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ALL CHINA MARKETING RESEARCH CO., LTD.

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China Industry and Economic Review

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Economic Spotlight:

Twelfth Five-Year Plan: Four Major Economic Tasks Stated

The Fifth Plenum of the 17th CPC Central Committee, which was held in Beijing from Oct 15 to 18, adopted the "CPC Central Committee's Proposal for Formulating the Twelfth Five-Year Plan (TFYP) for China's Economic and Social Development (2011-2015)." Details about the plan will be released in May 2011. TFYP is expected to focus on transformation of economic growth pattern, balanced development of urban and rural areas, and strengthening reform and regional cooperation.

China is reaching the critical point that further economic growth is not sustainable unless further reforms are implemented. The next five years are expected to stand as a watershed in the history of economic growth in China 30 years after China adopted opening up policy and economic reformation. Regarding social and economic development, TFYP laid out four major tasks in the future.

Increase Household Income and Boost Domestic Demand

Rapid growth in household income is identified as one of the major goals for social and economic growth in China in the next five years. Although Chinese economy experienced tremendous growth in the past decade, household income growth has lagged far behind growth in GDP. This led to decreasing household income as a share of GDP which in turn repressed domestic demand.

The side effects of sluggish growth of household income is gradually realized, and promoting domestic demand will be a long-term strategy for economic growth in China as well as an important part of transforming economic growth pattern and adjusting economic structure. By boosting domestic demand, Chinese economy will be more sustainable and less dependent on exports.

More Balanced Development across Regions

TFYP aims to narrow development disparities across different regions and more favorable policies will be introduced to economically underdeveloped regions, such as middle and west China. Unlike five-year plans in the past, TFYP attaches greater prominence and importance to regional development and clarifies regional development strategies. Those provinces selected as 12th five-year planning regions are expected to receive more government support in aspects of taxation, land, and finance.

Accelerate Mergers and Acquisitions

Currently, many industries in China are vexed by problems such as repeated construction, low concentration level, lack of competitiveness, and thin profit margin, which hinders industrial restructuring and transformation of economic growth pattern. In the next five years, China will make more efforts to guide and promote corporate mergers and acquisitions to enhance industry dynamics and efficiencies. In order to ensure smooth progress of industry restructuring, more regional market barriers will be removed and private investment will be allowed to enter previously inaccessible industries.

Energy Saving and Emission Reduction

In the first four years of the “11th five-year period” (2006-2010), unit-GDP-energy-consumption (UGEC) in China decreased by 15.6%. However, UGEC rebounded slightly in the first half of 2010, which made the goal to reduce UGEC in the “11th five-year period” by 20% more unlikely to realize. In 2009, China shut down 26.2 million kilowatts of power generating capacity in small thermal power plants and eliminated backward production capacities of 16.9 million tons, 21.1 million tons, and 74.2 million tons of steel, iron, and cement, respectively.

In the next five years, China will attach great importance on energy saving and environment protection industries and industries related to population and resources. Energy saving, next-generation information technology, biotechnology, high-end equipment manufacturing, new energy, new materials, alternative-fuel vehicles have been chosen as emerging industries of strategic importance in China. For foreign investment in China, government will encourage investment on high-end manufacturing, high-tech industries, modern service industries, new energy, and environment protection industries, while investment on high-energy-consumption, high-pollution, and overcapacity industries will be restrained.

Inter-urban Railway Transportation of Passengers in China: High Liability Ratio Increases Operational Risk

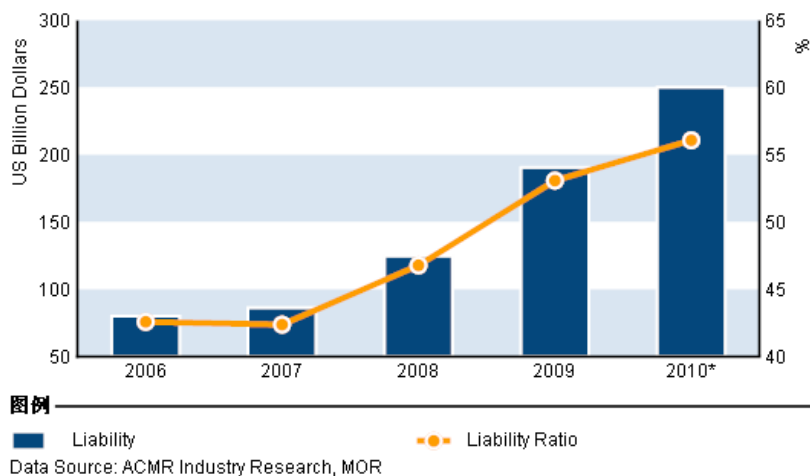
In 2009, total railway passenger traffic volume and railway turnover volume reached 1.52 billion person times and 787.9 billion person kilometers, up 4.3% and 1.3%, respectively. With the rapid development of road transportation, water transportation and civil aviation transportation, advantages of railway passenger transportation has been declining. In recent years, Ministry of Railway has been enhancing railway technology equipment level and transportation efficiency through large scale high-speed railway construction and speed acceleration to consolidate market position of railway passenger transportation.

In 2009, the completed railway fixed assets investment was \$102.7 billion, of which railway construction investment was \$87.9 billion, up 81% over 2008. During 2009, total mileage of newly started high-speed railway and newly completed high-speed railway was 2,283.8 kilometers and 2,318.9 kilometers, respectively. Total mileage of passenger dedicated railway (high-speed railway in broad sense) reached 3,459.4 kilometers in 2009 and is expected to exceed 7,000 kilometers at the end of 2010.

According to the estimation of experts from National Development and Reform Commission, during the twelfth five-year period, railway fixed assets investment will be around \$91 billion each year. As the end of 2015, total mileages of railway and high-speed railway under operation will reach 120,000 kilometers and 18,000 kilometers, respectively. The share of multi-track and electrification railway will be around 45% to 50% at that time.

However, behind the large scale of railway construction is increasing liability ratio of MOR, which adds investment risk. According to public information, as of the end of the third quarter of 2010, total liabilities of MOR increased from \$80.3 billion in 2006 to \$251 billion and liability ratio increased from 42.6% in 2006 to 56.1%. In the future, as the scale of railway investment expands, liability and liability ratio of MOR is still expected to increase. MOR is faced with high principal and interest repayment pressure, which will increase operational risk and affected profitability level of this industry.

Constantly Enhancing Liability and Liability Ratio of MOR



Key Statistics of Mining Equipment Manufacturing in China, 2010*

| Indicator | Value | Year-on-year Growth (%) |
|--|-------|-------------------------|
| Revenue (USD Billion) | 19.2 | 20.3 |
| Passenger Volume (Billion Persons) | 1.58 | 4 |
| Passenger Transport Turnover (Billion Person-kilometers) | 827.3 | 5 |

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

Note: 2010 data is ACMR Industry Research estimates based on 2009 data

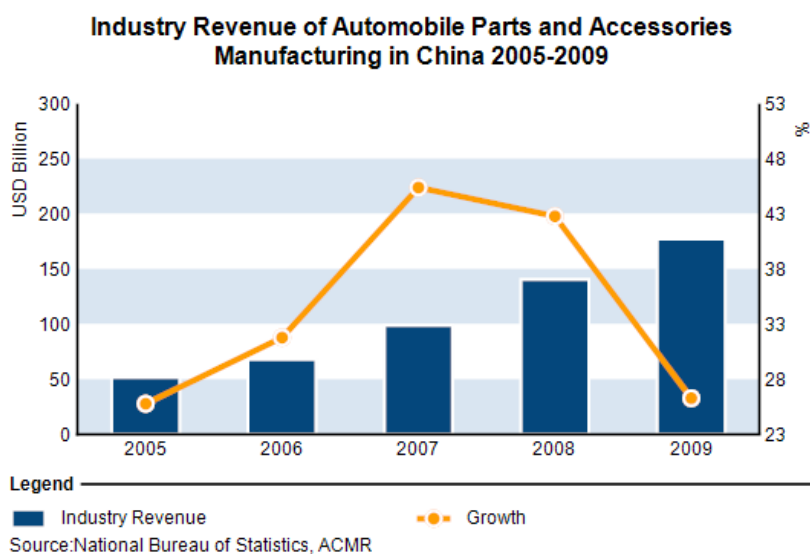
Major Industry Participants List

| Company Name | Market Share (%) |
|--|------------------|
| Shanghai Railway Administration | 16.5 |
| Shenyang Railway Administration | 13.5 |
| Beijing Railway Administration | 12.0 |
| Guangzhou Railway Group Corporation Ltd. | 12.0 |

Source: ACMR Industry Research, MOR

Automobile Parts and Accessories Manufacturing in China: Benefiting from Government Policies

From 2005 to 2009, the industry revenue of the Automobile Parts and Accessories Manufacturing in China increased from \$52.0 billion to \$177.2 billion, with the annualized growth rate of 35.9%. During the same period, the total profit and assets increased from \$2.8 billion and \$53.7 billion to \$14.0 billion and \$142.1 billion, respectively.



At the end of 2009, the State Council of China decided to expand the number of new energy vehicle demonstration pilot projects from 13 to 20. In 2010, the related national departments issued the regulation of subsidies for new energy vehicles and the State Council of China makes the new energy vehicle industry as one of the seven key industries at the present stage. The new energy vehicle industry is expected to develop at large scale, which will start the continuous investment surges of core parts of new energy vehicles. In 2010, expanding the scope of auto remanufacturing pilot projects to propeller shafts, oil pumps and water pumps is explicitly stipulated in Suggestions on Promoting the Development of Remanufacturing Industries. Making components of high-grade cars and heavy trucks matching as one of seven key fields is stipulated in Revitalization Programs of mechanically basic components. The issued national assistance policies are helpful for the fast development and industrial restructuring and upgrading of this industry. From January 2010 to August 2010, the industry revenue totaled \$153.85 billion, up by 49.0% from the same period of last year.

From January 2010 to September 2010, the auto industry in Europe and America gradually recovered, which brought the international market demand for automobile parts and accessories. At the same time, Chinese manufacturers actively adopted many measures to increase exports, such as taking part in

international automobile part and accessory exhibitions and developing emerging markets, etc. The exports totaled \$12.14 billion, up 50.6% from the same period of last year. During the same period, the fast development of imported automobiles directly promoted the import growth of automobile parts and accessories. The imports increased to \$8.46 billion, up 55.1% compared with the same period of last year.

Key Statistics of the Automobile Parts and Accessories Manufacturing Industry in China, 2009

| Indicator | Value | Year-on-year Growth (%) |
|--------------------------------|-----------|-------------------------|
| Industry Revenue (USD Million) | 177,179.3 | 25.7 |
| Industry Profit (USD Million) | 14,013.3 | 49.1 |
| Exports (USD Million) | 11,483.4 | -21.4 |
| Imports (USD Million) | 12,320.8 | 11.2 |

Source: National Bureau of Statistics, China Customs, ACMR

Major Industry Participants List

| Company Name |
|--|
| Wanxiang Group |
| Weichai Power Co., Ltd. |
| Beijing Hyundai Mobis Auto Part Co., Ltd. |
| Shanghai Automotive Industry Corporation (Group) |
| China FAW Group Corporation |

Source: National Bureau of Statistics, ACMR

Carbonated Soft Drink Entering its Maturity in China

With the development of technology, people have recognized the negative effect of carbonated soft drink to human body. Sales volume of carbonated soft drink shows a downward tendency in the world. Carbonated Soft Drink Manufacturing in China is also entering .

Lower Sales Growth Rate

Carbonated Soft Drink Manufacturing in China has maintained steady development in recent years. Consumers' increasing concerns on health have affected their consumption of carbonated soft drink. With too much sugar and calorie, the traditional carbonated soft drink is considered as one of the main factors leading to fat, affecting consumers' health. In the developed countries and regions, development of carbonated soft drink is pushed out in recent years, and the share of Coca-Cola and Pepsi kept declining. In China, the consciousness of healthy consumption is penetrating, and many consumers especially the parents have listed carbonated soft drink in "blacklist". The popularity of juice, tea and some other healthy drink has led to slowdown of sales volume of carbonated soft drink.

Output Growth Slows down

With increases of people's disposable income and improvement of the consumption level, the sales volume and output of carbonated soft drink kept increasing, however, the growth rate slow down. Consumers' increasing concerns on health have restrained the output growth of carbonated soft drink to some degree. In addition, various kinds of healthy drink, including milk drink, tea drink, juice drink, etc. have substituted carbonated soft drink to some degree, leading to declining share of carbonated soft drink in total soft drink.

According to the National Bureau of Statistics, the total output of soft drink in the first nine months of 2010 reached 74.9 million tons, up by 16.6% from 2009; while the output of carbonated soft drink only increased by 0.06% to 10.29 million tons in the same period, with the growth rate falling 11.82 percentage points from 2009.

Fierce Competition of the Two Giants in the Non-carbonated Business

Coca-cola and Pepsi are actively expanding the non-carbonated business all over the world. Minute Maid of Coca-cola has earned certain market share in China, and Tropicana of Pepsi also expanded into China from 2007. These to carbonated soft drink giants will further expanded their market shares in the non-carbonated business area.

In September, 2008, Coca-cola tries to purchase China Huiyuan Juice Group at \$24 hundred million, and the plan failed in March, 2009. Despite the failed plan, Coca-cola announced to invest \$20 hundred million more on building new factories, strengthening the distribution system, marketing and improving the innovation ability. Coca-coal will further expanded China's non-carbonated markets.

Pepsi also seek new breakthrough points at home. Despite failed acquisition of Wanglaoji, its "Caobenle" characteristic with nourishing and health preserving came into the market in succession. From 2009 to 2012, Pepsi plans to invest \$1 billion for new factory construction and products development in China,

laying stress on non-carbonated business. The competition between these two giants in the non-carbonated business will tend to be increasingly fierce.

Despite declining share of carbonated soft drink in total soft drink, it does not represent decline of Carbonated Soft Drink Manufacturing in China. It is normal phenomenon that Carbonated Soft Drink Manufacturing in China develops toward mature after rapid development. The grow up of juice and tea drink just reflect the consumption diversification of Chinese people and the improvement of living standard, instead of the declining of Carbonated Soft Drink Manufacturing in China.

Key Statistics of the Carbonated Soft Beverage Manufacturing in China, 2010

| Indicator | Value | Year-on-year Growth (%) |
|---|--------|-------------------------|
| Industry Revenue (USD Million) | 9662.4 | 6.4% |
| Exports (USD Million) | 134.8 | -2.7% |
| Imports (USD Million) | 60.5 | 25.3% |
| Carbonated Beverage Output (Million Tons) | 13.7 | 9.6% |

Source: National Bureau of Statistics, China Customs, ACMR

Major Industry Participants List

| Company Name |
|---|
| Coca-Cola (China) Beverages Limited |
| Pepsi (China) Limited |
| Uni-President China Holding Limited |
| Hangzhou Wahaha Future Cola Beverages 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 November 2010.

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Published in October 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 November/December 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 October 2010

- 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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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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