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ALL CHINA MARKETING RESEARCH CO., LTD.

ACMR Newsletter

China Industry and Economic Review

April 2011



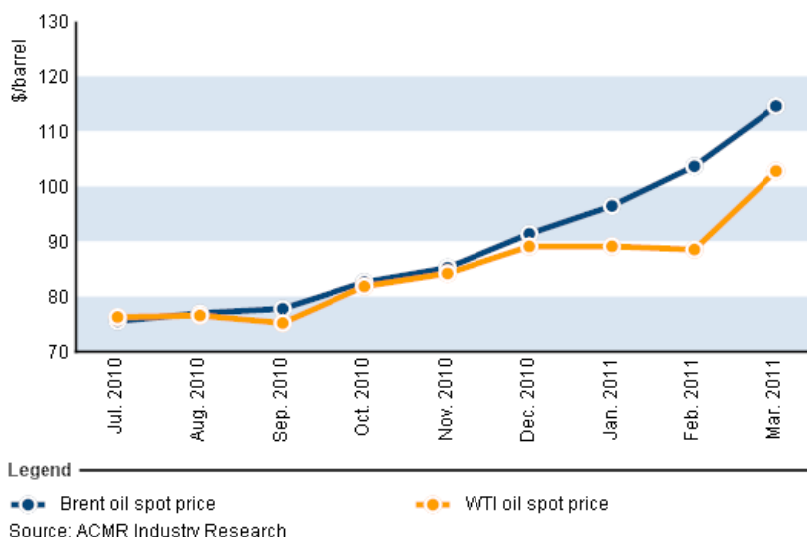
Economic Spotlight:

Rising Oil Prices Drive up Inflation in China

Due to global economic recovery and political turmoils in Middle East and North Africa, oil prices have been on increasing trend since the second half of 2010. Brent oil spot price surged by 51.7% from \$75.58 per barrel in July 2010 to \$114.64 per barrel in March 2011, and during the same period WTI oil price increased by 34.8% from \$76.32 per barrel to \$102.86 per barrel.

Domestically, National Development and Reform Commission announced gasoline and diesel retail price hike by 500 and 400 CNY per ton, the second time in 2011 and marking a historic high. Global oil price rises increase imported inflationary pressures and make it more difficult to implement macroeconomic regulations.

Oil Price Jul. 2010 - Mar. 2011



Rising Commodity Prices Led to Trade Deficit in China in the First Quarter

According to statistics released by China Customs, total export and import amounted to \$800.3 billion in the first quarter of 2011, 29.5% up from the same period in 2010. Export and import totaled \$399.6 billion and \$400.7 billion, respectively, 26.5% and 32.6% up from the same period in 2010, respectively. The trade deficit of \$1 billion is the first quarterly trade deficit in the past seven years.

Besides the impact of Spring Festival in February, trade deficit in the first quarter is mainly caused by surging commodity prices in the global market. Although monthly import grew sharply by 27.3% to hit record high at \$152.1 billion in March 2010, commodity import volume displayed slow or negative growth.



ACMR Newsletter

April 2011

Import volume of soybean, iron ore, crude oil, plastics in primary forms, and steel products in March 2011 increased by -12.5%, 0.8%, 2.9%, -9%, and -6.1%, respectively, from March 2010, while during the same period import value surged by 15.9%, 59.6%, 36.9%, 5.2%, and 12.4%, respectively. Rising price is the major driving force of increasing import value.

High Point of Domestic CPI

Latest statistics released by National Bureau of Statistics revealed monthly CPI in March 2011 at 5.4%, a record high in the past 32 months. Since food price and transport & communication weight around 30% and 11% in CPI, rising oil prices drive up inflation through higher food price and transport costs.

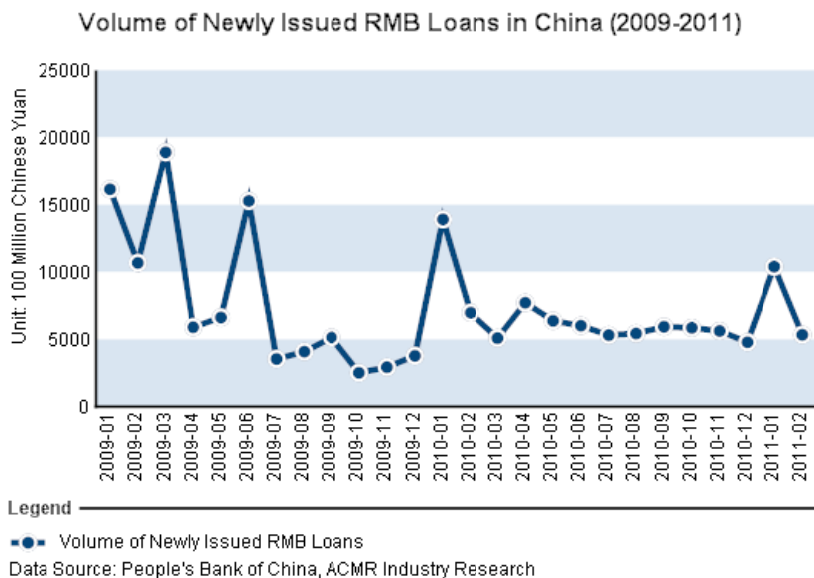
People's Bank of China announced to increase deposit reserve ratio by 0.5 percentage points from April 21, 2011, the fourth time and the tenth time since 2011 and 2010, respectively. After the adjustment, deposit reserve ratios for large financial institutions and small & medium financial institutions reach historic highs of 20.5% and 18.5%, respectively. Inflation control is expected to remain the focal point of macroeconomic policies.

Commercial Banks in China: Two Drivers of Industry Development

During 2006 and 2011, the annualized growth rate of revenue in China's commercial banks industry is expected to be 20.3%. The relatively high net interest spread and growth rate of interest-bearing assets are the most important driving factors of industry development.

During October 2010 and April 2011, the People's Bank of China increased interest rates for four times and increased interest rates of current deposit twice in the recent two interest adjustments. The four interest rate increases expanded net interest spread levels of commercial banks in China and also restricted the expanding scope of net interest spread level with the increase of interest rate of current deposit. On the whole, China's commercial banks will benefit from these four interest rate increases. However, with declining expanding scope of net interest spread, growth rates of revenue and profit of China's commercial banks will be influenced.

At the same time, influenced by the increasing deposit reserve ratio and strict control on loan-to-deposit ratio, total volume of newly increased loans in 2010 declined from that in 2009. The volume of newly increased loans of the first two months in 2011 was still lower than that during the same phase in 2010. Under this background, the growth rate of total assets, especially the interest-bearing assets will slow, which will negatively influence the expansion of commercial banks.



Key Statistics of in China, 2011*

Indicator	Value	Year-on-year Growth (%)
Revenue (USD Billion)	368.9	25.7



ACMR Newsletter

April 2011

Assets (USD Billion)	13508.9	19.3
Enterprise Number (Unit)	4920	-0.2%

Source: *ACMR Industry Research*

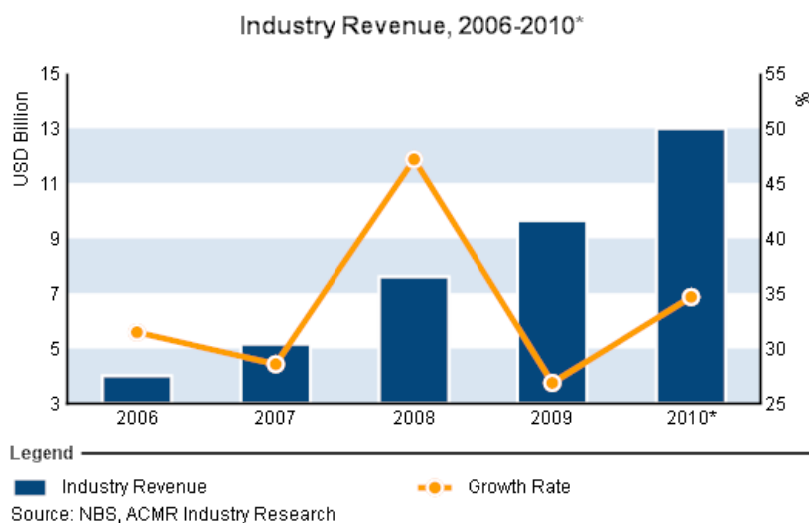
Major Commercial Banks in China

Company Name	Market Share (%)
Industrial and Commercial Bank of China	19.1
China Construction Bank	16.3
Agricultural Bank of China	13.9
Bank of China	13.3
Bank of Communications	5.3

Source: *Annual Reports, ACMR Industry Research*

Biscuit and Other Bakery Products Manufacturing in China: Thinning Margin Due to Cost Pressure

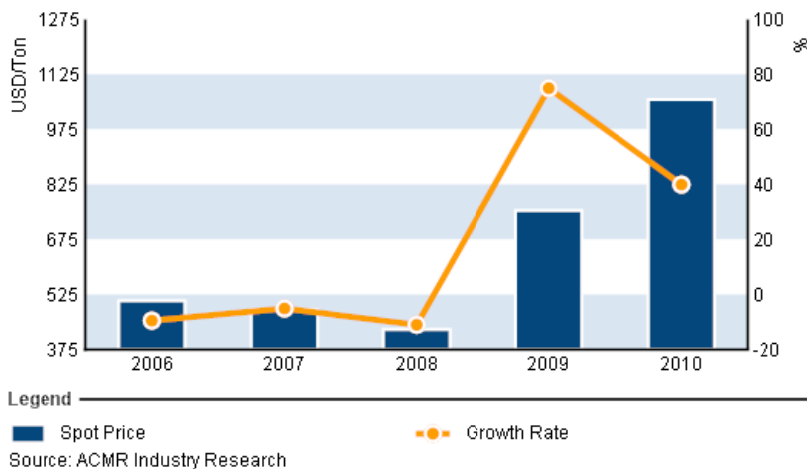
Benefiting from the recovery of both domestic and foreign markets, the Biscuit and Other Bakery Products Manufacturing industry in China returned its high growth. As of 2010, industry revenue was expected to total \$13.01 billion, up 34.7% from 2009.



However, due to the increasing demand decreasing supply of grain in the world, prices of major grain products experienced rapid growths in 2010. This also led to growing grain prices in China. Prices of major raw materials of biscuit and other bakery products, such as flour, sugar and oil, also increased significantly.

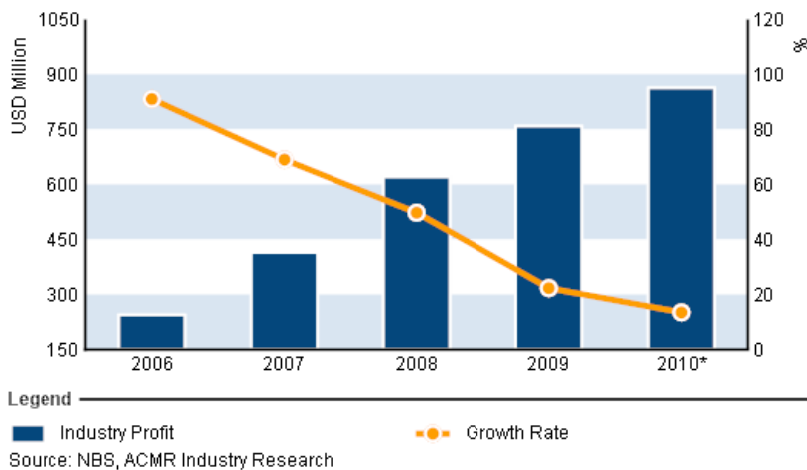
For instance, by the end of 2008, the average price of sugar in China was about \$431.2 per ton. In 2009, this increased to \$754.8 per ton, up 75% year on year. And by 2010, manufacturers in the industry had to spend \$1,056.9 on each ton of sugar.

China Sugar Index, 2006-2010



In addition to the increasing prices of raw materials, labor costs in China as well as transportation costs grew rapidly as well. All this cost increases had resulted the profitability of manufacturers in the industry decreased rapidly. In 2008, profit accounted for 8.2% of industry revenue. This decreased to 7.9% in 2009, and was expected to further reduce to 6.6% in 2010.

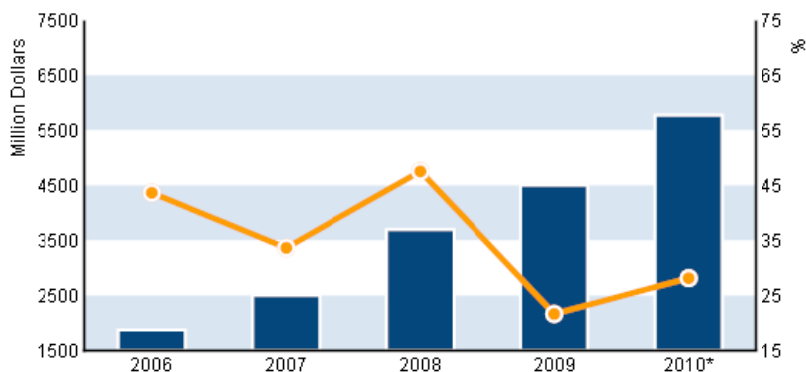
Industry Profit, 2006-2010*



Frozen Food Manufacturing in China: Strong Growth Momentum in the Future

From 2006 to 2010, the industry revenue of Frozen Food Manufacturing in China increased from \$1.88 billion to an estimated \$5.78, with an annualized growth rate of 32.4%.

Sales Revenue of Frozen Food Manufacturing in China 2006-2010*



Legend

■ Sales Revenue ● Growth

Data Source: National Bureau Statistics ACMR Analysis

Key Statistics of the Frozen Food Manufacturing Industry in China, 2010

Indicator	Value	Year-on-year Growth (%)
Industry Revenue (USD Million)	5780.9	28.2
Industry Profit (USD Million)	242.6	23.6
Exports (USD Million)	179.0	7.8
Imports (USD Million)	6.0	42.9

Source: National Bureau of Statistics, China Customs, ACMR

In 2011, Frozen Food Manufacturing in China will continue developing fast. The main drivers include growth of people's disposable income, increasing number of women in the workforce, the market development of third-line cities, driving of catering industry. The gradually developing of large rural market will be a stimulus to the Frozen Food Manufacturing in China. In addition, currently, the frozen foods in China are mainly sold by supermarkets. In the future, the hotels will become another sales fields for frozen foods.

At present, the market pattern of frozen food market in China is Oligarchic monopoly competitive market and many new entrants continue to enter this industry. The market share of Syneer, Sanquan, Longfong and Wanchai Ferry has been over 60%, among which, the market share of Sanquan is the greatest. At



ACMR Newsletter

April 2011

the same time, the number of enterprises engaged in this industry has been growing in recent years, which is mainly due to increase of market demand and low barriers to enter this industry. However, with rising of quality standard and security requirements for frozen foods from consumers, the market share of leading enterprises with brands and product quality security is expected to continue to increase.

Major Industry Participants List

Company Name
Synear Group
Zhengzhou Sanquan Foods Co., Ltd.
Longfong Group
General Mills (China)

Source: National Bureau of Statistics, ACMR



ACMR Newsletter

April 2011

What's New?

We currently have 177 China industry reports available across 18 economy sectors, and the number of reports is expected to reach 182 by the end of April 2011.

Recent reports and reports to be released include:

Published in March 2011:

- 0330** Poultry Farming in China
- 3421** Metal Cutting Tools Manufacturing in China
- 3761** Aircraft Manufacturing and Repairing in China
- 5110** Inter-urban Railway Transportation of Passengers in China
- 5531** Airports in China
- 7220** Realty Management in China

To be released in April 2011/May 2011:

- 0916** Aluminum Ore Mining in China
- 1320** Pet Food and Animal Feed Manufacturing in China
- 1451** Canned Food Manufacturing in China
- 4062** Bare Printed Circuit Board Manufacturing in China
- 7230** Real Estate Intermediation (Brokers and Agents) in China

Updated in March 2011

- 0790** Support Activities for Oil and Gas Mining in China
- 7440** Advertising Agencies in China
- 8511** General Hospitals in China
- 0810** Iron Ore Mining in China
- 2614** Organic Chemical Material Manufacturing in China
- 1711** Cotton Fabric and Yarn Manufacturing in China
- 3613** Building Construction Equipment Manufacturing in China
- 3070** Plastic Parts Manufacturing in China
- 3931** Wire and Cable Manufacturing in China
- 2411** Stationery and Office Supplies Manufacturing in China
- 6620** Motels in China
- 2421** Sporting Equipment Manufacturing in China
- 6592** Mail-order and Electronic Shopping Operators in China
- 8441** Higher Education in China
- 6020** Internet Services in China
- 4411** Thermal Power Generation in China
- 1440** Liquid Dairy and Dairy Products Manufacturing in China



ACMR Newsletter

April 2011

3711 Rail Transportation Equipment Manufacturing in China

7433 Business Management Consulting Services in China

4042 Computer Network Equipment Manufacturing in China

6930 Securities Investment in China

0610 Coal Mining in China

3726 Automobile Repair Services in China

0221 Timber Logging in China

5320 Underground Rail and Subway Transportation in China

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