

ResearchInChina

China Supermarket Industry Report, 2009

Sep/2009

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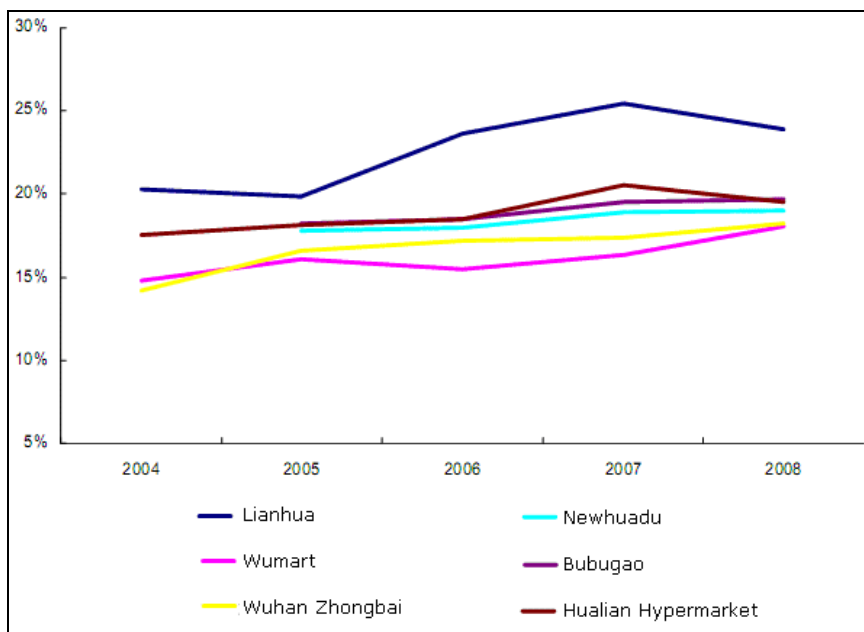
2. Profile of China Supermarket Development

2.1 Profit Mode

Generally speaking, supermarkets gain income mainly from two modes: first, direct price difference through selling goods by joint venture or self-operation; second, various charges levied on suppliers, such as slotting fees, special display fees, festival sponsorship fees, anniversary fees. The vast majority of revenue earned by China's retail terminals was from the sale of goods, approximately 20% of the total revenue was slotting fees. Because of lower profit margins and poor management capacity, Chinese supermarkets charge slotting fees as net profit to improve profitability greatly. According to statistics, if supermarkets do not charge slotting fees, 80% of supermarkets in China will suffer losses. At present, the "slotting fees" which Carrefour collects from suppliers contributes 50% to its profit in China. Making slotting fees become the main source of profits will not be valuable or effective in the future.

As supermarkets sell mostly cheaper daily necessities, the average gross profit margin is lower than that of department stores and convenience stores.

Gross Profit Margin Comparison of Major Supermarkets in China, 2004-2008 (%)



Source: United Securities

2.3 Growth Space

China's Consumption Demand has not yet released.

China's personal consumption totaled to USD890 billion in 2007, becoming the fifth largest consumption market followed by the United States, Japan, Britain and Germany. However, the consumption demand in China has not yet released, since the consumption rate is low to account for only 36% of GDP, only half of the United States and Europe, and two-thirds of Japan.

Ratio of Personal Consumption to GDP in Main Countries



Note: the ratio to GDP in China was in 2007, and other countries were in 2008.

Source: National Bureau of Statistics of China

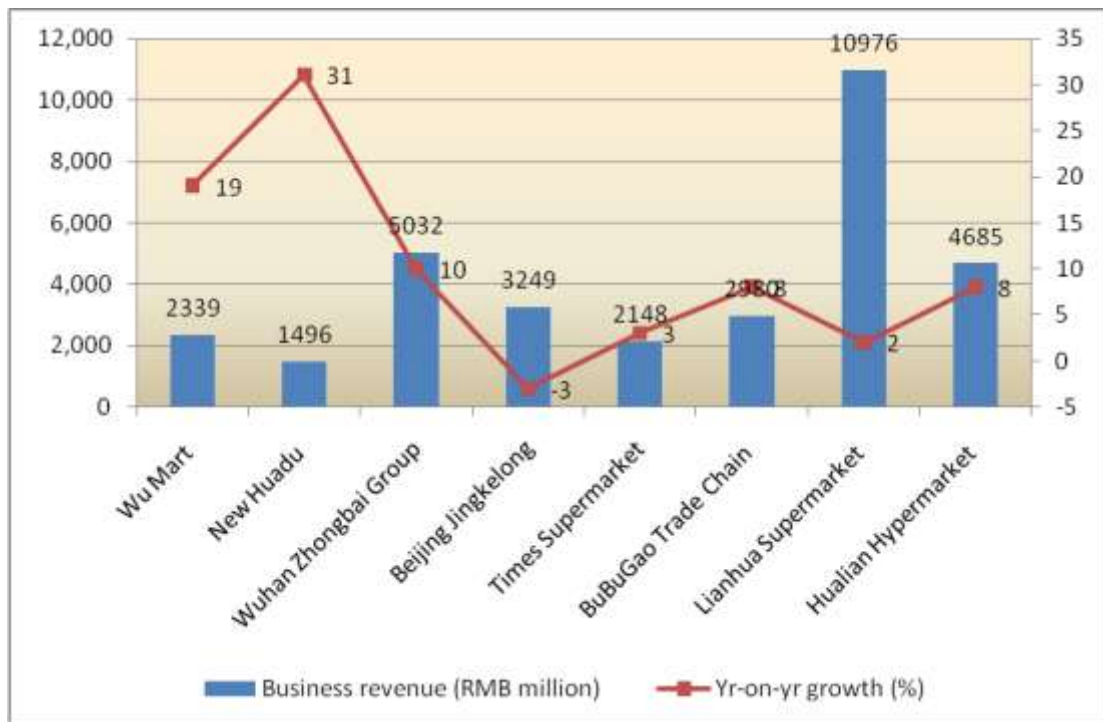
Due to the increasingly serious international environment and decline in export, China had expanded its domestic demand and promoted the citizen consumption. With successively improvement of China's consumption environment, gradually improvement of social guarantee system, continuously expansion of education financing and consumption credit, as well as growth in family revenue, China's consumption will have a dramatic growth on the basis of 35% to reach the level of developed countries.

3. Competition Analysis

3.1 Domestic Retail Companies

In the first half year of 2009, the business revenue of supermarket industry was up 6.43% yr-on-yr, and up 0.31 percentage points month-on-month in the second quarter. The net profit attributable to owners of the parent company was down 1.62%, and the growth rate in the second quarter reached 8.06%. The comprehensive gross profit margin was up 0.21 percentage points yr-on-yr.

Sales and Growth Rate Comparison of Some Domestic-funded Supermarkets, H1 2009



Source: ResearchInChina

Fujian New Huadu Industrial Group Co., Ltd enjoyed the fastest revenue growth in the first half year of 2009. The five ones among the top ten outlets by profitability are newly opened. Brought up by endogenous growth and outlets expansion, the revenue of Wu Mart also made growth higher than the average level. The growth of Wuhan Zhongbai Group Co., Ltd. is mainly sourced from endogenous growth.

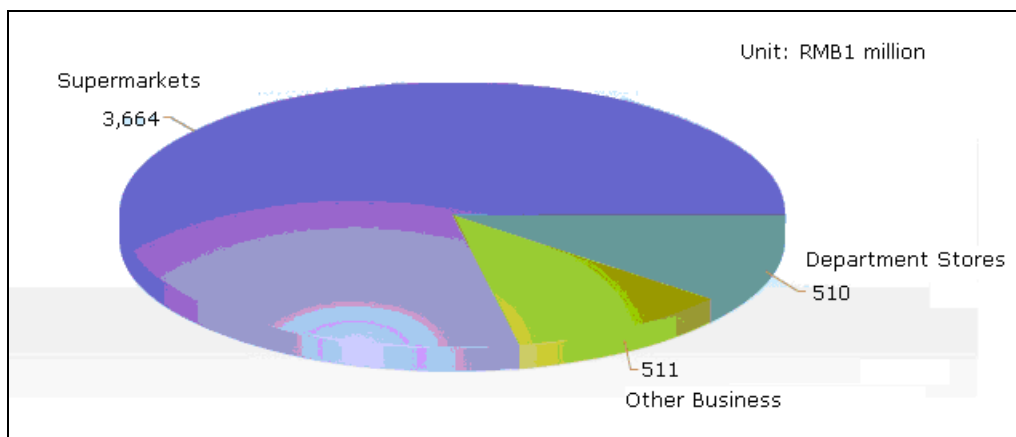
4.4 Beijing Hualian Hypermarket Co., Ltd.

4.4.1 Profile

Beijing Hualian Hypermarket Co., Ltd. was established in June 1996, and listed in Shanghai Stock Exchange on November 29, 2001. The company is mainly engaged in large-scale comprehensive supermarkets and fresh supermarkets, operating over more than 60,000 kinds of items. The current total share capital of the company' reached 485 million shares.

The company is a nationwide chain supermarket enterprise and mainly operates large-scale comprehensive supermarkets. Since 2005, the company has expanded stably. It opens 10 new stores or so every year. As of June 2009, it had managed 71 stores with 880,000 square meters. Currently, it owns stores in 19 provinces and cities across the country, but scattered stores are bound to affect the efficiency of management and logistics, so the company has begun to focus on the development of advantageous regions.

Prime Operating Revenue of Hualian Hypermarket., H1 2009



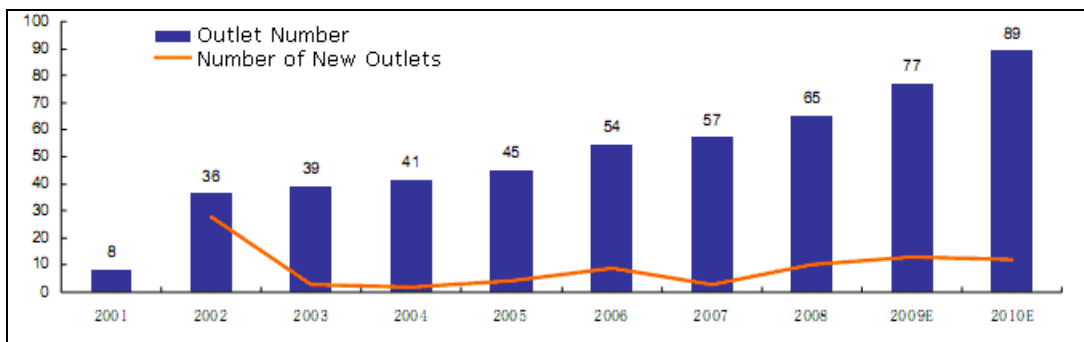
Source: ResearchInChina

Newly-opened Stores of Hualian Hypermarket, H1 2009

Project	Open Date	Location	Total Area (sq m)	Profit & Loss (million) in H1 2009
Solana	Jan 15, 2009	Advanced Supermarket	4032	-1.2
Baoding Dacige	Jan 1, 2009	Mall	18600	-5.8
Nanjing Aquacity	Mar 28, 2009	Advanced Supermarket	2597	-3.1
Shenyang Wulihe	Jan 15, 2009	Shopping Center	44531	-9.0
Wuhan Datang Xindu	Apr 28, 2009	Mall	17230	-3.2
Chongqing Jiangbei	Apr 22, 2009	Mall	14380	-1.6

Source: China International Capital Corporation

Outlet Number of Hualian Hypermarket in the Past Years

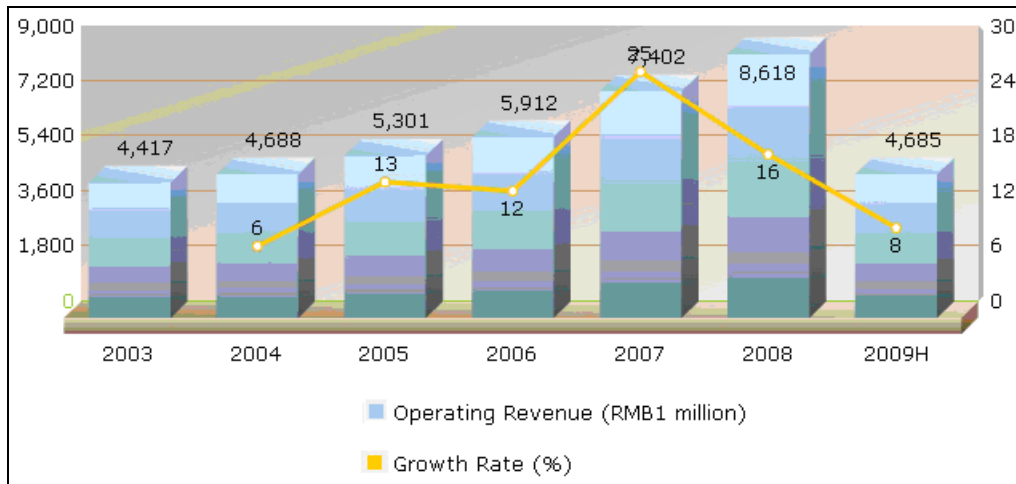


Source: Merchants Securities

4.4.2 Operation

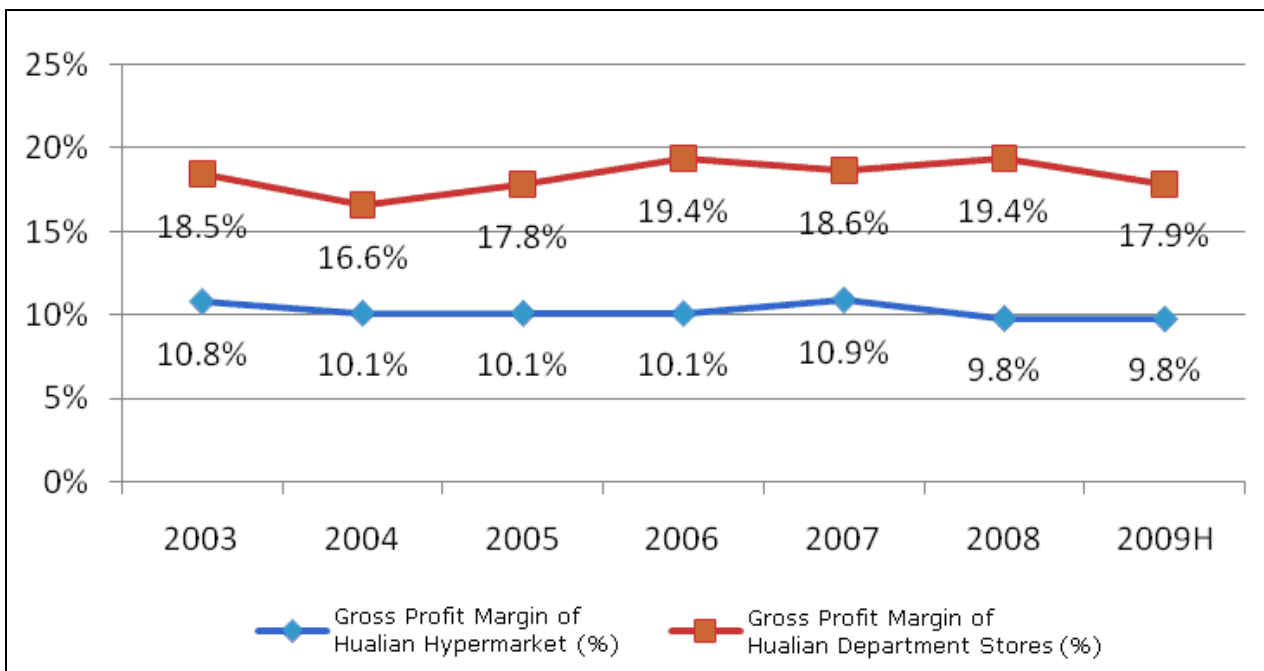
In the first half of 2009, Hualian Hypermarket Co., Ltd. achieved the operating income of RMB4684.8767 million, with an increase of 8.44%; the operating profit of RMB73.2328 million, down 47.75%; the net profit of RMB53.4103 million, down 46.88%. In the first half year, the growth rate of a store reached -2%. The sales revenue growth mainly derived from 8 new shops in 2008 and 2 restructured shops. During the first half of 2009, 6 new shops were opened, and the similar number of new stores will also be set up in the second half year. At the same time, in line with industry trends, the company got better sales achievements in July, and the growth rate of a store reached -0.5%.

Operating Revenue and Growth Rate of Hualian Hypermarket, 2003-2009



Source: ResearchInChina

Gross Profit Margin of Hualian Hypermarket by Business Form, 2003-2009



Source: ResearchInChina

In response to the economic crisis, the company adjusted store expansion strategy in the first half of 2009, gradually withdrawing from family department store business and concentrating on hypermarkets. The main family department stores include Beijing Shangdi Branch, Beijing Huilongguan Branch, Shenyang Changxin Branch, Beijing Fuchengmen Branch, Beijing Wangjing Branch, Shenyang Wuzhou Branch. The operating assets of Huilongguan Branch, Changxin Branch and Shangdi Branch were transferred to the affiliated company ----- Beijing Hualian Department Store Co., Ltd in June. Wuzhou Branch has been leased as a whole. Only Fuchengmen Branch will continue to operate department store business in the future.

4.4.3 Strategies

Since being listed in 2001, the company has been expanding in China. After years of exploration, Beijing, Jiangsu, Liaoning, Guangxi, Inner Mongolia, Guizhou have become the regions with competitive advantages for the company. These six regions contribute 63.74% of sales revenue to the company, with 55.38% of the total outlets. In the future, the company will continue to set up more stores in Beijing and Guangxi to strengthen local competitive advantages. For controlling procurement risks, the company has always adopted the outsourcing platform of "Nationwide Procurement + Local Procurement + Outlet Procurement", in which Local Procurement accounts for 60-70% of the total procurement. By increasing the number of outlets in key areas, the company's bargaining power in Local Procurement will be enhanced and its profitability will be improved hereby.

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Address: 1105, Tower B, Cai zhi International Building, Zhongguancun East Road No.18, Haidian District, Beijing, Post:100083

Tel: 0086-10-82600828, 82600893

Fax: 0086-10-82600829

Mail: report@researchinchina.com

