

## INDUSTRY OVERVIEW

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### THE PRC ECONOMY

#### Economic Growth

The PRC economy has been experiencing steady and fast growth since the PRC government adopted the “Open Door Policy” in 1978. According to the National Bureau of Statistics of China, the PRC’s gross domestic product, or GDP, increased from approximately RMB21,631 billion in 2006 to approximately RMB40,120 billion in 2010, representing a CAGR of approximately 16.7%.

#### Urbanization Trend

Industrialization has accelerated urbanization in the PRC through the migration of rural populations to urban areas and the development of towns into cities. According to the National Bureau of Statistics of China, from 2006 to 2010, total urban population in the PRC increased from approximately 583 million to approximately 670 million. Urban population, as a percentage of total population, increased from approximately 44.3% in 2006 to approximately 49.9% in 2010. The table below shows the growth of the urban population in the PRC from 2006 to 2010.

**2006 – 2010 Growth of Urban Population in the PRC**

	2006	2007	2008	2009	2010	CAGR (2006- 2010)
Urban population (million) . . . . .	583	606	624	645	670	3.5%
Total population (million) . . . . .	1,314	1,321	1,328	1,335	1,341	0.5%
Urbanization rate (%). . . . .	44.3%	45.9%	47.0%	48.3%	49.9%	

Source: National Bureau of Statistics of China

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### Increasing Disposable Income and Food Consumption Expenditure

As a result of steady economic growth, PRC households have been enjoying continued increases in disposable income, which have contributed to the growth in food consumption. According to the National Bureau of Statistics of China, from 2006 to 2010, the per capita annual disposable income of urban households increased from approximately RMB11,760 to RMB19,109, representing a CAGR of approximately 12.9%. In the same period, the per capita annual food consumption expenditure increased from RMB3,112 to RMB4,805, representing a CAGR of 11.5%.

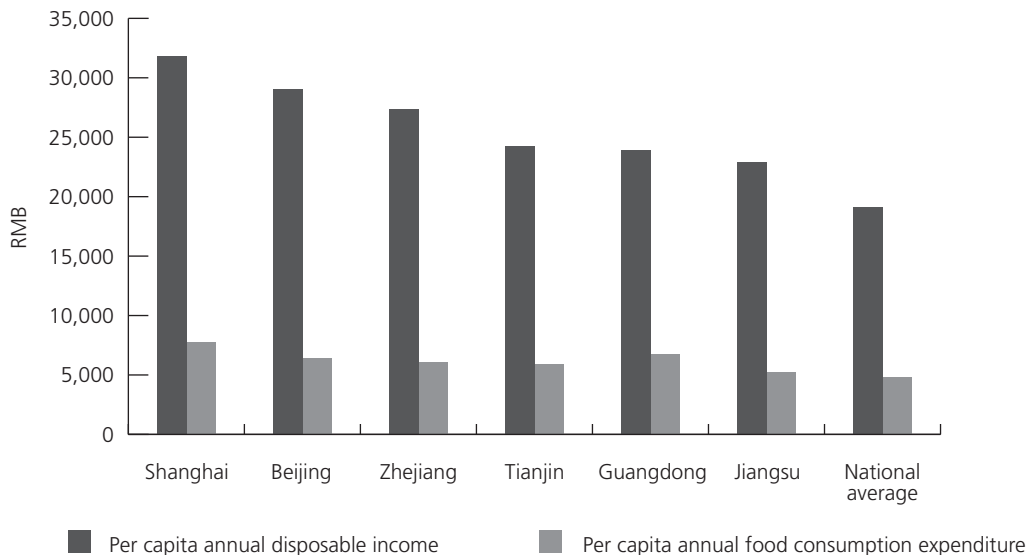
	2006	2007	2008	2009	2010	CAGR (2006- 2010)
GDP (RMB billion) . . . . .	21,631	26,581	31,405	34,090	40,120	16.7%
Growth rate . . . . .	17.0%	22.9%	18.1%	8.6%	17.7%	
Per capita annual disposable income of urban households (RMB). . . . .	11,760	13,786	15,781	17,175	19,109	12.9%
Growth rate . . . . .	12.1%	17.2%	14.5%	8.8%	11.3%	
Per capita annual food consumption expenditure of urban households (RMB) . . . . .	3,112	3,628	4,260	4,479	4,805	11.5%
Growth rate . . . . .	6.8%	16.6%	17.4%	5.1%	7.3%	

Source: National Bureau of Statistics of China

### Geographic Characteristics

Due to differences in economic development, Shanghai, Beijing, Zhejiang and Tianjin have enjoyed the highest per capita annual disposable income and food consumption expenditure in the PRC.

**Per Capita Disposable Income and Per Capita Food Consumption Expenditure of Urban Households by Location (2010)**



Source: National Bureau of Statistics of China

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### THE BAKERY PRODUCTS MARKET IN THE PRC

#### Market Overview

In the PRC, the sales value of bakery products has been driven by the continued increase in per capita disposable income and food consumption expenditure, the increasing acceptance of western lifestyle and western food products, and increasing prices in food materials. Bakery products can be broadly categorized into four segments: cakes, bread, moon cakes and pastries.

According to Euromonitor, bakery products sales value is forecasted to increase from approximately RMB96,967 million in 2010 to approximately RMB140,321 million in 2013, representing a CAGR of approximately 13.1%. The table below shows bakery product sales for each segment, including cakes, moon cakes, pastries and bread in the PRC from 2009 to 2010 and forecasted figures from 2011 to 2013:

	Historical		Forecast			CAGR (2009- 2010)	CAGR (2010- 2013)
	2009	2010	2011	2012	2013		
<b>National bakery products sales</b>							
RMB (million) . . . . .	86,353	96,967	111,249	125,562	140,321	12.3%	13.1%
Growth rate . . . . .		12.3%	14.7%	12.9%	11.8%		
<b>Cake and bread sales</b>							
RMB (million) . . . . .	44,922	50,150	57,364	64,473	71,437	11.6%	12.5%
Growth rate . . . . .		11.6%	14.4%	12.4%	10.8%		
<b>Cakes sales</b>							
RMB (million) . . . . .	31,809	35,335	40,306	45,073	49,651	11.1%	12.0%
Growth rate . . . . .		11.1%	14.1%	11.8%	10.2%		
<b>Bread sales</b>							
RMB (million). . . . .	13,113	14,815	17,059	19,400	21,787	13.0%	13.7%
Growth rate. . . . .		13.0%	15.1%	13.7%	12.3%		
<b>Moon cakes sales</b>							
RMB (million) . . . . .	12,650	14,109	16,024	18,002	20,457	11.5%	13.2%
Growth rate . . . . .		11.5%	13.6%	12.3%	13.6%		
<b>Pastries sales</b>							
RMB (million) . . . . .	28,781	32,709	37,860	43,087	48,426	13.6%	14.0%
Growth rate . . . . .		13.6%	15.7%	13.8%	12.4%		

Source: Euromonitor

#### *Cakes & Bread*

Among sales of bakery products in the PRC, the biggest share is attributed to cakes. In 2009 and 2010, the share of cakes in sales of bakery products in the PRC was approximately 36.8% and 36.4% respectively. In 2010, sales of cakes amounted to RMB35.3 billion, representing an increase of approximately 11.1% over 2009.

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Different from bread and pastries, a significant number of cakes are served in birthday celebrations or as gifts to family and friends for different kinds of events, as well as being served as breakfast and desserts in daily life. The consumption is relatively stable among cities of different levels of economic development. In recent years, the variety of cake products increased significantly, such as chocolate cakes, fruit cakes, ice-cream cakes and jam cakes.

The bread sales are driven up by the increasing health consciousness as PRC consumers have become aware that bread (including, among others, wheat meal bread, white bread, malt loaf and French baguette) is one of the healthiest cereal foods with high nutritional value. For instance, bread contains less sugar (an element that may contribute to the development of diseases such as diabetes) than cakes, pastries and moon cakes. As a result, bakery products manufacturers have accelerated to launch new healthy bread products such as enriched/modified bread, healthy bread, high fiber bread, nutritional mixed-cereal bread, egg bread, five-cereal bread, etc. In particular, sales of whole wheat bread have increased significantly. With the urbanization of the PRC and customers' demand for healthy food, Euromonitor expects that the total consumption of bread over the next three years will sustain an average growth rate of approximately 13.7%. In 2013, the sales of bread throughout the PRC may reach approximately RMB21.8 billion, representing approximately 15.5% of the entire bakery market.

### *Moon cakes*

As part of the traditional food culture in the PRC, moon cakes are nearly a must-buy item for PRC households during the Mid-Autumn Festival. Due to this seasonal characteristic, demand for moon cakes is very high during the periods before and after the Mid-Autumn Festival (i.e. usually around August to late September depending on the lunar calendar), while the overall demand remains stable on an annual basis. Moon cakes attract a large number of consumers, both in urban and rural areas. The increase in product prices prompted by the increase in raw material prices has had positive effect on sales. In addition, compared to other types of bakery products, there are more sales channels for moon cakes, including e-commerce, catering divisions of hotels, post offices and group purchases from enterprises, boosting the growth of the overall sales of moon cakes.

A variety of moon cakes have been introduced in recent years as a result of the continued rise in living standards and the efforts of moon cake manufacturing enterprises to improve quality, diversify product offerings and expand marketing efforts. New innovations with moon cakes have included premium concepts such as ice-cream moon cakes and coffee moon cakes, which have in turn driven the increase in sales.

During 2010, the sales of moon cakes throughout the PRC reached approximately RMB14.1 billion, representing a growth of approximately 11.5% over 2009, and representing approximately 14.5% market share of the whole bakery products market. Sales of moon cakes are expected to reach RMB20.5 billion in 2013, representing approximately 14.6% market share of the PRC bakery product market.

### *Pastries*

Pastries are characterized by variety. Product innovations and variety are the key factors which promote stable growth in pastries sales based on the existing sales scale. According to Euromonitor, it is expected that the average growth rate of pastries will continue to be approximately 14.0% over the next three years and sales value will reach approximately RMB48.4 billion by 2013.

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### Per Capita Consumption of Bakery Products

In terms of per capita annual consumption, the PRC lags behind other developed countries and has higher potential to grow in the future. The table below shows the historical and forecasted data of per capita consumption volume of bakery products in the PRC, the United States, the United Kingdom, Japan, Korea and Taiwan.

### Annual Bakery Products Consumption Volume Per Capita (kg)

	Historical		Forecast			CAGR	CAGR
	2009	2010	2011	2012	2013	(2009-2010)	(2010-2013)
China . . . . .	4.2	4.4	4.8	5.1	5.4	6.5%	7.0%
United States . . .	36.9	36.7	36.3	35.8	35.5	-0.5%	-1.1%
United Kingdom . .	42.6	41.9	41.4	41.0	40.6	-1.6%	-1.0%
Japan . . . . .	21.8	21.8	21.9	21.9	22.0	0.0%	0.3%
Korea . . . . .	5.5	5.6	5.7	5.8	5.9	1.8%	1.8%
Taiwan . . . . .	4.9	5.1	5.2	5.4	5.5	4.1%	2.5%

Source: Euromonitor

### Key Drivers of Bakery Products Consumption in China

The bakery industry has undergone rapid development in recent years. We anticipate that demand for bakery products in the PRC will be continuously driven up by the following factors:

- increasing disposable income and rising living standards;
- continued urbanization which enhances the acceptance of bakery products and western style diet;
- increasing health consciousness: as people become more concerned about their health and their diet, we expect the demand for healthy bakery products, such as bread high in fiber, to increase;
- changing customer tastes: we expect that changes in customer tastes will also create more demand in the market, which will drive the R&D of bakery producers; and
- product innovation: we expect that the development of new products will create more demand in the bakery market.

### Key Characteristics of Bakery Products Market in PRC

#### *Highly fragmented*

Although the bakery industry in China is developing fast, the market remains highly competitive, and to date there is no leading brand at the national level that could dominate the PRC bakery market. Most of the bakery enterprises elect to operate their business regionally. Also, as a result of the relatively low entry barrier of the bakery industry, the small and medium-sized bakery enterprises take up the majority of the bakery market shares.

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### *Low level competition*

The low price is the most common strategy used for promoting the products among the bakery enterprises in China. As a result, the profit margin will be adversely affected and it is likely that the quality will also be affected as the bakery enterprises may want to reduce cost.

### **Distribution Channels of Bakery Products**

In the PRC, bakery products are primarily distributed through three channels: bakeries, supermarkets/hypermarkets, and independent food stores.

#### *Bakeries*

Bakeries have become the major sales channel of bakery products because the number and geographical coverage of stores allow higher market penetration, making it easier for customers to buy fresh products, including on the ground floor of their workplaces, near the exits of residential community developments, at train stations and within busy commercial areas. In addition, bakeries are more flexible in terms of their modes of operation and product positioning, including how they obtain market information and customer feedback and respond by launching new products. Moreover, in contrast to hypermarkets and independent food stores, the assorted cakes baked on-site or delivered on the same day by bakeries are rated higher by customers in terms of the freshness, taste and variety.

According to Euromonitor, sales of bakery products through bakeries accounted for approximately 55.0% of total bakery product sales in 2010 and are expected to grow at a CAGR of approximately 13.6% from 2010 to 2013, to reach approximately RMB78.1 billion in 2013, representing approximately 55.7% of the total sales of all bakery products in the PRC.

#### *Supermarkets/Hypermarkets*

According to Euromonitor, between 2009 and 2010, sales of bakery products through supermarkets and hypermarkets represented approximately 32.3% of the total sales of bakery products in the PRC and reached approximately RMB31.3 billion in 2010. Well-known local and overseas supermarkets, hypermarkets and convenience store chains have expanded quickly in all tiers of cities in the PRC, and have become an important constituent of retail channels in the PRC with increasing weight in the total retailing market in recent years.

Supermarkets and hypermarkets are a major sales channel for packaged bakery products. Some manufacturers have opened their own stores in supermarkets and these bakeries have attracted a considerable number of customers through the networks and the population attracted by the supermarkets and hypermarkets. Those bakeries in stores located in supermarkets have also become a major venue for customers to buy fresh, hand-made products. Although the products provided by bakeries in these stores are generally less expensive compared to those in other bakeries, their variety and quality usually cannot compete with the bakery products available in the professional bakery chains. Since most bakeries in these stores sell low-to-mid end products, it is more difficult for these stores to attract mid-to-high end customers with better knowledge in assorted cakes and high purchasing power.

It is expected that the share of bakery product sales by supermarkets, hypermarkets and bakeries in stores located in supermarkets in the PRC will gradually increase, with future sales sustaining a CAGR of approximately 13.0% from 2010 to 2013 and reaching approximately RMB45.3 billion in 2013 according to Euromonitor.

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### *Independent Food Stores and Others*

The share of sales by independent food stores has decreased in the past few years. Independent food stores are at a disadvantage in the sale of bakery products because of the impact of the rapidly-expanding alternative channels such as supermarkets, hypermarkets, convenience stores, bakery chains, and e-commerce. According to Euromonitor, from 2010 to 2013, the share of sales of all bakery products of independent food stores is expected to decrease by nearly 0.7% and will represent approximately 6.9% of all bakery product sales in 2013, amounting to approximately RMB9.7 billion.

The table below sets forth the sales value breakdown in terms of distribution channel:

	Historical		Forecast			CAGR (2009- 2010)	CAGR (2010- 2013)
	2009	2010	2011	2012	2013		
<b>Sales (RMB million)</b>							
Bakeries . . . . .	47,232	53,292	61,588	69,833	78,097	12.8%	13.6%
Supermarkets/hypermarkets. . .	27,911	31,337	35,796	40,309	45,274	12.3%	13.0%
Independent food stores. . . . .	6,763	7,360	8,137	8,926	9,690	8.8%	9.6%
Others . . . . .	4,448	4,979	5,729	6,495	7,260	11.9%	13.4%
<b>Total . . . . .</b>	<b>86,353</b>	<b>96,967</b>	<b>111,249</b>	<b>125,562</b>	<b>140,321</b>		
<b>% of total</b>							
Bakeries . . . . .	54.7%	55.0%	55.4%	55.6%	55.7%		
Supermarkets/hypermarkets. . .	32.3%	32.3%	32.2%	32.1%	32.3%		
Independent food stores. . . . .	7.8%	7.6%	7.3%	7.1%	6.9%		
Others . . . . .	5.2%	5.1%	5.1%	5.2%	5.2%		
<b>Total . . . . .</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>		

Source: Euromonitor

Other sales channels primarily include food services, group purchases (such as schools and hospitals), corporate internal direct sales, online purchases and postal subscriptions (mainly for moon cake sales).

### **BAKERY CHAIN MARKET IN THE PRC**

#### **PRC Market Overview**

Bakery chains generally have their own brands and develop their outlet networks mainly through self-owned outlets and franchising. The top ten bakery chains are generally run by self-owned store model rather than franchise given that the former one is easier for them to manage.

On the other hand, the bakery industry is highly competitive and fragmented and has a relatively low entry barrier in the PRC. There is no leading chain at national level in the PRC till now. Most competitors limit their business in selected regions of the country and most top ten players are regional. According to Euromonitor, there are around 50,000 to 70,000 bakeries in the PRC and the top five players only accounted for approximately 6.2% of the total sales of bakery products in 2010.

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Thanks to the rapid growth of the PRC bakery products market in recent years, although the overall market is occupied by small and medium bakery stores, the top bakery chain operators with great reputation in the industry have begun to adopt development strategy based on chaining, scaling and branding. The tables below show the top ten bakery chain operators by outlet numbers and sales in 2009 and 2010 at national level and the top ten bakery chain operators by outlet numbers at Yangtze River Delta Region level.

### Top 10 Bakery Chain Operators by Outlet Numbers (National Level)

	2009			2010		
	Self-owned	Franchise	Total	Self-owned	Franchise	Total
Holiland . . . . .	890	0	890	950	0	950
Christine . . . . .	763	0	763	818	0	818
Ganso . . . . .	224	96	320	254	109	363
Maky . . . . .	290	0	290	345	0	345
Andersen . . . . .	155	160	315	160	170	330
Xiangyangfang . . . . .	195	82	277	206	77	283
Luosha . . . . .	200	0	200	209	0	209
Shaber . . . . .	130	25	155	164	28	192
Lvzi . . . . .	123	0	123	176	0	176
Bread Talk . . . . .	49	73	122	68	103	171

Source: Euromonitor

### Top 10 Bakery Chain Operators by Sales (National Level)

	2009 Sales (RMB million)	2010 Sales (RMB million)	09/10 Growth rate	2009 market share %	2010 market share %
Holiland . . . . .	1,480.8	1,781.8	20.3%	1.71	1.84
Christine . . . . .	1,050.1	1,284.5	22.3%	1.22	1.32
Ganso . . . . .	1,000.0	1,137.0	13.7%	1.16	1.17
Daoxiangcun . . . . .	868.2	1,047.0	20.6%	1.01	1.08
85°C . . . . .	642.9	803.6	25.0%	0.74	0.83
Maky . . . . .	320.0	384.6	20.2%	0.37	0.40
Bread Talk . . . . .	227.1	356.0	56.8%	0.26	0.37
Andersen . . . . .	256.3	281.9	10.0%	0.30	0.29
Xiangyangfang . . . . .	213.8	258.3	20.8%	0.25	0.27
Luosha . . . . .	178.6	213.2	19.4%	0.21	0.22

Source: Euromonitor



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### Top 10 Bakery Chain Operators by Outlet Numbers (Yangtze River Delta Region Level)

	2009			2010		
	Self-owned	Franchise	Total	Self-owned	Franchise	Total
Christine . . . . .	763	0	763	818	0	818
Ganso . . . . .	127	54	181	156	65	221
Maxim . . . . .	123	0	123	182	0	182
Niunaipeng . . . . .	102	38	140	113	54	167
85°C . . . . .	91	0	91	124	0	124
Xinhualou . . . . .	88	0	88	117	0	117
Apple garden . . . . .	103	0	103	103	0	103
Ruilai Xinqiao . . . . .	76	0	76	77	0	77
Chantilly . . . . .	63	12	75	61	12	73
Jing'an bread . . . . .	66	0	66	69	0	69

Source: Euromonitor

### Key Development Trends of Bakery Products Market in the PRC

#### *Brand recognition and Innovation of bakery products*

Given that the bakery products sector is highly competitive and fragmented in the PRC, the bakery enterprises need to establish a strong brand identity to gain a competitive edge among its peer operators. Brand recognition represents the consumers' preference, satisfaction and loyalty of a bakery enterprise. In addition, consumers are more inclined to purchase innovative bakery products. The innovative bakery products using new technology or equipment will help the bakery enterprises to attract more consumers thereby enlarging customer base. Abilities of bakery enterprises to build up well-recognized brand and develop and produce innovative products become part of the core competitiveness of the bakery enterprises.

#### *Pursuit of fast, convenient and fresh bakery products*

The market tends to appreciate fast, convenient and fresh bakery ingredients. Consumers inclined to choose bakery products which are fresh and convenient to purchase. Fresh bakery products which contain no additives are expected to be the top selling products in the coming years.

#### *Increasing consumer preference of healthier bakery products*

The traditional bakery products usually contain ingredient with high carbohydrate, adipose and calorie. Nevertheless, more and more consumers are seeking bakery products with low level of or zero carbohydrate, adipose and calorie. New bakery products using healthier ingredients such as dietary fiber or soy protein are becoming more and more popular among consumers.

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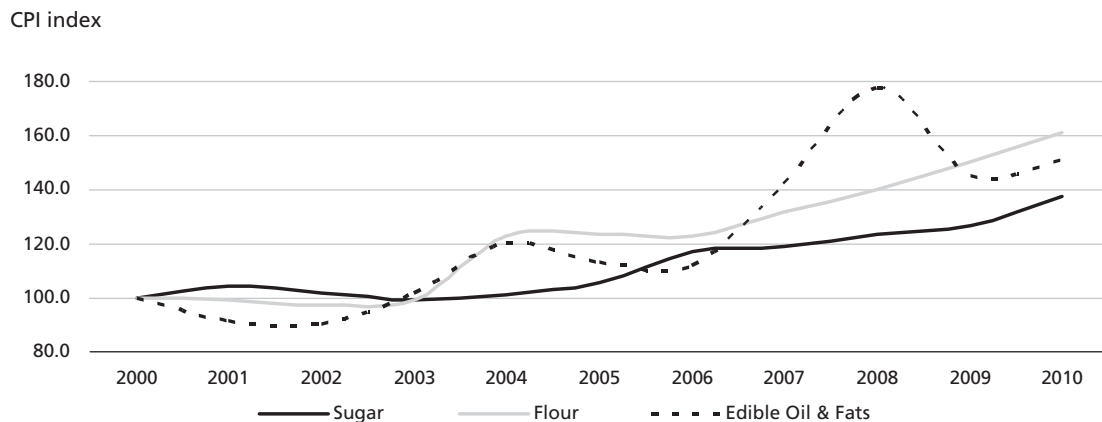
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### *Use of Small Package*

Bakery enterprises shall not only satisfy the requirements of food safety and hygiene but also follow the trend of “eat less but more diverse diet”. Therefore, more and more bakery products are packaged in smaller size. The use of small package for bakery products will stimulate the purchasing desire of consumers and therefore generate more sales.

### **MARKET PRICES OF SUGAR, FLOUR AND EDIBLE OIL AND FATS IN THE PRC**

Sugar and flour prices increased from 2000 to 2010 with a CAGR of approximately 3.2% and 4.9% respectively. Edible oil and fats prices increased from 2000 to the peak in 2008. After the decrease in 2009, the price increased again by 3.8% in 2010. During the period from 2000 to 2010, the overall CAGR of edible oil and fats was approximately 4.2%. The chart below illustrates the increase of consumer price index (“CPI”) of sugar, flour and edible oil and fats, the major raw materials of the company, from 2000 to 2010, assuming a base price of 100 in 2000.



Source: National Bureau of Statistics of China

Note: 2000 is the base year with an assumed base price of 100

### **SOURCE OF INFORMATION**

#### **Euromonitor**

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For the market data disclosed in the prospectus, the area in which Euromonitor conducted their research included Tier 1 to Tier 3 cities in the PRC where the bakery product market is better developed and represents over 45.0% of the PRC's population. Within this area, Euromonitor surveyed bakery products distribution channels including hypermarkets, supermarkets, independent food stores and over 450 brands which occupy more than 80.0% of total number of bakery chain brands. The information quoted from Euromonitor is not official government information, and was prepared in the ordinary course of business of Euromonitor. The Sponsor and our Directors have exercised reasonable care in reproducing such information, and have no reasonable ground to believe and do not believe that any such information being included in the prospectus is untrue. The Company had paid RMB200,000 for the commissioned Euromonitor Report.

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