

Emerging Brand Powerhouse

Best Chinese Brands 2006

A Ranking by Brand Value

Interbrand

BusinessWeek



Best Chinese Brands 2006

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In co-operation with BusinessWeek China, Interbrand is pleased to present our first annual ranking of the Best Chinese Brands by brand value. We firmly believe that brands are economic assets and must be managed as such. That is what makes our approach valuable and informative for those who own and manage brands for competitive advantage.

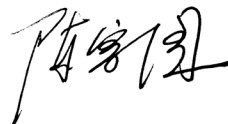
This is not a ranking of China's most popular brands, but rather those brands that have generated great economic return for their owners. We recognize that several powerful and valuable brands are not among those ranked. This is based solely on specific criteria used to initially consider brands for valuation. To qualify, the brands must have originated in Mainland China, the company to which they belong must be listed so there is publicly available financial information, and the brands must directly interact with consumers. Interbrand recognizes that a list of twenty brands is only a representative number of the many well-performing Chinese brands.

Interbrand is impressed by how quickly and professionally brand value has been created in China. Chinese brands have incredible impact domestically and many are making rapid progress in awareness and market share gains internationally. We conduct these studies in over 12 nations and our work in China indicates that branding is a significant focus for management and the investment in their brands are beginning to show valuable return.

For six consecutive years, Interbrand has ranked the Best Global Brands in partnership with BusinessWeek magazine. The same brand valuation methodology has been employed to arrive at the top 20 Chinese brands. There are many competing rankings in China, yet, we are confident our methodology best captures the economic value of brands. We acknowledge the support of China Merchants Securities Co. Ltd, one of the leading investment banks in China who provided industry reports that were a key input for the valuations.

We hope you enjoy this report and that it provides valuable information in the creation, management and measurement of your brands. As branding experts, we commend the companies that have managed to create and sustain strong brands in today's competitive market. With continued rapid growth and more competition we anticipate that brands will play an increasingly important role in Chinese enterprise.

Sincerely,



Frank Chen
Chief Executive Officer
Interbrand China



Table of Contents

	page
1. Why the Ranking is Important	4
2. The Interbrand Method for Valuing Brands	5
3. Branding in China	7
4. Best Chinese Brands 2006	10
5. Brand Commentary	11
6. Additional Prominent Chinese Brands	15
7. Contacts and Additional Information	17
Appendices	
Frequently Asked Questions	18
About Interbrand	21
Creating and Managing Brand Value	22

Disclaimer: All brand value estimates in this study have been calculated by processing data sourced from publicly available information for the purpose of demonstrating Interbrand's proprietary methodology. The accuracy of the brand value estimates relies on the quality of this input data, which would normally be sourced from the client organization.



1.

Why the Ranking is Important

The branding practices employed by Chinese enterprise are becoming more and more sophisticated. This first annual ranking of the Best Chinese Brands may assist in putting emphasis on brand contribution to business performance. The ranking provides brand values that are top-line measures of economic performance, stating what the brand is worth overall, and among competitors.

The most important information comes when one looks behind the number – as a single number only tells so much. It is more important to understand what drives brand value: intangible earnings (the cash flow of a business not associated with such tangible assets as equipment or materials), the role of brand (a measure of how much brand influences purchasing decisions), and brand strength (a benchmark of a brand's relative risk compared to competitors).

Understanding the drivers of brand value can inform management action, from overall business strategy to specific marketing tactics. It is an easy to use metric to help brand owners determine where they are, where they are going, and how to get there.

Brand valuation can assist in positioning brand building as a critical aspect of enterprise by answering the following questions:

ARE WE INVESTING ADEQUATELY IN OUR BRAND?

Putting an economic value on a brand (overall and by segment) can help make a strong business case for marketing investments, overall and across a brand portfolio.

IS OUR MARKETING EFFECTIVE AND EFFICIENT?

Your customers make decisions every day between you and your competitors. Analyzing the role of brand in those decisions helps you to focus your strategy on the attributes that differentiate your brand from others and to strengthen your relationship with your best customers, ensuring future earnings.

ARE OUR SHORT-TERM TACTICS DRIVING LONG-TERM VALUE?

By analysing the strength of your brand, you can target marketing campaigns to the most valuable customers, in the most competitive manner, to drive short-term sales without sacrificing long-term brand strength and relevance.

Most importantly, this ranking is presented to foster debate and put greater emphasis on the practice of branding. Our goal is to communicate clearly that brands are important assets requiring proactive and consistent investment, management, and measurement.



2.

The Interbrand Method for Valuing Brands

Interbrand has valued around 4,000 brands covering every business sector, around the world, over the last 20 years and retains a clear position as discipline leader and innovator. This wealth of practical knowledge provides the basis for all of our league-tables, at a global and market specific level.

In order to arrive at a particular ranking we first establish clear criteria for inclusion. This ensures we have the required information to complete the valuation and that the brands conform to the geographic or industry specific nature of the study.

For the first annual Best Chinese Brands study, Interbrand formed a specific set of criteria:

The brand must originate in Mainland China.

This means that foreign owned brands operating in China are excluded (example, Coca-Cola).

This means brands that were once Chinese owned but are now foreign owned are excluded (example, Zhonghua part of Unilever).

This means brands that originate or based in Hong Kong, Macau, or Taiwan are excluded.

The brand owner must be a publicly traded company.

The company to which the brand belongs must be a listed company on a stock exchange. This enables Interbrand to access the financial information to perform the valuation.

The brand must be consumer-facing.

This excludes holding companies and business-to-business entities that do not directly interact with consumers (examples, China Resources, CNOOC).

The brand's financial performance must be isolated.

This means companies with several brands that do not have separate brand-specific financial data were excluded.

The Interbrand method for valuing brands is a proven, straightforward and meaningful formula that examines brands through the lens of financial strength, importance in driving consumer selection, and the likelihood of ongoing branded revenue. Our method evaluates brands much like analysts would value any other asset: on the basis of how much they're likely to earn in the future. There are three core components to our proprietary method:

Financial Analysis

Our approach to valuation starts by forecasting the current and future revenue specifically attributable to the branded products. Non-branded items such as amortization of goodwill and finance costs, are subtracted to assess what portion of those earnings is directly attributable to the brand.

All financial analysis for the Best Chinese Brands 2006 study is based on publicly available stock exchange listed company information. These valuations represent "existing use values" not "market values" which could be considerably different.

Role of Brand Analysis

A measure of how the brand influences customer demand during the purchase process is applied to the intangible earnings to arrive at Branded Earnings.

For this ranking, industry benchmark analysis for the role brand plays in driving customer demand is derived from Interbrand's

2. The Interbrand Method for Valuing Brands

database of more than 4,000 prior valuations conducted over the course of 20 years. In-market research is used to establish individual brand scores against our industry benchmarks.

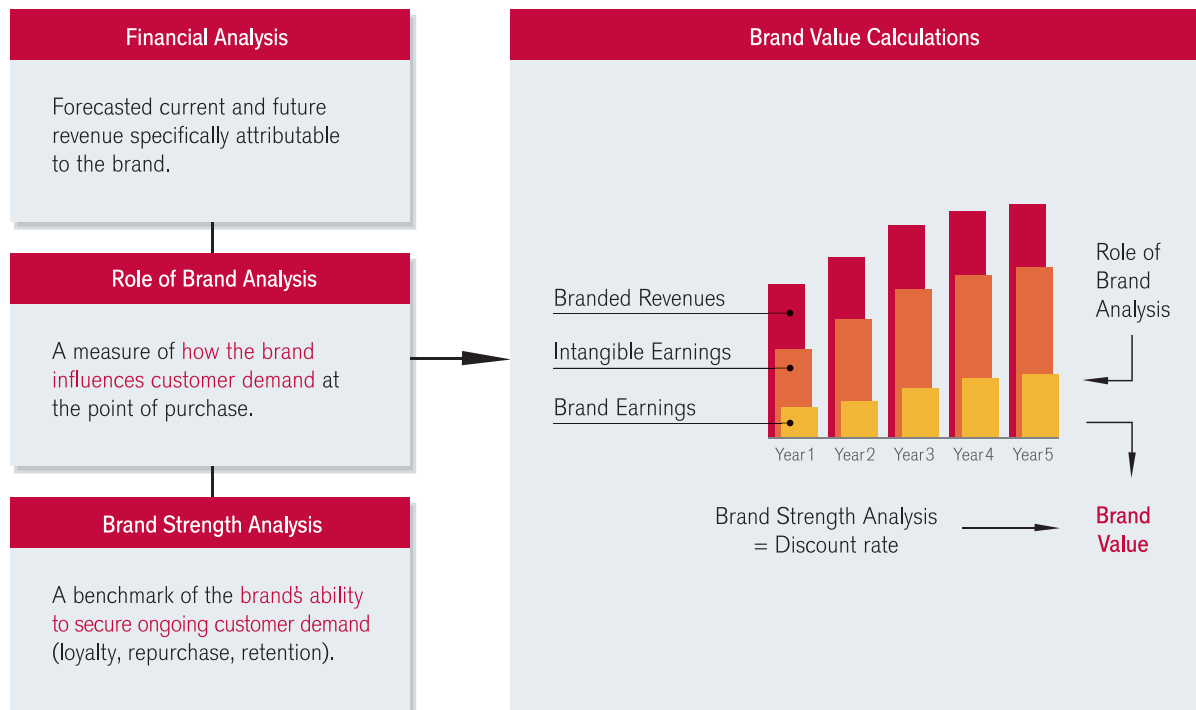
Brand Strength Score

This is a benchmark of the brand's ability to secure ongoing customer demand (loyalty, repurchase and retention) and thus sustain future earnings, translating branded earnings into net present value.

This assessment is a structured way of determining the specific risk to the strength of the brand. We compare the brand against common factors of brand strength, such as market position, customer franchise, image, and support.

We do appreciate the support from China Merchants Securities Co. Ltd, one of the leading investment banks in China. Their industry reports facilitated our judgment on brand strength.

An Overview of the Methodology



Illustrative



3.

Branding in China

The traditional business model in China has been to acquire distribution and penetration, with a focus on product functionality, price, and value for money. As such, the brands that trade in this 'functional' space are vulnerable to competitors who are able to claim similar attributes.

A key challenge for Chinese brands is to build 'emotional bonds' with consumers in such a manner that loyalty, and therefore sustainable cash flows, are secured. In a market that is becoming more brand mature (accelerated by the influx of foreign brands), failure to do so may result in local brands losing relevance. Overcoming perceptions that foreign brands are of a better quality than local brands will be a continuing challenge.

Marketing communications remain outwardly focused in projecting the company's values to build reputation, rather than understanding the customer. Consumer research and segmentation is a facet of brand management that requires greater attention in China. Understanding the Chinese consumer, together with identifying, tracking and measuring consumer habits, will become more essential as the brand environment evolves.

While these points may challenge the sophistication of branding in China, it is important to recognize that marketing and branding of domestic brands has come a very long way in a relatively short space of time. While certain practices may not be apace with all western markets, the paces at which Chinese brands have grown, are quicker by comparison to other nation's adoption of branding including Japan and South Korea.

The market is shifting away from the perception that branding is just a logo or visual identity, and towards a greater understanding

of the brand experience as a whole, and what is delivered at each customer touch point. Although tactical marketing activities will remain key, building attributes beyond product and price are critical to building sustainable brand value. It is clear that the brands ranked have begun to focus on building a great brand experience.

Interbrand has valued the Best Global Brands for over six years. Through that time, we have identified a consistent set of practices shared by successful global brands. Many of the brands ranked in this study and other prominent Chinese brands are quickly employing these practices for competitive advantage both domestically and internationally. These best practices are:

Recognition

Well-performing brands enjoy strong awareness among consumers and opinion leaders. These brands lead their industry or industries. Think Louis Vuitton. Fashion critics and loyal customers laud the brand with equal enthusiasm. Recognition represents the nexus of perception and reality, enabling brands to rapidly establish credibility in new markets.

Consistency

Best brands achieve a high degree of consistency in visual, verbal, auditory, and tactile identity across geographies. They deliver a consistent customer experience worldwide, often supported by an integrated, global marketing effort. McDonald's is a tremendous example of a brand that has returned to its roots by shedding distracting acquisitions, simplifying the core offer, and adhering to a shared message globally. At the same time, McDonald's appropriately fine-tunes its approaches for greater regional relevance. In fact, McDonald's has modified its menu in China to be more relevant to the local consumer.

Emotion

A brand is not a brand unless it competes along emotional dimensions. It must symbolize a promise that people believe it can deliver and one they desire to be part of. This allows brands to achieve the loyalty of consumers by tapping into human values and aspirations that cut across cultural differences. Adidas has appealed to the athlete and leisure fashion buyer, regardless of true physical ability, allowing for a focused, yet mass-market offer.

Uniqueness

Great brands represent great ideas. These brands express the uniqueness of position to all internal and external audiences. They effectively utilize all elements in the communications mix to position within and across international markets. Apple has creatively addressed its marketing mix while ensuring its people embody its most ownable and beneficial brand attribute, innovation.

Adaptability

A global brand must respect local needs, wants, and tastes. These brands adapt to the local marketplace while fulfilling a global mission. HSBC has invested in that very message by conveying its excellence in financial services with its deep knowledge of local custom and practice. In essence, it is communicating a "glocal" advantage.

Management

The organization's senior leadership must champion the brand, ideally with the CEO leading the initiative. A leader's continual articulation of the brand philosophy and the brand's view of the world are meant to give the business strategy a recognizable face. The commitment is crucial, allowing for a unique positioning that transcends local idiosyncrasies and that appeals to a universal aspect of human nature and experience. This is a major step in ensuring that the corporate culture will put the brand at the heart of everything it does.

Measurement

In order to sustain a global brand, there must be a consistent measurement. This helps apply best practice and allows for monitoring appropriate global consistency. Measures should include awareness, overall opinion (preference, satisfaction, loyalty, recommendation), brand image attributes, perceptions of product/service performance, and brand valuation to determine financial contribution.

These attributes are important management considerations for all Chinese brand owners as they move to build strong brands at home and abroad.

Through our work we have identified two primary types of Chinese brands:

Brands operating in a wider geographic market.

Among the best-known brands are Lenovo (IT), Haier and TCL (whitegoods and telecommunications) and Huawei. With substantial local market bases, these brands are venturing into offshore markets in a substantial way. While Lenovo is the purchaser of IBM's former PC business, its origin differs slightly from those of Haier and TCL, which are local brands with extensive foreign revenue streams.

Of these brands, only Lenovo is included in the inaugural list. It was not possible to determine "true brand earnings" for both Haier and TCL without access to more detailed information (Huawei is not a listed company). The main challenge is how these brands compete against other global brand giants in the same categories who have spent many years building desirable images beyond product competency.

Brands with strong national performance.

These brands are represented on many lists of valuable domestic brands, and include telecommunications, banking and financial services. Their common characteristics are significant earnings streams, widespread distribution network, and strong market performance resulting in dominant share.

Many of these brands were originally single state-owned monopolies that over time have been deregulated and split into several separate operating companies now competing against one another. Interestingly, the customer base has been maintained even in a deregulated environment. As the Chinese economy continues to

3. Branding in China

grow at substantial rates, the size of these institutions, particularly within banking and financial services, is a key driver of new customer acquisition. Chinese consumers and commercial entities, like their Western counterparts, view size and heritage in the market as indicators of financial stability and security.

As financial markets continue to deregulate in China and new foreign brands enter the market, local incumbents must recognize that consumers will become increasingly sophisticated and search for tailored solutions. Foreign brands, which are likely to be more mature, will use their products as a key differentiator of performance versus the local brands, and may adopt niche-marketing strategies to gain a sustainable local foothold.

Summary of Main Findings

Based on our work in China, our time spent ranking Chinese brands, and our knowledge of branding best practice, Interbrand has discovered that:

1. Amongst the Best Chinese brands, brand management is already relatively sophisticated and progressing at a rapid pace.
2. Chinese brands are increasingly using global best practices and are becoming formidable competitors to non-Chinese brands, both domestically and globally.
3. The pace of change, combined with the relative size of the market, provides an exciting backdrop for innovation in the disciplines of marketing and branding.
4. Many Chinese brands are already global players and we expect to see an increasing number accelerate to this position.
5. China is clearly emerging as the next global brand powerhouse.

4.

Best Chinese Brands 2006

RANK	BRAND	SECTOR	BRAND VALUES (RMB Millions)
1	China Mobile	Telecom	283,000
2	Bank of China	Financial	82,000
3	China Construction Bank	Financial	68,000
4	China Telecom	Telecom	32,000
5	China Life	Financial	32,000
6	Ping An	Financial	13,000
7	China Merchants Bank	Financial	13,000
8	Moutai	Alcohol	10,500
9	Bank of Communication	Financial	7,400
10	Lenovo	Technology	6,100
11	Netease	Technology	4,500
12	Gome	Retail	3,800
13	ZTE	Telecom	3,400
14	Wuliangye	Alcohol	2,700
15	Air China	Transport	2,600
16	ChangYu	Alcohol	2,300
17	Vanke	Property	1,600
18	Gree	Electronics	1,500
19	CNC	Telecom	1,200
20	China Overseas Property	Property	1,000

5.

Brand Commentary



China Mobile, the world's largest mobile phone operator, tops the China Best Brands ranking. With over 240 million customers, and approximately 75% market share, they are the clear leader in their category. China Mobile was founded in 2000, as part of the privatization and division of the Chinese government's Ministry of Post and Telecommunication. The brand is well supported, and has extremely high levels of awareness. However, the telecommunications category is becoming more competitive and the category will require deeper levels of investment in marketing communications, image building and new product development.



Historically, a state-owned bank specializing in foreign exchange, Bank of China is now one of the top 4 banks in the country. It has been the pioneer of the Chinese banking industry, being the first bank to expand into overseas markets, the first to issue a credit card, and the first to provide telephone banking. With wide recognition from peers, customers, and the media, they are perceived to command a higher level of influence relative to their competitors.



Although established in 1996, the China Construction Bank traces its origins back to 1954 as the state-owned bank that specialized in real estate and infrastructure financing. The successful expansion into commercial banking in the early 1980's has seen CCB increase its market share of home loans to between 60% and 70%. The competitiveness of the bank is expected to be further enhanced from the recent capital and management investment by the Bank of America in 2005.



Originally part of the state-owned sole provider of fixed line telephone services, China Telecom now services 20 provinces in the south and west of China. It is the market leader of fixed line and internet services, with approximately 64% market share. Fixed line subscriber numbers are in decline due to the trend towards mobile services. PC penetration is still relatively low in China at 20%, so China Telecom will benefit from the expected growth in internet usage, especially in broadband.



China Life was established in 1999 after a series of corporate separations from the state owned monopoly, China Insurance Company. It has successfully leveraged this association and is known for its strong history and heritage. This has enabled China Life to secure distribution channels over the years, giving them a competitive advantage. It is the market leader with a 44% share of life insurance in China. They are seen as an authentic and respected company.



The second largest life insurance company in China behind China Life, Ping An was the first insurance company to integrate insurance with securities, trusts, banking, and annuity services. Ping An was also the first company to establish a centralized call centre in China. It has a high share of voice and brand awareness compared to China Life, with a strong focus on customer service and value creation. HSBC recently acquired a 19.9% interest in Ping An in 2005.



Despite a smaller asset book which places it as the country's sixth largest bank, China Merchants Bank has high awareness and reputation, and is perceived and recognized as the IT-driven bank, focused on innovation, quality of service, and technology. It was the first to develop a comprehensive suite of remote banking solutions, and has won several industry awards for its online products. The brand is strongly supported at the corporate and product levels.



With over 200 years of history, Moutai is regarded as the representative of Chinese spirits. It is assumed to have high levels of loyalty, and currently holds around 33% market share of the high end white spirit category. The category is currently experiencing pressure from the shift towards beer and wine products, which are seen to be more modern than traditional white spirits. Health and lifestyle factors are also a factor in the category.



Although the contribution from retail banking is increasing, BOCOM's principle source of revenue is from corporate banking. It has a strategic relationship with HSBC, who acquired a 19.9% equity interest in 2004. This has led to improved operational and management skills at the bank. BOCOM has both a nationwide and international footprint, with branches or agency relationships in 107 countries.



Lenovo has dominated the market since 1997, and currently has about 30% market share. It is strongly established as a leading and innovative brand, recognized for its superior quality and customer service. Although part of a highly competitive industry, the Lenovo brand is well placed to take advantage of the rapidly growing PC market in China. The acquisition of IBM's PC business will undoubtedly give Lenovo the additional technologies and capabilities required to transform into a true global player. The immediate challenge for Lenovo is to build equity in its brand while simultaneously using the IBM brand under its 5-year royalty agreement.



NetEase operates a leading interactive online portal offering Chinese content, and has arrangements with the two main mobile phone operators to provide mobile content services. China's internet users topped 123 million in June 2006, making the Chinese the second largest internet users after the Americans. NetEase also is the biggest online game operator in China. Their revenue streams are likely to benefit from the deployment of 3G mobile services.



Gome, established in 1987, was the first home appliance chain in China, and now has over 250 stores placed throughout the country. It has continued to dominate the industry, but with the market being highly fragmented, it holds only 9% market share. Gome is known for its price competitiveness and strong purchasing power that enables them to negotiate low prices with manufacturers and pass these savings onto customers. The July, 2006 acquisition of Yongle, the third biggest player in the sector, extends Gome's reach and influence.



ZTE is a pioneer in the telecommunication manufacturing industry in China, offering a comprehensive range of products and services in network, mobile, and wireless mediums. Although slightly lagging behind the market leader Huawei, ZTE enjoys high levels of awareness from its consumer facing business. With the Chinese market still relatively immature, ZTE is focusing more on overseas markets, with 36% of sales now generated from outside of China.



Founded in the 1950's, Wuliangye is the joint leader in the white spirit category, holding a similar share of market to Moutai at 33%. It has a large product range targeting diverse consumer segments, and has focused on integrating distribution channels to gain better control of the market. As with Moutai, Wuliangye is facing the same category issues involving increasing consumption in beer and wine and health and lifestyle trends. This will become a very interesting sector as both these and other brands compete for market share through differentiation and lifestyle messaging.



Air China is the market leader, and enjoys high levels of awareness throughout the country. This is expected to be further enhanced since securing the rights to be the sole airline partner of the 2008 Beijing Olympics. Safety, customer service, and integrity are all key facets of the brand's proposition. A softening of the license requirements has allowed new competitors to enter the market.



ChangYu is a long-standing competitor in the alcohol sector, with over 113 years of history, specializing in the production of wine, brandy, and health liquor. It currently has 32% market share of the wine industry (local wine brands dominate the market, with only one international wine brand being in the top 10 brands by sales).



Vanke is one of the oldest property development groups in China, entirely focused on residential developments. They are recognized as a leading property developer and one that has consistently invested in building their corporate brand. Vanke is well known for its quality of service, and high recommendation and repurchase rates. The brand is able to command a premium over its competitors. Vanke recorded strong growth over the past few years, fuelled by urbanization trends, and remains the leader in China.



Gree offers a comprehensive range of air-conditioning products, and with 30% market share, is seen as the market leader. Facing strong pressure from retailers, Gree has invested in establishing its own distribution channel, and now has over 2,000 stores located throughout China. The brand is synonymous with high quality. In rural areas, urbanization has led to a greater demand for electrical appliances, while in urban areas, technology has driven the demand for replacement and multi-function products.

5. Brand Commentary



China Netcom (CNC) is a supplier of fixed line and internet services. CNC does not enjoy the high levels of awareness held by the market leader, China Telecom, but is the only other real player in the category with about 36% market share. This challenger position may allow them to develop communications and user experiences that are more nimble and segmented to specific demographics.



Established in the 1980's, this property developer is priced above most of its competitors, targeting the middle to high end of the residential market. Given the low level of market concentration in the industry, China Overseas Property is the second largest developer with about 0.65% market share. The brand is strongly recognized for its product quality, and is beginning to build an emotional connection with customers.

6.

Additional Prominent Chinese Brands

The incredible growth and innovation within China are producing highly competitive brands at a rapid pace. Many of these prominent brands are valuable and respected, but do not appear in the ranking based on initial selection criteria. Interbrand believes a number of these brands require mention and recognition of their commitment to building world-class brands.

Haier

海尔

Haier is the leader in home appliance manufacturing in China. Its brand proposition of sincere service has been well recognised by consumers. Haier's investment in overseas markets has paid off in building this iconic Chinese brand. It employs many principles of successful global brand management and will continue to be a force domestically and internationally.



One of the most influential Chinese companies for technology innovation. Focusing on telecommunication devices, Huawei has been regularly investing in innovation. It has been a prominent player in the global market and a top rival for many first class IT companies. It has recently contemporised its brand identity and refreshed its communications to customers and other stakeholders.



Bao Steel is a real giant within China and around the world. With roughly 20 million tons of steel output each year, they account for a large part of the market share in stainless steel, and steel materials for home appliance and cars. They are committed to high quality and continuous innovation. Historically branding in commodity industries has been overlooked, yet, Bao Steel recognizes the value and is appropriately investing in its brand.



ICBC was formally established in its current form in 1984, and its origin can be traced back much further. It is the largest bank among the four major banks in China. It owns huge distribution networks nationwide, delivering its brand idea of "a bank just around you." This is a familiar challenge in financial services globally – if you are the largest – how can you communicate a message that is relevant to all existing and potential customers regardless of size of customer.

TCL

TCL is the biggest TV set manufacturer worldwide and also an important player in mobile phone and PC production. As a brave precursor of global expansion, it acquired Thomson and Alcatel, amongst other famous brands in the TV and mobile phone industry. This expansion through acquisition has allowed them to quickly adopt more sophisticated branding approaches.



Tsingtao is one of a few Chinese brands that are well known in the global market. It is a brand with over 100 years of history. Over the past several years it has made several acquisitions and mergers to fulfil its ambitious strategic goals of grasping market share across the country. It also accounts for nearly half of China's beer export total in 2005.



As a traditional Chinese medicine chain store, Tongrentang has leveraged its rich heritage spanning more than 300 years. The challenge is to leverage that heritage and make it relevant going forward to protect the annuity customers who are loyal to the brand.



Dongfeng, SAIC, FAW are the top three automotive manufacturers in China. They have cooperated with some of the biggest automotive companies in the world, and will be the foundation of Chinese car brands in the future. Current information suggests that these brands have gained much from these associations and are now embarking on new models designed and built to compete globally.

CCTV

The most influential television media in China. It has huge geographic coverage with an audience of up to 1 billion with 16 broadcast channels. Its role and influence in Chinese life is unparalleled.



Sina is one of the most influential Chinese Internet operators. As the biggest interactive online portal, it enjoys the highest volume of visitors and the greatest share of online advertising.



CPIC and PICC are significant players in the large Chinese insurance market. They both have good reputations, and invest heavily in improving their relationships with their customers. This category is among the most competitive in China so differentiation, service and clarity of communications are critical to future success.



Mengniu and Yili are both in the dairy products industry, and both originated from Inner Mongolia. They are fast growing companies, meeting the changing trends in food and health within China.



7.

Contacts and Additional Information

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To learn more about how to build brand value, visit both:

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Appendices:

China Best Brands – FAQ

WHAT IS BRAND VALUE?

Brand value is the dollar value of a brand, calculated as net present value (NPV) or, today's value of the earnings the brand is expected to generate in the future. Like any other NPV, brand value is measured at a point in time, based on the assumptions and information available at that point in time. Brand value is calculated according to the most widely accepted and used valuation principles. Brand value is, therefore, comparable to business and all NPV-based asset valuations.

The valuations of brands appearing in the China Best Brands survey are calculated in their current use to their current owner. They, therefore, do not necessarily represent the potential purchase, extension, or licensing value of the brands.

WHY VALUE BRANDS?

The purpose of these valuations is to demonstrate to the business community that brands are very important business assets and, in many cases, the single most valuable company asset. We also aim to make branding and marketing key business issues that have direct impact on shareholder value.

HOW DOES INTERBRAND DERIVE THE VALUE OF THE BRANDS?

Brand value is the net present value or, today's value of the earnings the brand is expected to generate in the future. This valuation approach is a derivative of the way businesses and financial assets are valued. It fits with current corporate finance theory and practice.

There are three key elements and they are detailed as follows:

Financial Forecasting

We identify the revenues from products or services that are generated with the brand. From these branded revenues, we deduct applicable taxes, and a charge for the capital employed, to derive intangible earnings. Intangible earnings are the earnings that are generated by all of the business' intangibles, including brands, patents, R&D, management expertise, etc. This is a prudent and conservative approach, as it only rewards the intangible assets after the tangible assets have received their required return. The concept of intangible earnings is, therefore, similar to value-based management concepts, such as economic profit or EVA (Economic Value Added is Stern Stuart's branded concept). Based on financial reports, we prepare a long-term forecast of intangible earnings.

Role of Branding

Since intangible earnings include the returns for all intangibles employed in the business, we need to identify the earnings that are specifically attributable to the brand. Through our proprietary analytical framework called "role of branding," we can calculate the percentage of intangible earnings that are entirely generated by the brand. In some businesses, e.g., fragrances or packaged goods, the role of branding is very high, since the brand is the predominant driver of the customer's purchase decision. However, in other businesses (in particular, b2b), the brand is only one purchase driver among many, and the role of branding is therefore lower. For each of the brands (and categories), we have assessed the role of branding. In situations where the brand is used across a variety of businesses, the role of branding figure was assessed for each core business segment.

The role of branding is a percentage and, thus, if it is 50%, we take 50% of the intangible earnings as brand earnings. If it is 10%, we take only 10% of the earnings.

Brand Strength

For deriving the net present value of the forecast brand earnings, we need a discount rate that represents the risk profile of these earnings. There are two factors at play: firstly, the time value of money (i.e., \$100 today is more valuable than \$100 in 5 years because one can earn interest on the money in the meantime); and secondly, the risk of the forecast earnings actually materializing. The discount rate represents these factors because it provides an asset-specific risk rate. The higher the risk of the future earnings stream, the higher will be the discount rate. To derive today's value of a future expected-earnings stream, it needs to be discounted by a rate that reflects the risk of the earnings actually materializing and the time for which it is expected.

The assessment of brand strength is a structured way of assessing the specific risk of the brand. We compare the brand against a notional ideal and score it against common factors of brand strength, such as awareness, market position, customer satisfaction, loyalty, and advertising and marketing support. The ideal brand is virtually "risk-free" and would be discounted at a rate almost as low as government bonds or similar risk-free investment. The lower the brand strength, the further it is from the risk-free investment, and so, the higher the discount rate (and, therefore, the lower the net present value).

WHAT WAS THE BASIS OF THE FINANCIAL ASSESSMENTS?

Interbrand formed an initial consideration set of brands owned and operating in China. Annual reports sourced from various stock exchanges were used to examine the revenues, earnings, and balance sheets of the brand-owning companies.

WHAT WAS THE BASIS FOR THE MARKETING ASSESSMENTS?

Our experience in creating and managing brands for over 30 years has resulted in the development of brand metrics that consider:

- Level of differentiation the brand has achieved;
- Success of the current position;
- Ability to control that position; and
- Differentiation sustainability.

Our expertise was supplemented with press articles, analyst comment, and market research.

WHY ARE CERTAIN BRANDS NOT ON THE LIST?

Interbrand employed specific criteria in order to conduct the valuations:

The brand must originate in Mainland China.

This means that foreign owned brands operating in China are excluded (example, Coca-Cola).

This means brands that were once Chinese owned but are now foreign owned are excluded (example, Zhonghua part of Unilever).

This means brands that originate or based in Hong Kong, Macau or Taiwan are excluded.

The brand owner must be a publicly traded company.

The company to which the brand belongs must be a listed company on a stock exchange. This enables Interbrand to access the financial information to perform the valuation.

The brand must be consumer-facing.

This excludes holding companies and business-to-business entities that do not directly interact with consumers (examples, China Resources, CNOOC).

The brand's financial performance must be isolated.

This means companies with several brands that do not have separate brand-specific financial data were excluded.

Please refer to the 'The Interbrand Method for Valuing Brands' section of this report.

WAS THERE A LIMIT IMPOSED BY INDUSTRY?

No. However, one of the requirements of a leading brand is that it is leading in its category. The mark of leadership is not just about market share but also about acting like a leader – setting trends, having high quality standards, commanding authority in the category, and so on. So, there are brands that have market share ranking in the top three of their category but did not make the cut, and brands that are not top-three that did. The rules described are guidelines and, ultimately, each brand was assessed for inclusion on its own merits.

WHY IS INTERBRAND AN EXPERT IN ASSESSING BRAND VALUE?

In 1987, Interbrand developed and introduced the first valuation of a portfolio of brands that used a brand-specific valuation approach. Since then, we have continuously updated and improved our valuation approach to make it the global industry-standard of brand valuation.

The Interbrand brand valuation methodology is the most widely endorsed and used valuation approach around the world. Interbrand alone has valued more than 4,000 brands in all industries worldwide. Our valuations have been endorsed by leading academics including Harvard, Thunderbird, Columbia, St. Gallen, and Emory, to name a few.

Our valuation approach has the widest breadth of application, including strategic brand management, marketing budget allocation, marketing ROI, portfolio management, brand extensions, M&A, balance sheet recognition, licensing, transfer pricing, and investor relations. Our valuations have been audited for inclusion on the balance sheet by all leading accounting firms. Also, many tax authorities and law courts around the world have accepted our valuation approach.

DOES INTERBRAND CONDUCT OTHER SURVEYS?

Since 2000, Interbrand has partnered with BusinessWeek to produce an annual study of the Best Global Brands, creating the world's most significant and influential brand and marketing survey. PRWeek magazine conducted a survey of the important rankings to senior executives. Their survey concluded that the Best Global Brands study is regarded by senior management as the third-most influential ranking.

In addition to the global study, Interbrand has established national or regional brand value league tables in France, Spain, Australia, Singapore, Taiwan, Mexico and Brazil, Moscow, South Africa, Switzerland, Canada, and now China.

WHAT ARE THE LIMITATIONS OF THESE VALUATIONS?

Compared to doing a proper formal valuation project for the brand owner, the limitations are: they are based on public data only; there is no input from management (in order to maintain consistency); certain key brands are not listed; and only a limited amount of time can be spent on any one brand. The main limitation is that the valuations tell you how much value the brand creates, but not what is driving brand value or what would increase brand value going forward. A formal valuation would do just this and Interbrand works with our clients to understand the factors that drive value to their brand and what measures could be taken to leverage that value.



Appendices:

About Interbrand

Interbrand believes that branding is a blend of art and science. Our teams are both “creatively strategic” and “strategically creative” allowing us to deliver best-in-class work for our clients and have a measurable impact on their business.

Since 1974, Interbrand has worked with leading global brands to create and manage brand value through an integrated set of offerings. We offer brand and business strategy, brand valuation, quantitative and qualitative research, internal brand alignment, retail design, brand architecture and portfolio optimization, naming, corporate identity design, packaging design, communications creation and online digital asset management tools.

Our heritage is in understanding the financial value of a brand and elevating the role brands play in driving measurable impact. Having pioneered the practice of Brand Valuation in 1987, Interbrand is now recognized worldwide for its annual Best Global Brands study and over twelve country-specific studies.

Interbrand has over 30 offices in more than 20 countries around the globe and clients from among the most-respected businesses. Interbrand is a wholly owned subsidiary of the Omnicom Group, the industry leader in Marketing Communications.

Appendices:

Interbrand: Creating and Managing Brand Value

Brands do not become and remain successful on their own. Nor are they ensured ongoing leadership without proactive, diligent and detailed management. Interbrand works collaboratively with clients to consistently and continually evaluate, create, and manage their brand assets. We do this by employing the following Brand Value Management model.

The Brand Value Management model is a closed loop with neither a specific beginning nor definite end. It begins at a different point for every brand, based on business need. However, one aspect does remain constant: once in progress, the model accelerates – generating synergies and capturing new opportunities through carefully crafted and integrated activities. It becomes an inexhaustible source of energy and competitive advantage for every brand.

Brand Value Management comprises three distinct, yet interrelated, phases: Evaluate, Create, and Manage – three phases where the brand and market opportunities are painstakingly examined, creatively brought to life, and thoroughly and holistically coordinated.

