The China Malting Barley Market Current and future Trends

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GDH YST 永顺泰麦芽集团有限公司 SUPERTIME DEVELOPMENT LIMITED


1.3 billion consumers
in this China Market

My presentation is composed of 3 parts:

- The Brewing Industry in China
- The Malting Industry in China
- The Malting Barley Market in China

I. The Brewing Industry in China

- Beer production growth
- Beer production and consumption in different areas
- Beer market share
- Brewing industry development trend

II. The Malting Industry in China

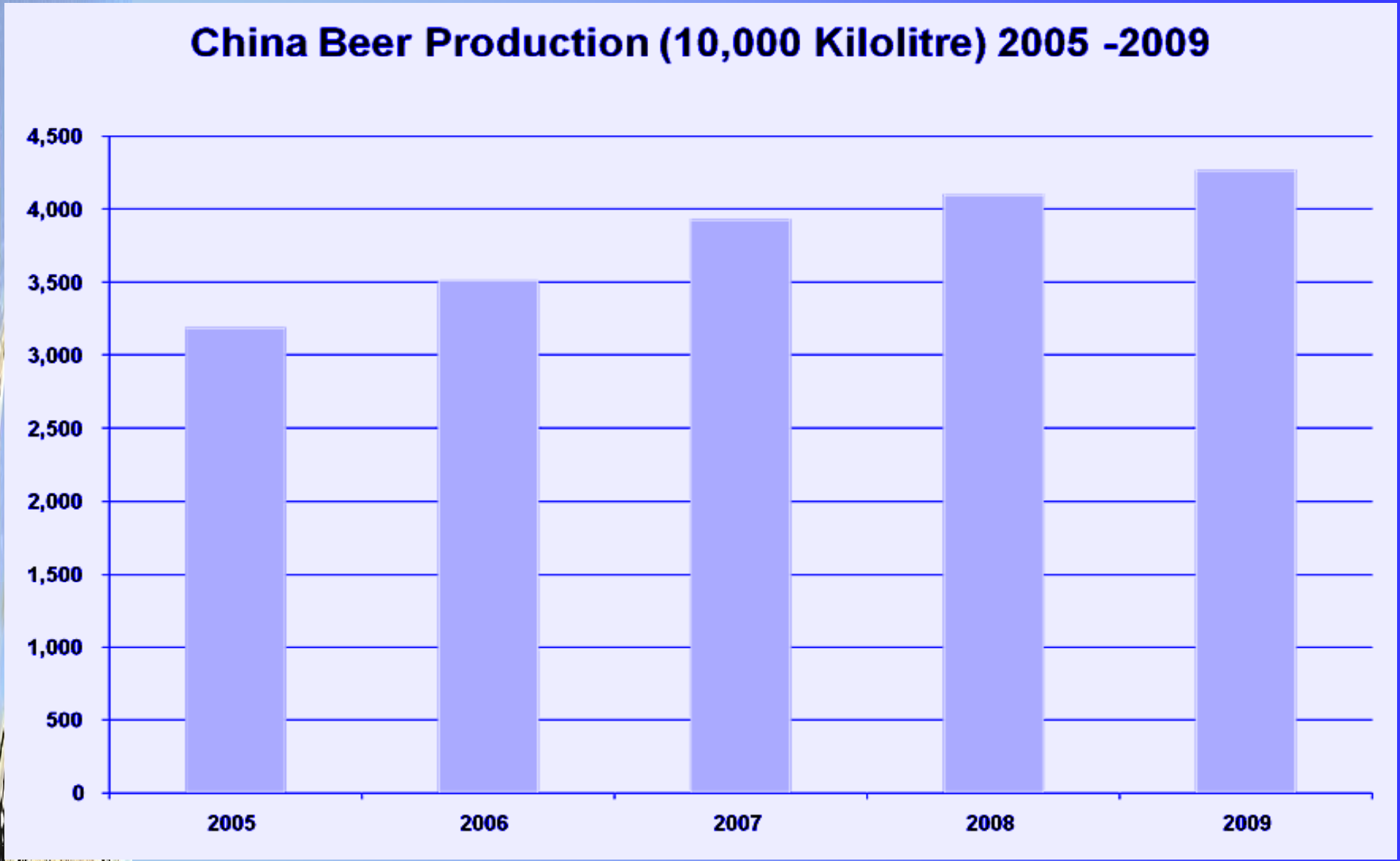
- Malt Demand in different areas
- Malt quality
- Comparison of large and middle sizes of malt houses
- Malting industry development trend

III. The Malting Barley Market in China

- Barley imports in the recent years
- Compare the domestic and imported barley
- Barley import origins
- Domestic barley development

Part I

The Brewing Industry in China



2004－2009 China beer production

2009, National Bureau of Statistics released the national beer production number was 42,364,000 KL, (Increase of 7.1% from 2008 (adjusted)).

Industry statistics beer production was 40,354,000 KL, an 4.7% higher than previous year, a growth for eight consecutive years

AVERAGED figure of beer production is 41,359,000 KL

China ranks number 1 in the world of beer production.

Per capita beer consumption of 30.2L, (Increase of 1.2L of 2008).

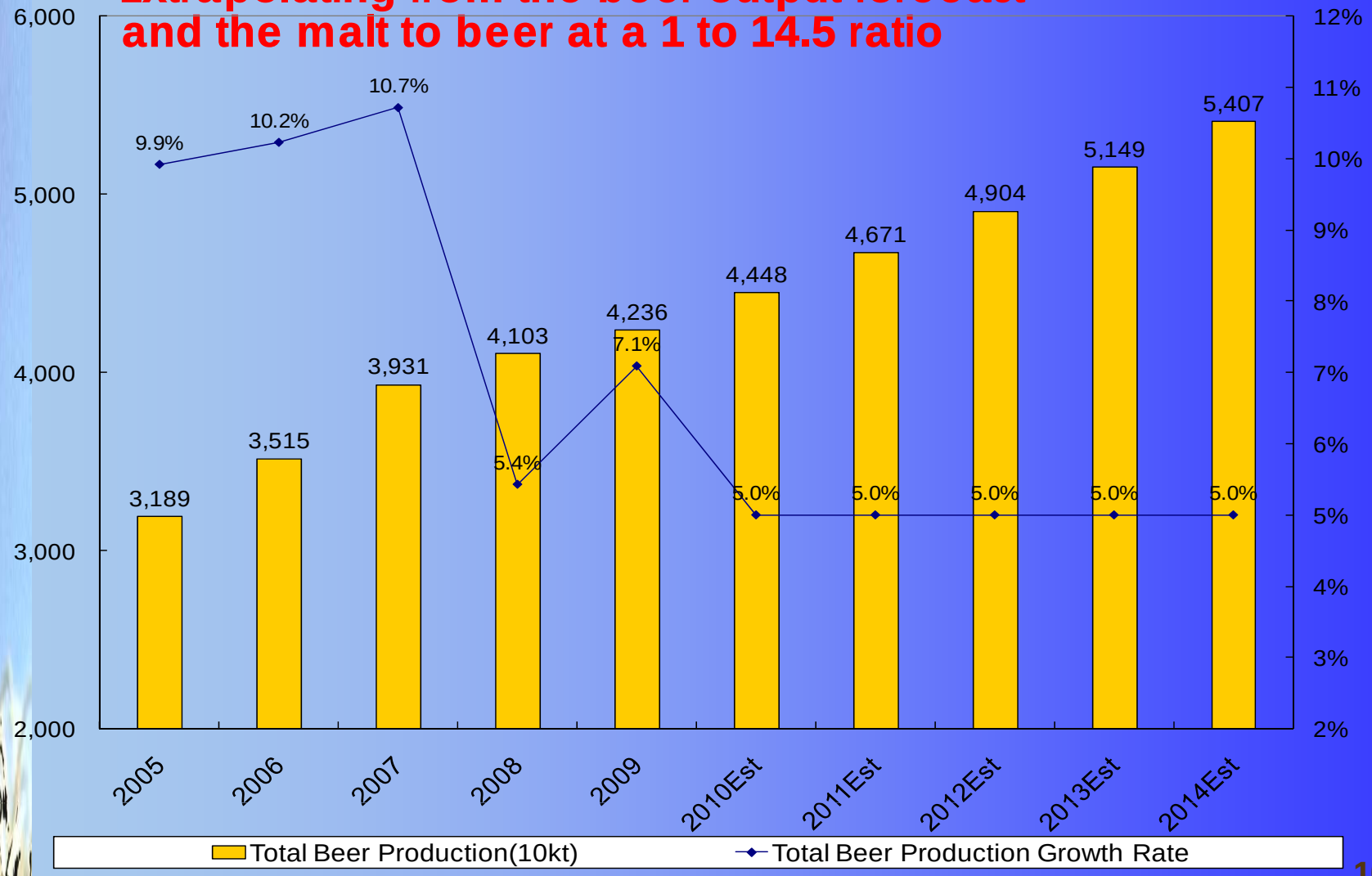
Beer Output Growth 2009

Growth over 10% in 2009

Growth over 20% in 2009

5 years projection of beer production and growth rate

Average 3.1% growth
Extrapolating from the beer output forecast and the malt to beer at a 1 to 14.5 ratio



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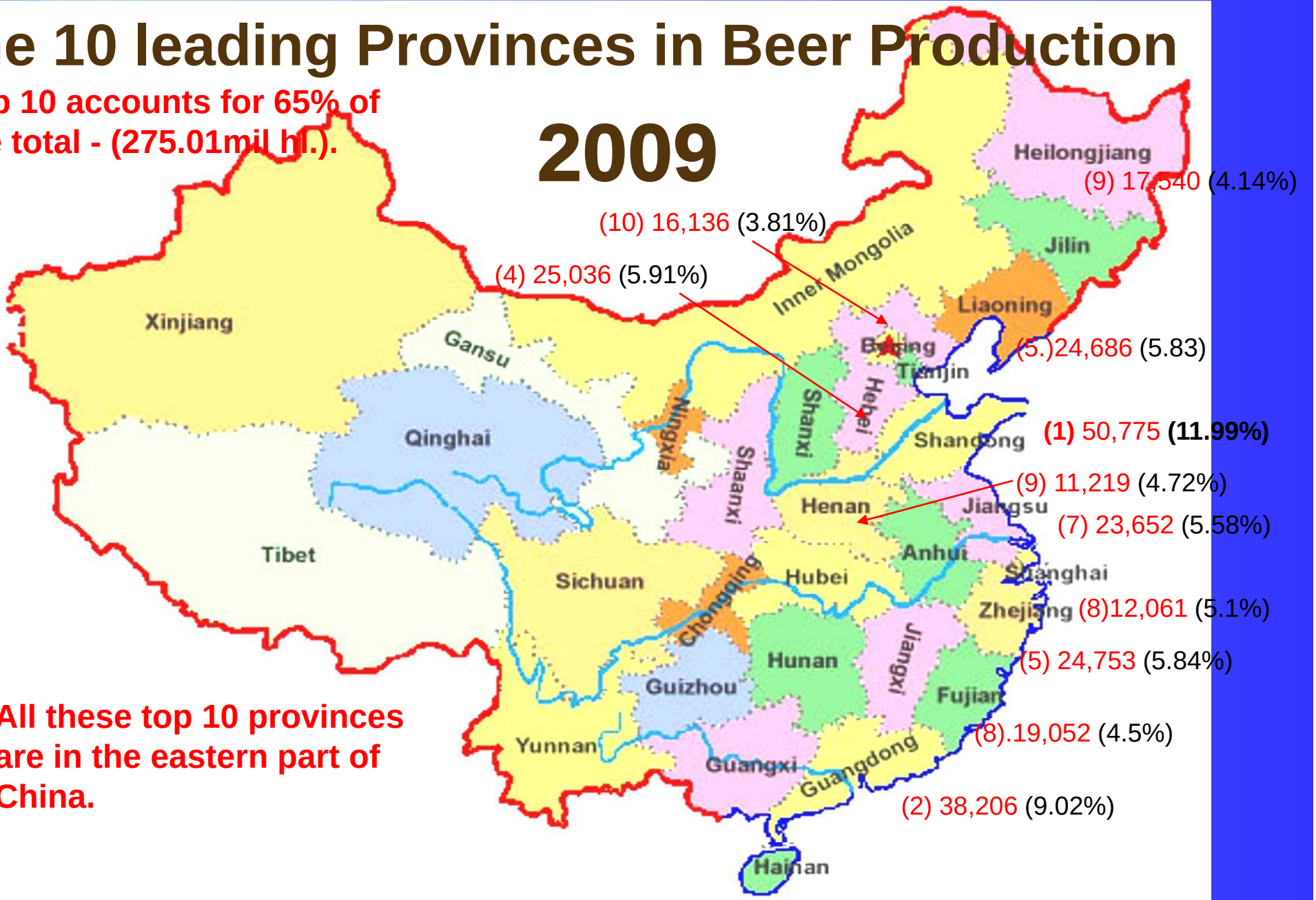
The Top 8 China breweries production in 2009

The 10 leading Provinces in Beer Production

Top 10 accounts for 65% of the total - (275.01mil hl.).

2009



All these top 10 provinces are in the eastern part of China.

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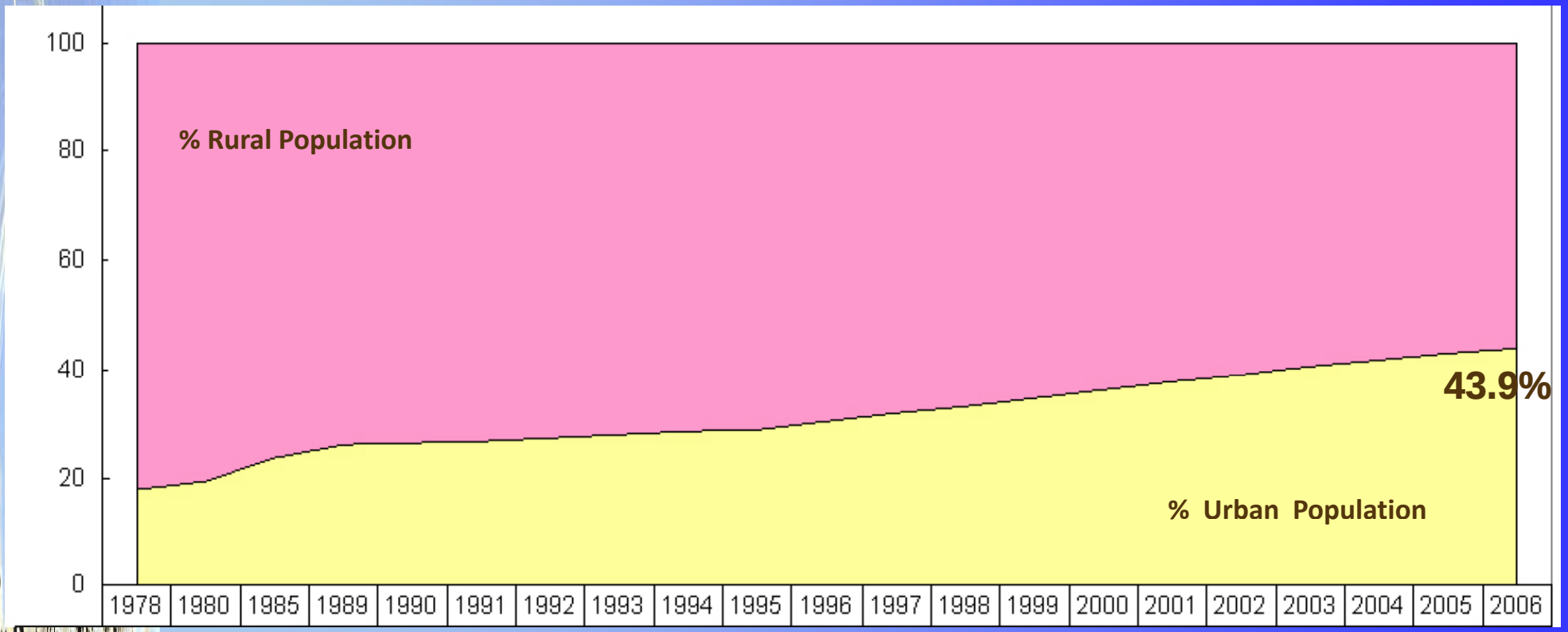
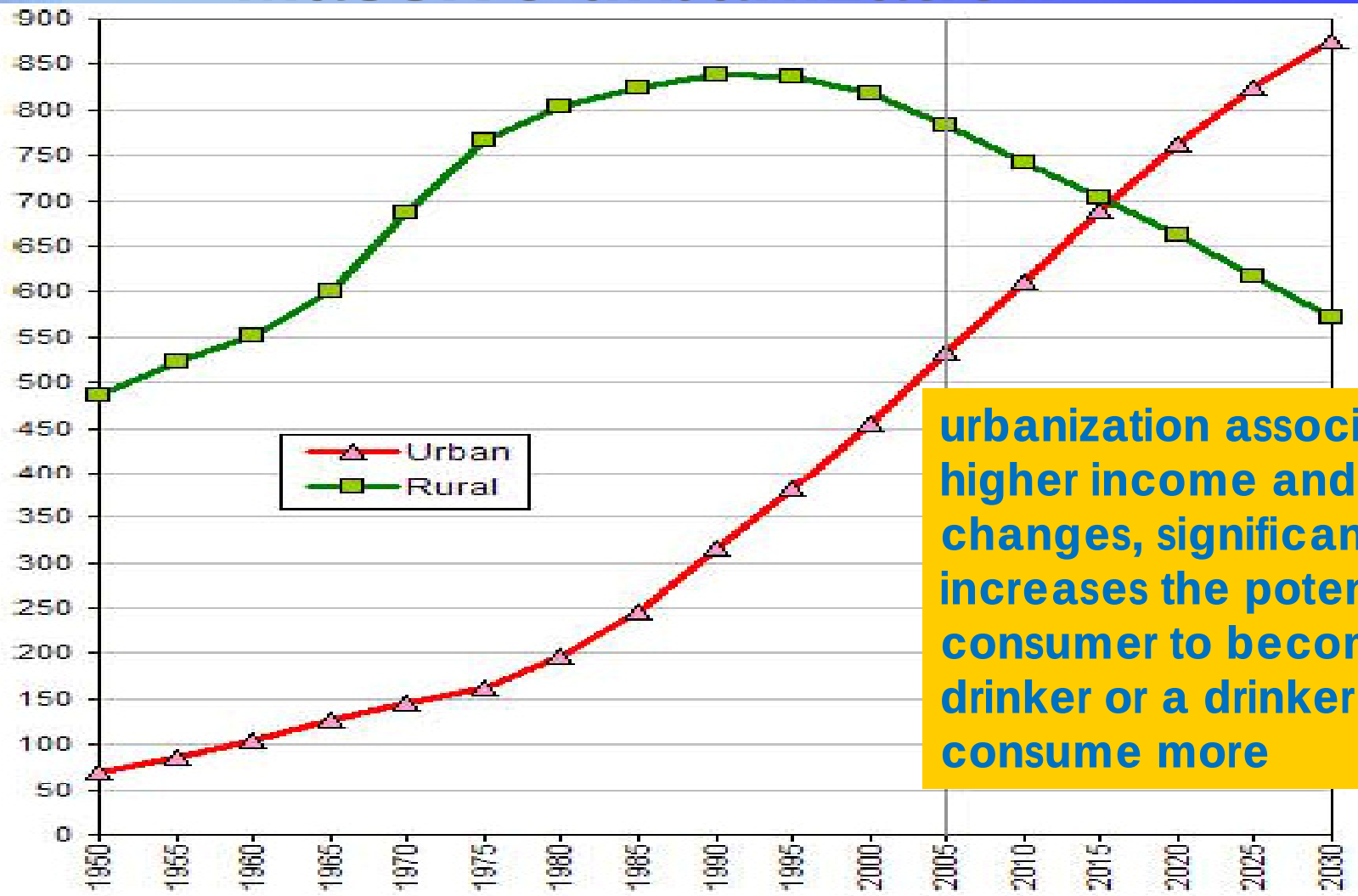
Total: Estimated 423.64 in 2009 (mil. HL)

Massive urbanization

In 2006, the urbanization rate was 43.9% and could reach 70% in 2015



Massive urbanization

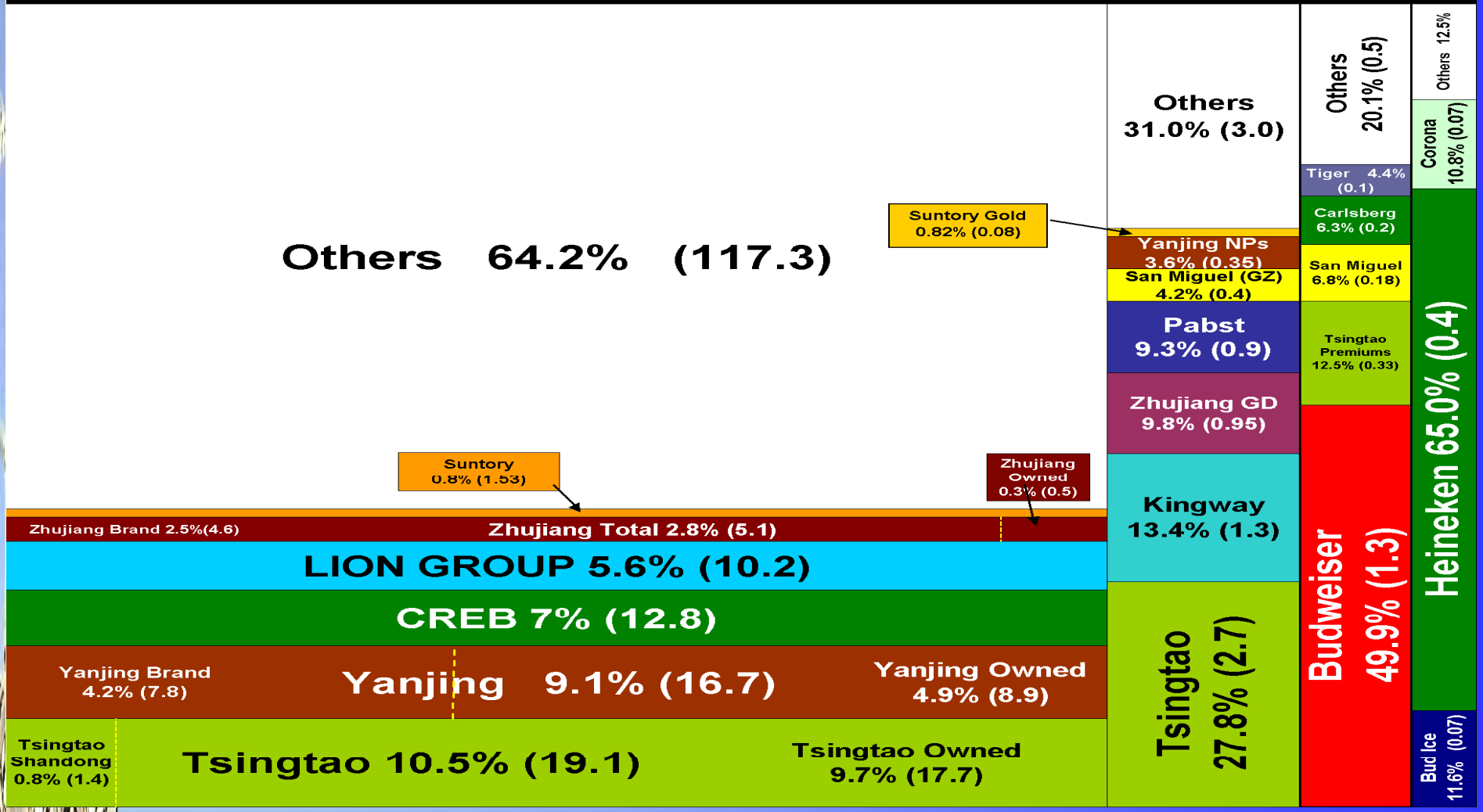


urbanization associated with higher income and lifestyle changes, significantly increases the potential consumer to become a beer drinker or a drinker to consume more

Source: Population Division of the Department of Economic and Social Affairs of the United Nations

Beer Market Share

Segment	Popular	Near-Prem.	Prem.	S-P/I
Share of Industry	93.4%	5.0%	1.3%	0.3%
Segment Trend	+5.1%	+2.1%	+9.6%	-1.6%
Barrels (mm Bbls)	182.77	9.7	2.6	0.6



Source: Anheuser-Busch International (Wuhan) Brewery

Confucius said…

Part 2

The Malting Industry in China

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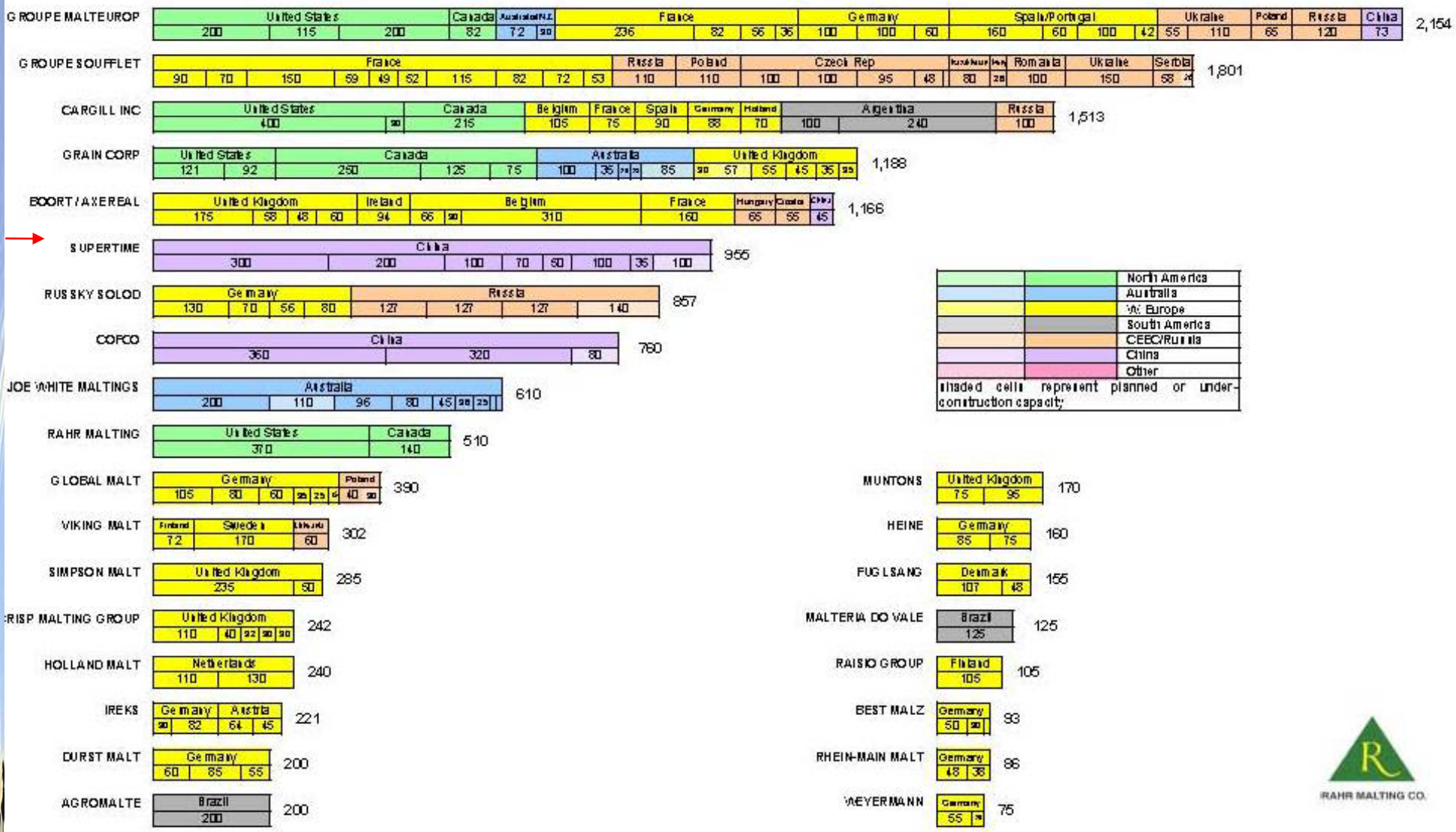
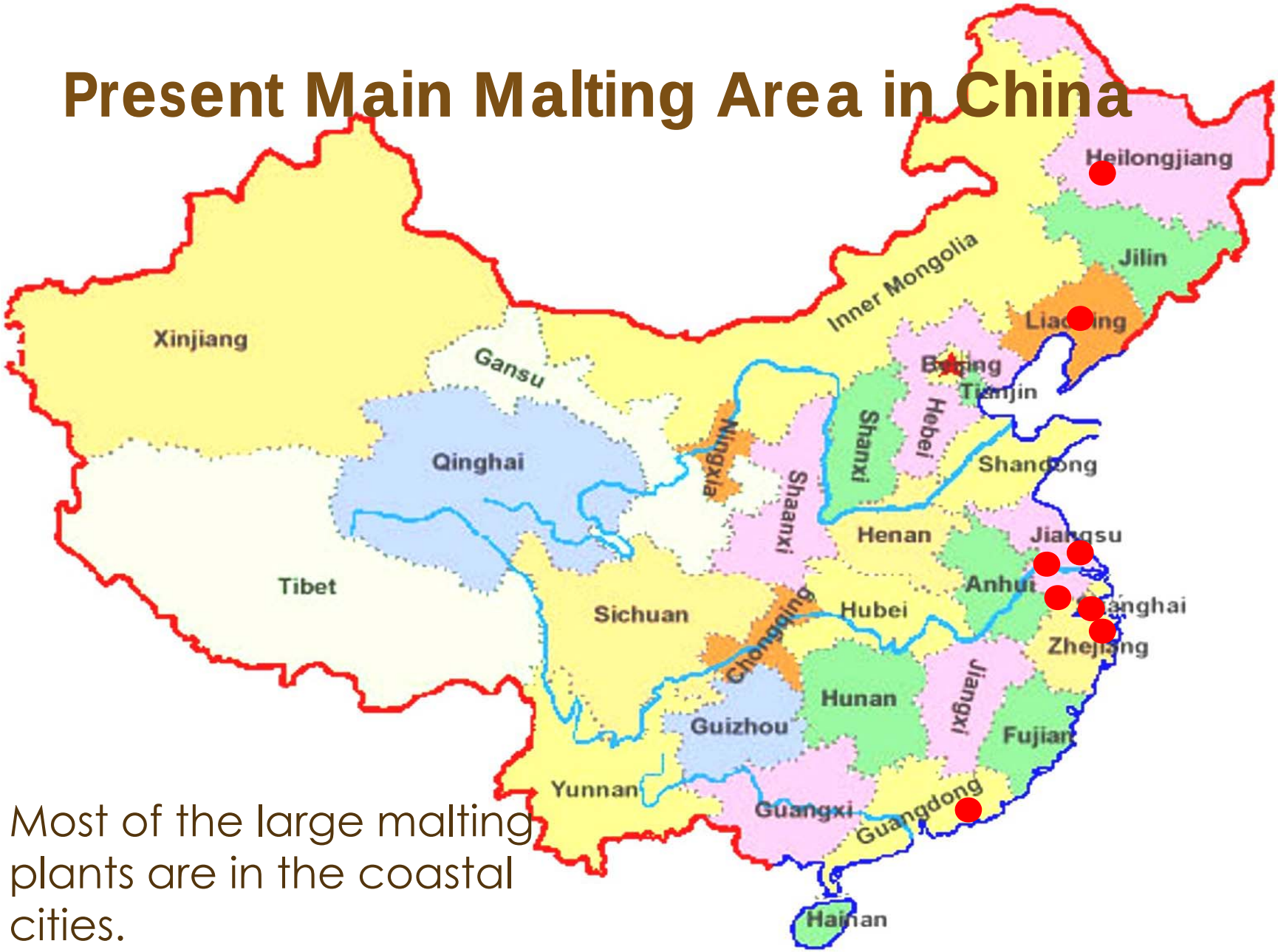
Major Commercial Malting Companies 2010



Present Main Malting Area in China



Most of the large malting plants are in the coastal cities.

China Malting capacity

Company	Capacity - Mt 2008	Expansion Plans -Mt 2009	Total Capacity -Mt 2010	Market %
Supertime Malting	850,000	192,000	1,042,000	19.47%
Cofco Malting	680,000	80,000	760,000	14.20%
Longken Malting	300,000	-	300,000	5.61%
Qingdao Brewery	250,000	90,000	340,000	6.35%
Chunlei Malting	200,000	-	200,000	3.74%
Dalian Xingze Malting	180,000	100,000	280,000	5.23%
Muogao Malting	170,000	-	170,000	3.18%
Chende Sihai Malting	160,000	100,000	260,000	4.86%
Huanghe Malting	150,000	-	150,000	2.80%
Yanjing Brewery	120,000	50,000	170,000	3.18%
Beidahuang Malting	100,000	-	100,000	1.87%
Ningbo Dongnanxi Malting	80,000	-	80,000	1.49%
Others	1,360,000	140,000	1,500,000	28.03%
Total	**4,600,000**	**752,000**	**5,352,000**	100.00%

Source: Cofco Malting Dc. 30, 2009 (revised June 2010 by SDL)

Guangzhou Malting Company Limited

- ***The first commercial malting company in Southern China***

- ***Annual production: 300,000MT***

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Ningbo Malting Company Limited

- *Annual production: 340,000MT*
- *Commercial maltster largest in Eastern China. (South of Shanghai)*

Large Scale Malt House

Round Saladin germination compartment

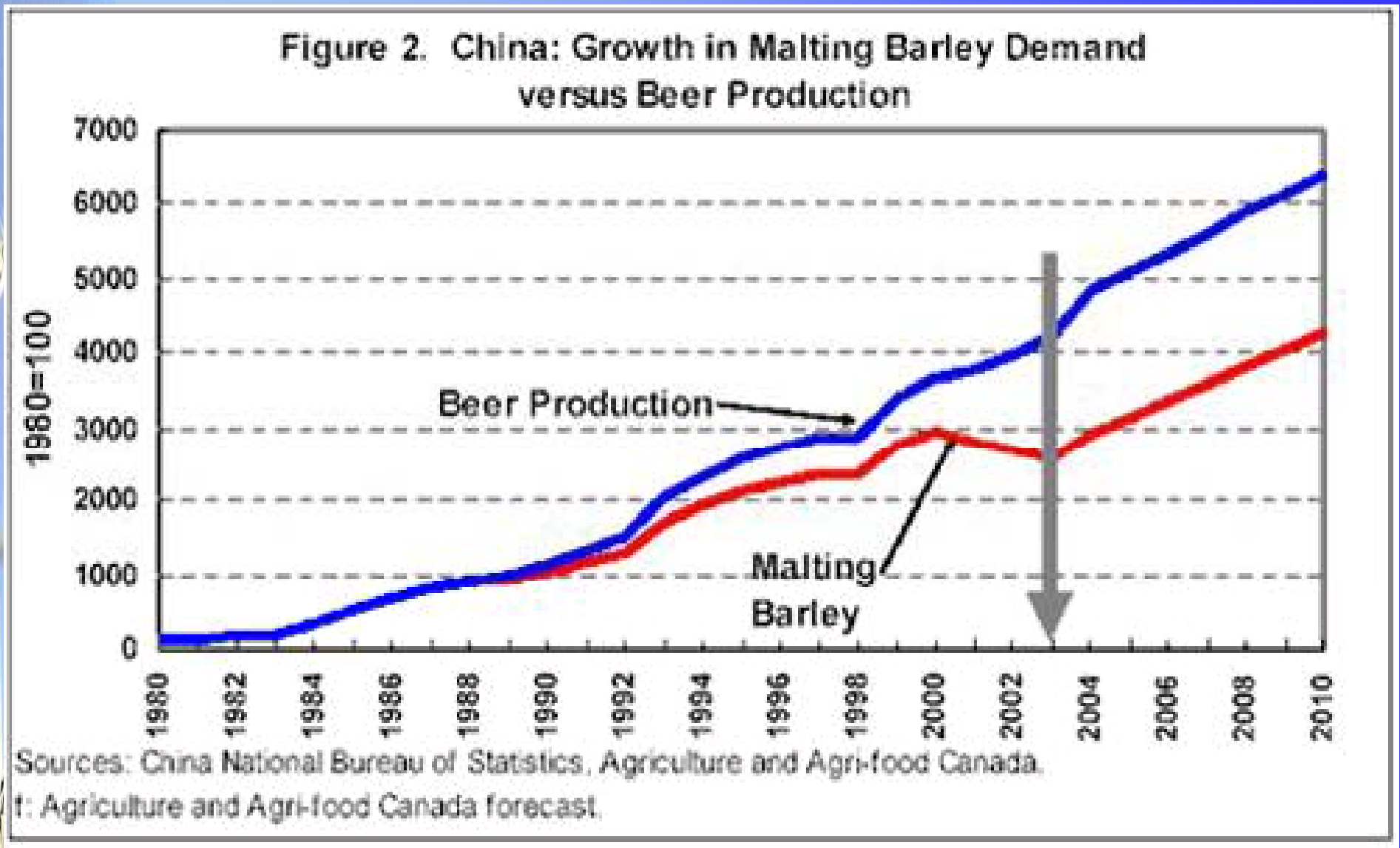
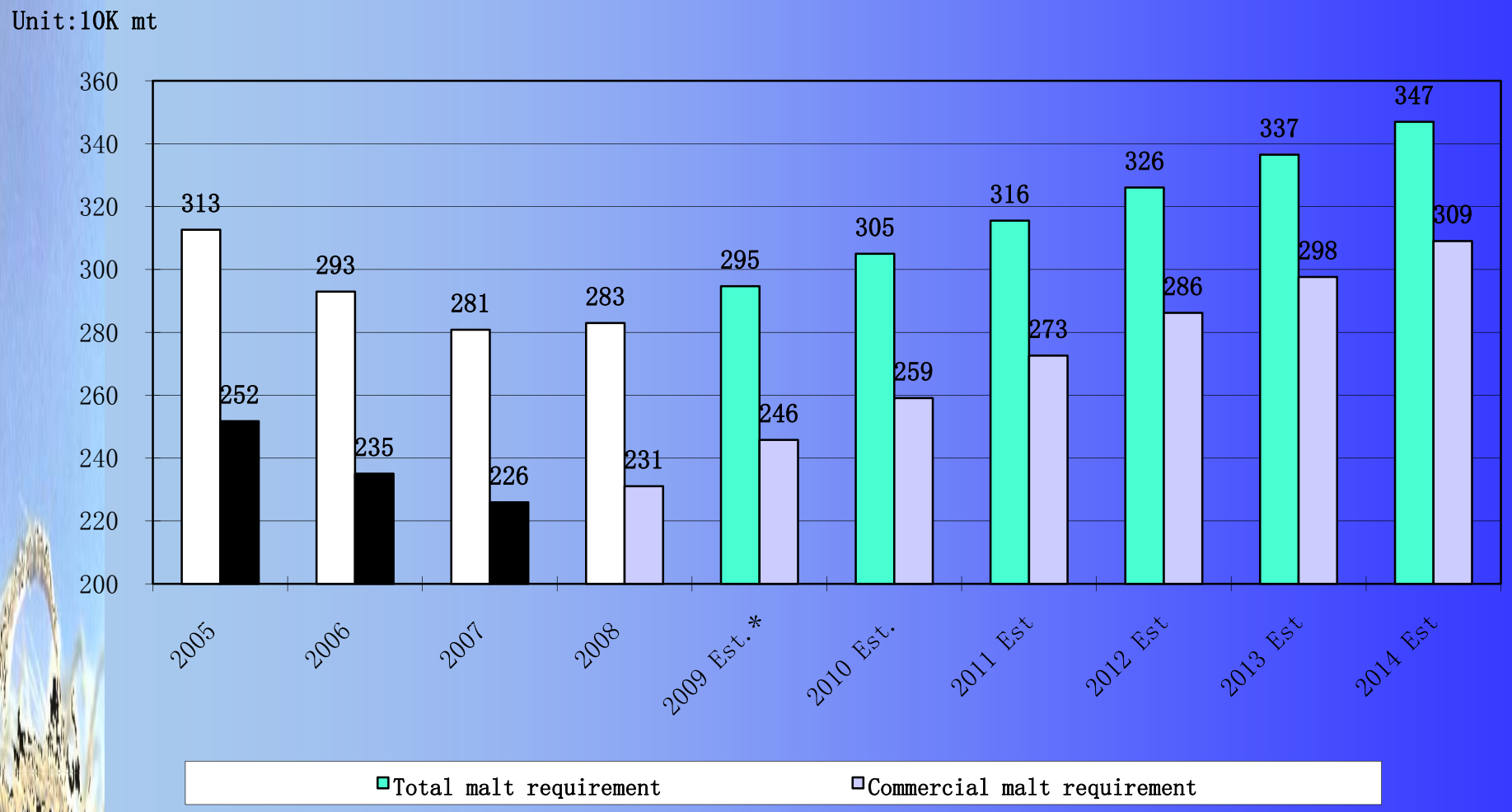


Figure 2. China: Growth in Malting Barley Demand versus Beer Production
1980=100
7000
6000
5000
4000
3000
2000
1000
0
Beer Production
Malting Barley
1980
1982
1984
1986
1988
1990
1992
1994
1996
1998
2000
2002
2004
2006
2008
2010
Sources: China National Bureau of Statistics, Agriculture and Agri-food Canada.
f: Agriculture and Agri-food Canada forecast.

Projected Malt requirement



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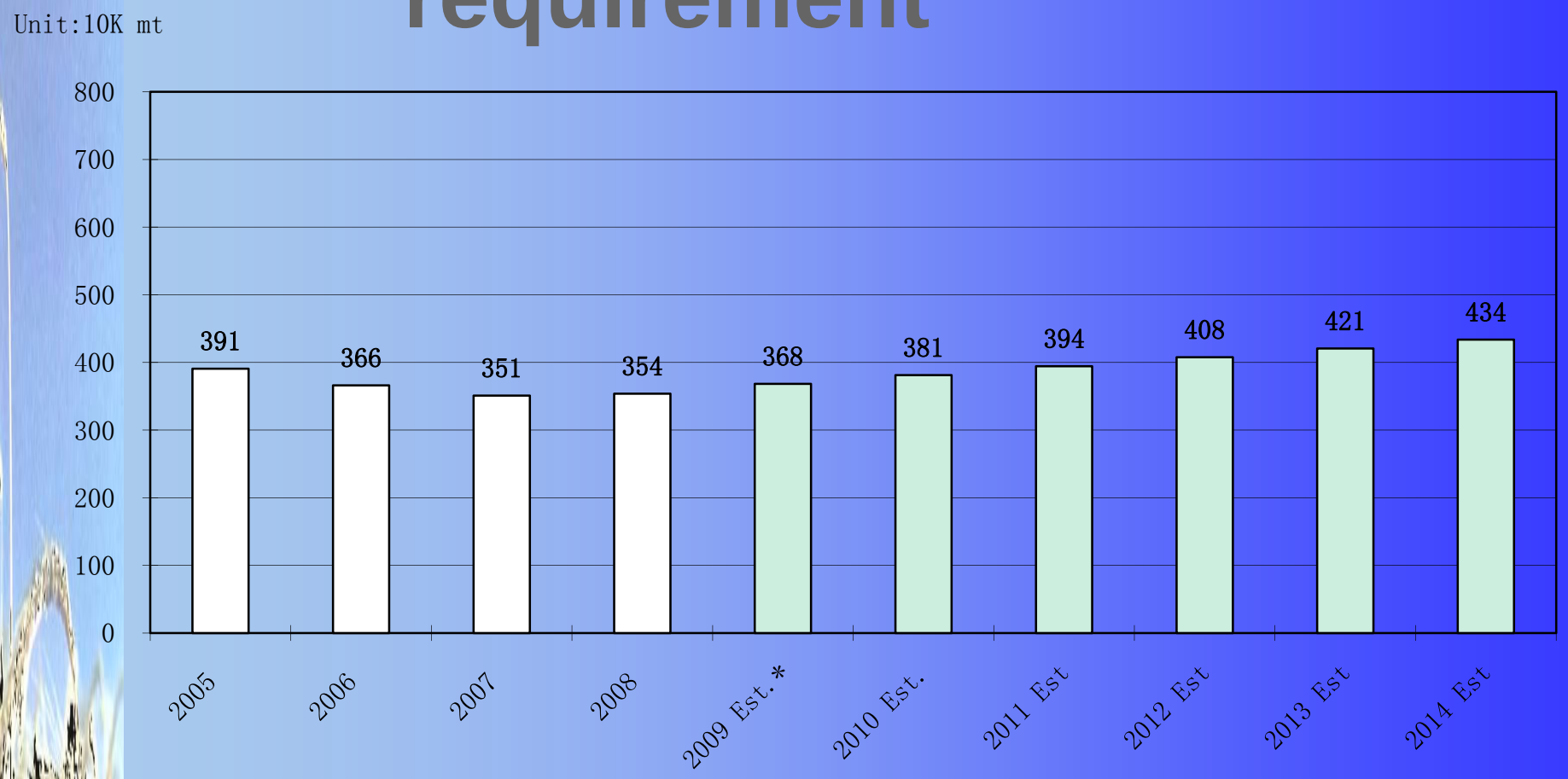
Projected total barley requirement



Barley requirement in China

Malt Quality depends on the breweries

Segment	Popular	Near-Prem.	Prem.	S-P/I
Share of Industry	93.4%	5.0%	1.3%	0.3%
Segment Trend	+5.1%	+2.1%	+9.6%	-1.6%
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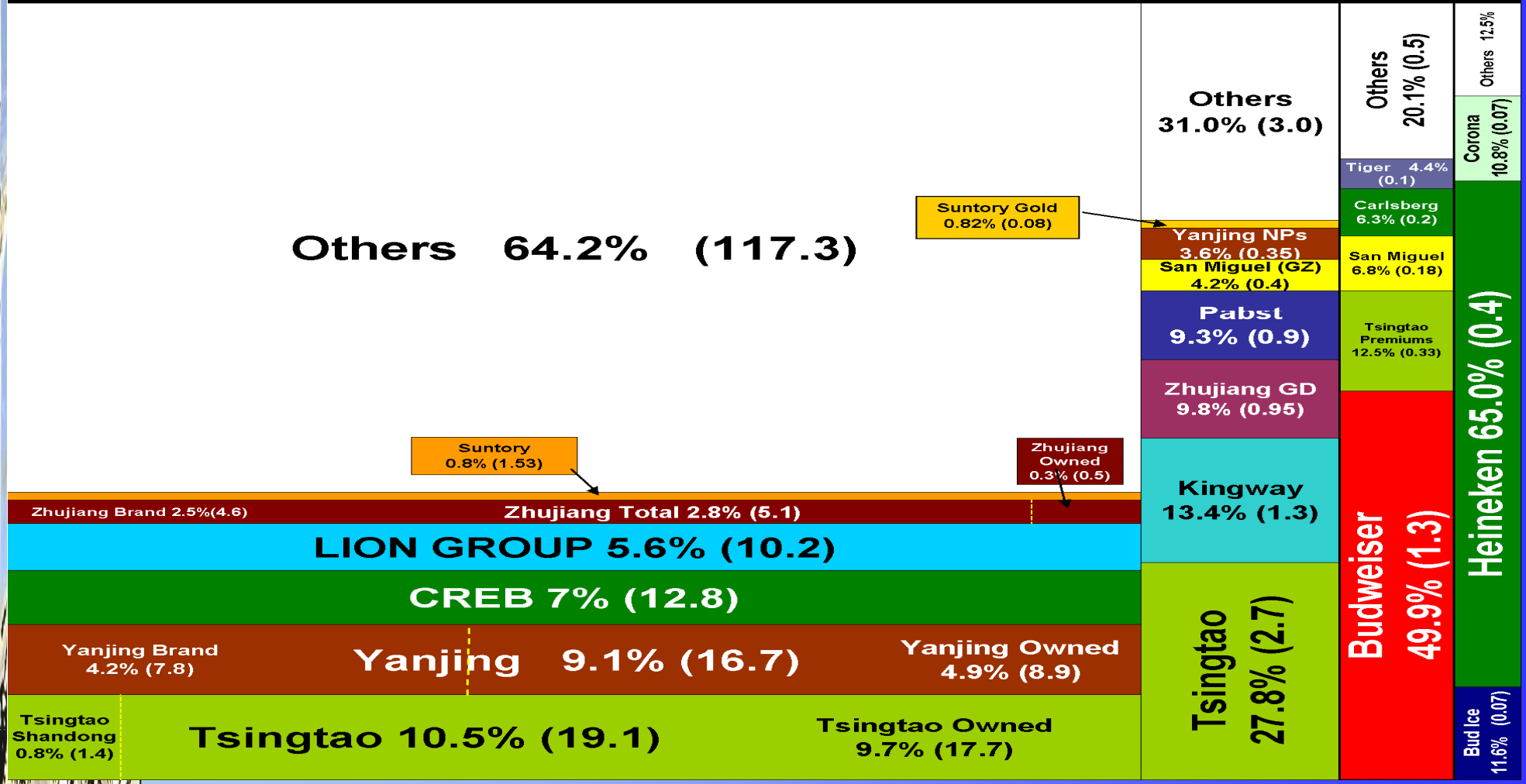

Source: Anheuser-Busch International (Wuhan) Brewery

Remarks：Distribution of Supertime Malting plants

MALT DEMAND WILL INCREASE

- Chinese government's funding for malting barley breeding
- To minimize grain consumption for production of rice spirits
- The younger population
- The economic growth
- The present low per capita beer consumption
- Beer consumption will increase
- Malt demand will continue to grow

There were a few newly built advanced and large scale commercial malting plants. There will be more competition in malting industry in China.

What we see is happening in China for malting

⌘ Brewing industry development in China is very fast. Most of the international brewery groups have already joined the growth. And foreign breweries are participating in the development of the brewing industry in China.

⌘ Chinese people will consume more beer than other alcohol drink for healthy consideration.

⌘Chinese government will promote beer production because beer uses less cereal than other alcoholic drink.

⌘ Malting industry will keep using large percentage of imported barley due to the return for the barley growers are small in comparison.


Budweiser
REFRESHINGLY DIFFERENT

Part 3

The Malting Barley Market in China

I. China's grain production

Wheat: a predominant

China is the largest producer of wheat in the world:

producing 100 million mt +/- per year or 17% of the World production

Wheat is the third most important cereal in China

23 million hectares or 27% -30% of the land used

Rice: a very important

196 million mt +/- a year,

more than 29 million ha of land used

Rice is the first cereal in China

about 40% of China's grain production

Corn: becoming more important

- number one producing country in the world;
  - 163 million mt +/- a year,
    or 20% of World production

corn is the second largest cereal in China
  - 34% +/- of Chinese grain production
  - 34.4% +/- of the land used

✱Sources: a) National Information Centre for Cereal and Oil;
b) National Center for Research Development;
c) Analysis of the Beijing Office
d) French Cereal Beijing office

Chinese Grain Map

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Malting barley is very small in production

Demand for malting barley China: 3.5 million mt

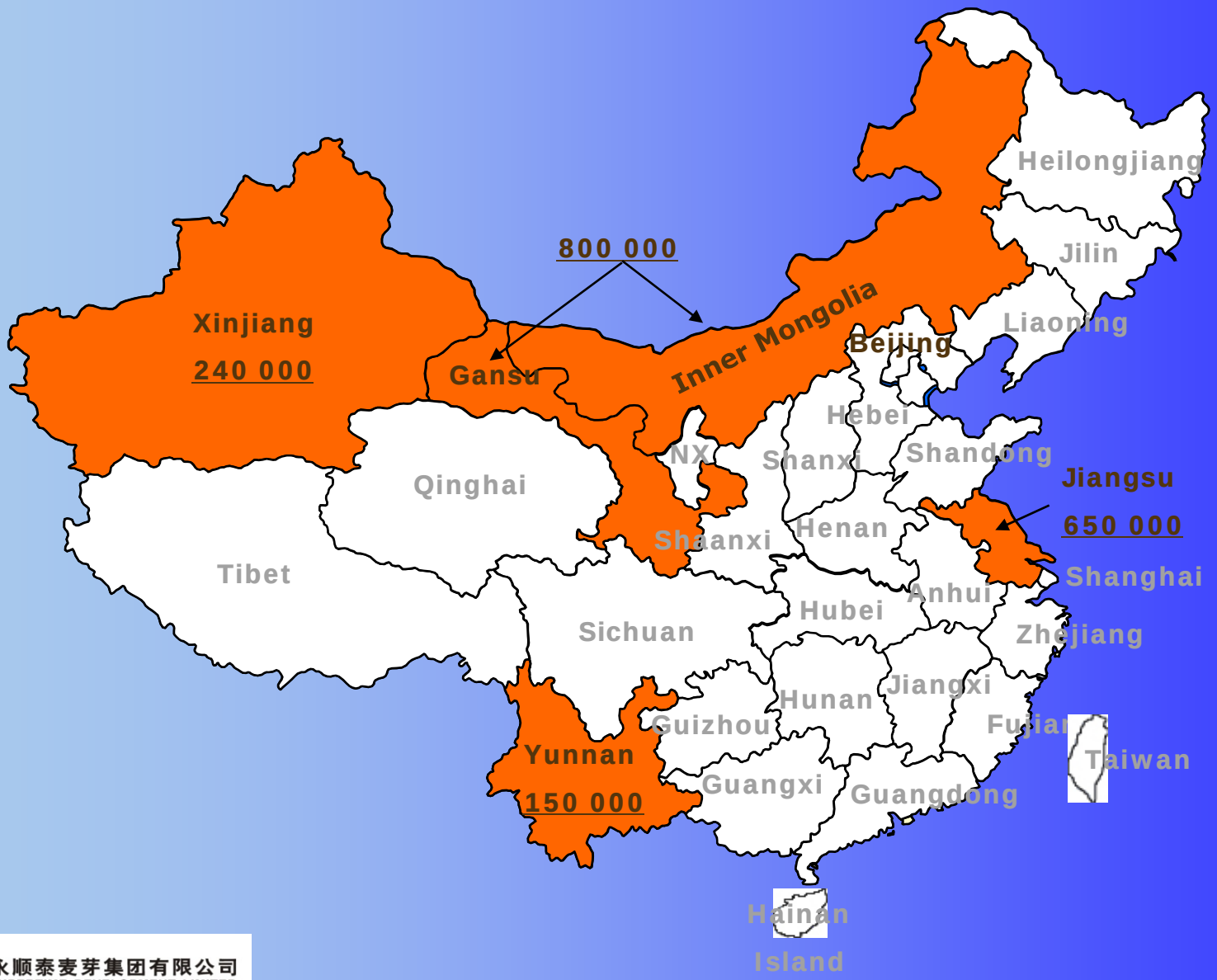
(3.5/1.245 = 2.81 mt of malt

Selection of local malting barley in China ≈ 1.5 million mt

China Barley Import about 1.8 to 2 million mt, including about 850,000 mt from Australia in 2009

There are 200,000 to 500,000 mt of wheat malt using annually..depends on the other grain price

Different areas of barley production in China in 2009



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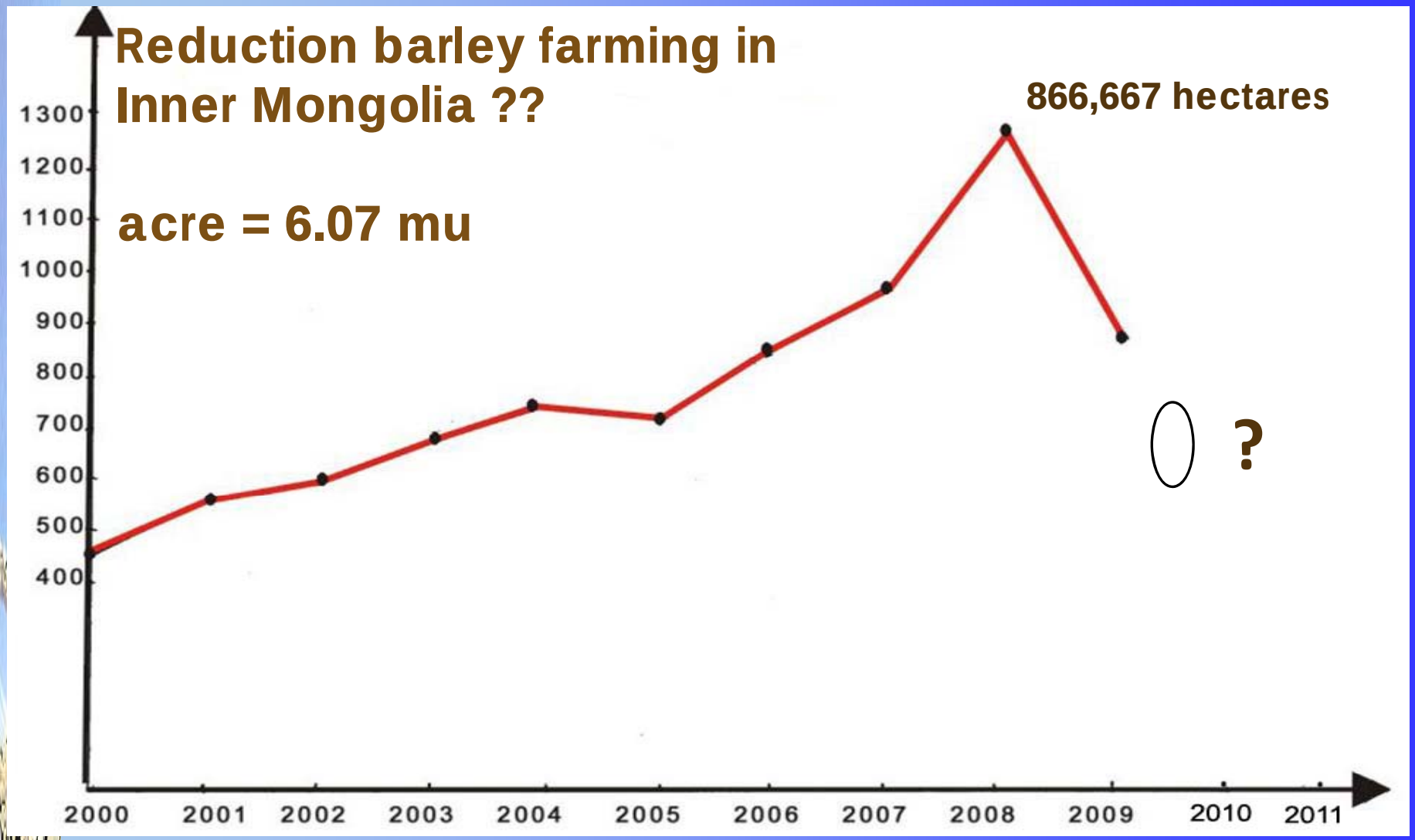
Farmland for malting barley in 2000-2009



Note: Price unsecured area recovered by wheat, corn ....1 Ha = 15 Mu

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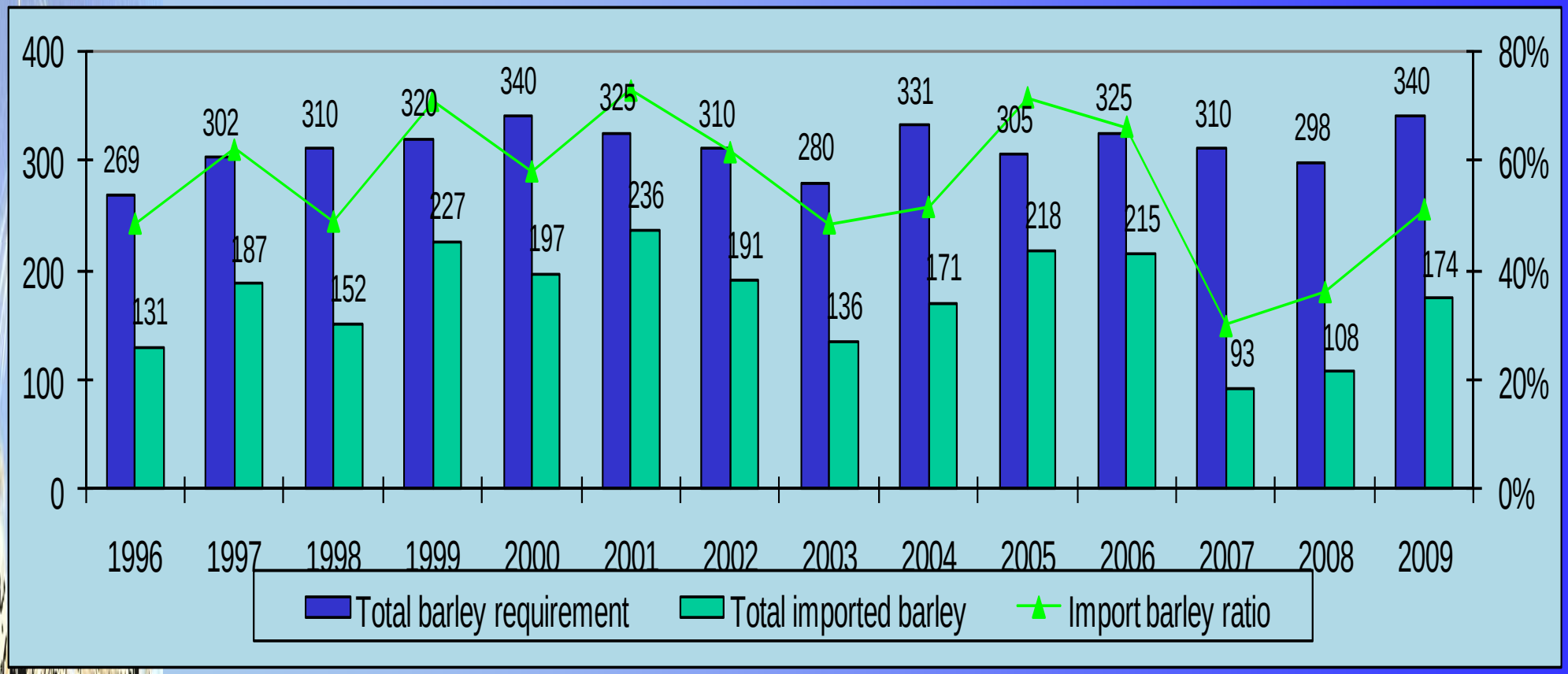
Imports of malting barley in China

(in Million mt.)

Year	Australia	Canada	France
2001	1 292	639	367
2002	1 512	233	162
2003	632	67	664
2004	1 273	431	0
2005	1 176	705	297
2006	1 673	460	15
2007	492	353	91
2008	733	219	81
2009	847	490	395

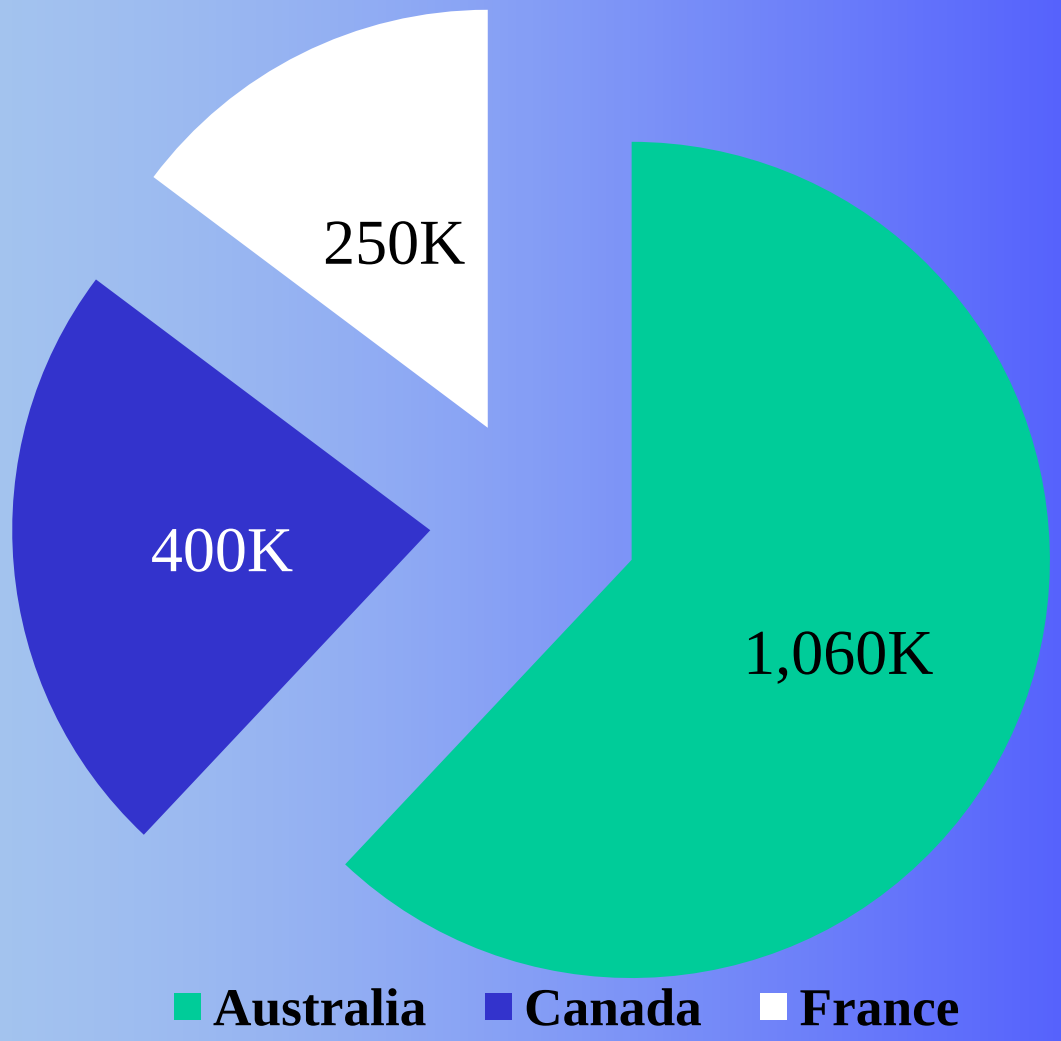
Note: Calendar year: January to December

Origins of barley used in China



(10K mt.)

10 Years' Average by importing Country



challenges of the Chinese market

A continent country

- ✓ China 9,572,900 sq km
- ✓ Australia 7,659,861 sq km
- ✓ 1.25 times that of Australia, and larger than the E. U.

- ✓ Second largest country in the world of its surface area.

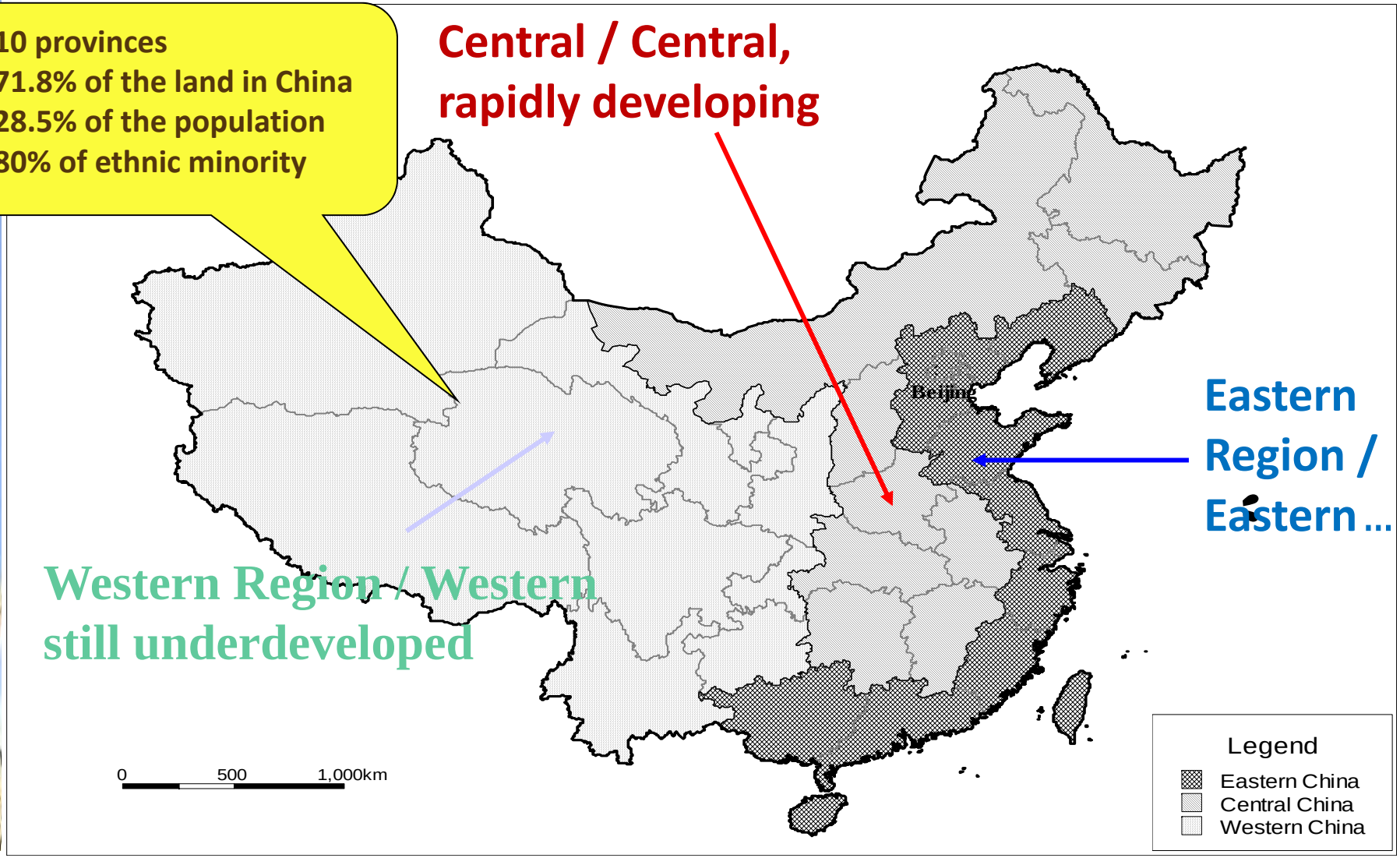
- ✓ First country in the world of
  1. The longest borders.
  2. Mountainous.
  3. Desert.

5200 km

5000 km

Three major economic regions of China

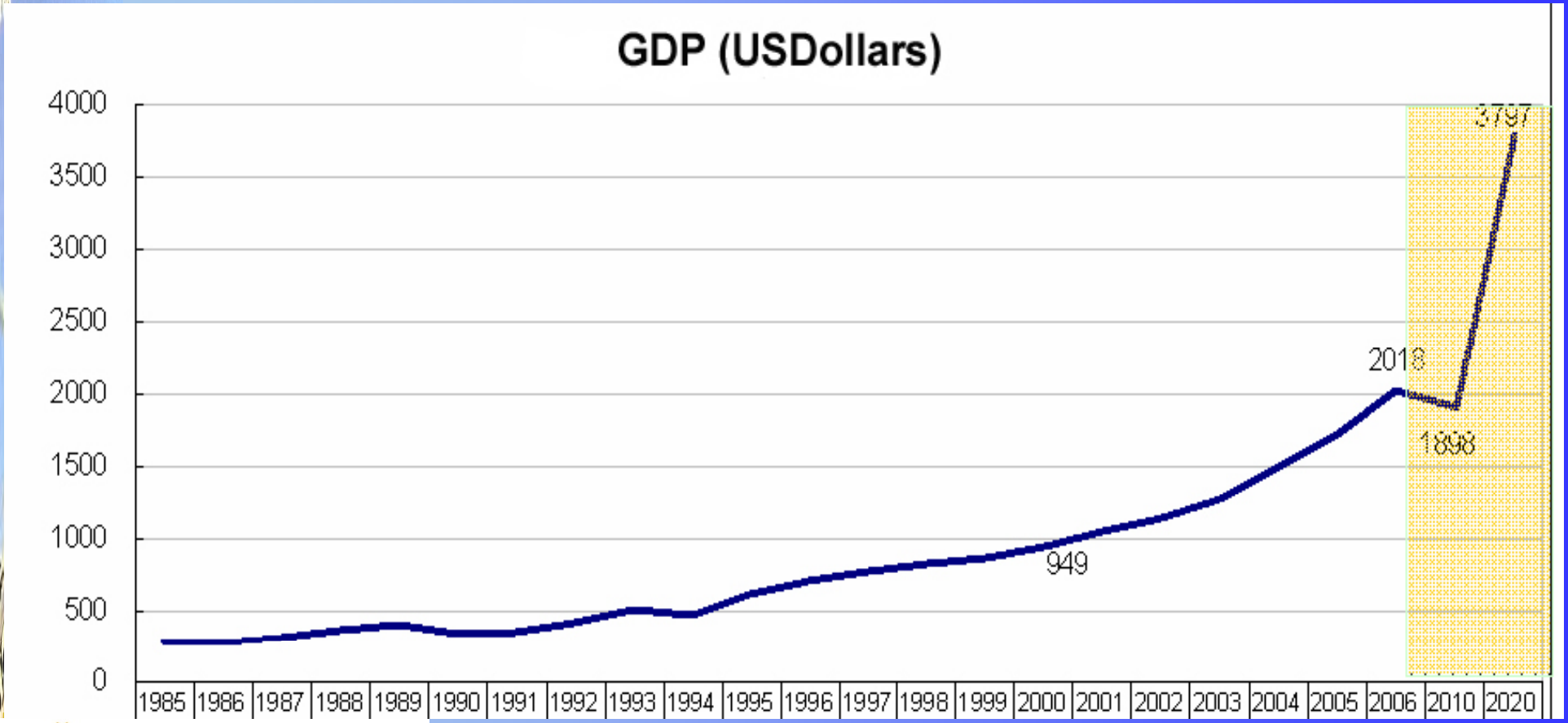
- 10 provinces
- 71.8% of the land in China
- 28.5% of the population
- 80% of ethnic minority



Economic growth and demand on agriculture Products

Strong economic growth

For 30 years, annual growth of 9% since 2003
above 10%, and + 8% in 2008/2009
Chinese GDP USD bn = 2700 = 4th place worldwide



Urbanization acceleration, which modifies the demand for agricultural products

Future supplies threatened, because of shrinking natural resources

- Given the trends in consumption, will supply be able to meet the demand?

  In the medium and long term, the supply situation for agricultural products in China is not optimistic. This is mainly due to constraints related to the natural environment and limited resources.

B. Scarcity of freshwater resources

The shortage of water:

Environmental Problem in North
i.e in the North West, water is absent in many places or low precipitation (desert).

Problem infrastructure in South West
If there is water, it is not usable due to lack of channel or well.

Problem notability in developed regions
Poor water quality: the deterioration of water quality is unable to drink or for irrigation

Water resources per capita = 2100 m3 (world average = 8000 m3) or ¼ of the world average.

Growth = Pollution =?!
It should be added: the biomass fuel

According to various official sources, the environmental costs are of the order of 5-10% of GDP per year!

50% of ground water is polluted, 62% of rivers unsuitable for use!

16 of the 20 cities most polluted (air) in the world are Chinese!

3.5 million km2 subject to erosion, 90,000 km2 are threatened by desertification?

It should be added: the biomass fuel

"Plan for Development of Renewable Energy Medium-and long-term"

In 2010, 2 million MT of petroleum fuels will be replaced by biofuel in 2020, this figure will increase to 10 million by then (1T ethanol: corn ≈ 3.2T).

Under the Chinese plan: the development of this sector will follow three steps:

1. Industrialization of the technology during the 11th Five Year Plan;
2. The sector will gain in magnitude during the 12th Five Year Plan;
3. Growth of this sector after 2015, bringing the proportion of biomass fuel at about 15% of fuel used by all motor vehicles in 2020.

Great challenges ...
medium to long terms
In China

Barley is not the most important thing in the Chinese officials mind to develop.

The market reality is in hardship and crisis

- I. **Growers are seriously hurt by the low grain prices**. They have lost their enthusiasm and confidence in growing barley;
- II. **For the medium brewing enterprises which using domestic barley malt**, their operation are in a serious state, and some almost desperate because of substantial losses, while seeking to sale their own business
- III. **As a result of different expectations** of farmers and malt barley users. The local malting barley has been marginalized seriously in the recent years. Should this trend continuous, barley supply will be in serious shortage in China.

2. How to Forecast of the future barley market

- **Barley and malt production are both small industry in China**, but its market, affected by so many factors, many of which cannot be controlled;

weather factors

change of other grain production

Sea freight

currency exchange rate

Very Difficult to predict

1. Import barley in 2010 - Increase in quantity, Decrease in quality.

- Large quantities of Australian lower grade barley and FAQ barley entered to the Chinese market in the past 12 months.
- In 2010, the quantity of the total barley import may exceed 2.5 million mt., (including this low grade stuffs.)

2. Import prices will rise slowly barley

(This may change – look what is happening in the market past few weeks.)

- 1. Current barley market situation, we have seem the low and the price should be on the way going back up.
- 2. Reduction in malt barley production will lead to a smaller supply of local malt, some malt companies will continue to stop production and even close down, or be sold.
- 3. Breweries, malt companies will be forced to slightly raise the purchase price target, but will **reduce the amount of malt use**, and **more stringent in the quality demand**. It will make the malting companies more difficult to get a proper return in making malt, it is difficult for others to enter the malt market.

- 4, Malt market will be more clearly differentiated into two blocks , mainstream and non-mainstream. The mainstream market that is large-scale manufacturing enterprises in the use of imported barley in malt production, non-mainstream market is the many to the use of domestic barley-based malt production . The mainstream maltsters will be able to maintain high market share in low-profit return. The profitability will depends on efficiency…

We have been running the **Six Sigma programs** (an efficiency training) in the past 3 – 4 years. We have more than 18 black belts in our 9 plants.

3. Several suggestions to the brewing and malting industry

- We should look at the overall situation and future of our raw materials supply, in particular, to think rationally for the brewing company's future.
- Should be rational and objective estimation of current and future of barley malt supply and demand fundamentals.
- The brewing industry should have a vision of to establish a stable raw material production base of barley, including the establishment of mutually beneficial market procurement mechanism and quality control mechanisms, and to establish the concept of appropriate nurturing agriculture.

Let’s see any one of your growers want this job in China…

I don’t think so !

Harvesting by hands


ENJOI
70694
兰驼王

Weighting and selling

Quality inspection

Flat bed storage

Unloading of barley

Other type of flat bed storage

All barley variety needs a replacement over time, We need research and development to push us forward

Conclusion

- China will remain to be the largest barley importing country for the foreseeable future.
- China will import different grade and specs of barley.
- These lower grade of barley will likely replace most if not all of the winter barley in China western coastal.
- Demand for malt 1 will likely be reduced.
- Until the demand in China's consumers changing to higher end brewing products. lower grade barley will have their market in China.
- Chinese farmers are not competitive enough to grow barley due to limited resource.
- Eventually, the market will find it's balance.

Thank you!

This Presentation was jointly prepared by

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