

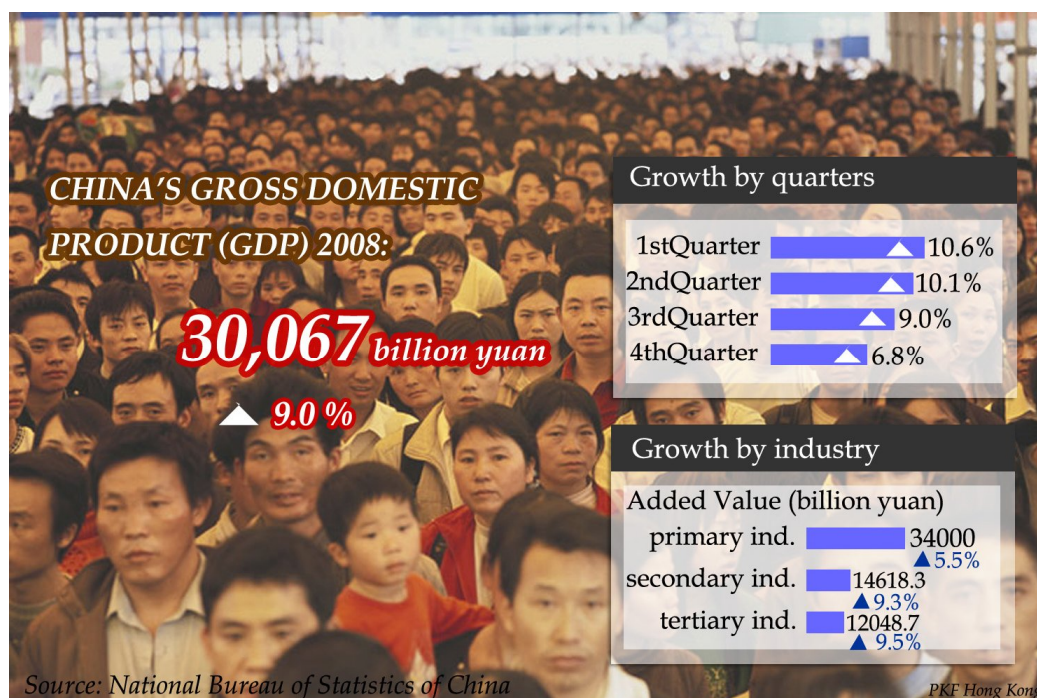


## Mainland Economy Focus: Brief Market Profile on Chinese Mainland Y2008

The report tries to give more information and have a well understand of the Hong Kong and Mainland China's development. It hopes that business opportunities can be discovered.

- 2008 China's Economy Highlights
- Economic Relations with Hong Kong
- Consumer Power - Regional Differences

## 2008 China's Economy Highlights



Graphics shows China's gross domestic product (GDP) in the year of 2008, released by the National Bureau of Statistics (NBS) on Jan. 22, 2009. China's GDP reached 30.067 trillion yuan (4.4216 trillion U.S. dollars) in 2008, expanding 9 percent year-on-year.

- China's real GDP grew by 9 percent to 30.0670 trillion yuan<sup>1</sup> (4.4216 trillion U.S. dollars) last year, down from 13 percent in 2007. It is the first time below a double-digit level since 2003.
- The Chinese government has set a 8 percent GDP growth target for 2009.
- China's exports have been hit badly as the global crisis cut demand, notably in the manufacturing sector. In 2008, exports grew by 17.2 percent to US\$1,429 billion while imports increased by 18.5 percent to US\$1,133 billion, resulting in a trade surplus of US\$296 billion.
- CPI rose up by 5.9 percent<sup>1</sup> with food prices increased by 14.3 percent in 2008. In December 2008, the increase rate of CPI slowed to mere 1.2 percent, compared to 8.5 percent in April 2008.
- As one of the major driving forces of the economy, China's fixed assets investment rose 25.5 percent year-on-year to 17.23 trillion yuan<sup>1</sup> (2.52 trillion U.S. dollars) in 2008. The growth rate was 0.7 percentage point higher than the previous year. The urban fixed assets investment rose 26.5 percent year-on-year to 1.027 trillion yuan (150.35 billion U.S. dollars) in the first two months of this year, and the investment was likely to continue growth during the rest of 2009.
- China's retail sales up 21.6 percent<sup>1</sup>, signaling that domestic demand may help the economy through the worst financial crisis since the Great Depression. Sales climbed to 10.85 trillion yuan in 2008. In the first two months of 2009, the retail sales grew 15.2 percent to 2 trillion yuan.

<sup>1</sup> National Bureau of Statistics of China (NBS)

- China's industrial output rose 12.9 percent year-on-year in 2008, 5.6 percentage points lower than 2007. The output rose 5.2 percent<sup>2</sup> year-on-year in the first two months of 2009. The figure was still 0.5 percentage point lower than in December 2008, dragged down by weakening exports and high inventories.
- In 2008, China's top ten trading partners were the US, Japan, Hong Kong, Taiwan, Germany, South Korea, Australia, Russia, Malaysia and Singapore. Their total external trade accounted for 57 percent of China's total external trade in 2008.
- By the end of 2008, China approved foreign investment projects totaled 659,862, with actual utilised overseas FDI amounting to US\$883 billion. The leading sources of investment were Hong Kong, Japan, the US, Taiwan, Singapore and South Korea.
- During the last three years, net exports added an average of a only 2.3<sup>3</sup> percent to economic growth compared to 9 percent from domestic demand.
- China's foreign exchange reserves rose to a world record of US\$1,950 trillion<sup>4</sup> at the end of 2008.

Some economic indicators in China showed a "faster decline" in the end of year 2008. In the past 30 years, China owes much of its remarkable success to an outward-looking development model – heavily dependent on foreign trade. But in 2008, China's economy cooled to its slowest pace in seven years. Overseas weakening demand was a major cause of China's economy slowdown, as more than 30 percent of GDP comes from trade-related industries, so the export-led growth model needs rebalancing.

With the 4-trillion yuan stimulus package announced by the central government of which 100 billion yuan spent on low-rent housing, roads, railways, airports as well as infrastructure in rural areas. It is forecast that the China's economy would begin to improve in the second or third quarter this year. In addition, more and more financial authorities are beginning to implement a "relatively loose" monetary policy. The central government expected that the 4 trillion yuan stimulus package will take effect and boost local consumptions, at least on a short term basis.

Exhibit 1: Stimulus Spending Package

Stimulus Spending	Development Items
Housing	Building affordable and rural housing
Rural Infrastructure	Modernising roads, power grids, diversion of drinking water, and gas treatment
Transportation	Airports, roads, highway, ports, railway
Health	Hospital construction, restructuring healthcare system, and health insurance expansion in rural areas
Education	Developing cultural centers, rural school construction in Western and Central areas
Disaster Rebuilding	Earthquake rebuilding
Environmental	Waste management, renewable energy, technology upgrades in coal burning
Innovation	Value-added industry development

<sup>2</sup> The Ministry of Industry and Information Technology (MIIT)

<sup>3</sup> Ministry of Commerce in China

<sup>4</sup> Released by People's Bank of China on 14 October 2008.

## Economic Relations with Hong Kong

For Hong Kong, the Closer Economic Partnership Arrangement (CEPA), which is China's free trade agreement with Hong Kong, provides a window of opportunity for Hong Kong-based companies to gain a China-based strategy, especially attractive in the services sector, where Hong Kong is particularly strong. It also serves as a "Springboard" for Mainland enterprises to "Walk out of the domestic door" and accelerating the Mainland's full integration with the world economy.

Hong Kong is the most important entrepot for trade between the overseas and the Mainland. In 2008, 62.5 percent<sup>5</sup> of re-exports were of China origin and 48.9 percent were destined for the Chinese mainland.

Exhibit 2: Hong Kong's Direct Investment in the Mainland

Projects, contracted and utilised direct investment	2008		1979-2008	
	No./Value	Share of the national total (%)	No./Value	Share of the national total (%)
Number of approved projects	12,857	46.7	298,620	45.3
Utilised direct investment (US\$ bn)	41.0	44.4	349.6	39.6

Sources: China Monthly Statistics

Exhibit 3: Hong Kong's Trade with the Chinese Mainland

Unit (US\$ million)	2007			2008		
	Value	Growth(%)	Ranking	Value	Growth(%)	Ranking
Total exports	167,735	+ 13.2	1	175,698	+ 4.7	1
...Domestic exports	5,206	+ 0.8	1	4,458	- 14.4	1
...Re-exports	162,529	+ 13.6	1	171,242	+ 5.4	1
Imports	170,468	+ 11.5	1	180,863	+ 6.1	1
Total Trade	338,203	+ 12.3	1	356,562	+ 5.4	1
Trade Balance	- 2,733			- 5,165		

Sources: Hong Kong Trade Statistics, Census & Statistics Department / Hong Kong Trade Development Council

## Consumer Power - Regional Differences

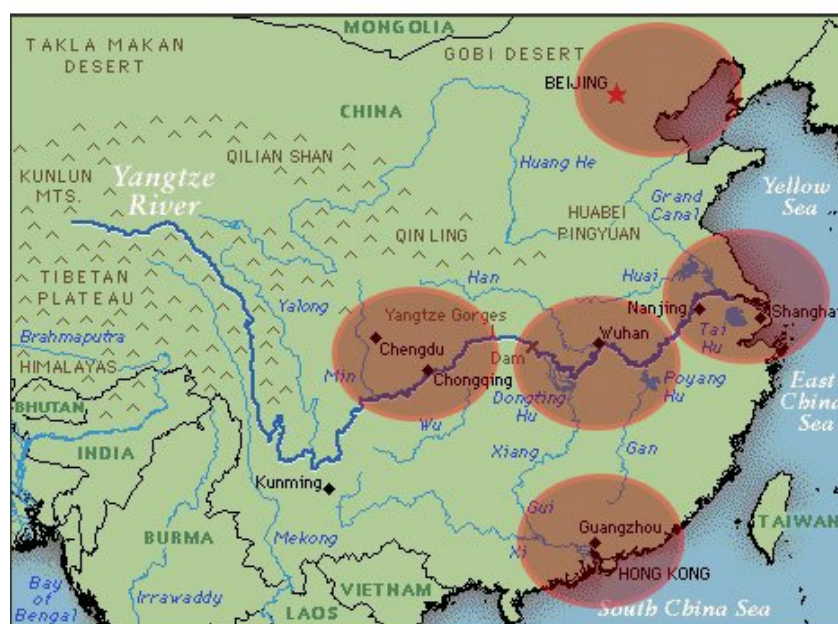
Today, investors have been able to segment China markets based on the relative economic development of each city. Boasting a population of 1.3 billion, China is such an enchanting market for them. With the wealth spreads across China and urbanisation continues, companies need to understand how demographic shifts will affect their expansion plans. It is forecasted that over 1 billion people will live in China's urban centers by 2030.

<sup>5</sup> HKSAR government statistics

China remains more brand-driven than other markets. The brands will influence consumer trends. A recent survey conducted by McKinsey & Company shows that two-thirds of consumers in China would choose from only one or a small set of pre-determined brands when they go shopping, compared to less than half of British or Japanese shoppers.

So, which region have high spending power in China? There are five developed regions in China:

1. Pearl River Delta (PRD) – Guangzhou, Shenzhen, Foshan, Dongguan, Jiangmen, Zhongshan and Zhuhai
2. Yangtze River Delta (YRD) – Shanghai, Hangzhou, Nanjing, Suzhou, Wuxi, Ningbo, Changzhou, Jinhua, Shaoxin, Jiaxin and Zhenjiang
3. Bohai Sea Surrounding Area – Beijing, Tianjin, Shenyang, Qindao, Jinan, Dalian and Zibo
4. Central cities – Wuhan, Changsha, Zhengzhou
5. Western cities – Chengdu, Chongqing



With a population of approximately 47 million, the region of PRD is one of the largest metropolitan regions in the world and one of the fastest growing regions in China. In recent years, strong demand for consumer goods is driven by the growing income and influx of tourists. The per capita income of urban and rural residents will see a “marked” increase over that of 2007 by 2012<sup>6</sup>. It is forecasted that more than 85 percent of the region will be urbanised by 2012. Today, many Hong Kong manufacturers moved into the Shenzhen Special Economic Zones (SEZs) nearby to take advantage of cheaper land, labour and operating costs.

YRD is home to over 80 million people as of 2007, of which an estimated 50 million are urban. It is one of the most densely populated regions in the world, includes one of the world's largest cities on its banks – Shanghai.

<sup>6</sup> Guangzhou Daily

Exhibit 4: Top 30 Consumer Market in China – Economic Indicators 2007

	Total Retail Sales of Consumer Goods (yuan, billion)	Total per capita consumer goods retail (yuan)	GDP per capita (yuan)	Household Savings (yuan, billion)
Shanghai	384.8	20,708	66,367	869.5
Beijing	380.0	23,271	58,204	974.4
Guangzhou (Guangdong)	259.5	25,831	71,808	551.4
Shenzhen (Guangdong)	191.5	22,226	79,645	379.2
Tianjin	160.4	14,383	46,122	307.9
Wuhan (Hubei)	151.8	17,040	35,582	194.8
Nanjing (Jiangsu)	138.1	18,623	53,638	195.1
Chengdu (Sichuan)	135.7	10,789	26,525	246.6
Hangzhou (Zhejiang)	129.6	16,488	52,590	257.9
Suzhou (Jiangsu)	125.0	14,172	91,911	259.3
Shenyang (Liaoning)	123.2	17,356	45,561	196.8
Qingdao (Shandong)	119.9	14,298	45,399	170.2
Wuxi (Jiangsu)	113.5	18,939	83,923	170.1
Jinan (Shandong)	110.3	16,785	39,261	126.7
Changsha (Hunan)	103.7	16,269	33,711	117.7
Ningbo (Zhejiang)	103.6	15,018	50,474	185.6
Dalian (Liaoning)	98.3	17,006	51,630	183.7
Zhengzhou (Henan)	97.9	13,298	34,069	165.9
Foshan (Guangdong)	94.7	15,985	61,199	283.7
Chongqing	85.6	12,748	26,956	146.1
Dongguan (Guangdong)	69.6	10,017	46,027	212.1
Changzhou (Jiangsu)	61.1	14,037	52,841	109.2
Zibo (Shandong)	59.3	13,227	43,499	80.7
Jinhua (Zhejiang)	56.3	11,035	29,063	103.2
Shaoxin (Zhejiang)	51.5	11,251	43,422	108.7
Jiaxing (Zhejiang)	50.1	11,973	38,357	90.8
Zhongshan (Guangdong)	39.6	15,765	49,488	87.6
Xiamen (Fujian)	36.2	14,897	56,188	74.0
Zhenjiang (Jiangsu)	33.1	10,977	44,894	52.9
Zhuhai (Guangdong)	30.2	20,736	61,693	59.2

Source: HKTDC

Exhibit 5: The per capita disposable income of urban and rural residents in main region 2008

	Jan-Dec 2008	Growth (% y-o-y)
Guangdong	19,733	11.5
Shandong	16,305	14.3
Jiangsu	18,680	14.1
Zhejiang	22,727	10.5
Shanghai	26,675	12.9

Source: Guangdong Statistics online

Exhibit 6: The consumer price index (year-on-year = 100)

	Jan-Dec 2008	Growth (%y-o-y)
Guangdong	105.6	5.6
Shandong	105.3	5.3
Jiangsu	105.4	5.4
Zhejiang	105.0	5.0
Shanghai	105.8	5.8
Source: Guangdong Statistics online		

Despite of what has been happening elsewhere around the world, China is relatively stable from such global financial crisis. We would still consider that with business opportunities in China, it would be a safe to believe that despite of the financial turmoil, China market will continue to be favorable for foreign investors against the financial crisis, at least for this year.

Feel free to get in touch with us today to get more information and we can help you gauge your current situation in the recent market events. PKF

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#### Contact Information

26/F, Citicorp Centre, 18 Whitfield Road,  
Causeway Bay, Hong Kong

Tel : (852) 2806-3822

Fax : (852) 2806-3712

info@pkf-hk.com

www.pkf-hk.com

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