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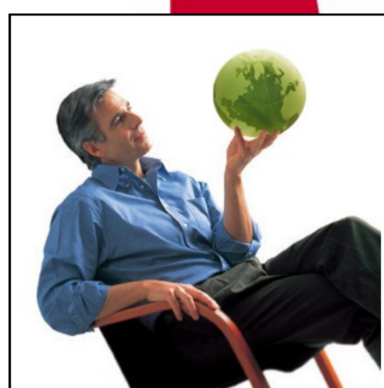
International Markets Bureau

MARKET INDICATOR REPORT | JANUARY 2010

Packaged Food Sales

In China



Growing Forward

Canada

EXECUTIVE SUMMARY

It is very likely that China will be the world's largest packaged food market in near future, with China's healthy economic growth, huge population and growing middle class. The total packaged food market was worth US $96 billion in 2008, ranking third in the world.

With increasing disposable incomes, Chinese consumers will spend more money on food in absolute terms, but a smaller fraction of their growing household budgets. This will likely lead to a shift from traditional unbranded goods to western-style consumer products and encourage the consumption of a wider range of packaged foods, which will become more affordable.

As supermarkets and hypermarkets are expanding continuously in China and as product types and product choices are diversifying, packaged food is becoming more and more common. From 2003 to 2008, the average annual growth in retail sales of packaged food was 11.3%.

Dairy products experienced the most significant growth (128%) in the past five years, due to advertising efforts to promote dairy products as healthier foods. The milk contamination scandal is not expected to impact the long-term consumption of dairy products. As ice cream is shifting to a more mass-market positioning, this trend will create a 93% growth in sales value between 2008 and 2013. The market sizes of vegetable oil and olive oil are also forecasted to increase in value by 130% and 211% respectively during the period 2008 to 2013.

CONSUMER TRENDS

In China, shopping is usually conducted every day from local traditional markets. The evening meal is usually prepared with fresh products bought hours before preparation. However, traditional markets are now meeting fierce competition from the supermarkets, which provide a clean and convenient shopping environment.

Processed foods in China are still not as popular as in developed countries, however this trend is evolving as working families no longer have time to cook fresh produce at home.

Food safety issues strongly influence Chinese consumers' confidence in domestic products. After the milk contamination scandal, many consumers preferred to buy foreign dairy products or substitute soy milk for drink milk products. Due to the one-child policy, parents are less price-sensitive on baby food and are willing to pay more for imported products.

The Chinese have begun to consume healthier food, such as yogurt. Yogurt sales values increased by 137% during the period 2003 to 2008.

INSIDE THIS ISSUE

DID YOU KNOW?

Chinese consumers are increasingly buying more packaged goods, which offer convenience, quality and lifestyle.

China's gross domestic product (GDP) has grown very rapidly in the past 30 years, but income growth has not been uniform across the country. For example, households in the east earn much more than those in the west.

East and south China are well-developed regions. High quality and health concepts were the two major factors driving value growth of packaged food in these areas.

Consumers welcome innovation and are willing to accept new ideas. They are beginning to pay increased attention to quality and brand and are becoming more concerned with information on packaging.

People in west and middle China are earning less than the country's average. Price will remain one of the main considerations influencing consumers' purchasing decisions in packaged food.

ECONOMIC TRENDS

Chinese food consumption has been strong in recent years, accounting for 35% of GDP in 2008, or US $1.5 trillion in spending. As China's middle class grows, more and more consumers will opt for packaged food instead of fresh food to satisfy their palate. Packaged foods are forecasted to continue growing very quickly during the period of 2008 to 2013, with a 13% annual growth rate.

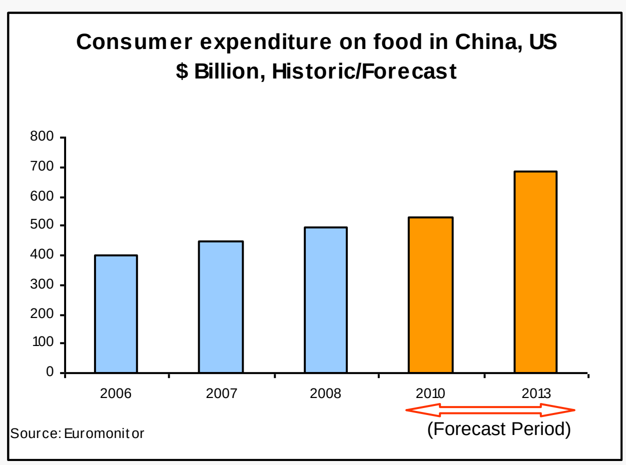
According to Just-Food publication estimates, only one-third of all food consumed by the Chinese is processed, with the majority of this consumed in urban regions.

Therefore, the current urbanization trend will offer a great marketing opportunity for the packaged food industry. Currently, around 45% of the population lives in cities, and nearly 20 million people in China are 'urbanized' every year.

In 2008, China spent US $493 billion on food, ranking second in the world behind the United States. The growth rate of spending on food in China food has been an average 11.5% per year over the past five years.

It is expected that food spending will continue to increase at an average rate of 7% for the 2008-2013 period. By 2013, Chinese consumers are expected to spend almost US $688 billion on food.

In the 1980s, Chinese households devoted more than half of their expenditures to food. With income growing, spending on food has declined to 33 % in 2008 and was expected to decline to under 30% by 2013. However, packaged food and premium food expenses are expected to increase.



PACKAGED FOODS SALES IN CHINA

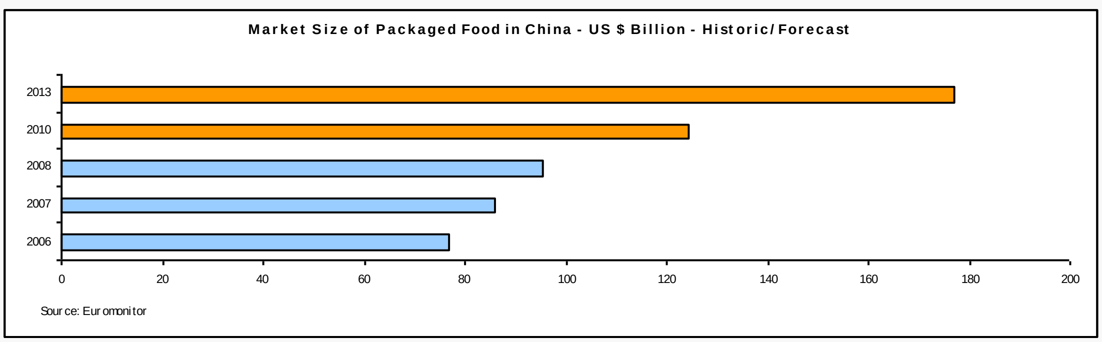
Market Sizes - Historic/ Forecast - Retail Value RSP - US$ mn - Fixed 2008 Exchange Rates - Value at Current Prices

China	2006	2007	2008	2010	2013
Confectionery	7,182.5	7,744.3	8,228.1	9,044.2	10,600.0
Chocolate confectionery	836.7	935.3	1,037.4	1,197.4	1,513.1
Sugar confectionery	4,685.5	4,976.1	5,220.9	5,661.1	6,538.7
Gum	1,660.3	1,832.8	1,969.7	2,185.7	2,548.1
Bakery products	11,946.0	12,959.0	14,220.3	16,091.1	19,834.5
Baked goods	8,679.4	9,265.9	10,036.9	11,163.6	13,611.9
Biscuits	3,182.1	3,588.4	4,060.6	4,776.6	6,019.2
Breakfast cereals	84.5	104.6	122.7	150.8	203.4
Meal replacement products	26.2	45.0	67.0	95.2	143.5
Meal replacement slimming products	26.2	45.0	67.0	95.2	143.5
Spreads	489.0	526.8	571.6	638.5	780.2
Jams and preserves	138.3	149.0	162.3	182.2	223.2
Honey	283.2	304.7	329.7	366.3	444.3
Chocolate spreads	5.8	6.4	6.9	8.0	10.2
Nut-based spreads	61.6	66.7	72.6	82.1	102.6
Ice cream	4,292.1	4,719.3	5,191.0	6,788.3	10,000.9
Dairy products	15,557.1	17,893.3	20,125.9	26,369.2	35,719.0
Drinking milk products	12,835.1	14,650.7	16,370.0	21,193.1	28,255.6
Cheese	64.4	75.7	88.3	122.5	175.6
Yogurt and sour milk drinks	2,500.5	2,999.5	3,489.4	4,836.1	7,003.2
Other dairy products	157.1	167.3	178.2	217.5	284.6
Sweet and savoury snacks	5,739.8	6,106.9	6,498.4	7,915.0	10,480.8
Chips/crisps	239.8	254.6	271.5	338.5	488.9
Extruded snacks	1,552.1	1,682.3	1,831.6	2,297.2	3,066.5
Nuts	74.6	79.0	83.4	99.5	127.1
Canned/preserved food	2,734.5	2,866.4	3,055.8	3,751.3	5,032.9
Frozen processed food	3,492.4	3,900.8	4,367.1	5,879.9	9,166.3
Dried processed food	7,913.9	9,051.3	9,908.4	12,562.9	17,378.6
Chilled processed food	6,143.1	7,102.6	8,122.3	11,079.4	16,480.0
Oils and fats	4,943.6	5,928.3	6,975.9	10,047.6	16,064.4
Olive oil	36.7	47.1	59.6	98.4	185.4
Vegetable and seed oil	4,849.7	5,817.4	6,845.2	9,856.6	15,750.3
Butter	39.3	43.9	49.2	64.5	89.7
Margarine	18.0	19.9	21.9	28.1	39.0
Sauces, dressings and condiments	4,863.7	5,299.7	5,709.5	6,820.9	8,650.8
Baby food	2,465.2	3,144.1	3,941.9	6,311.5	11,445.9

Source: Euromonitor

(Forecast Period)

"Packaged food retail sales are expected to reach US $177B by the year 2013"



KEY MARKET SEGMENTS — DATA FROM 2007–08

Bakery

Sales value increased from US $13.0 billion to US $14.2 billion, while sales volume increased from 7.0 million tonnes to 7.5 million tonnes.

Forecasts for 2008-2013

Bakery products are forecast to increase by 39% in value. Breakfast cereals are expected to lead the growth with an increase of 66%. Biscuits sales are expected to increase by 48%. Baked goods sales are expected to increase by 36%.

Main Sectors 2007-2008:

Baked goods sales increased from US $9.3 billion to US $10 billion.

Biscuit sales increased from US $3.6 billion to US $4.1 billion.

Breakfast cereal sales increased from US $104.6 million to US $122.7 million.

Main Producers and their Chinese Brands

Mankattan Food Co Ltd was the leader in the baked goods market, holding 1.03% of the share in 2007. Its leading brand is Mankattan.

Kraft Foods China Inc held a 9.3% share of the biscuit market in 2007. Its leading brand is Pacific.

Nestlé (China) Ltd was the leader in the breakfast cereal market, with a 28.4% market share in 2007. Its leading brand is Cheerios.

Confectionery

This sector's sales increased from US $7.7 billion to US $8.2 billion.

Forecasts for 2008-2013

Confectionery sales are forecast to increase by 29% in value. Chocolate confectionery is expected to increase by 46%. Sugar confectionery sales are expected to grow by 25%. Gum sales are expected to grow by 29%.

Main Sectors 2007-2008:

Chocolate confectionery sales increased from US $0.9 billion to US $1.0 billion.

Sugar confectionery sales increased from US $5.0 billion to US $5.2 billion.

Gum sales increased from US $1.8 billion to US $2.0 billion.

Main Producers and their Chinese Brands

Effem Foods (Beijing) Co Ltd was the leader in chocolate confectionery, with a 12.8% market share in 2007. Its leading brand is Dove.

With 5.5% of market share in 2007, Dongguan Hsu-Fu-Chi Food Co Ltd was the leader of the sugar confectionery market. Its leading brand is Hsu-Fu-Chi.

Wrigley Confectionery (China) Ltd was the leader in the gum market, holding a 39.1% share in 2007. Its leading brand is Extra.

Dairy

This sector's sales increased from US $17.9 billion to US $20.1 billion.

Forecasts for 2008-2013

Dairy products are expected to increase by 77% in value. Yogurt sales are expected to show the highest growth rate at 101%. Drinking milk products sales are expected to increase by 73% and cheese sales will grow by 99%.

Main Sectors 2007-2008:

Drinking milk product sales increased from US $14.7 billion to US $16.4 billion.

Cheese sales increased from US $75.7 million to US $88.3 million.

Yogurt and sour milk sales increased from US $3.0 billion to US $3.5 billion.

Main Producers and their Chinese Brands

Inner Mongolia Mengniu Milk Industry (Group) Co Ltd was the leader in the drinking milk market, holding a 20% share in 2007. Its leading brand is Mengniu.

Bright Dairy & Food Co Ltd was the leader in the cheese market, with a 34.3% share in 2007. Its leading brand is Bright.

Inner Mongolia Mengniu Dairy Co Ltd was the leader in the yogurt and sour milk market, with a 26.1% share in 2007. Its leading brand is Mengniu.

Ice Cream

Sales value increased from US $4.7 billion to US $5.2 billion. The sales volume increased from 3.6 billion litres to 3.9 billion litres.

Forecasts for 2008-2013

This sector's retail value is forecast to increase by 93%. Impulse ice cream is expected to grow by 94%. Take-home ice cream purchases are expected to grow by 71%. Artisan ice cream sales are expected to grow by 92%.

Main Sectors 2007-2008:

Impulse ice cream sales increased from US $4.4 billion to US $4.8 billion.

Take-home ice cream sales increased from US $202.8 million to US $225.9 million.

Artisan ice cream sales increased from US $148.3 million to US $172 million.

Main Producers and their Chinese Brands

Inner Mongolia Yili Industrial Group Co., Ltd. was the leader in the impulse ice cream market with a 21.6% share in 2007. Its main brand is Yili.

Unilever was the leader in the impulse ice cream market with a 23.2% share in 2007. Its main brand is Wall's.

There was no artisan company or brand available for this segment.

Sauces, Dressings, and Condiments

This sector's sales increased in value from US $5.3 billion to US $5.7 billion.

Forecasts for 2008-2013

Sales of sauces, dressings, and condiments are forecast to increase by 52% in value. Sales in soy-based sauces are expected to increase by nearly 63%. Table sauce sales are expected to increase by 59%, and wet cooking sauce by 80%.

Main Sectors 2007-2008:

Soy-based sauces sales increased from US $2.6 billion to US $2.9 billion.

Table sauce sales increased from US $790.7 million to US $841.6 million.

Wet cooking sauce sales increased from US $99.9 million to US $107.2 million.

Main Producers and their Chinese Brands

Foshan Haitian Flavouring & Food Ltd is the leading player in sauces, dressings and condiments and accounted for a value share of 9% in 2007. Its leading brand is Haday.

McCormick & Company, Inc. was the leading player in the table sauce market, holding a share of 22.4% in 2007. Its leading brand is McCormick.

Lee Kum Kee Co. Ltd. was the leading player in the wet cooking sauce market, holding a share of 24.9% in 2007. Its leading brand is Lee Kum Kee.

Sweet and Savoury Snacks

This sector's sales increased in value from US $6.1 billion to US $6.5 billion. The volume of sales increased from 1.2 million tonnes to 1.3 million tonnes.

Forecasts for 2008-2013

Sales of sweet and savoury snacks are forecast to increase by 61%. Sales in nuts are expected to increase in value by 52%. Chips/ crisps and extruded snacks are expected to increase in value by 80% and 67%, respectively and cooking sauce by 87.8%.

Main Sectors 2007-2008:

Nut sales increased from US $79 million to US $83.4 million.

Extruded snacks sales increased from US $1.7 billion to US $1.8 million.

Chip and crisp sales increased from US $254.6 million to US $271.5 million.

Main Producers and their Chinese Brands

The Want Want Group remained the leader in the sweet and savoury snacks market, holding a 8.9% share in 2007. Its leading brand is Want Want.

Guangdong Strong (Group) Co Ltd was second in the sweet and savoury snacks market with a 7% share in 2007.

Shanghai Liwayway Food Ltd ranked third in the market of sweet and savoury, with a 4.4% share in 2007. Its brand is Oishi.

Spreads

This sector's sales value increased from US $526.8 million to US $571.6 million.

Forecasts for 2008-2013

Spreads sales are forecast to increase by 36% in value. Jams & preserves sales are forecast to increase by 38%. The sales of honey and chocolate spreads are forecast to increase by 35% and 48%.

Main Sectors 2007-2008:

Sales in jams and preserves increased from US $149 million to US $162.3 million.

Honey sales increased from US $304.7 million to US $329.7 million.

Chocolate spread sales increased from US $6.4 million to US $6.9 million.

Main Producers and their Chinese Brands

Wang's Bee Garden Co Ltd, which is the national brand owner of Wang's honey, leads with a 15.6% value share in the jams and preserves market in 2007.

Beijing Kewpie Food Co Ltd is second in the spread market with a 5.4% share in 2007. Its brand is Kewpie.

Ferrero SpA was the leader of the chocolate flavoured spread market, with 55% market share in 2007. Its brand is Nutella.

Oils and fats

This sector's sales value increased from US $5.9 billion to US $7.0 billion.

Forecasts for 2008-2013

Oils and fat sales are forecast to increase by 130% in value. The sales value of vegetable oil is expected to increase by 130% and olive oil by 211%.

Main Sectors 2007-2008:

Sales of vegetable oil increased from US $5.8 billion to US $6.8 billion.

Olive oil sales increased from US $47.1 million to US $59.6 million.

Main Producers and their Chinese Brands

Shanghai Kerry Oils & Grains Industrial Co Ltd was the leader of the oils and fat market, with a 29.9% share in 2007. Its leading brand is Jinlongyu.

China National Cereals, Oils & Foodstuffs Imp & Exp Corp (COFCO) was second in the oils and fats market, with a 15% share in 2007. Its leading brand is Fortune.

Company Shares of Packaged Food (by Global Brand Owner) - Retail Value RSP - % breakdown

China	2001	2002	2003	2004	2005	2006	2007
Inner Mongolia Mengniu Group	0.3	0.7	1.4	2.2	3.1	4.1	4.6
Inner Mongolia Yili Industrial Group Co Ltd	1.2	1.5	2.1	2.7	3.2	3.9	4.0
Kuok Oils & Grains Pte Ltd	1.2	1.3	1.9	2.1	2.4	2.6	2.8
Ting Hsin International Group	2.5	2.5	2.6	2.6	2.6	2.5	2.7
Shineway Group	1.2	1.5	1.4	1.5	1.7	1.7	2.1
Shijiazhuang Sanlu Group	1	1.2	1.4	1.6	1.8	1.8	1.9
Danone, Groupe	1.4	1.6	1.7	1.7	1.7	1.6	1.6
Bright Food (Group) Co Ltd	-	-	1.4	1.7	1.7	1.6	1.5
Hebei Hua Long Food Co Ltd	0.6	0.8	0.9	1.1	1.2	1.4	1.4
Nestlé SA	1.4	1.4	1.4	1.5	1.3	1.3	1.3
China National Cereals, Oils & Foodstuffs Imp & Exp Corp (COFCO)	0.3	0.4	0.6	0.7	0.8	0.8	1.1
Want Want Group	0.9	0.8	0.9	0.8	0.9	0.9	0.9
Wrigley Jr Co, William	0.4	0.4	0.6	0.8	0.9	0.9	0.8
Kraft Foods Inc	0.4	0.5	0.5	0.5	0.4	0.4	0.7
BVI Hsu-Fu-Chi Holdings Ltd	0.6	0.7	0.4	0.5	0.6	0.6	0.7

Source: Euromonitor

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