

IBISWorld Industry Report 1411

Bread & Bakery Product Manufacturing in China

November 2011

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About This Industry

Industry Definition

This industry uses raw ingredients to make different kinds of bakery products. Bakery goods are made through baking, molding and deep-frying processes. The main products made by the industry include bread, cakes, mooncakes, pastries and desserts.

Main Activities

The primary activities of this industry are:

- Baking bread
- Chinese bakery operations
- Foreign bakery operations
- Making cakes and pastries

The major products and services in this industry are:

- Chinese bakery products
- Foreign bakery products
- Bread

Similar Industries

1419 - Biscuit Production in China

This industry makes biscuits and other bakery products with wheat flour and other raw ingredients.

1432 - Frozen Food Production in China

Manufacturers in this industry produce frozen finished or semi-finished products.

1439 - Instant Noodle and Other Instant Food Manufacturing in China

Instant noodles and other instant foods are made by this industry.

Additional Resources

For additional information on this industry:

www.clii.com.cn

China National Light Industry Council

www.shfood.net

Shanghai Food Network

www.stats.gov.cn/english

National Bureau of Statistics

www.customs.gov.cn

China Customs

Industry Performance

Executive Summary

The Bakery Products and Bread Manufacturing industry has developed rapidly over the five years through 2011. In 2011, industry revenue is expected to total \$7.45 billion, up 18.1% from 2010. This is slightly below the annualized growth rate of 26.7% over the five years through 2011. The high growth is due to substantial demand for bakery goods, which has grown by an annualized 26.7% over the past five years. In 2011, there is expected to be about 745 enterprises operating in this industry, employing 122,868 workers with a payroll of \$496.5 million.

Despite weaker economic conditions in China since late 2008, demand for bread and bakery products remained steady and substantial. These products have become daily necessities for many people, particularly students and workers in urban areas.

The high level of foreign investment and large number of foreign-funded enterprises in the industry has resulted in technological improvements for bakery product manufacturers. Alongside strengthening government food regulations, these trends have helped increase consumer confidence in the industry. Demand for high-quality products will increase as consumers become more aware of the quality and nutritious attributes of bread and bakery products. The industry has a low concentration level, with the top four players accounting for a forecast 13.3% of industry revenue in 2011. Most firms in the industry are small- or medium-sized with low market shares. Barriers to entering the industry are low, especially in low-end markets.

With a further increase in domestic demand, industry revenue is expected to increase by an annualized 11.6% over the next five years, to reach a forecast \$12.91 billion in 2016.

Key External Drivers

The key sensitivities affecting the performance of the Bread & Bakery Product Manufacturing industry include:

Domestic Goods Prices - Agricultural - Crops - Wheat

High prices for wheat and other bakery ingredients will lead to greater costs for bakers. However, some cost increases can be absorbed by bakeries or passed on to consumers in the form of higher prices.

Household Income

Increases in household disposable incomes allow consumers to purchase a greater range of products, including bread and bakery goods made by this industry.

Industry Competition - Bread mfg

Increased competition among bread manufacturers can result in price pressure, which will reduce industry profit levels.

Industry Systems and Technology - Food Processing Machinery mfg

Improvements in food processing technologies can improve the efficiency of firms operating in this industry.

Current Performance

The industry has developed rapidly and steadily over the past five years. Revenue is expected to increase at an annualized rate of 26.6% over the five years through 2011, with an 18.1% increase to \$7.45 billion in 2011. The rapid development has been driven by rising household income and consumption levels, which have increased demand for bread and bakery products; high levels of foreign investment and large numbers of foreign-funded enterprises that promoted technological improvements in the industry;

strengthening government food regulations, which standardized operations and maintained consumer confidence in food safety; and consumer preferences for high-quality products, which increased product quality and prices.

In 2009, challenging economic conditions hindered growth for many industries. However, demand for bread and bakery products continued to be strong as these items have become daily necessities for many consumers, especially in urban areas. High industry output, strong demand and steady prices in 2008 resulted in revenue increasing by 52.9%. Strong industry conditions in the previous year fuelled substantial growth as domestic demand increased rapidly.

Output, profitability and trade

Bakery output increased from 429,300 tons in 2005 to 1.5 million tons in 2010, representing annualized growth of 28.5%. In 2011, bakery output is expected to increase by 21.5% to 1.83 million tons. This growth was stimulated by strong domestic demand and the entry of foreign and private investment. Foreign competitors promoted product diversification in terms of variety, packaging, quality and flavor. Relatively low entry barriers and high profitability attracted many new entrants to the industry over the past five years, which contributed to increased output.

Industry profitability varies according to the size and product type of industry firms. The profitability of some large enterprises, especially foreign-investment enterprises, is higher than smaller manufacturers. Profitability for foreign bakeries tends to be greater than traditional Chinese bakeries. Profit is also influenced by raw material prices, which have been increasing. Intensifying competition between enterprises and high input prices has weakened profit margins.

The share of exports and imports is small in this industry. Exports increased rapidly before 2006 due to greater production capacity. Many foreign companies set up production facilities in China during this time, with the aim of developing the nation's large potential market for the future; these enterprises sell to the domestic market and export bakery goods. In 2008, an incident involving the illegal use of melamine in milk products caused a rapid fall in consumer confidence for food exported from China. Melamine was added to products to give the appearance of increased protein. The organic base causes renal and urinary problems, which affected an estimated 300,000 people, many of them children and babies. Due to this incident, exports as a share of revenue are expected to decrease from 8.2% in 2007 to 3.4% in 2011.

Imported industry products are mainly high-end bread and bakery goods. Imports satisfy only a small share of domestic demand due to the growing ability of local manufacturers to produce items domestically. Imports increased at an annualized rate of 23.6% during the five-year period, with very strong growth in 2008 and 2009. However, due to a combination of more enhanced manufacturing capabilities of domestic firms, import growth is expected to slow in 2011.

Despite positive growth trends over the past five years, the industry did face some important challenges, including an imbalance in the geographic spread of manufacturers across the country, especially between the eastern and western regions; technology and management levels that lag behind the industry's advanced international competitors; and a lack of development of traditional Chinese products.

Industry Outlook

The industry is expected to maintain positive growth in the next five years. Revenue is forecast to increase by an annualized 11.6% to reach \$12.91 billion in 2016. This growth will be driven by favorable domestic demand for bread and bakery products as household disposable incomes rise. However, as the industry matures, growth will be slower than the high levels of the past five years. As output volumes slow, increased competition will result in lower prices for bread and bakery products. Revenue is forecast to grow by only 8.4% in 2016.

Continuing demand for high-quality products will be driven by growing household incomes and a heightened awareness of food safety and nutrition; bakery goods contain nutritional elements such as calcium, iron and vitamins. The medium and high-end market segments will account for a greater share of total revenue, while the size of the low-end segment will decline, especially in urban areas. However, the low-end market will continue developing, in volume terms, in less-developed regions of China with lower per capita incomes.

Developing trends

Manufacturers and consumers alike will continue to become more aware of food safety, and those players with a good reputation and brand image will gain market share. Industry competition is expected to become more intense over the next five years. Many small manufacturers may be forced to exit the industry, while larger players will develop economies of scale by expanding production facilities, chain stores and franchises. Competition between foreign and domestic enterprises will also intensify; foreign companies will vigorously promote their products and domestic firms will work on improving product quality.

The management level of the industry's enterprises will improve, especially for large enterprises with a number of chain stores. Innovation and development of new products will strengthen to meet increasing consumer requirements. A wide variety of products will therefore appear on the market.

Industry Life Cycle

This industry is in the growth stage of its life cycle.

Life Cycle Stage

- Value added increased at a faster rate than China's GDP during the past five years
- There is a large and growing market for industry products
- Technology change will be adopted by more manufacturers over the next five years

Industry value added is expected to increase by an annualized 26.6% in the five years through 2011. This is significantly higher than the average GDP growth rate of China.

Over the past five years, higher household disposable incomes have increased consumer purchasing power, leading to higher demand and expectations for prepared food. The urbanization process, rapid pace of work and study, and eating habits of young generations all drive demand for bread and bakery products.

The diversification of products in this industry continues to meet demand for different flavors and products. Most enterprises in this industry are small or medium-size, with relatively low technology levels.

Advanced manufacturing technologies are mainly used by large-scale bakeries. As more enterprises grow in size, technology changes are expected to be adopted more frequently and by more manufacturers, which will improve the overall quality of industry products. The government has been strengthening its food safety regulations in this industry. Increasing regulations will standardize bakery and bread products, which will benefit the long-term development of the industry.

Products & Markets

Supply Chain

Key Buying Industries

6322 - Sugar, Chocolate and Sugar Confectionery Wholesalers in China

This industry wholesales bread and bakery products.

6512 - Supermarkets in China

Supermarkets distribute large volumes of bakery products and bread.

6519 - Other Miscellaneous Goods Retailers in China

Retailers in this industry are an important distribution channel for bakery products and bread.

6522 - Bakery Product Retailers in China

Companies in this industry retail bakery and bread products.

Key Selling Industries

0111 - Cereal Grain Growing in China

This industry provides wheat, rice and other raw materials used in making bread and bakery products.

0113 - Oilseeds and Oleaginous Fruit and Nut Growing in China

Edible oilseeds, fruit and nuts are used as raw materials in bread and bakery products.

0310 - Sheep and Cattle Farming in China

Farmers in this industry supply manufacturers with fresh milk, cheese and other milk products.

2319 - Lithographic Printing in China

Packaging design and printing services for bakery products are provided by this industry.

Products & Services

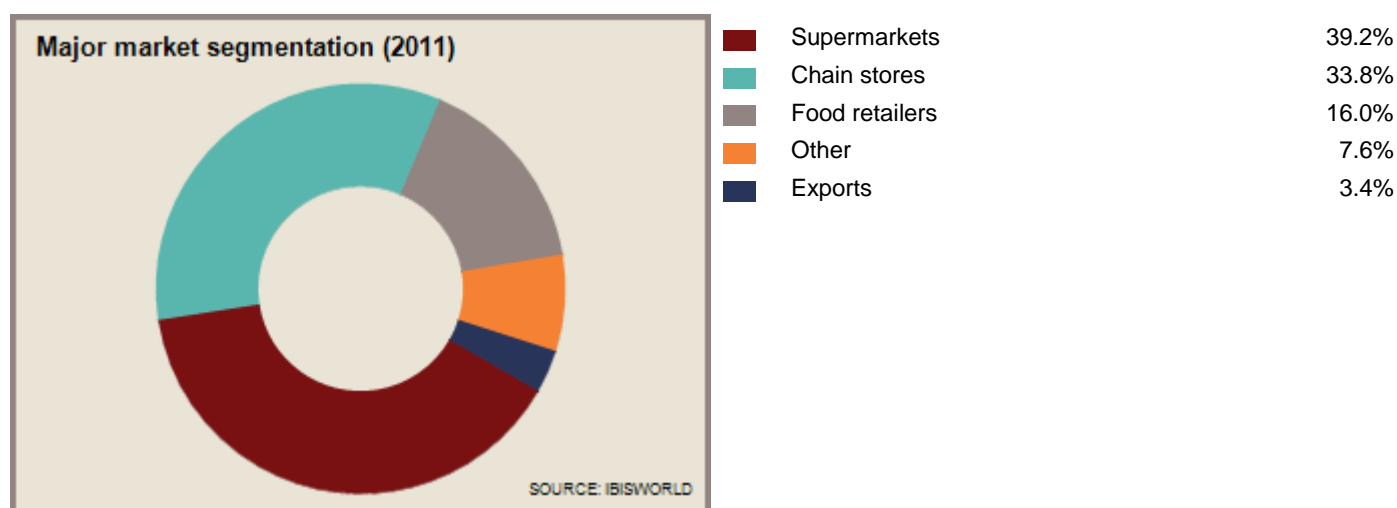


Bakeries form an important part of the overall Chinese food culture. Chinese bakeries can be divided into different segments according to different regions, flavors and styles. These include: Cantonese bakeries (Guangdong province); Suzhou bakeries (Jiangsu province); Beijing bakeries; Sichuan bakeries (Sichuan province); Qin bakeries (Shaanxi province) and Jin bakeries (Shanxi province). According to different manufacturing techniques, Chinese bakery products can also be divided into baked, deep-fried and stewed segments. Traditional festivals and holidays in China have a great influence on market demand for bakery goods. For example, around the middle of autumn people consume large amounts of mooncakes. The traditional bakery products of this industry, such as mooncakes, have developed new tastes and characteristics over time. Despite this, traditional Chinese bakeries achieve lower profitability compared with foreign bakeries. Foreign bakeries developed rapidly in China with the entry of foreign enterprises and their expansion of chain stores and franchises. Market share and sales revenue of foreign bakeries have increased in recent years as they continue to develop their products and offer wider varieties. Foreign bakery products can be divided into desserts, cakes and pastry. Bread accounts for a relatively small share of total revenue, although demand is increasing substantially as more Chinese consumers adopt western-style diets. Bread varieties available in China have also increased in recent years.

Demand Determinants

Increasing household disposable incomes have encouraged consumer purchases of daily consumables, including bakery products and bread. Rising health and safety concerns also affect demand for these products. Chinese people are becoming more aware of their own health and food safety, which favors demand for products with added health and safety benefits. Product innovation and diversification increased in recent years as new players entered the market; the supply of new products has stimulated demand. In recent years, with more people studying or working longer hours, there has been a shift away from traditional cooking and eating out. Traditional eating habits are being replaced with western-style diets that consist of more bakery products and bread; most prevalent among younger generations.

Major Markets



Supermarkets are the largest distribution channel of bread and bakery products in China. Supermarkets provide consumers with a wide range of low-cost products; this convenience gives them a major competitive advantage in the market. Franchised bakeries have developed rapidly over the past five years. Many large firms, particularly foreign enterprises, have established franchises to promote sales and brands; the number of these enterprises has been expanding rapidly. Franchised stores generally integrate production and sales activities, and provide freshly made bakery products and bread to consumers.

Food retailers include convenience stores, miscellaneous goods stores and street vendors. This market is an important distribution channel for bakery products. Food retailers are often small but cater for a large number of consumers over a wide area in urban communities, streets and rural areas. The products they sell are mainly at the lower end of the market. Exports contribute a relatively small share of total industry revenue. Over half of the industry's exports are destined for Japan, Hong Kong and South Korea.

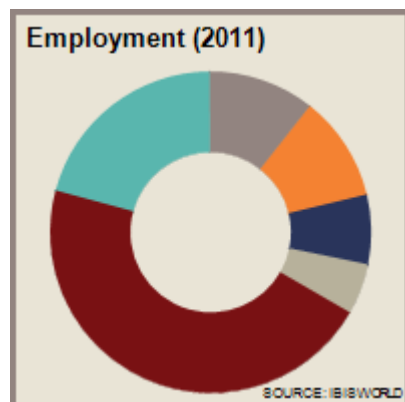
International Trade

**Exports in this industry are low and decreasing.
Imports in this industry are low and increasing.**

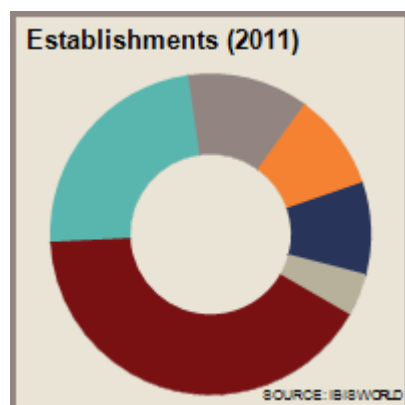
In 2011, exports are forecast to increase by 11% to \$251.3 million. Exports' share of industry revenue has declined from 8.2% in 2007 to an estimated 3.4% in 2011. The low export share of industry revenue is attributed to the comparatively low manufacturing capability of domestic enterprises; the perishable nature of industry products; domestic demand trends; and perceived health concerns of consumers. In 2009, exports totaled \$191.1 million, decreasing by 2.6% from the previous year. The melamine incident and other food safety concerns occurred during this time, which damaged international perceptions of Chinese-made food; demand for exports from China subsequently declined.

Competing imports are forecast to total \$107.5 million in 2011, up 13.8% from the previous year. The share of imports in domestic demand is estimated to be low at almost 1.5% in 2011, a decrease from 1.8% in 2006. Imported bakery and bread items are mainly high-end products that are not produced by domestic enterprises. However, this share is expected to continue declining over the next five years as more domestic enterprises expand their manufacturing capabilities. Hong Kong increased its share of total imports from 40.7% in 2005 to 50.9% in 2011.

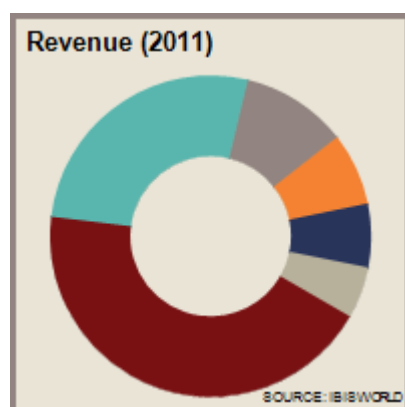
Business Locations



Region	Percentage
East China	45.8
Middle South China	20.7
South West China	10.7
North China	10.6
North East China	7.0
North West China	5.1



Region	Percentage
East China	40.9
Middle South China	23.5
South West China	9.3
North China	12.2
North East China	9.8
North West China	4.3



Region	Percentage
East China	43.6
Middle South China	26.8
South West China	6.4
North China	7.3
North East China	10.7
North West China	5.2

Henan province is the largest manufacturing base for bakeries and bread in China, accounting for 16.1% of total industry revenue in 2011. Henan has some significant resource advantages to other regions: the south area of Henan has the largest output of soft wheat, a main raw material input for bread production, in China; it is close to many main bakery goods consumption areas; and the province's transportation costs are relatively low.

Shanghai municipality is the second-largest manufacturing base for the industry, accounting for 12.2% of industry revenue in 2011. A large number of foreign-funded enterprises are located in this municipality; these enterprises dominate the high-end market with advantages in product quality and diversification. Some local enterprises in Shanghai have become particularly well known, such as Christine and Guan Sheng Yuan.

Shandong province is the third-largest manufacturing base for the industry, accounting for 7.5% of industry revenue in 2011. This province also has the largest number of enterprises in this industry. Important products bases also exist in the Beijing municipality and Guangdong province. Bakeries in Beijing are well known for the wide variety of products they offer, while Cantonese bakeries are well known for freshness and delicacy.

West China contributes a small share to industry revenue due to its relatively low economic and consumption levels.

Competitive Landscape

Market Share Concentration

The level of industry concentration is low.

The Bakery Products and Bread Manufacturing industry has low concentration, with the top four players accounting for an estimated 13.3% of industry revenue in 2011.

Most firms in this industry are small to medium in size and have low market shares. Barriers to entering this industry are low, especially in local and low-end markets. The concentration ratio of this industry differs across the country. For example, concentration is higher in some provincial areas such as Beijing, Shanghai, Shandong and Guangdong, where many major players have their main manufacturing facilities.

The industry is expected to become more concentrated in the next five years as there will be more mergers and acquisitions occurring among players. However, concentration will remain low due to the highly fragmented nature of the industry.

Key Success Factors

The key success factors in the Bread & Bakery Product Manufacturing industry are:

Economies of scale

By developing economies of scale, manufacturers can improve production efficiency and reduce costs.

Effective product promotion

Effective product promotion helps manufacturers market their products efficiently and increases sales revenue.

Establishment of brand names

A good reputation and brand recognition helps manufacturers retain existing customers and attracts more consumers, thus increasing their market share.

Having an extensive distribution network

Distribution networks are important for manufacturers within this industry to enlarge sales coverage and increase sales revenue.

Development of new products

Offering a large variety of products will assist manufacturers in attracting and keeping consumers, which will help grow sales.

Cost Structure Benchmarks



Purchases	59.3%
Wages	6.7%
Rent	6.3%
Management and Administration	4.1%
Depreciation	3.5%
Tax and Interest	3.2%
Utilities	2.9%
Other	6.5%
Profit	7.5%

Profitability has increased over the past five years and is estimated to account for 7.5% of industry revenue in 2011. Profit levels can vary for different products; foreign bakeries have higher profit margins than traditional Chinese bakeries. Rising raw material prices for wheat, eggs, cooking oil and fat has resulted in downward pressure on profit margins across the industry.

Purchases will account for the largest share of revenue in 2011, at 59.3%. This includes equipment and raw materials such as sugar, flour and packaging. Rising prices for raw materials and packaging have contributed to a larger revenue share for this segment.

Rent and utilities are forecast to account for 6.3% and 2.9% of revenue, respectively. Due to increasing property prices in China, rent for storefronts has escalated over the past five years. Total wages are forecast to absorb 6.7% of revenue in 2011. Labor costs in China are low; the average wage for individual employees is \$337 per month in 2011.

Management expenses include training, business hospitality, transportation and allowances for business trips and conferences. Depreciation accounts for a moderate share of industry revenue, reflecting the medium level of capital investment required for baking, such as mixing equipment and ovens.

Basis of Competition

Brand image is playing an increasingly important role for firms competing in this industry. This form of competition is becoming more evident in the medium and high-end markets of urban regions. High-quality, well-known brands are becoming more popular as consumers increase their awareness of food safety. Although there is currently little differentiation among products, diversification will help manufacturers attract more consumers and increase market share at the same time. Price is another major source of competition between firms, especially in counties and rural regions with lower income levels. Quality, flavor and packaging are not of great importance to consumers in these areas, as consumption of bread and bakery products without packaging is more common; demand is mainly satisfied by local manufacturers.

Production scale is important for manufacturers. Most participants in this industry are of a small-scale with low output. Small firms generally compete in local markets. Their average production costs are higher due to a lack of economies of scale, and profit margins are subsequently low. Having an efficient distribution network is important for large manufacturers in the industry. As bakery products generally have a short shelf life, they must be quickly distributed to end retailers after production. An extensive distribution network is especially important for large-scale players. Due to the comparatively low barriers to entering this industry, many small players have entered the industry; including individual store owners. This trend intensifies competition in the industry, especially in local markets. The major external competition facing bakeries and bread manufacturers in China comes from substitute products. Many consumers prefer savory foods, making instant noodles one of the most popular convenience foods.

Barriers to Entry

Barriers to entry are low and increasing.

Barriers to Entry checklist	Level/Impact
Industry Competition	High
Industry Concentration	Low
Life Cycle Stage	Growing
Capital Intensity	Medium
Technology Change	Medium
Regulation and Policy	Medium
Industry Assistance	Low

SOURCE: IBISWORLD

Start-up costs for new, small entrants are usually low as basic manufacturing equipment is fairly cheap. This industry does not need to utilize much technology, especially for domestic enterprises. Production depends on the skills of the workforce; the wage level is generally low in China. There is little product differentiation in this industry. Larger enterprises tend to diversify their products with new flavors and styles; smaller enterprises generally produce traditional bread and bakery products. Most enterprises in this industry are either small or medium. They generally operate on a small-scale in local markets. Barriers to entry are expected to increase in the future, as the government strengthens regulations, especially in relation to food safety. Intensified competition between high-end existing enterprises will add to pricing pressure for new entrants.

Industry Globalization

The level of globalization is medium and increasing.

The industry has a medium level of globalization. This has been increasing over the past five years and is expected to continue doing so in the next five. Since China's accession to the World Trade Organization in 2001, the number of foreign players in this industry has increased.

In 2010, foreign-owned enterprises (including from Hong Kong, Macau and Taiwan) accounted for 19.6% of total businesses in the industry, and these enterprises will generate 31.3% of revenue for the year.

However, exports as a share of revenue and imports as a share of domestic demand were both low at 3.6% and 1.5%, respectively. This limited the industry's globalization level. The entry and development of foreign enterprises has placed competitive pressure on domestic firms, but this has also stimulated the domestic market to some degree.

Enterprise ownership shares, 2010

Ownership type	Revenue share Percentage	Total enterprise share Percentage
State-owned	1.0	1.5
Collectively owned	0.4	1.3
JECE*	0.9	1.3
Shareholding	1.5	0.8
Private	50.1	59.8
Foreign	31.3	19.6
Other	14.8	15.8

SOURCE: NATIONAL BUREAU OF STATISTICS CHINA
NOTE: *STANDS FOR JOINT-EQUITY COOPERATIVE ENTERPRISE

Major Companies



Orion Food Co., Ltd.

Market Share: 6.0%

In 1997, Orion Food Co., Ltd. was established by Orion, one of the four largest food manufacturers in South Korea. Orion Food Co., Ltd. invested heavily in developing new products to suit Chinese consumers' cultural traditions and eating habits.

Orion has three production bases and four headquarters in China and runs over 69 service offices. The company's main products include pies, tarts, tiramisu and chocolate cakes. Among these products, the Orion Pie is sold in over 60 countries and regions, accounting for about 70% of the international chocolate pie market.

Orion's market share has increased from 3.3% in 2004 to 6.0% in 2011. Company development was reflected in substantially increased assets, industry revenue and profit. However, company profit decreased by 54.1% in 2007 due to the establishment of new factories.

Orion Food (Guangzhou) Co., Ltd. was established in 2008, which enhanced the company's production capacity. Company revenue is estimated to have increased significantly, to \$259.0 million, in that year. Orion Food Co., Ltd. was restructured in 2008, which will continue to benefit the company.

In 2009, Orion strengthened its investment in China with new factories in Guangzhou. By 2010, the company's sale revenue had surpassed \$443.1 million, representing an annualized growth rate of 47.1% over the past five years.

Orion Food Co., Ltd. - financial performance

Year	Assets US Million Dollars	Growth % change	Revenue US Million Dollars	Growth % change	Profit US Million Dollars	Growth % change
2005	50.2	N/C	64.4	N/C	4.9	N/C
2006	86.3	71.9	88.7	37.7	6.1	24.5
2007	106.1	22.9	151.8	71.1	2.8	-54.1
2008*	259.0	144.1	230.5	51.8	3.5	25.0
2009*	350.6	35.4	357.6	55.1	5.1	45.7
2010*	420.5	19.9	443.1	23.9	6.0	17.6

SOURCE: ANNUAL REPORT
NOTE: *ESTIMATE

Shanghai Christine Foodstuff Co., Ltd.

Market Share: 4.0%

Shanghai Christine Foodstuff Co., Ltd. was established in 1992. It is a Shanghai-based, Taiwanese business. The enterprise produces Chinese and foreign pastries, bread, decorative cakes and mooncakes. Shanghai Christine has established five factories under the Good Manufacturing Practice pattern and has over 800 franchised stores. In 2006, the establishment of its first flagship store, Sweet Lovers, greatly improved the brand image of the enterprise. Products are also exported to the Japanese market.

Shanghai Christine has developed steadily in recent years, with its market share increasing from 3.6% in 2004 to a forecast 4.0% in 2011. Total assets and profit also increased strongly over this time. The profitability of the enterprise is much higher than the general level of the industry. This is because the company uses an advanced customer service managerial system. Profitability of foreign bakeries is usually higher than local enterprises in this industry.

In 2008, a production base at Nanjing was completed and put into operation. The factory is one of the largest and most advanced baked food factories in China, with a daily production capacity of 600,000 pieces (bread). In 2010, the company was named as the key bakery product supplier for the Shanghai Expo. Company revenue increased to \$211.5 million.

Shanghai Christine Foodstuff Co., Ltd. - financial performance

Year	Assets US Million Dollars	Growth % change	Revenue US Million Dollars	Growth % change	Profit US Million Dollars	Growth % change
2005	58.3	N/C	60.3	N/C	9.4	N/C
2006	88.1	51.1	77.5	28.5	11.3	20.2
2007	131.8	49.6	103.8	33.9	19.6	73.5
2008*	180.5	36.9	134.9	30.0	28.7	46.4
2009*	226.7	25.6	170.3	26.2	40.5	41.1
2010*	263.1	16.1	211.5	24.2	51.3	26.7

SOURCE: ANNUAL REPORT
NOTE: *ESTIMATE

Huajia Foodstuff Co., Ltd.

Market Share: 1.8%

Located in Guangdong province, Huajia Foodstuff Co., Ltd. is a wholly-owned subsidiary of Hong Kong Garden Co. Ltd. (Garden). It was one of the first foreign-owned enterprises in the industry. Garden produces bread, cakes and bakery products. Garden's main brands include Garden, Lihua and Xingmu. The enterprise also manufactures private-label products for other well-known manufacturers.

Garden is one of the largest manufacturers of bread, cakes and bakery products in Hong Kong. Core business revenue, profit and assets grew rapidly from 2004 to 2007. However, due to intensified competition in the industry, Huajia Foodstuff's market share has decreased from 4.0% in 2004 to an estimated 1.8% in 2011.

Huajia Foodstuff Co., Ltd. - financial performance

Year	Assets US Million Dollars	Growth % change	Revenue US Million Dollars	Growth % change	Net income US Million Dollars	Growth % change
2005	51.7	N/C	52.9	N/C	3.1	N/C
2006	51.9	0.4	47.6	-10.0	4.7	51.6
2007	62.0	19.5	70.9	48.9	7.2	53.2
2008*	68.9	11.1	85.3	20.3	8.7	20.8
2009*	74.3	7.8	98.5	15.5	9.8	12.6
2010*	81.2	9.3	110.6	12.3	10.7	9.2

SOURCE: ANNUAL REPORT
NOTE: *ESTIMATE

Hangzhou Dingyuan Food Co., Ltd.

Market Share: 1.5%

Established in 1995, Hangzhou Dingyuan Food Co., Ltd. is a subsidiary of Tingyi (Cayman Islands) Holding Corporation.

Hangzhou Dingyuan Food Co., Ltd. develops and produces bakery and bread products for its parent company. Its main products include crisp-baked cookies, muffins, egg rolls and rice cakes.

The company only began to return a profit in 2005. Core business revenue increased steadily from 2004 to 2010, totaling a forecast \$90.1 million in 2010.

Hangzhou Dingyuan Food Co., Ltd. - financial performance

Year	Assets US Million Dollars	Growth % change	Revenue US Million Dollars	Growth % change	Net Income US Million Dollars	Growth % change
2005	43.7	N/C	48.7	N/C	1.8	N/C
2006	41.2	-5.7	57.6	18.3	0.0	-100.0
2007	45.6	10.7	64.6	12.2	1.4	N/C
2008*	49.7	9.0	72.1	11.6	1.6	14.3
2009*	53.6	7.8	79.5	10.3	1.8	12.5
2010*	59.2	10.4	90.1	13.3	2.0	11.1

SOURCE: ANNUAL REPORT
NOTE: *ESTIMATE

Labi Xiaoxin (Fujian) Foods Industrial Co., Ltd.

Market Share: 1.3%

Labi Xiaoxin (Fujian) Food Industrial Co., Ltd. was established in 2000. The company is based in the Wuli Science & Technology Industrial Park in Jinjiang City. Its key products are sold in over 30 provincial areas nationwide. The company has established close links with large retailers both at home and abroad, such as Walmart, Metro and Carrefour. The company's products are exported to North America, Europe and South-East Asia.

Labi Xiaoxin (Fujian) Foods Industrial Co., Ltd. - financial performance

Year	Assets US Million Dollars	Growth % change	Revenue US Million Dollars	Growth % change	Net Income US Million Dollars	Growth % change
2005	20.3	N/C	77.9	N/C	7.0	N/C
2006	21.5	5.9	99.7	28.0	8.7	24.3
2007	27.8	29.3	107.8	8.1	9.7	11.5
2008*	34.5	24.1	127.4	18.2	10.5	8.2

2009*	41.7	20.9	148.1	16.2	11.3	7.6
2010*	48.3	15.8	167.4	13.0	12.0	6.2

SOURCE: ANNUAL REPORT
NOTE: *ESTIMATE

Other Players

Wendeng Changgong Foodstuff Co. Ltd.

Estimated market share: 1.2%

Wendeng Changgong Foodstuff Co. Ltd. is located in Shandong province and was established in 2000. The enterprise is foreign-owned and employed about 350 people in 2008. The company produces pastry products that are both exported and sold domestically. In 2007, revenue from exports totaled \$13.9 million and accounted for a large share of total company revenue. Wendeng Changgong Foodstuff Co. Ltd. has developed rapidly over the past five years due to increased domestic demand. Company revenue increased rapidly from 2005 to 2010, totaling an estimated \$76.0 million in 2010.

Shanghai Yuanzu Mengguozi Co. Ltd.

Estimated market share: 1.0%

Shanghai Yuanzu Mengguozi Co. Ltd. was established in 2002. It has seven branches and over 260 stores throughout 53 cities in China. The company is engaged in developing and manufacturing pastry products. It has invested heavily in research and development of fresh products with less sugar and fat content, and more fiber. The enterprise's products are mainly distributed in the domestic market. Management systems in place enabled the company to decrease manufacturing costs and increase total profit, which more than doubled in 2007. During 2010, company revenue was estimated to total \$55.7 million.

Beijing Bama Foodstuff Co. Ltd.

Estimated market share: 0.7%

Established in 1992, Beijing Bama Foodstuff Co. Ltd. is a subsidiary of the multinational food processor, Bama Companies (US). The company manufactures apple pies, pies and pastries. Its products are mainly sold in the domestic market, but also exported to the United States and other countries in Asia. Beijing Bama Foodstuff Co. Ltd. is a Chinese pie supplier for McDonald's. From 2004 to 2010, the company developed rapidly with substantial increases in assets, revenue and profit. In 2010, revenue and profit grew by 18.8% and 14.0%, respectively.

Guan Sheng Yuan (Group) Company Limited

Estimated market share: 0.2%

Guan Sheng Yuan (Group) Company Limited is a large-scale enterprise engaged in manufacturing food products. As well as manufacturing bread and bakery products, the company is engaged in international trade and industrial investment. The company has 12 state-owned manufacturing plants in operation and 11 Sino-foreign joint ventures; it also holds shares in over 30 other subsidiaries.

Dongguan Wanhao Foodstuff Co. Ltd.

Estimated market share: 0.2%

Dongguan Wanhao Foodstuff Co. Ltd. began operations in 2007, with total assets of \$26.2 million. It is a subsidiary of Hong Kong Tao Heung Holdings Limited, which is a large-scale enterprise providing various food products and services. The company manufactures party products and meat and vegetable items. The company reported industry revenue of \$4.4 million in 2007.

Wendeng Changgong Foodstuff Co. Ltd. - financial performance

Year	Assets US Million Dollars	Growth % change	Revenue US Million Dollars	Growth % change	Net Income US Million Dollars	Growth % change
2005	9.3	N/C	28.4	N/C	1.2	N/C
2006	12.2	31.2	42.9	51.1	1.5	25.0
2007	21.6	77.0	50.3	17.2	2.5	66.7
2008*	28.7	32.9	58.1	15.5	3.6	44.0
2009*	35.1	22.3	66.3	14.1	4.8	33.3
2010*	42.3	20.5	76.0	14.6	6.0	25.0

SOURCE: ANNUAL REPORT
NOTE: *ESTIMATE

Shanghai Yuanzu Mengguozi Co. Ltd. - financial performance

Year	Assets US Million Dollars	Growth % change	Revenue US Million Dollars	Growth % change	Net Income US Million Dollars	Growth % change
2005	12.5	N/C	22.4	N/C	4.2	N/C
2006	13.9	11.2	22.4	0.0	4.2	0.0
2007	24.9	79.1	31.6	41.1	9.7	131.0
2008*	31.6	26.9	38.5	21.8	12.8	32.0
2009*	37.9	19.9	46.2	20.0	14.3	11.7
2010*	45.1	19.0	55.7	20.6	21.5	50.3

SOURCE: ANNUAL REPORT
NOTE: *ESTIMATE

Beijing Bama Foodstuff Co. Ltd. - financial performance

Year	Assets US Million Dollars	Growth % change	Revenue US Million Dollars	Growth % change	Net Income US Million Dollars	Growth % change
2005	17.2	N/C	14.4	N/C	2.7	N/C
2006	18.9	9.9	15.3	6.3	2.4	-11.1
2007	22.6	19.6	21.3	39.2	4.0	66.7
2008*	22.6	0.0	25.9	21.6	4.9	22.5
2009*	29.4	30.1	30.4	17.4	5.7	16.3
2010*	34.8	18.4	36.1	18.8	6.5	14.0

SOURCE: ANNUAL REPORT
NOTE: *ESTIMATE

Guan Sheng Yuan (Group) Company Limited - financial performance

Year	Assets US Million Dollars	Growth % change	Revenue US Million Dollars	Growth % change	Net Income US Million Dollars
2006	10.0	N/C	6.9	N/C	0.0
2007	16.9	69.0	7.1	2.9	0.7
2008*	23.4	38.5	7.3	2.8	0.8
2009*	30.2	29.1	7.5	2.7	0.9
2010*	36.1	19.5	7.8	4.0	1.0

SOURCE: ANNUAL REPORT
NOTE: *ESTIMATE

Operating Conditions

Capital Intensity

The level of capital intensity is medium.

- Capital investment in facilities is moderate
- The equipment replacement cycle is relatively short
- Labor costs have been increasing

Capital intensity is represented by the ratio of labor costs (using wages as a proxy) to capital costs (using depreciation as a proxy). With a forecast ratio of 1.9:1 in 2011, this industry has a medium level of capital intensity.

Depending on the size and structure of a manufacturer, investment requirements for equipment and facilities can vary greatly. For a large enterprise, investment needs are relatively great. However, for a small firm, investment requirements can be low as production of traditional bread and bakery items relies on skilled labor and simple tools.

Intense competition has driven enterprises to shorten the replacement cycle of manufacturing equipment, especially for large-scale manufacturers. This industry requires many employees, especially for small and medium operations; labor costs have increased over the past five years. Average monthly wages for individual workers have increased from \$232 in 2006 to a forecast \$337 in 2011.

Technology & Systems

The level of technology change is medium.

The industry is subject to a medium level of technology change. However, change varies with different enterprise sizes and ownership structures. The technology level of foreign-owned enterprises is generally higher than domestic firms. Many foreign firms use computer-controlled production lines to improve efficiency. The entire production process is computerized; from ingredient measurement and mixing, to cooking and packaging.

Domestic enterprises, especially small and medium-size firms, generally have less investment capital and lower production efficiency; therefore their technology change level is low. Many bakeries still operate traditionally, with experienced bakers training apprentices, and producing non-standardized bread and bakery items. However, the technology level of domestic companies has been improving in recent years as more enterprises install advanced manufacturing facilities. Improvements of product quality and safety requirements will accelerate technology change within the industry in the future.

Revenue Volatility

The level of volatility is medium.

Increasing household disposable incomes, longer working hours, and the adoption of more westernized diets have combined to see demand for bread and bakery items increase rapidly over the past five years. Domestic demand increased substantially and steadily, which provided a basis for steady and strong revenue growth. Growing foreign investment has also promoted development. Foreign-funded enterprises are generally of a large-scale and have advanced management systems as well as advertising expertise.

Regulation & Policy

The level of regulation is medium and the trend is increasing.

In December 2007, the General Technical Requirement for Pastries was implemented, which included detailed requirements for the classification, testing, inspecting and labeling of bread and bakery products. The implementation of these requirements resulted in improved product quality.

The government has also established special manufacturing standards relating to sanitary issues, food additives, pollution emissions, food moisture content, fat content and aluminum content in flour products. Higher safety requirements for food packaging have also been implemented.

The China National Food Industry Association has strengthened requirements for the use of environmentally friendly plastic packaging and has introduced a new Quality Standard (QS) certificate. All food manufacturers have to use packaging with the new QS certificate. In 2011, the Ministry of Health issued seven state standards of food safety. The government is expected to issue more regulations and to strengthen existing regulations to ensure product safety.

Industry Assistance

The level of industry assistance is low and the trend of industry assistance is increasing.

Key Tariffs

Goods	Low Rate*	High Rate*
Crispbread	20.0	80.0
Rusk	20.0	80.0
Toasted bread	20.0	80.0

*PERCENTAGE OF VALUE UNLESS OTHERWISE SPECIFIED

Import tariff rates for bread and bakery products vary from 20% to about 80%. The general import duty is 80%, but is much lower (20%) for countries that have signed the Most Favored Nation (MFN) clause with China. The export rebate rate for bakeries and bread products is 13%.

Key Statistics

Industry Data

	Revenue	IVA	Establish- ments	Enterprises	Employ- ment	Exports	Imports	Wages	Assets	Bakeries Output (Thousand Tons)
2002	935.6	341.9	1,707	405	46,854	108.5	24.6	87.4	1,045.2	206
2003	1,015.0	310.8	1,653	362	45,628	156.8	31.6	90.9	1,097.7	228
2004	1,515.4	456.7	2,273	484	61,029	181.8	28.3	132.6	1,382.1	340
2005	1,886.4	611.6	2,043	402	58,720	218.8	35.5	139.0	1,478.6	429
2006	2,286.5	716.0	2,116	413	62,668	248.4	37.2	174.1	1,762.6	591
2007	2,880.7	937.9	2,373	435	70,024	234.7	36.4	214.6	2,033.5	634
2008	4,404.5	1,427.1	3,240	600	90,509	196.3	55.5	324.6	2,918.7	799
2009	5,293.9	1,703.5	3,409	684	100,120	191.1	72.6	398.1	3,452.5	981
2010	6,310.1	2,003.9	3,710	716	115,151	226.3	94.5	461.7	3,977.0	1,505
2011	7,450.6	2,327.1	3,914	745	122,868	251.3	107.5	496.5	4,382.5	1,829
2012	8,578.7	2,636.5	4,105	773	128,873	275.6	118.2	528.6	4,757.3	-
2013	9,726.3	2,925.5	4,283	796	134,181	296.7	128.5	560.8	5,128.5	-
2014	10,845.4	3,210.7	4,423	818	138,590	318.8	138.6	591.6	5,480.5	-
2015	11,915.1	3,482.1	4,561	839	142,750	340.6	147.6	620.3	5,847.8	-
2016	12,910.4	3,739.8	4,691	860	146,724	361.5	156.3	648.8	6,217.8	-

Annual Change

	Revenue (%)	IVA (%)	Establish- ments (%)	Enterprises (%)	Employ- ment (%)	Exports (%)	Imports (%)	Wages (%)	Assets (%)	Bakeries Output (%)
2003	8.5	-9.1	-3.2	-10.6	-2.6	44.5	28.5	4.0	5.0	11.1
2004	49.3	46.9	37.5	33.7	33.8	15.9	-10.4	45.9	25.9	49.0
2005	24.5	33.9	-10.1	-16.9	-3.8	20.4	25.4	4.8	7.0	26.2
2006	21.2	17.1	3.6	2.7	6.7	13.5	4.8	25.3	19.2	37.6
2007	26.0	31.0	12.1	5.3	11.7	-5.5	-2.2	23.3	15.4	7.4
2008	52.9	52.2	36.5	37.9	29.3	-16.4	52.5	51.3	43.5	26.0
2009	20.2	19.4	5.2	14.0	10.6	-2.6	30.8	22.6	18.3	22.7
2010	19.2	17.6	8.8	4.7	15.0	18.4	30.2	16.0	15.2	53.5
2011	18.1	16.1	5.5	4.1	6.7	11.0	13.8	7.5	10.2	21.5
2012	15.1	13.3	4.9	3.8	4.9	9.7	10.0	6.5	8.6	N/C
2013	13.4	11.0	4.3	3.0	4.1	7.7	8.7	6.1	7.8	N/C
2014	11.5	9.7	3.3	2.8	3.3	7.4	7.9	5.5	6.9	N/C
2015	9.9	8.5	3.1	2.6	3.0	6.8	6.5	4.9	6.7	N/C
2016	8.4	7.4	2.9	2.5	2.8	6.1	5.9	4.6	6.3	N/C

Key Ratios

	IVA/revenue (%)	Imports/demand (%)	Exports/revenue (%)	Revenue per employee (\$'000)	Wages/revenue (%)	Employees per est.	Average wage (\$)
2002	36.5	2.9	11.6	20.0	9.3	27	1,865.4
2003	30.6	3.6	15.4	22.3	9.0	28	1,992.2
2004	30.1	2.1	12.0	24.8	8.8	27	2,172.7
2005	32.4	2.1	11.6	32.1	7.4	29	2,367.2
2006	31.3	1.8	10.9	36.5	7.6	30	2,778.1
2007	32.6	1.4	8.1	41.1	7.4	30	3,064.7
2008	32.4	1.3	4.5	48.7	7.4	28	3,586.4
2009	32.2	1.4	3.6	52.9	7.5	29	3,976.2
2010	31.8	1.5	3.6	54.8	7.3	31	4,009.5
2011	31.2	1.5	3.4	60.6	6.7	31	4,040.9
2012	30.7	1.4	3.2	66.6	6.2	31	4,101.7
2013	30.1	1.3	3.1	72.5	5.8	31	4,179.4
2014	29.6	1.3	2.9	78.3	5.5	31	4,268.7
2015	29.2	1.3	2.9	83.5	5.2	31	4,345.4
2016	29.0	1.2	2.8	88.0	5.0	31	4,421.9

Figures are inflation-adjusted 2011 dollars

NOTE: UNLESS SPECIFIED, AN ASTERISK (*) ASSOCIATED WITH A NUMBER IN A TABLE INDICATES AN IBISWORLD ESTIMATE AND REFERENCES TO DOLLARS ARE TO US DOLLARS.

Jargon

MELAMINE A white crystalline solid used in synthetic resins that are included in the process of making cups and plates.

MOONCAKES Traditional Chinese pastry products that can have sweet or savory fillings.

PASTRY Used as a casing for sweet and savory products. It is made from flour, water, milk and eggs.

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