

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Food Service - Hotel Restaurant Institutional

HRI Sector Recovering in Late 2013, Set for Strong 2014

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Report Highlights:

While China's HRI sector attempts to maintain 20 years of double-digit expansion, government policies enacted in late 2012 to curb lavish expenditures deeply impacted hotels and restaurants in 2013. While effects are lingering, the sector began showing recovery in late 2013. Prospects for 2014 remain strong as (1) the impact of the new government policy has been nearly fully digested, (2) urbanization brings another 20 million Chinese to city centers, (3) increasing disposable incomes continue to translate into increased spending on luxury food expenses, and (4) western cuisine takes stronger foothold via the rapid expansion of international hotels and restaurants. While Beijing, Shanghai, and Guangzhou remain the strongest centers of consumer spending power in the HRI sector, expansion will continue to grow fastest in Emerging City Markets.

Post:

Chengdu ATO

Commodities:

Almonds, Shelled Basis

Apple Juice, Concentrated

Apples, Fresh

Asparagus, Fresh

Avocados, Fresh

Canned Apricots

Canned Mixtures

Citrus, Other, Fresh

Coffee, Green

Dairy, Butter

Dairy, Cheese

Dairy, Dry Whole Milk Powder

Dairy, Milk, Fluid

Dairy, Milk, Nonfat Dry

Filberts, Inshell Basis

Fresh Apricots

Fresh Cherries,(Sweet&Sour)

Fresh Peaches & Nectarines

Fresh Plums & Prunes

Grapefruit Juice

Grapefruit, Fresh

Grapes, Table, Fresh

Kiwifruit

Lemon Juice

Lemons, Fresh

Macadamia, Inshell Basis
Oil, Rapeseed
Oil, Soybean
Oil, Sunflowerseed
Oilseed, Peanut
Orange Juice
Oranges, Fresh
Peaches, Canned
Pears, Canned
Pecans, Inshell Basis
Pistachios, Inshell Basis
Potato Products, Frozen
Poultry, Eggs
Poultry, Meat, Broiler
Poultry, Meat, Turkey
Prunes (Plums, Dried)
Raisins
Rice, Milled
Strawberries, Fresh
Strawberries, Frozen
Sugar, Centrifugal
Tangerine/Mandarin Juice
Tangerines/Mandarins, Fresh
Tomato Paste,28-30% TSS Basis
Tomato Sauce
Tomatoes, Canned

Walnuts, Inshell Basis

Wine

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SECTION I. MARKET SUMMARY

A. The Economy: Slowing But Still Dynamic

GDP

In the late 1970s, China abandoned the planned economy and started its Reform and Opening Policies. As a result, for more than three decades, China grew 8-12 percent annually, and in 2010, became the world's second largest economy according to World Bank. However, timed with a now shrinking labor force, the economy slipped to 7.8% growth in 2012 – the slowest rate in more than a decade. However, China's decelerating economic growth appears to be leveling off with economists forecasting a new norm of 7-8% growth for 2013 and 2014. China's economy will likely remain constrained by a slowly recovering Eurozone and weak investments by the Chinese private sector. The Chinese government has continued to pursue a number of construction projects to aid the economy, including that of new highways, ports, railways and sewage networks. However, the numerous infrastructure projects across China have also contributed to the poor air quality and pollution situations that caught world headlines in 2013.

| Major Economic Indicators at a Glance | | | | | | |
|---------------------------------------|-----------------------|---------------------------|---------------------------------------|---------------------------------------|-------------------------------------|---------------------------------------------------|
| Year | Per Capita GDP (US\$) | Per Capita GDP Growth (%) | Total Value of Exports (US\$ Billion) | Total Value of Imports (US\$ Billion) | Per Capita Disposable Income (US\$) | Per Capita Consumption Expenditure on Food (US\$) |
| 2009 | 4,110 | 8 | 1,202 | 1,006 | 2,825 | 695 |
| 2010 | 4,818 | 17.2 | 1,578 | 1,396 | 3,143 | 790 |
| 2011 | 5,789 | 17.3 | 1,898 | 1,744 | 3,587 | 906 |
| 2012 | 6,319 | 9.2 | 2,049 | 1,818 | 4,040 | 994 |

Source: China Statistical Yearbook 2013

Incomes

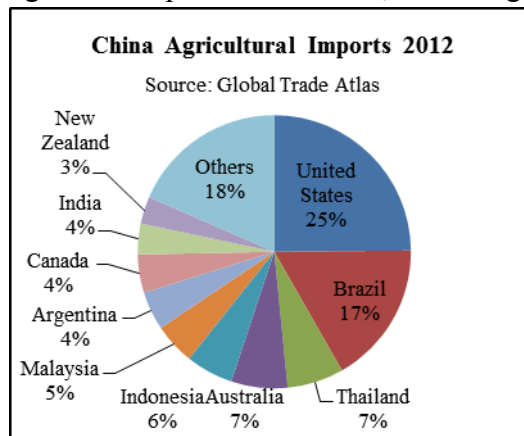
While smaller workforces, and by consequence, increasing wages have begun to strip China of its traditional export competitiveness, per capita disposable incomes continue to increase at double-digit rates. During the period 2012 to 2020, according to Euromonitor, total disposable income will increase by a cumulative of 69.2% in real terms – growing at an average annual rate of 6.8%. The income of urban households is, on average, almost three and a half times higher than that of rural households. Also, the number of urban households with incomes greater than \$5,000 is expected to grow by nearly 25 percent annually over the next ten years, creating tens of millions of new middle-class Chinese consumers.

Exchange Rates

Beginning in July 2005, China reformed the Renminbi (RMB) exchange rate regime by moving into a managed floating exchange rate system with reference to a basket of currencies, and the exchange rate of RMB was re-valued to 8.11 per U.S. dollar on July 21, 2005. At the end of November 2013, the exchange rate of RMB was 6.08 per U.S. dollar. Economists generally remain positive about the strength of the RMB, with forecasts indicating it will appreciate another 2-3 percent in 2014, meaning increased buying power for Chinese consumers of U.S. products.

Trade

While China remains the world’s leading exporter with a positive trade balance, it is also the world’s second largest importer, and a significant net importer of agricultural products. In fact, China’s greatest trade deficit in agricultural products is with the United States. China became the United States’ largest export market for agricultural products in 2012 at a record \$25.9 billion, generating 18% of total U.S. export value. Lower commodity prices have pushed year-ending October 2013 exports to total only \$23.9 billion. Only roughly 10% of U.S. exports to China are consumer-oriented. China’s has attempted to create opportunities for further imports through the issuance of specific fiscal and financial measures to balance trade by organizing import exhibitions, which extend to food and agriculture.



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| Year | Consumer-oriented Ag Products | | | Agricultural, Fish & Forestry | | |
|------|---------------------------------------|-------------------------------------|-------------------|---------------------------------------|-------------------------------------|-------------------|
| | China Imports from World (\$ Million) | China Imports from USA (\$ Million) | U.S. Market Share | China Imports from World (\$ Million) | China Imports from USA (\$ Million) | U.S. Market Share |
| 2009 | 8,467 | 1,691 | 20.0% | 60,610 | 14,468 | 23.9% |
| 2010 | 11,844 | 1,509 | 12.7% | 86,889 | 19,770 | 22.8% |
| 2011 | 16,551 | 2,854 | 17.2% | 117,029 | 25,166 | 21.5% |
| 2012 | 20,014 | 3,068 | 15.3% | 130,779 | 30,150 | 23.1% |

Source: Global Trade Atlas

In 2013, China also created a new free-trade zone in Shanghai. The intention is to make Shanghai the international trade and financial rival to Tokyo, Hong Kong, and Singapore. The zone will go beyond trade liberalization to embrace investment and financial services, including free convertibility of the RMB. According to China’s General Administration of Quality Supervision, Inspection and Quarantine (AQSIQ), they will also attach great importance to the building of the Shanghai free trade zone and will call upon the city’s quality inspection departments to render their support by introducing relevant facilitation measures in three respects, namely, “easy entry and exit,” “simplification of procedures,” and “innovative control.”

B. Overview of Chinese HRI Sector

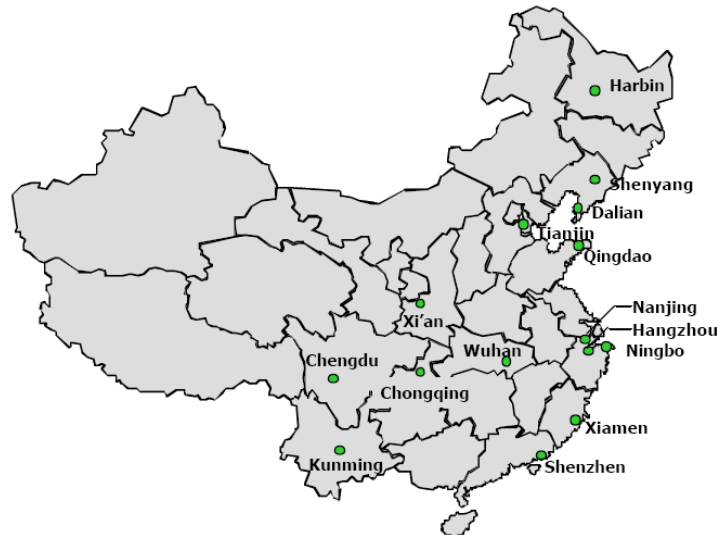
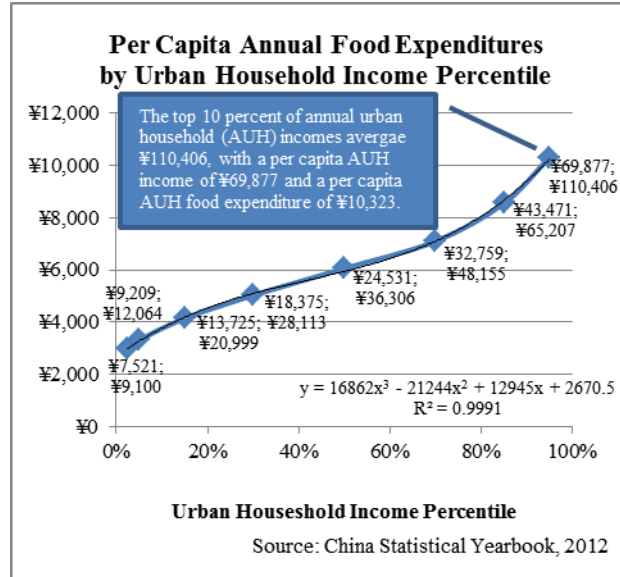
China’s domestic HRI sector first opened to international investment and domestic privatization as a result of Reform and Opening policies implemented since 1979. In the intervening decades, China’s HRI sector has developed swiftly, thanks in large part to expatriates, overseas Chinese entrepreneurs, returning Chinese scholars, international and domestic tourists, officials on expense accounts, and an ever-growing cadre of affluent, middle-class consumers. In addition, the increasing number of international events held in China have also fueled demand and raised standards. As a result, international hotels, world-class restaurants, and high-end foodservice options have all emerged to meet growing demand, especially by Chinese consumers who have increased consumption expenditures in restaurants and hotels.

Today, China's urban wealthy and middle consumers are the primary demographic targets of star-rated hotels, upscale restaurants, other foodservice outlets. The number of Chinese middle-class consumers, defined as with annual household income between RMB60,000 (\$7,322) to RMB 500,000 (\$61,016), range between 200-500 million based on A.T. Kearney, Inc. and Euromonitor International estimates. However, official statistics indicate annual household incomes greater than RMB65,000 still represent less than 125 million people.

Most of China's middle-class lives in large urban areas such as the traditional tier one Beijing, Shanghai, Guangzhou, and Shenzhen. However, the middle class continues to develop in emerging cities markets (ECMs), including Changsha, Chengdu, Chongqing, Dalian, Fuzhou, Hangzhou, Jinan Nanjing, Qingdao, Shenyang, Tianjin, Wuhan, Wuxi, Xi'an, and Xiamen – all of which were raised to the status of tier one cities by 2013 study, based on their commercial activity and business potential. Others ECMs of continued interest include Harbin, Kunming, Ningbo, Shenyang, Zhengzhou.

In 2012, Chinese urban household expenditures on food and food while dining out are calculated at RMB 1.5 trillion (\$240 billion) and RMB 325 billion (\$52 billion), respectively. These figures are projected to grow 8-11 percent annually, which would more than double 2012 expenditure levels by 2020. This projection assumes a linear regression of the urbanized population, urban household sizes, and per capita urban household expenditures.

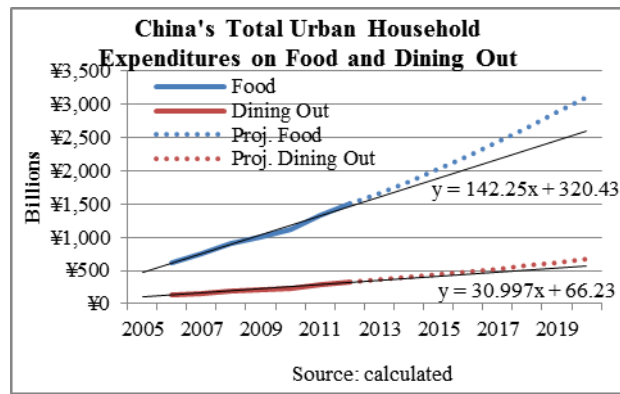
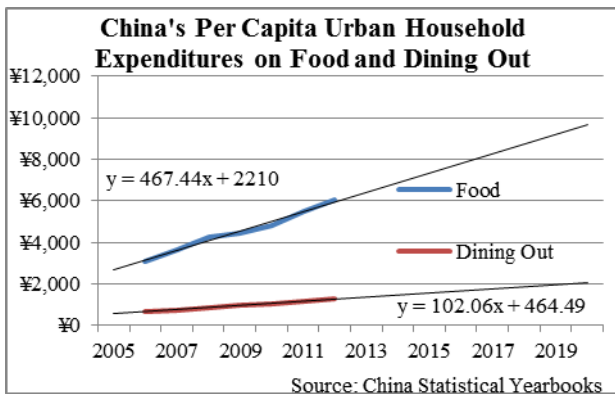
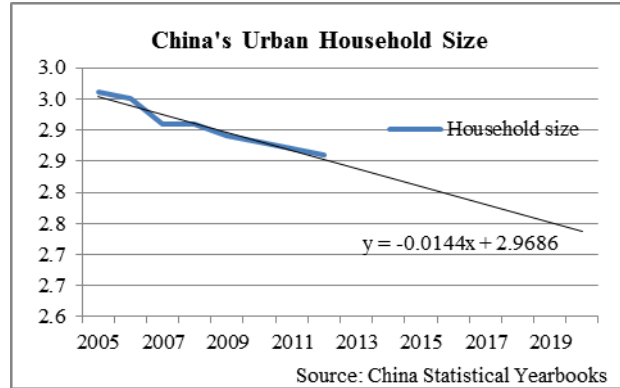
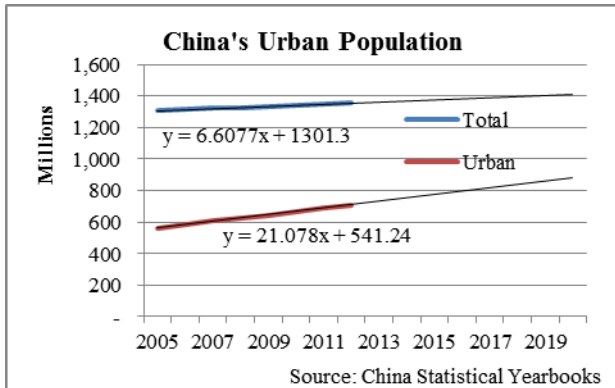
In 2011, consumer price inflation was 5.4 percent but slowed to 2.6 percent in 2012, well below the central bank's 4.0 percent target.



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Chinese consumer foodservice industry witnessed dynamic growth of 16 percent and the annual total revenue of consumer foodservice reached \$434 billion (Euromonitor), although growth was slightly lower in terms of outlet number, transactions, and sales value compared with 2010. The uncertain economic conditions dragged down demand for dining out. In the second half of 2011 high inflation in China negatively affected spending in consumer foodservice.

In 2012, growth in consumer foodservice slowed slightly, largely owing to the economic downturn in China and ongoing global economic instability. By the end of 2012, China's Hotel Restaurant and Institutional (HRI) sector revenue reached \$131 billion and the market size of the Chinese foodservice industry reached \$329 billion.

Starting in late 2012 through the majority of 2013, slower Chinese economic growth combined with the Central Government's new policy of government spending restrictions on dining and lodging caused many struggles within the industry. While, the industry has gradually been recovering since August, the growth rate through the first three quarters of 2013 lowered to 8.9 percent. Nonetheless, industry experts expect 2013 may again touch double-digit growth. If not, it will be first setback in over 20 years.

The economic downturn and new government policies resulted in a number of independent foodservice outlets closing their doors as they struggled for business, while a number of chains also decelerated in terms of outlet expansion. In response to the downturn, foodservice operators took active roles in a variety of promotional activities, aiming to stimulate demand. Foodservice operators are looking to increase sales revenue through various methods. In addition to providing delicious food, they are also providing other attractions to accelerate sales growth and outperform their competitors. As consumers demand higher levels of customer service in the foodservice experience, operators have to improve their

service, which can leave a good impression on consumers. Measures of improvement include delivery service, free Wi-Fi, high technology ordering systems, personalized service, extending operating hours, offering discounts, and group purchases.

Regional Diversity

The food service industry in China varies across the regions. Culinary styles differ widely by city, which necessitates regionally tailored product marketing strategies and effort. China has eight officially recognized cuisines as follows: Anhui, Fujian, Guangdong (Cantonese), Hunan, Jiangsu, Sichuan (Chuan), Shandong, and Zhejiang. In Northern China, noodles, dumplings and pancakes common. These products are made from wheat instead of rice, which is the staple grain of southern. Cantonese cuisine is considered to be the finest of China's regional cuisines because of its fresh and ingredients. Sichuan cuisine is known for its spicy dishes, including "Hot Pot." Chengdu, the capital Sichuan, is also a UNESCO City of Gastronomy, two in Asia. Chinese cuisine around Shanghai is best known for slow cooking and the more frequent use of soy sauce, sugar and other seasonings.



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What and How Are We Eating

China is one of the world's largest producers of meat, eggs, aquatic products, grain, oilseeds, fruits, and vegetables. As wealth increases and consumption patterns change, traditional supplies of food are increasingly unable to meet evolving consumer demands in the major cities. As people travel internationally and domestically, they also bring their culinary traditions with them across regions in China and from overseas. Consumers in major cities are demanding better tasting, stronger flavored and more authentic food. Health-conscious consumers are willing to spend more on products that can deliver health benefits, fight aging process or are seen as safer.

Eating patterns are becoming more flexible and informal, particularly among the urban young and affluent consumers. 24-hour restaurants, Quick Service Restaurants (QSR), places offering light meals and snacks are emerging in response to the increasingly busy urban lifestyle, particularly in the major cities.

As disposable incomes rise, the younger generation and their families prefer to celebrate holidays and personal milestones going out to eat in restaurants or hotels. While time savings from eating out is important, many Chinese view dining out as a way to establish and maintain close personal and professional relationships. Dining establishments with a good ambiance, quality decor, prompt service, and high quality food continue to attract customers. Those that offer imported food and alcoholic beverages, dessert and coffee are especially attractive to affluent white-collar workers, professionals, and expatriates.

The government's efforts to lower tariffs on imported food also made such items more accessible to Chinese consumers. There is increasing demand for western food in major Chinese cities. The preference for international food brands is becoming more obvious among Chinese urban consumers,

who have grown increasingly aware of food safety issues. The perceived safety and quality guarantees of imported food attract Chinese customers. The growing Chinese economy and the residents' increasing purchasing power are among the causes of the increasing consumption of Western food products.

International Influx

Although tourism has increased substantially, most of the HRI market is dependent on Chinese customers. However, in the years to come, the situation is expected to change. Accession to the WTO benefited Chinese exporters while speeding the opening of the economy to foreign trade, investment, and travel. Current predictions estimate that by 2020, China will be the most popular tourist destination in the world with over 130 million international visitors expected annually. This trend is particularly noteworthy given that China's international tourism industry only began around 30 years ago. In just more than two decades after China opened its borders to global visitors, 22.21 million foreign visitors and tourists (excluding Hong Kong, Macao and Taiwan) collectively spent nearly \$30 billion.

These overseas visitors working and traveling in China continue to significantly influence the HRI food service market by their demands for health and good tasting foods – many of which will be sourced overseas. International visitors will also inspire and influence the tastes of the wealthy, as well as fashionable and cosmopolitan young Chinese. Demand for high quality food products that meet stringent food safety standards will also continue increasing because of international events. Event such as the 2008 Beijing Olympic Games, 2010 World Expo in Shanghai, 2011 Guangzhou Asian Games, and Shenzhen Universiade 2011 had largely increased demand for qualified food during the event, and the demand stayed well above earlier levels even after the Games ended.

Business Meals

Banquets and working dinners play a central role in Chinese business culture and support a large segment of China's HRI sector. This is particularly true in the major cities, where businesspeople with large expense accounts host officials, potential customers or other decision makers to extravagant meals. Seeking to impress a client or potential partner, it is not unheard of for these meals to cost thousands of dollars at a single sitting at high-end restaurants. As a rule, these customers are not price sensitive, since meals are paid by an expense account. However, these patrons often demand very private, peaceful, and comfortable dining environments. High-quality menu items and expert presentation also matter – along with a good selection of domestic and imported beverages.

Despite the sophisticated nature of Chinese cuisine at many traditional restaurants, shortcomings persist in presentation, nutrition, ingredient quality and preparation. In addition, increasing demand for healthy food is supporting demand for foods that are organic, hormone-free and fat-free, with special attributes high antioxidant, omega-3, and fiber content. As the concern for health increases, well-heeled Chinese in first-tier and second-tier cities will also continue to seek new and stimulating food experiences. This opens the way for imported products.

However, since the end of 2012, the Chinese Government has ramped up efforts to suppress corruption and advocated frugality in government affairs. Chinese Central Government issued its new policy of government spending restrictions on dining and lodging. After this, it put forward relevant policies including restrictions on the expense of official banquets as well as “anti-waste” and “anti-extravagance” measures. The new measures had a significant impact on the foodservice and hotel industry in China, particularly high-end restaurants. Faced with the changes, some leading premium restaurants will seek to address the difficulties they face by transferring to a more mass-market

positioning. Many high-cost food ingredients, raw materials and alcoholic beverages sales have dropped significantly since then. While there appears to have been some slight recovery in the third and fourth quarter, it will take some time for these hotels and restaurants to adjust to the new market environment.

Weddings, Holidays and Domestic Travel

The wedding industry has become a multibillion dollar industry in China. Prior to couples tying the knot, they plan a once-in-a-lifetime event, which often includes an extravagant ceremony and banquet. The wedding industry combined with generally rising incomes has had a highly positive impact on China’s HRI Sector, creating niche market for hotels, restaurants, and caterers.

Chinese holidays were updated in 2008 adding a few traditional festivals to the official list including Qingming, Dragon Boat Festival and Mid-Autumn Festival. These restored holidays assist HRI industry since they provide a boost to domestic travel and dining out. As Chinese society rapidly modernizes, traditional festivals are becoming more important to ordinary Chinese. This trend will likely increase spending. During holidays, food service establishments often offer special holiday menus to attract families, couples, and businesspeople. During traditional festivals such as Lunar New Year and Mid-Autumn (moon) Festival, reservations are often made 2 to 3 months in advance in stand-alone restaurants as well as hotels.



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Sceneries Packed with Tourists during Holidays

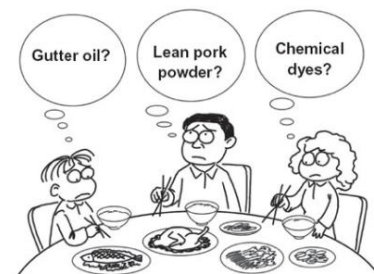
To encourage domestic tourism, the government has been upgrading travel-related infrastructure such as roads, seaports, airports, and tourist sites. Peak domestic travel time includes Chinese New Year and October 1st National Day Holiday. As China continues to open, develop, and grow, urban living standards continue to improve, and create many new HRI sector opportunities. Chinese are increasingly able to afford domestic travel. Rising incomes mean that every year more Chinese join a growing middle-class that can afford to travel. While there were only 1.62 million domestic trips in 2007 and this number exceeded 3.09 billion in 2012. Although the economic downturn will likely slow growth, travel is expected to resume rapid growth when the economy resumes its rapid growth. Travel out of the ECMs will likely grow particularly fast. As China’s economy grows, business travel is also on the upswing, creating increased demand for travel accommodations.

| China’s Tourism Industry | | |
|--------------------------|--------------------|----------------------|
| Year | Tourists (Billion) | Revenue (\$ Billion) |
| 2012 | 3.09 | 423.45 |
| 2011 | 2.78 | 358.34 |
| 2010 | 2.12 | 245.49 |
| 2009 | 1.91 | 193.05 |
| 2008 | 1.73 | 172.61 |

Source: China Statistical Yearbook 2013

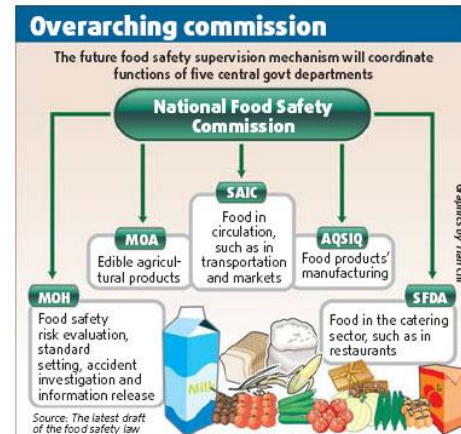
Food Safety Concerns

More than 95 percent of Chinese consumers think about food safety before they purchase, and rank food safety as a “very important” factor influencing their food purchasing behavior. safety has become a major public concern in China over the past years following multiple food safety scandals reported by the media.



Food few local

In an effort to improve the food safety situation in China, the Chinese government enacted a new Food Safety Law on June 1, 2009. The Food Safety Law was issued to replace the Food Hygiene Law, Border Hygienic Quarantine Law and Food Safety Law govern all imported foodstuffs, food additives, food containers, food packaging materials and food-related tools and equipment. Food products are subject to mandatory inspection by the China Commodity Inspection Bureau. Standards for inspection are specified in the contract of sale, including standards for quality, weight, quantity, and packing and inspection methods. Such standards must not be lower than the corresponding national standards. Safety license and other regulations are applied to the import of foods. Once a quality certificate for product is issued, a safety laser label can be affixed. All products sold in China must have Chinese language labels. Labels state types of food, brand name, trademark, manufacturer's name and address, country of origin, ingredients, date of production and expiry date, etc.



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The Ministry of Health (MOH) released the Standard for Nutrition Labeling of Prepackaged Foods (GB 28050-2011) in 2012, and the standard came into effect on January 1, 2013 and requires the nutrition labeling of prepackaged food to include nutrition information, nutrition claims and nutrient function claims. It furthermore gives requirements as to nutrition information specifications regarding the content of trans-fatty acids. The Standard moreover requires a description of the level, content, increase or decrease of energy and nutritional component in the food, with the specific content requirements and limitations set out.

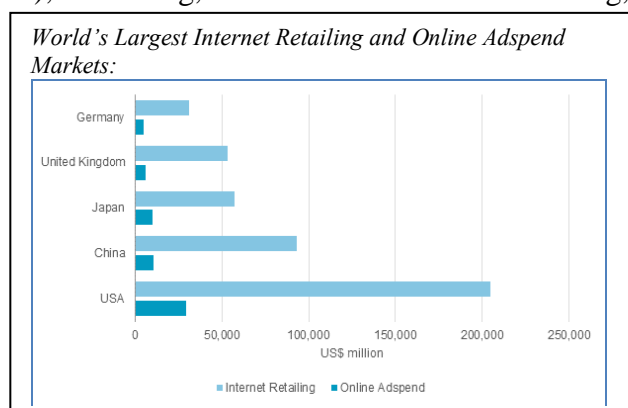
Food product health and safety scandals have served to increase consumer awareness about food safety and food origins. These developments could potentially be a boon for some food exporters since imported food and beverages, including wine, from the United States generally enjoy a good reputation for high quality and product safety standards.

The lack of cold chain logistics is another impediment of China's food safety system. According to China Federation of Logistics & Purchasing, China needs 365,000 refrigerated trucks and five billion cubic feet of cold storage by 2017 to serve China's growing market with effective safety levels. At the same time, increasing demand from restaurants and hotels are expected to stimulate demand for cold chain services. This interest in a large improved cold chain has been led by international chains such as McDonalds and Kentucky Fried Chicken. Now that the government is also focused on the sector, investment is likely to be very substantial in the years to come.

New Trend: E-commerce and Group Purchases

The fast development of internet and new technology enables Chinese people to explore new countries and cultures and have also provided access to foreign cuisines. Restaurants have also begun to adopt new technology such as e-menu (menu on an Ipad), e-ordering, on-line reservation and ordering, etc.

China becomes the second largest market for internet retailing and online adspend. According to Euromonitor, Global Internet retailing value is projected to expand by 15.3% in real terms annually in 2013 to reach



US\$601 billion. Tmall (www.tmall.com), one of the largest e-commerce company in China, created an annual “double 11” promotion day. On November 11, everything sold on Tmall website will be 50 percent off or more. During the “double 11” promotion in 2013, Tmall generated sales of \$5.76 billion in just one day, which increased 83 percent from a year ago. Other big e-commerce companies including JingDong (www.jd.com), Yihaodian (www.yihaodian.com), SuNing (www.suning.com), and Amazon (www.amazon.cn) also launched similar promotions around the same period of time.

Along with the accelerating pace of life and work, eating out and going for drinks has become a fundamental aspect of consumer lifestyles in China, particularly in large cities. An increasing number of consumers sought the best deal for their food and drinks rather than demonstrating unwavering loyalty to particular brands. The emergence of group buying in consumer foodservice caters for demand.

Group buying of catering started from the end of 2010 and became prevailing in 2011, and 2012 thanks to the rapid development of e-commerce between consumers and the catering business. Foodservice operators launched a variety of combination of dishes with discounted prices and the consumers can purchase their products with discounted price via the professional e-commerce platform for group buying. At present, there are many group buying websites, such as Dianping.com, Meituan.com and NuoMi.com. According to *iResearch*, the Mainland online research firm, *Meituan* is the country's largest group buying website with revenues of \$883 million in 2011 and a 20% market share. The January-to-November 2012 figures released in the *China Group Buying Market Report* showed that at the end of November, a total of over 410 million shoppers had made purchases on independent Mainland group buy sites, with aggregate transaction values hitting \$3.1 billion. Average monthly transaction values hit \$273 million, up 90.1% over the year-earlier period. The average monthly number of purchasers was 37.4 million, up 43.2% year-on-year, with the average number of active group buy deals reaching 194,000.

To a great extent the group procurement of catering brought benefits and positive impacts to consumers and the catering business. Consumers have a chance to experience high-end restaurants beyond their consumption budget, or patronize new outlets with favorable prices. Catering operators can more effectively promote awareness through advertising of group buying, especially for new outlets. Group procurement as a marketing strategy for low profit but quick turnover serves to increase the transactions of catering outlets and share the fixed operating costs on a daily basis to pull in growing revenue. More catering operators will attempt to employ catering group procurement as a new marketing method instead of traditional advertising patterns to attract potential customers.

New Trend: Social Media

In 2013, consumers have looked more to social media platforms as a one-stop shop for consumerism, which has provided opportunities for savvy businesses to promote goods. Growing penetration of electronic banking and growing disposable incomes will also boost opportunities in the segment.

China was also expected to see large expansion in social media users in 2013 (Euromonitor). The registered users for Weibo and Weixin, the two most popular social media platforms and Chinese versions of Twitter and Facebook, reached 500 million and 300 million respectively in early 2013. Younger users are especially expected to drive niche platforms that focus on photo- and video-sharing, and the social media gaming sector, which often offers free content. It has become very common practice for people to take photographs of their food before eating to share with their friends through both Weibo and Weixin. Most foodservice companies also use Weibo, Weixin, or other social media

platforms to help promote their restaurant, distribute coupons, and display dish pictures to their followers.

C. Sub-sector Profiles

Hotels and Resorts

The World Tourism Organization (WTO) estimates by 2020 China will become the world's most popular destination.

Partially spurred by major international events, many internationally-owned or managed hotel groups are actively growing in China. According to a research report by Knight Frank, "While China's hotel market has seen some straining signals in 2012 and 2013, particularly in first-tier cities' luxury segment, burgeoning domestic demand should improve longer-term operations with demographic advantages. Although most of the international hotels chains are located in the first tier markets like Shanghai, Beijing, Guangdong, Jiangsu, and Zhejiang, international hotels have been showing their market confidence with aggressive expansion plans in China, particularly in second, third-tier cities and top tourism destinations, with their huge development potential." Starwood Hotels & Resorts, which had 120 hotels in China in mid-2013, has 100 more in the pipeline, of which 20 will open in 2013. Wyndham Hotel, the largest U.S. hotel operator in China with 543 hotels across the world, will add eight new Ramada properties in 2014-2015. Marriott is planning to increase the number of hotels in China to 125 covering 75 percent of all provinces of China by 2016.

| China's Hotel Industry at a Glance | | |
|------------------------------------|-----------------------------|---------------------|
| | Number of Star-Rated Hotels | Revenue (\$Billion) |
| 2009 | 14,498 | 37.2 |
| 2010 | 15,713 | 46.0 |
| 2011 | 16,506 | 53.6 |
| 2012 | 17,109 | 58.1 |

Source: 2013 China Statistical Yearbook

| Major International Star Rated Hotel Chains in China (2013) | | | |
|-------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------|---------------------------|
| Brand Name | Subsidiary Brands in China | Headquarters / China Headquarters | Number of Hotels in China |
| Intercontinental Hotel Group | <ul style="list-style-type: none"> • Intercontinental Hotels & Resorts • Crown Plaza • Holiday Inn • Holiday Inn Express • Hotel Indigo | UK / Shanghai | 200 |
| Accor Hotels & Resorts | <ul style="list-style-type: none"> • Sofitel • Pullman • Grand Mercure • Mgallery • Ibis | France / Shanghai | 150 |
| Cendant Corp. | <ul style="list-style-type: none"> • Howard Johnson • Wyndham • Ramada • DaysInn • Super 8 Motel | USA / Beijing | 110 |
| Starwood Hotels & Resorts Worldwide | <ul style="list-style-type: none"> • Sheraton Hotels & Resorts • Westin | USA / Shanghai | 106 |

| | | | |
|---------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------|----|
| | <ul style="list-style-type: none"> • Le Meridien • Four Points • A Loft • W Hotels • St Regis | | |
| Marriot Hotel Group | <ul style="list-style-type: none"> • Renaissance • Marriott Hotels & Resorts • Courtyard Marriott • The Ritz-Carlton • JW Marriott | USA / Hong Kong | 61 |
| Shangri-la Hotel | <ul style="list-style-type: none"> • Shangri-la Hotel • Traders Hotel | Singapore / Shanghai | 43 |
| Kempinski Hoteliers | <ul style="list-style-type: none"> • Kempinski | Germany / Beijing | 25 |
| Hyatt Hotels Corp. | <ul style="list-style-type: none"> • Hyatt Regency hotels • Grand Hyatt • Park Hyatt • Hyatt Hotels & Resorts • Andaz | USA / Beijing | 21 |
| Carlson Hotels | <ul style="list-style-type: none"> • Radisson • Regent • ParkPlaza • ParkInn | USA / Singapore | 20 |
| Hilton Hotels Corp. | <ul style="list-style-type: none"> • Hilton • Double Tree | USA / Shanghai | 17 |
| Four Seasons | <ul style="list-style-type: none"> • Four Seasons Hotels & Resorts | Canada / Shanghai | 8 |

Food service in hotel operations makes up a large part of total revenue. Unlike in many Western countries, restaurants in hotels are not necessarily visited by lodging guests, but are frequently visited by outside guests for their quality and unmatched service provided by international hotel management companies.

Hotels usually prefer to purchase in bulk and often as a group, especially for chained hotels. Group purchasing or centrally controlled purchasing is often the rule. For example, a Shangri-la Hotel Group hotel needs to fill-in an online request form from their group purchasing center to place orders. Imported food products are often preferred by international hotels where multiple food service outlets on the premises cater to a diverse clientele. For international hotels, imported food products account for 30-50 percent of the total food purchases, making them some of the largest markets for imported food and beverage products.

In comparison, many domestically managed, private or state-owned hotels purchase far less imported food than international hotels. As market pressures force improvements and modernization, their demand may grow. Local hotel chains will be limited by cost consciousness and the fact that these hotels traditionally focus their food service on Chinese cuisine; however, some do offer western restaurants.

Restaurants

Geographically large and regionally diverse, China has very distinct local and regional food and flavor preferences. Among domestic consumer foodservice players, numerous well-known, distinctive local brands exist. However, only a handful of national brands that provide specialty foods enjoy widespread acceptance. Full-service restaurants are well-positioned in major cities such as Beijing, Shanghai and Guangzhou. In addition to domestic food service players, increasing exposure and interest in foreign culture and travel means consumers are often interested in trying new Western-style foods. However, it is important to be aware of regional diversity when entering the China market – which in fact is a series

of many markets instead of one market. In general, supplies for non-chained establishments are sourced locally.

| China's Food Service Industry at a Glance Full Service Restaurants Value (\$ Million) | | | | | | |
|----------------------------------------------------------------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Chained vs Independent | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
| Chained Foodservice | 9,540 | 11,352 | 12,625 | 14,955 | 17,120 | 19,012 |
| Independent Foodservice | 179,236 | 205,803 | 226,191 | 267,128 | 304,269 | 330,188 |
| Total | 188,776 | 217,155 | 238,816 | 282,083 | 321,389 | 349,200 |

Source: Euromonitor International

| Brand Shares of Chained Full Service Restaurant (% Value) | | | | | |
|------------------------------------------------------------------|----------------------------------------------------------|-----------------------|-------------|-------------|-------------|
| Brand | Global Brand Owner | Headquarters | 2010 | 2011 | 2012 |
| Pizza Hut | Yum! Brands Inc | USA | 0.2 | 0.3 | 0.3 |
| Little Sheep | Yum! Brands Inc | USA/Beijing, China | 0.2 | 0.2 | 0.2 |
| Xiao Wei Yang | Inner Mongolia Xiao Wei Yang Chained Food Service Co Ltd | Inner Mongolia, China | 0.2 | 0.2 | 0.2 |
| Dezhuang | Chongqing Dezhuang Group | Chongqing, China | 0.1 | 0.1 | 0.1 |
| Taoranju | Chongqing Taoranju Catering Culture Co Ltd | Chongqing, China | 0.1 | 0.1 | 0.1 |
| Quanjude | China Quanjude (Group) Co Ltd | Beijing, China | 0.1 | 0.1 | 0.1 |
| Chongqing Xiaotiane | Chongqing Xiaotiane Catering Group Co Ltd | Chongqing, China | 0.1 | 0.1 | 0.1 |
| Xiao Tu Dou | Shenyang Xiao Tu Dou Foodservice Co Ltd | Shenyang, China | 0.0 | 0.0 | 0.0 |
| Guangdong Shaozai | Guangdong Shaozai Group | Guangdong, China | - | - | - |
| Others | Others | | 98.8 | 98.8 | 98.7 |
| Total | Total | | 100.0 | 100.0 | 100.0 |

Source: Euromonitor International

Stand Alone and Chain Restaurants

Although China's HRI sector represents a mix of different food trends, regional differences in first-tier cities are diminishing. Business visitors, tourists, students and expatriates have all contributed to the creation of a diverse, international dining culture. Many high-end restaurant chefs do not limit their creations to local products, evidenced by the widespread use of items such as *fois gras* and snow crabs. In fact, it is not uncommon for high value food and beverage imports to top the list on upper-end restaurant menus.

Affluent white-collar workers enjoy dining in international hotels or stand-alone restaurants featuring American, French, Italian, Thai, and other international cuisines to satisfy adventurous food cravings. The cuisine, restaurant, and ambiance are important in drawing affluent and often young consumers to these eateries.

Rising consumption, preferences for more dining options, attentive service and stylish ambience has given full service restaurants and cafés/bars a boost across much of China. The number of specialty coffee shops and cafés also continues to grow rapidly. In addition, the popularity of premium restaurants in Beijing, Shanghai, and Guangzhou illustrates increasing preference for dining options that provide more than just good food. Café and bar chains, international and domestic, have been able to

offer consistency and quality of food sought by consumers, leading dynamic growth in consumer foodservice outlets in China. For example, Starbucks offers ambience, aroma and comforting background music. Wireless Internet access and comfortable seating encourage affluent clientele to leisurely enjoy their time while sipping coffee. Among young urban Chinese and expatriates, it is fashionable to meet friends in cafés rather than quick service or other restaurants, with places like Starbucks are often quote as landmark or meeting point. Premium restaurants are another form of lifestyle consumption as diners enjoy delicious meals in lavish environments that may include designer lighting, an intimate atmosphere, and high level of personal service.

Emerging middle and upper class consumers continue to expand further inland market. Rising incomes in China have consistently produced interest in restaurants and cafés that offer more than just traditional food and beverage options. The appeal of dining options which offer superior food in a stylish setting is increasingly very widespread, continuing to create a market for high-quality food products that should continue expanding with China’s development.

Western Cuisine requires a high level of consumer awareness, which has been transmitted by expatriates in major cities, overseas returnees and a small group of high-income earners who are frequently exposed to Western eating culture. Factors affecting understanding of western food include fast-paced lifestyles, accessibility to information, high spending power. Exotic cuisine is also on the rise as a result of international travel and the expansion of the food service industry.

Quick Service Restaurants (QSRs)

While fast food is often perceived as unhealthy by many consumers, it continues to enjoy significant growth in China. Although snack foods sold by street vendors have been around for centuries, this sector continues to decline in number given rising food sanitation-safety concerns. Longer working days in urban environments minus traditional leisurely lunch breaks have increased Chinese consumer interest in fast food, which is quick, hygienic, and inexpensive. Fast food sales values increased by nearly 17 percent reaching \$94 billion in 2011, and more than 1.3 million fast food outlets were reported in 2011, which represents an increase of over 6 percent from 2010. Successful fast food operators such as KFC and McDonalds created breakfast menus to cater to many white-collar workers who have limited time to prepare breakfast before leaving for work. KFC continues to be the market leader with a market share of 6 percent and over 4,000 outlets in China. They began entering into fourth or fifth-tier cities or towns in 2012.

| Fast Food Industry Value at a Glance (\$ Million) | | | | | | |
|----------------------------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Chained vs Independent | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
| Chained Fast Food Restaurant | 7,095 | 8,783 | 9,854 | 11,661 | 14,761 | 17,416 |
| Independent Fast Food Restaurant | 51,600 | 60,861 | 67,531 | 77,613 | 85,750 | 92,679 |
| Total | 58,695 | 69,644 | 77,385 | 89,274 | 100,511 | 110,095 |

Source: Euromonitor International

| Fast Food Industry Outlets at a Glance | | | | | | |
|-----------------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Chained vs Independent | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
| Chained Fast Food Restaurant | 22,880 | 26,086 | 28,949 | 32,755 | 36,693 | 40,734 |
| Independent Fast Food Restaurant | 1,020,54 | 1,076,67 | 1,130,42 | 1,198,03 | 1,267,24 | 1,337,86 |
| | 4 | 4 | 9 | 4 | 2 | 0 |
| Total | 1,043,42 | 1,102,76 | 1,159,37 | 1,230,78 | 1,303,93 | 1,378,59 |

| | | | | | | |
|--|---|---|---|---|---|---|
| | 4 | 0 | 8 | 9 | 5 | 4 |
|--|---|---|---|---|---|---|

Source: Euromonitor International

| Brand Shares of Chained Fast Food Restaurant (% Value) | | | | | |
|---------------------------------------------------------------|----------------------------------------------------|---------------------|-------------|-------------|-------------|
| Brand | Global Brand Owner | Headquarters | 2010 | 2011 | 2012 |
| KFC | Yum! Brands Inc | USA | 5.2 | 5.9 | 6.5 |
| McDonald's | McDonald's Corp | USA | 2.0 | 2.2 | 2.4 |
| Dicos | Ting Hsin International Group | Taiwan | 1.1 | 1.2 | 1.5 |
| cnHLS | Hua Lai Shi Catering Management and Service Co Ltd | Fujian, China | 0.5 | 0.6 | 0.6 |
| Ajisen Ramen | Shigemitsu Industry Co Ltd | Japan | 0.4 | 0.4 | 0.4 |
| Kungfu | Kungfu Catering Management Co Ltd | Guangdong, China | 0.3 | 0.3 | 0.3 |
| CSC | Country Style Cooking Restaurant Chain Co Ltd | Chongqing, China | 0.1 | 0.2 | 0.2 |
| Daniang Dumpling | Jiangshu Grand Mother Dumplings | Jiangshu, China | 0.2 | 0.2 | 0.2 |
| Yoshinoya | Yoshinoya Holdings Co Ltd | Japan | 0.1 | 0.1 | 0.1 |
| Dairy Queen | International Dairy Queen Inc | USA | 0.1 | 0.1 | 0.1 |
| Yonghe King | Jollibee Foods Corp | Taiwan | 0.1 | 0.1 | 0.1 |
| Malan Lamian | Malan Lamian Fast Food Chain Co Ltd | Beijing, China | 0.1 | 0.1 | 0.1 |
| Others | Others | | 89.6 | 88.4 | 87.3 |
| Total | Total | | 100.0 | 100.0 | 100.0 |

Source: Euromonitor International

There are other reasons why people choose QSRs. One, the restaurants are mostly at prime locations, usually situated within shopping centers or where people travel the most. Two, they offer predictable food and decorations. As food safety outbreaks increase in China, a clean, bright dining environment with standardized set-up and service staff assures people for a good management. Modern deco also attracts students, young people and white collar workers. Three, it also offers consumers more meal choices than the traditional Chinese fast food.

Nonetheless, Asian fast food offerings continue to dominate the market, with its sales value representing roughly 60 percent of the total. Competition among fast food operators has become increasingly fierce in some large urban cities, even some second-tier cities, and forced market leaders to expand into smaller cities and inland areas.

Nutrition and health are major trends in the HRI sector, including QSRs. With consumers increasingly aware of health implications related to consumption habits, QSR operators have had to adapt to consumer demand for more nutritious product offerings.

Since taste is the dominant issue for Chinese consumers, most international QSRs have adopted Chinese or Asian flavors and have changed their menus to adapt to local conditions. KFC's breakfast includes Chinese porridge and fried dough which are typical Chinese food. The ability to incorporate local flavor is key to success for international fast food players. KFC, as market leader, had good success with incorporating Chinese elements into its menus to cater to Chinese tastes. Capturing multiple consumer segments such as those who prefer Asian-style fast food had enabled Yum! Brands to maintain its market leader position in China's fast food environment.

The country's one-child policy is also increasingly influencing the dining out preferences of Chinese families. Chinese often select restaurants based on the preferences of the child. International QSRs such as McDonald's and KFC have succeeded in capturing market share by offering playgrounds, children's menus, toys, and birthday party packages designed to win the hearts and stomachs of young consumers. However, parents are also increasingly conscious of health and food safety considerations when selecting meals for their children. This could affect QSR and school foodservice providers in future years.

Although price sensitivity limits the demand for imported food products, the QSRs are a good potential consumer of bulk products such as frozen potato products, meat, poultry, seafood, other ingredients, condiments, and beverages.

Institutional Food Service

Traditionally only hospital, government, school, transportation and airline employees were served by institutional foodservice. However, in the past few years, institutional foodservice has expanded into high-end office complexes and private companies.

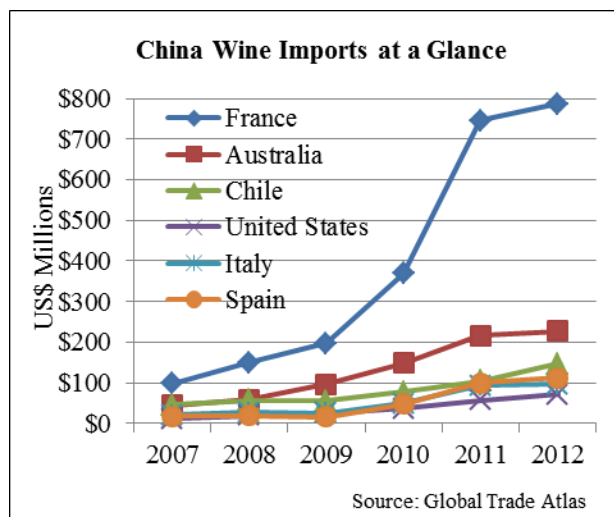
The Federation of Chinese Catering Industry estimates there are as many as 1.5 million domestic catering businesses in China, although a majority are small. In Shanghai, catering companies with annual revenues above \$10 million continue to emerge. Local surveys indicate 80 percent of consumers would like to try catered food or catering services – if the food offered is healthy, prepared according to industry standards, and convenient. As international players enter the Chinese food service market, it is critical they understand the pitfalls, including the absence of regulations and standards in the current environment. This includes a lack of transparency in such areas as contracting, food safety inspection, and taxation.

Due to extreme price sensitivity within much of the sector, the catering market has yet to use a meaningful level of imported food and beverage products, and most of the time, it is zero. However, with increasing wealth, there is more interest in catering private functions with higher quality food focused on international corporations, private functions, and home events for expatriates. This has stimulated the rise of private catering companies offering high quality food, particularly in Beijing and Shanghai. Those high-end institutional niche food service companies could be a future market for imported products.

China's Wine Market

The Chinese have a long history of consuming hard liquor (Bai Jiu), rice wines, and beer. Wine made from grapes is still a niche drink in this market. Imported fruit wines and wines made of grapes are evolving in recent years with local products taking much of the market share. French wines remain the most popular imported wine since Chinese consumers equate French wines with superior quality. Chilean and Australian wines are generally price competitive.

Wine shops, Western restaurants, and five-hotels are some of the key channels to promote imported wines. In addition, Chinese restaurants play an increasingly important role in developing the wine market,



very
star
since

they make up the biggest outlet type that Chinese consumers will choose.

In major cities like Beijing, Shanghai and Guangzhou, drinking wine, especially imported wine is often a status seeking activity. Wine culture is important in influencing consumers purchasing behavior since many consumers lack knowledge of food and wine pairing.

Major wine importers, distributors and retailers have first focused on educating consumers to build demand. Wine clubs are also very popular as people meet to learn more about wine pairing and build overall appreciation for wine. To some extent, wine purchases have also being employed as an investment strategy. However, the Central Government's new policy of government spending restrictions on dining and lodging have caused a sharp pullback from many expensive wines, especially French and Spanish wines. While Chinese imports in 2013 are relatively unchanged from 2012, low and mid-price range products appear not to have been largely impacted by the new policy.

SECTION II: MARKET ENTRY

A. Market Structure

Target Population

While China's population grows relatively slowly, urbanization continues to create more than 20 million per new consumers annually. Meanwhile, rising disposable incomes, particularly among white-collar workers, means urbanized residents can also afford more imported food and beverages on a regular basis. Increasingly, it is fashionable to sample international cuisine and wine, and many urban Chinese have both the desire and means to dine out regularly in upscale restaurants and bars. Chinese consumers actively pursue information through mobile social media, lifestyle media, TV and newspapers about imported food and food products, often seeking opportunities for new culinary experiences beyond traditional Chinese cuisine.

Increased consumer and media consciousness of nutrition, food safety, and health is also driving the market for food imports. Obesity continues as a public health issue in China, especially child obesity, with demand for low-fat, calorie conscious and healthy options rising. Women are increasingly interested in food and beverages that acclaim to improve hair and skin health, and seniors seek vitamin-fortified products with real and perceived health benefits. Functional foods with ingredients such as omega 3 fatty acids, anti-oxidants, and high-fiber have also found a growing market in urban China.

Distribution and Cold Chain Infrastructure

Less than a decade ago most imported products flowing into mainland China arrived via Hong Kong. Transit times by truck to Beijing take four days from Hong Kong and the trek by truck from Shanghai to China's far western provinces six days. With economic and policy liberalization as well as infrastructure improvements, increasing levels of 'direct imports' enter China via Shanghai, Tianjin, Qingdao and other ports, improving transport times and increasing market access for and information about the diverse variety of food and agricultural products consumed in China.

Distribution channels are improving in major markets such as Beijing, Shanghai, Guangzhou and Chengdu, according to food service industry insiders. Improved expressways, ports and cold chain infrastructure continue to expedite transportation and delivery. However, outside major metropolitan areas, cold chain distribution is still often unreliable. Purchasing managers at major hotels in some ECMs resort to transporting imported products primarily by air, and even then, complications are not uncommon. "We commit to a menu, but we can't get consistent product supplies, and if we switch to domestic products, quality is far from adequate. On another level, counterfeit products are also a problem for imported food, beverage and ingredients which hurt our reputation in the long run." says one restaurateur. Increasing ECM demand requires expanded warehousing, improved importer-local agent networks to deliver quality imported food products.

China's cold chain and logistic bottlenecks affect the food service industry. For instance, Yum! Brands own 18 large-scale distribution centers in China to serve 4,200 KFC, 800 Pizza Hut, and other Dong Fang Ji Bai, Xiao Fei Yang outlets.

Cash flow presents difficulties for many distributors: buyers, especially large-scale customers like hotels, usually with a pay period of 45-90 days post delivery. Payment for food imports often takes place 30 days after invoicing, usually upon shipment. As distributors develop a positive relationship,

fewer suppliers require full payment in advance, but even under the best circumstances, top distributors are still required to make deposits that can average 30 percent or more on some products such as meat.

Despite overland infrastructure improvements, distributors say air continues to make up around 10 percent of their import cost by volume and more than twice that amount in value terms. Airfreight shipments of meat and dairy product as well as some fruit and vegetable air shipments are routine. Some traders report airborne imports face fewer customs and quarantine difficulties compared to imports by sea. Complex quarantine and customs procedures often cause import delays on an all-too-regular basis although distributors report the port of entry is a large variable in the frequency and duration of delays.

Gray Channel Supplies

The Hong Kong ‘gray channel’ is still a primary supply route for products destined for the Pearl River Delta and southwestern China, including Sichuan, Yunnan, Hunan provinces, and Chongqing. Most northern distributors have eliminated reliance on the gray channel or reduced such imports to less than 20 percent of total volume. Gray channel goods are handled by Hong Kong agents who work with Chinese agents, often based on family connections, across the border in Guangdong Province. Cargo is under-invoiced to reduce tariffs. In addition, some distributors say, it is easier and less expensive to source low-volume shipments from Hong Kong, rather than taking the risk of landing full containers in northern ports.

However, WTO tariff reductions and a general loosening of controls have diminished the advantages of under-invoicing, as the central government continues to crack down on customs tariff and tax avoidance. In addition, the growth in imported food is moving North and East, away from Guangzhou, since the cost of transportation and quality issues can eat into the perceived savings of gray channel product shipments.

Direct Imports

Rapid growth, tariff reductions and infrastructure improvements have increased food import volumes in Dalian, Tianjin, Qingdao, Shanghai, and Xiamen. All of these ports now have modern docks, warehouses and container handling. Customs procedures have become more transparent as standard protocols for individual products evolve port-by-port. However, arbitrary treatment and policy changes still impede shipments unexpectedly, and importers complain inspectors are inconsistent: “They will block something for slight variations in bills of landing or other documents,” says one importer.

Major distribution options include:

- Full-service distributors.
- Third-party/ fourth-party Logistics. China has liberalized its distribution industry under WTO rules, and a small group of foreign-managed companies has developed in ports and free trade zones offering customs clearance, foreign exchange conversion, bonded warehousing and shipment. However, most do not specialize in the food business, so distributors or sales agents still need to sell, promote, and navigate many bureaucratic hoops such as licensing, labeling, and perhaps most importantly get paid from customers.

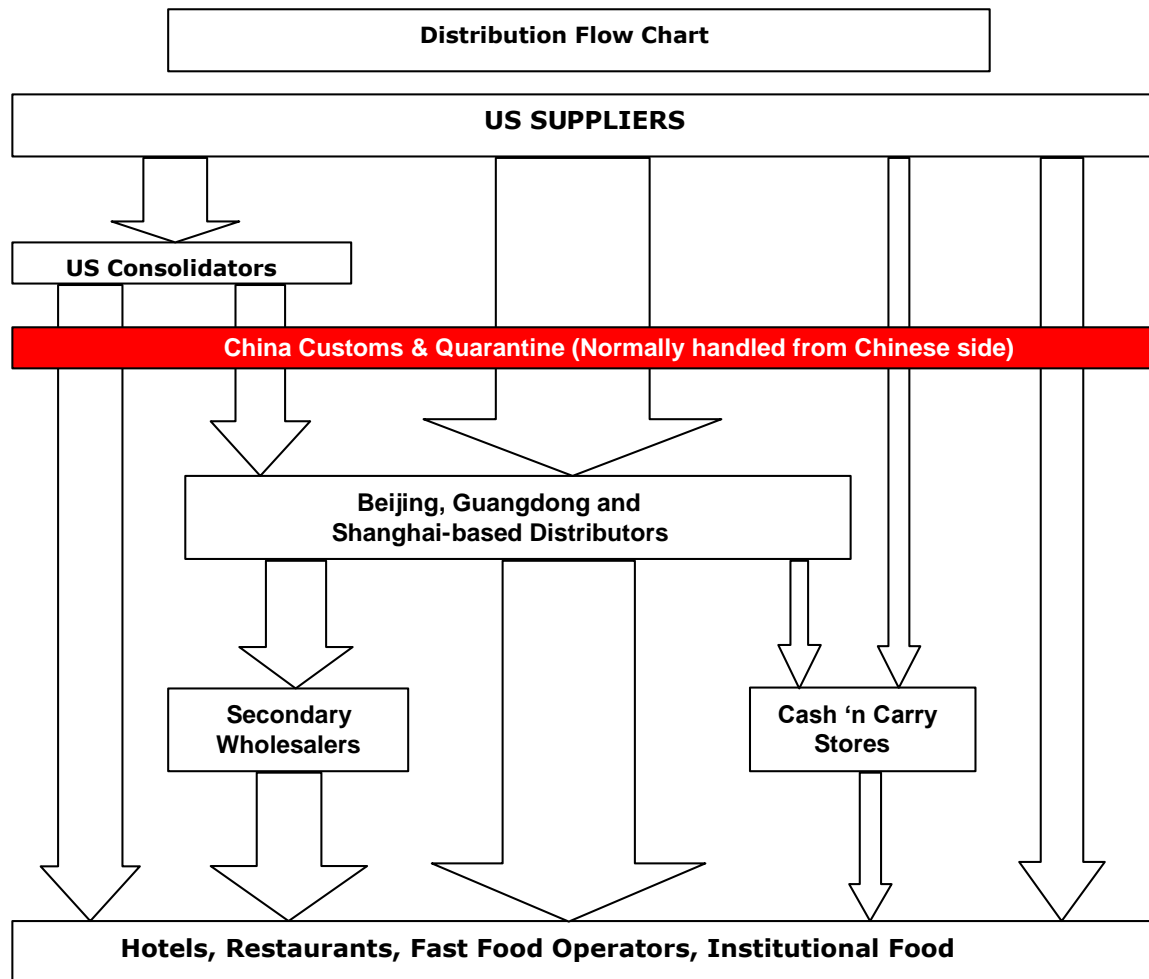
- Direct sales to end-users. This is limited to high volume customers like fast food and large hotel chains. Post suggests having local agents handle the paperwork and licensing issues to relieve the unexpected hassles, which can cause delays and risk the loss of whole containers of goods.
- U.S. consolidators fill orders for China-based distributors, and also fill direct orders for restaurants and hotels, so you still need to make sales in China. U.S. consolidator efficiency is considered a major advantage for U.S. exporters.
- Hong Kong distributors, who frequently make use of the gray channel. Many have a large network of offices or affiliates inside China, but basically provide the equivalent of 3rd party logistics services. The supplier still remains responsible for promotion, training and developing a market.
- Cash 'n Carry Outlets, such as Metro and Wal-Mart that target commercial customers like restaurateurs for purchase of bulk supplies – able to reach the restaurant food service trade directly.
- Online sales: National E-commerce giants such as www.jd.com, www.yihaodian.com, www.tmall.com, and www.amazon.cn provide a platform for importers to sell to end-users throughout China via their own logistics distribution chain or through a third-party logistics company. This has proven to be the fastest growing distribution channel to reach third and fourth tier city consumers where traditional distribution remains limited.

B. Entry Strategy

Entering China's market can be incredibly rewarding, but it requires hard work: selling and distributing your product requires face-to-face contact, a special effort to educate the entire value chain, and attention to the details of distribution. Even good distributors in China lack marketing experience and it can also be difficult to get them to focus on promoting your product among the hundreds or even thousands they may carry. Some suppliers conduct marketing on parallel tracks, working with their local distributors but also engaging a small independent marketing and sales force that reports directly to them. Entry strategy should focus on the elements below:

- Marketing, Sales and Education: Introducing your product and persuading them to use it is only the beginning. Chinese distributors and chefs are often interested in imported products, but usually lack proper handling and preparation knowledge. This can extend even to very basic products, like condensed canned soup or ingredients, etc. and strong educational effort is required.
- Selecting a Distribution Channel: At the same time, it is also important to make sure that your distribution channel can provide a consistent supply for your customers. Often, the first question buyers ask about a new product is, "Can I order it now?" This can be and often is a bit of a chicken-and-egg syndrome for a new supplier in the China market, but an important consideration nonetheless.

Marketing, Sales and Education



If there is one mantra that emerges from extensive discussions with HRI industry insiders, it is that the Chinese market needs to be educated from A-to-Z for most imported products. This means showing distributors how to handle and sell the product; developing recipes and demonstrating to chefs and food service staff how to use, prepare and serve it; launching promotional events to entice consumers with the resulting menu, and last but not least, persuasive articulation of why the product use makes commercial and economic sense in local terms.

Distributors will not make the effort alone, but are willing to work together with suppliers to make a product successful. Several full-service distributors say they focus on building worthwhile brands, which requires building relationships with buyers, providing technical support and training, making joint calls and hosting promotions. “You have to make people truly understand and how to use the product,” says one of the major north China importers.

Successful suppliers have developed a number of strategies to educate the market. On sales calls, they go fully prepared to demonstrate their product. They develop recipes that incorporate the product into

Chinese cuisine, illustrating broader versatility. Some bring in chefs and set up a theme promotion at a local hotel for several weeks, often giving intensive and highly focused workshops for local chefs.

Catalogues, recipes and handling instructions must be provided in Chinese. This is particularly important with Chinese-operated hotels and restaurants, but even five-star hotels with western-trained chefs often have staff that have difficulty understanding labels and directions unless printed fully and clearly in Chinese.

Restaurateurs cite national or ethnic food fairs and promotions as an effective way to reach the ultimate consumer. Many restaurants look for opportunities to do special promotions, capturing customers on the lookout for a new dining experience. Most foodservice companies have a Weibo, Weixin or other social media accounts to help them promote their restaurant and release discount information, dish pictures, coupons and related news to their followers. It becomes a popular method of e-marketing for the foodservice industry.

The United States Department of Agriculture (USDA) has several export programs that can help support promotion and training. As well, a number of U.S. states and even some cities have offices in China; many cooperate with the U.S. Agricultural Trade Offices in Beijing, Chengdu, Guangzhou, Shanghai and Shenyang. The State Regional Trade Groups and other USDA market development cooperators also conduct a variety of effective educational and promotional market development programs and/or maintain representative offices in China.

Establishing the Supply Channel

The most important advice for U.S. suppliers before entering the China market is to partner with a good distributor. Like many Asian countries, business culture is heavily dependent on personal relationships in China. Face-to-face contact plays a key role in ensuring reliability in situations where legal structure and contract enforcement are vague. Selecting suitable distributors requires effort and cooperation on both sides. U.S. suppliers should work to develop an understanding of target markets within China and clearly define their market expectations for their local distributor.

For their part, the distributor should be able to handle customs, quarantine and any licensing procedures. Some distributors do their own paperwork, while others use import agents. These procedures involve so many requirements and 'red tape' that few suppliers or end-users, including Chinese state-owned companies, try to do it on their own. Apart from the licenses and permits, hygiene certificates from the U.S. government are also required for food products. In addition, Chinese import permits, hygiene and quarantine inspection certificates are expected on product entry. Proper labels in Chinese may be required, but stick-on labels are acceptable as long as they have already been applied to the product upon entry. Your distributor should have the ability to facilitate everything mentioned above. Exporters should plan ahead and work with distributors to understand the duration of each stage of the process.

It is crucial your importer or distributor is able to make payments in hard currency, or you will have trouble collecting payment. The government has considered plans to make the Chinese Yuan (CNY), also called Renminbi (RMB), into a fully convertible currency, but it may be a number of years before such plans become a reality. Currently, Chinese companies need special Import & Export licenses to change RMB into U.S. Dollars. Also, RMB exchange rates began to fluctuate and continue to

appreciate against the U.S. Dollar starting from 2009 – it is important to establish an agreed upon currency and exchange rate system or policy for any payments or costs.

Suppliers of perishable products need to be alert to the cold chain procedure of distributors, because infrastructure is uneven. Even in cities like Beijing, Shanghai and Guangzhou, many buyers use infrared guns and in-transit thermometers to check for tampering-temperature variations. “You have to be a policeman; otherwise, they will cheat you.” says one food & beverage director in Beijing.

Protect Your Intellectual Property Rights (IPR)

FAS China established an IPR Office in 2006 to address IPR and Labeling issues related to U.S. agricultural and food products in China. The aim of the Office is to provide direct assistance to U.S. industry and commodity associations and businesses, in their effort to secure registration, as well as to prevent and/or address IPR infringement with appropriate market and legal enforcement remedies.

Although China continues to make efforts to strengthen its legal framework and amend its IPR laws and regulations to comply with World Trade Organization obligations, U.S. agriculture and food products still face serious IPR infringement problems. Some examples of IPR infringement issues include:

- “Stickering” and labeling domestic and third-country products with U.S. identification such as California Table Grapes, American Pistachios, U.S. Wheat Flour, Washington Apples, Wisconsin Ginseng, etc., is widespread.
- False branding and packaging of domestic and third-country products with U.S. identification such as Sunkist® citrus, Sun-Maid® raisins, TABSCO® pepper sauce, and Pop Weaver® popcorn.
- Counterfeiting or mixing of domestic or third country products with U.S. food and beverages including poultry, beef and pork.
- Unauthorized sale-use of U.S. Plant Variety Protection (PVP) protected plant materials and germplasm.

The most effective deterrent to piracy is to properly register patents, trademarks, plant varieties, geographical indicators, food labels, and other such IPR at home, in China, and third-country markets. Below are some of suggested resources to use. All of them contain information on China’s patent, trademark legislation and enforcement, as well as Plant Variety Protection (PVP) laws.

- Review FAS China’s website: www.usdachina.org, find ‘IPR in CHINA/ Introduction to Trademark Registration in China’, the IPR Manual produced in 2007 by FAS IPR Office as well as other related information.
- Online reports: CH7027, CH7030, CH7046, CH7023, CH7028, CH7035, CH2049 and CH4059, available from:
<http://www.fas.usda.gov/scriptsw/AttacheRep/default.asp>
- The U.S. Embassy’s China IPR toolkit:
http://beijing.usembassy-china.org.cn/protecting_ipr.html

The FAS China IPR Office is located in the Agricultural Trade Office (ATO) Beijing. For additional information, please email chinaipr@fas.usda.gov.

Entry Tips

Experienced distributors and buyers offer the following advice for those who wish to enter the China market:

- Take time to study the market. Understand the exporting/importing process from start to finish. Partner with a reliable and capable distributor to execute all necessary importing documents and licenses.
- Having a great product is only the beginning. It is critical to understand the target market and prospective clients before you enter the market. If an international hotel, restaurant, fast food chain or air caterer is an existing client in the U.S.A, try to use that as an entry to the China branch.
- Be sure the products you carry are unique – if there is a similar domestic substitute or established foreign competitor, it may be difficult to compete on price/quality. An alternative strategy may be to enter the market by exploring geographic market segments not yet covered by the competition.
- Participate in USDA endorsed trade shows. Many suppliers get excellent market information by scheduling an initial visit to coincide with one of the many large international exhibitions held here in China, such as SIAL China, Food Ingredients China, Food & Hotel China (FHC), or China Fisheries and Seafood Expo. ATOs in Beijing, Chengdu, Guangzhou, Shanghai and Shenyang can all provide contact details for show organizers upon request as well as recruiting distributors or traders to the show for matchmaking meetings.

| Trade Shows Featuring Food & Agricultural Products in HRI Sector | | | |
|-----------------------------------------------------------------------------|-------------------|-----------------|-------------------------------------------------------------------------------------------|
| Trade Show Name | 2014 Dates | Location | Website |
| China Food and Drinks Fair (Tang Jiu Hui) | Mar 24-31 | Chengdu | http://www.qgtjh.com/ |
| Food Ingredients China | Mar 25-27 | Shanghai | http://chinafoodadditives.com/d_e.htm |
| HOTELEX | Mar 31-Apr 3 | Shanghai | http://www.hotelex.cn/ |
| SIAL China | May 14-16 | Shanghai | http://www.sialchina.com |
| Bakery China 2014 | May 13-16 | Shanghai | |
| China Fisheries & Seafood Expo | Nov 5-7 | Qingdao | http://www.chinaseafoodexpo.com/ |
| Food & Hotel China (FHC) | Nov 12-14 | Shanghai | http://www.fhcchina.com/en/index.asp |
| | Nov 17-18 | Chengdu | |

- Be financially prepared. Consider all possible costs, such as: license, customs handling, promotion, education and training, freight, tariffs and VAT.
- Unless you are supplying one of the fast food chains or a hotel group, only selected products may ship large volumes. Most likely you won't be able to start with full container loads so consider waiving order minimums during the market entry phase.
- Different regions in China have unique and diverse dietary habits and tastes in food, just as they do in the United States. Always start in one region and conduct market tests before entering another. You may need to modify a product to make it conform to regional tastes and purchasing habits.
- Don't be too ambitious. Expand your business only after full confidence in operation in one location. One of the most common mistakes made in the China market is overly ambitious expansion without a solid foundation and loyal customers.
- Work to incorporate locally celebrated holidays, festivals and customs: Chinese New Year (Spring Festival), Mid-Autumn Festival, Qingming, Duanwu, May Day holiday and National Day holiday. Western holidays like Valentine's Day and Christmas are also increasingly celebrated here. International sporting events (Olympics, World Cup Soccer) are also very popular, and association with special events like weddings and business celebrations can provide good business opportunities.

SECTION III: COMPETITION

Imported food accounts for one-quarter of China's food and beverage sector. As such, the imported foods market in China is very competitive with suppliers from around the world battling for market share. Australia, New Zealand, South Africa and the European Union are most likely to supply products that compete with American products. European suppliers, in particular, provide heavy support for chefs, and the media including regular training in China and abroad.

Future food trends in China include:

1. Increased focus on healthy and nutritious products that deal with obesity and food safety;
2. Growing popularity of 'fusion' foods that combine western and Asian flavors;
3. Increased exposure to western cuisine via international restaurant and hotel chains;
4. Increased emphasis on inventory and cost management.

Imported U.S. food products have an excellent reputation for delivering consistent high-quality. Chefs' exhibit strong loyalties to U.S. beef, despite its unavailability at present. French up-market cheeses, yogurt and chocolates and Norwegian salmon are also considered premium quality.

Most imported products face at least some locally-manufactured, lower-priced competition, with only a few exceptions (e.g., olive oil). Significant competition comes from large corporations with local production (e.g., McCormick, DANONE, Rich's) for cost-saving or market access reasons. Aside from multiple food safety scandals that reach headlines, in general, locally-produced products are also improving in quality, so chefs and purchasing managers are increasingly faced with cost considerations when choosing imported or domestic supply. Nonetheless, China still has a long way to go. For example, China still imports around 70% of its french fries, since domestic supply most years are inconsistent quality and economically uncompetitive. Also, due to China's increasing arable land and water resource limitations, most experts believe China will continue to fall further away from self-sufficiency.

Traditional advantages of locally-produced goods are also being mitigated as the Chinese economy develops and opens. As the RMB continues a slow appreciation against the U.S. dollar, this makes U.S. products more affordable for Chinese consumers. Also, as Chinese wages continue to increase, their local food manufacturing sector becomes relatively less attractive for investment. In reality, Chinese agribusinesses are more likely to continue seeking investment overseas, including in the United States to secure efficiently-produced, safe food sources.

Counterfeit goods are another important competitive factor for products from the United States. When a brand is established, counterfeit and inexpensive imitations often follow. Bad experiences with a high-priced "import" that is actually counterfeit can tarnish brand names and affect business for years. As a rule, QSR chains and high-end restaurants make significant effort to ensure the integrity of their products as genuine.

| Major Products, Market Shares, and Competitor Situations | | | |
|-----------------------------------------------------------------|---------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Product | Foreign Suppliers | Foreign Supplier Situation | Local Supplier Situation |
| Beef Imports \$255 mil | 1. Australia, 51% 2. Uruguay, 19% 3. Brazil, 15% 4. New Zealand, 10% 5. Canada, 4% | BSE restrictions block U.S. market access. | China's beef industry is nascent and meat quality not generally acceptable for stand-alone use such as steaks. |
| Pork Imports \$986 mil | 1. USA, 33% 2. Germany, 20% 3. Spain, 12% 4. Denmark, 10% 5. Canada, 10% | Port and inland infrastructure improvements allowing greater trade. | China's pork industry remains large with low production efficiency, poor consistency, and variable quality. However, the sector is consolidating; inter-provincial trade is increasing. |
| Poultry Imports \$956 mil | 1. Brazil, 57% 2. USA, 28% 3. Argentina, 9% 4. Chile, 5% | AD/CVD duties impede U.S. poultry exports. Turkey products now account for a large share of U.S. imports. | China's poultry industry is developed however quantity of products is insufficient to satisfy the domestic market. |
| Fish and Seafood Imports \$5.3 bil | 1. Russia, 23% 2. USA, 18% 3. Norway, 7% 4. Canada, 6% 5. New Zealand, 5% | A large portion of imports from Russia are processed for re-exporting and some for local consumption. | Chinese prefer live fishery products. Most local products are less processed than imported products. |
| Dairy (Milk & Cream) Imports \$3.3 bil | 1. New Zealand, 63% 2. USA, 9% 3. France, 7% 4. Germany, 6% | New Zealand and Australia have aggressive suppliers, low costs, and advantages in shipping time. Chinese regulatory hurdles limit eligible U.S. supply. | China's dairy industry is growing very rapidly but still in an early stage of development. It produces milk and yogurt but doesn't really compete in cheeses or butters. |
| Dairy (Cheese) Imports \$187 mil | 1. New Zealand, 41% 2. Australia, 21% 3. USA, 21% 4. France, 7% | | |
| Wine Imports \$1.6 bil | 1. France, 50% 2. Australia, 14% 3. Chile, 9% 4. Spain, 7% 5. Italy, 6% 6. USA, 5% | The French name is considered luxurious but hurting from 2013 austerity measures. Wines from Australia and Chile compete on price. | China's wine industry is evolving with a few good wines; however it may take decades to catch up with international market leaders. |
| Breakfast Cereals Imports \$53 mil | 1. USA, 27% 2. Malaysia, 24% 3. Thailand, 9% 4. Germany, 9% 5. S. Korea, 8% | Malay and Thai supplies are cost competitive. Thai strength tied to regional sourcing from large U.S. corporation. | China's cereal industry is evolving and growing very rapidly with more consumers seeking quick and nutritious breakfast options. |
| Fresh Fruit Imports \$3 bil | 1. Thailand, 32% 2. Chile, 19% 3. Vietnam, 15% 4. Philippines, 11% 5. USA, 10% | Citrus and apple restrictions hinder stronger U.S. performance. Chile is counter-seasonal supplier of similar U.S. products. Southeast Asian fruit differs from U.S. product. | Local products cannot compare with the quality, variety and taste of U.S. imported products. Counterfeit products threaten U.S. image. |
| Fruit + Vegetable Juice Imports | 1. Brazil, 49% 2. Israel, 15% 3. USA, 8% | Brazil dominates the market. U.S. products are relatively strong in northern China. | Domestic products fewer varieties compared with imported products but are competitive in some sectors. |

| | | | |
|-----------|--|--|--|
| \$218 mil | | | |
|-----------|--|--|--|

Source: Global Trade Atlas 2013

SECTION IV: BEST PRODUCT PROSPECTS

Interviews with HRI food service professionals repeatedly confirm that U.S. food exporters should select top quality products for export to China. U.S. foods benefit from expectations of high quality, attractive appearance, convenient package and food safety. On the other hand, it is difficult for most U.S. food products to compete with Chinese domestic products on price, particularly for those foods in demand by the HRI market. Instead, suppliers should target niche as well as regional markets with top-quality products that are unique, healthy, and nutritious.

U.S. beef has been banned for import in China since December 2003 as a result of BSE. Food service professionals in the HRI sector remain committed to using U.S. beef due to consistent and unparalleled quality, and note that it out easily out-competes competitor suppliers on flavor and appearance. Salmon, from a variety of country suppliers, is a popular import item, used widely in Japanese kitchens. American lobster, particularly live lobster, generates much interest; however, high costs and losses associated with shipping live product have resulted in a market dominated by Australian or Canadian lobsters. U.S. table grapes and newly opened pears remain strong competitors in the imported fruit market, especially during the off season for domestic products. Tree nuts are also very popular in China, especially almonds, walnuts, pecans, and to some extent pistachios, as a result of perceived health and nutrition benefits.

As China's economic development continues and interest in processed food grows, the secondary production of goods, such as meat and fish, may well become attractive to manufacturers and agricultural sub-sectors may also manage to profit from foreign direct investment. The secondary stage of processing such goods, for example, sliced meats, prepared chicken, etc., has had a huge impact on HRI sector sales. Also, ready-to-use and value-added products are increasingly in demand, as well as ready-made, pre-cooked and portion-controlled sauces, soups, pizzas, vegetables, fish fillets, meat and meat products, and frozen dough.

Likewise, organic food in China could be a strong long-term opportunity. At present, due to a lack of local understanding of organic with little investment in the sector, the industry is under-developed with official organic agriculture representing much less than one percent of domestic agricultural production. The higher price for organic products and lack of awareness of the concept means China's organic market is still in its early phase. However, with careful promotion, high-quality imported organic products appeal to hip, young professionals, and their grandparents who remember when it was safe to eat an apple without peeling it first. These products have good potential in China's increasingly food-safety conscious market.

| Products in Market with Continued Good Potential | Products in Market with Unrealized Potential | Products with Market Access Barriers but with Good Potential |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> • Chicken paws • Offal • Frozen potatoes • Table grapes • Pork • Fishery products • Nuts • Dried fruit • Coffee • Fruit juices | <ul style="list-style-type: none"> • Dairy products • Turkey and other poultry products • Wheat flour and pasta • Dehydrated potatoes • Chocolate • Sugar confectionary • Mixes and doughs • Breads, pastries, and cakes • Cookies, waffles, and wafers • Breakfast cereals • Vegetable oils • Alcoholic beverages • Water beverages • Sauces and condiments • Organic foods | <ul style="list-style-type: none"> • Beef • Processed eggs • Rice • Fresh Vegetables • Apples • Citrus • Berries |

SECTION V: POST CONTACTS & OTHER RESOURCES

For further information about the China market, as well as updates on our upcoming events and activities, please visit our website at www.usdachina.org or contact one of USDA's six offices in China:

Agricultural Affairs Office, Beijing

No. 55, An Jia Lou Lu
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Agricultural Trade Office, Chengdu

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Agricultural Trade Office, Shenyang

52, 14th Wei Road, Heping District, Shenyang, 110003 China

Phone: (8624) 2318 1380
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Animal and Plant Health Inspection Service (APHIS), Beijing

No. 55, An Jia Lou Lu
Chaoyang District, Beijing, China 100600
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Useful Chinese Government Links:

China Ministry of Agriculture
<http://english.agri.gov.cn/>

General Administration of Quality Supervision, Inspection and Quarantine of China
<http://english.aqsiq.gov.cn/>

China Customs Statistics
<http://www.chinacustomsstat.com/aspx/1/English/index.htm>

China Food and Drug Administration
<http://eng.sfda.gov.cn/WS03/CL0755/>

China Ministry of Health
<http://www.moh.gov.cn/>

China State Administration for Industry and Commerce
<http://www.saic.gov.cn/english/index.html>

State Intellectual Property Office of China
<http://english.sipo.gov.cn/>

| Per Capita Annual Urban Household Disposable Income and Food Expenditures, 2012 | | | | | | | | | | |
|---------------------------------------------------------------------------------|------------------|----------------------------|--------|-------|-------------|-------|-------|------------------|-------|-------|
| | | Disposable Income (RMB) | | | Food | | | | | |
| | | | | | Total (RMB) | | | Dining Out (RMB) | | |
| | | 2011 | 2012 | %Δ | 2011 | 2012 | %Δ | 2011 | 2012 | %Δ |
| | National Average | 21,810 | 24,565 | 12.6% | 5,506 | 6,041 | 9.7% | 1,183 | 1,315 | 11.1% |
| ATO Beijing | | | | | | | | | | |
| | Beijing | 32,903 | 36,469 | 10.8% | 6,906 | 7,535 | 9.1% | 1,832 | 2,032 | 10.9% |
| | Gansu | 14,989 | 17,157 | 14.5% | 4,182 | 4,602 | 10.0% | 891 | 978 | 9.8% |
| | Hebei | 18,292 | 20,543 | 12.3% | 3,927 | 4,211 | 7.2% | 587 | 711 | 21.0% |
| | Henan | 18,195 | 20,443 | 12.4% | 4,213 | 4,607 | 9.4% | 952 | 1,110 | 16.6% |
| | Inner Mongolia | 20,408 | 23,150 | 13.4% | 4,962 | 5,463 | 10.1% | 1,135 | 1,253 | 10.4% |
| | Ningxia | 17,579 | 19,831 | 12.8% | 4,483 | 4,769 | 6.4% | 1,113 | 1,223 | 9.9% |
| | Qinghai | 15,603 | 17,566 | 12.6% | 4,260 | 4,667 | 9.6% | 759 | 893 | 17.6% |
| | Shaanxi | 18,245 | 20,734 | 13.6% | 5,040 | 5,551 | 10.1% | 1,399 | 1,577 | 12.8% |
| | Shandong | 22,792 | 25,755 | 13.0% | 4,828 | 5,201 | 7.7% | 930 | 1,041 | 12.0% |
| | Shanxi | 18,124 | 20,412 | 12.6% | 3,558 | 3,856 | 8.4% | 677 | 732 | 8.1% |
| | Tianjin | 26,921 | 29,626 | 10.1% | 6,663 | 7,344 | 10.2% | 1,690 | 1,881 | 11.3% |
| | Xinjiang | 15,514 | 17,921 | 15.5% | 4,537 | 5,239 | 15.5% | 974 | 1,123 | 15.3% |
| ATO Chengdu | | | | | | | | | | |
| | Chongqing | 20,250 | 22,968 | 13.4% | 5,848 | 6,870 | 17.5% | 1,347 | 1,505 | 11.7% |
| | Guizhou | 16,495 | 18,701 | 13.4% | 4,566 | 4,993 | 9.4% | 918 | 1,055 | 14.9% |
| | Sichuan | 17,899 | 20,307 | 13.5% | 5,572 | 6,074 | 9.0% | 1,095 | 1,231 | 12.5% |
| | Tibet | 16,196 | 18,028 | 11.3% | 5,184 | 5,518 | 6.4% | 927 | 1,080 | 16.5% |
| | Yunnan | 18,576 | 21,075 | 13.5% | 4,802 | 5,468 | 13.9% | 1,009 | 1,172 | 16.1% |
| ATO Guangzhou | | | | | | | | | | |
| | Fujian | 24,907 | 28,055 | 12.6% | 6,535 | 7,317 | 12.0% | 1,204 | 1,365 | 13.3% |
| | Guangdong | 26,897 | 30,227 | 12.4% | 7,472 | 8,258 | 10.5% | 1,871 | 2,053 | 9.7% |
| | Guangxi | 18,854 | 21,243 | 12.7% | 5,074 | 5,553 | 9.4% | 986 | 1,124 | 14.0% |
| | Hainan | 18,369 | 20,918 | 13.9% | 5,674 | 6,556 | 15.6% | 1,183 | 1,424 | 20.4% |
| | Hunan | 18,84 | 21,31 | 13.1% | 4,94 | 5,44 | 10.1% | 951 | 1,04 | 10.3% |

| | | | | | | | | | | |
|---------------------|--------------|------------|------------|-------|-----------|-----------|-----------|-----------|-----------|-----------|
| | | 4 | 9 | | 4 | 2 | % | | 9 | % |
| ATO Shanghai | | | | | | | | | | |
| | Anhui | 18,60 6 | 21,02 4 | 13.0% | 5,24 7 | 5,81 5 | 10.8 % | 921 | 1,15 6 | 25.6 % |
| | Hubei | 18,37 4 | 20,84 0 | 13.4% | 5,36 4 | 5,83 8 | 8.8% | 931 | 1,07 9 | 15.9 % |
| | Jiansu | 26,34 1 | 29,67 7 | 12.7% | 6,06 1 | 6,65 8 | 9.9% | 1,23 6 | 1,32 8 | 7.5% |
| | Jiangxi | 17,49 5 | 19,86 0 | 13.5% | 4,67 5 | 5,07 2 | 8.5% | 659 | 675 | 2.3% |
| | Shanghai | 36,23 0 | 40,18 8 | 10.9% | 8,90 6 | 9,65 6 | 8.4% | 2,27 5 | 2,59 8 | 14.2 % |
| | Zhejiang | 30,97 1 | 34,55 0 | 11.6% | 7,06 6 | 7,55 2 | 6.9% | 1,84 2 | 1,96 3 | 6.6% |
| ATO Shenyang | | | | | | | | | | |
| | Heilongjiang | 15,69 6 | 17,76 0 | 13.1% | 4,34 8 | 4,68 7 | 7.8% | 853 | 942 | 10.5 % |
| | Jilin | 17,79 7 | 20,20 8 | 13.6% | 4,25 3 | 4,63 5 | 9.0% | 878 | 921 | 5.0% |
| | Liaoning | 20,46 7 | 23,22 3 | 13.5% | 5,25 5 | 5,80 9 | 10.6 % | 1,04 6 | 1,11 7 | 6.8% |