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Market Development Reports

Hong Kong Dried Fruits

Product Brief

1999

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Report Highlights:

Western-style dried fruits are just becoming popular as health food snacks and retailers have seen increased sales. It is anticipated that this market will continue to grow over the next two years. Opportunities for U.S. nut suppliers exist with key Hong Kong traders who have operations and established markets in China. Demand for nuts will continue to increase in Hong Kong as consumers become more aware that nuts can be a healthy snack food.

Includes PSD changes: No
Includes Trade Matrix: No
Unscheduled Report
Hong Kong [HK1], HK

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INTRODUCTION

Methodology

The goal of this report is to provide a market brief on the dried fruit market and the nut market in Hong Kong, their current situation as well as future developments.

Due to the large variety of products in discussion, this report is separated into two segments:

- (1) Dried fruits
- (2) Nuts
 - a) Tree Nuts
 - b) Groundnuts

For Hong Kong dollar currency figures, the exchange rate is US\$ = 7.78.

Main Findings

Dried Fruit

Overall, the dried fruit market in Hong Kong can be divided into Western style dried fruit and Chinese style dried fruit. The Chinese style dried fruits include plums, citrus peel, dates, kumquats, prunes and persimmons. Western style dried fruits include apples, pineapples, pears, cherries, raisins, apricots and mangoes. Chinese style dried fruits are cured, preserved or flavored and are consumed for their medicinal value. Western style dried fruits are just becoming popular as health food snacks, and retailers have seen an increase in sales. It is anticipated that the Western style retail market will continue to grow over the next few years as the Hong Kong consumer becomes more aware of the benefits of eating Western style fruits as a healthy snack. Southeast Asian nations have already entered the retail market and are selling their dried fruit products in major supermarket chain stores throughout Hong Kong.

Nuts

Import demand for nuts in Hong Kong has dropped off considerably over the last five years. Hong Kong trade no longer plays as important a role in facilitating nut trade in the region as they once did. Southeast Asian nations are purchasing their nuts directly from the source country and circumventing Hong Kong traders. However, China's domestic demand for nuts has begun to exceed domestic supply, and China has turned from a supply country to an import country. Opportunities for US suppliers exist with key Hong Kong traders who have operations and export markets in China. Official statistics indicate domestic demand in Hong Kong is declining, but this is not the actual situation. Domestic demand is actually increasing slightly and will continue to do so as Hong Kong consumers become more aware that nuts can be a healthy snack food. Key nut retail suppliers have seen an increase in sales of tree nut snack foods and gift packs.

Market Access Statement

LABELING REQUIREMENTS

The Food and Drugs (Composition and Labeling) Regulations require food manufacturers and packers to label products in a prescribed, uniform and legible manner. The following information is required to be marked on all prepackaged food except for 'exempted items' as provided in the Regulations. Prepackaged food means food packaged in such a way that the contents cannot be altered without opening or changing packaging, and it is ready for presentation to the ultimate consumer or a catering establishment as a single food item.

1 Name of the Food

- a) Prepackaged food shall be legibly marked or labeled with its name or designation.
- b) The food name should not be false, misleading or deceptive but should serve to make the and type of food known to the purchasers.

2 List of Ingredients

- a) Preceded by an appropriate heading consisting of the words " ingredients", "composition" "contents" or words of similar meaning, the ingredients should be listed in descending order of weight or volume determined when the food was packaged.
- b) If an additive constitutes one of the ingredients of a food, it should be listed by its specific name or by the appropriate category (e.g. Preservative, artificial sweetener, etc.) Or by both name and category.

3) Indication of "best before" or "use by" date.

Prepackaged food shall be legibly marked or labeled with the appropriate durability indication as follows:

- a) a "best before" (in Chinese characters as well) date; and
- b) in the case of a prepackaged food which, from a microbiological point of view, is highly perishable and is likely, after a short period, to constitute an immediate danger to human health, a " use by" (in Chinese characters as well) date.

The words "use by" and "best before" in English lettering and Chinese characters followed by the date up to which specific properties of the food can be retained, to indicate the shelf life of the food. "use by" or "best before" date should be shown either in Arabic numerals in the order of day, month and year (or month and year in certain circumstances) or in both the English and Chinese languages. For specific details refer to the Regulation.

Home Page: <http://www.info.gov.hk/justice>

4) Statement of Special Conditions for Storage or Instruction for Use

If special conditions are required for storage to retain the quality, or special instructions are needed for prepackaged food use, a statement should be legibly marked on the label.

5) Name and Address of Manufacturer or Packer

Prepackaged food shall be legibly marked or labeled with the full name and address of the manufacturer or packer, except under the following situations:

- a) The package is marked with an indication of the country of origin and the name and address of the distributor or brand owner in Hong Kong, and the address of the manufacturer or packer in the country of origin has been submitted in writing to the Director of Health.
- b) The package is marked or labeled with an indication of its country of origin and with a code marking identifying the manufacturer or packer in that country and particulars of the code marking and of the manufacturer have been submitted in writing to the Director of Health.

6) Count, Weight or Volume

The food label should include the numerical count or net weight or net volume of the food.

7) Appropriate Language

The marking or labeling of prepackaged food can be in either the English or the Chinese language or both languages. If both the English and Chinese languages are used in the labeling or marking of prepackaged food, the name of the food and the list of ingredients shall appear in both languages.

Exempt from labeling regulations: Individually wrapped confectionery products and preserved fruits intended for sale as a single item; Prepackaged foods for sale to catering establishment for immediate consumption and those containing more than 1.2 percent alcohol by volume.

Under the amended Food and Drugs (Composition and Labeling) Regulations, it is illegal to sell any food after its "best before" date. Furthermore, any person who, other than the food manufacturer or packer or without their written authorization, removes or obliterates any information on the label required under these regulations also commits an offence.

IMPORT DUTIES

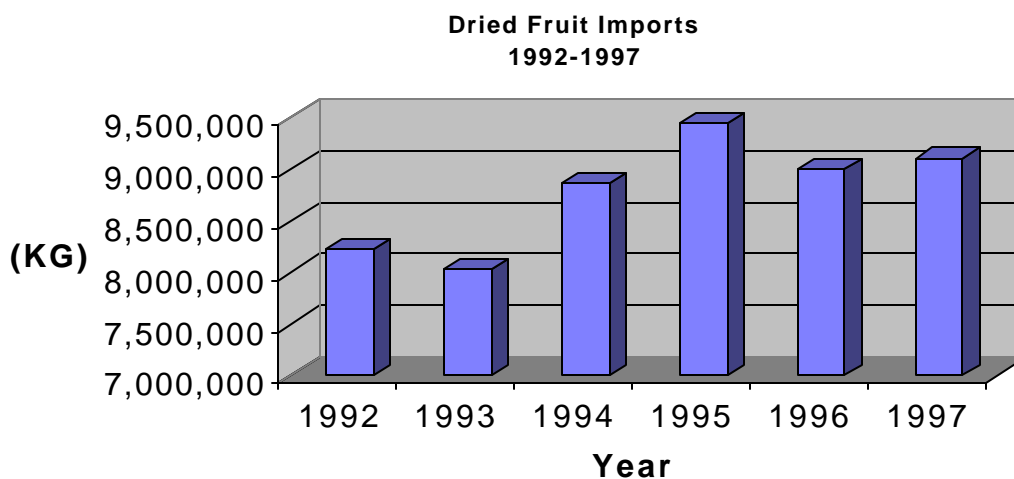
Hong Kong is a free port which does not impose any import tariffs on products with the exception of four dutiable products: liquor, tobacco products, hydrocarbon oils and methyl alcohol. Local importers have to apply for a licence from the Hong Kong Customs and Excise Department for the importation of dutiable commodities. In addition, a licenced importer has to apply for a permit for each and every consignment. The current duties are as follows:

Cigarettes per 1000 sticks US\$98.45
Cigars per kg US\$126.74
Beer & liquor with less than 30% alcohol : 30%
Liquor with more than 30% alcohol : 100%
All wines: 60%

DRIED FRUITS PRODUCT TRADE

Local demand increased steadily from 1992 to 1997 with an average annual rate of growth of 3.6%. Driving demand has been a change in consumer perception of dried fruit. Hong Kong is considered a fresh fruit market. Because fresh fruit is readily available throughout the year, consumers have preferred fresh fruit over dried. However, they are also becoming more health conscious and eating healthier snack foods, and dried fruit is becoming identified as a nutritious alternative to snacks that are high in fat or cholesterol. Over the last five years, retailers have witnessed an increase in sales of dried fruit sold as snack food.

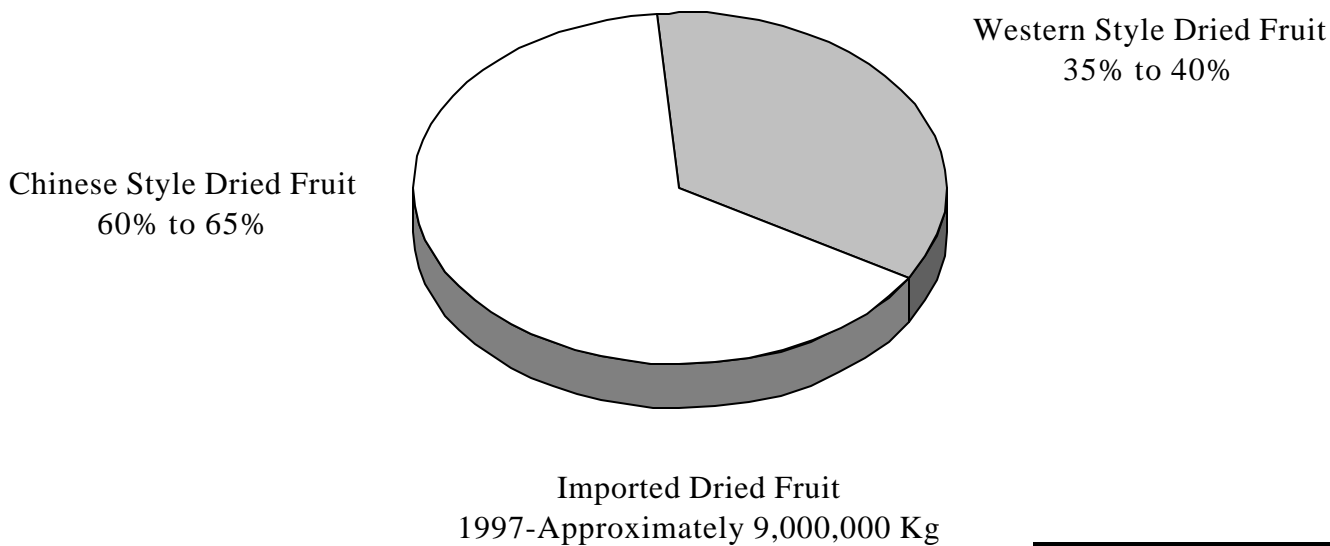
Dried fruits in Hong Kong have long been consumed because of their medicinal value. Fruits such as dried plums are consumed because they alleviate sore throats. Other Chinese dried fruits are mixed into soups that are thought to nourish the blood. This tradition is still strong and drives demand for Chinese style dried fruit.



*Source:
Hong Kong Census and
Statistics Department
HKCSD*

DRIED FRUITS PRODUCT TRADE

Western Dried Fruit		Chinese Dried Fruit	
<p>These types of dried fruit typically come from the US, Australia, Europe and Southeast Asia. They have been imported as dried fruit, which according to the Hong Kong Census and Statistics Department is a fruit that has not undergone any sort of processing or flavor enhancement. For years Western style dried fruit was not popular because Hong Kong consumers preferred to eat fresh fruit. They also preferred a processed dried fruit (i.e., Chinese style), or one that was cured, flavored or preserved in brine. However, more recently the following types of dried fruits have become more and more popular. They are being consumed as healthy snack foods.</p>		<p>Chinese style dried fruits have been consumed for their medicinal value and usually not as a snack food. They have traditionally come from China. In the early 1990s, they were imported as dried fruit. Hong Kong importers would then cure, preserve or flavor the fruit for resale in the domestic Hong Kong market or re-export to overseas Chinese communities throughout the world. However, lower labor costs in Southern China during the late 1990s lured many of these importers to process their dried fruit in China. Currently, the majority of all dried fruit that enters Hong Kong is considered processed dried fruit.</p>	
Dried Fruit	Top Three source countries in order of volume, 1997:	Dried Fruit	Top Three source countries in order of volume, 1997:
Apricots, Cherries, Peaches and Plums	USA, Chile and Australia	Dates	China, Taiwan and USA
Pineapple	Philippines, China and Thailand	Citrus Peel	China, USA and Switzerland
Apples	USA, New Zealand and China	Kumquats, Prunes and Persimmons	China, Australia and the USA
Raisins	USA, Turkey and South Africa		

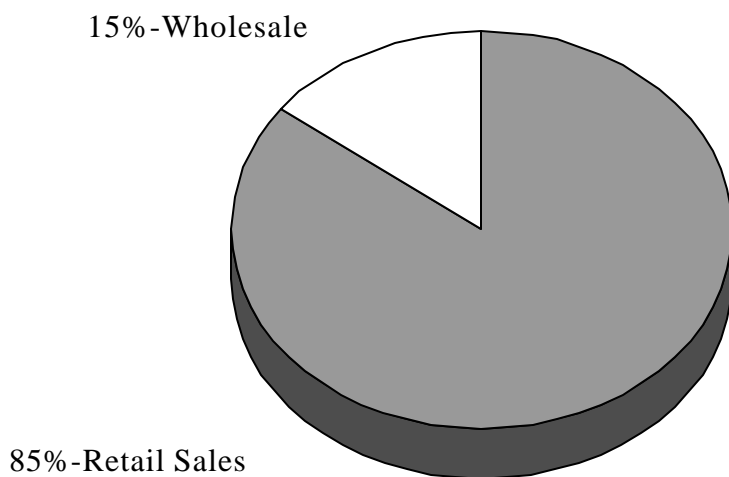


Source: Eastern Strategic Consulting Ltd.

Western Style Dried Fruits

- # The vast majority of Western style dried fruits are sold in the retail channel through three types of outlets: supermarkets, convenience stores and specialty-candy chain Stores. Typically these stores will sell prepackaged, imported dried fruit. However, in order to lower costs, Hong Kong importers are beginning to import dried fruit in bulk and repackage it under their own labels for resale in the retail segment. The wholesale channel is an increasingly attractive option for US suppliers.
- # Western style dried fruits are sold as snack foods. Hong Kong consumers have traditionally preferred processed dried fruits; or the cured, flavored or preserved dried fruits; but more recently they have been demanding a dried fruit that has not undergone any type of process. All three retail channels have seen an increase in sales of Western dried fruit.
- # Dried fruit is sold in small foil packs as an impulse purchase item in the convenience stores. Each pack has one type of fruit and five to eight pieces. In the supermarkets and specialty candy chain stores a broader range of packaging choices is available. Packages are typically cellophane wrapped so that the consumer can see the fruit. They are also typically sold as gift packs, which are also extremely popular during the holiday seasons. It must be noted that the specialty candy chain stores sell a variety of snacks including candy, nuts, chips, dried meat and seafood products, and dried fruits, both Western and Chinese.

Western Style Dried Fruit



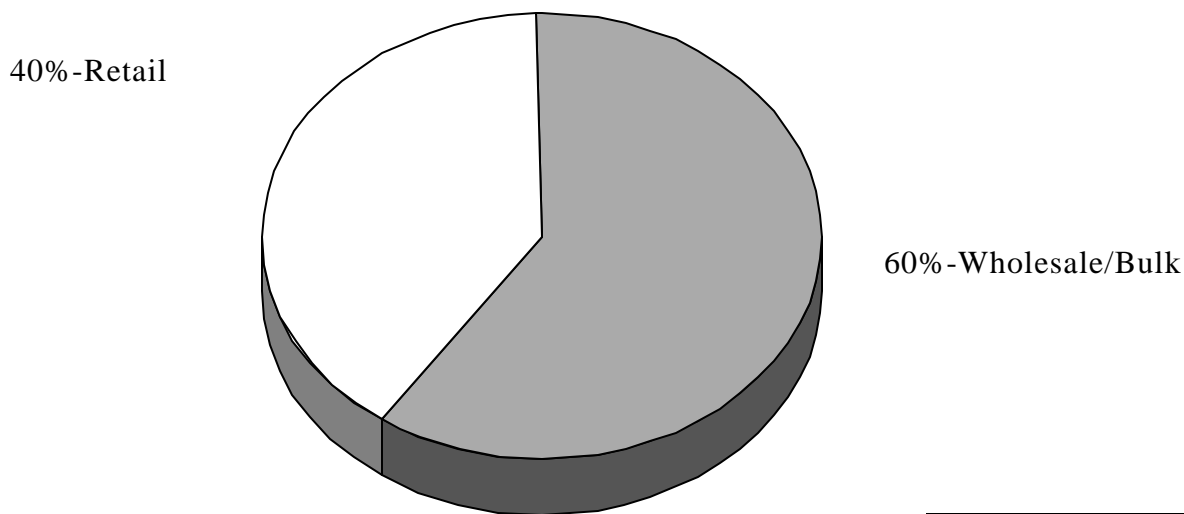
1997
3,150,000 Kg

Source: Eastern Strategic Consulting Ltd.

Chinese Style Dried Fruits

- # The majority of Chinese style dried fruits are sold in wholesale outlets that are located close to the importers in the Western district of Hong Kong. These outlets actually serve as retailer, wholesaler ; distributor all combined into one. They will buy from importers and offer discounts on volume purchase. Dried fruit is typically displayed in open bins and sold in bulk to families, smaller retail outlets and restaurants.
- # Approximately 40% of the Chinese style dried fruits that are sold in the retail channel are sold in supermarkets, convenience stores and specialty candy chain stores. They are sold in small foil packages and/or see-through plastic packages.
- # Dried fruit in these outlets is typically bought for medicinal purposes and is used in Chinese cooking. Some of these outlets repackage Chinese style dried fruit under their own label and sell it to the smaller, individually owned convenience stores in Hong Kong. However this is a relatively small channel.

Chinese Style Dried Fruits



Source: Eastern Strategic Consulting Ltd.

1997
5,850,000 Kg

DRIED FRUITS MARKET OUTLOOK

Dried Fruit Type	Historical Demand (1992-1997)	Near-term Outlook (1998-1999)	Rationale
Raisins	→	↗	Historically demand has been steady. The near term outlook is favorable and demand is expected to increase considerably over the next few years. Demand will be driven by the institutional segment. Bakeries in Hong Kong commonly add raisins to bread and other baked goods.
Apples	→	→	Historically demand has been flat. The near term outlook is favorable and demand is expected to remain flat with a slight increase in the retail segment. Dried apples are appearing in dried fruit gift baskets and consumers are becoming more familiar with this type of dried fruit.
Plums/Prunes	↗	↗	Demand has been strong and has increased over the last five years. The near term outlook is favorable and demand is expected to increase considerably over the next few years. Demand will be for the processed (i.e., Chinese style) plums and prunes and will be driven by the retail segment.
Pineapple	→	→	Historically demand has been flat. In the near term it is expected to remain flat because fresh pineapple is readily available in the markets. Demand is expected to be driven by the institutional segment as restaurants and bakeries in Hong Kong increase the number of baked goods that include fruit.
Mangoes	↗	↗	Historically demand has been strong. The near term outlook is favorable and demand is expected to increase considerably over the next few years. Demand will be driven by the retail segment. Consumers consider the dried mango one of their favorite dried fruit snacks. Currently the majority of dried mango that is sold in the Hong Kong market comes from the Philippines.
Guava	↗	↗	Historically demand has been strong. The near term outlook is favorable and demand is expected to increase over the next few years. Demand will be driven by the retail segment.
Pears	→	↗	Historically demand has been steady. The near term outlook is favorable and demand is expected to increase considerably over the next few years. Demand will be driven by the institutional segment.
Apricots	↗	↗	Historically demand has been strong. The near term outlook is favorable and demand is expected to increase considerably over the next few years. Demand will be driven by the institutional segment. Bakeries in Hong Kong have traditionally used dried apricots to flavor their pies, cakes and even breads. This trend will continue.
Other	↗	↗	Dried Berries-Blueberries, Cranberries and other. Historically demand has been almost non-existent. The near term outlook is favorable and demand is expected to increase considerably over the next few years. Demand will be driven by the institutional segment. Western style baked goods like muffins are increasing in popularity and bakeries are using more and more of these types of berries to flavor their baked goods.

NUTS PRODUCT TRADE

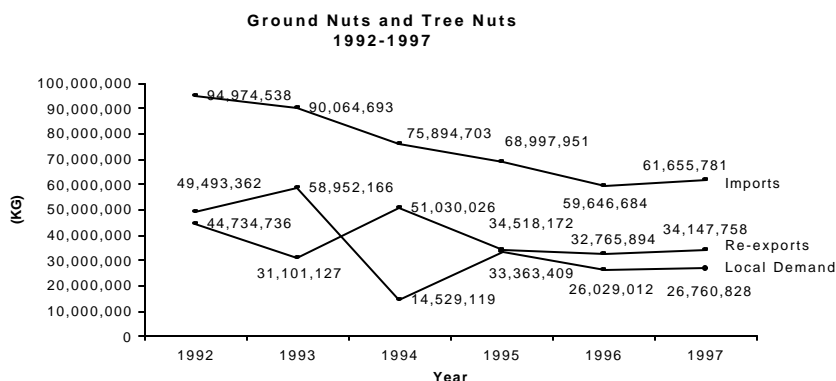
- # Nut imports declined consistently from 1992 to 1997 with an Average Annual Rate of Decline of 9%. Driving import demand downward has been the decline of Hong Kong’s role as an entrepot for nut transshipments.

- # Although statistics indicate that in the early 1990s imports were driven by local demand, this was not the case. Imports were driven by re-exports. It is estimated that over 60% of the nuts in the early 1990s that were classified as imports were actually re-exported. These nuts came into Hong Kong and were re-exported to China and Southeast Asian countries. Traders during the early 1990s often mis-classified nuts or sent them through “gray channels”--unofficial trade channels--which helped in reducing tariff and other import/trade charges.

- # During the mid to late 1990s, Southeast Asian traders bypassed Hong Kong traders and bought nuts directly from suppliers.

- # By the late 1990s, Hong Kong traders, realizing their role as nut traders in the region had declined significantly, refocused their efforts on China. Currently, key nut traders in Hong Kong have processing plants in China and are carefully marketing their products to the mainland Chinese consumer.

- # Although it is expected that re-exports will continue to drive import demand for nuts, re-export demand is declining. China demand is still the key driving force behind re-export demand but Hong Kong traders in the next few years will be moving toward importing nuts to China directly instead of using Hong Kong as a transshipment port.



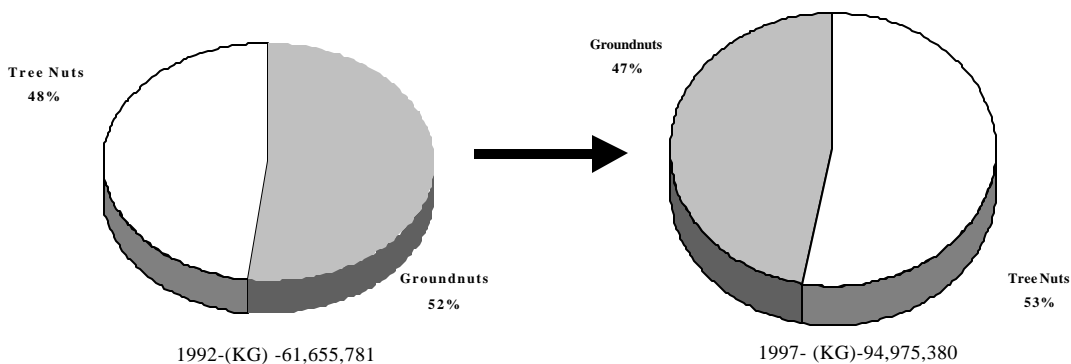
Source: Hong Kong Census and Statistics Department (HKCSD)

NUTS PRODUCT TRADE BY TYPE

In 1992, groundnuts accounted for the majority of nuts imported to Hong Kong. By 1997, tree nuts accounted for the majority of imported nuts. This shift indicates that the market for nuts in Hong Kong moved to a higher value added market. Over the last five years, consumers have opted for the more expensive tree nut over the less expensive groundnut.

Currently, the market prefers tree nuts that have undergone a process of salting or flavoring. Realizing a change in consumer preference, local traders have started to offer a number of flavored tree nuts. Sugar coated and honey roasted tree nuts are selling well. In addition, traditional Chinese flavors such as ginseng, ginger and seaweed flavors are selling well.

<u>Groundnuts</u>	<u>Tree nuts</u>
#Peanuts	#Cashews
1) Shelled 2) Unshelled	#Almonds #Walnuts
#Other Groundnuts	#Hazelnuts #Chestnuts
	#Walnuts #Pistachios
	#Macadamia #Brazil Nuts

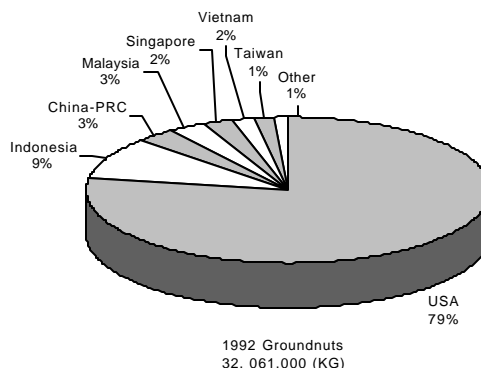
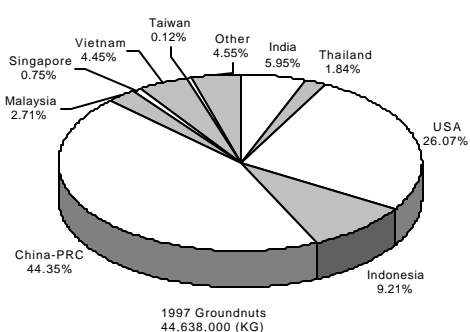


Source: HKCSD

NUTS PRODUCT TRADE BY COUNTRY

Groundnuts

In 1992, the import market was extremely fractured and a number of countries supplied Hong Kong traders' demand for groundnuts. However, China was the dominant supply country, accounting for approximately 55% of all groundnuts imported to Hong Kong. The majority of these groundnuts were destined for re-export to other countries in the region. However over the last five years, China has turned from a groundnut supplier to a net consumer. As the Chinese economy has grown, domestic demand for groundnuts has increased and China has begun to draw upon the world supply of groundnuts to satisfy its demand. China's demand for groundnuts is increasing every year and it is expected to continue to do so. In 1997, China supplied only approximately 3% of all groundnuts supplied to Hong Kong traders. The US has become the dominant player in the market accounting for approximately 79% of all groundnuts supplied to Hong Kong traders. The majority of these groundnuts are destined for re-export to China.

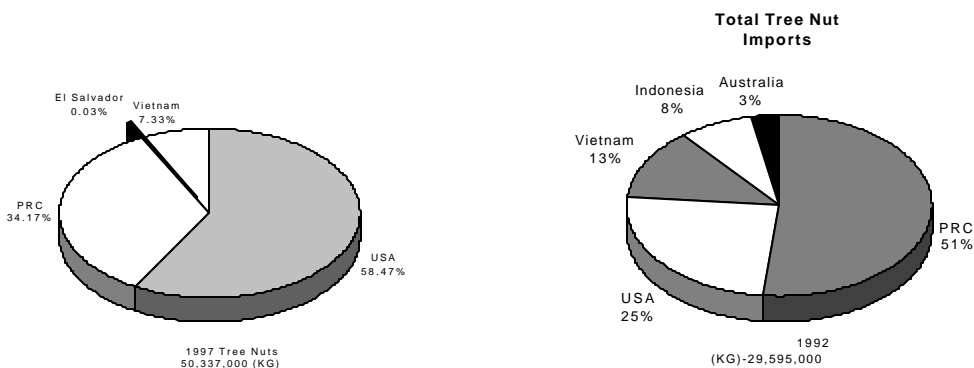


Source: HKCSD

NUTS PRODUCT TRADE BY COUNTRY

Tree Nuts

In 1992, the import market was fractured and a number of countries supplied the Hong Kong traders' demand for tree nuts. However, China was the dominant supply country, accounting for approximately 50% of all the nuts imported to Hong Kong. The majority of these tree nuts were destined for re-export to other countries in the region. Over the last few years however, China's role as a tree nut supplier has decreased while its domestic demand has increased considerably. To satisfy demand, China began to export less and less tree nuts and import more and more. China's demand for tree nuts is increasing every year and it is expected to continue to do so. In 1997, China only supplied approximately 35% of all tree nuts to Hong Kong traders. The US has become the dominant player in the market, accounting for approximately 59% of all tree nuts supplied to Hong Kong traders.



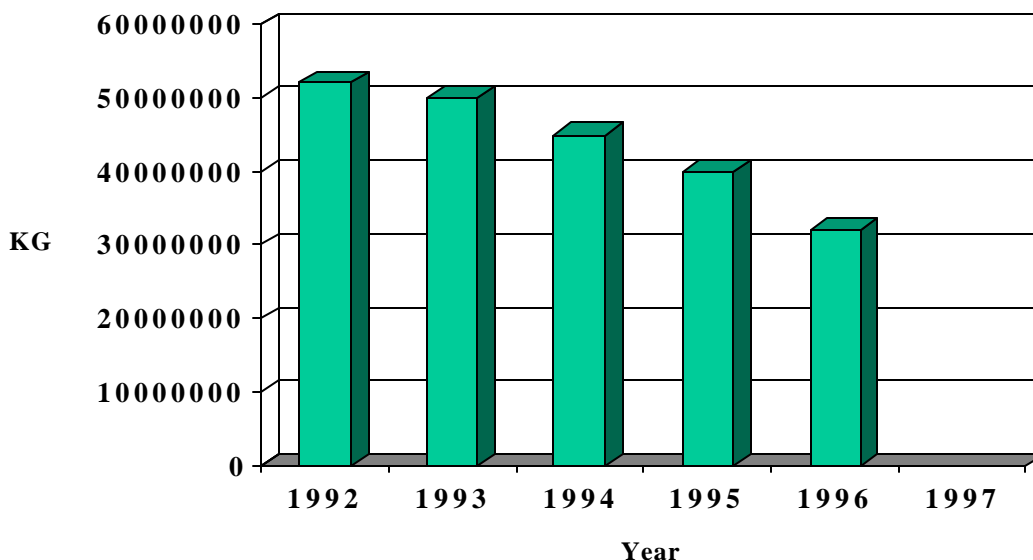
Source: HKCSD

NUTS PRODUCT TRADE RE-EXPORTS

Re-exports of Nuts

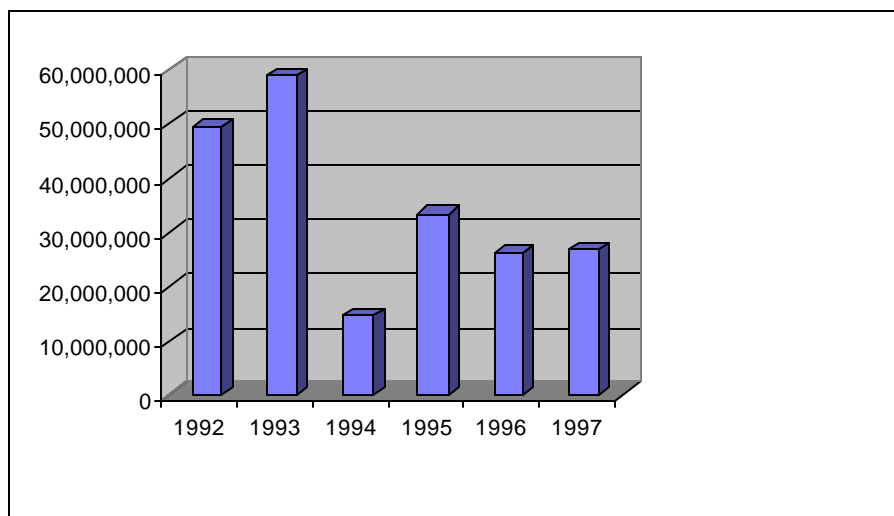
- # Total re-exports have declined an average annual rate of less than 1%.. This has been due to the fact that re-exports to Southeast Asia have declined considerably. Traders in these countries have been able to bypass Hong Kong traders who traditionally dominated the trade in the region and buy directly from the source country.
- # In the early 1990s, Hong Kong traders bought raw nuts and processed them in Hong Kong, but by the late 1990s they moved their production operations to Southern China, where labor and other factors of production were less expensive.
- # Expensive Hong Kong port and handling fees have also been a concern for traders. Hong Kong traders have been shipping nuts directly to China; however they have been running all financial transactions through their companies in Hong Kong.

**Total Nut Re-exports
1992-1997**



Source: HKCSD

- # According to official statistics, local demand was extremely high in the early 1990s. However, official statistics do not accurately reflect Hong Kong consumption during this period of time. As mentioned earlier in this brief, Hong Kong traders during the early 1990s controlled the majority of the nut trade in the region. Many of the nut shipments that entered Hong Kong in the early 1990s were re-exported to other nations around the region.
- # However, during the middle to late 1990s official statistics reflect a more accurate account of the Hong Kong nut trade due to an increased awareness of the importance to keep accurate import and export figures. Over the last three years, local consumption of nuts has increased slightly with an average annual growth rate of 3.6%. For the next few years it is expected that the 1997/98 Asian crisis will cause the Hong Kong economy to slow down, resulting in a dampened demand for tree nuts (a more expensive nut) and greater demand for peanuts (a less expensive nut).
- # The jump in local demand during 1997 in part can be explained as follows: Local demand is a function of imports and re-exports. During the last half of 1997, the Asian crisis brought the economies in Southeast Asia to a halt. Many of the nuts destined for re-export to Southeast Asia did not make it there as many orders were canceled. Traders expect the economies of these countries to pick up, but they do not know when they will see an increase in demand for nuts in these countries.
- # Local demand is driven primarily by the institutional sector. Nuts are used in special Chinese dishes and soups; like some of the dried fruits, they are added to some soups for medicinal purposes.
- # In the retail sector, the Hong Kong consumer, unlike the mainland China consumer, prefers to consume a shelled processed nut. Popular nuts are those that have been preserved or roasted with a sweet/salty flavor. Currently, local processors are flavoring nuts with the traditional Chinese flavors of angelica root, ginseng/honey, garlic, hot and spicy seasonings, seaweed and even fruit juice flavors. This specialty type of nut being offered reflects the sophistication of the Hong Kong consumer market.



Source: HKCSD

LOCAL DEMAND

Peanuts

LOCAL DEMAND

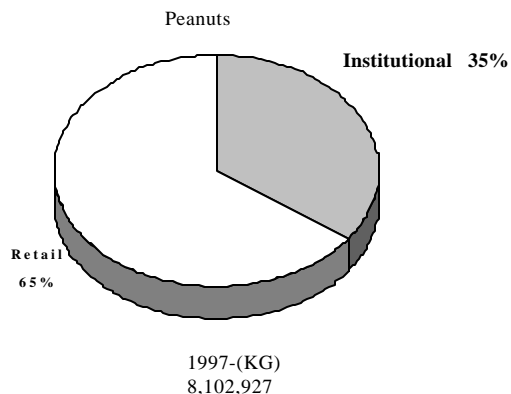
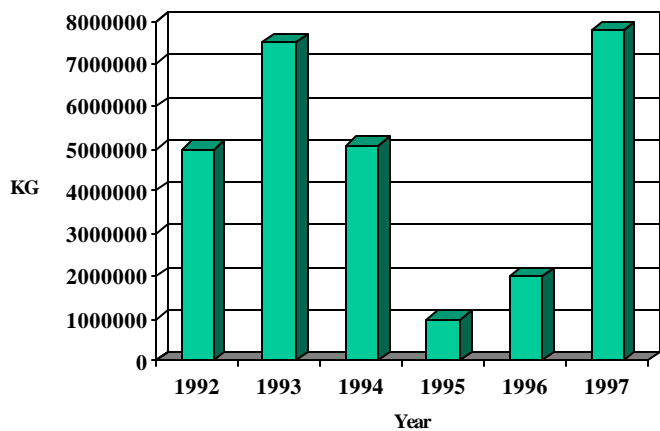
Local demand decreased at an annual rate of 30% (1993-1996). This is in line with a shift in consumer preference for Tree nuts. This is not to say that there are no opportunities in a declining market. Some United States suppliers have found a niche market for value added peanuts in the retail segment. Salted and flavored shelled peanuts have become popular in recent years. Hong Kong consumers, unlike their China neighbors, prefer a shelled peanut to one that is in the shell. The jump in demand in 1997 is a result of declined re-exports to Southeast Asia.

Top four source countries in order of volume, 1997: USA, China, Indonesia and Malaysia.

INSTITUTIONAL & RETAIL

In the early 1990s, demand was driven primarily by the institutional food segment. Peanuts were used in traditional Chinese dishes and sold at restaurants as appetizers. Peanuts in the shell were preferred. However in recent years, there has been a decline in demand for peanuts in the institutional food sector. Higher value tree nuts such as cashews and macadamia nuts are displacing peanuts as the preferred nut used in preparing Chinese dishes.

**Peanuts Local Demand
1992-1997**



LOCAL DEMAND

Cashews

LOCAL DEMAND

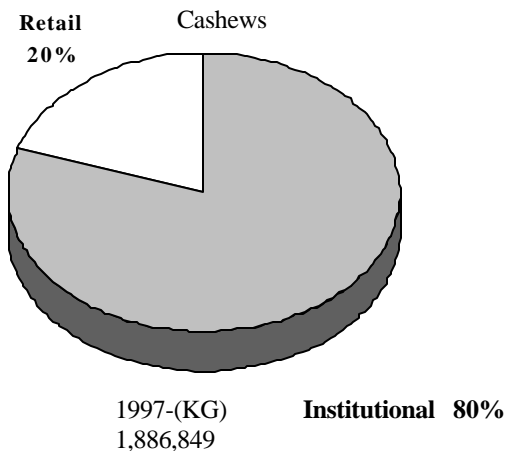
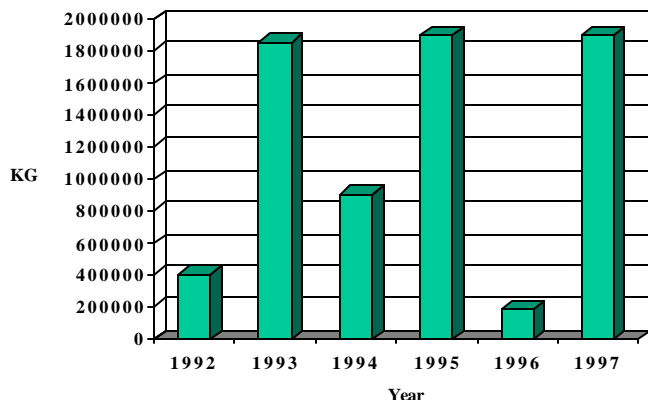
Fluctuations in local demand reflect the opportunistic attitude some traders have taken in importing cashews. If prices are low, traders stockpile and volumes the following year will reflect the low level of imports.

Top four source countries in order of volume, 1997, : Vietnam, Ivory Coast, India and China.

INSTITUTIONAL & RETAIL

Local demand for cashew nuts is driven by the institutional sector. Cashew nuts are used in restaurants as an essential ingredient in Chinese dishes. They are imported raw and shelled. In the retail sector, cashews are sold as roasted and salted as a snack food.

**Cashew Local Demand
1992-1997**



LOCAL DEMAND

Almonds

LOCAL DEMAND

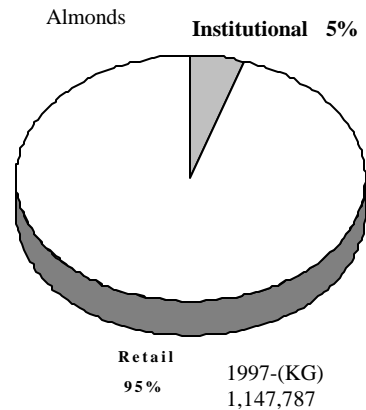
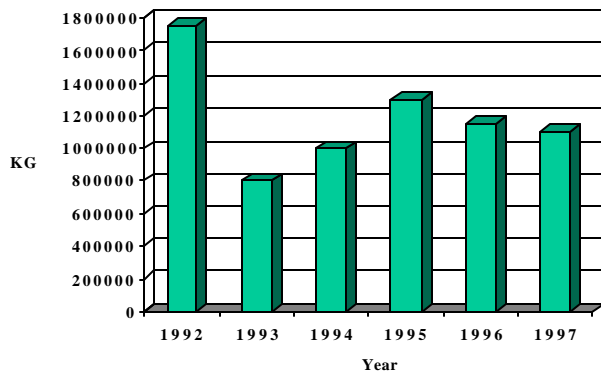
In the early 1990s, almond demand reached a peak because Hong Kong traders/companies were processing the almonds and re-exporting almond extract, powder and other food additives. However these industries moved across the border to Southern China because factors of production were cheaper. 1993 was a low point for almond demand. Nonetheless, almond demand grew at an average annual rate of 5% from 1993 to 1997.

*Top four source countries in order of volume, 1997:
Australia, USA, China, Japan (possible re-exports from U.S.A.)*

INSTITUTIONAL & RETAIL

The majority of almonds are sold in the retail segment of the market as snack foods. However institutional demand is expected to increase significantly during the next few years as bakeries in Hong Kong are inventing new cakes and cookies that require almonds. Consumer preference for almonds remains steady in both the institutional and retail segments.

**Almonds Local Demand
1992-1997**



LOCAL DEMAND

Hazelnuts

LOCAL DEMAND

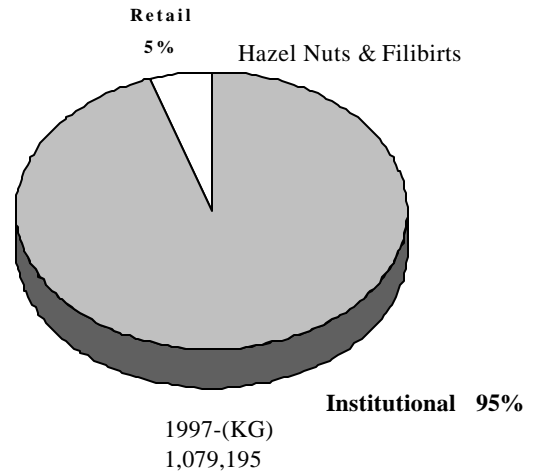
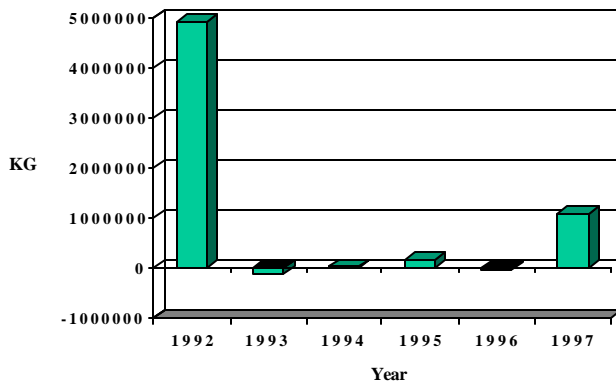
Local demand for hazelnuts increased at an average annual rate of 37%. 1992 volumes reflected in the official statistics can be explained by mislabeling on part of the Hong Kong traders.

Top three source countries in order of volume, 1997: USA, Turkey, France (possible re-exports from the Middle East).

INSTITUTIONAL & RETAIL

The institutional sector is driving demand for hazelnuts. The nut is used in traditional Chinese dishes served in restaurants. Hazelnuts are also considered a premium nut and used in the high-end-value chocolate industry in Hong Kong. Heavy demand in the bakery industry has also driven demand.

**Hazelnuts & Filbirts
1992-1997**



LOCAL DEMAND

Chestnuts

LOCAL DEMAND

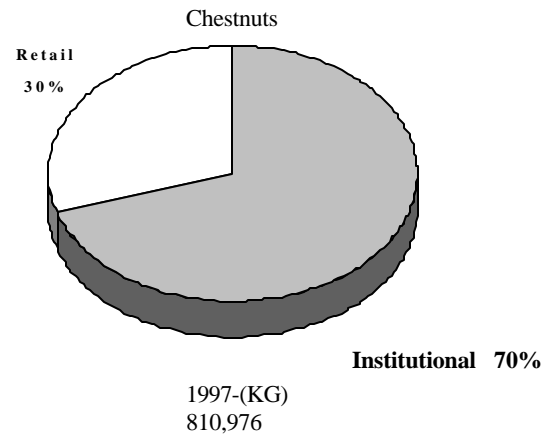
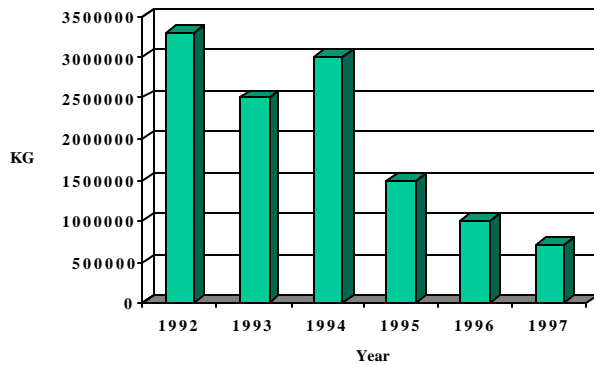
In the early 1990s chestnut demand reached a peak because Hong Kong companies were processing the chestnuts and re-exporting powder and other food additives. However, these industries moved across the border to Southern China because factors of production were cheaper. Chestnut demand has been dropping ever since the early 1990s, at an average annual rate of decline of 28%. It is expected to continue to decline.

*Top four source countries in order of volume, 1997:
China, Italy, Iran, Taiwan.*

INSTITUTIONAL & RETAIL

The institutional sector is driving demand. Bakeries primarily drive demand. The retail segment is relatively small. Chestnuts are not considered a popular snack item in the summer time as they are believed to be a food that creates warmth in the body. Typically demand for chestnuts will increase during the winter months and decrease in the summer months.

**Chestnuts Local Demand
1992-1997**



LOCAL DEMAND

Walnuts

LOCAL DEMAND

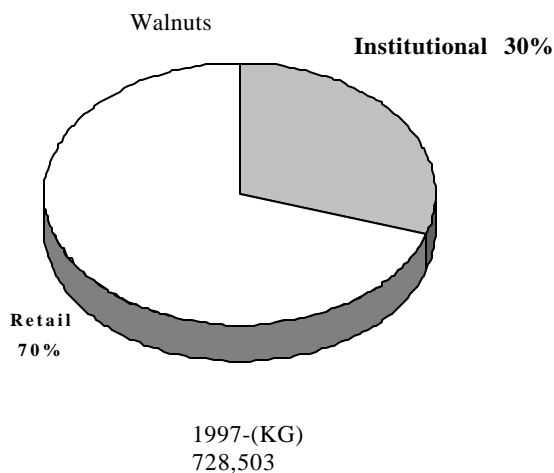
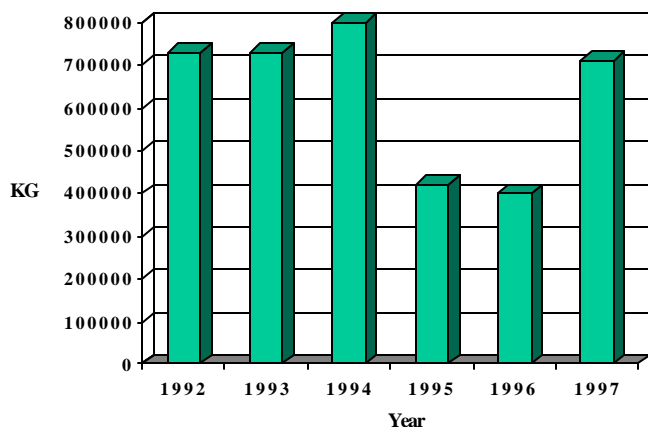
Official statistics reveal a decline in walnut consumption during the mid to late 1990s and a significant increase in demand in 1997. Trade interviews, however, reveal that local demand for walnuts has been steady over the last few years and is expected to grow.

Top four source countries in order of volume, 1997: China, USA, Vietnam and Macau (re-exports from China).

INSTITUTIONAL & RETAIL

Driving local demand during the early 1990s was the institutional segment. However, demand in the late 1990s has been driven by the retail segment. Local importers have driven consumer demand by aggressively promoting in supermarkets, convenience stores and specialty candy chain stores. Product diversification has also created demand. Currently, local importers have a variety of flavors available on the market. Most recently importers who have their own brands have come out with new flavors that reflect the Hong Kong consumer's preference such as seaweed, ginseng, hot and spicy and garlic. Local producers have also realized that the consumer has become more health conscious over the last few years. To accommodate this change, they have also introduced a low calorie walnut.

Walnuts Local Demand 1992-1997



LOCAL DEMAND

Pistachios

LOCAL DEMAND

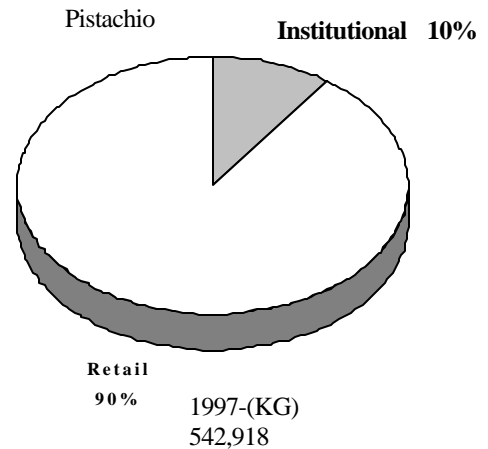
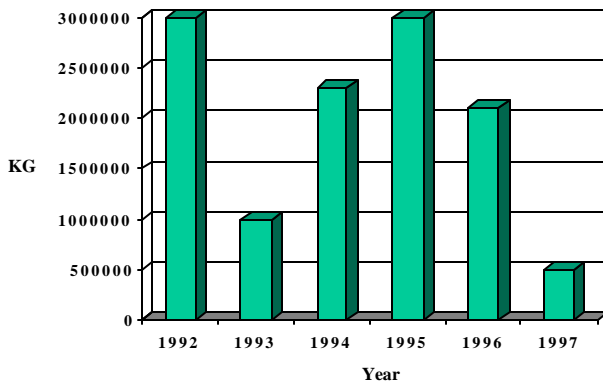
Local demand for pistachio nuts has fluctuated over the last five years. This fluctuation indicates that local importers see this market as an opportunistic market. It is price driven.

Top four source countries in order of volume, 1997: USA, Iran, United Emirates and China.

INSTITUTIONAL & RETAIL

The retail segment drives demand. Pistachios are sold in supermarkets, convenience stores and specialty candy chain stores, usually in small packages as snacks. They are also sold in the wholesale outlets in Hong Kong's Western District where large volumes of dried goods are sold. At these outlets, pistachios are sold in bulk or larger bags. The main consumers are families.

**Pistachio Local Demand
1992-1997**



LOCAL DEMAND

Pinenuts & Macadamia Nuts

Pinenuts

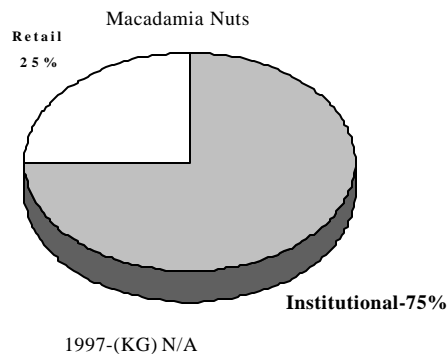
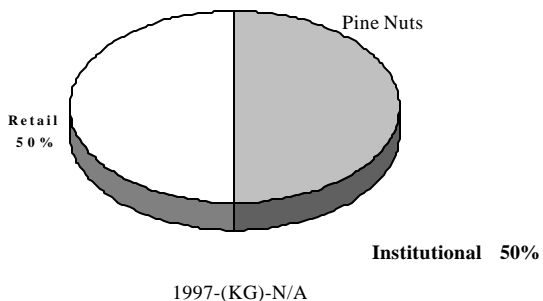
Local demand for the pinenut is driven in part by the institutional segment. Overall demand has remained steady during the last five years. It is anticipated that local demand will grow, depending on supply. Institutional demand will increase as restaurants and hotels use pinenuts for their baking and cooking needs.

Top source countries in order of volume, 1997: North Korea (via China), and China.

Macadamia Nuts

Local demand has been driven by the institutional segment. Macadamia nuts are used primarily in Chinese restaurants in their cooking needs. The nut is imported in its raw form. In the retail segment there has been strong growth in chocolate covered macadamia nuts. Demand in the retail segment is expected to grow as these nuts are now being marketed as a premium item. Flavored macadamia nuts are expected to be the next opportunity for macadamia nut suppliers.

Top source countries in order of volume, 1997: Australia and the US (Hawaii).



Summary Outlook for Local Demand of Nuts in the Hong Kong Market

Nut	Historical Demand (1992-1997)	Near-term Outlook (1998-2000)	Rationale
Peanuts	û	ü	Historically demand has been steady. The institutional segment has driven demand. The near term outlook is favorable and demand is expected to increase especially in the retail segment. Supermarkets and convenience stores have seen an increase in consumer interest in shelled roasted peanuts.
Cashews	û	ü	Historically demand has been steady. The near term outlook is favorable and demand is expected to increase over the next few years. Demand will be driven by the institutional segment. Traders tend to buy large volumes and stockpile when prices are low.
Almonds	û	ü	Historically demand has been steady. The near term outlook is favorable and demand is expected to increase over the next few years. Demand will be driven by the institutional segment. Almonds are used in cooking and baking.
Hazelnuts	ûû û	ü	Historically demand has fluctuated. The near term outlook is favorable and demand is expected to increase over the next few years. Demand will be driven by the institutional segment. High-end chocolate manufacturers are driving demand.
Chestnuts	ú	ú	Historically demand has been decreasing. The near term outlook is not favorable. Consumers are looking for alternative tree nuts.
Walnuts	û	ü	Historically demand has been steady. The near term outlook is favorable and demand is expected to increase slightly over the next few years. Demand will be driven by the retail segment. Local Hong Kong producers are flavoring walnuts, and demand for them is strong.
Pistachios	û	ü	Historically demand has been steady. The near term outlook is favorable and demand is expected to increase slightly over the next few years. Demand will be driven by the retail segment. Pistachios are considered a healthy snack food.
Pinenuts	ûû û	û	Historically demand fluctuated. The near term outlook is uncertain.
Macadamia nuts	ü	ü	Historically demand has been increasing. The near term outlook is favorable and demand is expected to increase over the next few years. Demand will be driven by the institutional segment, particularly restaurants.

DISTRIBUTION

DISTRIBUTION-1997 and 1998

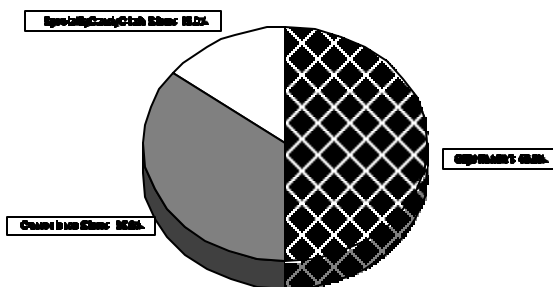
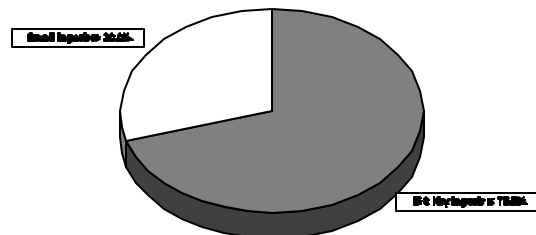
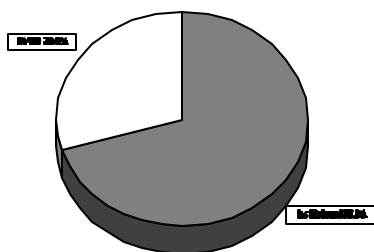
Overall, it is the institutional sector that is driving demand for nuts in the Hong Kong market. However the retail segment is becoming more and more important as consumers in Hong Kong are demanding healthy snacks. Nuts are not considered an essential food in the Chinese diet and therefore the trade is not regulated.

Institutional Segment

There are no large wholesale markets in Hong Kong. Large quantities of nuts can be purchased at wholesale prices at the many outlets in the Western District. This is where the majority of institutional customers buy nuts. The majority of nut traders are also located in this area of Hong Kong. There are five to six key players in the nut trade.

Retail Segment

In the retail segment individual nut suppliers/companies are free to approach the retail outlets or chain supermarkets directly or through an agent. There are many Hong Kong distributors/agents that are able to handle a product in both Hong Kong and China. Listing fees in the retail and chain store outlets are generally high and profit margins are thin.



Source: Eastern Strategic Consulting Ltd.

DISTRIBUTION

- # Nuts are not considered an essential food in the Chinese diet and therefore the trade is not regulated .
- # There are no large wholesale markets in Hong Kong. Large quantities of nuts can be purchased at who prices in the Western District of Hong Kong. The Hong Kong page of this market brief provides a list contact names that are useful and may offer discounts on volume purchase for the Hong Kong market markets in the region. The majority of institutional customers purchase from these traders.
- # The nut trade is controlled by only 5-6 Hong Kong traders. These traders supply the local Hong Kong market and are also well connected to the China market. They all have processing operations in South China and are currently focusing their efforts on supplying the mainland China market. These traders supply other markets in the region, so they may be of use to the supplier who is looking to enter a new market in Asia. They usually have their own brands which are supported by promotional efforts directed at the channels in Hong Kong and China. The traders thrive because of their competitive prices and their business contacts. However, they for various reasons they have not been able to market their products at the retail level. US suppliers have an opportunity to fill this gap.
- # In the retail segment individual nut suppliers/companies are free to approach the retail outlets or chain supermarkets directly or through an agent. There are many Hong Kong distributors/agents that are able to handle a product both in Hong Kong and China. Listing fees in the retail and chain store outlets are generally high and profit margins are slim.

PRICING AND COMMENTS

Prices for nuts have fluctuated considerably over the past five years. A key factor in price is the growing seasons in the supply countries, which Hong Kong traders are very familiar with. They often leverage price reductions by placing orders in advance or at the end of a certain growing season. The following price information is not meant to be comprehensive. It does, however, give the reader an indication of what products are available in the retail sector and at what prices.

Brand	Product	Weight	Price (HK\$)	Comments
Planters	Pistachios-Roasted	6.5 Oz	24.6	Demand on the increase
Planters	Fancy Cashews	170 Grams	26.8	Demand steady
Planters	Mixed Nuts	184 Grams	20.3	Not as popular as packages of a single type of nut
Magna Lot	Macadamia Nuts	4.5 Oz	37.9	Demand on the increase
Butterfly	Dry Roasted Pistachios	200 Grams	19.3	Low price and demand is increasing
No Frills	Various Groundnuts	400 Grams	8.5	Competes on price
Planters	Cocktail Peanuts	360 Grams	13.9	Relatively high price compared to local brands
Ploughing	Peanuts	360 Grams	13.2	Relatively high price compared to local brands
No Frills	Garlic Peanuts	100 Grams	5.9	Demand increasing. Flavored nut demand on the increase.

For Hong Kong dollar currency figures, the exchange rate is US\$ = 7.78.

Source: Eastern Strategic Consulting Ltd. Store Checks

RECOMMENDATIONS

The Hong Kong consumer is just becoming conscious of the health benefits of dried fruits and nuts. Dried fruit demand is expected to grow over the next few years. Thus, it is important to pay specific attention to packaging; recommended that dried fruit and nuts be marketed as health food snacks. Packaging should allow the consumer to see the product, and it should be emphasized on the label in Chinese and English that these items are considered healthy and are ready for immediate consumption.

It must be noted that in the section on Local Demand for Nuts, two categories as classified by the Hong Kong and Statistics Department were purposely excluded because there was no method of segmenting each of the categories. These two categories, Nuts-groundnuts for Immediate Consumption and Tree Nuts-Fresh or Dried, are catch-all categories and represent a significant portion of total Hong Kong demand. Therefore, local demand for each category of nut may exceed estimates.

Dried Fruit

C Hong Kong is an import market and Chinese style dried fruits dominate the market. However, Western style dried fruit is becoming more and more popular. Southeast Asian suppliers are already aggressively pushing into this market and offering their own brands of dried fruit in the retail channel. Supermarkets and convenience stores have seen an increase in sales of dried fruit during the last few years. In order to meet this demand, US suppliers have produced their own brand names of dried fruit. It is recommended that suppliers first look at the retail channel. It is important for companies to get into this channel as soon as possible as competition is becoming more intense. The wholesale channel should also be considered seriously and relationships with key Hong Kong traders and wholesalers should be established early on.

C Attractive future growth demand is expected for apricots, prunes and raisins.

Nuts

C Although statistics seem to show that import demand has been steadily declining over the past five years, actual demand has actually increased. The institutional segment for nuts has been driving demand and will continue to do so in the near future. Increased restaurant dining and an increase in consumption of baked items have driven demand. However, the retail segment is picking up and it is recommended that US suppliers look seriously at this channel. It is also recommended that US suppliers establish contacts with key Hong Kong traders who have operations in China. The market in China for nuts is growing quickly and demand over the past few years has outstripped local Chinese supply for certain nuts. Hong Kong traders have been active in the market for years and may be able to offer access into the China nut market.

C The recession in 1998 is expected to result in a slight increase in dried fruit consumption and groundnut and tree nut consumption.

RULES AND REGULATIONS

- # As Hong Kong is a free port, there are no import duties on dried fruits and nuts. The import of dried fruits and nuts into Hong Kong is governed by the food and drug provisions of the Public Health and Municipal Services Ordinance Cap. 132 and their subsidiary regulations, which are enforced by the Hygiene Division of the Department of Health.
- # Hong Kong's food and labeling laws have been in effect since August 9, 1987. These laws establish the requirements for the marketing and labeling of prepackaged foods.
- # For prepackaged foods or those whose contents can not be altered without opening or changing the packaging must contain the following information:
 - C Name; ingredients (in descending order of weight or volume); shelf life; conditions of storage and weight and volume; and name and address of manufacturer or packer.
 - C Products must indicate shelf life of product in both English and Chinese.
 - C Dates must be in English and Chinese unless Arabic numbers are used and must be expressed in day, month and year.
 - C If special storage conditions are required an explanatory statement must be included on the product label.
- # It is not necessary to have complete Chinese language used if the information is provided in full in English; however, at a minimum, the package must state in Chinese, "Consume before date stamped on package"; if both languages are used, then the product name and ingredients must appear in both languages.
- # Most traders and importers are aware of these regulations and may provide the supplier with a copy of the regulations. However, it is the responsibility of the supplier to have the appropriate labeling and packaging of the product before the product is shipped.
- # For imports into Hong Kong, a health certificate is required to certify that the dried fruit was processed under hygienic conditions, does not contain any substance in such amount as to be poisonous, injurious or otherwise deleterious to health, is fit for human consumption and is permitted to be sold as food for human consumption in the country of origin.

CONTACTS

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Asian Food Industries
33/F Windsor House
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**Brittania Brands
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929-931 New World
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Hong Kong
tel: 2739-2823
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Health Department
Hygiene Division
Wu Chung House
Queen's Road East
Wanchai, Hong Kong
Tel: (852) 29618807

Park'n Shop Ltd
Box 250 Shatin Post Office
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Hong Kong
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Fax:(852) 26953664

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CONTACTS

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Great Favour Nuts & Native Products Ltd.

Room 2303-2304 A
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Happy Cereals and Oils Co.

Flat A17
12/F Hi-Tech Industrial
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5-21 Pak Tin Park St.
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tel: 2415-7107
fax: 2413-7277

Hong Fat Hong Provision Manufacturing Ltd.

Tel: 2614-4588
fax: 2614-3129

Sun Wing Lee Hing Chan Co. Ltd.

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Peanuts & Seeds Factory;
Rainbow Nuts (HE) Ltd.)
G/F-2/F, 142 Wing Lok St.
Hong Kong
tel: 2543-5294
fax: 2541-1948

Kam Wah Beans & Flour Co.

454 Des Voeux Rd.. West,
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Natural Farm Food Co.

9/F Tung Cheong Industrial
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fax: 2408-1379

Oliver's

33/F Windsor House
311 Gloucester Rd..
Causeway Bay
Hong Kong
tel: 2576-8077
fax: 2577-0420

Ponti Trading Ltd.

Unit D
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5 Luk Hop St.
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tel: 2328-3218
fax: 2322-5757

Wah Yuen Foods (HE) Co. Ltd.

G/F, 260 Hai Tan St.
Kowloon, Hong Kong
tel: 2720-2514

Wan Tom Food Co. Ltd.

Room 27
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fax: 2754-3945

Watson's The Chemist Ltd.

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Yat Loong

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Lyeyuemun
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fax: 2772-4368

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American Consulate General
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33 Garden Road, Hong Kong
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Fax: (852) 2845-0943
E-Mail: ATOHongKong@fas.usda.gov

Internet Homepage: <http://www.usconsulate.org.hk/ato>

List of Important Government Web Sites and E-Mail Addresses

Department	Web Site	E-Mail Address
Census and Statistics Department	http://www.info.gov.hk/censtatd/	genenq@censtatd.gcn.gov.hk
Company Registry	http://www.info.gov.hk/cr/	crenq@cr.gcn.gov.hk
Consumer Council	http://www.consumer.org.hk	cc@consumer.org.hk
Financial Secretary's Office Business and Services Promotion Unit	http://www.info.gov.hk/bspu/	bspuenq@bspu.gcn.gov.hk
Economic Services Bureau	http://www.info.gov.hk/esb	esbuser@esb.gov.hk
Trade and Industry Bureau	http://www.info.gov.hk/tib/	--
Department of Health Headquarters Clinical Genetic Service Government Virus Unit Special Preventive Program	http://www.info.gov.hk/dh/index.htm -- -- http://www.info.gov.hk/health/aids	dhenq@dh.gcn.gov.hk cgs@hk.super.net wllim@hk.super.net aids@health.gcn.gov.hk
Industry Department	http://www.info.gov.hk/id	industry@id.gcn.gov.hk
Trade Department	http://www/info.gov.hk/trade	dcsm@trade.gcn.gov.hk
Hong Kong Trade Development Council	http://www.tdc.org.hk	hktdc@tdc.org.hk
Foreign Agricultural Service, USDA	http://www.fas.usda.gov	--
Census and Statistics Department	http://www.info.gov.hk/censtatd/	genenq@censtatd.gcn.gov.hk
Custom and Excise Department	http://www.info.gov.hk/customs/	customeq@customs.gcn.gov.hk