China Food and Beverage Industry Report, 2009-2010

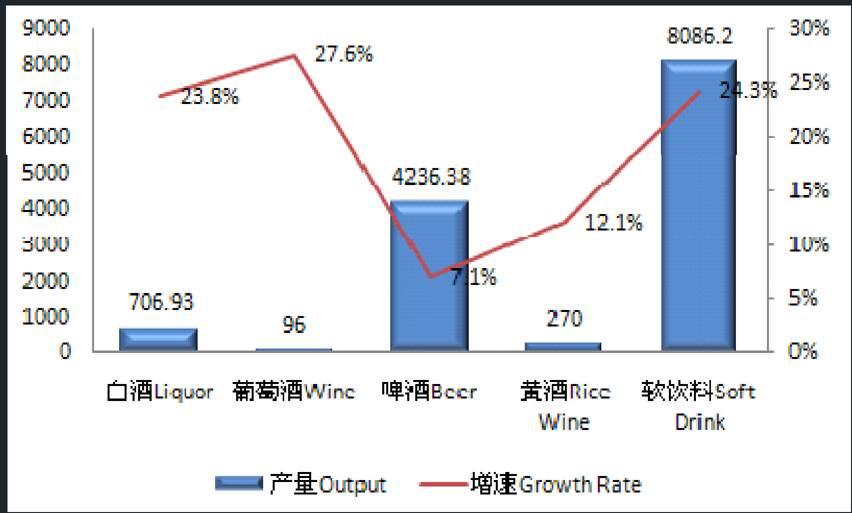
The food and beverage industry consists of three sub-industries: food processing, food manufacturing and beverage manufacturing. The whole food and beverage industry developed slowly in H1 2009, but all the sub-industries had achieved considerable growth after November: the food processing industry experienced the fastest growth, the beverage manufacturing industry resisted decline and grew steadily, and the food manufacturing industry experienced relatively slower growth in operating income at a rate below the industry average.

In 2010, the food and beverage industry still maintains growth momentum. In Q1 2010, the operating income grew by 25.4% year on year, which is much higher than that in Q1 2009, and the net profit soared from RMB5.599 billion in Q1 2009 to RMB6.988 billion, up 24.8% year on year.

1. Beverage Manufacturing Industry

The industry is in growth phase, with huge development potentials. Promoted by medium and high-end wines, China's wine output reached 960,000 tons in 2009, up 27.6% year on year; soft drink and liquor grew at 24.3% and 23.8% respectively; rice wine and beer grew relatively slower, at 12.1% and 7.1% respectively.

Output and Growth Rate of Sub-sectors of Beverage Manufacturing Industry, 2009 (10,000 tons, %)



Source: ResearchInChina; wind

In the wine sector, Changyu, Dynasty and COFCO Great Wall ranked top three. In 2009, the sales income of Changyu reached RMB4.2 billion, RMB3.39 billion of which came from wine, and accounted for 87.1% of the total operating income.

In the liquor sector, Kweichow Moutai and Wuliangye held 70% market shares. Comparatively, Kweichow Moutai had a better performance in 2009, since it: (1) had advantages in production capacity expansion under support of local policies; (2) explored the market for newly-added production capacity by increasing the number of franchised stores; (3) had larger room for price increase due to a wide gap between ex-factory prices and retail prices.

In the soft drink sector, the competition in concentration has emerged. In recent years, low-concentration fruit juice has maintained a market coverage of 80% , but as people pay more attention to healthy diet and young people change their dietary habits, nutrient-rich high-concentration fruit juice will become increasingly popular, and its market share will rise rapidly.

2. Food Processing Industry

The report analyzes the meat processing sector of the food processing industry. In 2009, the meat processing sector maintained fast and stable growth, and chilled meat, in particular, was produced and consumed on an increasingly large scale and was gradually replacing fresh meat. From the perspective of enterprise development, Shuanghui, with the industry's most comprehensive product line and remarkable economies of scale, is the absolute leader in the high-temperature meat market, while Yurun dominates the low-temperature meat market with 60% market share.

3. Food Manufacturing Industry

The report analyzes the frozen food, dairy products and instant noodle sectors in the food manufacturing industry. In recent years, China frozen food industry has formed a market led by Sanquan, Synear, Longfong and Wanchai Ferry with different business strategies. Sanquan and Synear set up outlets all over China, while Wanchai Ferry and Longfong focus on first-tier cities. In 2009, Synear cooperated with fast food chains such as KFC and ZKungfu to further expand it marketing channels and enhance its brand competitiveness.

Since H2 2009, the output of dairy products has been growing rapidly because of the fact that the industrial base data were low due to the “melamine incident” in 2008, and the market rebounded and demand increased. Mengniu and Yili, two leading dairy enterprises of China, exhibited great disparity in their 2009 performance: Yili increased its milk powder market share from less than 10% to 13%, while Mengniu saw a decrease in market share, though still maintained the first position.

As the economy recovers and consumer confidence rebounds, the food and beverage industry will develop at an accelerating rate. Finally, the report analyzes and forecasts the development prospect of sub-sectors of the food and beverage industry in 2010.

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