北京华通人商用信息有限公司

ALL CHINA MARKETING RESEARCH CO., LTD.

ACMR Newsletter

China Industry and Economic Review

July 2010

Economic Spotlight:

Triple Network Convergence: New Landscape for Information Industry in China

Triple network convergence (TNC) refers to the convergence of telecom network, internet network, and broadcasting network through technological innovation to enable network operators to provide integrated information services such as voice, data, and image. TNC is a general and socialized concept, and currently it mainly means integration of end services rather than physical convergence of telecom network, internet network, and broadcasting network. Characteristic of uniform technical standard and integrated applications, TNC aims to provide diverse and individualized information services to customers.

Triple Network Convergence with a Long History

The concept of TNC dates back to 1998 when China began to reform telecommunication industry to meet WTO entry terms. However, it encountered many difficulties due to technical limitations, industry regulation systems, and future developing direction of civil information industry. Those three networks represent three different industries, namely telecommunication industry, internet industry, and cable TV industry, which are respectively subject to administration and regulation of Ministry of Industry and Information Technology (MIIT) (telecommunication and internet network) and the State Administration of Radio, Film and Television (SARFT) (broadcasting network). This system of divided management leads to great difficulties on the road to TNC.

Major breakthrough was made after the outbreak of global financial crisis when TNC was considered as an important measure to boost domestic demand and stimulate economic growth. Following government encouragement on advancing TNC progress on the basis of cable TV digitalization campaign in the beginning of 2008, TNC was further written into government work proposal in March 2009. On 13, January 2010, Premier Wen Jiabao presided at the State Council executive meeting to promote TNC progress and set short-term targets: from 2010 to 2012, trial programs will be launched to promote mergers between broadcasting and telecommunication services, and policies will be introduced to guarantee the standard and orderly implementation of the program; from 2013 to 2015, the convergence will be extended to cover all three networks, particularly integrated applications, to encourage competition within the network industry. On 1, July 2010, the State Council announced the first batch of cities selected for TNC trial program, including Beijing, Shanghai, and Hangzhou.

Business Layout of Information Industry before Triple Network Convergence

Network	Operators	Technology	Services	Market Conditions	Regulating Agencies
Broadcasting Network	TV program producers and broadcasters and cable TV network operators represented by CCTV and Beijing Gehua, respectively	Usually unidirectional transmission network	TV program production and transmission	Almost insulated and high barriers to entry	SARFT
Telecom Network	Telecom network operators represented by China Mobile, China Unicom, and China Telecom	Two-way transmission network	Basic telecom services and value-added telecom services	Mainly SOEs; foreign and private investments are allowed to provide value-added telecom services	MIIT
Internet Network	Large number of websites, mostly owned by private enterprises	Providing end services to customers	Diversified end application services	Open market and intense competition	Different government agencies depending on business contents

Major Obstacles to Triple Network Convergence

Divided Industry Regulation: Currently, telecom network, internet network, and broadcasting network are under administration and regulations of different government agencies, which creates great obstacles to TNC. Separate supervision is also not conducive to create a fair competitive market environment, leads to repeated network construction, and restricts development of new information services.

Unbalanced Strength of Network Operators: After several rounds of reformation and restructuring, telecom enterprises have formed effective competition landscape. In comparison, financial strength is much weaker for cable TV network operators. There is currently no nationwide cable TV network operator in China, and the cable TV market is yet to be further commercialized. Disparity in operating capacity and financial strength makes it difficult to protect interests of both telecom network operators and cable TV network operators.

Great Significance of Triple Network Convergence

TNC is expected to break the near-monopoly status in the information industry and provide customers with better services with lower price. One of the important targets of government's effort to promote TNC is to add more operators in the industry to form healthy competition in the market. Information network will evolve from independent and specialized network to comprehensive and integrated network with improved performance.

Moreover, TNC helps to reduce infrastructure investment, simplify network management, and lower maintenance costs. As regards business integration, TNC not only retains the original voice, data and video services, but also introduces more value-added services, such as teletext broadcast, VOIP, video mail, and online games, which greatly expand business scope.

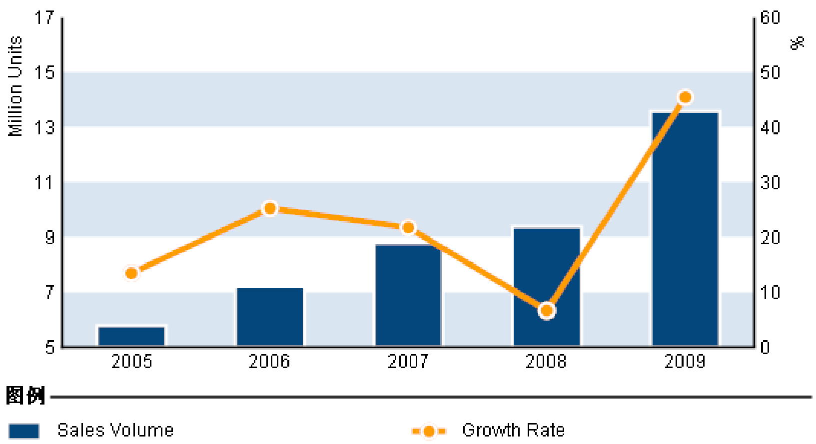
Automobile Manufacturing in China:
Benefiting from Favorable Government Policies

Since the second half of 2008, global financial crisis has had a major impact on the Automobile Manufacturing Industry in China. Growth of sales volume of automobiles started to slow, and profit margins of manufacturers decreased significantly.

In order to counteract negative impact of global financial crisis, the central government issued a series of favorable policies to stimulate the development of this industry in 2009, including reduction in the automobile purchase tax, direct subsidies to rural households purchasing automobiles, and subsidies to automobile owners replacing old autos with new autos.

In 2009, sales volume of automobiles totaled 13.64 million units, up 46.2% from 2008. Sales volume of passenger vehicles amounted to10.33 million units, up 52.9% from 2008, while commercial vehicles realized sales volume of 3.31 million units, up 28.4% from 2008.

Sales Volume of Automobiles in China, 2005-2009



Source: China Automobile Industry Association

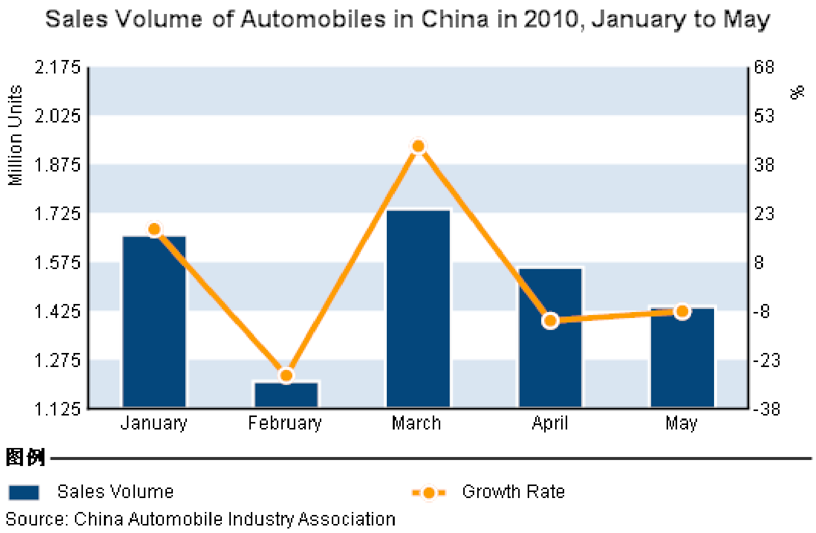
In 2009, the purchase tax of passenger vehicles with displacement less than 1.6L was reduced to 5% from the original 10%. Sales volume of these passenger vehicles therefore experienced significant increases in this year. In 2009, sales volume of passenger vehicles with displacement less than 1.6L amounted to 7.2 million units, up 71% from 2008, accounting for 70% of the total sales volume of passenger vehicles.

Passenger vehicles with displacement less than 1.6L are levied purchase tax of 7.5% in 2010. Sales volume of automobiles continues increasing in the first three months of 2010 due to continuing positive

Website: www.acmr.com.cn Email: joeqiao@acmr.com.cn
Phone: (86) 10-6803-2288-6688 Fax: (86) 10-6801-2338

impact of favorable government policies. According to China Automobile Industry Association, sales volume of automobiles amounted to 1.6 million units in January 2010, and peaked at 1.74 million units in March.

However, sales volume of automobiles started to decrease in April and May due to seasonal cycles and weak demand from foreign markets. For the first five months of 2010, the industry realized sales volume of automobiles of 7.6 million units, including passenger vehicles of 5.68 million units and commercial vehicles of 1.92 million units.



Key Statistics of the Automobile Manufacturing Industry in China, 2009

Indicator	Value	Year-on-year Growth (%)
Industry Revenue (USD Million)	233326.6	23.2
Industry Profit (USD Million)	17966.2	53.0
Exports (USD Million)	5704.2	-46.3
Imports (USD Million)	18986.5	-3.4
Automobile Output Volume (Thousands Units)	13791.0	47.6

Source: National Bureau of Statistics, China Customs, ACMR Industry Research

Major Industry Participants List

Company Name
China FAW Group Corporation
Dongfeng Motor Co., Ltd.
Shanghai Automotive Industry Corporation
Beijing Auto Industry (Holding) Corporation
ChangAn Auto Group

Source: National Bureau of Statistics, ACMR Industry Research

ACMR

ACMR Newsletter

July 2010

Internal Combustion Engine and Fittings Manufacturing in China: Repression in 2009 and Recovery in 2010

In recent years, China's strong economic performance has driven strong demand for machinery products. Rapid development of the downstream industries, including engineering machinery, agricultural machinery, traffic engineering, etc. greatly boosted demand for internal combustion engines. In 2008, however, due to negative impact of global financial crisis, manufacturers within this industry curtailed scale of production. Output of China's internal combustion engines experiences significant decline in the end of the year. For the sub sector of single cylinder diesel engine, its output shrank sharply by 27% from 2007.

In 2009, as the impact of global financial crisis continued, industry growth was greatly repressed, with its revenue increasing by 3.5% in the year (constant price), which was the lowest growth rate in recent years. Major downstream industries were heavily hit and reduced their demand for internal combustion engine products, such as marine and boat manufacturing, and engineering machinery manufacturing, etc. Furthermore, demand from foreign markets decreased significantly by 15.6%.

With overall economy recovery, output of China's internal combustion gradually recovered in the second half of 2009. In November and December, foreign demand began to rebound strongly. In 2010, industry revenue is expected to grow by 4.7% in the year (constant price). For the domestic demand, the continual recovery and development of downstream industries will drive up demand for internal combustion engine and fittings.

Key Statistics of the Internal Combustion Engine and Fittings Manufacturing in China, 2009

Indicator	Value （current price）	Year-on-year Growth (%)
Industry Revenue (USD Million)	13800.0	8.7%
Industry Profit (USD Million)	944.7	-8.3%
Exports (USD Million)	3575.9	-11.4%
Imports (USD Million)	7080.6	-4.3%

Source: National Bureau of Statistics, China Customs, ACMR Industry Research

Major Industry Participants List

Company Name
Weichai Power Co., Ltd.
Changfa Group
Shanghai Diesel Engine Co., Ltd.
Hudong Heavy Machinery Co., Ltd.
Changchai Company Limited

Source: National Bureau of Statistics, ACMR Industry Research

Website: www.acmr.com.cn Email: joeqiao@acmr.com.cn
Phone: (86) 10-6803-2288-6688 Fax: (86) 10-6801-2338

ACMR

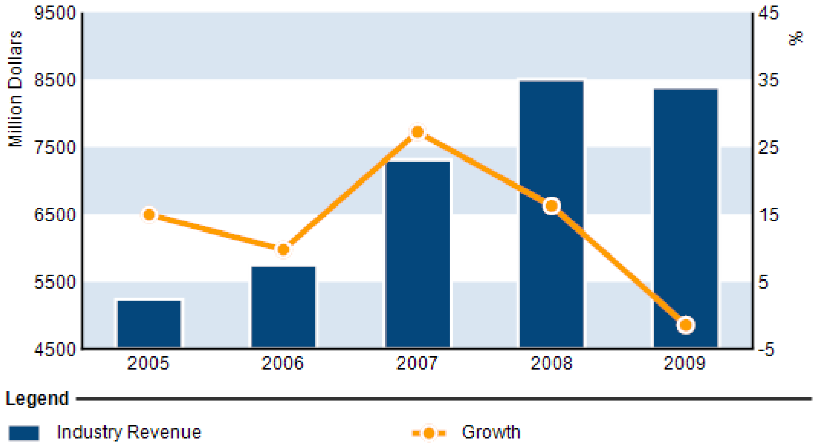
ACMR Newsletter

July 2010

The Cosmetics and Personal Care Products Manufacturing in China: Domestic-made Perfumes are Gaining Momentum

From 2005 to 2009, total revenue of the Cosmetics and Personal Care Products Manufacturing Industry in China increased from $5.2 billion to about $8.4 billion, representing an annualized growth rate of 12.5%.

Industry Revenue of the Cosmetics and Personal Care Products Manufacturing in China 2005-2009



Data Source: National Bureau of Statistics, ACMR Research

Chinese market competition of skin care, makeup, cosmeceutical and washing products are becoming more and more intense, and the professional perfume market will become the next potential growth market and new profit source. In 2010, China is expected to have about 250 million consumers who are able to afford luxury products and the total consumption is forecast to amount to about 29.4 billion. Perfume purchases will become more frequent in the Chinese market.

Currently, the Chinese high-end perfume market is occupied by foreign brands, mainly including Chanel, Lancome, CK, BOSS and Davidoff, etc. Perfumes of Chinese brands, such as Prestige and Nency, etc, mainly establish their presences in the mid-end markets.

Since 2007, mainly due to low popularity, perfumes of Chinese brands have been not accepted by department stores in the first-tier cities and thus began to shift there focus to the second-tier cities, which led to substantial decrease in sales revenue of perfumes of Chinese brands. Represented by Nanjing Prestige and Beijing Nency, perfumes of Chinese brands have been developing new products in the aspects of flavor, bottle types, terminal channel development and cultural implication in order to increase market demand and look for opportunities to enter the high-end market. The annual sales revenue of Prestige S.A.R.L Parfums Nanjing Paris increased from about $2.6 million in 2007 to approximately

$14.6 million in 2009. The sales revenue of perfumes of other Chinese brands also increased considerably, though with varying growth rates.

Key Statistics of the Cosmetics and Personal Care Products Manufacturing Industry in China, 2009

Indicator	Value	Year-on-year Growth (%)
Industry Revenue (USD Million)	8392.2	-1.4
Industry Profit (USD Million)	604.2	-23.6
Exports (USD Million)	1322.5	-5.3
Imports (USD Million)	789.0	1.5

Source: National Bureau of Statistics, China Customs, ACMR Industry Research

Major Industry Participants List

Company Name
Jiangsu Longliqi Group Co., Ltd.
Mary Kay (China) Inc.
Unilever (China) Ltd.
Avon (China) Products, Inc.
Shiseido Liyuan Cosmetics Co., Ltd.

Source: National Bureau of Statistics, ACMR Industry Research

ACMR Newsletter

July 2010

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 July 2010.

Recent reports and reports to be released include:

Published in June 2009:

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 July/August 2010:

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 June 2010

1521 Chinese Distilled Alcohol Manufacturing in China
5511 Air Transportation of Passengers in China
1522 Beer Manufacturing in China
3691 Environmental Protection and Pollution Treatment Equipment Manufacturing in China
2641 Paint and Coating Manufacturing in China
2440 Toy Manufacturing in China
3661 Electrical Equipment and Machinery Manufacturing in China
4043 Computer Peripheral Equipment Manufacturing in China
6110 IT Services in China
6511 General Merchandise Retailing (including Department Stores) in China
6031 Television and Radio Transmission in China
3725 Automobile Parts and Accessories Manufacturing in China
6512 Supermarkets in China
3940 Battery Manufacturing in China
2110 Wood Furniture Manufacturing in China
6546 Jewelry Retailers in China
6720 Fast-food Service Eating Places in China

Website: www.acmr.com.cn Email: joeqiao@acmr.com.cn
Phone: (86) 10-6803-2288-6688 Fax: (86) 10-6801-2338

2770 Medical Materials and Supplies Manufacturing in China

7540 Medical Research in China

1524 Wine Manufacturing in China

7671 Engineering and Project Planning Services in China

1331 Edible Vegetable Oil Processing in China

4052 Semiconductor Manufacturing in China

For more reports and information, please visit http://www.ibisworld.com.cn/.
For Chinese reports, please visit http://report.acmr.com.cn/.

ACMR Membership

To learn more about the benefits of becoming a subscriber to China's largest and most trusted source of industry information, one of our consultants would be pleased to field any queries on:
(0086) 10-6803-2288-6688.