



THE MARKET

The Hangzhou Wahaha Group was founded in 1987. Its predecessor was the sales department of a school-run enterprise in the Shangcheng district of Hangzhou. Founder Mr Zong Qinghou started the business with a staff of three and a Rmb140,000 borrowed, developing it into the biggest soft drink manufacturer in China and number five in the world in terms of volume.

Wahaha's 2003 total revenue reached Rmb10.2 billion with a profit of Rmb1.95 billion, entering the country's list of top 100 enterprises with its production of 3.7 million tons of drinks, 16% of the country's total production volume. In terms of production volume, assets, sales revenue, pre-tax profit and profit, the company has been leading the beverage industry for six consecutive years. The company has maintained double-digit growth for the past ten years.

ACHIEVEMENTS

In recent years, the company has won more than 800 national, provincial and city level honours. In a beverage market that is near saturation point, Wahaha has created a trusted and popular consumer brand. This has been achieved through its high quality, stable distribution network and positive brand image. The Wahaha trademark has been named China's Most Famous Trademark, and the company has also been awarded the national titles of Outstanding Improvement in Beverage Industry, Innovative Enterprise for Quality Management, Advanced Beneficial Quality Award, Outstanding Contribution to Quality Management, National Pioneering Enterprise Working to Support the Three Gorges Relocation Project, Industrial or Commercial Enterprise AAA Credit Rating, China's Most Respectable Enterprise, China's Top 500 in Computerization and many others. Wahaha has been listed as one of the 520 top enterprises in China.

HISTORY

Wahaha was started in 1988 as a school-run business, selling drinks, popsicles and stationery. In its second year,



it started processing oral liquid formula; in its third year, with the technical support of the Zhejiang Medical University Food and Nutrition Faculty, the company developed a nutritional drink for children with poor appetites. The effectiveness of the formula, coupled with its advertising slogan "When Drinking Wahaha, Eating Becomes Enjoyable", the product became a big hit and by its fourth year boasted sales revenue of Rmb400 million and profit of over Rmb70 million.

The success of the product in increasing the appetites of children made business expansion inevitable. With the strong support of the Hangzhou Government, Wahaha adopted a business strategy of acquiring old, unprofitable state-owned enterprises such as Hangzhou Canned Food Product Co, which had 2,200 employees and a 60,000 square metre factory.

Such "small engulfing big" successes created a huge stir in China, especially after it took only

took three months for Wahaha to turn Hangzhou Canned Food into a profitable business. Twelve months later, the Wahaha group reported 100 percent increases in revenue and pre-tax profit.

In 1996, even though business was booming, Wahaha was carefully planning expansion and formed a partnership with one of the world's top 500 enterprises, France-based Danone, to form five new subsidiaries, bringing in foreign investment of US\$4.3 million. Wahaha subsequently entered into several more joint venture agreements, attracting total investment of Rmb2.5 billion and rapidly while maintaining control over brand management and using external investment and skill to develop its own brand.

In 2002, leveraging on a reputation built up in the area of children's products, Wahaha chose to diversify into children's apparel, a business closely related to the life and growing process of children. Wahaha saw the huge potential in children's apparel and jumped into it, manufacturing in compliance with international green standards and being certified as a China Environmental Label Product. In 2003, Wahaha received a total order of 3.8 million pieces, making it one of the top 10 in the country.



THE PRODUCT

Originally a manufacturer of nutritional drinks for children, Wahaha has developed more than 50 products in eight categories: milk drinks, bottled drinks, CSD, tea, fruit juices, canned food, health products and leisure products. Of these, milk drinks, bottled drinks and canned congee have been leading products in the China market for several years running. Wahaha's purified drinking water and

fruit juices have also been rated as China Famous Brand products. In 2002, the company diversified its business for the first time by going into children's apparel, setting up 800 retail outlets around the country, making Wahaha one of the biggest children's garment brands in China.

RECENT DEVELOPMENTS

For 17 years, Wahaha, through its open reform strategy, has sustained healthy and rapid development in the competitive China beverage industry, especially in the national ninth Five-Year Plan. In its tenth Five-Year Plan, Wahaha will further expand its business, aiming to achieve a profit of Rmb3 billion with total revenue over Rmb10 billion.

Wahaha aims to:

- Continue to develop its main beverage business. Continue to make full use of its capital and brand and spend the next three to five years completing its nationwide beverage production plan
- Focus on acquiring land and expanding market share. Continue to innovate, build its people and always stay a step ahead of others to stabilise its position as the industry leader
- Look for diversification opportunities. While strengthening its beverage business, the company will also develop its other businesses including children apparel and daily chemical industry, as well as diversifying into other industries to build the Wahaha empire
- Execute a "stepping out" development strategy. Be actively involved in targeting overseas markets, export to at least 10 countries; exhibit the superior quality of its products, management edge, technological advantage and systematically build up its factories outside China.

PROMOTION

Wahaha is an authentic Chinese brand. All its sales and marketing strategies have local flavour that takes advantage of the current nationalistic and economic atmosphere.

In 1994, the central government called for development of support for the Three Gorges relocation programme. Wahaha led by first heading west, riding on the incentives of reduced cost in the programme to merge three insolvent companies in Puling, Chongqing Municipality to build Wahaha Fuling. With its mature products and abilities as well as its financial strength, the Fuling company was an instant success, registering high growth in production volume and pre-tax profits and becoming one of Chongqing's top 50 industrial enterprises. At the same time, the company solved



the unemployment problems of more than 1,000 people. Wahaha's participation in the program was highly regarded by the central government and it was named a "National Pioneering Enterprise Working to Support the Three Gorges Relocation Project".

During the second half of 1997, Wahaha continued to invest in Yichang in the Three Gorges, the old revolution town of Hong'an, Hubei; Guangyuan, Sichuan; Jingyu, Jilin and other regions, gaining good economic and social benefits. Since 2002, the company has continued to expand its investment, going into Xuzhou, Jiangsu; Nanchang and Jian in Jiangxi; Shuangcheng, Heilongjiang; Dali, Yunnan; Guiyang, Guizhou; Yanbian, Jilin; Nanyang, Henan; Shihezi, Xinjiang; and Xiamen, Fujian, etc, to set up production branches. To date, Wahaha has built 40 branches in 26 provinces outside the Zhejiang area. Production volume and pre-tax profit from these branches accounts for half of Wahaha's total, contributing to the economic development of old revolution towns and poorer regions and spurring Wahaha's rapid development at the same time.



BRAND VALUES

For any brand in the world, a brand with the courage to challenge Coca-Cola is a brand worth taking notice of.

Since the opening of economic reforms in China, almost all the big beverage brands in the world have had an eye on the Middle Kingdom. As a rising star in the China beverage industry,

Wahaha has, under the reform policies, constantly introduced advanced technology, facilities and management, and strengthened its core competitive edge.

Hence its three big products, Vitamin A&D calcium-enriched milk, purified drinking water and canned congee, have always been market leaders.

In the world's most competitive carbonated drinks market, Wahaha has the ability to compete with the big international brands. It has raised the national flag with its introduction of Future Cola in 1998, an open challenge to imported colas. Future Cola has

done tremendously well, so well that in 2004 it took on the competition in a startling new way – Wahaha introduced Future Cola into the US market.



THINGS YOU DIDN'T KNOW ABOUT WAHAHA

- Future Cola, the major competitor in China for many years of the big American competition, turned the tables in 2004 and entered the US market
- Over the past 17 years, Wahaha's accumulated sales revenue is Rmb46.8 billion, pre-tax profit is Rmb9.6 billion, contributing Rmb2.8 billion in taxes to the country and donating Rmb160 million to educational and community purposes
- Wahaha's milk, bottled water and canned congee have led their respective markets for many years
- The company has total assets of Rmb6.86 billion, about 18,000 employees, 38 production facilities in 27 provinces and about 70 wholly owned and joint venture companies. It has branches in all the provinces and special administrative regions and exports to Hong Kong, Japan, Italy, Canada, the UK, Russia and many other countries and regions