, building up the strength of its ten mainland production bases, all of which produce different types of foods and food packaging.

The combined investment of all the company's 10 plants makes President as the top Taiwanese investor in China. President's strategy for opening up the biscuit market in the interior of China, is to start with selling cheap products, then later introducing more premium brands.

**Table 5.35      UNI-PRESIDENT ENTERPRISES CORPORATION:  
FINANCIAL RESULTS, 2003/2004\***

<i>NT\$ m</i>	<b>2003</b>	<b>2004</b>
Revenues	29,840.07	32,668.29
Gross Profit	6,022.23	5,852.21
Net income	2,871.31	1,790.33
Revenues decline (%)	-	9.48
Gross Profit decline (%)	-	-2.82
Net income decline (%)	-	-37.65
Gross profits as a % of revenues	20.18	17.91

Source: Access Asia from company information

Note\*: Financial year ends December 31<sup>st</sup>

## 5.28 Vitasoy International Holdings Ltd.

### *5.28.1 Vitasoy: Company Details*

HQ address: 1 Kin Wong Street, Tsuen Mun, New Territories, Hong Kong SAR

Tel: +852-2466-0333

Fax: +852-2456-3441

URL: [www.vitasoy.com/](http://www.vitasoy.com/) [www.vitasoy-usa.com/](http://www.vitasoy-usa.com/) [www.nasoya.com/](http://www.nasoya.com/)  
[www.vitaland.com.hk/](http://www.vitaland.com.hk/) [www.hkgourmet.com.hk](http://www.hkgourmet.com.hk)

Established: 1940

Key Personnel: Winston Yau-lai Lo – chairman and MD, Yvonne Mo-ling Lo - president Vitasoy USA, Fransis Min-yin Kong - deputy MD & MD Vitasoy International Holdings, Eric Fat Yu - senior operations director, John Shek-hung Lau - senior finance & administration director, Alison Yau - assistant PR manager

Brands & products: Vitasoy, Vita, Nasoya, Azumaya, chrysanthemum tea, honey chrysanthemum tea, fresh milk, Pure Milk Drink, Chocolate Milk Drink, Hi-Calcium Low Fat Milk, VITA Juice drinks: apple, blackcurrant, guava, mango, orange, pineapple and sugar cane

Ticker: HKSE – 0345

### *5.28.2 Vitasoy: Company Background*

The Vitasoy Group was founded in 1940 in Hong Kong. Vitasoy produces a range of over 30 products in over 120 different forms and sizes. Vitasoy sells in more than 20 markets globally and is the largest manufacturer and distributor of non-carbonated drinks in Hong Kong. The Group was listed on the Stock Exchange of Hong Kong on 30 March, 1994.

The company has expanded rapidly in the USA with a production plant in Ayer, Massachusetts manufacturing tofu and soymilk for the US market. Vitasoy is also targeting Australia, New Zealand and Europe for expansion overseas.

However, the company's major market remains Hong Kong where its products are widely available including through the SAR's two major supermarket chains, Wellcome and Park'N Shop. The company is also a major retailer through school tuckshops in Hong Kong. The company operates over 100 school tuckshops through its Vitaland Services Ltd. subsidiary.

Subsidiaries of Vitasoy International Holdings include:

**Table 5.36 VITASOY GROUP: PRINCIPLE SUBSIDIARIES 2003**

<i>Company</i>	<i>Activity</i>
Vitasoy USA Inc. (US)	manufacture & sale of foods
Shenzhen Vitasoy (Guang Ming) Foods & Beverage Co.	manufacture & sale of drinks
Vitasoy (Shanghai) Company Limited	manufacture & sale of beverages
Vitasoja (Macau) Limitada	distribution of beverages
Vitaland Services Limited (HK)	operation of tuck shops

Source: Access Asia from company information

### ***5.28.3 Vitasoy: China Dairy Operations***

In China, Vitasoy distributes its dairy products in both bottles and Tetrapak.

In 1979, the Group entered into an agreement with Guangming Farm, a Guangdong Provincial Government-owned enterprise. The Group is involved in installing advanced milking and processing technology, importing New Zealand dairy cattle and training the farm's staff. In return, the Group has obtained the right to market the farm's milk output in Hong Kong and Macao. The Group now supplies approximately 55% of the fresh milk consumed in Hong Kong.

A plant in Shenzhen, which became fully operational in mid-1994, and is owned by the Shenzhen Vitasoy (Guang Ming) Foods and Beverage Co., Ltd., is a 70/30 joint venture between Vitasoy and Guang Ming Farm. It employs over 300 local staff and the products are distributed to the local and Hong Kong market.

In July, 1995, the Group entered into a contract to purchase the land use rights to a site in the Songjiang Industrial Zone of Shanghai. The Group is constructing a production facility that will mainly supply east China. The facility will be wholly owned by Vitasoy and the Group expects to invest approximately HK\$228m in the facility. The Group's dairy products include fresh milk, pure milk, chocolate milk, Hi-Calcium milk drinks, papaya flavoured milk and banana flavoured milk.

Vitasoy is strengthening its distribution network in China by establishing its own delivery team in Beijing. Additionally, the company has revised its pricing strategy and launched distribution networks in Jiangsu, Zhejiang and Anhui provinces.

### ***5.28.4 Vitasoy: Financial Summary***

#### **Hong Kong**

Economic conditions in Hong Kong were still difficult in 1999 for Vitasoy. Consumption in Hong Kong was persistently weak and unemployment rose to a level not seen for many years. The Group recorded a modest growth in both sales and profit. This was achieved despite the competitive retail environment where promotional discounts to stimulate volume growth meant reduced profitability.

Sales growth has been driven by the successful packaging extension of Vitasoy soymilk and Vita tea drinks into cans and by the distribution expansion of fresh Vita milk and fresh Vitasoy soymilk into major supermarket chains. The Group also took up distribution of Danone yoghurt

drinks in June 1998 as this contributed to the improved productivity of its existing fresh product facilities and infrastructure.

Strong marketing and advertising campaigns helped reinforce Vitasoy and Vita 's market position as leading household names in Hong Kong. Recently, a new series of award-winning, unconventional TV commercials helped to raise the profile of Vita lemon tea.

## Mainland China

The beverage market in Mainland China continued to grow. A hot summer in the central and southern regions stimulated consumption. With the entry of new brands into the market, competition was taken to a new high.

Vitasoy's China operations ended the year on a positive note, registering sales growth of over 60% from an ever larger base. The established Vitasoy and Vita brands obtained wider market acceptance. Growth in Eastern China was very rapid, aided by an expanded distribution network and cost-effective advertising and promotion campaigns.

Southern China also saw an impressive sales increase. The introduction of additional 125ml products and the continued expansion of bottled Vitasoy soymilk distribution were the prime reasons. Other regions achieved double-digit growth as well, although this was no as rapid as for markets in Eastern and Southern China.

The Group's approach to develop the Mainland China market - with the Shenzhen and Shanghai plants catering to Southern and Eastern China respectively - has worked well. The sales gap between the Southern and Eastern China markets has been narrowing, confirming the Group's ability to efficiently develop a strong base in Eastern China. The Mainland China region represented 6% of total sales revenues in 2003/04, with 64% in Hong Kong. By sector, revenues were split accordingly: Soya milk 39%, tea 25%, tofu 9%, lunch boxes and snacks 7%, milk 6%, water 6%, juice drinks 4% and others 4%.

**Table 5.37 VITASOY: FINANCIAL RESULTS, 2003/2004**

<i>HK\$ m</i>	<b>2003</b>	<b>2004</b>
Sales turnover	2,228	2,269
Gross Profit	1,245	1,288
Profits before tax	139	116
% sales growth	-	1.84
% gross profit growth	-	3.45
% net profit growth	-	-16.55
Profit margin (%)	55.88	56.77

Source: Access Asia from company information

### *5.28.5 Vitasoy: Future Strategy*

To cater to the increasing demand, the two plants located in Shenzhen and Shanghai each installed a new production line. Both plants have been running at a high level of efficiency. Vitasoy will continue to push expansion in China, aiming at covering a wider region base within the country. This is likely to lead to further investment in a new production base, probably in northern or central China, and may also lead into involvement in distribution.

## 5.29 Wei Chuan

Key personnel: Robert Huang - CEO

Taiwanese company Wei Chuan has established a noodle plant in Fuzhou, Fujian province, and a monosodium-glutamate (MSG) plant in Guilin, Guangxi province, a milk powder plant in Beijing, has also purchased MSG plants in Liuzhou, Guangxi, and Nanning, Guangxi, and has bought out the Guilin MSG Group.

Further to this, Wei Chuan has also invested another NT\$600m into China, of which NT\$150m will be invested in a milk powder plant in Heilongjiang province, and in buying outright a dairy in Shanghai for NT\$90m. Wei Chuan has added to its involvement in the mainland noodle market, by investing another NT\$13m in a new noodle production line at its Shanghai food plant.

The company continues to expand its packaged foods and ingredients interests in China, including more recently moving into the baby foods market with its milk powder based foods.

In addition to China, Wei Chuan has extensive operations in the USA and established in Los Angeles in 1972. In the US, Wei Chuan has five branch offices (in Los Angeles, San Francisco, New Jersey, Chicago and Atlanta), one subsidiary company (Great Eastern Company in Houston, Texas) a factory in Los Angeles and seven warehouses.



## 5.30 Wonder Sun Dairy Co., Ltd.

### 5.30.1 Wonder Sun Dairy: Company Details

Address: Harbin City, Heilongjiang, PR China

Tel: +86-451-8234-1887

Fax: +86-451-8234-3776

Main products: Dried milk.

Year established: 1996.

Ownership type: Joint stock.

### 5.30.2 Wonder Sun Dairy: Financial Summary

**Table 5.38 WONDER SUN DAIRY CO., LTD.: FINANCIAL RESULTS, 2001/2002**

	<b>2001</b>	<b>2002</b>
Revenue ( <i>RMB m</i> )	639.06	1,064.67
Revenue growth (%)	-	66.60
Profit ( <i>RMB m</i> )	33.21	51.35
Profit growth (%)	-	54.62
Profit as a share of revenues (%)	5.20	4.82
Assets ( <i>RMB m</i> )	573.68	761.40
Number of employees ( <i>number</i> )	2,975	3,866
Average revenue per employee ( <i>RMB '000</i> )	214.81	275.39
Average profit per employee ( <i>RMB '000</i> )	11.16	13.28

Source: Access Asia from NBS, company information

## 4.31 Yingzhibao

### *5.31.1 Yingzhibao: Company Details*

Company address: Office 102, No.11, Lane 650, Liuying Lu, Shanghai, PR China

Tel: +86-21-5678-5559

Fax: +86-21-5632-5821

URL: [www.yingzhibao.com](http://www.yingzhibao.com)

Factory address: 258 Gaojing Lu, Qingpu County, Shanghai, PR China

### *5.31.2 Yingzhibao: Financial Summary*

Yingzhibao brand baby foods are produced by the Shanghai Baby Nutrition Products Company Limited (Zhong Mei He Zi Shanghai Bei Bei Yingyang Shipin Youxian Gongsì Zhìzào), a Sino-US Joint Venture. The company produces wet baby foods in glass jars, and represents a realistic competitor to Heinz baby foods, being priced slightly cheaper than Heinz products.

The company produces different lines for under six months and over six months old babies, with flavours including apple and banana, carrot, sweetcorn and other savoury flavours. The foods contain no artificial colours or flavourings.

## 5.32 Zhen'ao Group Co., Ltd.

### 5.32.1 Zhen'ao Group: Company Details

Address: Dalian City, Liaoning, PR China

Tel: +86-411-740-6999

Fax: +86-411-740-6483

Main products: Dried milk.

Year established: 1996.

Ownership type: Joint stock.

### 5.32.2 Zhen'ao Group: Financial Summary

**Table 5.39      ZHEN'AO GROUP CO., LTD.: FINANCIAL RESULTS, 2002**

	<b>2002</b>
Revenue ( <i>RMB mn</i> )	135.85
Profit ( <i>RMB mn</i> )	54.73
Profit as a share of revenues (%)	40.29
Assets ( <i>RMB mn</i> )	242.33
Number of employees ( <i>number</i> )	290
Average revenue per employee ( <i>RMB '000</i> )	468.46
Average profit per employee ( <i>RMB '000</i> )	188.73

Source: Access Asia from NBS, company information

## 5.33 Zhongshan Perfect Co., Ltd.

### 5.33.1 Zhongshan Perfect: Company Details

Address: Zhongshan City, Guangdong, PR China

Tel: +86-760-870-1828

Fax: +86-760-871-1603

Main products: Health foods and powdered milk.

Year established: 1995.

Ownership type: Foreign-funded.

### 5.33.2 Zhongshan Perfect: Financial Summary

**Table 5.40**      **ZHONGSHAN PERFECT CO., LTD.: FINANCIAL RESULTS, 2002**

	<b>2002</b>
Revenue ( <i>RMB mn</i> )	209.52
Profit ( <i>RMB mn</i> )	50.28
Profit as a share of revenues (%)	24.00
Assets ( <i>RMB mn</i> )	259.99
Number of employees ( <i>number</i> )	381
Average revenue per employee ( <i>RMB '000</i> )	549.93
Average profit per employee ( <i>RMB '000</i> )	131.97

Source: Access Asia from NBS, company information

## 6 Contacts

### 6.1 Trade Organisations

#### ***6.1.1 China Dairy Federation***

Key personnel: Wang Huaibao – president.

#### ***6.1.2 China National Cereals, Oils & Foodstuffs Import & Export Corporation***

Address: 7-13<sup>th</sup> floor, Tower A, COFCO Plaza, 8 Jianguomen Wai Dajie, Beijing 100005, PR China

Tel: +86-10-6526-8888

Fax: +86-10-6527-8612

Activities: Overseas import and export of dairy products.

#### ***6.1.3 All-China Federation of Industry & Commerce***

Address: 93 Beiheyuan Dajie, Beijing 100006, PR China

Tel: +86-10-6513-6677

Fax: +86-10-6512-2631

Activities: Promotes overseas trade relations.

#### ***6.1.4 China Dairy Industry Association***

Address: 22B Fuwai Street, Beijing 100833, PR China

Tel: +86-10-6428-1006/60277

Fax: +86-10-6428-9004

E-mail: cdia2@clii.com.cn

Editorial department: 337 Xuefu Road, Harbin City, Heilongjiang Province 150086, PR China

Key personnel: Mou Jingkun - secretary-general.

The China Dairy Industry Association is a nationwide organisation, professionally guided by the China National Council of Light Industry. Membership includes enterprises and institutions engaged in milk and dairy products production, and sector-related scientific research, teaching and equipment manufacture. The Association now has over 260 members, covering all medium- and large-size dairy product manufacturers in China.

The periodicals edited and published by the Association include the bimonthly *China Dairy Industry* magazine, which is distributed publicly, both at home and abroad.

A second magazine, *China Dairy Industry Newsletter* is restricted in its circulation to within the Association, and is compiled by the Association secretariat.

The Association carries out international co-operation, and is a full member of the International Dairy Federation (IDF), having joined the IDF in 1995. The Association maintains relations with various organisations, concerned with the dairy market, in many countries throughout the world.

### ***6.1.5 National Dairy Industry Information Center***

Address: 337 Xue Fu Rd., Harbin Heilongjiang 150086, PR China

Tel : +86-451-666-2740

Fax : +86-451-666-4742

Contact person: Liu Peng.

E-mail: rp@ems.hlsc.edu.cn

The NDIIC (National Dairy Industry Information Center) was created under the China Light Industry Department, and the Heilongjiang Dairy Industry General Corporation Group has undertaken administration of the Center. Established as a comprehensive information centre, its function includes implementing the management of dairy industry trade, publishing periodicals, exchanging information and conducting marketing and advertising for the industry.

The NDIIC is comprised of the China Dairy Industry Centre, the Dairy Science & Information Centre editorial department, the Dairy Industry Trade Management Division, an advertising division, a news and public relations division, a publishing division and a library. It provides various services including information on the Chinese dairy industry within China, for both domestic and overseas contacts, credit investigation and feasibility studies for the purpose of foreign direct investment into the Chinese dairy industry, technical consultation, commodity trading and technician training.

The NDIIC's aim is "linking up distribution channels, accelerating circulation of money, improving management, promoting exchange and dissemination of information and assisting policy decisions regarding the dairy industry in China".

## 6.2 Government Departments

### ***6.2.1 State Economic and Trade Commission – State Light Industry Bureau***

Address: 22B Fuwai Street , Beijing 100833, PR China

Tel: +86-10-6839-6609/6113

Fax: +86-10-6839-6264

E-mail: webmaster@clii.com.cn

### ***6.2.2 Ministry of Agriculture***

Address: 11 Nongzhanguan Nanli, Beijing 100026, PR China

Tel: +86-10-6419-3366

### ***6.2.3 Milk Quality Supervision Centre with the Ministry of Agriculture***

Key personnel: Qiu Yuanheng - chief engineer.

## **7 Relevant Exhibitions & Trade Fairs**

### **7.1 International Packing, Printing, Food Processing & Packaging & Plastic Machinery Fair (Hangzhou)**

Venue: Zhejiang Exhibition Hall, Hangzhou, Zhejiang

Date: March

Organiser: New Century Exhibition Company (+86-571-537-0970)

### **7.2 Tianjin Exhibition on Food Machinery & Packing**

Venue: Tianjin International Exhibition Centre, Tianjin

Date: March

Organiser: Tianjin International Exhibition Centre (+86-22-2835-7466)

### **7.3 Trade Show of Machinery for Print, Packaging, Plastic Products & Food**

Venue: China Commodity City Exhibition Hall, Yiwu, Zhejiang

Date: March

### **7.4 Food Ingredients & Food Ingredients Asia**

Venue: Shanghai Everbright Convention & Exhibition Centre, Shanghai

Date: April

Organiser: CCPIT Sub-council of Light Industry, CFAA, Miller Freeman  
(+86-10-6839-6330)

### **7.5 Agro-Foodtech**

Venue: National Agricultural Exhibition Hall, Beijing

Date: April

Organiser: EXPOSIUM (+86-10-6587-2510)



## **7.6 SIAL China**

Venue: China International Exhibition Centre, Beijing

Date: April

Organiser: EXPOSIUM (+86-10-6587-2510)

## **7.7 International Fast Food Products Exhibition**

Venue: National Agricultural Exhibition Hall, Beijing

Date: May

Organiser: National Agricultural Exhibition Hall Beijing Consulting (+86-10-6501-8877)

## **7.8 Zhengzhou Sugar, Alcoholic Drink & Food Trade Show**

Venue: Central International Exhibition Centre

Date: May

Organiser: Central International Exhibition Centre (+86-371-652-2386)

## **7.9 Guangzhou Exhibition on Machinery for Food, Packaging, Printing & Plastics**

Venue: Chinese Export Commodities Fairground, Guangzhou

Date: May

Organiser: Guangdong Food & Machinery Packaging Association (+86-20-8338-7713)

## **7.10 China Northeast International Exhibition on Food, Subsidiary Material, Processing Technology & Equipment**

Venue: Liaoning Century Exhibition Centre, Shenyang

Date: May

Organiser: Shenyang Municipal Government, Liaoning Provincial Economic and Trade Commission, Liaoning Provincial Food Industry Association, Shenyang Sub-council CCPIT, Shenyang International Exhibition Corporation (+86-24-2252-7940)

## **7.11 International Exhibition For Food & Drink South China**

Venue: Chinese Export Commodities Fairground, Guangzhou

Date: May

Organiser: Creation Exhibition Company Ltd (+86-20-8761-7370)

## **7.12 International Exhibition For Hotel & Bakery South China**

Venue: Chinese Export Commodities Fairground, Guangzhou

Date: May

Organiser: Creation Exhibition Company Ltd (+86-20-8761-7370)

## **7.13 International Quick Frozen Food Exhibition**

Venue: National Agricultural Convention Centre, Beijing

Date: May

Organiser: National Agricultural Convention Centre Beijing Consulting  
(+86-10-6501-8877)

## **7.14 Beijing National Food & Food Processing Machine & Packaging Machinery Show**

Venue: Beijing International Convention Centre, Beijing

Date: May

Organiser: Beijing Guohua Qingzhan Company (+86-10-6407-1519)

## **7.15 Food China**

Venue: China International Exhibition Centre, Beijing

Date: June

Organiser: China International Exhibition Centre Consulting (+86-10-8460-1800)

## **7.16 International Food, Packaging, Print, Plastic Products Exhibition**

Venue: Wenzhou Packaging Trade & Exhibition Centre, Wenzhou, Zhejiang

Organiser: Sino-USA Joint Venture Wenzhou Huazhan Industrial & Commercial Company (+86-577-834-6543)

## **7.17 Zhejiang Food & Drink Summer Sales Show**

Venue: China Commodity City Exhibition Hall, Yiwu, Zhejiang

Date: June

Organiser: China Commodity City Exhibition Hall Company (+86-579-554-7240)

## **7.18 Dalian International Food Manufacturing & Packaging Machine Exhibition/Dalian International Food, Raw Materials & Food Additives Show**

Venue: Dalian Xinghai Convention & Exhibition Centre, Dalian, Liaoning

Date: August

Organiser: Dalian Pacific Ocean Exhibition Planning Company Ltd, CCPIT Dalian sub-council (+86-411-2808-8702)

## **7.19 Shanghai International Food Machine & Package Machine Expo**

Venue: Shanghai Exhibition Centre, Shanghai

Date: September

Organiser: Shanghai Modern International Exhibition Company (+86-21-6321-7522)

## **7.20 China International Fair For Food, Food Processing & Packaging**

Venue: China International Exhibition Centre, Beijing

Date: September

Organiser: China International Exhibition Centre Consulting (+86-10-8460-1800)

## **7.21 Shanghai International Supermarket Expo**

Venue: Shanghai International Exhibition Centre, Shanghai

Date: September

Organiser: Shanghai Modern International Exhibition Company (+86-21-6321-7522)

## **7.22 Shanghai International Food Expo**

Venue: Shanghai Exhibition Centre, Shanghai

Date: September

Organiser: Shanghai Modern International Exhibition Company (+86-21-6321-7522)

## **7.23 Packtech & Foodtech**

Venue: Shanghai International Exhibition Centre, Shanghai

Date: September

Organiser: EXPOSIUM (+86-10-6587-2510)

## **7.24 Liaoning Food Show**

Venue: Liaoning Industrial Exhibition Hall, Shenyang

Date: September

Organiser: Liaoning Industrial Exhibition Hall Consulting (+86-24-2389-2990)

## **7.25 Food & Hotel South China**

Venue: Chinese Export Commodities Fairground, Guangzhou

Date: September

Organiser: Hong Kong Exhibition Services Company Ltd (+852-2804-1500)

## **7.26 Chengdu International Food, Food Processing & Packaging Show**

Venue: Sichuan International Exhibition Centre, Chengdu

Date: October

Venue: Sichuan International Exhibition Centre (+86-28-225-0290)

## **7.27 International Food Show**

Venue: National Agricultural Convention Centre, Beijing

Date: October

Organiser: National Agricultural Convention Centre Consulting (+86-10-6501-8877)

## **7.28 Interfood Shanghai**

Venue: Shanghai Everbright Convention & Exhibition Centre, Shanghai

Date: October

Organiser: China National Food Industry Association, Shanghai  
International Exhibition Corporation (+86-21-6387-2828)

## **7.29 International Food Processing & Packaging Machinery Exhibition**

Venue: China International Exhibition Centre, Beijing

Date: October

Organiser: China National Packaging & Food Machinery Corporation,  
China Food & Packaging Machinery Industry Association (+86-10-6859-6025)

## **7.30 China Food Industry Exhibition**

Venue: Chinese Export Commodities Fairground, Guangzhou

Date: December

Organiser: Shikong Exhibition & Trade Centre (+86-20-3868-0086)

## **7.31 China International Dairy Product & Technology Exhibition**

Venue: China International Exhibition Centre, Beijing

Date: November

Organisers: China National Light Industry Machinery Corporation, China Dairy Industry Association and Messe Duessldorf China Ltd

# Appendix: Market Background

## A.1 Fast Facts



Area:	9,596,960 sq km
Population (2004):	1,301,243,000
Capital:	Beijing (population 14.81million)
Government:	Single-party communist dictatorship under Chinese Communist Party (CCP)
Ethnic groups:	Han Chinese (92%) 55 minority nationalities (8%)
Languages:	Mandarin Chinese (official); numerous other Chinese dialects and minority languages
Religions:	Predominantly atheist; Buddhist communities in Tibet and Qinghai; Muslim communities in Xinjiang, Gansu and Ningxia; Christianity, Daoism and Confucianism increasingly popular
Currency:	Renminbi (RMB) or Yuan = 10 jiao or 100 fen
GDP per capita (2003):	US\$ 1,333.17

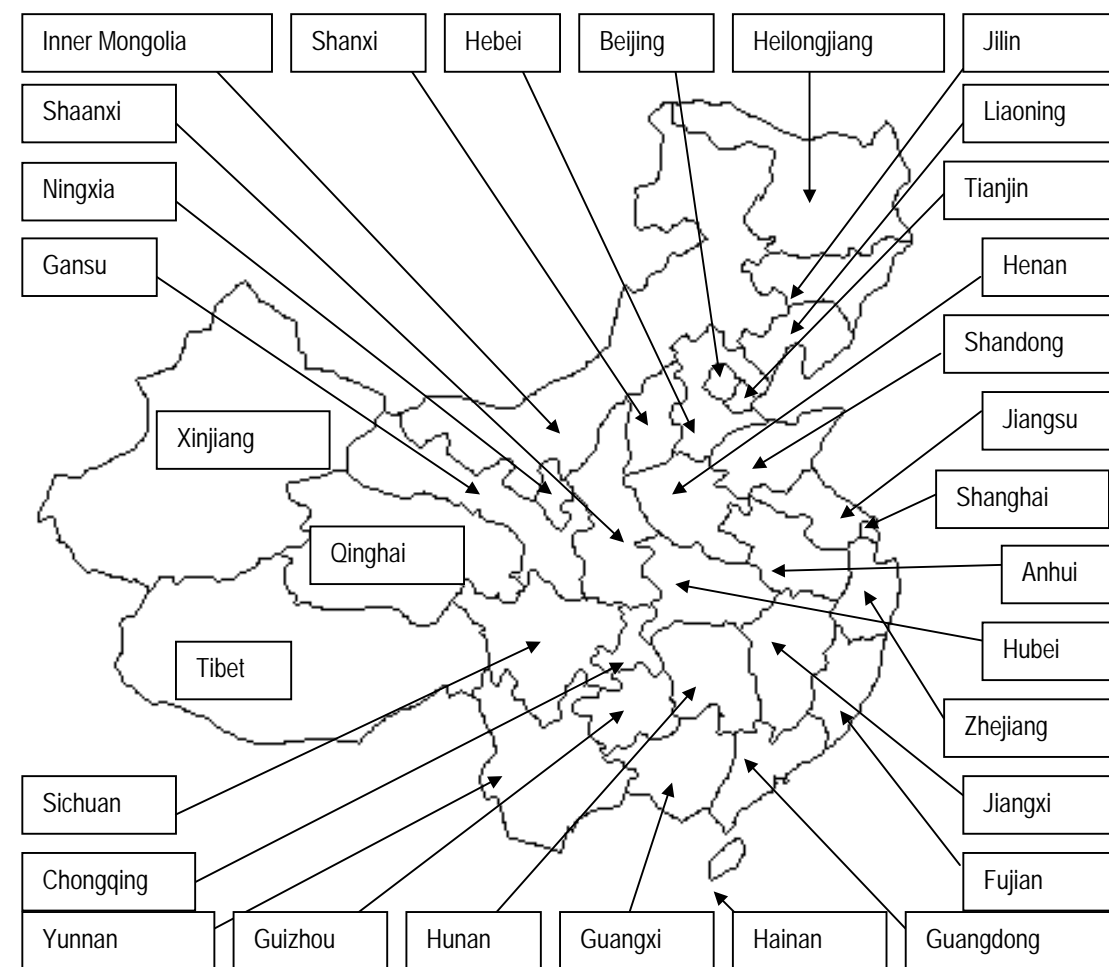


## A.2 Regions of China

China is divided into 22 provinces, five autonomous regions and four municipalities, with the national capital in Beijing. The country also has two special administrative regions (SARs): Hong Kong, a former British Crown Colony which reverted to Chinese sovereignty in 1997; and the former Portuguese colony of Macau which was handed back to China in 1999. Both SARs officially retain economic and political independence, and as such are not covered in the scope of this report.

China's five autonomous regions - Inner Mongolia, Guangxi Zhuang, Ningxia Hui, Xinjiang Uygur and Tibet – are provinces in all but name. The difference in categorisation stems from the fact that these regions mainly comprise minority peoples. Although the central government allocates additional government resources for the preservation of minority culture and language in these autonomous regions, in practice Han Chinese culture has pervaded these areas and Han Chinese figures predominate in politics and business.

**Map A.1 CHINA: PROVINCES AND MUNICIPALITIES**



Source: Access Asia



China's four municipalities - Beijing, Shanghai, Tianjin and Chongqing - all enjoy provincial status. Chongqing, the newest municipality and formerly a part of Sichuan province, was created in 1997. Provincial status bestows greater political and economic freedom on these municipalities – including the authority to approve foreign-invested projects worth up to US\$ 30 million.

Eight other major cities - Dalian, Guangzhou, Harbin, Ningbo, Qingdao, Shenyang, Wuhan and Xi'an - enjoy “deputy province-level” economic status, granting them a relatively high degree of economic autonomy.

China's coastal provinces have been the principal beneficiaries of economic reform over the past 25 years. Growth in cities down the eastern seaboard has raised living standards sharply, leaving the country's inland provinces far behind. The central government fears that this growing wealth gap could spark social unrest across the Chinese hinterland – particularly in the country's traditionally restive autonomous regions.

Beijing and its inland provincial administrations have sought to stimulate economic growth in central and western China through greater foreign direct investment (FDI). To lure foreign companies, the government is investing heavily in the transportation and communication networks in these areas. Infrastructure development in central and western China is a priority in the Tenth Five-Year Plan (2001-2005), Beijing's blueprint for national development for the first half of the decade. The Plan also calls for further modernisation of existing industries - such as agriculture and mineral extraction – and a fresh drive to grow new industries.

## A.3 Demographics

### A.3.1 Demographics: Total Population

With over 1.3 billion people in 2004, China has the largest population of any country. Unofficial observers put the real figure as high as 1.4 billion, citing poor data-gathering methods and an unwillingness on the part of economic migrants to complete the census.

**Table A.1 TOTAL POPULATION, 1997–2004**

	<i>Population (million)</i>	<i>% annual growth</i>
<b>1997</b>	1,207.90	1.11
<b>1998</b>	1,221.14	1.10
<b>1999</b>	1,234.36	1.08
<b>2000</b>	1,248.11	1.11
<b>2001</b>	1,261.25	1.05
<b>2002</b>	1,274.53	1.05
<b>2003</b>	1,287.85	1.04
<b>2004</b>	1,301.24	1.04

Source: National Bureau of Statistics (NBS)

Nevertheless, China's population growth is clearly slowing. There are three main reasons for this. First and most foremost, the government continues to enforce its One Child Policy, which limits most families in China to a single child. Second, people are living longer, thanks to improved healthcare and living standards. Third, young urban couples are also tending to start a family later in life – choosing first to enjoy their rising salaries and higher disposable incomes.

Under the One Child Policy, parents are permitted to have a single child, though there are exceptions for some rural families, national minorities and urban couples born after 1980. Penalties are harsh: couples can be fined up to two-thirds of their salaries and can lose certain social rights. Thus, many rural families have tended to hide their illicit children (known as “black children”) from the authorities. Millions of such children are thought to exist but go unrecorded by the census.

Launched in 1980 after the population topped one billion, the One-Child Policy remains the most ambitious of the CCP's many attempts at social engineering. But implementation has always been patchy. Today, only about 20% of children under 14 are from single-child families, according to the State Family Planning Commission (SFPC). The policy has been most effective in cities, where residents face heavy fines and can lose their jobs if they have a second child, and where many couples prefer fewer children. But in the countryside, where parents depend on children to help them, especially sons, resistance has been widespread.

In 1995, Beijing approved a pilot project in six rural counties where family planning workers would try to limit births by expanding health services for women, providing more information about contraception and allowing couples to make their own decisions. Then, in 1998, the UN population agency encouraged China to take the experiment a step further, providing funding and training to 32 rural counties that agreed to eliminate the birth permits, targets and quotas and stop promoting abortion as family planning.

According to Chen Shengli, a senior SFPC official, officials across the country have been impressed by the results of the UN project, with many also choosing to abandon birth permits and quotas. Xie Zhenming, a senior official at the government-affiliated China Population Information and Research Centre, who campaigned for the changes, estimates that cities and counties accounting for nearly a quarter of China's 1.3 billion people have eliminated birth permits and quotas over the last five years. And about half the population now lives in jurisdictions that allow women to choose which type of contraception to use.

### ***A.3.2 Demographics: Population by Location***

Just under two-thirds of China's population lives in the countryside, where standards of living lag behind those in the cities. Not only are average rural salaries and disposable incomes lower than in urban areas, but transport networks also tend to be less developed. These factors inhibit the growth of a retail trade infrastructure outside urban markets. This situation has been exacerbated by the loss of much rural labour to the main urban areas, where employment and earning potential is much higher than in the countryside. Only in 2003 did the Chinese government officially recognise this migrant workforce, allow such migrant workers to register as members of the urban population.

The growing economic disparity between the increasingly urbanised coastal provinces and the largely rural hinterland has prompted what is considered to be the largest migration in human history. More than 100 million people have left their homes in the countryside to look for work in major cities across the country – particularly in the east of the country. The only real benefit to the rural economy of this migration is that most migrant workers do send part of their wages back to family back in their rural homes.

This unprecedented movement of workers has created new social problems in major cities – such as severe overcrowding and increased crime rates. But it has also boosted local rural economies as migrant workers send much of their earnings home to supplement family incomes.

Although China's cities will continue to act as magnets to the rural unemployed and under-employed, migrant labour will do little to check the widening wealth gap between China's coastal cities and inland rural areas.

**Table A.2      POPULATION BY URBAN-RURAL DIVIDE, 1997–2004**

<i>Million persons</i>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
Urban	407.24	417.56	428.36	440.18	452.54	461.93	472.85	484.68
Rural	800.66	803.57	806.00	807.93	809.57	813.03	815.50	817.26
<b>TOTAL</b>	<b>1,207.90</b>	<b>1,221.14</b>	<b>1,234.36</b>	<b>1,248.11</b>	<b>1,261.25</b>	<b>1,274.53</b>	<b>1,287.85</b>	<b>1,301.24</b>

Source: Access Asia, China Economic Quarterly, NBS

### ***A.3.3 Demographics: Population Breakdown by Location***

The government claims that urbanisation rates are slowing. Yet, until very recently, official statistics failed to take into account the tens of millions of migrant workers who live and work in cities for most of the year but who lack residence permits – meaning that they continued to be registered as residents of their home districts. This situation has now been partly rectified by the government now allowing rural workers who have moved to urban areas to live and work as urban residents. However, the government continues to classify many newly developed suburbs of large cities as rural areas, which continues to skew official figures on the urban versus rural population split.

**Table A.3      POPULATION BREAKDOWN BY URBAN-RURAL DIVIDE, 1997–2004**

<i>% of population</i>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
Urban	33.71	34.19	34.70	35.27	35.88	36.24	36.72	37.25
Rural	66.29	65.81	65.30	64.73	64.19	63.79	63.32	62.81
TOTAL	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Source: Access Asia, China Economic Quarterly, NBS

### ***A.3.4 Demographics: Population by Province***

Henan has the largest population of any province in China, with 98.42 million people – or 7.56% of the total national population. It has held this position since 1997, when the government created the municipality of Chongqing (population, 31 million) out of Sichuan province.

The mountainous and poorly developed autonomous region of Tibet has the smallest population, with only 2.67 million – spread over an area that is approximately three times the size of Poland.

China's massive size, tough geographical terrain and highly varied climate have created widely differing living conditions for the country's population. Nomadic herding communities still populate the country's western and northwestern regions, while city dwellers in the east enjoy increasingly westernised lifestyles.

Meanwhile, farmers living on the plains by the country's huge, flood-prone rivers must rely on a controlled water supply to irrigate their crops – while farmers in the central mountains face the problems of drought, soil erosion and the difficulties of getting crops to market across harsh terrain.

Finally, sub-polar temperatures during the harsh winters of northeastern Heilongjiang province contrast sharply with tropical climates on the southern island of Hainan.

**Table A.4 POPULATION BY PROVINCE, 2001-2004**

<i>Population (million)</i>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2004 % share of</b>
<b>total</b>					
Anhui	62.73	63.39	64.05	64.71	4.97
Beijing	14.35	14.50	14.66	14.81	1.14
Chongqing	31.26	31.60	31.94	32.28	2.48
Fujian	34.06	34.42	34.78	35.14	2.70
Gansu	26.40	26.69	26.98	27.27	2.10
Guangdong	77.90	78.72	79.54	80.36	6.18
Guangxi	47.43	47.93	48.43	48.92	3.76
Guizhou	37.99	38.39	38.78	39.17	3.01
Hainan	7.93	8.01	8.10	8.18	0.63
Hebei	66.81	67.52	68.23	68.93	5.30
Heilongjiang	36.62	37.01	37.40	37.80	2.90
Henan	95.38	96.40	97.41	98.42	7.56
Hubei	59.52	60.14	60.77	61.39	4.72
Hunan	64.91	65.59	66.27	66.96	5.15
Inner Mongolia	23.71	23.95	24.20	24.44	1.88
Jiangsu	71.98	72.74	73.51	74.28	5.71
Jiangxi	41.59	42.03	42.47	42.91	3.30
Jilin	26.54	26.81	27.09	27.36	2.10
Liaoning	40.88	41.32	41.76	42.19	3.24
Ningxia	5.63	5.69	5.75	5.81	0.45
Qinghai	5.22	5.28	5.34	5.40	0.41
Shaanxi	35.92	36.30	36.67	37.04	2.85
Shandong	88.84	89.78	90.73	91.67	7.04
Shanghai	13.48	13.63	13.78	13.93	1.07
Shanxi	32.68	33.05	33.39	33.72	2.59
Sichuan	89.92	90.88	91.84	92.80	7.13
Tianjin	10.04	10.06	10.16	10.33	0.79
Tibet	2.64	2.65	2.66	2.67	0.21
Xinjiang	18.76	18.96	19.16	19.36	1.49
Yunnan	42.88	43.33	43.78	44.23	3.40
Zhejiang	47.25	47.75	48.25	48.75	3.75
<b>TOTAL</b>	<b>1,261.25</b>	<b>1,274.53</b>	<b>1,287.85</b>	<b>1,301.24</b>	<b>100.00</b>

Source: NBS, Access Asia

### ***A.3.5 Demographics: Population Density by Province***

China's population density is highest in the more developed industrial and agricultural regions of China – notably the cities of Shanghai, Beijing and Chongqing. Shanghai is the most densely populated, with over 2,000 people per square kilometre. By contrast, Tibet has a population density of just over two people per square kilometre.

**Table A.5 POPULATION DENSITY BY PROVINCE, 2001-2004**

	<i>Area (Sq km)</i>	<i>Population density (people/km2)</i>			
		<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
Shanghai	6,186	2,179.11	2,203.36	2,227.61	2,251.86
Beijing	16,000	896.82	906.45	916.08	925.70
Tianjin	11,300	888.55	890.36	898.96	913.82
Jiangsu	102,600	701.53	709.00	716.47	723.94
Chongqing	48,000	651.25	658.33	665.42	672.50
Henan	167,000	571.13	577.22	583.29	589.36
Shandong	156,700	566.92	572.95	578.99	585.02
Anhui	130,000	482.57	487.63	492.69	497.75
Zhejiang	101,800	464.15	469.06	473.97	478.88
Guangdong	178,000	437.67	442.25	446.86	451.47
Hebei	187,700	355.94	359.72	363.48	367.25
Hubei	186,000	319.98	323.34	326.71	330.08
Hunan	211,800	306.47	309.69	312.91	316.13
Fujian	121,700	279.87	282.83	285.79	288.76
Liaoning	147,500	277.17	280.13	283.09	286.05
Jiangxi	166,900	249.20	251.82	254.45	257.08
Hainan	34,000	233.27	235.70	238.13	240.56
Guizhou	176,100	215.74	217.98	220.19	222.41
Shanxi	156,300	209.10	211.45	213.60	215.77
Guangxi	236,000	200.97	203.09	205.19	207.30
Shaanxi	205,600	174.71	176.54	178.36	180.18
Sichuan	522,000	172.26	174.10	175.94	177.78
Jilin	187,400	141.63	143.07	144.53	145.99
Yunnan	394,000	108.83	109.98	111.11	112.25
Ningxia	51,800	108.74	109.89	111.05	112.20
Heilongjiang	454,000	80.65	81.52	82.39	83.26
Gansu	454,000	58.15	58.79	59.43	60.07
Inner Mongolia	1,183,000	20.04	20.24	20.45	20.66
Xinjiang	1,600,000	11.73	11.85	11.98	12.10
Qinghai	722,300	7.23	7.31	7.39	7.47
Tibet	1,200,000	2.20	2.21	2.22	2.23
TOTAL	9,515,686	132.54	133.94	135.34	136.75

Source: NBS, Access Asia

### ***A.3.6 Demographics: Population Concentration***

The greatest concentration of China's population lies on the eastern flood plains at the lower reaches of the country's two principal rivers, the Yellow River and the Yangzi River. The silt deposited by these massive waterways has created the most fertile centres of agriculture in the country. Towns in these regions have built on this base to grow into key industrial cities, making this part of the country the most economically advanced in all China.

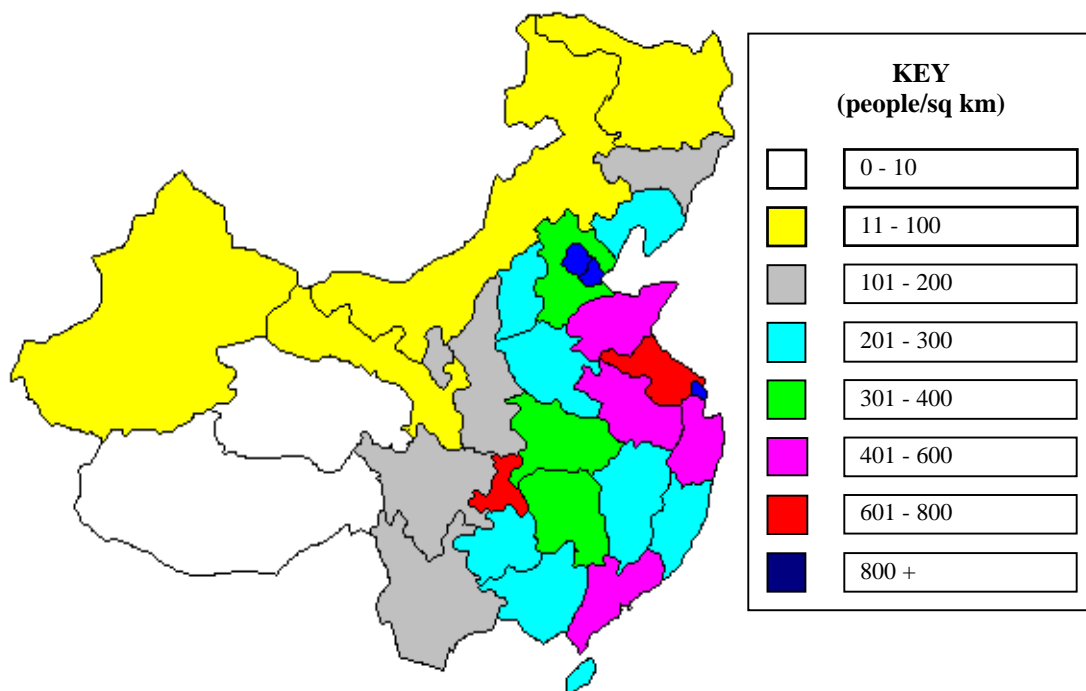
Inland from the eastern plains, the geography becomes increasingly mountainous and the climate harsher. Populations in these provinces tend to be more dispersed, while transportation and communication networks are less developed. Agriculture is tougher, as farmers are forced to deal poor soil and a lack of irrigation.

Further west, desert and high plateau dominate vast areas of Xinjiang, Qinghai and Tibet, regions which are sparsely populated by predominantly nomadic communities.

Economic reforms since the late 1970s have prompted a surge in urbanisation across the country, with the number of cities growing from 193 to 668 between 1979 and 1997. Most new cities have grown out of county-level towns which saw sharp industrial growth in the intervening decades, while the number of larger cities with populations of more than 500,000 also increased from just 12 to 81, according to the National Bureau of Statistics (NBS).

The past 20 years have also witnessed a sharp increase in the size of urban areas – a process which began in the the country’s southern and southeastern regions, with their relatively outward-looking populations and developed economic infrastructures. In 1984, 295 cities across the nation took up just 7.6% of the land; by 1996, the proportion had climbed to 18%.

**Map A.2** POPULATION CONCENTRATIONS BY PROVINCE, 2004



Source: Access Asia, China Economic Quarterly, NBS

### ***A.3.7 Demographics: Population by Gender***

China’s population is unusual in having a greater proportion of men than women – though this balance is shifting.

Official rhetoric from the ruling Chinese Communist Party (CCP) states that women are as capable of any kind of work as men - and should therefore earn equal wages and have equal job opportunities. However, Chinese society remains essentially patriarchal, with men dominating key positions in business, politics and society in general. Nevertheless, women constitute a powerful economic force, underpinning the most important structure in Chinese society: the family. Women tend to make the key spending decisions in a family, such as the purchase of big-ticket items.

**Table A.6 TOTAL POPULATION BREAKDOWN BY GENDER, 1997–2004**

<i>Million persons</i>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
Male	619.58	626.18	630.27	642.55	646.78	653.56	660.44	668.08
% of total	51.29	51.28	51.06	51.48	51.28	51.28	51.28	51.34
Female	588.32	594.96	604.09	605.56	614.47	620.97	627.41	633.17
% of total	48.71	48.72	48.94	48.52	48.72	48.72	48.72	48.66
<b>TOTAL</b>	<b>1,207.90</b>	<b>1,221.14</b>	<b>1,234.36</b>	<b>1,248.11</b>	<b>1,261.25</b>	<b>1,274.53</b>	<b>1,287.85</b>	<b>1,301.24</b>

Source: Access Asia, China Economic Quarterly, NBS

Women are also gaining prominence within the workforce - particularly in new high-growth industries such as electronics and services. Women have also become a significant part of the white-collar workforce, rising up the management ranks in local and foreign-invested enterprises.

### ***A.3.8 Demographics: Population by Age Group***

The 20-29 year-old age group is the largest segment within the Chinese population. Chinese under 35 tend to be more open and relaxed than their elders, who experienced the political and economic troubles of the Cultural Revolution (1966-1976). This makes the younger generation more receptive to modern concepts and less constrained by traditional conservatism - traits which have fuelled the emergence of a wealthy middle class in China (see Section 1.5 Consumer Wealth). Children under the age of ten may lack the spending power of the teenage and twenty-something segments, but they nevertheless constitute a fast-growing consumer target for FMCG firms. Young children increasingly find themselves the recipients of lavish gifts – clothing, toys, food and consumer electronics – bestowed on them by their parents, two sets of grandparents and extended family members.

Improving healthcare and rising living standards over the past two decades are effectively greying China's population. This aging segment of middle-aged and elderly consumers is also wealthier, enjoying the benefits of longer working lives and a lifetime of careful savings.

Savings plans for younger career business people have also given them more money to spend on their children – the result being a dramatic increase in per-capita spend per child over the past decade. This in turn has had a significant impact on products aimed at children.

**Table A.7 POPULATION BY AGE GROUP, 1997–2004**

<i>Million persons</i>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
0 to 4 years	83.55	83.70	83.85	84.03	84.16	84.32	84.47	84.62
5 to 9 years	122.79	123.00	123.22	123.49	123.69	123.91	124.13	124.36
10 to 14 years	100.44	100.62	100.80	101.01	101.18	101.36	101.54	101.72
15 to 19 years	90.53	91.68	92.84	94.05	95.20	96.36	97.53	98.70
20 to 29 years	232.82	235.79	238.76	241.90	244.83	247.82	250.82	253.83
30 to 39 years	194.17	196.65	199.12	201.74	204.19	206.68	209.18	211.70
40 to 49 years	159.51	161.55	163.58	165.73	167.74	169.79	171.84	173.91
50 to 59 years	98.64	99.91	101.18	102.48	103.73	105.00	106.28	107.55
60 to 64 years	42.65	43.19	43.74	44.31	44.85	45.40	45.94	46.50
65 years +	82.81	85.05	87.27	89.38	91.68	93.91	96.13	98.35
<b>TOTAL</b>	<b>1,207.90</b>	<b>1,221.14</b>	<b>1,234.36</b>	<b>1,248.11</b>	<b>1,261.25</b>	<b>1,274.53</b>	<b>1,287.85</b>	<b>1,301.24</b>

Source: Access Asia, China Economic Quarterly, NBS



**Table A.8      % BREAKDOWN OF POPULATION BY AGE GROUP, 1997–2004**

<i>% of population</i>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
0 to 4 years %	6.92	6.85	6.79	6.73	6.67	6.62	6.56	6.50
5 to 9 years %	10.17	10.07	9.98	9.89	9.81	9.72	9.64	9.56
10 to 14 years %	8.32	8.24	8.17	8.09	8.02	7.95	7.88	7.82
15 to 19 years %	7.49	7.51	7.52	7.54	7.55	7.56	7.57	7.58
20 to 29 years %	19.27	19.31	19.34	19.38	19.41	19.44	19.48	19.51
30 to 39 years %	16.07	16.10	16.13	16.16	16.19	16.22	16.24	16.27
40 to 49 years %	13.21	13.23	13.25	13.28	13.30	13.32	13.34	13.37
50 to 59 years %	8.17	8.18	8.20	8.21	8.22	8.24	8.25	8.27
60 to 64 years %	3.53	3.54	3.54	3.55	3.56	3.56	3.57	3.57
65 years + %	6.86	6.96	7.07	7.16	7.27	7.37	7.46	7.56
<b>TOTAL</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>

Source: Access Asia, China Economic Quarterly, NBS

## A.4 Consumer Attitudes

### *A.4.1 Consumer Attitudes: Overview*

Economic development in the fast-growing coastal provinces of eastern and southern China has led to the emergence of a burgeoning middle class with increasing enthusiasm for imported consumer goods. Consumer spending is strongest in densely populated urban markets in these regions - notably Beijing, Shanghai and cities in Guangdong province - and consequently these areas have the most developed retail trade environments.

Average per capita retail sales in coastal urban markets already exceed RMB 10,000 (US\$1,208) a year. Not surprisingly, the greatest concentration of young consumers and professionals is to be found in the top three cities of Beijing, Shanghai and Guangzhou. Economic growth in China's inland provinces lags behind that of the country's coastal provinces. However, a central goal of the Tenth Five-Year Plan (2001-2005) - the government's economic blueprint - is development of the Chinese hinterland. Beijing is therefore investing heavily in infrastructure and encouraging greater foreign investment in inland markets - such as Chongqing (a municipality since 1997), Chengdu, Wuhan and Xi'an.

While these efforts are bolstering economic development in China's inland regions and fostering a nascent consumer class, foreign consumer-goods companies are concentrating mainly on the increasingly active consumer markets in coastal regions, where disposable incomes and spending levels are rising steadily. This scenario is likely to remain the case for the next five to ten years.

### *A.4.2 Consumer Attitudes: Response to Political Change*

Despite more than a century of upheaval, the political system in China continues to undergo radical change. While the economic reforms introduced over the past two decades have generally improved living standards across the country - thus reducing the likelihood of social upheaval - the government has been obliged at times to slow the pace of economic liberalisation for fear of losing overall political control.

Today's communist China is a world away from that of the newly formed People's Republic in 1949. Gone are the old revolutionary leaders who fought for the establishment of the PRC in the 1930s-1940s. And now the Soviet-trained bureaucrats who succeeded them are preparing to hand over power to a new generation of technocrats more familiar with western economic policies and political affairs. At the same time, this new generation of leaders is finding itself increasingly accountable to both popular sentiment and the rule of law.

The extraordinary changes which have taken place in China since former paramount leader Deng Xiaoping launched his open-door economic reform policy have radically affected the lives of ordinary people, particularly in the major cities. Many people have been forced to question traditional values and attitudes as new ideas and concepts have emerged. The influence of foreign culture is now much more apparent in everyday life than in any other previous generation.

Younger consumers are attracted to international products and brands. Yet they retain a strong sense of patriotism - shared by urban professionals and older generations. Since the collapse of communism in eastern Europe and the emergence of the US as the world's sole superpower, the country has seen a strong resurgence in national pride, as an ideologically bankrupt communist regime has sought to play on latent nationalism to re-establish its position as the country's central authority.

Economic integration has been key to the government's success in bolstering national pride - and encouraging long-term growth. In December 2001, China finally acceded to the World Trade Organisation (WTO), setting in motion a timeframe of sectoral reform which promises to see across-the-board market liberalisation by the end of the decade. At the same time, China is an active member of the UN Security Council. As China's role on the global economic and political stage increases, so foreign influence in all aspects of Chinese society will also grow.

### ***A.4.2 Consumer Attitudes: Response to Economic Change***

Breakneck economic growth since 1979 has greatly improved the lives of millions of urban Chinese. The incomes of many consumers have increased several times over, while in shops and stores the range of products has multiplied, affecting individual lifestyles and aspirations.

Yet in the frantic rush for growth, many have been left behind. Economic casualties include tens of millions of state-sector employees struggling to cope with the removal of the 'iron rice bowl' - the state welfare system which traditionally provided work, housing, medical care and education to workers and their families. The introduction of free market reforms has seen the emergence of privately-run businesses, some of which have grown rapidly to compete with the loss-making monolithic state firms that in the past monopolised certain sectors.

Joblessness has forced workers to go in search of new employment. Up to 150 million migrants have left their homes in the rural/urban hinterland to travel to areas of greater development - one of the largest movements of people in world history. This massive mobile population poses a potential catastrophe for the authorities and raises concerns for the economic effect on those communities left behind.

Massive migration and unequal income distribution in major urban markets has brought with it new social problems. Crime rates are growing (especially white-collar crime), along with urban deprivation, social unrest, drug abuse and prostitution. Such factors only encourage those consumers who enjoy the benefits of the new economy to aspire to a middle-class lifestyle. Increased spending power gives them the opportunity to gain a better education, travel more (both at home and overseas), rent - or buy - better housing, advance careers and spend more of their disposable income.

Economic empowerment has given Chinese consumers something more. Urban consumers are increasingly demanding better services and product quality - as seen in the explosion in consumer complaints and the emergence of numerous populist newspapers and magazines as consumer champions - as well as better governance and improved municipal and social services. After encouraging economic development and greater consumer spending, local government leaders now find that they are more accountable to an increasingly vocal segment of the population demanding greater consumer and social rights.

### ***A.4.3 Consumer Attitudes: Changes in Lifestyle***

#### **Livelihood**

Across-the-board income growth for Chinese cities is raising lifestyle expectations. Urban residents in particular are more ambitious in terms of careers because they now appreciate the value of money in China's increasingly capitalist society: money, rather than political ideology or correctness, is the key to success and stability.

The importance of a good education is clearer than ever. Families are now taking advantage of educational loans supplied by the leading retail banks which enable them to put their children through high school, college or university. These families have high hopes that their offspring will have better opportunities than they did. Children are under tremendous pressure at school to achieve - the ultimate aim being to pursue careers in high-earning industries such as finance, law and information technology.

Consumers are seeking increased security in other ways too. With the state providing fewer subsidies for housing and healthcare, more and more families are obliged to make their own welfare provisions. Higher incomes mean higher spending not just on day-to-day items - food, clothing, durable goods - but also on big-ticket purchases such as company shares, cars, pension plans, healthcare and even private accommodation.

#### **Individual loans**

Chinese consumers are gaining greater spending power as the government forces the country's state-run banks to provide major loans for individual customers. Leading this trend is the Bank of China (BOC) with its new shopping loan financial product. The RMB 30,000 (US\$ 3,600) loan is aimed at young couples who urgently need help with funds. The loan allows the applicants to buy any durable products, such as household electronic appliances, personal computers, furniture and building materials, from BOC's appointed firms. These include eight companies of the Shanghai Friendship Group, four stores of the No 1 Department Store Co Ltd and Shanghai Hualian Commercial Building Company. Any person aged between 18-65 without a bad credit record but with a stable income can apply for the loan, and the amount could be as large as RMB 50,000 (US\$ 6,040). BOC Shanghai Branch has already launched consumer loans, such as housing mortgage loans and education-assistance loans.

#### **Housing**

Originally provided by work units at a heavily subsidised rate, housing must now be rented by employees at more competitive rates. State-owned enterprises (SOEs) are selling off their housing stock - in many cases their only real assets - in a bid to pay debts, with the result that many people are forced to rent or buy in the private housing market.

Under government pressure, China's retail banks are at least offering more favourable mortgage packages - though the quality of much new housing remains dubious. Nevertheless, families in Shanghai and Guangzhou are increasingly saving up to place a deposit on a property. While this reduces their inclination to buy smaller consumer goods, home ownership also opens up new retail possibilities such as furniture, furnishings and home improvements products.

A second major development for housing in urban China stems from the modernisation of city centres. More urban residents are moving into suburban areas, either out of choice - to live on newly built suburban garden estates - or because of massive relocation projects by city administrations seeking to exploit rising land prices in downtown districts. And where consumers go, retailers follow: mushrooming suburban communities are attracting new retail centres which are extending out into outlying urban districts.

## Possessions

In the late 1970s most consumers would consider themselves lucky if they owned a bicycle, a watch, a couple of records and a handful of books. Today, young consumers sport branded shoes, jeans and tops, send text messages to their school friends on Siemens and Nokia Motorola mobile phones and listen to Korean hip-hop on MP3 players manufactured by local consumer electronics firms.

Old socialist concepts are growing increasingly alien to younger Chinese consumers. The central government now actively encourages consumers to buy goods, since strong consumer spending means a healthy domestic consumer market. What were once regarded as luxury goods are now commonplace: colour televisions, microwave ovens, washing machines, CD and DVD players, washing machines, mobile phones and personal computers.

Social change has also presented younger consumers with the kind of opportunities their parents never faced. China's one-child policy, in operation since the late 1970s, has seen the emergence of single children cared for and pampered not only by their parents but also by two sets of grandparents. Children in China today receive weekly or monthly pocket money as well as traditional hongbao (red envelopes containing gifts of money) that grow more substantial by the year. This has heightened the purchasing power or purchasing influence of younger consumers.

Meanwhile, advertisers and marketers have sought to tap this growing market in China's fiercely competitive consumer-goods sector with increasingly sophisticated marketing and branding campaigns. Advertising expenditure has increased steadily since the 1990s, with television - terrestrial, cable and satellite - dominating adspend figures. And over the past five years, outdoor advertising and magazine advertising have also begun to target younger consumers.

While domestic and foreign brands each shared about an equal proportion of most market sectors, overwhelming dominance by one leading brand name is seen in most product sectors. For instance, Wrigley's Double Mint chewing gum accounts for nine-tenths of the chewing gum market, while Nescafé enjoys similar dominance in instant coffee sales.

## Travel

Many better-off urbanites, keen for new cultural experiences, are choosing to spend their leisure time not by shopping in their home cities but by going on holiday. For some Chinese, this is a natural instinct. Either because of job requirements or - in the case of older people - because of displacement during the Cultural Revolution (1966-1976), many people find themselves living far away from their home towns or villages. Close links to the ancestral home (*guxiang*) are vital to all Chinese, and most people will still

have cousins, aunts, uncles or other extended family members living in these areas.

Wealth gives many urban consumers the chance to travel back to their *guxiang* more frequently than before, while the government's decision to extend national holidays - primarily in a bid to boost consumer spending - provides more occasions to do so. There are now three holidays of a week or more in the Chinese calendar: Chinese New Year (Spring Festival), which falls in January or February depending on the lunar calendar; the May Day holiday in the first week of May; and the National Day holiday in the first week of October.

Moreover, many upper-middle income families will take a holiday trip other than to their *guxiang* more than once each year - typically to famous tourist destinations such as the port city of Qingdao in Shandong province, the subtropical island province of Hainan off the southern tip of China, or to Xi'an, a seat of government power nearly 2,000 years ago.

The next step for Chinese urbanites is overseas travel. Many young professionals have been to Thailand or Hong Kong, perhaps as part of an annual group trip organised by their joint-venture employer. These trips typically involve shopping trips to consumer centres such as Bangkok. The aspiration to travel abroad to experience different cultures reflects a Chinese thirst for knowledge centuries of isolation - an aspiration which, ultimately, will influence the future shape of China's constantly changing society.

Younger consumers too are an increasingly important segment for the travel market - particularly for extreme sports and alternative pastimes. A survey conducted by the *Beijing Evening News* in 2001 revealed that more than 80% of college and high school students planned to travel that summer and that an increasing number of students are becoming attracted to summer camps offering programmes such as adventure sports including diving, exploring, sailing and angling.

## Entertainment

For most, travel remains a luxury. The vast majority of Chinese consumers spend most of their time at home. A survey of consumers in major cities shows that nearly two-thirds of urban residents like nothing better than to spend their leisure time watching television on a weekday evening, while just a quarter favoured reading and less than a fifth playing sports.

Television remains largely dominant, with unrivalled household penetration. Internet use, while growing fast, remains limited: only 6% of consumers in China's major cities surf the Internet every day for entertainment. However, this is set to change as personal computers become cheaper and Internet connections more widespread. By the end of 2003, there were just under 80 million Internet users in China, with 22 million new subscribers signing up in 2003 alone. By 2006, China is expected to overtake the US to become the world's largest Internet population, with over 150 million subscribers.

The other great activity for Chinese consumers is shopping. One in ten of all city residents go shopping at some point during the week, with the figure rising to one in four at the weekend.

In terms of social entertainment, some regional disparities start to emerge. Shanghainese residents tend to like going out to bars, clubs and restaurants. One in 10 Shanghai residents go out singing during the week, compared with 6% in Beijing and 2% in Guangzhou. Shanghai residents also tend to be more independent in their leisure activities, and while over 60% of all

Chinese prefer to spend their leisure time with family, nearly half of all Shanghai residents are just as likely go out by themselves. This compares with a fifth of Guangzhou residents and about 15% of Beijingers.

Regional disparities are also apparent in sport. Northern Chinese tend to be the most sports-minded of urban residents. A survey conducted in 2001 indicated that Beijing residents are more inclined to play sports than people in either Shanghai or Guangzhou. The survey found that 28% of Beijing residents play sports during the week, and 31% at the weekend. Only 11% of Shanghai respondents said they enjoyed sports during the week, and 10% at the weekend.

Leisure trends vary not only by region, but also by age group. Families tend to spend a lot on their children, with parents buying expensive clothes, pianos, personal computers and health tonics. They will also spend a lot on their children's leisure time, taking them on treats to theme parks, adventure playgrounds, bowling alleys, cinemas and burger bars in order to keep them entertained. By contrast, the food, clothes and entertainment for elderly family members costs only one third of what is normally spent on a child.

## **Health and Fitness**

The Chinese have always had a positive attitude to exercise, with the importance of a healthy mind and body ingrained in the Chinese psyche through traditional exercises such as Tai Ji Quan and Kung Fu.

This traditional attention to personal health marries comfortably with the Western fitness culture promoted by the growing number of health and fitness centres in Asia today. Until the late 1990s, the only health and fitness centres in China were hotel health clubs, which varied considerably in the quality of facilities on offer - as well as their availability to non-hotel customers.

Today, hotel health clubs are being forced to compete with a new tide of gyms entering the market from other Asian cities - notably Hong Kong. New York Fitness and other gym operators are taking advantage of a growing trend for Western-style exercise amongst young urban professionals of 25-40 years old. As elsewhere in Asia, the gyms are proving popular in China's major cities not so much for the basic exercise facilities on offer as for the extra courses and services on offer: Pilates, step, yoga, Tai Ji, kick-boxing and other exercises are all popular, as are saunas, sun rooms and beauty parlours which attract higher-spending young professional women.

Yet there are still no more than 750 gyms around the country, according to the Associated Press - a ratio of one for 1.7 million people (compared with a US ratio of one for every 16,000 people).

Like numerous other international companies, fitness centre operators are simply seeking to: establish their brands in this fast-growing market; educate mainland urban professionals about the various benefits and services on offer at fitness centres; and generally to promote the gym culture and raise awareness of the popularity of such fashionable gyms amongst urban professionals around the world.

Membership of these centres in China offers huge cachet to young urban professional women who are not so much looking to get into shape (in a relatively passive way - it is considered unseemly for a woman to exercise too aggressively) as to enjoy the various beauty treatments and facilities on offer.

## **Purchasing Influences**

Chinese consumers tend heavily towards products, stores and services they know and trust. The same philosophy applies to product brands, with word-of-mouth recommendation being a strong reason for consumers to change brands. However, advertising is increasingly influencing the urban and younger Chinese as their media exposure increases.

In the eyes of Chinese consumers, foreign and local brands can represent fundamentally different things. While foreign brands are perceived to signify quality, technology and status - though all at a price - local brands are traditionally seen as lacking these selling points. As a consequence, foreign brands have performed strongly in industries where factors such as reliability, innovative technology and high brand profile are important - such as personal computers, cosmetics, mobile phones and cars. At the same time, local consumers are prepared to pay more for better quality, service, and convenience.

Yet local brands have begun to change Chinese consumer perceptions. Emerging local brands in the household appliances sector, for instance, illustrate the potential of Chinese companies to produce reliable, high-tech products while still remaining affordable. In the white-good sectors, brand is less important because of its comparatively low profile, and this will also help local manufacturers in their quest for market share.

Another factor is variety of choice. Most consumers who can easily reach large stores will prefer to shop in such places, finding the lack of product choice in smaller stores (especially in terms of range of price) to be off-putting. Larger stores are also seen as providing more bargains, pointing to the opportunistic streak in Chinese shoppers. Such stores are also viewed as being more convenient to shop in, leading to the successful development of the discount retailing sector over recent years.

## **Taboos**

Despite the liberalising effects of economic development, sections of Chinese society are still struggling to come to terms with many of the trappings of a modern consumer society. Yet the massive upheavals experienced by many Chinese during the 20<sup>th</sup> century have not completely swept away traditional Chinese conservatism - one aspect of which is open rebelliousness.

Nevertheless, China's younger generation appear to be less constrained by tradition and social convention than their elders. Many are just as expressive and imaginative as teenagers anywhere elsewhere in the world - at least in terms of fashion. Street fashions flourish in China, many copying those of the West - particularly some of the more extreme styles, such as punk hairstyles and body piercing. In 2000, temporary tattoos came into fashion in Beijing, with tattoos applied to arms, waists, ankles, backs and even faces. And since 2002, dyed hair has become de rigueur amongst fashion-conscious urban teenagers - both male and female. However, older generations still frown on such nonconformity, and only in the major cities is society sufficiently liberal to permit such experimentation.



## A.5 Consumer Wealth

### *A.5.1 Consumer Wealth: GDP and Cost of Living*

The strong growth which characterised China's economy for much of the 1990s finally eased in 1997 with a government decision to tighten credit controls – thus limiting the development of new projects. These austerity measures not only helped to cool a rapidly over-heating economy: they also curbed wasteful practices within the financial system, whereby companies were accruing debts, which they could never hope to repay.

While these moves helped China to minimise the economic problems which have dogged its neighbours since 1997, they also slowed the economy. In 1999, in an effort to reduce the country's dependence on inward investment and regional exports, the government sought to spur domestic spending in an attempt to encourage local consumers to spend more and save less. Specifically, Beijing introduced longer holidays for consumers in a bid to boost retail sales.

These and other efforts have paid off. Even so, real GDP reached RMB 11.7 trillion by the end of 2003, based on current estimates. And China continues to enjoy official growth in excess of 8% (9% in 2003) - at least twice the rate of most Asian economies.

### Dealing with WTO

Continuing consumer confidence and renewed foreign investor interest in the wake of China's accession to the World Trade Organisation (WTO) will continue to fuel economic growth – though fears persist that the global economic downturn will prompt a recession in China, led by an increasing trade deficit.

China's long-delayed WTO membership has galvanised the country's commercial sector into action. Sectors are restructuring in line with international standards – most of them under pressure to do so by WTO protocols. Increasingly, domestic companies are being forced to modernise or be swallowed up. On the plus side, WTO membership should create a more open commercial market in China in the long term, with greater protection for consumers and a fairer competitive environment. But social costs will be high, as uncompetitive local firms – many of them lumbering SOEs - are forced out of business, leading to large-scale redundancies, public discontent and reduced consumer confidence in the coming years.

The full impact of increased foreign competition in China remains at least two years away – following the liberalisation of sectors under the WTO agreement. But post-WTO enthusiasm is already apparent in rising levels of foreign direct investment (FDI), which reached a record US\$53 billion in 2003. CHECK

In a bid to encourage increased FDI, and as part of the WTO liberalisation programme, the Chinese government has agreed to open up its distribution and logistics sectors – key components for all trade within and outside the country - to greater foreign investment over the next three years. Foreign companies can already hold minority stakes in distribution and logistics ventures: by end-2006, most sectors will be fully open to wholly-owned foreign enterprises (WOFEs).

As these sectors mature and the government continues to invest heavily in communications and infrastructure networks across the country, standards of trade and commerce will improve at a national level. Ultimately, this will strengthen the retail environment, catering more efficiently to growing consumer demand and boosting local spending – and releasing more of China's vast domestic savings into the economy.

## China's New Middle Class

With the removal of the iron rice bowl, China's consumers face greater uncertainty – and opportunities – than ever before. Many have seized their chance, joining an expanding segment of middle-income earners. This fledgling middle class is fast becoming the target of international fast-moving consumer goods (FMCG) firms.

Estimates of the size of China's new middle class vary considerably. Research commissioned by MasterCard International of the US and conducted by Fudan University's School of Management in Shanghai in the first half of 2003 concludes that this middle-class segment - defined as those with annual incomes of at least US\$ 5,000 - numbered around 60 million people in 2002, and would climb sharply to 160 million by 2010.

While this segment may seem small to marketers mesmerised by the illusion of 1.3 billion shoppers, it is set to expand substantially over the next decade. According to the National Bureau of Statistics (NBS), per capita net urban incomes climbed 13.4% to RMB 7,703 (US\$ 928) in 2002, compared with a meagre RMB 500 (US\$ 60) in 1981. Granted, these earnings remain low, and consumers in this segment must balance any expenditure with prudent saving. Yet this group is already making regular purchases of mobile phones, DVD players and personal computers; luxury goods; and educational and child-orientated products. Deutsche Bank puts this consumer group at 100-130 million people – and reckons that another 150 million people can now afford to buy basic consumer necessities.

## Confident Shoppers

Chinese consumers can now choose from an ever-expanding range of product and services from which to choose – and at increasingly affordable prices, thanks to intense market competition. Consumers are responding with more confident spending on big-ticket items such as personal computers, cars, insurance policies and even private housing. WTO is playing its part in this too: in line with WTO accession agreements, auto prices in China have fallen significantly, raising car sales and creating new opportunities in ancillary markets, such as car repair services, retail car parts sales, car parking services, petrol station retailing, valet services and driving insurance.

**Table A.9 GDP AND COST OF LIVING INDEX, 1997–2004**

<i>RMB bn</i>	1997	1998	1999	2000	2001	2002	2003	2004
Total GDP	7,832.77	8,452.83	9,041.54	9,794.62	10,705.51	11,904.72	13,331.87	14,598.39
GDP Growth (%)	9.1	7.9	7.0	8.3	9.3	11.2	12.0	9.5
GDP per capita (RMB)	6,484.62	6,922.09	7,324.86	7,847.55	8,487.99	9,340.45	10,352.03	11,218.81
GDP per capita (US\$)	782.22	836.00	884.65	947.77	1,023.88	1,126.71	1,250.73	1,355.42
Cost of living index (1993=100)	161.80	160.50	158.30	158.90	160.00	160.77	162.70	163.70
Retail price index (1993=100)	149.40	148.50	144.00	141.80	140.70	139.60	139.46	140.46
Real GDP, 1994=100	4,841.03	5,266.56	5,711.62	6,164.02	6,690.96	7,404.81	8,194.14	8,917.77
Real GDP growth	6.1	8.8	8.5	7.9	8.5	10.7	10.7	8.8

Source: Access Asia, China Economic Quarterly, NBS

Growing consumer confidence and sophistication is prompting marketers to explore under-developed (or non-existent) niche markets – such as baby care products, natural health foods and services for the elderly. Thus consumers are increasingly spoiled for choice of new and improved products and services. And more choice creates the potential for increased individualism, creating greater demarcation between consumer groups which marketers can look to target ever more effectively.

For the time being, retail sales continue to drive the consumer market – though consumers are spending more and more on non-retail purchases, such as cars and private accommodation. Retail sales traditionally surge during holiday periods such as the Spring Festival (Chinese New Year), which falls in January/February according to the lunar calendar.

Despite increased consumer spending, increased market competition and the generally cost-conscious tendencies of consumers have helped to slow price inflation in recent years. This has helped to keep the economy from overheating, while giving poorer regions a chance to catch up with more developed areas. Nevertheless, the consumer economy remains largely focused in regional hotspots – principally in the eastern and southern cities - while other parts of the country still lag behind.

### ***A.5.2 Consumer Wealth: Provincial Differences in GDP***

China's immense size and geography have created a series of fragmented economies rather than a unified whole. The fastest-growing economies are the eastern coastal provinces - historically centres for trade, agriculture and industry. It is these regions which have taken the lion's share of FDI and domestic investment in industry and infrastructure over the course of the past decade.

While GDP growth in primary industry (raw materials production and heavy industry) averages just 3% per annum, secondary industry (light industry and manufacturing) is as high as 9% per annum. Furthermore, high-tech industries are growing at more than 20% a year. Tertiary industry (supply and service industries) growth is also strong, at 9% - contributing up to 60% of GDP in major cities such as Beijing.

To aid further development of the tertiary industry in Beijing, the city government increased local residents' income levels by 5% in 2000, stressing development of the retail, tourist, real estate, Internet, insurance, cultural and social service trades.

Shanghai continues to be China's economic powerhouse, leading in many manufacturing and service industries, as well as being China's leading source of export revenue.

**Table 1.10 GDP RANKED BY PROVINCE, 1997–2004**

<b>GDP (RMB bn)</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
Guangdong	784.93	851.58	918.49	1,019.86	1,098.00	1,183.97	1,344.99	1,459.44
Shandong	675.93	729.64	787.70	854.24	943.83	1,093.23	1,243.00	1,351.41
Jiangsu	682.89	737.66	795.87	863.15	951.19	1,097.07	1,245.18	1,346.27
Zhejiang	471.05	507.58	550.93	603.00	670.00	767.00	920.00	999.78
Henan	417.27	446.68	473.42	516.97	564.01	613.78	668.97	732.58
Hebei	405.20	437.22	473.58	513.14	557.78	607.60	665.14	731.07
Shanghai	336.02	368.82	403.50	455.12	495.08	540.88	625.08	729.57
Liaoning	350.88	391.05	424.08	461.75	503.31	545.82	600.25	647.74
Hubei	350.47	377.02	396.36	427.34	466.23	513.79	565.96	625.33
Sichuan	337.50	364.84	381.67	401.03	442.18	487.51	545.63	591.25
Fujian	297.20	328.38	354.72	391.68	425.84	470.11	524.17	580.13
Hunan	292.41	314.32	338.49	365.41	398.30	422.79	463.37	509.29
Heilongjiang	272.32	285.50	298.30	325.80	356.10	401.90	443.30	479.40
Anhui	270.66	285.04	298.16	302.96	329.01	363.85	397.32	439.17
Beijing	189.94	211.49	230.82	255.90	284.57	326.87	361.19	400.93
Jiangxi	174.07	188.35	190.24	199.97	217.57	250.44	283.00	313.27
Guangxi	186.89	192.97	199.59	206.21	223.12	248.02	273.32	285.58
Chongqing	138.55	147.11	153.63	160.53	174.98	201.98	225.01	274.82
Jilin	150.16	162.05	174.32	185.95	203.25	224.30	243.95	263.12
Shaanxi	137.11	143.17	155.65	169.04	184.43	216.28	239.86	260.49
Yunnan	176.96	186.76	191.86	194.81	207.47	222.53	239.52	259.48
Tianjin	123.53	133.64	145.01	163.94	184.01	208.47	238.69	259.30
Shanxi	139.68	151.31	154.72	164.20	178.00	192.76	209.22	228.30
Inner Mongolia	112.12	122.31	131.23	141.04	154.58	165.54	177.80	192.36
Xinjiang	107.59	114.60	120.97	137.42	148.55	156.79	171.07	184.87
Gansu	79.24	88.32	95.51	98.04	107.25	118.17	130.11	144.37
Guizhou	81.04	86.12	94.13	99.72	108.49	118.00	126.09	134.60
Hainan	40.23	43.16	46.83	50.13	54.60	63.19	69.83	74.66
Qinghai	20.93	22.87	25.06	26.87	30.10	34.80	39.02	43.18
Ningxia	21.81	23.62	25.29	27.10	29.84	32.48	35.37	38.74
Tibet	8.20	9.65	11.37	12.30	13.87	14.80	16.45	17.91
<b>TOTAL</b>	<b>7,832.78</b>	<b>8,452.83</b>	<b>9,041.50</b>	<b>9,794.62</b>	<b>10,705.54</b>	<b>11,904.72</b>	<b>13,331.86</b>	<b>14,598.39</b>

Source: Access Asia, China Economic Quarterly, NBS

### A.5.3 Consumer Wealth: GDP Growth by Province

Central-eastern provinces remain in the forefront of economic growth, with provinces such as Hubei and Henan leading in terms of GDP growth over the 1996 to 2002 period, both seeing growth at about 190%. However, more significant growth is now evident in some of the western provinces – notably Tibet, where GDP growth surged by 111% over the same period (albeit from a very low base).

**Table A.11 GDP GROWTH RANKED BY PROVINCE, 1997–2004**

	<i>% growth, 1997-2004</i>
Tibet	118.47
Shanghai	117.12
Zhejiang	112.24
Beijing	111.08
Tianjin	109.91
Qinghai	106.30
Shandong	99.93
Chongqing	98.36
Jiangsu	97.14
Fujian	95.20
Shaanxi	89.98
<b>TOTAL NATIONAL GROWTH</b>	<b>86.38</b>
Guangdong	85.93
Hainan	85.57
Liaoning	84.60
Gansu	82.19
Hebei	80.42
Jiangxi	79.97
Hubei	78.43
Ningxia	77.61
Heilongjiang	76.04
Henan	75.56
Jilin	75.23
Sichuan	75.18
Hunan	74.17
Xinjiang	71.82
Inner Mongolia	71.56
Guizhou	66.09
Shanxi	63.44
Anhui	62.26
Guangxi	52.81
Yunnan	46.63

Source: Access Asia, China Economic Quarterly, NBS

### A.5.4 Consumer Wealth: GDP Per Capita by Province

GDP per capita is the best gauge of how rich each of the provinces are, and in these terms China's three leading industrial cities (Shanghai, Beijing and Tianjin) are the wealthiest. The wealthiest provinces are all regions that have enjoyed the high economic growth - due to receiving the bulk of recent investment - that has created some of the richest people in China.

**Table A.12 PER CAPITA GDP RANKED BY PROVINCE, 2001-2004**

<i>GDP per capita (RMB)</i>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>% growth 2001-2004</b>
Shanghai	36,727.00	39,683.05	45,361.39	52,373.92	42.60
Beijing	19,830.66	22,542.76	24,637.79	27,071.77	36.51
Tianjin	18,327.69	20,722.66	23,493.11	25,101.39	36.96
Zhejiang	14,179.89	16,062.83	19,067.36	20,508.21	44.63
Guangdong	14,094.99	15,040.27	16,909.61	18,161.31	28.85
Jiangsu	13,214.64	15,082.07	16,938.92	18,124.32	37.15
Fujian	12,502.64	13,658.05	15,071.02	16,508.97	32.04
Liaoning	12,311.89	13,209.58	14,373.80	15,352.81	24.70
Shandong	10,623.93	12,176.77	13,699.99	14,742.10	38.76
Heilongjiang	9,724.19	10,859.23	11,852.94	12,682.57	30.42
<b>NATIONAL AVERAGE</b>	<b>8,488.04</b>	<b>9,340.48</b>	<b>10,352.03</b>	<b>11,218.83</b>	<b>32.17</b>
Hebei	8,348.75	8,998.82	9,748.50	10,606.03	27.04
Hubei	7,833.17	8,543.23	9,313.15	10,186.14	30.04
Jilin	7,658.25	8,366.28	9,005.17	9,616.96	25.58
Xinjiang	7,918.44	8,269.51	8,928.50	9,548.83	20.59
Hainan	6,885.25	7,888.89	8,620.99	9,126.62	32.55
Chongqing	5,597.57	6,391.77	7,044.77	8,513.70	52.10
Qinghai	5,766.28	6,590.91	7,307.12	7,996.10	38.67
Inner Mongolia	6,519.61	6,911.90	7,347.11	7,870.64	20.72
Hunan	6,136.19	6,445.95	6,992.15	7,605.91	23.95
Henan	5,913.29	6,367.01	6,867.57	7,443.39	25.88
Jiangxi	5,231.31	5,958.60	6,663.53	7,300.71	39.56
Shaanxi	5,134.47	5,958.13	6,541.04	7,032.58	36.97
Anhui	5,244.86	5,739.86	6,203.28	6,786.75	29.40
Shanxi	5,446.76	5,832.38	6,265.95	6,770.42	24.30
Tibet	5,253.79	5,584.91	6,184.21	6,709.41	27.71
Ningxia	5,300.18	5,708.26	6,151.30	6,667.13	25.79
Sichuan	4,917.48	5,364.33	5,941.09	6,371.20	29.56
Yunnan	4,838.39	5,135.70	5,470.99	5,866.62	21.25
Guangxi	4,704.20	5,174.63	5,643.61	5,837.67	24.10
Gansu	4,062.50	4,427.50	4,822.46	5,294.11	30.32
Guizhou	2,855.75	3,073.72	3,251.42	3,436.30	20.33

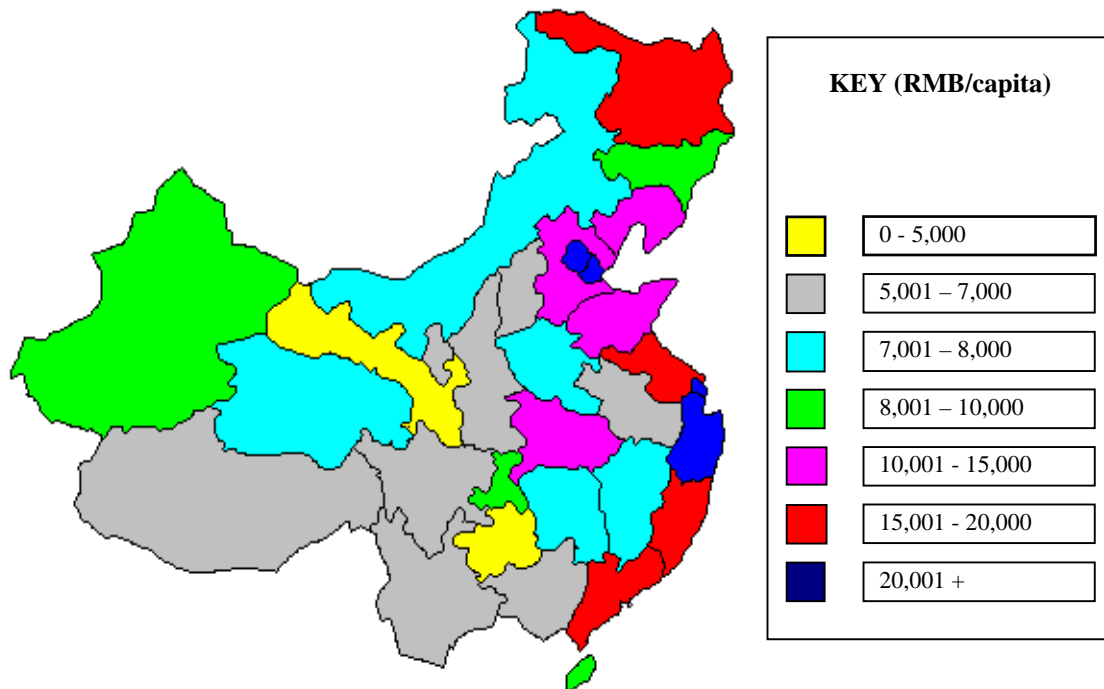
Source: Access Asia, China Economic Quarterly, NBS

### A.5.5 Consumer Wealth: Concentration of Wealth by Province

The concentration of wealth is highest in those areas where economic development is most advanced - in the coastal provinces of eastern and southern China. These regions are significant because these coastal markets also have the highest consumer spending levels and the most developed retail trade environment – as well as the highest population concentration.

Nevertheless, investment is slowly reaching into the Chinese hinterland, generating wealth and creating opportunities in provinces such as Sichuan and Hubei. Tax breaks for foreign investors setting up operations in inland provinces will encourage greater inward investment and enable local economies to gain some momentum.

**Map A.3**      **VALUE OF GDP PER CAPITA BY PROVINCE, 2004**



Source: Access Asia, China Economic Quarterly, NBS

### A.5.6 Consumer Wealth: The Major Cities

Consumers in China's southern and eastern coastal cities spend more than any other segment, with average per capita retail sales exceeding RMB 10,000.

As consumer wealth in major urban market spreads into suburbs and beyond, retailers are following. Local convenience - a frequent sight in suburban districts of Shanghai and Guangzhou - began to proliferate in Beijing in 2003, while Hong Kong fashion retailers have expanded into the satellite towns surrounding major cities. Large-scale, out-of-town shopping complexes are expected to follow, increasingly catering towards consumers with access to private vehicles.

Dramatic increases in the size and number of Chinese cities over the past 20 years have helped push GDP upwards. Urban GDP averaged 18% during the 1988-1996 period alone, with 34 out of 226 cities at the prefecture level or higher registering a GDP of RMB 20 billion (US\$ 2.4 billion) or more.

**Table A.13 LEADING CITIES KEY ECONOMIC INDICATORS, 2004**

	<i>Total population (million)</i>	<i>Total retail sales (RMB bn)</i>	<i>% share of national total</i>	<i>Retail sales per capita (RMB)</i>	<i>Avg. income per capita (RMB)</i>	<i>Per capita retail sales % of avg. income</i>
Chongqing SAM*	32.28	86.85	1.61	2,690.53	8,904.30	30.22
Shanghai SAM*	13.93	291.00	5.39	20,890.52	28,008.02	74.59
Beijing SAM*	14.81	286.29	5.31	19,329.51	15,272.40	126.57
Chengdu (Sichuan)	10.44	70.38	1.30	6,742.37	12,479.25	54.03
Tianjin SAM*	10.33	138.80	2.57	13,441.98	20,492.86	65.59
Shijiazhuang (Hebei)	9.16	35.96	0.67	3,924.37	11,529.16	34.04
Wuhan (Hubei)	7.82	82.75	1.53	10,581.88	11,392.15	92.89
Changchun (Jilin)	7.28	35.96	0.67	4,937.52	4,362.44	113.18
Shenyang (Liaoning)	6.98	75.23	1.39	10,775.19	9,543.96	112.90
Xi'an (Shaanxi)	7.08	44.36	0.82	6,264.43	5,515.55	113.58
Guangzhou (Guangdong)	6.98	143.17	2.65	20,508.10	21,937.21	93.49
Hangzhou (Zhejiang)	6.48	48.86	0.91	7,544.40	17,323.74	43.55
Harbin (Heilongjiang)	10.23	58.61	1.09	5,731.26	8,700.87	65.87
Nanjing (Jiangsu)	5.84	61.37	1.14	10,508.28	13,569.36	77.44
Dalian (Liaoning)	5.84	63.77	1.18	10,919.58	11,771.18	92.77
Jinan (Shandong)	5.74	46.20	0.86	8,050.40	7,192.72	111.92
Qingdao (Shandong)	7.42	34.31	0.64	4,626.54	6,955.70	66.51
Zhengzhou (Henan)	6.38	38.34	0.71	6,014.02	11,516.16	52.22
Kunming (Yunnan)	4.16	24.26	0.45	5,828.18	12,800.29	45.53
Changsha (Hunan)	6.14	33.26	0.62	5,415.27	12,087.22	44.80
Nanning (Guangxi)	3.12	17.51	0.32	5,609.51	11,426.15	49.09
Shenzhen (Guangdong)	2.08	57.90	1.07	27,819.01	21,012.11	132.40
Xiamen (Fujian)	1.45	23.49	0.44	16,142.02	16,365.65	98.63
Haikou (Hainan)	0.64	9.70	0.18	15,248.63	11,261.13	135.41
<b>Cities total/average</b>	<b>192.61</b>	<b>1,808.37</b>	<b>33.51</b>	<b>9,388.70</b>	<b>12,898.41</b>	<b>72.79</b>
<b>National total/average</b>	<b>1,312.75</b>	<b>5,395.76</b>	<b>100.00</b>	<b>4,110.28</b>	<b>12,225.00</b>	<b>33.62</b>

Source: Access Asia, China Economic Quarterly, NBS

Note\*: Self Administered Municipality (with provincial status)



## A.6 Households

### *A.6.1 Households: Overview of Household Conditions*

Living space has always been a crucial concern in China's densely populated cities. Not only does it provide sanctuary from crowded city streets; it also provides room for China's increasingly materialistic and house-proud urban consumers.

Of the three major cities of Beijing, Guangzhou and Shanghai, it is the residents of Guangzhou who enjoy the greatest living space – with a per-capita average of 67.9 square metres (730 square feet) per household and 20 square metres. The central government's One Child Policy means that such households tend to be three-person, nuclear families – though extended families spanning three generations continue to make up a significant proportion of the urban community.

Home ownership also varies widely from city to city. In Beijing, as many as 61% of residents live in apartments they do not own. Yet, in Guangzhou, as many as 57% of residents live in housing owned by the resident, whilst in Shanghai, the mix between public and private housing ownership is approximately 50:50.

Government housing reform continues to encourage private ownership and it is expected that an increasing proportion of urban residents will buy their own apartments, either from the government, their employers or real estate developers, over the coming years. About 17% of urban residents have indicated in surveys that they intend to buy an apartment over the short-term. Yet ignorance about buying property remains high. More than 86% of urban residents have been unable to name any real-estate company in surveys, and much confusion remains regarding the process of applying for a mortgage and the red tape connected with buying a property.

Overpopulation in the cities has placed a strain on drainage and toilets – traditionally public facilities. While communal and public toilets remain the norm, this trend is changing: households with toilets make up just 3.3% of Beijing households, with the figure rising to 9.1% in Shanghai and 11.8% in Guangzhou. Continuing improvements in public housing mean that more and more households are equipped with their own toilets and bathrooms.

In an interesting sign of priorities in modern China, households with home telephones but *without* toilets constitute 8.1% of all households in Shanghai, 6.6% in Beijing and 2.7% in Guangzhou.

## A.6.2 Households: Total Households by Size

The number of households in China is climbing in proportion to overall population growth. Urban households, which traditionally contained several generations and extended family members, are evolving into smaller units.

**Table A.14** NUMBER OF HOUSEHOLDS BY SIZE, 1997–2004

<i>Households million</i>	1997	1998	1999	2000	2001	2002	2003	2004
One person households	18.32	18.88	20.96	22.70	24.59	26.50	27.16	29.12
Two person households	35.09	36.02	40.01	43.29	46.87	50.50	51.75	55.49
Three person households	80.01	81.54	89.43	95.55	102.66	110.14	112.16	119.74
Four person households	79.22	80.49	87.99	93.74	100.35	107.63	109.48	116.78
Five person households	51.24	51.84	56.29	59.73	63.63	68.33	69.39	73.94
Six person households	24.30	24.58	26.84	28.45	30.37	32.60	33.13	35.32
Seven person households	11.18	11.25	12.25	12.95	13.81	14.79	15.01	15.98
Eight or more households	9.44	9.53	10.41	10.98	11.75	12.58	12.77	13.60
<b>TOTAL</b>	<b>308.79</b>	<b>314.13</b>	<b>344.18</b>	<b>367.40</b>	<b>394.03</b>	<b>423.07</b>	<b>430.86</b>	<b>459.99</b>

Source: Access Asia, NBS

There are three main reasons for the increase in households. First, rising incomes give young couples and groups of friends greater spending power. Second, China's increasingly independent twenty-somethings are keener to fly the family nest than their parents were, and have less compunction about spending money on their own accommodation in order to achieve this. Third, the government is forcing the state-run commercial banks to offer increasingly attractive mortgage policies to upwardly mobile urban consumers in a bid to develop the residential property sector – and tap the immense market potential of state-owned housing.

As a result, three-person households - typically two parents and one child - are becoming the norm. However, four-person households - young married couples living with one set of parents while waiting for affordable, separate accommodation - still make up a significant proportion.

The implications for consumer goods firms are positive. More households means a larger market for household consumer products such as white goods, televisions, consumer electronics and home furnishings.

## A.6.3 Households: Total households by Urban/Rural Split

While households are shrinking in size but growing in number in the cities, the traditional household unit remains largely intact in the countryside. Rural households tend to have more space, while the cohesive nature of the agricultural work lends itself to keeping extended families together. By contrast, urban households are both restricted by space and have little need for family co-operation in work.

Nevertheless, rural households are also shrinking gradually – though for different reasons. The migration of job seekers from poorer rural regions to relatively affluent cities is not only reducing rural household size but also creating mounting pressure on urban housing supply. Local governments have responded by launching suburban housing programmes for established city dwellers whose space in the city centres is increasingly being occupied by migrant working communities.

The emergence of new suburban districts populated by comparatively well-off urban residents creates considerable opportunities for retailers and other service providers - leisure activity centres, taxi companies, launderettes, to name but a few - to extend their chains of businesses into these new areas.

**Table A.15 NUMBER AND SIZE OF HOUSEHOLDS BY LOCATION, 1997–2004**

<i>Million households</i>	1997	1998	1999	2000	2001	2002	2003	2004
Urban households	125.73	133.66	150.95	166.34	181.34	198.46	205.95	223.01
Rural households	183.02	180.47	193.26	200.96	212.60	224.57	224.87	236.92
Urban household average size	3.24	3.12	2.84	2.65	2.50	2.33	2.30	2.17
Rural household average size	4.37	4.45	4.17	4.02	3.81	3.62	3.63	3.45

Source: Access Asia, NBS

### *A.6.4 Households: Income Earners Per Household*

The reduction in household size has reduced the number of wage earners per household unit. Most urban households now have just two adults earning wages – typically “Dinkys” (double income, no kids). In rural areas, where whole families are involved in the planting and harvesting of crops and the rearing, slaughter and sale of livestock, all adult members are considered to be wage earners.

**Table A.16 AVERAGE NUMBER OF INCOME EARNERS PER HOUSEHOLD, 1997–2004**

<i>Persons</i>	1997	1998	1999	2000	2001	2002	2003	2004
Urban	1.92	1.83	1.65	1.53	1.45	1.35	1.33	1.26
Rural	2.56	2.56	2.39	2.29	2.17	2.04	2.03	1.92
TOTAL AVERAGE	2.30	2.25	2.07	1.95	1.84	1.72	1.70	1.60

Source: Access Asia, NBS

## A.7 Employment

### *A.7.1 Employment: Number of Workers by Sector*

The agricultural sector remains the most significant employer in China, with over half of all working Chinese employed in agriculture, animal husbandry, forestry or fisheries.

**Table A.17 NATIONAL EMPLOYMENT BY SECTOR, 1997–2004**

<i>Million workers</i>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
Agriculture, forestry & fisheries	353.39	360.86	365.33	363.56	363.14	366.24	367.74	367.65
Manufacturing	113.11	101.22	99.35	98.47	99.83	94.30	91.35	90.39
Wholesale, retail & catering trade	57.60	56.63	57.95	57.23	58.51	61.07	62.21	63.17
Construction	40.33	39.58	40.55	41.95	43.72	43.53	44.13	45.34
Transport, storage, post & telecoms	25.41	24.92	25.18	25.18	25.51	25.97	26.18	26.44
Education, culture & the media	17.82	18.24	18.25	18.15	18.28	18.75	18.98	19.12
Government & social agencies	12.55	12.78	12.87	12.83	12.89	13.16	13.29	13.37
Service sector	14.46	14.79	15.32	15.20	16.18	16.85	17.28	17.85
Mining & quarrying	9.44	8.14	7.64	6.94	6.62	6.07	5.54	5.03
Health, sports & social welfare	5.67	5.82	5.88	5.93	6.07	6.21	6.31	6.42
Banking & insurance	3.88	3.97	4.13	4.11	4.27	4.44	4.56	4.66
Utilities (water, gas & electricity)	3.19	3.31	3.31	3.31	3.33	3.44	3.49	3.53
Scientific research	2.15	2.10	2.04	2.03	1.98	2.01	1.98	1.97
Water conservancy	1.42	1.43	1.29	1.22	1.20	1.16	1.10	1.05
Real estate	1.13	1.22	1.24	1.28	1.38	1.41	1.46	1.53
Others	48.60	52.37	51.34	58.24	61.03	62.28	64.93	68.77
<b>TOTAL</b>	<b>710.16</b>	<b>707.37</b>	<b>711.68</b>	<b>715.63</b>	<b>723.94</b>	<b>726.90</b>	<b>730.51</b>	<b>736.28</b>

Source: Access Asia, NBS

The manufacturing sector, China's second largest employer, declined sharply between 1994 and 1997 with the closure of many bankrupt SOEs. Subsequent recovery was based largely on the creation of a new generation of manufacturing companies – many of them privately-run enterprises.

China's retail and wholesale trade sector has flourished with the expansion of the consumer market, creating many more jobs in the sector – particularly as modern trade – notably supermarkets, hypermarkets and convenience-store chains – has taken off in major cities across the country.

Steady economic growth has also been good for the construction industry, with massive infrastructure programmes underway in cities and towns across China. The fast-growing construction sector is largely fuelled by the tens of millions migrant rural workers who have moved into the cities in search of lucrative work.

### *A.7.2 Employment: Growth by Sector*

China's service sector has seen the most significant increase in employment figures over the last decade as a growing consumer market raises demand for new service industries. New service sectors since the mid-1990s include: estate agents, personal and home insurance; household repair and decoration; car repair and servicing; private childcare; laundry services and even domestic cleaning services.

**Table A.18 GROWTH IN EMPLOYMENT BY SECTOR, 1997–2004**

	<i>% growth, 1997-2004</i>
Agriculture, forestry & fisheries	4.04
Manufacturing	-20.09
Wholesale, retail & catering trade	9.67
Construction	12.40
Transport, storage, post & telecoms	4.06
Education, culture & the media	7.29
Government & social agencies	6.54
Service sector	23.44
Mining & quarrying	-46.74
Health, sports & social welfare	13.11
Banking & insurance	19.95
Utilities (water, gas & electricity)	10.64
Scientific research	-8.43
Water conservancy	-25.79
Real estate	35.18
Others	41.51
<b>TOTAL</b>	<b>3.68</b>

Source: Access Asia, NBS

New service-orientated businesses have helped to take millions of laid-off manufacturing workers out of the jobless ranks, while women have also benefited particularly from the growth in new service-sector jobs.

Furthermore, fiercer competition in existing services such as retail banking has created more job opportunities. China's leading consumer banks have embarked on an all-out rush to expand their chains of branches- thus fuelling employment.

### ***A.7.3 Employment: Number of Workers by Gender***

China has roughly just under twice as many men in its workforces as it does women. This proportion has remained more or less steady over the past two decades, despite radical reforms in the employment market following the abandonment of the "job for life" policy, or "iron rice bowl".

**Table A.19 TOTAL NATIONAL WORKFORCE BY GENDER, 1997–2004**

<i>Million workers</i>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
Males employed	445.98	450.56	446.03	461.80	462.00	464.54	467.64	474.09
Male workers as a % of total	62.80	63.69	62.67	64.53	63.82	63.91	64.02	64.39
Females employed	264.18	256.81	265.65	253.83	261.94	262.36	262.87	262.23
Female workers as a % of total	37.20	36.31	37.33	35.47	36.18	36.09	35.98	35.62
<b>TOTAL</b>	<b>710.16</b>	<b>707.37</b>	<b>711.68</b>	<b>715.63</b>	<b>723.94</b>	<b>726.90</b>	<b>730.51</b>	<b>736.28</b>

Source: Access Asia, NBS

The closure of many debt-ridden manufacturing SOEs has raised unemployment and increased pressure on the government to provide re-employment and training programmes. Amongst the millions of laid-off workers forced to adapt to working in new sectors, women have found this task easier than men – notably in the service sectors. Women also find that

their more nimble fingers have been a particular benefit to them in the high-tech industries.

By contrast, men are tending to stay in the manufacturing sector, only shifting from making one type of product to making another. However, many men, especially older men, less able to adapt to new manufacturing processes, are finding work in the retail and wholesale sectors.

### ***A.7.3 Employment: Number of Workers by Habitation***

China's economy is becoming increasingly urbanised. Employment in the cities rose to more than 38.08% of the total rate in 2004 compared with 33.96% in 1997. The two principal factors driving this trend are the migration of unprecedented numbers of rural workers to urban areas and the fact that most new industry is being set up in cities rather than in the countryside.

This shift has raised concerns in the central government, which is attempting to redress the growing imbalance by providing tax breaks and other incentives for both domestic and foreign companies to invest in rural regions – particularly in the interior.

**Table A.20 NATIONAL WORKFORCE BY HABITATION, 1997–2004**

<i>Million workers</i>	1997	1998	1999	2000	2001	2002	2003	2004
Urban employed	241.14	244.72	249.69	255.03	263.34	268.45	273.48	280.41
% of total	33.96	34.60	35.08	35.64	36.38	36.93	37.44	38.08
Rural employed	469.02	462.65	461.99	460.60	460.59	458.45	457.03	456.05
% of total	66.04	65.40	64.92	64.36	63.62	63.07	62.56	61.94
TOTAL	710.16	707.37	711.68	715.63	723.94	726.90	730.51	736.28

Source: Access Asia, NBS

Such measures are expected to prove ineffective in the short term, and China's massive migration towards the cities will continue for many years to come. Heightened pressure on urban job and housing markets is inevitable – a phenomenon which will increasingly deprive the rural economy of farm workers. Should this depletion of the rural workforce reach crisis levels, the government will be forced to take radical measures, such as sending unemployed urban workers out into the countryside to help make-up shortfalls in rural manpower.

### ***A.7.4 Employment: Urban Unemployment***

Official estimates put urban unemployment in 2004 at just over 10 million, or 3.59% of the working population. Yet this figure is widely believed to be a gross underestimation, since it largely overlooks the fact that most migrant workers are not continuously employed, spending much of the year out of work.

Independent estimates of urban unemployment in major cities rise into double figures, with joblessness across China's three north-eastern provinces – traditional centres for inefficient state-owned enterprises – thought be more than 20%. Overall, unemployment and underemployment across the country could be as high 270 million.

**Table A.21      URBAN UNEMPLOYMENT RATES, 1997–2004**

	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
Million workers unemployed	7.03	7.08	7.18	7.68	8.14	9.45	9.15	10.07
Urban unemployment Rate	2.91	2.89	2.87	3.01	3.09	3.52	3.35	3.59

Source: Access Asia, NBS

While the closure of failing SOEs is partly responsible for the sharp growth in national unemployment figures, the unemployment problem has its roots in the countryside. Agricultural reforms since the late 1970s have contributed to a growing number of underemployed farmhands – sparking the unprecedented exodus to the cities since the 1990s.

The main problem is not a shortage of manual labour work, of which there is plenty, but the surplus of unskilled labour. In industries where a more skilled workforce is required, there are shortages of staff in sectors such as high-tech and at the management level in most industrial sectors. The government has attempted to introduce several retraining schemes for laid-off workers, but these have had limited success, and the retraining programmes for the unemployed remain inadequate and scarce.

## A.8 Consumer Income

### *A.8.1 Consumer Income: Average Incomes by Sector*

Average wages across the board have grown by an impressive 89% since 1997. This in turn has had a profound impact on the consumer market - and the cost of employment. Employees in high-paying sectors such as utilities, banking and insurance, real estate and scientific research enjoy average salaries of well over RMB 17,000 per annum.

**Table A.22 AVERAGE INCOMES BY SECTOR, 1997–2004**

<i>RMB per capita, per annum</i>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
Utilities (water, gas & electricity)	9,649	10,478	12,088	13,629	15,864	17,065	17,935	17,936
Banking & insurance	9,734	10,633	11,993	13,504	15,701	16,872	17,720	17,721
Real estate	9,190	10,302	11,605	13,069	15,198	16,333	17,156	17,157
Scientific research	9,049	10,241	11,525	13,036	15,217	16,407	17,271	17,272
Transport, storage, post & telecoms	8,600	9,808	11,083	12,528	14,616	15,751	16,576	16,577
Health, sports & social welfare	7,599	8,493	9,604	10,847	12,644	13,617	14,323	14,324
Service sector	7,553	8,333	9,475	10,682	12,433	13,373	14,054	14,055
Government & social agencies	6,981	7,773	8,702	9,763	11,318	12,130	12,717	12,718
Water conservancy	7,160	7,951	8,744	9,714	11,164	11,876	12,385	12,386
Education, culture & the media	6,759	7,474	8,325	9,304	10,749	11,487	12,018	12,019
Mining & quarrying	6,833	7,242	8,309	9,263	10,679	11,392	11,903	11,904
Construction	6,655	7,456	8,254	9,184	10,571	11,259	11,752	11,753
Manufacturing	5,933	7,064	7,749	8,698	10,085	10,811	11,336	11,337
Wholesale, retail & catering trade	4,845	5,865	6,399	7,185	8,334	8,938	9,373	9,374
Agriculture, forestry & fisheries	4,311	4,528	5,266	5,901	6,833	7,316	7,664	7,665
Others	6,838	8,481	9,203	10,282	11,877	12,690	13,275	13,276
<b>NATIONAL AVERAGE</b>	<b>5,388</b>	<b>6,014</b>	<b>6,771</b>	<b>7,621</b>	<b>8,855</b>	<b>9,481</b>	<b>9,944</b>	<b>9,945</b>

Source: Access Asia, NBS

Average wages in the manufacturing sector, however, have remained significantly below the national average wage. This has at least helped the Chinese manufacturing economy remain competitive in the worldwide market, fuelling huge export-led sector growth.

By contrast, average wages in the services sector have enjoyed steady growth, climbing to just over RMB 14,000 by end-2003. This stems in part from growing consumer demands for better service standards and the consequent need for service providers to invest more in staff training and incentive schemes. Nevertheless, stiff competition for jobs in retailing are keeping wages in this sector relatively low.



### A.8.2 Consumer Income: Growth by Sector

Rapid economic growth over the past decade has highlighted the need to upgrade and expand China's infrastructure in a bid to help maintain economic momentum. New and growing industries need an effective transport, utility and communication networks in order to develop further.

The government has therefore invested heavily in these sectors since the start of the Ninth Five-Year Plan, China's economic blueprint for 1996-2000. The Tenth Five-Year Plan (2001-2005) continues to emphasise the need for a developed infrastructure, with the launch of several key transportation projects aimed at establishing truly national road, rail and air networks. The push for new infrastructure has created new jobs and raised average wages as more and better-qualified engineers and staff are taken on to help complete the government projects in the allotted time.

**Table A.23      GROWTH IN AVERAGE INCOMES BY SECTOR, 1997-2004**

	<i>% growth 1997-2004</i>
Utilities (water, gas & electricity)	85.88
Banking & insurance	82.06
Real estate	86.69
Scientific research	90.87
Transport, storage, post & telecoms	92.75
Health, sports & social welfare	88.50
Service sector	86.09
Government & social agencies	82.18
Water conservancy	72.99
Education, culture & the media	77.82
Mining & quarrying	74.21
Construction	76.61
Manufacturing	91.08
Wholesale, retail & catering trade	93.49
Agriculture, forestry & fisheries	77.81
Others	94.15
NATIONAL AVERAGE	84.57

Source: Access Asia, NBS

### A.8.3 Consumer Income: Average Incomes by Region

Not surprisingly, average annual wages tend to be highest in the main cities down China's eastern seaboard, where economic development is greatest. Yet average wages in the western regions are also surprisingly high, thanks largely to two factors. First, numerous well-paid jobs exist in mineral and fuel oil extraction. Second, these regions are perceived as hardship placements for many Han Chinese, who receive compensation for being posted here in the form of comparatively higher wages.

**Table A.24 AVERAGE INCOMES BY REGION, 1997–2004**

<i>RMB per capita, per annum</i>	1997	1998	1999	2000	2001	2002	2003	2004
Shanghai	12,363.62	14,546.69	16,336.64	18,296.91	20,006.65	21,420.04	24,376.00	28,008.02
Tianjin	10,117.77	12,152.86	13,566.50	15,246.66	16,671.37	17,849.13	20,490.80	20,492.86
Beijing	7,894.41	8,921.78	9,695.53	11,709.43	12,803.61	13,708.13	15,270.86	15,272.40
Zhejiang	7,059.48	7,728.09	8,223.06	11,008.12	12,036.77	12,887.11	14,498.00	14,499.46
Guangdong	7,457.17	8,129.79	9,208.70	10,633.60	12,058.44	12,246.83	13,618.47	13,619.84
Hainan	6,814.57	6,975.26	7,818.27	8,914.79	9,747.82	10,436.46	11,448.80	11,449.95
Fujian	5,838.40	6,589.15	7,329.86	8,174.84	9,282.13	10,108.24	11,017.98	11,019.09
Jiangsu	5,300.25	6,103.65	6,759.40	7,480.22	8,406.31	9,000.18	10,188.20	10,189.22
Chongqing	4,665.19	5,088.72	5,530.47	6,802.55	7,438.21	7,963.69	8,903.40	8,904.30
<b>National average</b>	<b>4,912.85</b>	<b>5,483.95</b>	<b>6,173.91</b>	<b>6,948.49</b>	<b>7,597.79</b>	<b>8,134.54</b>	<b>8,531.45</b>	<b>8,532.31</b>
Hunan	4,284.01	4,527.13	5,334.55	6,537.44	7,148.33	7,653.33	8,441.62	8,442.47
Shandong	5,597.53	6,168.77	6,627.79	7,139.00	7,811.21	8,375.95	8,160.24	8,161.06
Liaoning	3,888.11	4,137.40	5,203.95	6,129.51	6,702.28	7,175.77	7,965.10	7,965.90
Guizhou	3,884.43	4,214.92	4,435.25	5,571.92	6,092.59	6,523.00	6,998.74	7,864.47
Sichuan	4,201.23	4,582.79	5,007.62	6,212.93	6,793.50	7,273.43	7,746.20	7,746.98
Jiangxi	4,315.14	4,857.99	5,092.25	5,948.89	6,504.78	6,964.31	7,591.10	7,591.86
Shaanxi	3,952.92	4,324.85	4,943.50	5,948.86	6,504.75	6,964.28	7,486.60	7,487.35
Anhui	4,450.53	4,909.85	4,923.86	5,666.12	6,195.58	6,633.27	7,455.80	7,456.55
Jilin	3,841.28	4,478.31	4,798.50	5,373.46	5,875.58	6,886.18	7,413.26	7,414.00
Qinghai	4,109.77	4,549.94	4,958.56	5,825.55	6,369.91	6,819.92	7,405.07	7,405.81
Heilongjiang	3,575.61	3,881.82	4,946.05	5,731.23	6,266.78	6,709.50	7,346.90	7,347.64
Gansu	4,173.43	4,436.67	4,843.74	5,780.12	6,320.24	6,766.74	7,322.96	7,323.70
Hebei	4,404.57	4,749.18	5,286.34	6,020.88	6,583.50	6,709.41	7,159.42	7,160.14
Guangxi	3,682.91	3,876.32	4,139.15	5,084.95	5,560.11	5,952.91	6,339.85	6,340.49
Hubei	2,500.39	2,691.32	3,016.27	3,503.21	3,830.57	4,101.18	4,380.53	4,380.97
Ningxia	1,850.13	2,018.86	2,177.00	2,616.07	2,860.53	3,062.61	3,291.58	3,291.91
Shanxi	1,795.33	1,951.45	2,074.60	2,334.69	2,552.85	2,733.20	2,901.06	2,901.35
Inner Mongolia	1,688.93	1,881.03	2,055.84	2,298.65	2,513.44	2,691.01	2,890.61	2,890.90
Xinjiang	1,659.71	1,818.76	1,979.33	2,177.70	2,381.19	2,549.41	2,730.23	2,730.50
Henan	1,290.78	1,434.52	1,469.24	1,712.41	1,872.42	2,004.70	2,140.08	2,140.30
Tibet	1,044.94	1,117.94	1,119.17	1,550.09	1,694.94	1,814.68	1,982.38	1,982.58
Yunnan	1,163.33	1,296.57	1,311.41	1,526.67	1,669.33	1,787.26	1,924.66	1,924.85

Source: Access Asia, NBS

### A.8.4 Consumer Income: Growth by Region

Wage increases tend to be fastest in the more developed and industrialised areas of coastal China – notably Zhejiang and Shanghai – as well as the wealthier agricultural provinces of Heilongjiang in the northeast and Sichuan in the centre of the country.

Efforts to attract skilled workers to western China have pushed up salaries in these regions too. While most of the highly paid jobs in these regions are in oil or mineral extraction, other industries are also emerging. These include specialised agricultural enterprises, such as fruit growing farms in Xinjiang and dairy herds in Tibet and Qinghai.

**Table A.25 GROWTH IN AVERAGE INCOMES BY REGION, 1997–2004**

	<i>% growth, 1997-2004</i>
Shanghai	126.54
Heilongjiang	105.49
Zhejiang	105.39
Liaoning	104.88
Tianjin	102.54
Guizhou	102.46
Hunan	97.07
Beijing	93.46
Jilin	93.01
Jiangsu	92.24
Chongqing	90.87
Tibet	89.73
Shaanxi	89.41
Fujian	88.73
Sichuan	84.40
Guangdong	82.64
Qinghai	80.20
Ningxia	77.93
Jiangxi	75.94
Gansu	75.48
Hubei	75.21
<i>National average</i>	<b>73.67</b>
Guangxi	72.16
Inner Mongolia	71.17
Hainan	68.02
Anhui	67.54
Henan	65.81
Yunnan	65.46
Xinjiang	64.52
Hebei	62.56
Shanxi	61.61
Shandong	45.80

Source: Access Asia, NBS

## A.9 Consumer Market

### A.9.1 Consumer Market: Spending Trends

Total consumer expenditure surged 64.16% between 1998 and 2004, rising to RMB7.87trn (US\$950.48bn). Of this, 41.19% went towards food products and services in 2004 - down from 48.01% in 1997. (This figure includes institutional spending, as well as the purchasing of the distributive trades.)

Increasing consumption across the board reflects robust economic growth in China – even if the social costs of this development (soaring unemployment, frequent public protests and a widening wealth gap) are a growing source of worry for the government.

**Table A.26 CONSUMER EXPENDITURE\* BY BROAD SECTOR AT CURRENT PRICES, 1997–2004\***

<i>RMB bn, current prices</i>	1997	1998	1999	2000	2001	2002	2003	2004
Food	2,153.25	2,223.67	2,300.46	2,449.80	2,678.60	2,814.83	3,054.05	3,240.24
Medicines & healthcare	168.49	203.21	240.10	280.43	314.45	356.53	394.94	431.35
Clothing and footwear	625.00	604.21	586.56	636.24	692.25	710.21	766.57	810.70
Household durable goods	344.01	403.21	471.49	493.10	544.37	599.65	652.30	692.80
Transport & communication	229.43	267.82	307.34	345.69	389.73	433.53	478.44	518.28
Education & entertainment	432.54	508.04	585.39	659.83	739.25	825.49	911.57	990.59
Housing	335.94	405.16	478.96	530.10	597.92	669.15	738.30	801.23
Services	196.21	217.68	240.83	266.22	295.49	323.06	354.77	381.91
<b>TOTAL</b>	<b>4,484.87</b>	<b>4,832.99</b>	<b>5,211.12</b>	<b>5,661.41</b>	<b>6,252.08</b>	<b>6,732.45</b>	<b>7,350.93</b>	<b>7,867.10</b>

Source: NBS, Access Asia, China Economic Quarterly

Note\*: Includes institutional spending and expenditure by distributive trades

The fastest growing sectors over the 1997-2004 period are, in order: medicine and healthcare (156.01%); housing (138.50%); education and entertainment (129.02%); transport and communications (125.90%); household durable goods (101.39%); services (94.64%); food (50.48%); and clothing and footwear (29.71%).

### A.9.2 Consumer Market: Per Capita Consumer Expenditure

Per capita spending trends broadly match those for total consumer spending. Significantly, annual per capita expenditure (including institutional spending) in China reached RMB 6,045.84 (US\$ 730.44) in 2004 – up by 62.83% on its value in 1997. This growth underlines the strength of the consumer economy at present.

**Table A.27 PER CAPITA CONSUMER EXPENDITURE\* BY BROAD SECTOR AT CURRENT PRICES, 1997–2004**

<i>RMB per capita, current prices</i>	1997	1998	1999	2000	2001	2002	2003	2004
Food	1,782.64	1,820.98	1,863.68	1,962.81	2,123.76	2,208.52	2,371.43	2,490.12
Medicines & healthcare	139.49	166.41	194.51	224.68	249.32	279.73	306.66	331.49
Clothing and footwear	517.43	494.79	475.19	509.76	548.86	557.23	595.23	623.02
Household durable goods	284.80	330.19	381.97	395.07	431.61	470.48	506.50	532.41
Transport & communication	189.94	219.32	248.98	276.97	309.00	340.15	371.51	398.30
Education & entertainment	358.09	416.04	474.24	528.66	586.13	647.68	707.83	761.27
Housing	278.12	331.79	388.02	424.72	474.07	525.02	573.28	615.74
Services	162.44	178.26	195.11	213.30	234.29	253.47	275.47	293.50
<b>TOTAL</b>	<b>3,712.94</b>	<b>3,957.78</b>	<b>4,221.71</b>	<b>4,535.98</b>	<b>4,957.03</b>	<b>5,282.28</b>	<b>5,707.91</b>	<b>6,045.84</b>

Source: NBS, Access Asia, China Economic Quarterly

Note\*: Includes institutional spending and expenditure by distributive trades

### A.9.3 Consumer Market: Retail Sales and Consumer Spending

Consumer expenditure has continued to grow strongly, overtaking retail sales in terms of overall rate of growth. From 1997 to 2004, retail sales climbed 88.47%, while consumer spending grew by 62.83%. Although consumer spending on retail purchases has increased rapidly, so has spending on non-retail items such as housing, utilities and transport.

**Table A.28 RETAIL SALES AS A PROPORTION OF CONSUMER EXPENDITURE\*, 1997–2004**

<i>RMB bn, current prices</i>	1997	1998	1999	2000	2001	2002	2003	2004
Consumer expenditure	3,712.94	3,957.78	4,221.71	4,535.98	4,957.03	5,282.28	5,707.91	6,045.84
% change	20.23	7.76	7.82	8.64	10.43	7.68	9.19	7.02
Retail sales	2,858.26	3,022.17	3,211.42	3,521.57	3,800.78	4,321.53	4,759.02	5,386.87
% change	9.46	5.73	6.26	9.66	7.93	13.70	10.12	13.19
Retail sales % of expenditure	76.98	76.36	76.07	77.64	76.67	81.81	83.38	89.10

Source: NBS, Access Asia, China Economic Quarterly

Note\*: Includes institutional spending and expenditure by distributive trades

### A.9.4 Consumer Market: Urban Income and Spending Compared

Urban spending continued to grow strongly up to the end of 2001, though growth dipped in 1998 in response to the regional economic crisis that year. But although incomes have continued to grow rapidly, overall spending has generally decreased as a proportion of income – suggesting that consumers are now saving more than in the past. This tendency to save more is surprising, giving an increased willingness on the part of many (mostly urban) consumers to dip into their savings and buy big-ticket items.

**Table A.29 URBAN AVERAGE ANNUAL INCOME/EXPENDITURE, 1997–2004**

<i>RMB per capita, current prices</i>	1997	1998	1999	2000	2001	2002	2003	2004
Avg. household income	12,391.58	13,543.25	14,001.00	14,843.53	16,269.66	16,289.73	16,859.15	15,917.87
Avg. household expenditure	12,024.29	12,599.04	12,266.16	12,346.25	12,580.35	12,485.56	13,247.79	13,143.49
Expenditure as a % of income	97.04	93.03	87.61	83.18	77.32	76.65	78.58	82.57

Source: NBS, Access Asia, China Economic Quarterly

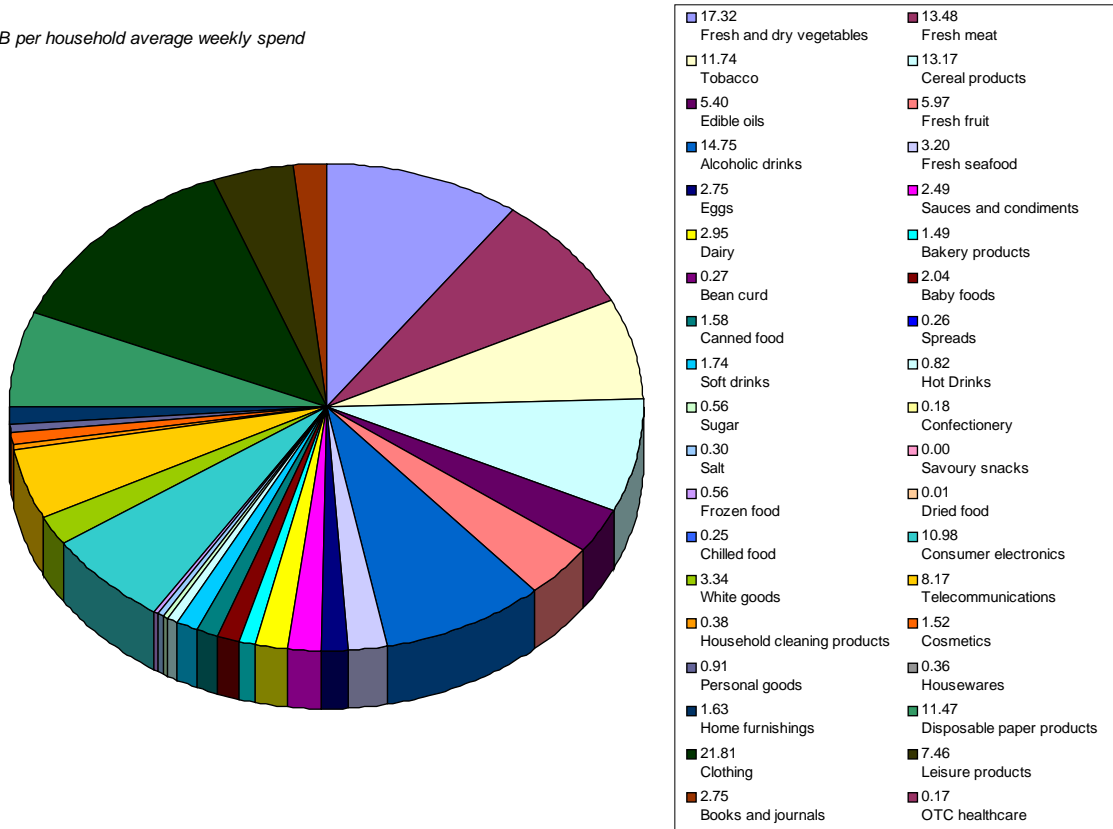
Many households are now putting money away into savings in order to build deposits for future purchases: a new car, a new apartment or private education for children. Money is even being invested in less secure ways, such as in company stock.

Yet incomes in China's largest cities remain far ahead of average urban incomes. In 2002, the average annual wage in Shanghai was RMB 28,008, while in Beijing it stood at RMB 15,272, in Guangzhou, RMB 21,937, and in Tianjin, RMB 20,493.

## A.9.5 Consumer Market: Average Urban Weekly Shopping Basket

**Chart A.1** AVERAGE WEEKLY URBAN SHOPPING BASKET, 2004

RMB per household average weekly spend

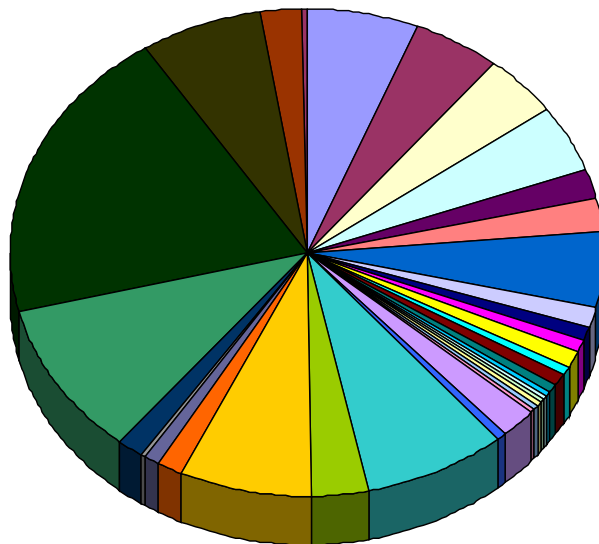


Source: Access Asia

## A.9.6 Consumer Market: Average Rural Weekly Shopping Basket

Chart A.2 AVERAGE WEEKLY RURAL SHOPPING BASKET, 2004

RMB per household average weekly spend



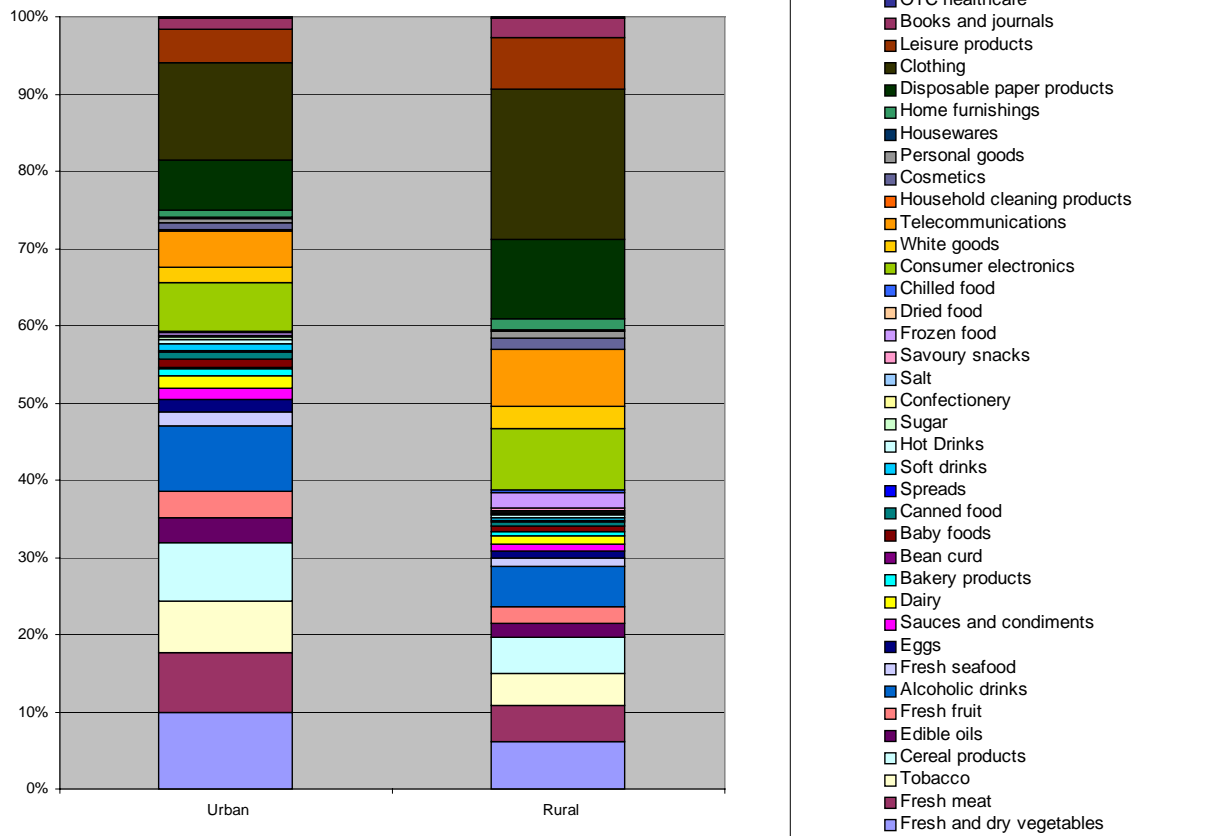
6.85	Fresh and dry vegetables	5.33	Fresh meat
4.64	Tobacco	5.21	Cereal products
2.14	Edible oils	2.36	Fresh fruit
5.84	Alcoholic drinks	1.27	Fresh seafood
1.09	Eggs	0.99	Sauces and condiments
1.17	Dairy	0.59	Bakery products
0.11	Bean curd	0.81	Baby foods
0.62	Canned food	0.10	Spreads
0.44	Soft drinks	0.33	Hot Drinks
0.22	Sugar	0.37	Confectionery
0.12	Salt	0.33	Savoury snacks
2.21	Frozen food	0.18	Dried food
0.37	Chilled food	8.82	Consumer electronics
3.37	White goods	8.22	Telecommunications
0.14	Household cleaning products	1.53	Cosmetics
0.91	Personal goods	0.36	Housewares
1.64	Home furnishings	11.55	Disposable paper products
21.96	Clothing	7.51	Leisure products
2.77	Books and journals	0.17	OTC healthcare

Source: Access Asia



## A.9.7 Consumer Market: Average Urban & Rural Weekly Shopping Baskets Compared

**Chart A.3 URBAN & RURAL SHOPPING BASKETS COMPARED, 2004**



Source: Access Asia

## A.10 Exchange Rates

### *A.10.1 Exchange Rates: China*

The Renminbi (RMB) remains a “soft” currency, fixed in value under China’s still centrally planned economy. The People’s Bank of China (PBOC), the country’s central state bank, postponed initial plans to convert the RMB into a fully convertible hard currency by late 1996 for fear of potentially destabilising fluctuations on the global money markets.

This cautiousness was borne out when the RMB was largely protected from the effects of the regional economic crisis that struck Asia in 1997-98 – though the loss of export revenues from overseas trade to neighbouring markets did weaken the RMB exchange rate slightly.

China’s long-awaited accession to the World Trade Organisation (WTO) in December 2001 has reignited international speculation over the prospects of RMB convertibility – sparking rumours which sweep the markets on a regular basis. For the time being, however, the Chinese government continues to deny that full convertibility is under consideration.

**Table A.30** AVERAGE ANNUAL EXCHANGE RATES, 1997–2004

<i>RMB</i>	1997	1998	1999	2000	2001	2002	2003	2004
US\$=RMB	8.29	8.28	8.28	8.28	8.29	8.29	8.28	8.28
Euro=RMB	9.22	9.30	8.89	7.72	7.32	8.85	10.23	11.06
UK£=RMB	13.77	13.72	13.45	12.66	11.83	13.35	15.35	15.65
Japanese Yen=RMB	0.06	0.06	0.07	0.08	0.08	0.05	0.08	0.08
Canadian \$=RMB	5.8	5.59	5.55	5.61	5.22	5.41	6.17	6.80
Swiss Franc=RMB	5.8	5.72	5.6	4.93	4.96	6.06	6.46	7.14
Singapore \$=RMB	5.03	4.96	4.89	4.81	4.54	4.78	4.85	5.03
Australian \$=RMB	5.49	5.21	5.34	4.89	4.29	4.86	6.37	6.40
Hong Kong \$=RMB	1.07	1.03	1.03	1.02	1.06	1.06	1.06	1.06

Source: People’s Bank of China, NBS, international statistics

### *A.10.2 Exchange Rates: Hong Kong*

**Table A.31** AVERAGE ANNUAL EXCHANGE RATES, 1997–2004

<i>HK\$</i>	1997	1998	1999	2000	2001	2002	2003	2004
US\$ =	7.74	7.77	7.77	7.79	7.80	7.80	7.79	7.80
RMB =	0.93	0.97	0.97	0.98	0.94	0.94	0.94	0.94

Source: NBS, international statistics