



WATER & CSD SECTORS
NongFu Spring Water Co.
YST Group
Zhejiang, Hubei e
Guangdong, China
» 6 casepackers
SMIFLEXI LWP 25



■ The Chinese bottled water market

Growth prospects for China's bottled water market show positive signs and scenarios for the economy of the great Asian country. According to a recent study conducted by experts at Canadean, there has been a slowdown in the increase of bottled water consumption in the Western world.

Owing to the relative maturity of the market, some economies have been severely affected by the combined effect of the international economic crisis and consumption stagnation.

On the contrary, the Chinese bottled water sector presents a very different picture, as in recent years it has been growing at breakneck pace reaching substantial volumes.

However, Canadean's forecast on the global consumption of soft drinks is relatively positive: demand is estimated to report a 2.6% increase on the long term; still drinks, juices and nectars and bottled water are expected to be the most dynamic categories; the increase in countries experiencing strong growth such as China, India and Indonesia is likely to offset the slowdown in consumption rates in Western markets.

NongFu Water

and the glory of the “Lake of a thousand islands”

■ Of the production sites owned by NongFu, the plant devoted to bottled water on the “Lake of a thousand islands” is particularly important.

The “Lake of a thousand islands” or Qindao Lake is a magnificent natural gem and one of China's most popular tourist destinations.

The lake is famous for its clear, drinkable water, distributed under the well-known NongFu Spring Water brand. It also enjoys an idyllic quality of life.

It has been said that here “people live in homes with scenic views, they drink natural spring water, they eat fish freshly caught from the river and breathe pure oxygen”.

The lake covers an area of 560 sq/km with as much as 1,079 islands, which give it its name.

The large forest preserve around the lake completes the area's wonderful natural scenery.

The lake formed following the construction of an artificial dam for Xin'anjiang's hydroelectric plant in 1959 and in 1982 it was included in the list of the country's most important tourist destinations.

Beautiful sites located in

the area were then opened to the general public, such as the Fuxi Stone Forest, the panoramic viewpoint from the Meifeng peak, the Wenxin and Qianbi islands, the islands populated by monkeys and deers, the island with the “mythological dragon”, the islands with minks, valuable dog breeds, etc. The area also offers many recreational activities: seaplanes, water skydiving, hot-air balloons, ostrich racing, wooden huts, fish shooting, fishing and a fishing festival. The area offers picturesque landscapes to contemplate all year round: in spring flowers colour the mountains and islands, the clear waves attract swimmers in summer, red leaves announce the arrival of autumn and in winter the mountains are covered in snow.



The YST group

and the bottled water market



■ Yang Shen Tang Company (YST) is one of the best-known companies in China in the bottled water production field. The group has undergone extraordinary development and is experiencing constant progress still now.

Initially the company set up by Zhong Shen Shen in 1993 operated only in the pharmaceutical and cosmetics sectors, but right from the beginning it pursued growth opportunities in the bottled mineral water market.

At the beginning of the '90s the demand for bottled

water was still limited and not the least comparable with current consumption levels.

When NongFu Spring Water was set up 1996 water consumption habits were changing fast and in little time three production sites were set up in Zhejiang (near Shanghai) to meet growing market demand.

Today NongFu Spring Co., which includes 12 production sites, is one of China's 10 leading companies in the beverages industry.

The firm's parent company, Yang Sheng Tang Co. (YST), includes various subsidiaries

(including pharmaceutical and food-processing companies and medical research institutes), along with NongFu Spring Co. and the Beijing Pharmaceutical Company.

Over the last decade, NongFu Water has been growing at a fast pace: from 1996 to now the company has made constant investments to meet increasingly pressing demand, both in terms of quality and quantity. NongFu Spring recently contacted SMI - the two companies began to work together in 2001 - for the installation of six Smiflexi wrap-around case packers (part of the new LWP 25 series) to pack 4L water bottles.



The success of NongFu Spring Water

■ The extraordinary evolution of this company seems to be relentless.

In 2003 "NongFu Spring" was "the most famous brand in the domestic market"; in 2004 it was awarded with the national certificate for food quality and safe access to the market (QS), while in 2008 it received Reader's Digest "Platinum award as most trusted brand", the only award for the Chinese beverages industry.

International market research heavyweights consider "NongFu Spring" one of China's most popular products.

To give an example, according to the report on consumption in China compiled by AC Nielsen, the world's leading market research company, NongFu Spring is one of the top six best-known domestic brands in the consumer goods industry.

The motivated staff working at NongFu are a key asset to the Chinese leading company, as each and every member contribute to achieving the goal of providing products and services targeted to improve people's health.



Nature and health

at the origins of a strong evolution

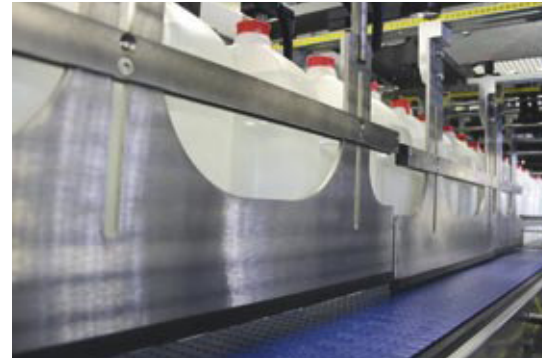


■ Established in 1996, today NongFu Spring Co. Ltd. is one of the top ten Chinese companies operating in the beverages industry and is one of the key businesses amongst the domestic leaders of the agricultural industrialisation. Moreover, the “NongFu Spring” trademark is one of the best-known commercial brands in China. The company has been firmly committed to the concepts of “health” and “nature” right from the start and these have been distinguishing features of

the brand itself and are at the heart of the company’s mission to “build plants and fill [bottles] directly at the water source”. From 1996 to now the Chinese company built four large-scale plants to bottle water and fruit-based drinks: near the “Lake of a thousand islands”, Jingyu’s mineral water spring, Hubei Danjiangkou’s spring and Guangdong Wanlu Lake. High quality water springs combined with the use of some of the world’s leading-edge machinery and production plants

make NongFu Spring Co. Ltd. a unique business in the Chinese water and beverages industry. From 1997 (when NongFu Spring’s bottled water brand was launched on the market) up to now the production capacity of the Chinese company reported constant growth. From 2003 the firm further consolidated its presence with launch of new products such as fruit-based drinks, energy drinks, juices and mixed beverages containing juice. The company established itself as reference point for the Chinese bottled water sector.





Its ability to stay competitive is ensured by the use of cutting-edge machinery, by a computer-based management system, by accurate checks on the

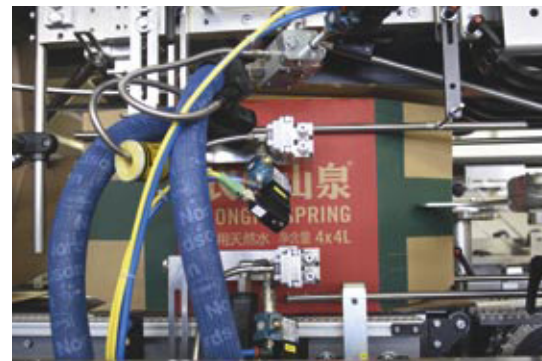
quality of the products throughout production and by the use of high quality materials.

■ Market prospects

In 2009 bottled water consumption in China increased by over 11% compared to a year earlier, with an average per-head consumption of 15.5 litres.

Sector forecasts expect growth also for the years ahead: in 2010 per-head consumption is expected to reach 18 litres, which equals a market volume of 24bn litres.

Increased emphasis on personal health and on quality food and drinks is leading a growing number of Chinese consumers to turn to bottled water and, according to recent market research, the sector is expected to report an annual growth rate of 7% for the next five years. This leaves no doubts on the big growth potential for businesses operating in this market and the bottled water market itself.



THE CUSTOMER'S OPINION

Interview with Cao Xuebing, Production Manager at NongFu Spring Water Co.



Above: from the left Cao Xuebing, Production Manager at NongFu Spring Water Co., with Joseph Chen, Sales Manager at SMI China

NongFu Spring Co.'s plants employ a number of packaging machines manufactured by SMI. What are the main benefits for your company?

"From an operating point of view, SMI's packaging machines installed as part of our production lines are high quality and very flexible products. We need to carry out production changes fairly often and

SMI's machines allow us to carry out maintenance, format change and resume full production easily and quickly. To cater for growing demand for new formats, it would be an additional benefit to be able to add other formats at no further cost."

SMI is a long-standing supplier of the YST group and NongFu Spring Water Co., with a total of 40

shrinkwrappers installed, along with the 6 new Smiflexi LWP series wrap-around case packers which are due to be delivered shortly. What are your company's expectations from this new supply of machines?

"With SMI's new supply of products, NongFu Spring Water Co. aims to maintain the high levels of efficiency of its plants and, at the same time, increase their production capacity to growing market demand. Moreover, we plan to offer our consumers a wide range of secondary packaging solutions to strengthen our product's image."





What are the reasons that led NongFu to invest in the purchase of 6 new Smiflexi LWP 25 wrap-around case packers?

“Personally, I feel that two elements played a key role during the decision process: the excellent quality of the machines supplied by SMI and their unmatched price/quality ratio.”

How important is SMI's direct presence in China with its representative offices in Guangzhou and Nanjing for NongFu Spring Water Co.?

“SMI's local staff has always followed our company very closely, providing all the information we needed to solve any issues on a daily basis.

However, to be fair I should say that in some cases we have noticed a few problems

related the organisation of their technical support service.

I realise that the number of machines installed by SMI in such a large country is constantly growing and that staff in its offices in Nanjing and Guangzhou are doing their best to help everyone. Nonetheless I believe that SMI still needs to make some improvements in terms of organisation, so that its technical support service will reach even higher standards.”