China Liquor Industry Report, 2009-2010

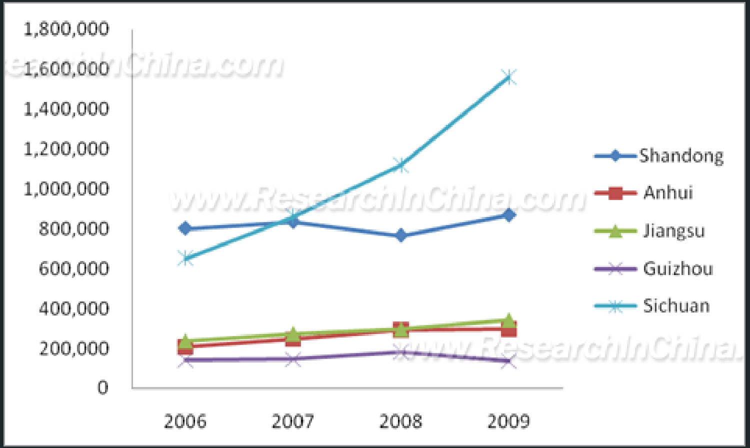
It is in the year of 2009 that Chinese liquor industry witnessed most significant growth, with the output of liquor peaking 7,069,300 kiloliters ever since 2006, up 23.8% from a year earlier. The output of liquor continued to grow and rose 29.4% YoY to 4, 125, 000 kiloliters in China in the first half of 2010. In July, the output of liquor increased to 563, 000 kiloliters, a 6% YoY rise, but with a sharp drop in the growth rate against the same period of last year mainly because the growth rate for the liquor output in Shandong and Henan was gearing down.

Chinese liquor industry characterizes a relatively high concentration degree since the liquor output of Top 10 provinces in 2009 occupied 79.47% of national total output, of which Sichuan, the largest province of liquor brewage, enjoyed a share of 22.06% by output. China's high-end liquor brands are mostly distributed in Sichuan and Guizhou.

Luzhou-flavor, Maotai-flavor and Fen-flavor liquor are the mainstream of liquor market. Kweichow Moutai liquor is dominating the Maotai-flavor market, Wuliangye liquor takes the lead in the Luzhou-flavor market, and Shanxi Fenjiu liquor is the representative of the Fen-flavor market.

The operation of liquor enterprises is featured by a 'pyramid' shape of output ranging from high to low-grade liquor and an 'inverted pyramid' model of sales profit. Concretely, high-grade liquor enjoys a small share by output but with the most remunerative profit; medium-grade liquor have relatively balanced output and profit; and low-grade liquor is with the largest output proportion but the least profit. The enterprises seize the market mainly by low-grade liquor to strengthen brand awareness and then make more profits through high-grade liquor.

Output of Liquor in Jiangsu, Shandong, Anhui, Sichuan and Guizhou, 2006-2009 (Unit: kiloliter)



Source: Wind; ResearchInChina

As far as regional development is concerned, Shandong Province holds the largest output of liquor in East China but with certain fluctuation. Sichuan Province possesses large ever growing output of liquor.

Regarding the development of liquor enterprises, high-grade liquor companies have intensified the development and propaganda of their medium-grade liquor, while medium-grade liquor enterprises have promoted the marketing work so as to popularize their high-end liquor. Along with the growing income of residents and the expansion of the middle class, the demand for medium-grade liquor increases in China. In 2010, Wuliangye Group gives priority to the development of medium and high-priced liquor and focuses on the marketing of ‘Liuheye Liquor’; Kweichow Moutai Company energetically promotes ‘Moutai Prince Liquor’ and ‘Moutai Ying Bin Liquor’; Lu Zhou Lao Jiao Co., Ltd transfers to ‘Tequ Liquor’; while Yanghe Brewery and Lang Jiu Group attach importance to their high-end liquor of Yanghe Blue Classic series and Honghua Lang Liquor.

Having an insight into the potential growth of Chinese liquor industry, TCC, Diageo, Hennessy, Goldman Sachs Group Inc., etc. have successively bought the shares of Chinese liquor enterprises.

The report not only analyzes the scale and development trend of Chinese liquor market, the characteristics and brand development of regional markets, and the competition between high-end and medium-end liquor markets, but expounds at length the operation, product features, marketing strategy and development orientation of the 16 major liquor enterprises in China.

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