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China Food and Beverage Industry Report, 2009

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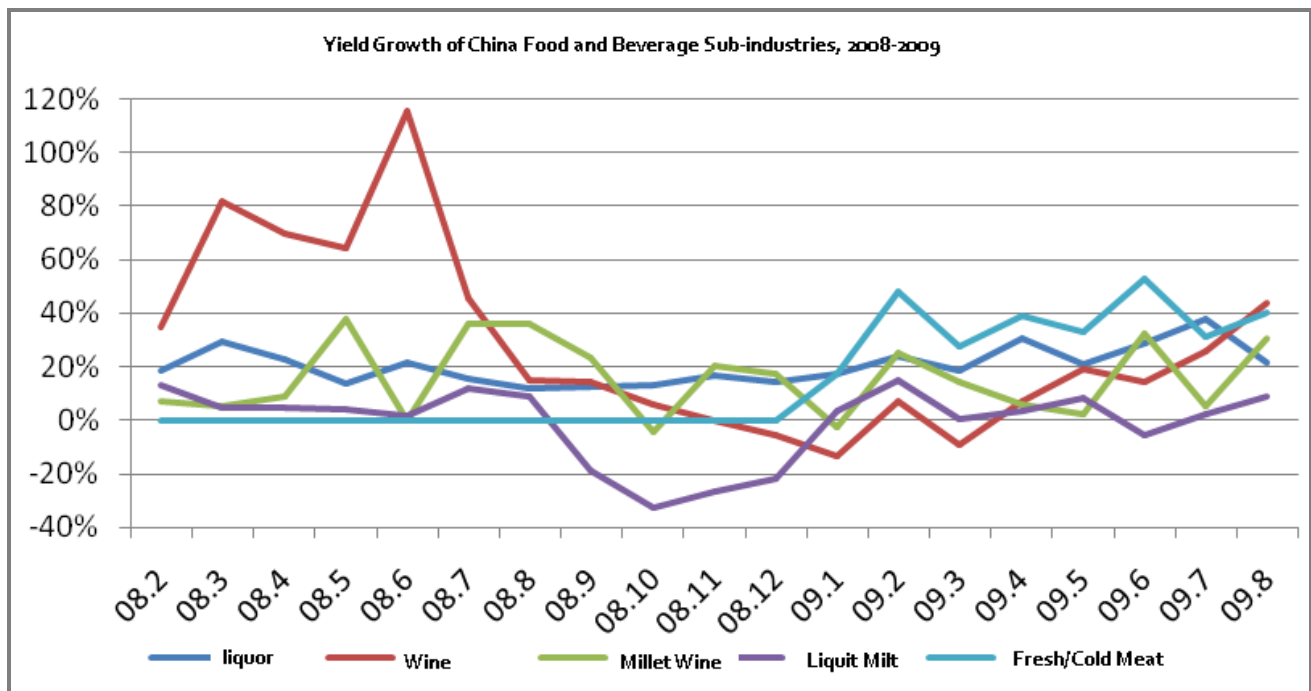
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2.2 Overall Operation

As of the first quarter of 2009, China's food industrial enterprises above designated size achieved a year-on-year growth of 6,220 to 36,060, and with a employees increase to 5.43 million, a 6.68% year-on-year jump. Calculated according to the current price, China's food industrial enterprises above designated size created the gross output value of RMB 1.04 trillion, with a year-on-year increase of 13.72%; and sales value RMB 1.01 trillion, with a year-on-year increase of 13.63%; the industrial products sales rate was 97.05%.

In terms of the production in China's food and beverage sub-industries, the August 2009 witnessed a slightly slowdown in liquor yield while a mild boost in millet wine yield. In 2009, the wine yield was monthly warming up. Moreover, the dairy products yield had also got rid of negative growth.

Yield Growth of China Food and Beverage Sub-industries, 2004-2009



Source: National Bureau of Statistics of China, ResearchInChina

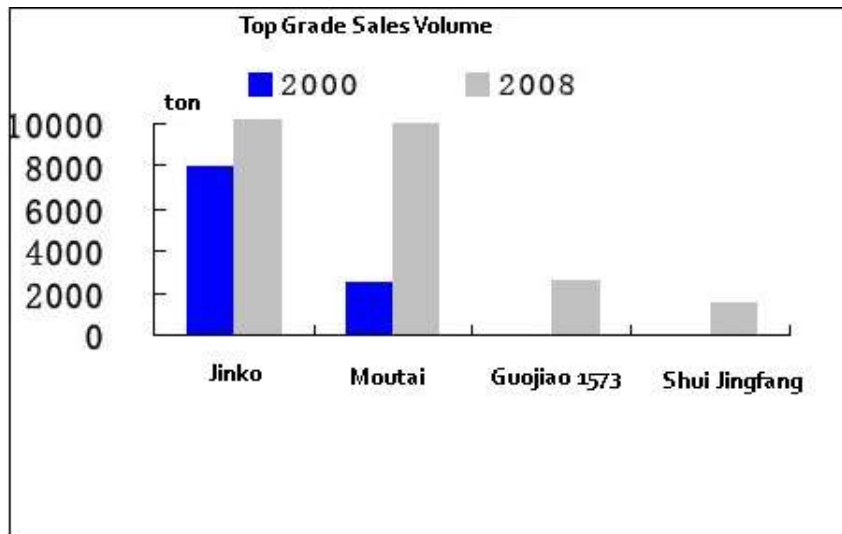
According to the statistic from the National Bureau of Statistics of China, the sales and prices of liquor and wine in china's food and beverage industry went up more or less in July. Although the results of August have not yet been delivered, market expectation showed that the food and beverage industry will embrace its prosperity driven by the ongoing major holidays-National Day and the Mid-autumn Festival. In a view of the industrial development tendency, it is no doubt that the industry will see a rebound from rock bottom.

3.1.1 Liquor

The development history of liquor industry, a traditional industry of China, closely attached to China's long history and rich culture. The industry has been long regarded as an industry with high taxes and huge profit. The categories of liquor are mainly Maotai-flavour liquor (7% by income), Luzhou-flavor liquor (75% by income) and Fen-flavor liquor (10% by income).

At present, top grade liquor market are mostly monopolized by such brand as Maotai, Jinko, Guojiao 1573 and Shui Jingfang. The top grade liquor brands has basically scattered the operating network across the nation. The market features: steady growth rate in sales, market shares concentrating on small varies of fancy wines, the higher profitability of fancy wines, rising barrier for top grade liquor access.

China's Top Grade Liquor Yield



Middle grade liquor has not yet national brands. Widely dominating the regional markets, the middle grade liquor targets its market in Central China, northwest regions and southwest regions. The consumption of middle grade liquor is growing steadily with a favorable output input ratios.

Speaking of the low grade liquor, it features cut-throat competition, poor profitability, low output input ratios, which are not sustainable for the overall development of brands.

In the early 2009, the liquor yield and sales volume of China are characteristic of branding concentration. About 76.2% of the China's liquor yield comes from not more than one single province in number. The national Top 16 liquor producer makes of 16.7% of the total. Comparing the pervious performance, the enterprises in the industry lowered their loss rate, while the enterprises with Profitability being 77%.

In a vertical view, China's liquor yield reached 1.83 million kiloliter, a year-on-year increase of 21.1%; the gross industrial output was over RMB 46 billion, a year-on-year growth of 25.3%; the main operating revenue achieved RMB 44 billion, a year-on-year increase of 24.4%; the total profit and tax of the entire industry reached RMB 11.6 billion, a year-on- year growth of 25.2%. The unprecedented prosperity of China's liquor industry is mainly attributed to the price hike of top grade liquor.

5.1 Liquor

5.1.1 Kweichow Moutai Co., Ltd (600519)

5.1.1.1 Company Profile

Located in Moutai County, Renhuai City, Guizhou Province, Kweichow Moutai Co., Ltd, a representative company in China’s liquor industry, mainly engages in the production and sales of one of the world’s three well-known liquors, Moutai.

Liquor industry is mainly divided into three subsidiaries, Maotai-flavor liquor, Luzhou-flavor liquor and Fen-flavor liquor, respectively accounting for 7%, 75% and 10% in of the whole industry in terms of revenue. In the meantime, Kweichow Moutai covers 80% of Maotai-flavor liquor, enjoying the reputation of national liquor.

Market Shares of Kweichow Moutai, Wuliangye and Luzhou Lao Jiao in Past Years



Source: CJIS Securities; ResearchInChina

5.1.1.2 Operation

The CAGR of both revenue and total profit had respectively reached 22.30% and 34.27% since its first IPO in 2001, and the gross profit margin had also increased to 90.42% from 82.23%.

During 2009H1, it produced 23,833 tons of liquors, up 35.9% year-on-year, far beyond the expectations. In addition, its sales revenue was RMB5.5 billion, rising 20% year-on-year; and the net profit amounted to RMB2.8 billion with a rise of 25% compared to previous year. However, the growth margin witnessed a drop in 2009Q2 due to the higher base in the same period of 2008.

Meanwhile, the gross profit margin in 2009 was nearly unchanged compared to the same period of previous year, the liquor product was 90.42%, Maotai with high degree of alcohol was a bit rise to 92.47%, and it was 92.36% a year earlier; and Maotai with low degree of alcohol was 91.17%, and it was 90.84% a year before. Moreover, Maotai with high and low degree of alcohol respectively increased 25% and decreased 15% in the first half.

The prepaid accounts separately decreased RMB2.28 billion and RMB1.187 billion compared to the beginning of 2009 and the end of Q1. The accounts receivable fell down dramatically mainly due to price protect by controlling sales.

5.1.1.3 Strategies

The production capacity can be further increased by 2 million tons. A few years ago, the company made a field with the area of 3 ~ 4 square near the original production base as a new production base for the long-term development. The production capacity of the new base is expected to be 20000 tons.

Output of Moutai Liquor Products in the Past Years



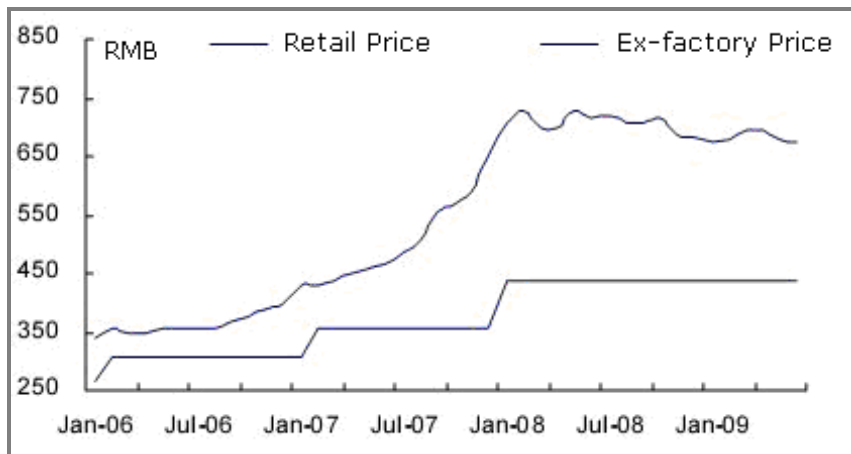
Source: China Jianyin Investment Securities; ResearchInChina

Stores will gain the growth rate of at least 200%. The increasing number of stores and upgrading of consumption will digest the new production capacity fully. As of the end of 2008, there had been 808 Moutai stores. In accordance with Moutai's plan that each county-level administrative region should have one store at least, 2860 stores should be set up in county-level administrative regions. Therefore, the number will be expanded in the future. One store can sell 5 tons of liquor now, so 2000 new stores can sell 10,000 tons conservatively. The sales volume of a single store will rise in the future. If there are 2 stores in each region averagely, and both of them sell 5 tons, then they can absorb the production capacity of at least 30,000 tons. Thus, the increasing capacity of more than 20,000 tons in the future 15 years can be digested completely.

The retail price may be raised in the future.

The difference between ex-factory price and retail price of Moutai has reached the historical high level, ranking first in the industry. Dealers can gain much more profit from Moutai than other liquor manufacturers. Owing to the current shortage, Moutai has obvious advantages in raising prices.

Retail Price and Ex-factory Price Comparison of Moutai Alcohol Products



Ex-factory Price and Terminal Price Difference of High-end Alcohol Products (RMB/bottle)

	Ex-factory Price	Terminal Price	Difference
Moutai (53 °)	439	738	68.11%
National Pits 1573 (52 °)	468	588	25.64%
Wuliangye (52 °)	469	598	27.51%
Shuijingfang (52 °)	438	530	21.00%

Source: China Jianyin Investment Securities; ResearchInChina

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- **China Food and Beverage Industry Report, 2008**
<http://www.researchinchina.com/Htmls/Report/2008/5555.html>
- **China Listed Liquor Companies Report, 2008**
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- **Company Study of Dalian Tianbao Green Foods, 2009**
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