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ALL CHINA MARKETING RESEARCH CO., LTD.

ACMR Newsletter

China Industry and Economic Review

May 2011



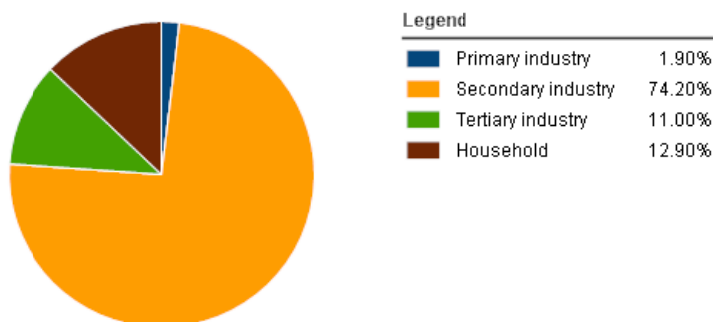
Economic Spotlight:

Power Shortage in China and Strong Demand from Manufacturing Sector

The second quarter is supposed to be conventional off-season for electricity consumption, but power shortage appears in several provinces. Electricity rationing to varying degrees has been practiced in Zhejiang, Hunan, Jiangxi, Chongqing, and Guizhou, especially among high energy consumption enterprises. This round of power shortage is mainly due to strong demand growth, coal shortage, and hydropower shortage.

Statistics showed that total electricity consumption in China amounted to 1467.5 gigawatt hours in the first four months of 2011, 12.4% up from the same period in 2010. Of this total amount, power consumption by the primary industry, the secondary industry, tertiary industry, and household accounted for 27.9 gigawatt hours, 1089.5 gigawatt hours, 161.5 gigawatt hours, and 188.6 gigawatt hours, respectively, up by 3.16%, 12.14%, 15.03%, and 13.18%, respectively, from the same period in 2010. Geographically speaking, top ten provinces in terms of power consumption growth rates are as follows: Xinjiang (33.9%), Yunnan (26.80%), Jiangxi (23.08%), Fujian (21.18%), Hainan (16.91%), Inner Mongolia (15.84%), Gansu (15.59%), Anhui (15.34%), Shaanxi (15.15%), and Ningxia (15.63%).

Electricity Consumption Distribution, January 2011 - April 2011



Sources: NBS, ACMR Industry Research

Power Shortage Due to Several Reasons

Power shortage is mainly caused by disequilibrium of supply and demand. Since 2011 is the first year of the 12th five-year period (2011-2015), there are many newly initiated investment projects and unleashed high energy consumption projects that were restrained at the end of the 11th five-year period (2006-2010), hence strong power demand. On the other hand, power supply was repressed by coal shortage and underperformance of hydropower generation.



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Recent drought in South China reduced hydropower generation capacity considerably. For thermal power generation, rising coal prices and government caps on power price led to widespread losses among thermal power plants, causing generators to cut production and more severe power shortage.

More Severe Power Shortage Possible in the Future

National Energy Bureau of China estimates that total power consumption in 2011 is expected to increase 10%-12% over 2010. Power supply and demand in China are expected to show features of tight equilibrium on the whole and shortage in certain regions and at certain times. On the demand end, power consumption in China is expected to rise 11.5% and 9.8% in 2012 and 2013, respectively; on the supply end, annual newly added power generation capacity in the three years from 2011 to 2013 is expected to average at 85 megawatts, representing annualized growth rate of 8.2%, 7.3%, and 7.6%. Therefore, power shortage is possible to worsen in the next two years.

Mining Equipment Manufacturing in China: Benefiting from M&A and Enhancing Mechanization Level in Small Coal Mines

Enterprises within Mining Equipment Manufacturing Industry in China manufacture equipment that is used for the mining of metals, coal, petroleum, chemicals and building stone. These firms also manufacture specialized equipment that is used for the screening, classification, separation, washing, and rolling of mine products, or similar processes in both underground and open-pit mines.

In recent years, benefited from the expanding economy scale and steady economic growth in China, demand for basic mine products such as coal and metal increased rapidly. Production volume of raw coal increased from 2.07 billion tons in 2006 to 3.24 billion tons in 2010 and production volume of iron ore increased from 590 million tons in 2006 to 1.07 billion tons in 2010. Construction of mines in China has accelerated to meet the rapidly increasing demand from downstream markets, with fixed assets investment in mining sector totaling \$142.59 billion in 2010. Of this investment, around 30% is used to purchase equipment.

Stimulated by the bulk demand from mining sector, Mining Equipment Manufacturing Industry in China developed rapidly during 2006 and 2010, with industry revenue increasing from around \$7.9 billion to \$27.6 billion. Major industry players such as Sany Heavy Equipment International Holdings Company Limited, International Mining Machinery Group and Zhengzhou Coal Mining Machinery Group Co., Ltd. went public in capital markets at home and abroad and raised fund to expand their production bases.

During the twelfth five year period, merge and acquisition of coal mining enterprises will be important theme of China's coal industry. China plans to reduce the number of coal mining enterprises from the current 11,000 to 4,000 and increase average output per coal mining enterprises to over 800,000 tons in three years. As of 2015, there will be six to eight large coal mining groups with annual coal output of over 100 million tons per year and over ten coal mining groups with annual coal output between 50 million tons and 100 million tons per year. Total coal output of super-huge type coal mining groups will hold a share of over 50% in total domestic output.

According to Guideline on Promoting Mechanization of Small Coal Mines, the coal mining mechanization level and tunneling loader mechanization level of small coal mines will reach 45% and 70%, respectively as of the end of 2012 and reach 55% and 80%, respectively as of the end of 2015.

ACMR Industry Research expects that as the introduction of merge and acquisition of coal mining enterprises and enhancement of mechanization level in small coal mines in the next five years, there will be new demand for high-end intelligent and small mining equipment. This will promote development of the whole industry and growth of major players.

Key Statistics of Mining Equipment Manufacturing in China, 2010

Indicator	Value	Year-on-year Growth (%)
Revenue (USD Million)	13376.2	16.2
Profit (USD Million)	2116.8	30.9
Exports (USD Million)	3740	23.4
Imports (USD Million)	3560	54.8
Output (Million Tons)	4.2	23.8

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

Note: Value is current price in 2010; Industry revenue and profit is estimated based on data during the first eleven months of 2010

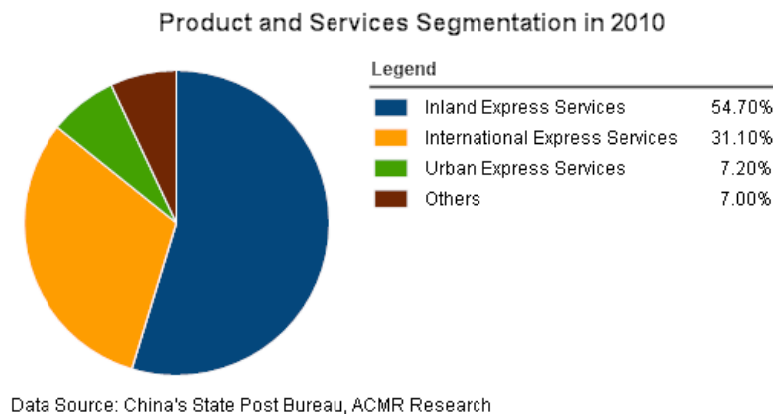
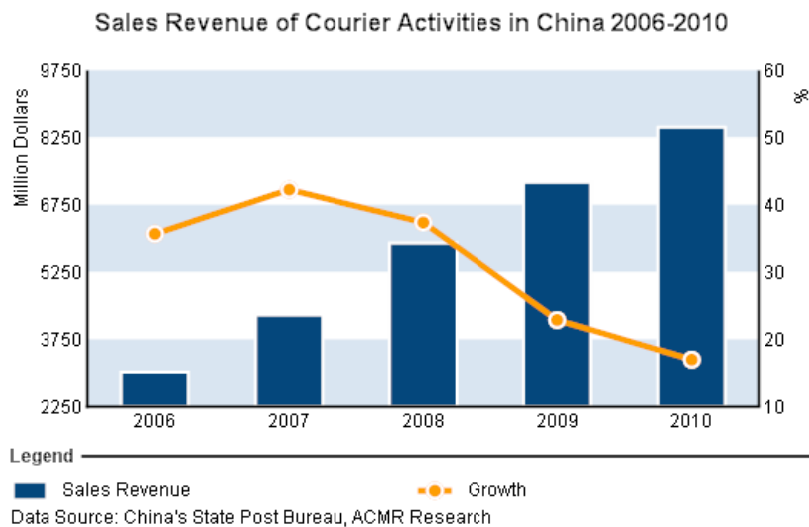
Major Industry Participants List

Company Name	Market Share (%)
China National Coal Mining Equipment Co., Ltd.	4.0
Zhengzhou Coal Mining Machinery Group Co., Ltd.	3.5
China Coal Technology & Engineering Group Corp	3.4
Northern Heavy Industries Group Co., Ltd.	1.6
Sany Heavy Equipment International Holdings Company Limited	1.4

Source: Annual Reports, Public Information, ACMR Industry Research

Courier Activities in China: Great Growth Potential in the Future

From 2006 to 2010, the sales revenue of Courier Activities in China increased from \$3.02 billion to \$8.49 billion, with the annualized growth rate of 29.5%.



In 2011, the courier market scope in China is great and Courier Activities in China is expected to continue to develop fast. In the first quarter of 2011, the industry revenue totaled \$2.31 billion, up 17.4% compared with the same period of last year. In addition, the market share of domestic courier service totaled 66.7%, which means that the domestic courier service has become the important driving factors for Courier Activities in China instead of international courier service. China government will continue to stimulate the harmonious development of courier service, electric commerce and manufacturing, guide



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and help courier enterprises to establish modern enterprise system and stimulate the upgrade of Courier Activities in China.

At the same time, courier enterprises will pay more attention to improvement of its service ability and technology input, upgrade and transform its facility and service terminals, and strengthen its whole operation capability. In addition, domestic consumers will focus on the service quality of courier enterprises instead of service prices, which will stimulate the healthy and fast development of Courier Activities in China.

Major Industry Participants List

Company Name
DHL-Sinotrans International Air Courier Ltd.
Federal Express (China) Co., Ltd.
UPS Parcel Delivery Co., Ltd.
TNT (China) Holdings Co., Ltd.
China Railway Express Co., Ltd.

Source: National Bureau of Statistics, ACMR

Wine Manufacturing in China:

Gansu Province Opens Up the Branding Progress

Gansu province started its wine industry earlier compared with other regions at home. During over 20 years of development, Gansu province has formed certain industry scale and brand effects, providing basis and conditions for further development. However, the proportion of Gansu province in the whole country was relatively lower, just 2.6% in 2010.

Wine Manufacturing Industry in China developed rapidly

With China's economy growth, per capita income improvement, and consumption structure adjustment, both production and sales of China's wine shows vigorous in recent years.

In 2010, output of China's wine totaled 1.08 billion Liters, representing an annualized growth rate of over 20% in recent five years. Meanwhile, revenue of China's wine industry totaled \$4.22 billion in the first 11 months of 2010, up by 27.0%. China's economy growth and consumers' vigorous demand driven rapid development of this industry.

Gansu province highlights its wine industry advantage

Gansu province possesses geography resource advantage for wine grape planting and long history of wine manufacturing. Currently, wine grape planting and wine manufacturing has formed certain scale in Gansu province, forming relatively complete industry chains. Mogao, Qilian, Zixuan have certain brand influence inside and outside of the province, providing favorable basis for further development of wine industry.

In the first 11 months of 2010, Gansu province achieved wine industry revenue of \$107.8 million, up by 67.4%. Growth rate of Gansu province will be higher than the whole country level in the future, and its proportion in the whole country will also increase.

Gansu province push out its local wine brand

Most of Gansu province's wine brands are local ones, with comparatively lower brand recognition and market shares. According to "Gansu Wine Industry Development Planning (2010-2020)", five to eight modernized and scaled wine enterprises mainly producing middle and high grade products will be established by 2020; about ten wine manors combining with scientific development, wine culture show, entertainment and ecotourism will be established by 2020.

Key Statistics of Wine Manufacturing in China, 2010

Indicator	Value (current price)	Year-on-year Growth (%)
Industry Revenue (USD Million)	4221.6	27.0%
Industry Profit (USD Million)	491.9	21.1%
Exports (USD Million)	24.4	258.8%
Imports (USD Million)	799.5	74.7%
Wine Output (Billion Liters)	1.09	13.3%

Source: National Bureau of Statistics, China Customs, ACMR

Key Wine Enterprises in Gansu Province

Company Name
Gansu Mogao Industrial Development Co., Ltd.
Gansu Weilong Organic Wine Co., Ltd.
Gansu Qilian Wine Co., Ltd.
Gansu Suwu Manor Wine Co., Ltd.
Gansu Zhangye Guofeng Wine Co., Ltd.
Gansu Zixuan Wine Co., Ltd.

Source: National Bureau of Statistics, ACMR



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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 May 2011.

Recent reports and reports to be released include:

Published in April 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 May 2011/June 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 April 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



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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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