



北京华通人商用信息有限公司

ALL CHINA MARKETING RESEARCH CO., LTD.

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China Industry and Economic Review

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Features and Trends

of the Insurance Support Service Industry in China

From 2005 to 2009, the Insurance Support Service Industry in China is expected to experience significant growth, with revenue increasing at an estimated annualized rate of 32.5%. The rapid growth was driven by the development of China's insurance industry. Total insurance premium income in China increased by 134% from \$60.16 billion in 2005 to \$140.78 billion as of 2008. Of the total premium income, around 70% to 80% was achieved by the insurance intermediaries in this industry from 2005 to 2008.

Most industry revenue is contributed by the large number of insurance salespersons. The rapidly enlarging insurance salesperson group, who operate on the individual basis as insurance agents, achieve 34.5% of premium income and contribute 64.2% of the industry revenue in 2007. Affected by the challenging economic conditions, more people are expected to become insurance salespersons given low requirement for the job.

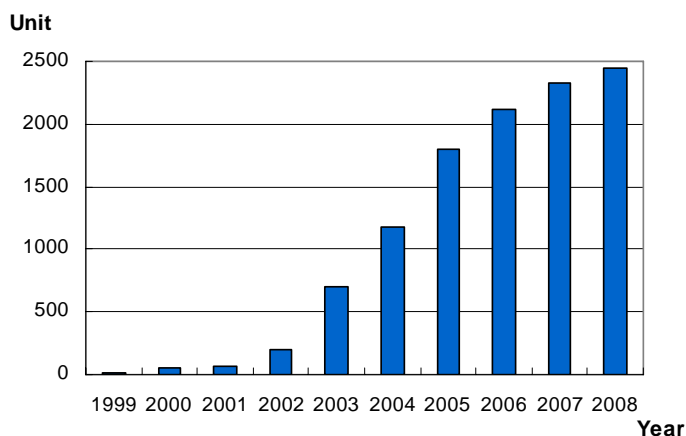
Other industry participants include concurrent-business agencies and professional insurance agencies. In recent years, the professional insurance intermediaries in China illustrated remarkable performance.

Rapid Development of the Professional Insurance Intermediaries

In recent years, the Chinese government lowered the minimum registered capital requirement for professional insurance intermediaries and removed limits over their ownership. Therefore, more social investment entered this industry to establish large numbers of professional insurance intermediaries. Meanwhile, the level of exit barriers is also low, and many such intermediaries exited this industry.

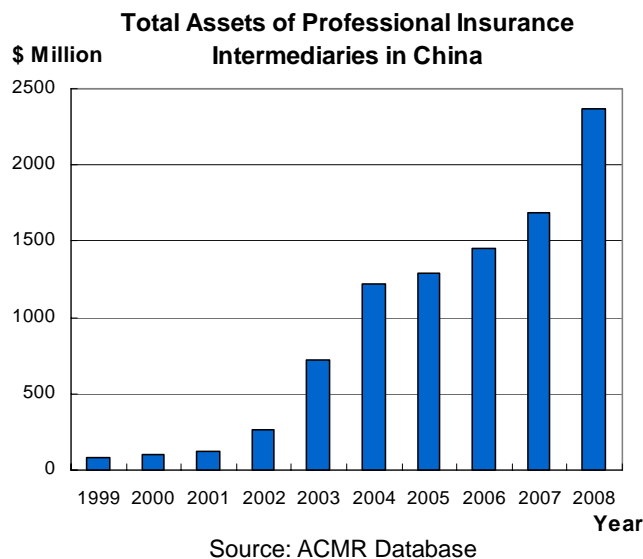
This service segment made profit for the first year in 2006 with total profit of \$12.5 million. Profitability increased largely in 2007 and 2008 with profit of \$24.5 million and \$36.7 million, respectively. However, revenue of professional insurance intermediaries has been highly concentrated in the top twenty players. Many other professional insurance intermediaries are of small scale and short operating history with little revenue. Most of them are in loss. Competition in this segment is intense.

Number of Professional Insurance Intermediaries in China



Trend of Merger and Acquisition

While competition in this industry intensifies, top players are enlarging their operating scale by merging



or acquiring other players. In the mean time, venture capitals invested in the top players to share the expected potential growth. CNinsure Inc., the only listed professional insurance intermediary in China, is one of the examples receiving venture capital. In the near future, although most revenue will still be achieved by the insurance salespersons, the professional insurance intermediaries will develop into important participants of the industry.

Bakeries and Bread Manufacturing Industry in China:

Substantial Domestic Demand Leads to Steady Growth

The Bakeries and Bread Manufacturing Industry in China has experienced steady and rapid development from 2005 to 2009, with industry revenue growing at an annualized rate of 27.1%. This was mainly driven by the substantial domestic demand, which increased from \$1.51 billion in 2005 to a forecast \$4.35 billion in 2009, representing an annualized growth rate of 29.2%. The strong domestic demand is expected to promote industry revenue to increase at an annualized rate of 15.2% from 2010 to 2014.

Due to the fast pace of modern life, especially in urban areas, Chinese people face more working and studying hours and less time available for cooking or eating in restaurants. More people prefer bakeries and bread as breakfast and snacks. In addition, the rising household disposable income level has enhanced Chinese people's purchasing power.

The increase of domestic demand for bakeries and bread also benefits from the entry of many new manufacturers, especially some foreign enterprises and joint ventures. These enterprises have displayed their advantages in product innovation and diversification, which stimulated demand from consumers with different preferences for flavors and styles.

In 2009, the overall economic conditions were challenging in China. However, domestic demand for bakeries and bread products will remain steady and substantial, as such products have become daily necessities for students and working people, especially in urban areas.

Although the manufacturing capabilities of domestic enterprises improved, their general technology and management still lag behind the advanced international level. Therefore, part of the domestic demand

especially for high-end bakeries and bread products will continue to depend on imports.

The demand for higher quality products will increase in the future, mainly driven by the growing household income and consumers' increasing consciousness to food safety. The medium-end and high-end product segments will occupy larger shares of total revenue, while the share of the low-end product segment will decline especially in urban areas. The low-end market will continue growing in terms of volumes, especially in economically less developed regions with lower per capita incomes. Also, consumers in China will pay more attention to the quality and nutritious ingredients of bakeries and bread, including supplemented elements such as calcium, iron, and vitamins.

Home Appliances & Motor Vehicles Manufacturers: Benefiting from "Rural Consumption Boosting" Program

Within the four years starting from February 2009, the Chinese government would provide direct subsidies to rural citizens purchasing home appliances. Similar policy also applied to motor vehicles sold in rural areas from March 2009 to December 2009. These were part of the "Rural Consumption Boosting" program in China.

The program was initiated as early as December 2007, when subsidies were provided for home appliances sold in rural areas of Shandong, Henan and Sichuan province, including televisions, washing machines, refrigerators and mobile phones. As China's export-oriented industries were seriously stricken by the global financial crisis from the second half of 2008, expanding domestic consumption became an urgent task for the Chinese economy, and the "Rural Consumption Boosting" program was accelerated on the agenda. Computers, water heaters, air conditioners, microwave ovens, electromagnetic ovens, automobiles and motorcycles were included in the program, and the program was expanded to all rural areas in China.

During 2009, the Central Government's planned subsidy for home appliances and motor vehicles was \$2.93 billion and \$732 million respectively. This was estimated to promote sales of home appliances worth \$22 billion and sales of automobiles by at least one million units.

Subsidy Rates & Brand Limitations

For home appliances, the subsidy is based on 13% of the unit price, and one rural household can purchase at most two units of such products. The manufacturers and models of such products were selected through public bidding, and maximum unit prices were set for each category of products. For example, \$293 for television and washing machine, \$366 for refrigerator and \$146 for mobile phone.

For automobiles, the subsidy is based on 10% of the unit price with the upper limit at \$732. One rural household can purchase at most one automobile. Subsidy applies to minibuses (with discharge capacity below 1.3 L) and light freight automobiles of all models of all manufacturers. For motorcycles, the

subsidy is based on 13% of the unit price with the upper limit at \$95.2. One rural household can purchase at most two motorcycles, and there is no limitation over brands or manufacturers.

Beneficiaries

China has a rural population of 750 million and about 200 million rural households. By the end of 2007, the number of computers, refrigerators, washing machines, mobile phones and color televisions per hundred rural households in China reached 3.7, 26.1, 45.9, 77.8 and 94.4 respectively. Therefore, manufacturers of computers, refrigerators and washing machines will be major beneficiaries of the "Rural Consumption Boosting" program. These include Lenovo, HP, Dell, Acer, Haier, Midea, Meiling, Hisense, Little Swan, Sanyo, etc.

Manufacturers of minibuses and light freight automobiles will also benefit from the program, including SGMW (SAIC-GM-Wuling Automobile), ChangAn, Beiqi Foton, Dongfeng, Jianghuai, etc. As rural customers are more sensitive to price than brand and the automobile distribution network in rural areas is weak, these manufacturers need to promote low-price products and establish more sales terminals in rural market.

Problems with the Program

Main problems with the subsidization program include:

- The procedures for rural citizen's getting subsidies are complicated.
- Some products labeled as part of the program are sold at higher prices than average market price.
- Rural citizens' awareness of the program and relevant policies is low.
- The program may "overdraw" rural households' consumption capacity now, which makes future sales growth in rural markets unsustainable.

Macroeconomic Review

The Chinese economy showed a slowdown in growth, mainly affected by the global financial crisis and adjustment of the domestic real estate industry. China's GDP recorded a 6.8% growth in the fourth quarter of 2008, far lower than the average over 10% growth during the past five years.

China's exports experienced four consecutive months' year-on-year declines, down to \$64.9 billion in February 2009. This was due to the weak demand from major developed countries, which were all seriously stricken by the global financial crisis. China's export-oriented industries faced severe challenges and many coastal manufacturing facilities closed down.

Till February 2009, China's imports also declined for four consecutive months on year-on-year basis, reaching \$60.1 billion in February. This was due to the price plunge of global bulk commodities such as

crude oil. It also reflected the weak domestic demand for imported products, both industrial and consumable ones.

Urban investment in fixed assets recorded \$150.28 billion in the first two months of 2009, up 26.5% from the same period in 2008. The recent slowdown in fixed assets investment, especially the real estate sector, has significantly affected China's GDP growth.

The FDI (Foreign Direct Investment) that China actually used in the first two months of 2009 was \$13.37 billion, down 26.2% from the same period in 2008. This was related to the global financial crisis and the gloomy prospects of China's manufacturing sectors.

In February 2009, China's CPI (Consumer Price Index) and PPI (Producer Price Index) recorded -1.6% and -4.5% respectively. The overall drop of price levels aroused an expectation for deflation in the economy.

Facing the undesirable international and domestic economic environments, the Chinese government has taken a series of measures to maintain economic growth. In December 2008, the People's Bank of China (PBoC) reduced the benchmark interest rate by 0.27 percent points. This was the fifth time since September 2008 that PBoC reduced base interest rates. In November 2008, the State Council launched the "\$586 Billion Investment Package", which will be made in 2009 and 2010 and focus on housing construction, infrastructure and the social welfare system, etc. "Invigoration Plans" for ten major industries were also made and implemented soon after, including automobile manufacturing, petrochemical, digital information, logistics, etc.

Economic Scoreboard (Jan.-Feb., 2009)

Index	January	February	Year-on-year Growth
Industry Value Added	—		3.8% (Jan. & Feb.)
FDI in Actual Use (Bn USD)	13.37		-26.2% (Jan. & Feb.)
Urban Investment in Fixed Assets (Bn USD)	150.28		26.5% (Jan. & Feb.)
Retail Value of Consumable Goods (Bn USD)	293.66		15.2% (Jan. & Feb.)
Import Value (Bn USD)	51.34	60.1	-43.1% (Jan.) -24.1% (Feb.)
Export Value (Bn USD)	90.45	64.9	-17.5% (Jan.) -25.7% (Feb.)
CPI of Resident (last year=100) (%)	101.0	98.4	—
PPI of Industrial Products (last year=100) (%)	96.7	95.5	—
Exchange Rate (RMB / USD, by February 27)	6.8379		—



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What's New?

We currently have 152 China industry reports available across 18 economy sectors, and the number of reports is expected to reach 157 by the end of March 2009.

Recent reports and reports to be released include:

Published in February, 2009:

- 2021 Veneer and Plywood Manufacturing in China
- 2621 Nitrogenous Fertilizer Manufacturing in China
- 3711 Rail Transport Equipment Manufacturing in China
- 4011 Electronic Transmission Equipment Manufacturing in China
- 6592 Mail-order Houses and Electronic Shopping in China
- 7020 Insurance (except Life Insurance) Carriers in China
- 8441 Adult Higher Education in China
- 9220 Amusement Parks in China

To be released in March, 2009:

- 2631 Chemical Pesticide Manufacturing in China
- 6533 Footwear and Cap Retailing in China
- 6920 Securities Brokerage in China
- 7491 Convention and Exhibition Service in China
- 8932 Cinemas in China

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