



CONSUMER PRODUCTS RESEARCH

China Food Company

51p

AGM statement update

23 May 2008

China Food has issued a positive AGM statement. The company is at an advanced stage of construction with its new condiments production facility in Shou Guang and the management expects that manufacturing equipment will be installed within the next few months. Commercial production is on target to commence in December 2008, adding substantial additional capacity to the group's soya sauce production capacity next year. We expect that this move will enable China Food to accelerate its penetration of the premium end of the soya sauce market and drive continued profit growth in 2009 and beyond.

Year end Dec	Turnover £m	EBITDA £m	PBT £m	Net profit £m	EPS p	PER x
FY 2006A	19.3	6.5	6.1	4.4	12.9	4.0
FY 2007A	25.3	8.0	7.5	5.3	14.5	3.5
FY 2008E	34.9	8.8	7.9	5.9	9.0	5.7
FY 2009E	42.1	10.1	8.9	6.6	10.0	5.1

Construction of China Food's new soya sauce production facility in Shou Guang city in Shandong Province, China, is at an advanced stage. Civil and structural works are now 90% complete and the management expects that installation of the production equipment will be completed over the next few months. Commercial production is expected to begin in December 2008.

This facility will contribute an additional 50,000 tonnes of new capacity to China Food's soya sauce business. However, we believe that is substantial scope for substantial longer term expansion given that the new site is very large, covering an area of nearly 200,000sq.m, with rights over an adjoining site of 67,000sq.m.

This site will increase China Food's total condiment production capacity from approximately 100,000 tonnes to 150,000 tonnes per annum. The company plans to relocate a large proportion of its soya sauce production activities from its existing site in Weifang to Shou Guang, thereby increasing the group's capacity for vinegar and bean paste production at its existing site in Weifang.

This phase of China Food's expansion is expected to cost approximately £25m and provide the group with 139 new soya sauce production silos. Over £16m of this has already been invested and the group has cash and bank facilities available for the balance.. In the longer term, the group intends to instigate two additional expansion phases in 2010 and 2012 respectively, increasing the number of production silos to 360. Given that the most of the production infrastructure will be in place, this additional capacity is anticipated to cost a modest £7.5m.

In 2008, we expect China Food to record strong organic growth driven primarily by increased output from the group's compound animal feed business as a new production silo comes on stream. As animal feed generates lower margins than the condiments business, the growth in profitability is more modest. However, we expect profit growth to accelerate in 2009 as increased soya sauce production comes on stream at the Shou Guang facility.

Following the group's strong set of preliminary results on 8 April, the shares were deservedly re-rated. However, we believe that the stock is still trading on a very modest rating. The business is highly profitable and cash flow generative with the prospect of sustained long term growth. With the added upside potential of Xianka, the company's monosodium glutamate substitute, not yet factored into our forecasts, we believe that the shares represent very good value.

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SALES & TRADING CONTACTS

See reverse

COMPANY DESCRIPTION

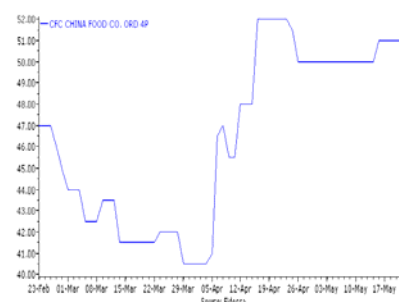
Manufacturer of consumer condiments and animal feed

INVESTMENT DATA

Ticker	CFC
Listing	AIM
No. of shares	66.4m
Market cap.	£33.9m
Enterprise value	£30.5m

SHAREHOLDERS Holding (%)

Sound Venture Holdings	31.28
Main World Investments	22.25
Albany Capital	20.00

3M SHARE PRICE PERFORMANCE

Source: Reuters

HansonWesthouse acts as broker to China Food Company and is paid fees for these services.

For important disclosures, please refer to the information on the last page of this report.

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