



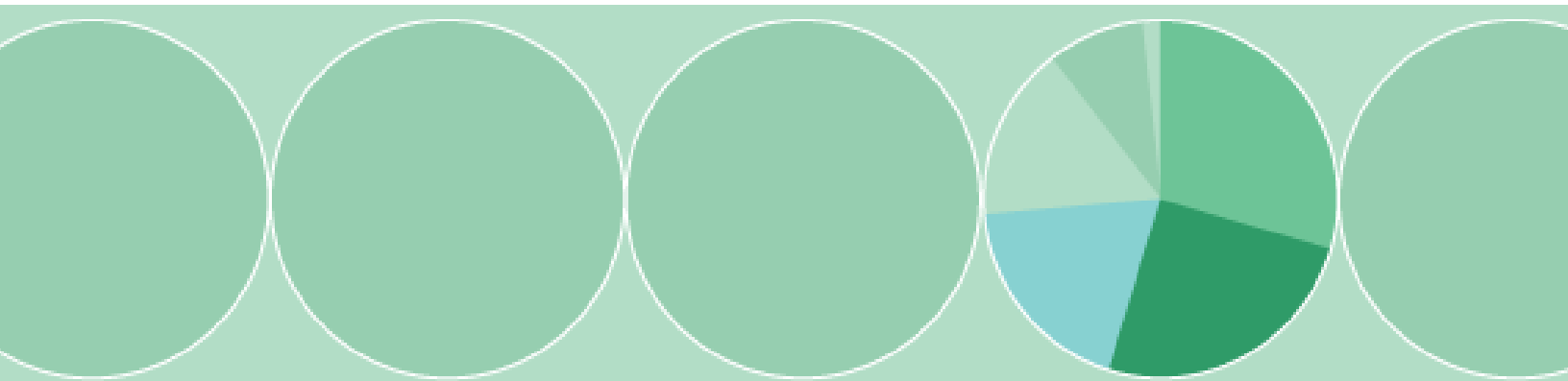
**WHERE KNOWLEDGE IS POWER**



## IBISWorld and ACMR China Industry Report

02 February 2011

### Beer Manufacturing in China: 1522

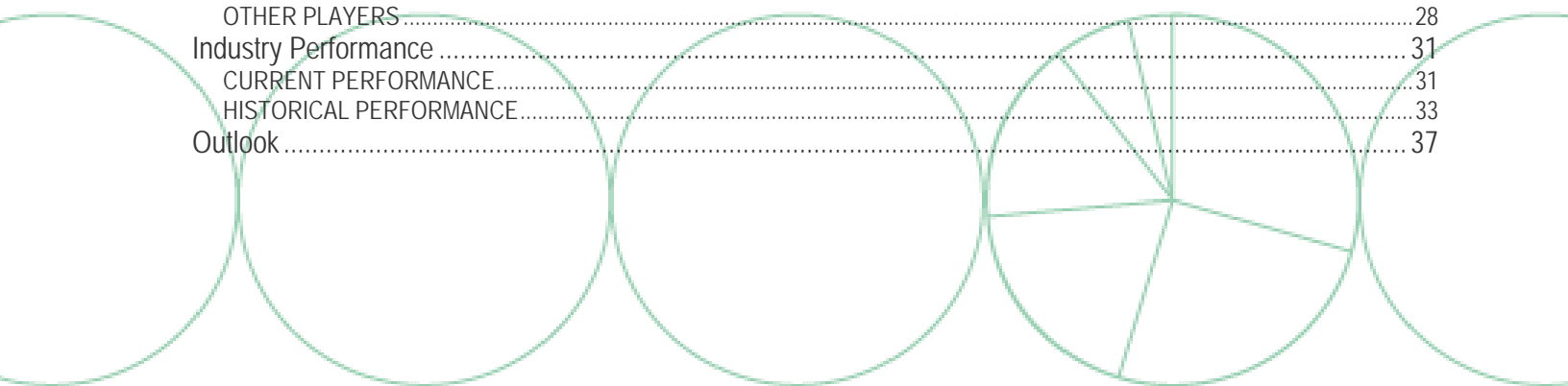


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## Industry Definition

Establishments within the Beer Manufacturing Industry in China purchase barley, yeast, malt and other ingredients to produce various beer products. The main products manufactured are fresh, carbonated beer products with a relatively low degree of alcohol (2.5% to 7.5%). The beer is packaged in kegs for sale to pubs, bars, restaurants and hotels. Beer can also be packaged in cans and bottles for sale to wholesale and retail alcoholic beverage distributors, and the hospitality sector.

### ACTIVITIES (PRODUCTS AND SERVICES)

The primary activities of this industry are:

- Barley malt manufacturing
- Pure beer manufacturing
- Turbid beer manufacturing
- Wheat malt manufacturing

The major products and services in this industry are:

- Bottled beer
- Canned beer
- Keg and draught beer
- Other beer products

### SIMILAR INDUSTRIES

Industry:  1510 - Distilled Spirit Manufacturing in China

Description: Includes establishments involved in the production of distilled spirits made of corn, wheat, potato, etc, used for industrial applications or as raw materials for alcohol drinks.

Industry:  1521 - Chinese Distilled Alcohol Manufacturing in China

Description: Refers to establishments manufacturing alcohol drinks made of fine grain and ferments of different types, usually containing 18% to 60% alcohol.

Industry:  1539 - Tea and Other Soft Beverage Manufacturing in China

Description: Includes establishments producing tea drinks and other soft beverages.

### DEMAND & SUPPLY INDUSTRIES

-  0111 - Cereal Grain Growing in China
-  3145 - Glass Products Manufacturing in China
-  6326 - Beverage and Tea Wholesalers in China
-  6512 - Supermarkets in China
-  6519 - Other Miscellaneous Goods Retailers in China
-  6525 - Beverage and Tea Retailers in China
-  6620 - Motels in China
-  6710 - Full-service Restaurants in China
-  6730 - Drinking Places and Bars (Alcoholic Beverages) in China

## Key Statistics

### CONSTANT PRICES

	2007	2008	2009	2010	2011	
Industry Revenue	*15,399.3	*17,619.4	*20,085.6	*21,502.4	*23,268.5	\$US Mill
Industry Gross Product	*6,307.7	*6,950.7	*7,642.4	*8,157.9	*8,803.6	\$US Mill
Number of Establishments	*1,690	*1,715	*1,720	*1,743	*1,740	Units
Number of Enterprises	*585	*584	*584	*592	*585	Units
Employment	*245,429	*250,855	*250,912	*240,724	*231,853	Units
Exports	*121.9	*144.3	*137.5	*119.5	*128.5	\$US Mill
Imports	*32.9	*41.3	*55.0	*61.7	*68.3	\$US Mill
Total Wages	*833.0	*1,030.3	*1,450.6	*1,508.9	*1,564.3	\$US Mill
Total Assets	*20,233.0	*24,453.2	*23,945.9	*24,986.8	*25,895.1	\$US Mill
Domestic Demand	*15,310.3	*17,516.4	*20,003.1	*21,444.6	*23,208.3	\$US Mill
Beer Output	*39.3	*41.0	*42.4	*44.8	*46.9	Million Tons

### CURRENT PRICES

	2007	2008	2009	2010	2011	
Industry Revenue	*12,829.7	*15,824.0	*17,927.5	*20,190.0	*23,268.5	\$US Mill
Industry Gross Product	*5,255.2	*6,242.4	*6,821.3	*7,660.0	*8,803.6	\$US Mill
Number of Establishments	*1,690	*1,715	*1,720	*1,743	*1,740	Units
Number of Enterprises	*585	*584	*584	*592	*585	Units
Employment	*245,429	*250,855	*250,912	*240,724	*231,853	Units
Exports	*101.6	*129.6	*122.7	*112.2	*128.5	\$US Mill
Imports	*27.4	*37.1	*49.1	*57.9	*68.3	\$US Mill
Total Wages	*694.0	*925.3	*1,294.7	*1,416.8	*1,564.3	\$US Mill
Total Assets	*16,856.8	*21,961.5	*21,373.0	*23,461.8	*25,895.1	\$US Mill
Domestic Demand	*12,755.5	*15,731.5	*17,853.9	*20,135.7	*23,208.3	\$US Mill
Beer Output	*39.3	*41.0	*42.4	*44.8	*46.9	Million Tons

## REAL GROWTH

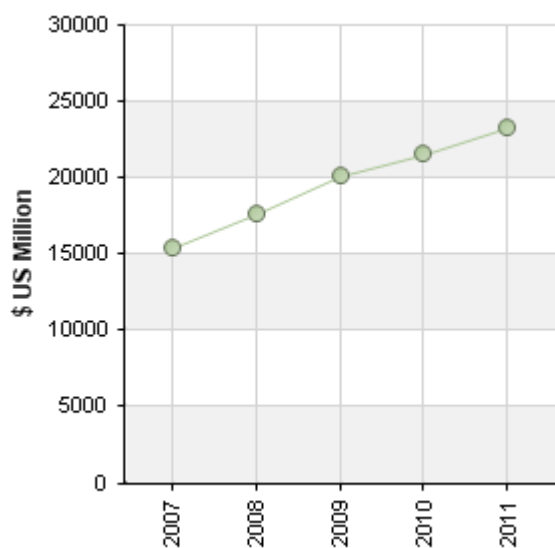
	2007	2008	2009	2010	2011
Industry Revenue	*12.9	*14.4	*14.0	*7.1	*8.2 %
Industry Gross Product	*10.5	*10.2	*10.0	*6.7	*7.9 %
Number of Establishments	*2.9	*1.5	*0.3	*1.3	*-0.2 %
Number of Enterprises	*1.6	*-0.2	*0.0	*1.4	*-1.2 %
Employment	*2.7	*2.2	*0.0	*-4.1	*-3.7 %
Exports	*11.4	*18.4	*-4.7	*-13.1	*7.5 %
Imports	*-6.3	*25.5	*33.2	*12.2	*10.7 %
Total Wages	*14.2	*23.7	*40.8	*4.0	*3.7 %
Total Assets	*13.1	*20.9	*-2.1	*4.3	*3.6 %
Domestic Demand	NC	*14.4	*14.2	*7.2	*8.2 %

## RATIO TABLE

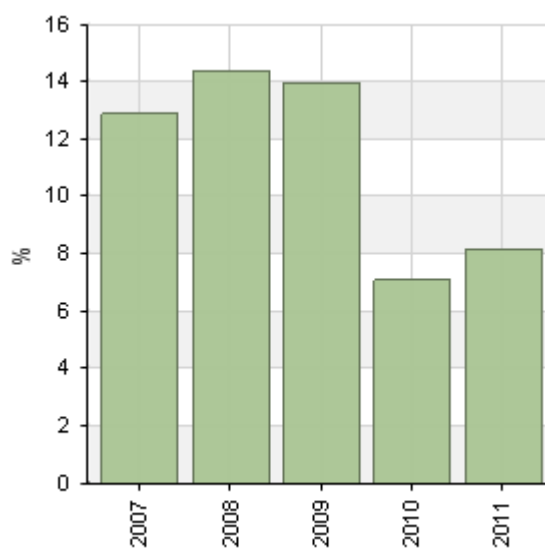
	2007	2008	2009	2010	2011
Imports share of domestic demand	*0.21	*0.24	*0.28	*0.29	*0.29 %
Exports Share of Revenue	*0.79	*0.82	*0.68	*0.56	*0.55 %
Average Revenue per Employee	*0.06	*0.07	*0.08	*0.09	*0.10 \$US Mill
Wages and Salaries Share of Revenue	*5.41	*5.85	*7.22	*7.02	*6.72 %

## GRAPHS

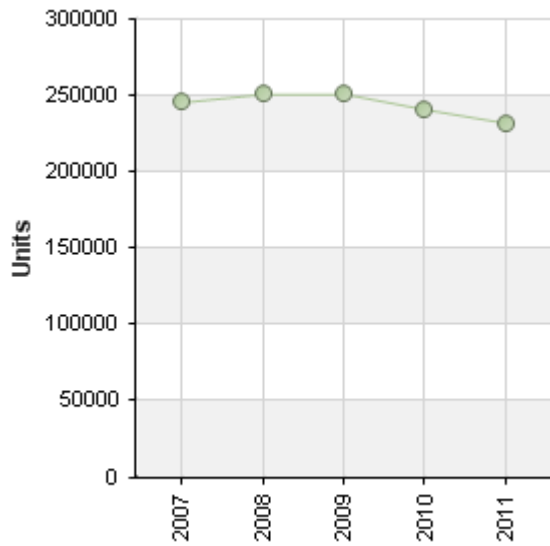
Revenue



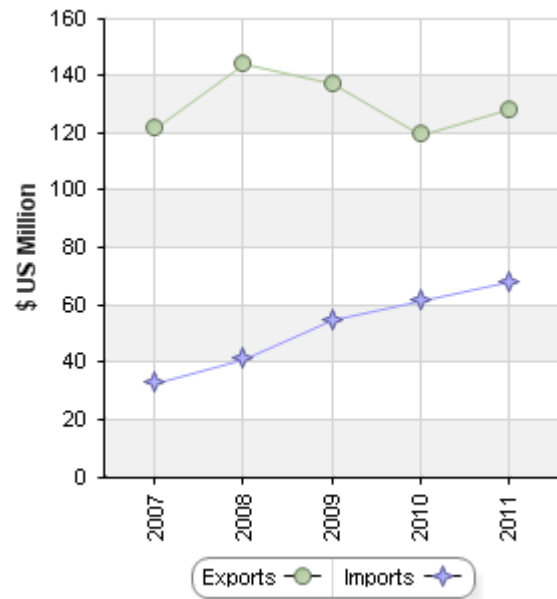
Revenue Growth Rate



Employment



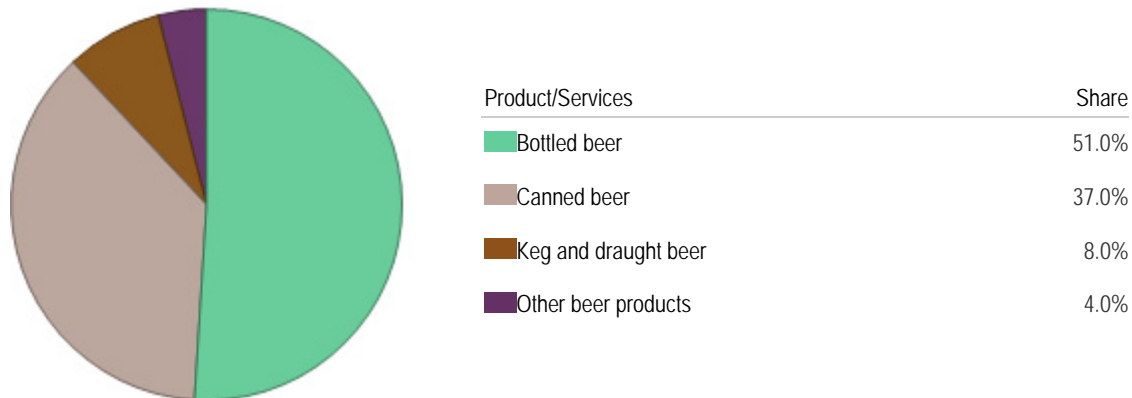
Imports and Exports



Note: Unless specified, an asterisk (\*) associated with a number in a table indicates an IBISWorld estimate and references to dollars are to US dollars.

## Segmentation

### PRODUCTS AND SERVICE SEGMENTATION



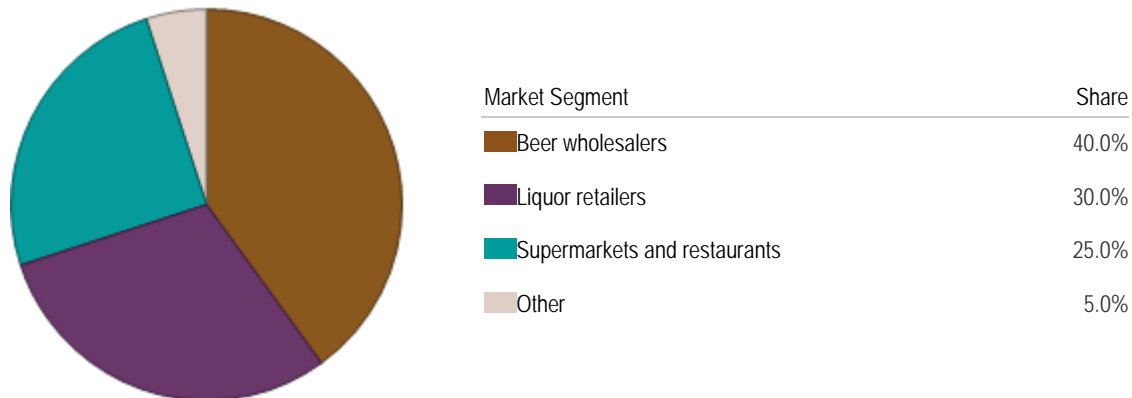
Effective manufacturing costs have made bottled beer the largest product segment in this industry, accounting for a forecast 51% of industry revenue in 2010. Bottled beer enjoys great popularity in high-end markets, particularly with restaurants, clubs and hotels. A greater number of consumers in China are starting to consume greater volumes of bottled beer at home.

The canned beer is the second-largest product segment, accounting for a forecast 37% of industry revenue in 2010. The main reason for people preferring canned beer is that: (1) canned beer is more convenient and safer for outdoor use than glass-bottled beer; and, (2) the selling price of canned beer is lower than for other beer types.

Keg and draught beer is more common in clubs, bars and hotels as pricing levels per serve are usually lower and the product is more cost-effective for these establishments.

PET (polyethylene terephthalate) packaging has been applied to beer packaging in recent years, and has developed rapidly in foreign markets. However, PET bottling still accounts for a low market share level in China due to its high cost.

## MAJOR MARKET SEGMENTS



About 40% beer products are sold through wholesalers. Manufacturers often set up a general wholesaler in the capital of a particular province, or sell to an established wholesaler. These wholesalers are also responsible for recruiting distribution agents in medium- and small-sized cities.

About 30% of beer sales come from liquor retailers, and this proportion of the market is increasing as home consumption increases.

Consumption via supermarkets and catering firms has grown in recent years. However, sales in supermarkets have grown faster as beer has become more popular as a drink for home consumption. This method of distribution has made beer more affordable for people who still cannot afford the higher prices charged in bars and clubs.

Other direct beer segments, such as bars, airlines and other outlets, contributed to around 5% of total sales. Exports of beer are also included in this segment.

## INDUSTRY CONCENTRATION

The level of industry concentration is medium

The industry concentration ratio has increased in recent years with the industry's rapid development pace. The main beer enterprises have expanded their production scope and acquired other small firms to enlarge market share and promote their brand names throughout China. Such companies are the largest in the domestic market.

Tsingtao Beer has changed its sales strategy from regional markets towards an integrated national market after attracting foreign capital in 2001. In the past, Tsingtao Beer's sales covered mainly Shandong, Jiangsu, Shanxi and Fujian provinces. However, the company now has beer production facilities across China and sells its products at the national level.



China Resources Snow Breweries has acquired small beer companies and enlarged its scope through attracting foreign capital since 2000. Today, Snow Beer has integrated its markets and is managing its sales into four large regions: North China, North East China, East China and South West China. The company now has roughly 70 breweries across China.

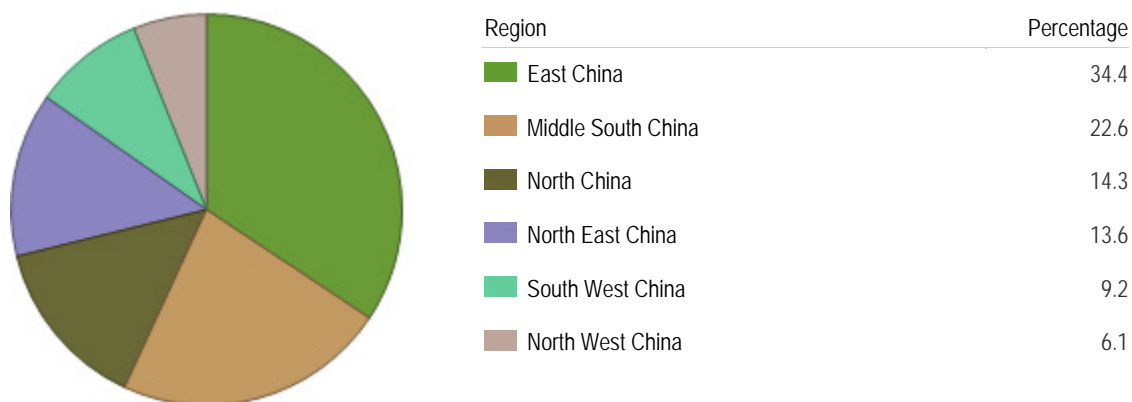
Yanjing Beer is the only firm with no foreign capital among the top three companies. At present, Yanjing Beer's main market is Beijing, where its market share is 85%. Its market share reached 70% in Baotao and Chifeng in Inner Mongolia province. Yanjing Beer occupies one-third of the market in Fujian province. At the same time, it entered into the Shandong and Guangdong markets. Recently, Yanjing Beer was in talks for partnerships with foreign-funded enterprises to enlarge its scope and improve its market positions nationwide.

The largest four companies within this industry are forecast to account for around 47.4% of industry revenue in 2011. The concentration level has been increasing steadily since 2002, and is expected to further increase in the future.

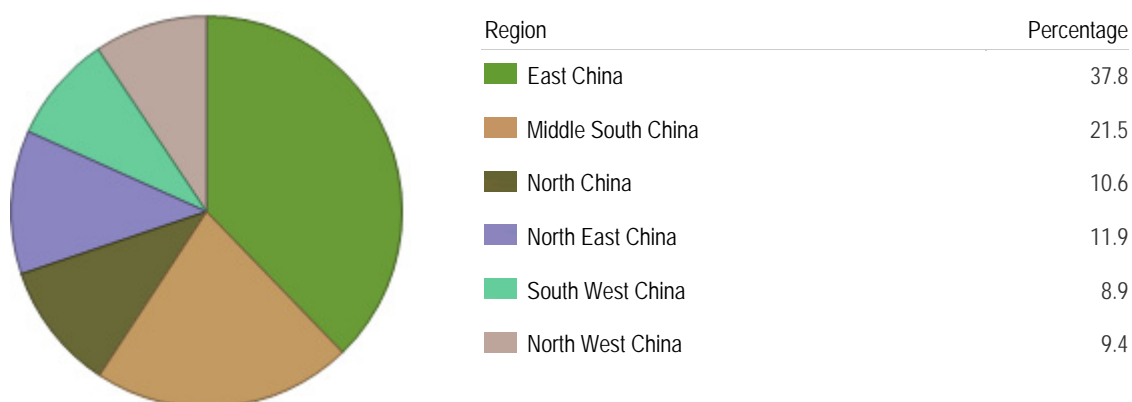
## GEOGRAPHIC SPREAD

Year: 2010

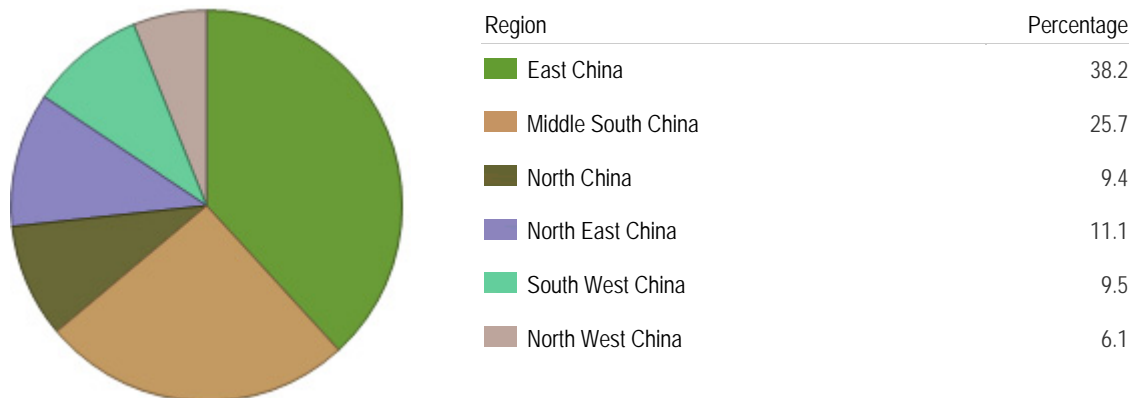
Geographic Spread Based on Number of Employment



Geographic Spread Based on Number of Establishments



### Geographic Spread Based on Revenues



Shandong is the largest production base for this industry in China, representing 18.7% of industry revenue in 2010. Enterprise and employment numbers accounted for 12.5% and 11.3% of the industry's totals. The high revenue percentage compared to the employment level indicates that firms in this region benefit from economies of scale, greater capital investment, higher consumer demand and strong final pricing levels.

Industry revenue in Guangdong province were the second-highest in China at 7.8% of the industry's totals, respectively. Firms in this region also benefit from economies of scale, strong demand and many newly-established breweries with more automated production facilities.

China Resources Breweries Co., Ltd. and Beijing Yanjing Beer Group Company are located in Beijing, with the branch breweries of these two provinces distribute across many other provinces and regions, Beijing only accounted for 3.9% of total industry revenue in 2010. However, the consumption of beer in Beijing was dominated by Yanjing, with about 85% of its revenue from Beijing.

Industry revenues in the West China region were relatively lower. Smaller firms, with lower capital investment levels, tend to operate in these regions. However, with further localization of industry leaders in these regions in the future, the proportion of these provinces in the industry are expected to rise accordingly.

# Market Characteristics

## MARKET SIZE

The Beer Manufacturing industry faced many challenges in 2009 and 2010 due to the global financial crisis, especially for exports decline in these two years. With expectations for exports recovery in 2011, together with steady domestic demand growth, beer output and industry revenue are forecast to increase by 4.7% and 8.2%, respectively, in 2011. Beer prices are also expected to somewhat increase in the year, which will also contribute to revenue growth.

There is expected to be 585 enterprises operating in the industry in 2011, with employment of over 231,000 workers. The industry concentration level has increased in the past decade and new industry leaders emerged in recent years. At present, and in the near future, industry competition will mainly occur between the three national beer brands, namely Snow, Tsingtao and Yanjing, and other various regional and foreign brands.

Exports and imports are basically negligible for the industry, each accounting for less than 1% of industry revenue and domestic demand, respectively, per year.

Despite rapid industry growth in the past few years, the industry is expected to enter the mature phase of its life cycle during the five years 2016. Surplus beer production capacity and intense competition calls for further consolidation in the industry. Beer output and industry revenue are expected to each increase at annualized rates of 3.2% and 6.7%, respectively, in the next five years to 2016, to 54.8 million tons and \$32.19 billion, respectively. Over the five years through 2011, industry revenue is expected to increase at an average annualized rate of 11.3%.

## LINKAGES

### Demand Linkages

#### 6326 - Beverage and Tea Wholesalers in China

Companies engaged in wholesaling, importing and exporting beverages, including beer, are customers of this industry.

#### 6512 - Supermarkets in China

Includes general supermarkets selling food, groceries, commodities and other products for retail sale.

#### 6519 - Other Miscellaneous Goods Retailers in China

Refers to all types of small convenient stores conducting retail sales of miscellaneous goods, including beer, in streets, communities, villages, towns, counties, working areas, campuses, bus stations, docks and airports.

#### 6525 - Beverage and Tea Retailers in China

Includes retailers specializing in the sale of all beverage types, including beer.

#### 6620 - Motels in China

Restaurants purchase beer products to sell to their customers.

#### 6710 - Full-service Restaurants in China

Firms in this industry purchase beer products to sell to their customers.

#### 6730 - Drinking Places and Bars (Alcoholic Beverages) in China

Firms in this industry purchase beer products to sell to their customers

## Supply Linkages

### 0111 - Cereal Grain Growing in China

This industry supplies beer manufacturers with malt, hops and yeast used as raw materials for beer production.

### 3145 - Glass Products Manufacturing in China

This industry produces glass bottles for bottled beer.

## DEMAND DETERMINANTS

Per capita income increases have enhanced beer consumption in recent years. From the end of the 1980s through the 1990s, the average consumption growth rate was more than 15% a year, which is much faster than total GDP growth for the Chinese economy. As economic development becomes more balanced across rural and urban areas, and western and eastern China, future growth potential for beer consumption is significant.

Beer consumption differs across regions. Local governments protect local beer manufacturers and restrict market entry of brands from other regions. This limits consumer brand choice and has a negative impact on the demand for other brands and for high-end brands in particular (rather than for the total market demand).

Product diversification has increased in recent years with the market entry of many foreign brands. The supply of new high-end products stimulated beer demand and contributed to growth in high-end restaurants, clubs, hotels, discos, KTV, and coffee houses. The high-end market segment accounts for about 8% to 10% of total beer consumption in China. New brands started expanding from the high-end market to the medium-end market as foreign firms intensified alliances and partnerships with domestic companies.

The rural population accounts for roughly 60% of China's total population and per capita beer consumption level in this market is very low at below 8 liters per annum. This per capita consumption is expected to increase with continued economic development and increases in rural household per capita income in future years.

## DOMESTIC AND INTERNATIONAL MARKETS

### Domestic and International Markets Exports

The level of trade export is low

The trend of trade export is increasing

### Domestic and International Markets Imports

The level of trade import is low

The trend of trade import is increasing

### Domestic and International Markets Analysis

This industry's international trade level is low, with exports and imports each accounting for less than 1% of industry revenue and domestic demand, respectively. The import volume was far less than the export volume in 2010, reflecting a major price gap between exported and imported beer.

In 2009, exports decreased 4.7% to \$137.5million (constant 2011 dollars). In 2010, exports further decreased by 13.1% to \$119.5 million. In 2011, with China's economy recovering from weaker growth in 2009 and 2010, exports are forecast to

return to growth. Major destinations of China exports from this industry during 2010 were Hong Kong (30.5%), Myanmar (16.4%), Taiwan (16.0%), Malaysia (5.6%), Macau (5.4%), and the US (4.0%).

Imports increased by 12.2% to \$61.7 million in 2010, and are forecast to increase by 10.7% in 2011 as domestic demand for foreign beer increases. Major sources of competing imports into China during 2010 were Germany (42.3%), Mexico (12.6%), Belgium (7.4%), Taiwan (7.1%), South Korea (5.3%) and France (4.8%).

#### Major Export Destinations - 2010(1-11)

Destinations	US Million Dollars Export Value	Percentage Share of Total	Thousand Tons Export Volume	Percentage Share of Total
Hong Kong	31.4	30.5	57.0	32.0
Myanmar	16.8	16.4	35.5	19.9
Taiwan	16.4	16.0	25.4	14.3
Malaysia	5.8	5.6	10.5	5.9
Macau	5.5	5.4	10.3	5.8
US	4.1	4.0	5.9	3.3
France	3.1	3.0	4.6	2.6
South Korea	3.0	2.9	4.7	2.6
UK	2.9	2.8	3.9	2.2
Singapore	2.3	2.2	3.3	1.8

Source: China Customs

#### Major Import Sources - 2010(1-11)

Sources	US Million Dollars Import Value	Percentage Share of Total	Thousand Tons Import Volume	Percentage Share of Total
Germany	22.5	42.3	15.9	36.6
Mexico	6.7	12.6	6.5	15.0
Belgium	3.9	7.4	2.2	5.1
Taiwan	3.8	7.1	4.9	11.2
South Korea	2.8	5.3	4.5	10.4
France	2.5	4.8	1.1	2.4
Netherlands	2.0	3.7	1.3	2.9
Malaysia	1.6	3.0	1.3	3.0
Ireland	1.3	2.5	0.5	1.2
Russia	0.9	1.8	1.3	3.1

Source: China Customs

## BASIS OF COMPETITION

Competition in this industry is high  
 Competition in this industry is steady

The major factors forming the basis of competition between firms in the Beer Manufacturing Industry in China include:

## Brand Competition

Brand image has played an increasingly important role in the competition between beer manufacturers in China, and is now the most important factor for success in this industry. Market players have readjusted their business strategies and started promoting their brands at the national level. The first three companies that started promoting their brands (Yanjing Beer, Tsingtao Beer and Snow Beer) have become market leaders and now account for approximately 40% of total beer sales volume in China.

## Competition Layers

The competition between beer manufacturers in China is divided in two main layers. These are low-end markets and high-end markets, which are determined by product price and quality. Local brands generally compete in the low-end market, including segments such as retailers, convenience stores and some low- and medium-level restaurants and hotels. Foreign brands usually compete in the high-end market with very few local competitors (mainly Tsingtao Beer, Yanjing Beer, Snow Beer).

## Market Integration Process

Competition in the newly emerged integrated national market started in the past few years as opposed to competition at the provincial level that was dominant before the economic reforms in China. The market was highly fragmented in the 1990s and competition occurred mainly at the provincial level, due to government policies for protection of its local companies. However, along with the development of the market economy and the stock market, a significant number of mergers and acquisitions have taken place in the past several years. This has largely been driven by companies' aims of gaining a larger market share at the national level.

Some of the largest beer manufacturers in China started acquiring leading local beer companies in different provinces. In provinces where mergers were not done, beer manufacturers established new production capacities. Small companies with low capital and financial flexibility started promotion of their brands in the nearest provinces instead.

## Event Marketing Strategy

Beer manufacturers in China have made significant increases in their marketing investments for specific events, such as the Beijing Olympics in 2008, the Shanghai Expo in 2010, and other general marketing campaigns at the national level. This brand promotion is usually initiated by the largest companies in the industry. Two of the largest beer manufacturers in China - Tsingtao Beer and Yanjing Beer - adopted extensive marketing campaigns for the Beijing Olympics across various types of mass media.

The competitive strengths of Chinese firms within the industry include: (1) The low price of their beer products; (2) Brand awareness in the low-end market; (3) Better market approach and sales methods due to local knowledge; (4) Large sales network and well-developed distribution channels; and, (5) Lower production and operation costs.

Chinese manufacturers are not as competitive in the following areas: (1) Product differentiation (e.g. dark beer, low-alcohol beer, etc); (2) Customer preferences for foreign products in the high-end market; and, (3) Capital availability for investment in market development.

## External Competition

The competition from other industries for the Beer Manufacturing Industry in China is relatively low due to the following factors:

- (1) The government generally discourages the consumption of the traditional brandy (baijiu) made from rice or other cereals for its detrimental effect on health and the negative influence it has on worker productivity. These alcohol drinks, though, are still quite popular in China, particularly among the male population and their consumption has certainly affected the beer industry.
- (2) The consumption of wine in China is not currently very common, with the main low-alcoholic drink remaining as beer as there are almost no direct substitutes.
- (3) Tea and other soft drinks are the major external drink competitors for beer in China. Consumption of these substitutes increases during the summer season. Coffee is also becoming increasingly popular. Competition with beer, though, is limited to some degree, as tea is often consumed together with beer and its substitution is more characteristic for women rather than for men.

## LIFE CYCLE

### Life Cycle Stage

The life cycle stage is mature

### Life Cycle Reasons

- With a long development history, technologies utilized in beer manufacturing are quite mature
- Mergers and acquisitions result in slow or negative growth in establishment numbers
- Future industry growth is expected to be slower than in the previous five years

### Life Cycle Analysis

Industry revenue and value added increased at annualized rates of 11.3% and 9.1% respectively in the past five years. Despite similar value added growth to the overall economy, industry growth is expected to slow in future years.

The industry's enterprise numbers have declined in recent years. Many mergers and acquisitions took place during the current performance period to 2016, and economies of scale started playing an increasingly important role in this industry. Many large companies acquired smaller manufacturers located in suburban or less-developed areas to gain market share and enhance their positions in the industry.

The Beer Manufacturing Industry in China is highly fragmented, with the concentration level being one of the lowest in the world when compared to beer manufacturing industries in other countries. However, the concentration level in China has been growing as China's economy becomes more market-oriented and has a greater involvement in the globalization process.

Although long-term growth potential exists in the industry due to significant economic and demographic differences across urban and rural China, and western and eastern China, industry growth in the near future is expected to be slower than in the previous few years. Additionally, rather than growth in beer volumes, future industry revenue is expected to be driven more by higher value added beer products.

# Industry Conditions

## BARRIERS TO ENTRY

Barriers to entry in this industry are high  
These barriers are steady

This industry is characterized by a high level of regional monopoly and protectionism from local governments.

Foreign companies have an increased presence in this market. However, most of them entered the market through establishing joint ventures with local companies, instead of setting up wholly-owned enterprises. The proportion of joint venture companies has increased to over 70% of total companies within this industry, generating output of over 25 million tons.

The increasing levels of foreign capital in the Beer Manufacturing Industry in China has further increased the entry barrier level through improving production technologies, enlarging production scales, and creating advantages from economies of scale through partnerships with large domestic companies.

Low product differentiation in China can be an additional obstacle for market entry as it can be difficult to gain the attention of beer consumers. However, this may also provide opportunities in the future for beer manufacturers that are able to produce new and different beer products that consumers enjoy.

## TAXATION

Taxation types and rates for products within this industry include excise and VAT (17%), which are the main taxes of the industry in China. Beer excise amounts of \$36 per ton of beer priced over \$432 per ton, and \$32 per ton for beer priced less than \$432 per ton. This excise amount has been applied since May 1, 2001. Previously, beer excise was charged at \$29 per ton for all beer types. After the excise changes in 2001, the price gap between low-end and high-end beer products increased as firms attempted to regain the higher costs on high-end beer.

## INDUSTRY ASSISTANCE

The level of Industry Assistance is none  
The trend of Industry Assistance is steady

There are no specific tariffs for this industry

There are no tariffs imposed on imported beer into China.



## REGULATION AND DEREGULATION

The level of Regulation is medium  
 The trend of Regulation is steady

Government regulations imposed on this industry include:

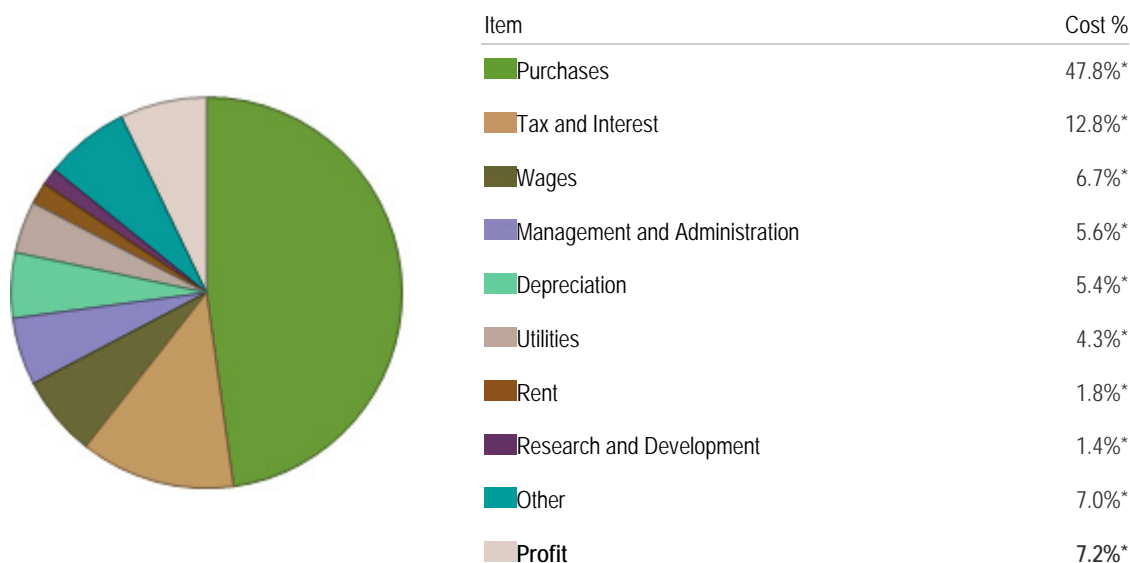
Beer State Standard GB4927-91: All beer manufacturers have to reach the state standard requirements of Beer State Standard GB4927-91, which have specific provisions for beer quality, transparency, density, smell, taste, technology, sanitation standards, guaranteed quality period, packaging and so on. This standard is the most general standard for the Beer Manufacturing Industry in China.

Standard for Water Use in the Beer Manufacturing Industry GB/T18916.6: Regulates the use of water in beer production.

Discharge Standard of Pollutants for the Beer Manufacturing Industry GB 19821-2005: Limits the discharge volumes of waste water

## COST STRUCTURE

Year: 2011



### Profit

Industry profitability is significantly lower than for other beverage manufacturing industries, which means operational scale is crucial for the performance of companies. Despite intensifying competition in recent years, industry profitability has been increasing since 2004, mainly due to rising beer prices and the development of more profitable high-end products. The average profit margin after tax for the industry as a whole is estimated at 7.2% in 2011.

## Costs

Purchases are the largest expenditure item for a typical beer manufacturer, accounting for roughly 47.8% of industry revenue in 2011. These are for raw materials, such as water, malt, yeast, sugar, bottles, cans, packaging, and labeling.

Wages account for a relatively small proportion of revenue in the Beer Manufacturing Industry in China, as labor costs are low in China. In comparison, the wide use of automated equipment and facilities has caused high depreciation costs in the industry. Utilities and rent are each forecast to account for 4.3% and 1.8% of industry revenue, respectively, in 2011.

Other costs include transportation, insurance, advertising, and other miscellaneous costs.

## CAPITAL AND LABOR INTENSITY

The level of Capital Intensity is high

- Start-up costs of a modern brewery can be substantial
- Production procedures are becoming increasingly automated
- Employment numbers have increased very slowly in recent years

The technology requirements in the Beer Manufacturing Industry in China have increased in recent years. Using depreciation as a proxy for capital (5.4% in 2011), and wages, management, administration and some R&D costs as a proxy for labor (13.7% in 2011), the capital to labor intensity ratio is expected to be approximately 1:2.5 in 2011. This shows that the industry has a high capital intensity level.

High capital intensity in this industry is due to both the mechanized nature of production processes and the level of investment that brewers have in distribution systems. While beer is mainly firstly distributed to liquor wholesalers, most of the industry's major companies have extensive distribution systems.

With mergers and acquisitions continuing across this industry, the capital intensity level is expected to rise further in future years.

## TECHNOLOGY AND SYSTEMS

The level of Technology Change is medium

The main players in this market are local firms with long histories of operations in China. They have extensive experience in the market, but often lack in technology. Local manufacturers started modernization through purchasing or importing advanced foreign equipment from companies that were technology leaders.

The technology level of domestic companies has improved greatly in recent years. Many local companies undertook a series of measures to improve their production processes across a range of factors - product quality, technology, inspection and control, raw material quality, etc. In terms of raw materials, using domestically-manufactured malt and other substitutes decreases costs and improves competitive ability. Several mainland beer enterprises managed to improve their beer quality, improve the beer taste, and offer fresher products. In recent years, Tsingtao Beer, Snow Beer

and Yanjing Beer have installed fully automated manufacturing lines, initiating the development and improvement of technology equipment within the industry.

After completing a round of mergers and acquisitions, several enterprises have already gained economies of scale advantages. However, facing increasing competition from foreign players, domestic enterprises need to continue to improve their brewing equipment technology and management systems.

## INDUSTRY VOLATILITY

The level of volatility is low

Foreign firms that have created joint ventures with local firms have contributed to stronger growth rates in the industry in recent years. The market integration process has also stimulated industry output growth in the past few years. This will continue in the future as well, as the rural market has not been developed yet and market integration may take many years.

Marketing and promotion of domestically produced beer on television, radio, newspapers and major sporting events influences the industry's output and revenue.

## GLOBALIZATION

The level of Globalization is medium

The trend of Globalization is increasing

The industry is subject to a high level of globalization, which is expected to maintain steady over time.

China has a very large market for beer consumption, which has developed steadily over the past 30 years. A large number of foreign firms have entered the China market in recent years. Many of these have attempted to capture market share through strategic investments with domestic companies or through greenfield investments in factories. Joint ventures and partnerships with domestic enterprises help foreign firms to gain the competitive advantages of economies of scales and local knowledge, which are some of the key success factors for this industry.

Foreign firms mainly operate in the high-end beer market. In 2010, foreign enterprises (including firms from Hong Kong, Macau and Taiwan) are forecast to account for 31.6% of total enterprises, and 54.8% of total industry revenue. These two percentages were 30.3% and 53.2%, respectively, in 2008.

In addition, foreign investment has also backed some well-known domestic brands, such as Tsingtao and Snow, which also contributed to the industry's high globalization level.

With the large number of foreign companies in this industry and a higher level of foreign investment capital, the foreign market share is expected to increase in the future.

### Enterprise Ownership Shares - 2010

Ownership Type	Percentage Revenue Share	Percentage Enterprise Number Share
----------------	--------------------------------	--

State-owned	6.0	4.6
Collectively-owned	1.2	1.4
JECE	1.1	1.0
Shareholding	6.3	6.3
Private	12.1	27.4
Foreign	54.8	31.6
Other	18.6	27.9

Source: National Bureau of Statistics China

## Key Factors

### KEY SENSITIVITIES

The key sensitivities affecting the performance of the Beer Manufacturing industry include:

#### Age Group (20-34)

People aged 20-34 are the main consumer group for beer in China and changes in this group are likely to affect beer consumption. The percentage that this age group occupies in total population has been on decline due to family planning policy.

#### Domestic Goods Prices - Agricultural - Crops - Barley

People aged 20-34 are the main consumer group for beer in China and changes in this group are likely to affect beer consumption. The percentage that this age group occupies in total population has been on decline due to family planning policy.

#### Downstream Demand - Beer, Wine and Liquor Stores

People aged 20-34 are the main consumer group for beer in China and changes in this group are likely to affect beer consumption. The percentage that this age group occupies in total population has been on decline due to family planning policy.

#### Level of Protectionist Policies - Local Government

People aged 20-34 are the main consumer group for beer in China and changes in this group are likely to affect beer consumption. The percentage that this age group occupies in total population has been on decline due to family planning policy.

#### Per Capita Disposable Income

People aged 20-34 are the main consumer group for beer in China and changes in this group are likely to affect beer consumption. The percentage that this age group occupies in total population has been on decline due to family planning policy.

### KEY SUCCESS FACTORS

The key success factors in the Beer Manufacturing industry are:

- Establishment of brand names  
Beer manufacturers must develop and promote their brands in order to be successful.
- Economies of scale  
Beer manufacturers that have large production plants are able to reduce marginal costs and be more price competitive.

- Having marketing expertise  
Beer manufacturers that utilize extensive marketing methods are better placed to retain current customers and attract new consumers.
- Control of distribution arrangements  
Distribution arrangements are important in this industry, especially for high-end products and sales in clubs, pubs and restaurants.
- Optimum capacity utilisation  
The extent of capacity utilization is very important for firms to maximize output and profits.

## Key Competitors

### MAJOR PLAYERS

#### Market Share



### PLAYER PERFORMANCE

#### China Resources Snow Breweries

Market Share: 20.0%

China Resources Breweries Co., Ltd. was founded in 1994 and was a foreign-funded enterprise for production and sales of beer and beverages. The company changed its name to China Resources Snow Breweries in 2004 and established a partnership with SABMiller Company, one of the largest beer companies in the world. SAB then purchased a 49% stake in China Resources Snow Breweries.

China Resources has been developing rapidly for over 10 years and grew from a local beer factory to a major enterprise with numerous products and business operations in China. Currently, it owns 70 breweries and more than 30 regional brands. China Resources Snow Breweries has located its breweries in 10 main provinces, including: Heilongjiang, Jilin, Liaoning, Tianjing, Beijing, Hubei, Anhui, Zhejiang, Sichuan, Jiangsu, Guangdong, Fujian, and Tibet. The company's annual production capacity is 12 million ton, the highest level in China.

China Resources Snow Breweries is forecast to account for 20% of China's beer market in 2011, and has regional advantages in many local markets in China.

Due to its large-scale campaign of mergers and acquisitions, China Resources experienced dramatic growth in recent years and surpassed Tsingtao Brewery as the largest beer manufacturer in China in 2006. Moreover, the company has invested more in brand promotion to raise the recognition of its main brand "Snow". The past years have witnessed tremendous growth in sales volume of Snow beer from 1.22 million tons in 2004 to 7.2 million tons in 2009. Snow beer currently accounts for roughly 75% of China Resources' total revenue.

From 2006, China Resources Snow Breweries expanded into China's central and western parts. In addition, it took measures to strengthen its position in the large eastern region market through the acquisitions of two breweries located in Zhejiang and Anhui provinces in July 2006. The company invested \$42 million to purchase 100% of Zhejiang Yingyan Brewery and another \$10 million for Anhui Huaibei Xiangwang Brewery. Both companies are located in strategic regions

with high consumption levels of beer and should strengthen the position of China Resources Snow Breweries in Shanghai and Huaibei cities and the two provinces.

The company increased capital investments to increase production capacity and improve technologies in both factories. Zhejiang Yingyan Brewery's annual production capacity of 186,000 liters was expanded to 240,000 liters after technological improvements. Similarly, Anhui Huaibei Xiangwang Brewery was expanded from 93,000 to 160,000 liters. Following the acquisition of these two factories, the number of company facilities in Anhui province increased to six, and in Zhejiang province it increased to three.

In 2008, despite the adverse economy, the company continued to grow rapidly. Sales volumes of "Snow" brand totaled 6.1 million tons, the highest in the world. Sales volumes of all brands from China Resources Snow also increased to 7.3 million tons in 2008.

In 2009, sales volumes of the company's beer increased 18.8% from 2008. Sales volumes of all brands from China Resources Snow also increased to 8.4 million tons in the year, up by 15.1% from 2008. The company also further increased its production capacity through purchasing three breweries and building three new breweries in Zhejiang, Jilin and Inner Mongolia.

In 2010, China Resources Snow Breweries expanded in China. In the end of the year, it built its new branch in Henan province, entering Middle South China. It also purchased 45% of Hangzhou West Lade Beer Zhaori Co., Ltd. After the purchase, total production capacity of China Resources Snow Breweries is expected to 14 million tons.

### **Tsingtao Brewery Pty Ltd**

Market Share: 16.0%

Tsingtao Brewery is the largest and most prestigious of approximately 600 breweries operating in China. Tsingtao Brewery itself has grown from four breweries in 1996 to 53 by 2009. The Tsingtao brand is sold in more than 70 countries worldwide and accounts for more than 50% of China's total beer exports.

Tsingtao Brewery was founded in 1903 by German settlers in Qingdao. The company enjoyed impressive sales growth and had been the number one beer manufacturer in China before being surpassed by China Resources Snow. Introduced to the US in 1972, Tsingtao soon became the top-selling Chinese beer there and has maintained this leadership position ever since. Tsingtao is one of the best known consumer products exported from China to the US.

### **Current Business and Strategy**

Tsingtao Brewery spent \$12.5 million in early 2006 to buy a 45% stake in Huashi Beer Group Co, consolidating Tsingtao's leading position in southern China.

In April 2003, Tsingtao began its formal partnership with US-based Anheuser-Busch, one of the world's largest breweries. Since then, Anheuser-Busch has increased its stake in Tsingtao from 5% to almost 30%. Tsingtao is providing Anheuser-Busch with a production base and sales network in the Chinese market.

The Chinese government owns around 31% of the company. Sales volumes of beer produced by the company totaled 5.91 million tons in 2009, of which 2.95 million tons are represented by its main brand "Tsingtao". Tsingtao Brewery currently accounts for about 14% of beer produced in China.



## Financial Performance

The company's beer sales are mainly based in Shandong Province and South China. Although Tsingtao Brewery has been making greater efforts to increase its market share in Beijing and Tianjin in recent years, limited progress has been achieved as markets in these two cities are dominated by Yanjing and Snow respectively.

As a sponsor for the 2008 Beijing Olympic Games, company revenue increased at a much faster rate than the industry as a whole. Other reasons behind its revenue growth in 2008 and 2009 include: price increases of some products within the company, structural adjustment of products sales, and increased sales volumes. In addition, the price decline of raw materials further contributed to the company's profit growth in recent years.

The company readjusted its product strategy in 2006, emphasizing product quality and technology improvements, and earned several national awards for high quality products. Tsingtao's brand reputation also improved, and this led to strong growth in production output and sales volumes of part of the company's subsidiaries.

In 2010, sales volume and revenue of the company continued to increase. In the first three quarters of the year, total sales volume of the company reached 5.28 million tons, and the high-end products increase at even higher growth rate.

### Financial Performance of Tsingtao Brewery Pty Ltd - 2004 to 2010

Year	US Million Dollars Revenue	% change Growth	US Million Dollars NPBT	% change Growth	US Million Dollars Assets	% change Growth
2004	1029.9	N/C	58.9	N/C	1231.7	N/C
2005	1249.4	21.3	65.9	11.9	1195.7	-2.9
2006	1460.0	16.9	77.3	17.3	1204.6	0.7
2007	1802.4	23.5	132.0	70.8	1517.9	26.0
2008	2083.6	15.6	145.1	9.9	1795.7	18.3
2009	2639.3	26.7	254.7	75.5	2176.8	21.2
2010*	3219.7	22.0	397.4	56.0	2679.8	23.1

Source: Annual Report

## Beijing Yanjing Beer Group Company

Market Share: 8.9%

Yanjing Company was first established in 1980 and became Yanjing Group later in 1993. Yanjing has become one of the largest beer manufacturers in China since it began operations 30 years ago.

Yanjing Group has tangible assets of \$2.20 billion in 2009. In 2010, Yanjing brand is valued at \$3.62 billion. The company's other two brands "Huiquan" and "Liquan" were valued at \$394.7 million and \$545.1 million, respectively, in 2010. The group has 31 holding subsidiaries, among which, 23 are wine breweries.

Yanjing Group's total beer sales volume totaled 4.67 million tons in 2009, up 10.7% from 2008. Sales revenue of Yanjing Group increased strongly in recent years due to rapidly growing production capacity and an upgraded product mix. Revenue from medium and high-end beer increased from about 22% in 2004 to roughly 33% in 2009. This is also reflected in growing profitability of the company in recent years.

Yanjing beer is dominant in Beijing and Guangxi, in which the company has a market share of 85%. Other major domestic markets include Inner Mongolia, Fujian and Hubei. Sales in Guangdong and Zhejiang have also experienced considerable growth in recent years.

In the first three quarters of 2010, sales volume of the company continued to increase to 4.18 million tons, accompanied by revenue and profits increases.

Output and sales volume of Yanjing beer is forecast to reach 5 million tons in 2010, and 8 million tons in 2015, which will contribute to further expansion of the company's market share.

#### Financial Performance of Beijing Yanjing Beer Group - 2004 to 2010\*

Year	US Million Dollars Revenue	% change Growth	US Million Dollars NPBT	% change Growth	US Million Dollars Assets	% change Growth
2004	582.4	N/C	48.8	N/C	919.5	N/C
2005	662.6	13.8	47.1	-3.5	993.0	8.0
2006	765.3	15.5	54.8	16.3	1007.8	1.5
2007	937.7	22.5	76.0	38.7	1241.2	23.2
2008	1019.3	8.7	98.3	29.3	1375.3	10.8
2009	1389.5	36.3	135.9	38.3	1735.9	26.2
2010*	1763.9	26.9	201.5	48.3	2098.6	20.9

Source: Annual Report

#### Guangzhou Zhujiang Beer Co., Ltd.

Market Share: 2.5%

Guangzhou Zhujiang Beer Co., Ltd, established in 1985, manufactures beer and its related products such as labels, cartons, and crates.

At the end of 2002, the company formed an alliance with Interbrew SA of Belgium and established Guangzhou Zhujiang Brewery Joint-stock Co., Ltd, among which, Guangzhou Zhujiang Beer Co., Ltd held 60% of stocks and Interbrew held 24%. Other Guangzhou-based firms also held stocks.

Zhujiang beer is the main beer brand in Guangdong province, with a market share of 70%. Due to intensive competition from "Snow" "Tsingtao" "Yangjing", this company will further solidify its influence in Guangdong province and make advancements in the neighboring provinces and regions.

The company's products mainly include draft beer, non-alcohol beer, and other beers. In 2009, company revenue totaled to \$360.7 million, and accounted for 2% of the market, down from previous years. This was mainly due to increasingly competition from other brands.

In the second half of 2010, the company went public. Output and sales volume of the company is expected to total 1.7 million tons by 2012, market share of the company is also expected to increase in the future.

#### Financial Performance of Guangzhou Zhujiang Beer Co., Ltd - 2004 to 2010\*

Year	Million Dollars Revenue	% change Growth	Million Dollars Assets	% change Growth	Million Dollars NPBT	% change Growth
2004	269.9	N/C	241.9	N/C	30.2	N/C
2005	311.8	15.5	273.7	13.1	30.3	0.3
2006	331.6	6.4	336.8	23.1	32.0	5.6
2007	373.0	12.5	537.0	59.4	27.7	-13.4
2008	405.4	8.7	527.4	-1.8	65.2	135.4
2009	360.7	-11.0	620.5	17.7	26.7	-59.0
2010*	435.4	20.7	807.3	30.1	20.5	-23.2

Source: National Bureau of Statistics China

### Budweiser (Wuhan) International Beer Co Ltd

Market Share: 2.0%

Budweiser (Wuhan) International Brewing Co., Ltd is the investment enterprise by Anheuser-Busch Company of the US and started production in 1995. Anheuser-Busch Company holds 85% of the stock. It is located in Wuhan with eight departments including production, administration, finance, logistics, projects, quality control, and sales. The investment is more than \$170 million and annual production totaled 450,000 tons currently.

Anheuser-Busch became one of the first international beer makers in China when the company bought the Wuhan brewery in 1995. Since then, Wuhan's beer production has more than quadrupled to around 4 million barrels per year. Locally-produced Budweiser and Harbin brands are distributed to clients in Hong Kong as well as in northern, eastern and southern China.

In April, 2010, Budweiser started construction on a brewery in Sichuan province, with an investment of \$95 million, which will be completed by the end of 2010. This will increase its market presence in Southwest China and further intensify competition in the region.

By 2009, Budweiser had over 30 breweries in 11 provinces in China, including Heilongjiang, Jilin, Liaoning, Fujian, Jiangxi, Guangzhou, Jiangsu, Zhejiang, Hunan, and Hubei. Also in 2009, Budweiser (Foshan) Brewing Co., Ltd. was put into operation. The production capacity of this branch company was 260,000 tons, which will further increase Budweiser's market share in China.

In 2006, company revenue increased 18.9% to \$310.2 million and total assets increased 17.1% to \$306.2 million. The rapid expansion was due to its acquisition of some small beer manufacturers.

In 2004, Anheuser-Busch also acquired China's fifth-largest brewer, Harbin, in northern China where per capita beer consumption is double China's national average. The company launched Harbin as an imported brand in the US in 2006.

#### Financial Performance of Budweiser (Wuhan) International Brewing Co., Ltd. - 2004 to 2010\*

Year	Million Dollars Revenue	% change Growth	Million Dollars Assets	% change Growth	Million Dollars NPBT	% change Growth
2004	271.0	N/C	241.9	N/C	35.3	N/C
2005	260.8	-3.8	261.4	8.1	37.8	7.1
2006	310.2	18.9	306.2	17.1	41.2	9.0

2007	319.2	2.9	189.8	-38.0	42.7	3.6
2008	373.9	17.1	176.2	-7.2	43.2	1.2
2009	359.8	-3.8	180.2	2.3	28.7	-33.6
2010*	386.5	7.4	187.3	3.9	30.5	6.3

Source: National Bureau of Statistics China

## OTHER PLAYERS

### Fujian Sedrin Brewery Company

**Estimated market share (2011): 1.6%**

Fujian Sedrin Brewery Company, located on the east coast of Fujian Province, was established in 1986. With total assets over \$1.1 billion, the company sold more than 1.28 million tons of beer in 2008. After the 2003 acquisition of the company by Sedrin Group, the Inbev Group of the UK bought 39.5% of the company in January 2006.

Fujian Sedrin Brewery Company has developed strongly in recent years. In 2010, company revenue is expected to total \$376.8 million.

The company expanded into Hubei province in 2006 with the establishment of another beer manufacturing facility, which increased its presence in East China and Middle South China. The investment by Inbev Group in 2006 led to further development and expansion of the company.

### Kingway Brewery Co., Ltd.

**Estimated market share (2011): 0.8%**

The Kingway beer brand is owned by Kingway Brewery Holdings Limited (formerly Guangdong Brewery Holdings Limited), a listed company in Hong Kong. Kingway owns eight modern breweries in Shenzhen, Shan Tou, Dongguan, Tianjin, Xian and Chengdu. Currently, its output capacity of beer is about 1.6 million tons.

In January 2004, international brewer Heineken became a partner of Kingway and held a 21% share of the company. Kingway now has more than 1,900 employees.

In 2006, the breweries in Dongguan and Tianjin was put into operation. In 2007, the company started its new project in Foshan. Company output and sales volumes are forecast to reach 3 million tons by 2014.

### Chongqing Brewery Co., Ltd.

**Estimated market share (2011): 1.8%**

Chongqing Brewery Co., Ltd. was established in 1958. The company is mainly engaged in beer manufacturing, including manufacturing, research and development, and distribution.

Currently, the company has 28 branch companies and subsidiaries in Chongqing, Sichuan, Guizhou, Jiangsu, Hunan, Zhejiang, Anhui, and Guangxi. The company's total beer output exceeded 2.8 million tons in 2009.

Company sales volumes and sales revenues increased strongly in recent years. In 2009, company sales volumes exceeded 1 million tons. The market share of Chongqing beer was 90% and 60%, respectively, in downtown and surrounding regions in Chongqing. Company revenue is expected to increase to \$381 million in 2010.

### Jinxing Beer Group Co., Ltd.

#### Estimated market share (2011): less than 0.5%

Jinxing Beer Group Co., Ltd. was transformed from Zhengzhou Dongfeng Brewery, which was established in 1982. Currently, the company has 16 branch beer companies in Guizhou, Kunming, Shanxi, Gansu, Shandong, Nanjing, Chengdu, Zhongshan, and Henan. The company has another 10 subsidiaries.

Jinxing Beer Group Co., Ltd. is the largest beer brand in Henan province. Currently, its total output capacity is 2 million tons.

#### Financial Performance of Fujian Sedrin Brewery Company - 2004 to 2010\*

Year	US Million Dollars Revenue	US Million Dollars Assets	% change Growth	US Million Dollars NPBT	% change Growth
2004	155.7	126.4	N/C	35.7	N/C
2005	189.3	134.6	6.5	40.9	14.6
2006	237.2	160.8	19.5	50.9	24.4
2007	304.1	242.6	50.9	64.6	26.9
2008	310.4	377.4	55.6	27.9	-56.8
2009	354.2	240.8	-36.2	45.8	64.2
2010*	376.8	276.5	14.8	50.3	9.8

Source: National Bureau of Statistics China

Financial Performance of Shenzhen Kingway Brewery Co., Ltd. - 2004 to 2010\*

Year	US Million Dollars Revenue	US Million Dollars Assets	% change Growth	US Million Dollars NPBT	% change Growth
2004	123.3	105.6	N/C	9.1	N/C
2005	146.7	95.7	-9.4	4.9	-46.2
2006	135.2	100.0	4.5	0.1	-98.0
2007	122.6	96.3	-3.7	0.5	400.0
2008	148.7	99.7	3.5	3.4	580.0
2009	137.7	133.0	33.4	5.2	52.9
2010*	146.8	140.5	5.6	5.8	11.5

Source: National Bureau of Statistics China

Financial Performance of Chongqing Brewery Co., Ltd. - 2007 to 2010\*

Year	US Million Dollars Revenue	% change Growth	US Million Dollars Assets	% change Growth	US Million Dollars NPBT	% change Growth
2007	257.4	N/C	316.7	N/C	26.1	N/C
2008	305.2	18.6	449.7	42.0	28.7	10.0
2009	330.9	8.4	482.3	7.2	34.4	19.9
2010*	381.0	15.1	568.4	17.9	36.7	6.7

Source: Annual Report

# Industry Performance

## CURRENT PERFORMANCE

During the five years through 2011, the industry underwent significant change and steady growth. High levels of foreign investment and greater numbers of joint ventures with foreign firms led to solid growth in technological investment and higher output levels.

In the five years to 2011, industry revenue increased at an annualized rate of 11.3% to a forecast \$23.27 billion (constant 2011 dollars), with strong output growth and higher industry capacity. Rising beer prices have contributed to higher industry profit in recent years, which are forecast at 7.2% of industry revenue in 2011.

Due to the global financial crisis that started in the second half of 2008, the industry experienced some decline in exports in 2009 and 2010. However, due to steady growth of domestic demand, industry revenue increased by 14.0% and 7.1% in 2009 and 2010, respectively. In 2011, industry revenue is forecast to increase by 8.2% for the year, along with demand and price increases.

Industry revenue growth was highest in 2008 at 14.4% due to the Beijing Olympic Games and increased Western influence during the year. Increased industry capacity and lower prices in 2006 and 2007 contributed to high demand and high volumes during these years. Industry revenue increased by 12.9% in 2006 and 2007.

### Beer consumption in China

China has the largest market for beer consumption in the world with its population of 1.32 billion people, and future industry growth potential is considerable. Average per capita beer consumption totaled 31.4 liters in 2008 and is forecast to be 33.4 liters in 2011. However, beer consumption levels in China's western and central regions were only 10 liters in 2008 due to the lower overall economic development and income levels there. Compared to international levels of around 60 liters per year, China's beer consumption is quite low, which indicates the significant potential for the domestic market in the years ahead.

Per capita beer consumption in China increased at a steady annualized rate of 4.0% in the five years to 2011. Strong growth in 2006 and 2007 was due to increasing beer demand and higher incomes. The slowdown in 2008 and 2009 was due to the global financial crisis in the second half of the year, resulting in lower consumer demand for some non-essential products, such as beer, and some market saturation in large Chinese cities. Per capita consumption growth is expected to be moderate in 2010 and 2011.

During the past five years, industry growth has been higher than the market growth in Europe, North America and South America combined. However, Chinese per-capita beer consumption is only 50% of that in Japan and Korea, and only 20% of other developed countries such as the United States and Canada.

Drinking trends and perceptions have been changing in China in recent years, and an increasing proportion of the Chinese population prefers beer rather than high alcohol-content drinks. This growth was driven by several factors, including increased income levels, greater advertising of beer by the manufacturers, preferential shift towards beer by consumers, and fierce competition that maintained or reduced prices.

### Beer output in China

Beer output increased at an annualized rate of 5.9% in the five years through 2011. Beer production increased strongly together with rising output levels. However, as China's domestic economy was negatively affected by the global financial crisis in late-2008, beer output slowed in 2009.

China's economy entered a strong development phase in 2004, which created a favorable environment for many sectors, including beer manufacturing. Stimulated higher incomes, stronger per capita and total beer consumption, and technological improvements and equipment upgrades, beer production increased to 35.2 million liters in 2006, up 15% from the previous year. Output growth was strong in 2007 at 11.6%, before easing in 2008 and 2009 due to the global financial crisis. Output growth is forecast to increase by 5.7% and 4.7%, respectively, in 2010 and 2011 due to demand increase and rising income levels.

Market entries from foreign competitors in the form of direct investment, as well as capital investments for production expansion of domestic players, accelerated industry growth in recent years. The competitive landscape changed considerably and industry concentration levels increased. Yanjing Beer, Tsingtao Beer, and Snow Beer emerged as the three largest manufacturers in the country over the past five years through a series of acquisitions and the further construction of production facilities.

The industry has high barriers to entry and many regional governments have set up restrictions to limit new entrants. Regional monopolies are quite common for this industry, although changes are being made with the establishment of integrated markets at the national level.

Competition between companies within the industry has intensified in the past five years with the market entry of foreign capital, greater market integration and the large number of mergers and acquisitions. Industry participants have established new production facilities in provinces or markets where they were unable to acquire a local manufacturer.

### Imports and exports

Competing imports account for a very small proportion of domestic demand and are forecast to total \$68.3 million, or 0.3% of domestic demand, in 2011 (constant 2011 dollars). The imported value of beer products decreased for seven consecutive years before 2008, with the largest decline of 37.4% in 2004. This indicates the improvements in domestic manufacturing capacity and technology, with the replacement of imports with locally manufactured products. This replacement, however, does not mean replacement of foreign brands by local brands, as the share of foreign brands manufactured in China is increasing. The small proportion of imports in domestic demand largely reflects the production localization of foreign manufacturers in China.

Exports increased from 2006 to 2008 before the negative influence of the global financial crisis saw exports decrease by 4.7% in 2009. In 2010, exports further decreased by 13.1%. However, exports are expected to gradually recover from the global financial crisis and continue to increase in the future. Reasons for this will again be the stabilization of the domestic market, as well as improvements in production capacity, technology and quality of locally manufactured beer products. Currently, exports account for about 0.6% of industry revenue.

### Per capita beer consumption and total beer production in China

Year	Litres Per Capita Beet Consumption	% change Growth	Million Tons Total Beer Production	% change Growth
2005	24.4	N/C	30.6	N/C
2006	27.5	12.7	35.2	15.0
2007	30.6	11.3	39.3	11.6



2008	31.4	2.6	41.0	4.3
2009*	32.1	2.2	42.4	3.4
2010*	32.8	2.2	44.8	5.7
2011*	33.4	1.8	46.9	4.7

Source: National Bureau of Statistics China

Note: \* ACMR-IBISWorld estimates

## HISTORICAL PERFORMANCE

The Beer Manufacturing Industry existed about 100 years ago in China, although it was very small and underdeveloped in the first half of this period. The industry's main development phase started in the middle of the 1950s, and has since passed through four periods of industry development. Each of these is described in brief:

(1) The first period was the longest one and lasted over 25 years from 1953 to 1978. It is further divided into two sub-periods, each lasting around a decade - an adjustment phase from 1953 to 1962 and a development phase from 1962 to 1978. Many new companies were established and beer output increased at an average rate of 38% a year. Output growth sped up in the second part of the period and even reached 40% for the years from 1963 to 1972. Beer output was 400,000 ton in 1978.

(2) The second period started after 1979 and is characterized with intensive industry growth when manufacturing facilities were established across all China regions, except for Tibet. Total beer output reached 688,000 ton in 1980.

(3) In the mid-1980s, the Chinese Beer Manufacturing industry entered a high-speed development phase. The number of production facilities quickly increased, while established facilities increased their production capacity. The industry started importing new equipment with better technology from abroad. Beer output reached 6.54 million ton by the mid-1990s.

(4) From the mid-1990s, the Beer Manufacturing Industry in China entered a mature development phase. The industry's scale increased steadily and larger companies acquired small ones. Foreign investment levels also started to increase during this time.

By 2000, industry revenue totaled \$8.31 billion (constant 2010 dollars). This increased to \$11.92 billion in 2005, which was an annualized increase of 7.5%. This relatively slow growth was due to weaker economic conditions in China during these years, as well as lower demand for beer than in the years to follow. Value added increased from \$3.42 billion to \$5.02 billion during the same period, representing annualized growth rate of 8.0%.

Despite slow growth towards the end of 2001 and in 2002, the industry recovered in the following years along with the domestic economy. China's entry into WTO also meant that the main beer manufacturers started purchasing advanced foreign equipment and improving production technologies and management skills. This resulted in faster growth of 6.7% in production output in 2003, despite the negative effect caused by the SARS outbreak in the first half of the year. Foreign investment increased in 2003, as did the level of competition. Prices of raw materials climbed in the meantime and created cost pressures for beer manufacturers.

Despite the export declines, industry revenue increased by 8.9% and 13.8%, respectively, in 2004 and 2005. The export declines were due to the many mergers and acquisition that took place in these years, with efforts of market participants concentrated on the development of the domestic market rather than international markets.

The following table shows steady consumption growth from 1998 to 2005. This was due to steady growth in demand for beer and increased volumes from manufacturers.

Per Capita Beer Consumption and Total Beer Production in China - 1998 to 2005

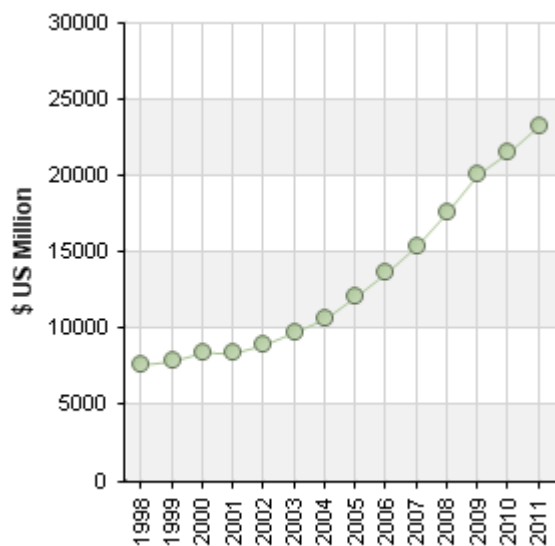
Year	Litres Per Capita Beer Consumption	% change Growth	Million Tons Production	% change Growth
1998	15.7	N/C	19.6	N/C
1999	16.3	3.8	21.0	7.1
2000	17.1	4.9	22.3	6.2
2001	18.1	5.8	22.7	1.8
2002	19.0	5.0	23.8	4.8
2003	20.1	5.8	25.4	6.7
2004	22.0	9.5	29.1	14.6
2005	24.4	10.9	30.6	5.2

Source: National Bureau of Statistics China

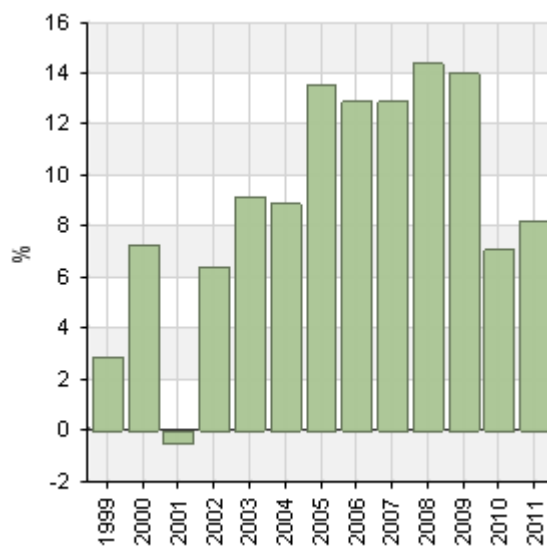
Revenue (constant prices)

	Revenue \$ US Million	Growth %
1998	7,644.5	N/A
1999	7,865.6	2.9
2000	8,437.0	7.3
2001	8,398.6	-0.5
2002	8,934.7	6.4
2003	9,759.7	9.2
2004	10,632.5	8.9
2005	12,081.2	13.6
2006	13,635.6	12.9
2007	15,399.3	12.9
2008	17,619.4	14.4
2009	20,085.6	14.0
2010	21,502.4	7.1
2011	23,268.5	8.2

Revenue



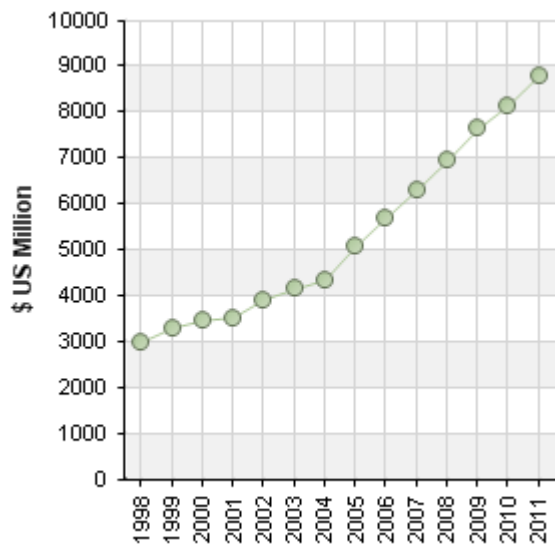
Revenue Growth Rate



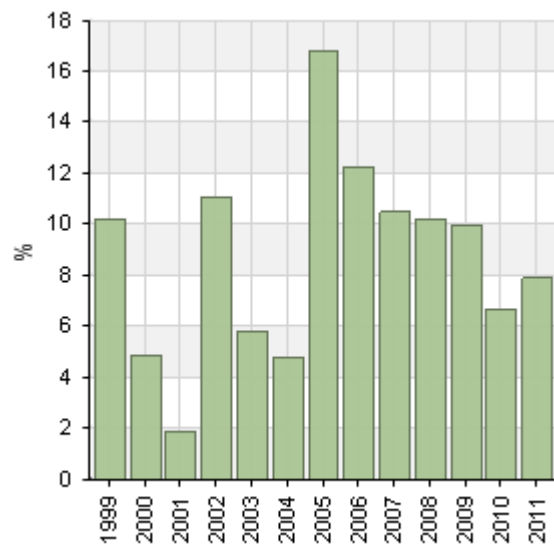
Gross Product (constant prices)

Year	Gross Product \$ US Million	Growth %
1998	3,000.2	N/A
1999	3,306.8	10.2
2000	3,469.3	4.9
2001	3,534.9	1.9
2002	3,926.5	11.1
2003	4,152.9	5.8
2004	4,351.6	4.8
2005	5,083.5	16.8
2006	5,707.7	12.3
2007	6,307.7	10.5
2008	6,950.7	10.2
2009	7,642.4	10.0
2010	8,157.9	6.7
2011	8,803.6	7.9

Gross Product



Gross Product Growth Rate

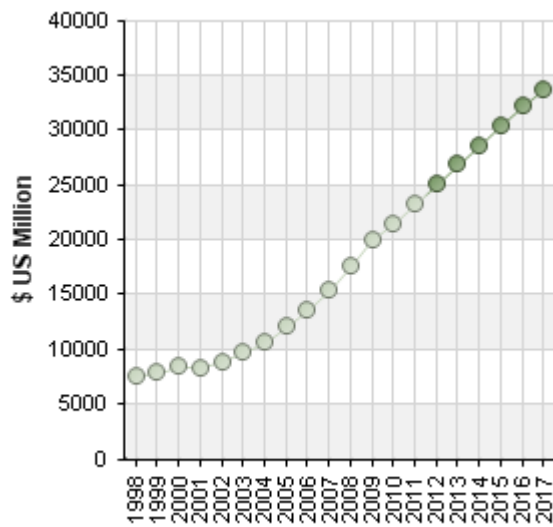


## Outlook

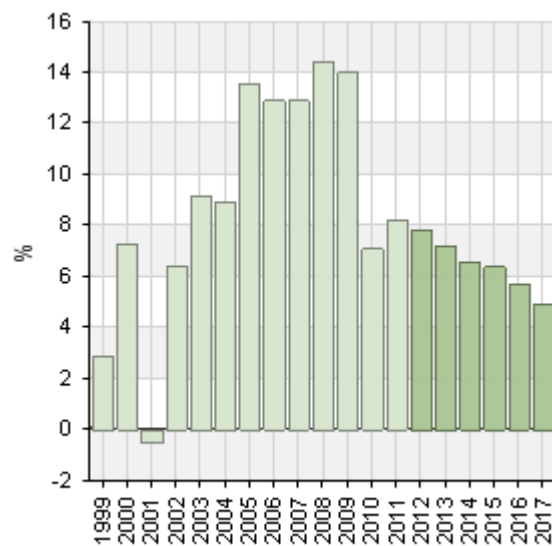
Revenue (constant prices)

	Revenue \$ US Million	Growth %
2012	25,073.4	7.8
2013	26,867.1	7.2
2014	28,632.7	6.6
2015	30,471.1	6.4
2016	32,193.5	5.7
2017	33,785.2	4.9

Revenue



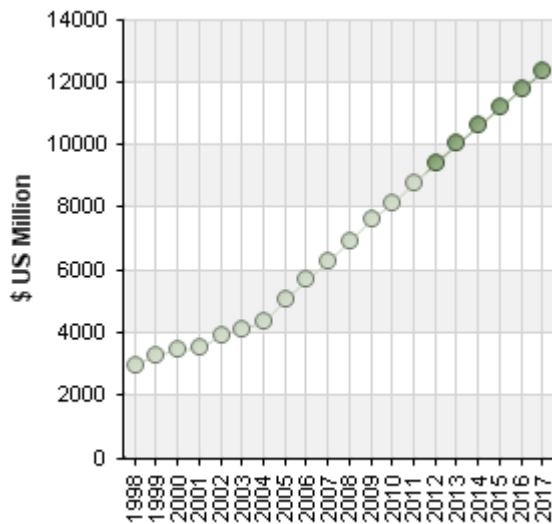
Revenue Growth Rate



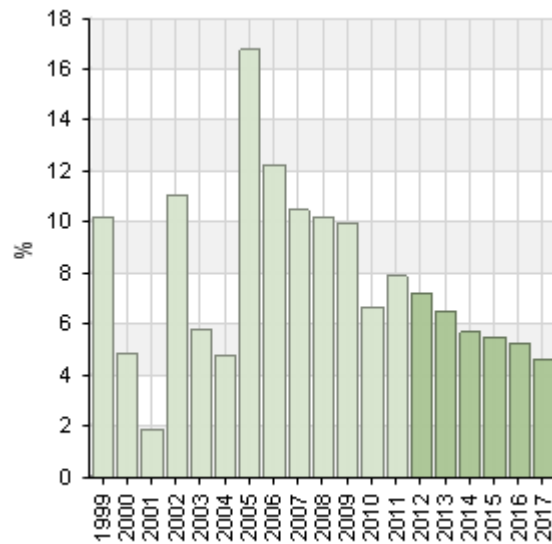
Gross Product (constant prices)

	Gross Product \$ US Million	Growth %
2012	9,435.1	7.2
2013	10,047.8	6.5
2014	10,625.1	5.7
2015	11,210.8	5.5
2016	11,802.6	5.3
2017	12,351.4	4.6

Gross Product



Gross Product Growth Rate



ACMR-IBISWorld forecasts that the industry will experience moderate industry revenue growth and low output growth in the next five years through 2016. This is expected to be driven by further growth in domestic demand and the growing share of high-end beer products, as well as increased pricing competition. Chinese people are changing their drinking habits with declining consumption of high-alcohol drinks and spirits, and growing consumption of beer, wine and low-alcohol drinks. The Chinese Government will continue to encourage exports, although beer output growth is expected to be driven by domestic demand.

The industry is expected to enter into a new development phase in the next five to 10 years with higher industry concentration levels and more rationalized production. This follows the development history of beer industries in many developed countries. Industry competition will further intensify and focus on improving sales and gaining market share.

In the five years through 2016, ACMR-IBISWorld estimates that industry revenue will increase at an annualized rate of 6.7% to \$32.19 billion. A higher level of profitability is expected over the next five years as the industry becomes more efficient due to improved technologies and the growing dominance of industry leaders.

Beer products will become more diversified and new products will come onto the market. The traditional beer products will remain as the mainstream, but there is expected to be a trend towards product specialization and niche markets and products. New products expected to satisfy niche markets across China's consumer segments include low-alcohol beer, alcohol-free beer, ciders, and stouts.

Industry concentration is expected to increase in the future. The top three market leaders will continue strengthening their market positions and brand value. The competitive focus for firms operating at the national level will change from scale competition to brand competition, and the market share will concentrate towards only a handful of brands in the future.

The industry is also forecast to change its marketing model in the future. Intensive competition and greater operational pressures will encourage industry leaders to save on costs and sell directly to dealers and retail shops, as well as establishing their own direct sales networks to service retail shops.