



## **Dear Shareholders,**

We are proud to report another year of excellent performance for 2009. Our management team is solid and our performance in 2009 and the first quarter of 2010 is representative of the strategic direction on which we embarked since we last addressed our Shareholders in 2009. We are pleased to see that the compound annual growth rate of our revenue and net income reached 70% and 99%, respectively, between 2005 and 2009.

Due in part to the quality and variety of our products and the operating leverage inherent in our business model, we achieved net income of \$15.2 million, an increase of 52.0% as compared to \$10.0 million in 2008. Gross profit margin was 42.8% in fiscal 2009, and operating income increased 59.5% to \$20.9 million, compared to \$13.1 million in 2008. Excluding the \$615,417 change in fair value of outstanding warrants issued, a non-cash charge to our net income, our net income (a non-GAAP measure) reached \$15.8 million on total revenue of \$59.2 million for 2009, with growth rates of 57.9% and 42.3% year-over-year, respectively.

Our financial achievements in 2009 showcase our ability to successfully develop and bring to market high-quality, healthy and nutritious new products that satisfy accelerating consumer demand and preference for healthier fruit-based juice drinks. Interest in specialty fruit juice beverages such as kiwifruit and mulberry juice – our specialty products – continues to escalate worldwide due to the nutritional advantages and unique taste of such specialty fruits.

In April 2009, our concentrated pear juice and kiwifruit juice were awarded the “Most Famous Product of Shaanxi Province” by the Shaanxi local government. We were the only company in the fruit juice industry among the 88 companies who received this award. We believe we are a leader in the production of concentrated clear pear juice and concentrated kiwifruit juice. In addition, our Kiwifruit Further Processing and Comprehensive Utilization Project was listed in the Revitalization Transformation of Key Industries Plan by the Chinese Ministry of Industry and Reform Commission jointly in 2009, and we received a subsidy of RMB 9 million, or \$1.3 million, from the Chinese Government to support this project, which indicates strong government support of our Company.

## **Product Development and Innovation**

Our revenue growth in 2009 was primarily due to increased sales of kiwifruit juice concentrates, our Hedetang branded fruit juice beverages and fresh kiwifruits. Our kiwifruit juice concentrate's growth more than offset a year-over-year decrease in concentrated apple juice

and apple aroma sales in accordance with an overall decreased volume of concentrated apple juice exported from China as the global economy contracted.

Our manufacturing facilities are located in Shaanxi and Liaoning Provinces, which are large fruit producing provinces. All of our manufacturing facilities are strategically located near fruit growing centers so that we can better preserve the freshness of the fruits and lower our transportation costs. In addition, we have implemented a fruit purchasing program in areas surrounding our factories, which helps farmers deliver fruit to our purchasing agents easily and in a timely manner. Our kiwifruit processing facilities are located in Zhouzhi County of Shaanxi Province, which has the largest planting area of apples and kiwifruit in the PRC. We have also assisted local farmers in their development of kiwifruit fields to help ensure a high quality product throughout the production channel.

Specialty or “small breed” juices and concentrates like mulberry and, as we announced in April 2010, turnjube, is another segment of products we produce for the Chinese market. We successfully launched production of concentrated mulberry juice at our Jingyang facility in 2008. Since the harvest season for mulberries is only between April and May, fresh mulberries are typically difficult to store for long periods, and domestic mulberry juice production has historically been limited to the second quarter of every calendar year. In contrast, SkyPeople uses proprietary mulberry storage technology capable of maintaining mulberries for at least 12 months and thus allows for year-round manufacturing and sales. We are currently capable of producing concentrated mulberry juice at a rate of up to 1,000 tons per year. The method we use to preserve mulberry concentrates, other concentrates of juices, and our own production of Hedetang branded juices is safe to the health of our customers.

During the fourth quarter of 2009, we accelerated our introduction of mulberry cider and kiwifruit cider beverage products into the Chinese market and secured new distribution in Beijing. Due to the unique health benefits of fruit cider (also known in China as ‘fruit vinegar’) beverages, domestic demand for these products has grown since 2000, particularly with female consumers. Fruit cider beverages contain more vitamins, amino acids, and essential minerals compared with traditional fruit juice beverages, and certain fruit cider nutrients such as acetic acid, lactic acid, amino acids, glycerol, and aldehyde have been shown to dilate blood vessels and improve blood circulation. Until now, we believe that apple cider is the only fruit cider beverage available in China's domestic market according to our market research. With our mulberry cider and kiwifruit cider beverages we have entered a strategic market niche characterized by strong potential market demand. Each of our fruit cider beverages are branded under our proprietary Hedetang brand, which is our registered trademark in the PRC.

In addition to our two current patents for Fruit Crushing and Removal of Fruit Hair from Fruit Skin Technology and Crushing Fruits and Removal of Fruit Skin Technology, we have applied for the following five new patents: Production of Concentrated Clear Kiwifruit Juice, Production of Concentrated Clear Persimmon Juice, Production of Mulberry Cider Beverage, Production of Kiwifruit Cider Beverage and Production of Concentrated Turnjube Juice. All these application have been accepted by the Chinese State Intellectual Property Office and demonstrate the strong development and innovative capabilities of our Company.

## 2010 Initiatives

Our primary focus in 2010 is to further accelerate our sales efforts and expand our sales of concentrated fruit juice and fruit juice beverages in our primary market, China, as well as worldwide. Our distribution network of concentrates has been expanding and now includes the United States, the European Union, South Korea, Russia and the Middle East. As export markets continue to rebound, we anticipate revenues will likely increase from international markets in conjunction with sales growth of concentrates in China and sales of Hedetang® fruit juice beverages and fruit cider beverages.

Our goal of capacity expansion is ongoing. Currently, we produce concentrates for kiwifruit, pear, and apple. Our existing capacity can also be used to produce other specialty concentrates like mulberry for beverages and turnjube for the pharmaceutical markets in China. Our goal in 2010 is to continue to expand the current production capacity to meet increased demand of our products and increase revenues and earnings from our core product segments. We expect that all our production facilities, Huludao Wonder, Yingkou, Shaanxi Qiyiwangguo and SkyPeople(China) Jingyang facilities will be fully utilized in 2010.

Our Shaanxi Qiyiwangguo blending operation produces 6,000 bottles of fruit juice beverages per hour and our new bottling line at Huludao Wonder that we plan to build in 2010 will add an additional 6,000 bottles/hour to our production capacity of Hedetang fruit juice beverages and cider beverages.

Finally, we will continue to upgrade our existing facilities to improve our operational efficiency and productivity. We may also seek acquisition candidates to expand our position in the domestic and international fruit juice markets. As the fruit juice markets continue to evolve, we are confident in our ability to meet growing consumer demand both domestically and internationally.

In an effort to also improve efficiencies and management oversight, we have also endeavored to become Sarbanes Oxley 404 compliant by the end of 2010. We welcome the contributions the process can afford our Company, particularly for risk management procedures.

We believe that our large and diversified product range of concentrated fruit juice products made with fresh, natural flavors helps us compete in international markets, lessens risks associated with commodity prices, seasonality and consumer preferences and supplements our revenue. In distributing our products throughout China and globally, our ultimate long-term goal remains: maximizing value for our shareholders.

Thank you for your continuing support of our company and our vision.

Sincerely,

Yongke Xue  
Chief Executive Officer

June 28, 2010