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IBISWorld and ACMR China Industry Report

07 January 2010

Musical Instrument Manufacturing in China: 2431

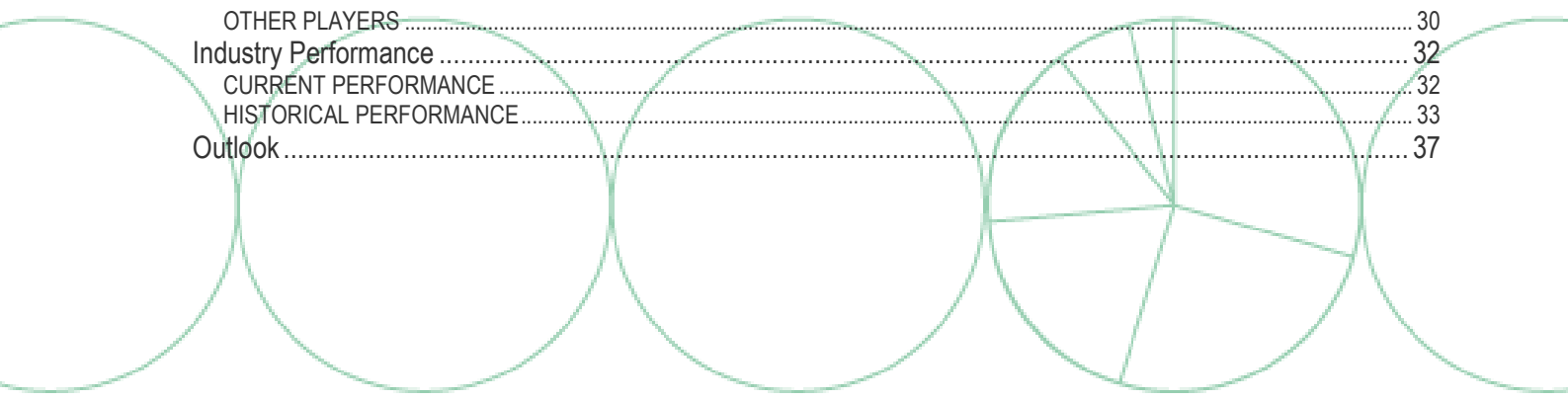


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Industry Definition

Establishments within the Musical Instrument Manufacturing Industry in China (China industry code - 2431) produce Chinese musical instruments, Western musical instruments, electronic musical instruments, and other musical instruments, parts and components.

ACTIVITIES (PRODUCTS AND SERVICES)

The primary activities of this industry are:

- Western musical instrument manufacturing
- Chinese musical instrument manufacturing
- Electronic musical instrument manufacturing
- Musical instrument parts manufacturing

The major products and services in this industry are:

- Western musical instruments
- Musical instrument parts
- Electronic musical instruments
- Chinese musical instruments

SIMILAR INDUSTRIES

Industry:  2440 - Toy Manufacturing in China

Description: Toy musical instruments are included in the Toy Manufacturing Industry in China.

DEMAND & SUPPLY INDUSTRIES

-  2011 - Sawmills in China
-  2040 - Bamboo, Cane, Palm and Grass Products in China
-  3440 - Metal Thread Products Manufacturing in China
-  6599 - Other Retailers in China
-  9010 - Literary and Artistic Creations in China

Key Statistics

CONSTANT PRICES

	2006	2007	2008	2009	2010	
Industry Revenue	*1,931.8	*2,179.5	*2,477.4	*2,382.0	*2,554.7	\$US Mill
Industry Gross Product	*517.0	*586.2	*597.6	*614.0	*656.5	\$US Mill
Number of Establishments	*285	*302	*306	*302	*309	Units
Number of Enterprises	*266	*276	*278	*270	*275	Units
Employment	*66,415	*71,144	*71,592	*67,759	*70,876	Units
Exports	*1,220.9	*1,374.7	*1,684.7	*1,269.1	*1,397.8	\$US Mill
Imports	*169.5	*179.6	*217.8	*186.7	*199.7	\$US Mill
Total Wages	*176.7	*212.7	*232.3	*232.4	*251.4	\$US Mill
Total Assets	*1,664.0	*1,860.6	*2,245.3	*2,344.7	*2,461.3	\$US Mill
Domestic Demand	*880.4	*984.4	*1,010.5	*1,299.6	*1,356.6	\$US Mill

CURRENT PRICES

	2006	2007	2008	2009	2010	
Industry Revenue	*1,514.0	*1,835.4	*2,236.4	*2,257.8	*2,554.7	\$US Mill
Industry Gross Product	*405.2	*493.6	*539.5	*582.0	*656.5	\$US Mill
Number of Establishments	*285	*302	*306	*302	*309	Units
Number of Enterprises	*266	*276	*278	*270	*275	Units
Employment	*66,415	*71,144	*71,592	*67,759	*70,876	Units
Exports	*956.8	*1,157.6	*1,520.8	*1,202.9	*1,397.8	\$US Mill
Imports	*132.8	*151.2	*196.6	*177.0	*199.7	\$US Mill
Total Wages	*138.5	*179.1	*209.7	*220.3	*251.4	\$US Mill
Total Assets	*1,304.1	*1,566.8	*2,026.9	*2,222.5	*2,461.3	\$US Mill
Domestic Demand	*690.0	*829.0	*912.2	*1,231.9	*1,356.6	\$US Mill

REAL GROWTH

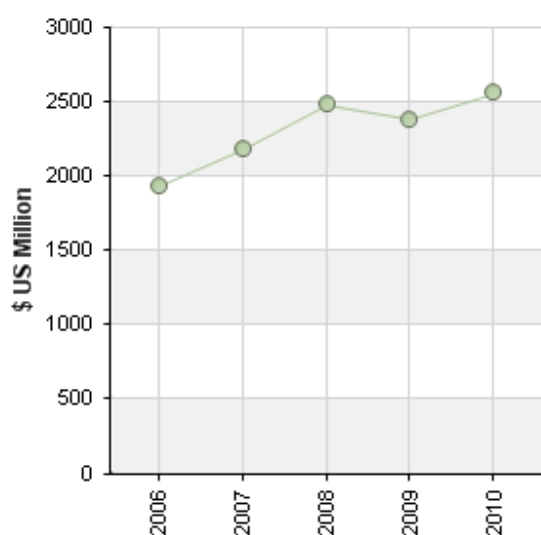
	2006	2007	2008	2009	2010
Industry Revenue	*16.3	*12.8	*13.7	*-3.9	*7.3 %
Industry Gross Product	*20.0	*13.4	*1.9	*2.7	*6.9 %
Number of Establishments	*9.2	*6.0	*1.3	*-1.3	*2.3 %
Number of Enterprises	*10.4	*3.8	*0.7	*-2.9	*1.9 %
Employment	*4.8	*7.1	*0.6	*-5.4	*4.6 %
Exports	*6.6	*12.6	*22.6	*-24.7	*10.1 %
Imports	*0.5	*6.0	*21.3	*-14.3	*7.0 %
Total Wages	*9.7	*20.4	*9.2	*0.0	*8.2 %
Total Assets	*4.6	*11.8	*20.7	*4.4	*5.0 %
Domestic Demand	NC	*11.8	*2.7	*28.6	*4.4 %

RATIO TABLE

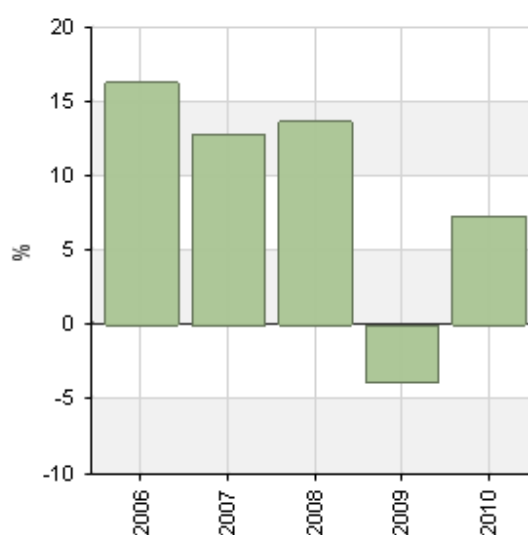
	2006	2007	2008	2009	2010
Imports share of domestic demand	*19.25	*18.24	*21.55	*14.37	*14.72 %
Exports Share of Revenue	*63.20	*63.07	*68.00	*53.28	*54.71 %
Average Revenue per Employee	*0.03	*0.03	*0.03	*0.04	*0.04 \$US Mill
Wages and Salaries Share of Revenue	*9.15	*9.76	*9.38	*9.76	*9.84 %

GRAPHS

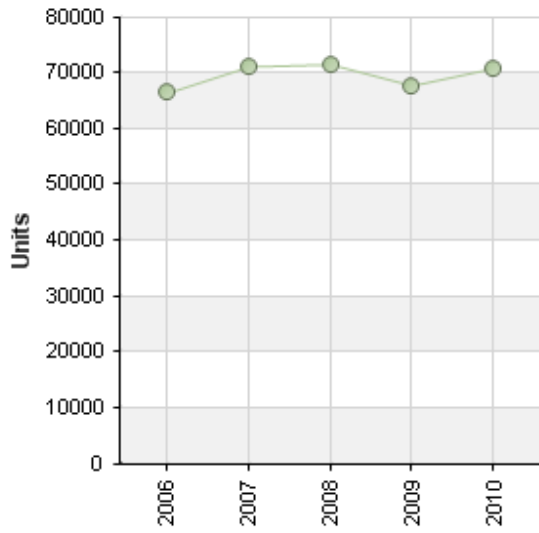
Revenue



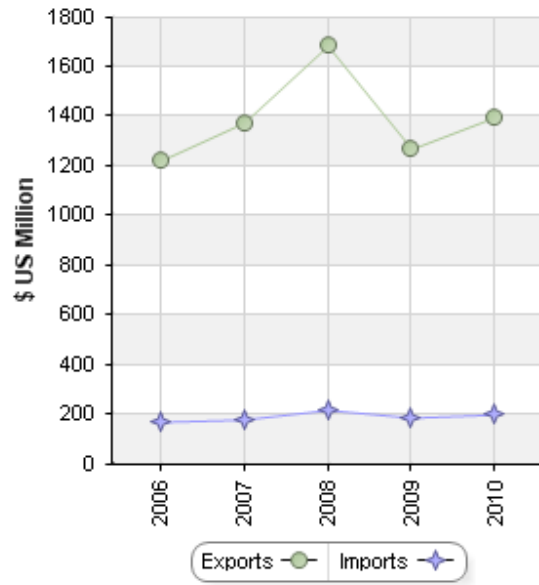
Revenue Growth Rate



Employment



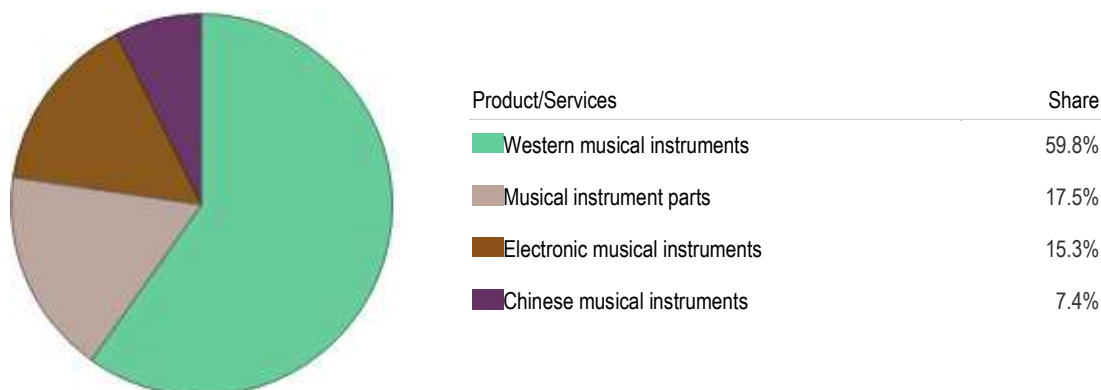
Imports and Exports



Note: Unless specified, an asterisk (*) associated with a number in a table indicates an IBISWorld estimate and references to dollars are to US dollars.

Segmentation

PRODUCTS AND SERVICE SEGMENTATION



Western musical instruments, including keyboard instruments, Western wind instruments, Western string instruments and Western percussion instruments, accounted for 59.8% of industry revenue in 2009. This high percentage is due to higher prices of Western musical instruments, while demand is strong. Pianos, violins, guitars and wind instruments together account for the largest proportion of this segment, as these products are more popular domestically and globally. China has been the largest manufacturer of Western musical instruments in the world for many years. Domestic manufacturers are primarily concentrated in the low- and mid-end markets while foreign enterprises focus on the high-end market.

Piano output continued to increase in the past five year, except for a slight decrease of 1.7% during 2006 to 374,960 units. Increases in recent years were derived from rising demand in both domestic and export markets. The fall in 2006, however, was mainly due to declining domestic demand. From 2004 to late-2008, raw material prices for musical instruments increased significantly. For instance, prices of wood and copper materials increased by roughly 15% and 100%, respectively, while energy prices also increased significantly. Also, piano manufacturers reduced final prices due to intensive competition. As a result, many small- and medium-scale enterprises were acquired by large-scale companies, or started to produce other musical instruments to maintain profits.

Guitar manufacturers were mainly concentrated in Guangdong and Shandong province in China. Many new operators entered this market, especially in 2004 and 2005. For example, the number of guitar manufacturers in Shandong Province increased by 40 during the current performance period. Currently, private companies and enterprises from Taiwan accounted for the largest share of total enterprises. Industry revenue generated from guitars in 2006 decreased by 12.2%, experiencing the first fall after maintaining increases for six consecutive years. This was attributable to the decreasing global demand for guitars and the intensive competition in the low-end market. Further, increasing prices of timbers, copper materials and paints raised costs, which also had a negative impact on the development of the segment.

China is the largest manufacturing country of violins, which accounted for around 60% of global output in 2009. In 2008, violin output was over 1.1 million units, increasing slightly from 2007. Violin quality has improved significantly in recent years, although prices have remained stagnant. Profit margins for violin manufacturers have therefore declined while sales revenues have increased. Violin manufacturers were also seriously affected by surging wood costs commonly used

for violins. Further, the government banned the lumbering of timbers used for high-end violins in China. Therefore, manufacturers only imported these timbers for their production.

Over 80% of wind instruments made in China were exported to foreign countries. During 2008, the output of wind instruments was approximately 1.5 million units. There were 43 wind instrument manufacturers in China, with enterprises located in Beijing, Tianjin and Hebei accounting for over 80% to the total output. The number of wind instrument manufacturers declined during 2006, as many small-scale companies went bankrupt due to the intensive competition. Many enterprises increased their prices by 5% to 10% in 2006 because of surging costs, but profits of manufacturers within the industry declined.

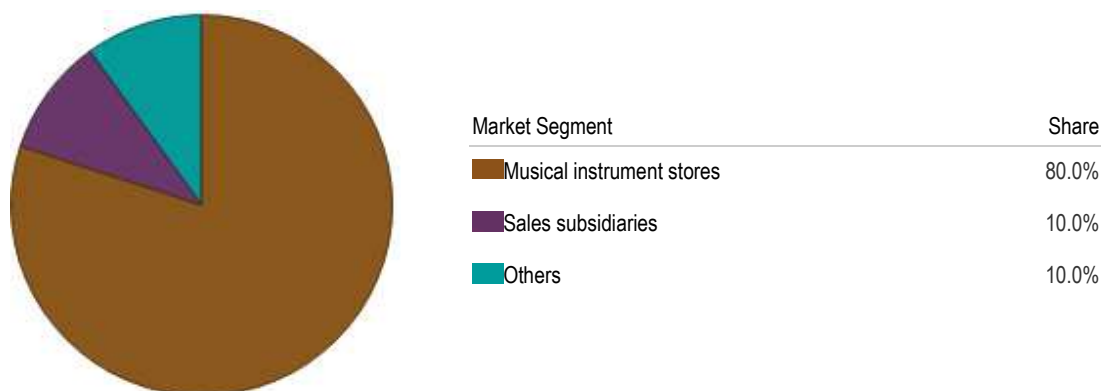
Other musical instrument segments include musical instrument parts and components; electronic musical instruments; and, Chinese musical instrument manufacturers.

The number of musical instrument parts manufacturers totaled 77 in 2009, and these companies were mainly concentrated in Guangdong, Shanghai and Zhejiang. The proportion of this segment's revenue increased steadily in recent years, from 11.9% in 2006 to 17.5% in 2009. Manufacturers of musical instrument parts accelerated their specialization processes and focused on brand-building in recent years. This segment also increased due to higher export volumes.

Electronic musical instruments accounted for 15.3% of industry revenue in 2009. These products, popular among young people, are mainly used in artistic education and recreational places such as pubs and bars. Many new products had been created with the development of new technologies. Currently, electronic musical instruments made in China are exported to over 110 countries, contributing a large proportion to export values. Exports of electronic instruments in 2006 decreased slightly due to the appreciation of China's Yuan. ACMR-IBISWorld forecasts that the proportion of electronic instruments will increase in the following years, as more parents purchase these products for the artistic education of their children, replacing other instruments such as pianos. Also, the development of Chinese recreational enterprises will stimulate demand for electronic instruments.

There were 34 Chinese musical instrument manufacturers in China in 2009, which accounted for around 7.4% of industry revenue, up from 5.3% in 2002. This rise is because of a revival in Chinese music being played, and many traditional Chinese music concerts being conducted, which improves the popularity of Chinese musical instruments. Further, the increasing export market also stimulates demand for this product segment.

MAJOR MARKET SEGMENTS



As the industry's exports accounted for 53.3% of industry revenue in 2009, this industry's market segmentation is based on the industry's domestic sales revenue.

The majority of the industry's products are distributed by musical instrument stores, which then resell the products to individuals and other retailers. This segment accounts for around 80% of domestic revenue, with domestic consumers being the main final customers. This large share is because many large-scale musical instrument manufacturers, such as Yamaha, only sell their products through authorized musical instrument stores, to avoid counterfeit products.

Consumers prefer to purchase musical instruments in the sales subsidiaries of manufacturers, as the quality of these products is guaranteed. Also, prices of musical instruments sold by sales subsidiaries are supposed to be relatively lower compared with musical instrument stores. Few companies, however, can have sales subsidiaries across all of China due to the high capital investment. Consequently, sales revenue generated from sales subsidiaries account for about 10% of total domestic revenue.

Other market segments refer to supermarkets, department stores, direct-sales and Internet sales. Revenue generated from these channels accounts for about 10% of total domestic sales. In recent years, many manufacturers sell their products on the Internet with the development of information technology. Few people, however, purchase musical instruments this way because of the relatively high risks of counterfeit products.

INDUSTRY CONCENTRATION

The level of industry concentration is low

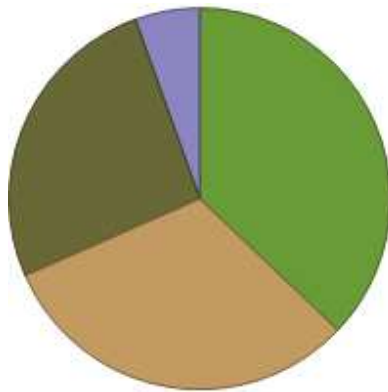
The top four industry participants are estimated to account for a combined share of less than 25% of total industry revenue in 2010, representing a low level of industry concentration, with no one musical instrument manufacturer dominating the industry. There are forecast to be 275 enterprises within the industry in 2010, most of which are small- and medium-scale ones.

Industry concentration has been decreased in recent years due to the intensive competition within the industry, and product and geographic diversification across the industry. However, industry concentration, is expected to increase in future years due to increased merger activity and with the share of domestic enterprises expected to increase their brand-building processes.

GEOGRAPHIC SPREAD

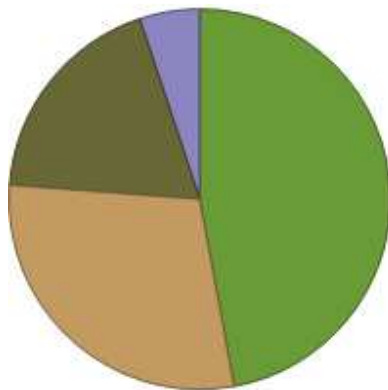
Year: 2009

Geographic Spread Based on Employment



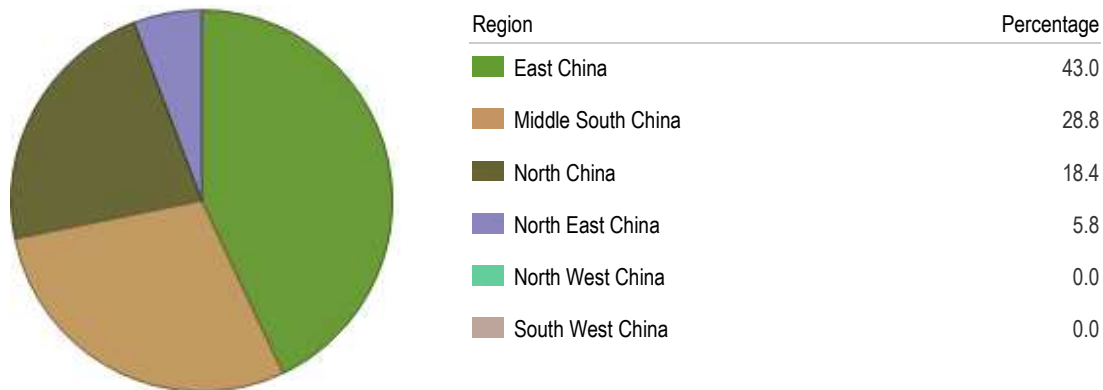
Region	Percentage
East China	37.1
Middle South China	31.3
North China	20.3
North East China	5.5
North West China	0.0
South West China	0.0

Geographic Spread Based on Enterprises



Region	Percentage
East China	47.1
Middle South China	29.1
North China	14.0
North East China	5.1
North West China	0.0
South West China	0.0

Geographic Spread Based on Industry Revenue



East China is the most developed economic region in China, which provides enterprises with many advantages, including highly developed supporting industries, high productivity and convenient transportation. In 2009, around 47.1% of musical instrument manufacturers were located in East China, especially in Zhejiang, Jiangsu and Shandong. Revenue generated from these companies accounted for 43% of the industry's total revenue. Many manufacturers are foreign enterprises with advanced technologies and management experience, such as Zaozhuang Saehan, Qingdao Sejung and Hangzhou Yamaha.

Around 29.1% of musical instrument manufacturers were located in Middle South China in 2009. These companies accounted for 28.8% to industry revenue, with Guangdong province being the largest manufacturing base of musical instruments in China. The largest piano manufacturer, Guangzhou Pearl River Piano Group Ltd., is located in this province.

Industry revenue from North China accounts for 18.7% of total industry revenue. Several firms in this region feature significant economies of scale and higher productivity levels, as three of the top five participants, Tianjin Yamaha, KHS (Tianjin) and Beijing Hsinghai, are located here.

The companies located in North East, South West and North West China only account for a very small share of industry revenue in 2009. The number of the industry's workers in these regions is also small compared with other regions in China.

Market Characteristics

MARKET SIZE

Following industry revenue and export declines in 2009, the performance of the Musical Instrument Manufacturing Industry in China is expected to recover in 2010. Industry revenue and exports are forecast to rise by 13.1% and 16.2%, respectively, during the year. Future potential domestic demand for musical instruments is substantial as music education becomes more popular with China's higher living standards.

There are expected to be around 275 enterprises operating in the industry in 2010, with total employment over 70,000. The top four musical instrument manufacturers are expected to account for less than 25% of total industry revenue in 2010. However, industry concentration is expected to increase in the future due to more mergers and acquisitions during the year.

Despite the decreasing proportion of exports in the industry since 2003, the industry will remain export-oriented in the future. Exports are forecast to account for 54.7% of industry revenue in 2010, down from 68% in 2008 and a peak of 76.6% in 2003.

Due to the global financial crisis and economic downturn from the second half of 2008, adverse impacts on the industry were mainly felt in the last few months for the year. The industry achieved strong overall growth in 2008, with industry revenue and exports increasing by 13.7% and 22.6%, respectively, for the year (constant 2010 dollars). In addition to growth in musical instrument production, a considerable part of the industry's strong performance was due to rising unit prices of products manufactured in China, indicating higher value added of musical instruments made in the industry.

The lagged effect of the global financial crisis on the industry became more obvious in 2009. Due to the economic downturn in major developed economies that are important destinations of China's musical instruments, exports decreased sharply by 24.7% in 2009. Despite growing domestic demand, industry revenue is expected to decline by 3.9% to \$2.38 billion for the year.

LINKAGES

Demand Linkages

6599 - Other Retailers in China

The establishments within this industry purchase musical instruments for retailing.

9010 - Literary and Artistic Creations in China

The establishments within this industry utilize musical instruments for musical performances and musical creation.

Supply Linkages

2011 - Sawmills in China

Musical instrument manufacturers use wood provided by sawmills as raw materials.

2040 - Bamboo, Cane, Palm and Grass Products in China

Musical instrument manufacturers use bamboo, cane and palm leaves as raw materials.

3440 - Metal Thread Products Manufacturing in China

Musical instrument manufacturers demand metal products provided by the establishments within this industry to produce musical instruments.

DEMAND DETERMINANTS

Demand for musical instruments is driven by household incomes, China's age structure, a positive social culture, and the industry's export markets.

Household disposable income

Most musical instruments, such as pianos and violins, are relatively expensive and are non-essential items. Households with a low disposable income levels generally cannot afford these products. Further, professional training is also costly, which requires a high disposable household income. As a result, increasing household disposable income stimulates demand for musical instruments.

Age structure

In China, the major demand factor for musical instruments stems from the artistic education for children. Therefore, the proportion of children in the total population has an impact on demand for the industry's products. A higher proportion of children means higher demand for musical instruments. In addition, well-educated parents are more inclined to spend on the artistic education of their children, and therefore purchase musical instruments.

Positive social culture

Currently, the average number of musical instruments per person in China is much lower compared with developed countries such as the US, the UK and Germany, although China is the largest musical instrument manufacturer in the world. Positive social culture can stimulate demand for musical instruments, as demand is expected to increase if it becomes common for residents to own musical instruments.

Export markets

Exports account for an average of around 60% of industry revenue in the five years to 2009. Exports drove the development of this industry significantly, which had a major impact on musical instrument demand. However, with rapidly growing domestic demand, exports as a share of industry revenue are expected to decline in the future.

DOMESTIC AND INTERNATIONAL MARKETS

Domestic and International Markets Exports

The level of trade export is high
The trend of trade export is increasing

Domestic and International Markets Imports

The level of trade import is medium
The trend of trade import is increasing

Domestic and International Markets Analysis

Exports

The industry's exports dropped 24.7% in 2009 due to shrinking foreign demand and price declines. However, as the global financial crisis eases in 2010, exports are forecast to increase by 10.1% for the year to \$1.40 billion. Exports accounted for 53.3% of industry revenue in 2009, down from 68% in 2008. Exports amounted to \$1.58 billion in 2008.

The major destinations of Chinese exports from the Musical Instrument Manufacturing Industry during 2009 included the US (27%), Germany (7.8%), Hong Kong (6.4%), Japan (6.4%), and the UK (4.9%).

Of the industry's exported products, pianos accounted for a large share of total exports. The growth rate of export values was higher than export volumes, especially for pianos, electronic musical instruments and wind instruments, which indicates improving quality and increasing value added of musical instruments manufactured in China.

Imports

Competing imports within this industry mainly come from Japan (42.6%), Germany (9.1%), South Korea (7.8%), Taiwan (7.8%), and Indonesia (7.0%).

Imports maintained a low upward trend with an annualized growth rate of 2.9% in the five-year period to 2009, despite a 14.3% decline in 2009. Competing imports increased significantly during 2008 by 21.3% due to increased imports from South Korea, Germany and the US. Of the musical instrument products imported to China, musical instrument parts and pianos accounted for the largest proportions at over 60% and 17%, respectively, of total import values.

BASIS OF COMPETITION

Competition in this industry is medium
Competition in this industry is increasing

Internal Competition

The major factors forming the basis of competition among manufacturers in the Musical Instrument Manufacturing industry in China include:

(1) Price versus Quality: Price plays an important role in the customers' decision-making process, as most musical instruments, such as pianos and violins, are expensive. Further, the quality of musical instruments is also crucial for both household buyers and institutional purchasers. In China, households mainly purchase musical instruments for the education of children. As a result, parents will pay more attention to product quality, as it will influence the effects of their children's studies. Institutional clients, such as orchestras, purchase high quality products because the quality of their musical instruments will have an obvious impact on their performance and reputation.

(2) After sales services: The majority of musical instruments need regular maintenance. For instance, household and school pianos require tuning services two and four times a year, respectively, while pianos used at concerts need to be tuned for every concert. These services require experts with professional knowledge of musical instruments. Consequently, consumers will consider after sales services when making the purchasing decision. Companies providing premium after sales services will gain advantages over the competition.

(3) Brand awareness: Enterprises with good brand awareness generally provide high quality products and services, which stimulates customer consumption.

(4) Production scale: Having a large production scale can reduce costs to realize economies of scale. Therefore, production scale is vital to maintain and strengthen competitive advantages within this industry.

(5) Training services: Currently, many musical instrument manufacturers also provide training services to their customers. For example, KHS Tianjin has established musical training centers teaching musical instrument knowledge. These services are expected to attract more consumers, although they may not be free of charge.

Domestic manufacturers enjoy competitive advantages in the low- and mid-end markets, as they provide musical instruments at relatively lower prices compared with their foreign counterparts. Further, many domestic operators have a large manufacturing capacity, which makes China the largest manufacturing country of musical instruments in the world. However, these domestic companies are less competitive in production technologies and brand awareness, and costs therefore increase due to higher prices for raw materials and energy in China.

Domestic musical instrument manufacturers are expected to strengthen their technological competitiveness and pay more attention to brand building to gain market share in the future. Further, more leading foreign companies will enter the Chinese market, which will also intensify the internal competition.

External Competition

As musical instruments are mainly used for entertainment and education, product substitutes are usually sporting and athletic products, and other products used in the education of children. Therefore, the major external competition for the Musical Instrument Manufacturing Industry in China comes from the Sporting and Athletic Goods Manufacturing Industry in China and the Professional Training Industry in China.

LIFE CYCLE

Life Cycle Stage

The life cycle stage is growth

Life Cycle Reasons

- Industry value added increased at a slightly lower rate than China's GDP growth in the past five years
- The number of private musical instrument manufacturers is increasing
- Many leading foreign manufacturers entered the Chinese market by establishing joint ventures or wholly-owned enterprises

Life Cycle Analysis

Due to difficult business conditions in 2009, industry revenue decreased by 3.9% in 2009, while value added increased by just 2.7%. However, these indicators increased at annualized rates of 9% and 8.8%, respectively, in the five years to 2010 as growth remained relatively strong in most other years of the period. Compared to China's GDP growth of around 9.5% during the five years to 2010, this industry performed at a similar level to the national economy.

Enterprise numbers are expected to total 275 in 2010, with annualized increases of of 2.7% during the past five years. Private and foreign manufacturers developed rapidly in these years, and accounted for a larger proportion of industry revenue compared to state-owned establishments.

Many leading foreign companies entered the Chinese market in recent years, such as Kawai (Japan), KHS (Taiwan), Sejung (South Korea) and AXL (the US). These foreign companies established factories in China as their manufacturing bases. ACMR-IBISWorld expects that the number of foreign musical instrument manufacturers will continue to increase steadily in the future given the large potential market in China and lower labor costs across the country.

Industry Conditions

BARRIERS TO ENTRY

Barriers to entry in this industry are medium
These barriers are increasing

Capital

Start-up costs require prospective entrants to the industry to have large amounts of capital, as purchase costs account for a large proportion of industry revenue. Especially in recent years, the prices of wood, metal and plastic, as well as energy resources, have increased significantly, which increases the production costs of musical instruments. The capital requirement is more obvious in the mid- and high-end markets due to advanced technologies and manufacturing equipment utilized.

Standards

There are national standards for the production of pianos and electronic pianos. Industrial standards on many other musical instruments, such as Chinese musical instruments, have also been constituted in recent years. These standards have prevented some prospective entrants from entering this industry.

Brand

Consumers purchasing musical instruments often prefer to choose products that are well-known brands, as these products are considered to be of high quality. A new operator needs to establish its brand to attract consumers and gain market share. As a result, brand plays an important part in the current intensive competition within this industry. The importance of brands, however, is much lower for new operators in the low-end market.

Licenses

New companies must apply for production licenses with the local departments of State Administration for Industry & Commerce (SAIC). Companies without qualifications are not approved to enter this industry. For instance, in 2004, the State Forestry Administration (SFA) and SAIC stipulated that only certain companies with permission could produce Erhu with boa skins, and these products should be specially marked.

TAXATION

Income Tax: 25% - The Corporate Income Tax Law of the People's Republic of China was implemented from January 1st, 2008. It unifies the previously different income tax policies for foreign and domestic enterprises. Within the new system, income taxes will be levied on both domestic and foreign enterprises at a rate of 25%, with favorable tax rates applicable to high-technology enterprises (15%) and small-size domestic enterprises (20%).

Value-added Tax (VAT): 17%; City Maintenance and Construction Tax: 7% - there are different tax rates according to the region where the enterprise is located - cities: 7%, counties: 5% and rural areas: 1%; and, the Educational Surcharge: 3%, which applies to all domestic enterprises, at 3% of their real value added tax.

INDUSTRY ASSISTANCE

The level of Industry Assistance is medium
The trend of Industry Assistance is steady

Key Tariffs

Goods	Low Rate*	High Rate*
General musical instruments	17.5	70.0
Harps, accordions and other similar products	21.0	80.0
Music boxes	22.0	80.0
Electronic instruments	30.0	100.0

*Percentage of value unless otherwise specified

Import duties for musical instruments products vary from 17.5% to 100%. The general import duty is 70%, but is lower for countries that have signed the Most Favored Nation (MFN) clause with China, which ranges from 17.5% to 30% according to the product type.

Manufacturers can claim an export rebate of 13% on musical instrument products. This has a positive impact on exporting enterprises within this industry.

REGULATION AND DEREGULATION

The level of Regulation is medium
The trend of Regulation is steady

Institutional Framework

In general, establishments within the Musical Instrument Manufacturing Industry in China are subject to regulation by the following government institutions:

The China Musical Instruments Administration (CMIA) was established in 1989 as the service association of the Musical Instrument Manufacturing Industry in China, mainly responsible for investigating the status of the industry and providing advice to the government concerning the further development of this industry. The main branches of CMIA include the associations of pianos, Chinese musical instruments, wind instruments, guitars and percussion instruments.

General Administration of Quality Supervision, Inspection and Quarantine of the People's Republic of China is responsible for drafting laws and regulations regarding quality supervision and inspection of products, as well as constituting quality standards. Supervising the quality of exported and imported products is also an important responsibility. Further, this administration is also in charge of managing the production licenses of musical instrument products.

Ministry of Commerce of People's Republic of China is in charge of drafting laws and regulations related to both domestic and international trade, providing information and advice on foreign capital to the government and drafting regulations for foreign investment. Musical instrument manufacturers in China are required to comply with these requirements. It is also responsible for administrating export and import activities, anti-dumping and anti-subsidy activities.

The State Administration for Industry & Commerce (SAIC) is responsible for managing the registration of companies or organizations. Manufacturers without its permission cannot be engaged in the manufacturing of musical instruments. The organization is also in charge of constituting qualifications of musical instrument manufacturing enterprises.

Regulations

Standardization Law of the People's Republic of China stipulates that the techniques on type, quality, safety, design, production, inspection, package and transportation of industrial products should be subject to unified standards and relevant environmental protection requirements. This law was implemented in April 1989.

Measures for Administration of Industrial Standards stipulates that the technical requirements of general components should be unified, and the industry association is responsible for constituting industrial standards, which should be examined by the National Technical Committee before implementation.

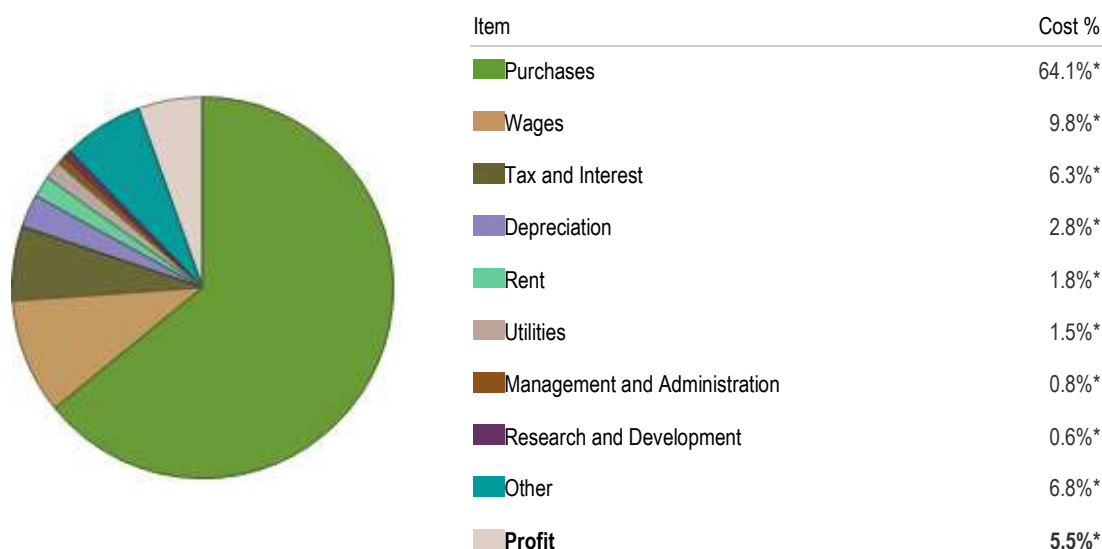
The National Standards on Musical Instruments include standards for pianos and electronic pianos, stipulating the raw materials, technical requirements, packing, and inspection rules of these products. Transportation and storage requirements are also listed in the standards.

The Industrial Standards on Musical Instruments mainly include standards for Chinese and Western musical instruments, such as Erhu (Chinese violin), Tizhu (bamboo flute) and guitar. These standards also stipulate the technology, transportation and storage requirements of these musical instruments.

Announcement on Restricting Using Boa Skin in the Erhu Production Process was issued in 2004 by SAIC and the State Forestry Administration (SFA). The regulation stipulates that only manufacturers with government approval can produce Erhu with boa skin, and these products should be specially marked.

COST STRUCTURE

Year: 2010



Profit

Due to increased competition and rising operational costs, industry profitability has decreased slightly in recent years. Although China is the largest musical instrument manufacturer in the world, the majority of products are middle and low-end musical instruments and mainly compete on price advantages in international markets. ACMR-IBISWorld estimates average profit margins for operators in the industry will be 5.5% in 2010.

Costs

The Musical Instrument Manufacturing Industry in China is characterized by a high proportion of purchase costs. The main raw materials for musical instrument production are timbers, plastics and metals, whose qualities have an obvious impact on the quality, volume, timbre, tonality and stability of musical instruments. Purchase costs are forecast to account for 64.1% of industry revenue in 2010.

Musical instrument production still requires large numbers of skilled workers, although production technologies have developed rapidly. Total employment increased from almost 66,400 in 2006 to a forecast 70,900 in 2010, with a considerable proportion of workers being skilled technicians. Therefore, total wages are relatively higher compared with other industries, and are forecast to account for 9.8% of industry revenue in 2010.

Rent is expected to account for about 1.8% of industry revenue in 2010. As products such as pianos and drums require large spaces, musical instrument manufacturers require large workshops, and rent large storage areas to place these musical instruments. Depreciation costs on production equipment, transportation equipment, and factory buildings account for approximately 2.8% of industry revenue.

Other costs within this industry include selling expenses, transportation costs, insurance and other miscellaneous costs, jointly accounting for a forecast 6.3% of total revenue in 2010.

CAPITAL AND LABOR INTENSITY

The level of Capital Intensity is medium

- Most manufacturers within the industry are small- and medium-scale, which require moderate amount of capital
- A skilled workforce plays an important role in the production process within the industry

The capital to labor ratio represents the amount of capital used for every unit of labor. ACMR-IBISWorld uses total wages of the industry as a proxy for labor and total depreciation of the current year as a proxy for capital. With a forecast capital to labor ratio of around 1:3.5 in 2010, this industry is subject to a medium level of capital intensity.

Most companies within this industry still manufacture products in the low- and mid-end markets, although increasing demand for high-end products has accelerated the industry's technological development in recent years. Fewer facilities are used in the musical instrument production process compared with other industries in the manufacturing sector.

A skilled workforce is crucial for manufacturers within this industry, although production technologies have developed in recent years. This is mainly because musical instrument manufacturers require experienced workers to assemble parts and complete instruments. In developed countries such as Japan and the US, the manufacture of musical instruments also demands large amount of labor force.

The level of capital intensity within the industry is expected to increase in the future, as musical instrument manufacturers require lower labor volumes with the enhanced production automation levels.

TECHNOLOGY AND SYSTEMS

The level of Technology Change is medium

Advancement in manufacturing technologies and systems will improve the productivity and efficiency of musical instrument production in China, and therefore have a major impact on manufacturers. ACMR-IBISWorld analysis shows that this industry has experienced a medium-level technology change in recent years. In the past few decades, foreign musical instrument manufacturers entered the Chinese market with advanced technologies and systems. They established factories in mainland China as global manufacturing bases to gain competitive advantages with lower labor costs. This accelerated the development of manufacturing technologies in this industry.

More new materials are discovered and used in the production of musical instruments with the development of technology. This trend has become more obvious in recent years due to the increasing prices of wood and metal materials. Further, musical instrument manufacturers also launched new products with these new materials, which enriched product quality.

Technology levels differ for different musical instruments. While many Western musical instrument manufacturers have utilized advanced technologies and equipment, the companies producing Chinese musical instruments still require a large number of workers and use fewer facilities. Further, the automation production levels of large-scale enterprises are higher compared with their small-scale counterparts.

Within the industry, domestic operators are not as competitive as foreign participants, although significant changes in technology have occurred in recent years. This is mainly because many domestic enterprises only bring in advanced machinery from developed countries such as Germany, instead of producing their own technologies.

Demand for high-end musical instruments has been increasing in recent years, and domestic manufacturers are accelerating the technology and systems innovation to compete with foreign firms. Therefore, ACMR-IBISWorld forecasts that the technology changes within this industry will be more significant in future years.

INDUSTRY VOLATILITY

The level of volatility is medium

Domestic demand for musical instruments increased strongly in the past five years due to rising purchasing power and more popular music education. Exports, which account for over half of industry revenue, fluctuated considerably from year to year due to changes in foreign demand, trade policies, and exchange rates.

The development of private manufacturers contributed to stronger industry growth in recent years, while increasing investment by foreign enterprises also stimulated industry revenue growth.

Future industry volatility is expected to be low as the industry matures and stable domestic and foreign revenue streams develop.

GLOBALIZATION

The level of Globalization is high

The trend of Globalization is increasing

Over 30% of the leading musical instrument manufacturers in the world, such as Yamaha (Japan), KHS (Taiwan), Sejung (South Korea) and AXL (the US), have entered the Chinese market by establishing joint ventures or wholly-owned enterprises. Especially after China's accession to the WTO (World Trade Organization) in 2001, more foreign enterprises set up subsidiaries in China. Currently, some of these players have dominated certain niche markets. Foreign musical instrument manufacturers accounted for approximately 40% of industry revenue during 2009, which indicates the industry has a medium globalization level.

More domestic enterprises now operate in foreign countries. For instance, Guangzhou Pearl River Piano Group Ltd had established its subsidiaries in the US and Germany in 1999 and 2004, respectively. The company also acquired some foreign manufacturers. China has been the largest manufacturing country in terms of musical instrument output. In 2009, exports made up 53.3% of industry revenue, and competing imports accounted for 14.4% of domestic demand. Although the industry still has a medium globalization level, this differs in specific product segments. For example, the globalization level of pianos, guitars, wind instruments and electronic instruments are higher compared with Chinese musical instruments.

The globalization level of this industry is expected to increase in the following years. This is because more domestic manufacturers will operate in foreign countries in the future, and exports of high-end musical instruments will also rise. Further, more leading foreign manufacturers will enter the Chinese market to take advantage of rapidly growing Chinese market.

Key Factors

KEY SENSITIVITIES

The key sensitivities affecting the performance of the Musical Instrument Manufacturing industry include:

Domestic Goods Prices

Timbers and metal materials are the main raw materials used in the industry. Costs related to purchases account for almost 60% of industry revenue, and any increases in raw material costs can have a negative impact on manufacturers within this industry.

Export Market

Exports currently account for around 60% of industry revenue. Shrinking foreign demand or decreasing competitiveness of Chinese products in international markets will have detrimental effects on the industry.

Household Disposable Income

Increasing household disposable income levels stimulate demand for musical instruments, as more parents will be able to afford these products for themselves and the education of their children. Higher living standards will also greatly popularize music education that will, in turn, boost demand for musical instruments.

Industry Regulation

Industry regulations, such as national standards, will influence the industry, as manufacturers within this industry will have to comply with these regulations during the production process of musical instruments.

KEY SUCCESS FACTORS

The key success factors in the Musical Instrument Manufacturing industry are:

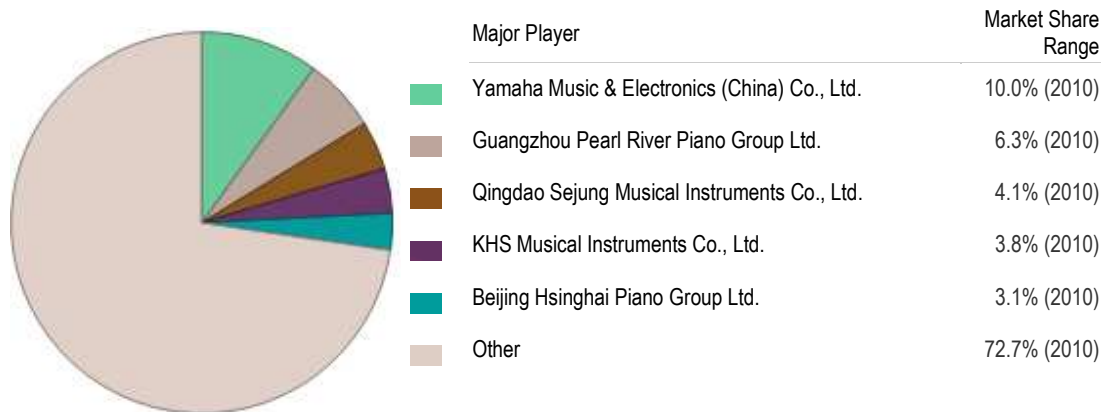
- **Establishment of brand names**
Brands play a crucial role in the market within this industry, as they can attract more customers to form a loyal customer base. Companies can gain competitive advantages by establishing their brands.
- **Provision of superior after sales service**
Companies that provide superior after-sales service will gain a competitive advantage, as the maintenance of musical instruments requires professional knowledge.
- **Ability to pass on cost increases**
Costs related to purchases and utilities have been increasing in recent years. As a result, the ability to pass on cost increases to upstream suppliers or downstream buyers can give manufacturers competitive edges in the market.
- **Having a good reputation**
Enterprises with good reputations generally provide high quality products and premium services. In China, the leading musical instrument manufacturers have a loyal customer base due to their good reputation.

- **Economies of scale**
It is vital for large manufacturers within this industry to provide a wide range of musical instruments with large output volumes, which can reduce production costs.
- **Ability to educate the wider community**
People without musical knowledge are not expected to purchase musical instruments. Therefore, enterprises with the ability to educate the wider community in musical knowledge will gain advantages in the market.

Key Competitors

MAJOR PLAYERS

Market Share



PLAYER PERFORMANCE

Yamaha Music & Electronics (China) Co., Ltd.

Market Share: 10.0%

Yamaha was established in Japan in 1897 as an organ supplier, with its original name as Nippon Gakki Co., Ltd. The company is now engaged in providing musical instruments, audio and video products, information technology products, new media services, home furnishings, automotive components, specialty metals, music education, and resort facilities. By now, as one of the leading musical instrument manufacturers worldwide with a history of over 110 years, Yamaha has 95 subsidiaries and employs 26,000 people around the world.

Yamaha has been diversifying its product series since it was founded. The company has launched many musical instruments since 1900, such as pianos, harmonicas, pipe organs, guitars and drums. In 1953, Yamaha started to develop foreign markets, and established subsidiaries in the US, Germany, France and many other countries. The company's name was officially changed to Yamaha Corporation in 1987.

Tianjin Yamaha Electronic Musical Instruments Inc. (Tianjin Yamaha) was established in 1989 in Tianjin as the first joint venture that produced electronic pianos in China. The output volume of musical instruments of Tianjin Yamaha exceeded 1.5 million in 2008. Tianjin Yamaha has become the largest manufacturing base of keyboard organs in the world, accounting for about one-third of global output. Two other major Yamaha production bases are located in Hangzhou and Guangzhou.

The rapid development of Tianjin Yamaha in recent years was due to the continued emphasis on the development of new products in response to demand from foreign and Chinese markets.

Yamaha's good brand image also promoted the development of Tianjin Yamaha. The company invests approximately 10% of its profit in spreading music education and knowledge. Around 300 musical centers were set-up in recent years, and over 100,000 people study at these facilities.

Financial Performance of Tianjin Yamaha Electronic Musical Instruments Inc - 2003 to 2007

Year	US Million Dollars Revenue	% change Growth	US Million Dollars Assets	% change Growth	US Million Dollars NPBT	% change Growth
2003	118	N/C	39.8	N/C	7.8	N/C
2004	111.1	-5.8	40.8	2.5	8.9	14.1
2005	99.6	-10.4	48.7	19.4	7.6	-14.6
2006	114.1	14.6	54.9	12.7	8.4	10.5
2007	126.4	10.8	61.8	12.6	10.7	27.4

Source: National Bureau of Statistics China

Financial Performance of Hangzhou Yamaha Musical Instruments Inc - 2004 to 2007

Year	US Million Dollars Revenue	% change Growth	US Million Dollars Assets	% change Growth	US Million Dollars NPBT	% change Growth
2004	2.1	N/C	22.4	N/C	-2.4	N/C
2005	12.2	481.0	24.4	8.9	-4.1	70.8
2006	23.6	93.4	36.7	50.4	-1.9	-53.7
2007	41.5	75.8	51.3	39.8	0.3	N/C

Source: National Bureau of Statistics China

Guangzhou Pearl River Piano Group Ltd.

Brand/Trading Name(s): PearlRiver, Ritmiller, Kapok

Market Share: 6.3%

Guangzhou Pearl River Piano Group Ltd (PRPG), established in 1956, is a state-owned enterprise. As one of the leading piano manufacturers in the world, PRPG has the capacity to produce over 100,000 pianos per year. Apart from pianos, the company also provides orchestral instruments. By 2006, PRPG had six manufacturing bases that were engaged in producing grand pianos, upright pianos, guitars, violins and accordions, with around 4,000 employees. The main brands of the company include 'Pearl River', 'Ritmiller' as well as 'Kapok'.

PRPG is the largest piano manufacturer in China, and also operates in other countries. In 1999, the company founded its first foreign subsidiary in the US, and its European subsidiary was set-up in Germany at the beginning of 2004. During 2005, a new joint venture, Guangzhou Ashton Ltd was established by PRPG and Australis Music Ltd. The new company is engaged in manufacturing guitars and other related products.

Financial Performance of Guangzhou Pearl River Piano Group Ltd - 2003 to 2007

Year	US Million Dollars Revenue	% change Growth	US Million Dollars Assets	% change Growth	US Million Dollars NPBT	% change Growth
2003	90.6	N/C	152.7	N/C	14.5	N/C
2004	97.3	7.4	170.2	11.5	14.6	0.7
2005	97.2	-0.1	171.6	0.8	12.2	-16.4
2006	99.1	2.0	178.8	4.2	4.1	-66.4
2007	108.4	9.4	169.5	-5.2	5.4	31.7

Source: National Bureau of Statistics China

Qingdao Sejung Musical Instruments Co., Ltd.

Market Share: 4.1%

Qingdao Sejung Musical Instruments Co., Ltd is a joint venture established by Sejung Corporation of South Korea and Qingdao Transformer Group Co., Ltd in 2001. The company is engaged in manufacturing guitars, pianos and digital pianos. At the same time, the manufacturing capacity of Sejung in Indonesia was also integrated into Qingdao Sejung, which currently has total employment over 4,600.

Annual capacity of Qingdao Sejung totaled 8,000 grand pianos, 22,000 upright pianos, and 700,000 guitars. Musical instruments made by Qingdao Sejung are mainly exported to Europe and North America. Qingdao Sejung is one of the largest piano exporters in China.

Financial Performance of Qingdao Sejung Musical Instruments Co., Ltd - 2004 to 2007

Year	US Million Dollars Revenue	% change Growth	US Million Dollars Assets	% change Growth	US Million Dollars NPBT	% change Growth
2004	48.3	N/C	35.1	N/C	4.2	N/C
2005	73.3	51.8	58.2	65.8	2.9	-31.0
2006	86.6	18.1	59.8	2.7	3.5	20.7
2007	71.2	-17.8	124.2	107.7	0.9	-74.3

Source: National Bureau of Statistics China

KHS Musical Instruments Co., Ltd.

Brand/Trading Name(s): Jupiter, Mapex, Hohner, Hercules, Altus, Ross, Majestic

Market Share: 3.8%

KHS Musical Instruments was established in 1930 in Taiwan with its original name 'Wan-wu'. After 1945, the company changed its name to KHS and started musical instrument production in the 1950s. As one of the leading musical instrument manufacturers in the world, the company has factories in China, the US, Japan, Germany and Holland, as well as agencies and dealers in more than 60 countries. KHS employs over 4,200 people worldwide to produce wind instruments, percussion instruments, guitars and plastic recorders. The main brands of KHS include 'Jupiter', 'Mapex', 'Hohner', 'Hercules', 'Altus', 'Ross' and 'Majestic'.

KHS entered mainland China in 1992 by establishing 'JM Co., Ltd', which was the predecessor of KHS Tianjin. In 1993, KHS founded Beijing Shuangyan Musical Instruments Co., Ltd to be responsible for musical instrument sales in Mainland China. In 1994, the first factory of JM was set up in Tianjin and started its production in the same year. This factory was

renamed as 'KHS (Tianjin) Musical Instruments Co., Ltd' in 2001. By 2006, KHS Tianjin employed around 2,500 people in Mainland China.

Financial Performance of KHS (Tianjin) Musical Instruments Co., Ltd - 2003 to 2007

Year	US Million Dollars Revenue	% change Growth	US Million Dollars Assets	% change Growth	US Million Dollars NPBT	% change Growth
2003	30.8	N/C	40.4	N/C	1.0	N/C
2004	37.6	22.1	44.8	10.9	2.0	100.0
2005	43.6	16.0	45.7	2.0	0.4	-80.0
2006	56.2	28.9	48.3	5.7	2.6	550.0
2007	64.6	14.9	46.6	-3.5	2.8	7.7

Source: National Bureau of Statistics China

Beijing Hsinghai Piano Group Ltd.

Brand/Trading Name(s): Hsinghai, Otto Meister
Market Share: 3.1%

Beijing Hsinghai Piano Group Ltd was established in 1994 as a state-owned enterprise. Its predecessor, Beijing Piano Factory, which was the first factory that manufactured pianos in China, was founded in 1949. Currently, the company is engaged in providing various musical instruments, including upright pianos, grand pianos, wind instruments, Chinese musical instruments, percussion instruments and musical instrument parts.

By the end of 2006, Beijing Hsinghai had over 4,000 employees and its annual piano output totaled 50,000. The main brands of Beijing Hsinghai are "Hsinghai" and "Otto Meister".

Beijing Hsinghai relocated to Hsinghai Industrial Park in 2006 and adjusted its product structure. As a result, the core competitiveness was strengthened. Both sales revenue and profits of the company increased in 2006 and 2007.

Financial Performance of Beijing Hsinghai Piano Group Ltd - 2003 to 2007

Year	US Million Dollars Revenue	% change Growth	US Million Dollars Assets	% change Growth	US Million Dollars NPBT
2003	47.6	N/C	74.6	N/C	1.5
2004	44.4	-6.7	93.1	24.8	1.6
2005	42.5	-4.3	94.7	1.7	0.0
2006	46.2	8.7	92.8	-2.0	0.6
2007	54.6	18.2	91.6	-1.3	0.2

Source: National Bureau of Statistics China

OTHER PLAYERS

Tianjin Jinbao Musical Instruments Co., Ltd.

Tianjin Jinbao Musical Instruments Co., Ltd., established in 1998, is a private company, which is engaged in producing brass instruments, wind instruments, drum kits, snare drums, musical instrument stands and cases.

The company's products are not only sold throughout China but also exported to foreign countries, including the US, France, Japan, South Korea, Nigeria, Brazil, Argentina and Ghana. By 2006, the company had four factories and one research center with over 2,700 employees.

Zaozhuang Saehan Music Co., Ltd.

Zaozhuang Saehan Music Co., Ltd, established in 1996 in Shandong Province, is a wholly-owned South Korean enterprise. The company is mainly engaged in manufacturing guitars and other Western musical instruments. Zaozhuang Saehan has become one of the leading guitar manufacturers in China with about 1,200 employees.

Medeli Electronics (Shenzhen) Co., Ltd.

Medeli Electronics (Shenzhen) Co., Ltd. is a wholly-owned Hong Kong enterprise established by Medeli Electronics Co., Ltd in 1993. As the main manufacturing base of Medeli in Mainland China, the company produces electric instruments, MIDI (Musical Instrument Data Interface) keyboards, guitar effects processors and guitar amplifiers. Currently, Medeli Shenzhen employs over 800 employees.

Hangzhou Goodway Piano Co., Ltd.

Hangzhou Goodway Piano Co., Ltd. was established in 2001 in Zhejiang province. As the manufacturer of Hong Kong Goodway International Group Co., Ltd in mainland China, Goodway Hangzhou employs around 200 people and is mainly engaged in producing pianos with the brands of "Goodway", "Wisdom", "S. Ritter" and "Chan & Son".

Currently, its piano products are exported to many countries, such as the US, Germany, Japan, Italy and Singapore.

Financial performance of Tianjin Jinbao Musical Instruments Co., Ltd - 2003 to 2007

Year	US Million Dollars Revenue	% change Growth	US Million Dollars Assets	% change Growth	US Million Dollars NPBT	% change Growth
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2003	16.4	N/C	11.8	N/C	2.2	N/C
2004	29.8	81.7	14.2	20.3	2.3	4.5
2005	33.4	12.1	18.5	30.3	2.3	0.0
2006	36.5	9.3	22.5	21.6	1.2	-47.8
2007	38.5	5.5	28.2	25.3	1.8	50.0

Source: National Bureau of Statistics China

Financial Performance of Medeli Electronics (Shenzhen) Co., Ltd - 2003 to 2007

Year	US Million Dollars Revenue	% change Growth	US Million Dollars Assets	% change Growth	US Million Dollars NPBT	% change Growth
2003	4.8	N/C	3.7	N/C	0.1	N/C
2004	13.5	181.2	8.5	129.7	0.6	500.0
2005	20.8	54.1	9.6	12.9	0.4	-33.3
2006	30.3	45.7	11.7	21.9	0.1	-75.0
2007	36.8	21.5	16.6	41.9	0.9	800.0

Source: National Bureau of Statistics China

Financial Performance of Hangzhou Goodway Piano Co., Ltd - 2003 to 2007

Year	US Million Dollars Revenue	% change Growth	US Million Dollars Assets	% change Growth	US Million Dollars NPBT	% change Growth
2003	8.5	N/C	1.2	N/C	0.3	N/C
2004	16.5	94.1	2.9	141.7	1.6	433.3
2005	19.2	16.4	4.1	41.4	1.5	-6.2
2006	29.3	52.6	6.7	63.4	2.1	40.0
2007	32.5	10.9	13.0	94.0	2.3	9.5

Source: National Bureau of Statistics China

Financial Performance of Zaozhuang Saehan Music Co., Ltd - 2003 to 2007

Year	US Million Dollars Revenue	% change Growth	US Million Dollars Assets	% change Growth	US Million Dollars NPBT	% change Growth
2003	7.1	N/C	2.0	N/C	0.5	N/C
2004	11.1	56.3	2.3	15.0	0.9	80.0
2005	33.1	198.2	2.4	4.3	1.7	88.9
2006	46.0	39.0	3.9	62.5	3.8	123.5
2007	36.8	-20.0	4.1	5.1	3.9	2.6

Source: National Bureau of Statistics China

Industry Performance

CURRENT PERFORMANCE

During the five-year period to 2010, total revenue within the Musical Instrument Manufacturing Industry in China is expected to increase at an annualized rate of 9%, totaling \$2.26 billion in 2010 (constant 2010 prices). Domestic demand for musical instruments is expected to total \$1.36 billion in 2010, although it fluctuated considerably during the past five years.

The industry had a moderate level of revenue volatility in the five years to 2010. Increasing household disposable income stimulated domestic demand for musical instruments, while export growth continued to drive industry growth. Further, government regulations also had a large impact on the industry's development. The implementation of national standards and industrial standards concerning musical instrument production contributed to a more standardized market environment.

Domestic musical instrument manufacturers are mainly concentrated in the low- and mid-end markets, while foreign enterprises mainly operate in high-end markets due to their advanced technology and brand awareness. Therefore, domestic companies are less competitive, although the total output of domestic firms was larger compared with their foreign counterparts. Many domestic manufacturers, however, have increased their investment in research and development activities in recent years, and have started implementing branding strategies.

2010

Industry revenue is expected to recover in 2010 after industry revenue and export declines in 2009. As the Chinese and global economies recover from the global financial crisis in 2010, domestic demand for musical instruments is expected to increase, while foreign demand for musical instrument parts and components will also be greater.

There are forecast to be 275 enterprises within the industry in China during 2010, most of which will be small- and medium-scale producers that are less competitive than larger firms. The top four operators are expected to generate less than 25% of industry revenue, which shows a low level of industry concentration.

Private and foreign enterprises developed rapidly in recent years, and currently the private, foreign and state-owned companies are expected to account for similar industry revenue percentages.

2009

Industry revenue totaled \$2.38 billion in 2009, down 3.9% for the year (constant 2010 dollars). This decline was due to lower foreign demand caused by the global economic downturn, with exports declining by 24.7% for the year. This negative impact was greatest in the Western musical instrument segment and the electronic instrument segment.

Exports as a proportion of industry revenue declined to 53.3% in 2009, down from 68% in 2008, and also down from a peak of 76.6% in 2003. Exports increased at a slower rate than domestic demand due to greater Chinese demand for musical instruments in recent years.

Competing imports declined 14.3% in 2009, accounting for 14.4% of domestic demand. Imports as a proportion of domestic demand declined from a peak of 34.4% in 2003, declining steadily as more foreign firms shifted their production facilities to China, decreasing foreign manufacturing output levels.

2007 and 2008

Industry revenue increased strongly in 2007 and 2008 by 12.8% and 13.7%, respectively. Domestic demand increased by 11.8% in 2007, with strong export growth. Domestic demand was just 2.7% in 2008 due to high export and import growth.

Costs for foreign companies importing Chinese musical instruments increased significantly in 2007 and 2008 due to the appreciation of China's Yuan. Exports, however, still increased by 24.1% to \$1.68 billion in 2008 due to strong demand and improving product performance. Of the exported musical instrument products, pianos accounted for a large proportion of export values. The faster growth rate of export values within the industry compared with its export volume, especially for pianos, electronic instruments and wind instruments, showed the improvement in product quality of musical instruments made in China.

2006

Industry revenue increased by 16.3% in 2006 to \$1.93 billion. Faster revenue growth in 2006 was mainly due to strong domestic demand growth. There were 266 musical instrument manufacturers within the industry, up 10.4% from 2005.

Exports increased by just 6.6% to \$1.20 billion as China's Yuan continued to appreciate. Competing imports increased by 0.5% in 2006 to \$169.5 million. Musical instrument parts and pianos accounted for the greatest proportions of import values, at over 60% and 17%, respectively.

HISTORICAL PERFORMANCE

The Musical Instrument Manufacturing Industry in China was quite small before 1949, as the main businesses were concentrated on small-scale hand-made musical instruments and maintenance services. The industry started its real development after the foundation of the People's Republic of China in 1949. After almost 50 years of development, industry revenue totaled \$794.6 million in 1998, increasing strongly to \$1.66 billion in 2005 (constant 2010 dollars).

In 1950, Beijing People's Art Press, the predecessor of Beijing Hsinghai Piano Group Ltd, produced China's first piano. Meanwhile, some enterprises in the industry began to produce wind instruments. The phase from 1949 to 1955 was the foundation period for the industry.

Since 1956, many musical instrument factories were founded, such as Guangzhou Pearl River Piano Group Ltd, one of the leading piano manufacturers worldwide. Manufacturing bases were constructed in Beijing, Shanghai, Guangzhou, Suzhou, Yingkou and Tianjin, when the large-scale production of musical instruments commenced. During the period to 1965, the government controlled production plans for manufacturers due to the implementation of China's "Planned Economic System". Musical instruments were mainly distributed in stores that sold stationery.

The Musical Instrument Manufacturing Industry in China developed steadily until 1966, and more factories were established in these years. Production processes developed to include semi-mechanized methods instead of being hand-made only, allowing more musical instruments to be produced.

In 1978, after China implemented economic reforms and policies to open up to the world, the government changed its "Planned Economic System" into a market-oriented economy. The industry's enterprises distributed their products to department stores in this period. The China Musical Instruments Administration (CMIA) was established in 1989, to facilitate the government in managing the industry. Tianjin Yamaha was established in 1989, which was the first joint venture in China producing electronic pianos.

Since the 1990s, over 90% of the industry's products were sold in musical instruments stores. This period was characterized by the entry of foreign enterprises, such as KHS (in 1992), Medeli Electronics (in 1993), and Zaozhuang Saehan (in 1996). Many of these companies became the leading participants and had a major impact on the development of this industry in the following years.

Industrial standards for many musical instruments such as guitars and violins were issued throughout the 1990s, which were designed to unify the production standards for manufacturers and to further improve the quality of musical instruments. National standard for electronic pianos were also implemented at the end of 1998.

Industry revenue declined by 2.8% in 2000 to \$907.5 million. This decrease was due to the significant reduction in export demand for musical instrument parts. In 2002, the national standard for piano production was constituted, which stipulated the raw materials, technical requirements, packing requirements and inspection rules of pianos.

2003

The main factor affecting the industry during 2003 was SARS. Fewer consumers purchased musical instruments during this period, as attending practice sessions and training courses would expose people to the possibilities of infection. As a result of reduced domestic demand, the industry's stock levels increased. The industry's enterprises in Guangdong were most seriously affected, as the province was most heavily stricken by SARS.

However, total industry revenue still increased by 9% to \$1.20 billion, with a 2.2% decline in employment numbers to under 45,000.

The industry in 2003 was subject to the accelerated entry of foreign musical instrument manufacturers. The China Musical Instruments Administration (CMIA) developed regulations during the year to regulate the industry and limit price competition.

2004 and 2005

The industry was characterized by decreasing profits during 2004 and 2005. This was due to the following reasons: the entry of foreign manufacturers intensified industry competition, leading to final price declines; rising raw material prices; energy shortages; and the appreciation of China's Yuan that slowed export growth.

In 2004, many foreign enterprises entered the Chinese market. By the end of the year, 30% of the leading musical instrument manufacturers in the world had established joint ventures or wholly-owned enterprises in China. Enterprise numbers totaled 235 during 2004, up 41.6% for the year as revenue growth surged during the year.

Industry revenue growth slowed in 2005 to 10.2%. Many small- and medium-scale manufacturers were bankrupt as surging production costs reduced profits. Few new operators entered the market, totaling 241 enterprises in 2005, up 2.6% for the year.

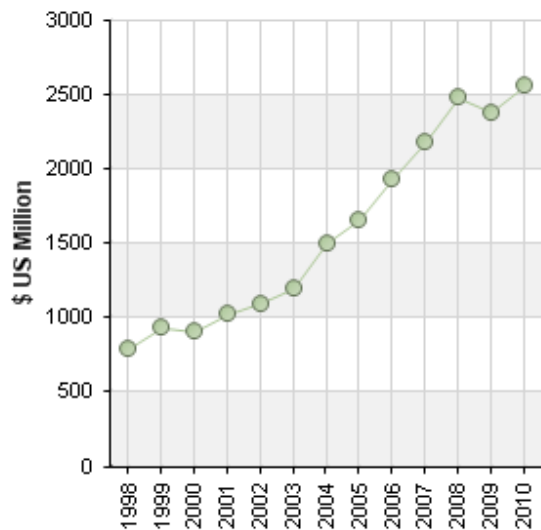
Export growth in the two years was 16.5% and 7.1%, respectively. The lower growth rate in 2005 was due to the appreciation of China's currency, increasing costs for foreign importing firms. Surging raw material prices also decreased profits, causing manufacturers within the industry to export fewer musical instruments overall.

Competing imports increased by 15.6% to \$169.9 million during 2004, with higher imports from the US, South Korea and Germany.

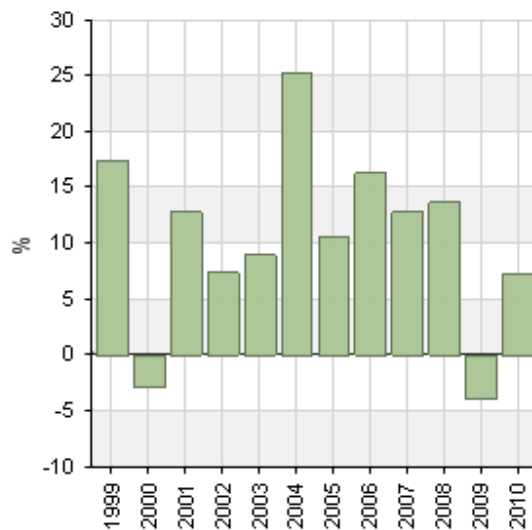
Revenue (constant prices)

	Revenue \$ US Million	Growth %
1998	794.6	N/A
1999	933.6	17.5
2000	907.5	-2.8
2001	1,024.0	12.8
2002	1,099.4	7.4
2003	1,198.5	9.0
2004	1,501.2	25.3
2005	1,660.4	10.6
2006	1,931.8	16.3
2007	2,179.5	12.8
2008	2,477.4	13.7
2009	2,382.0	-3.9
2010	2,554.7	7.3

Revenue



Revenue Growth Rate

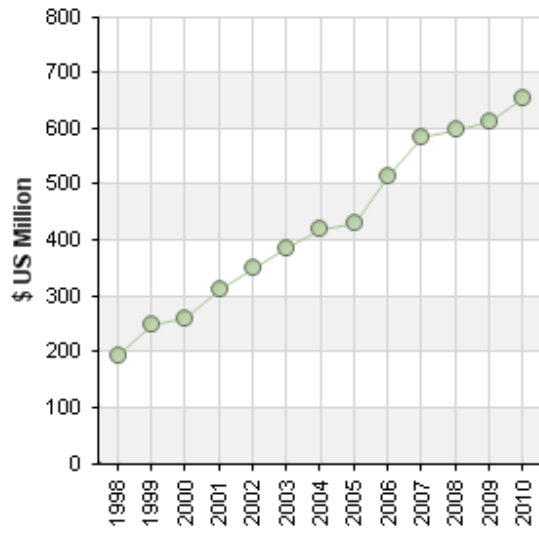


Gross Product (constant prices)

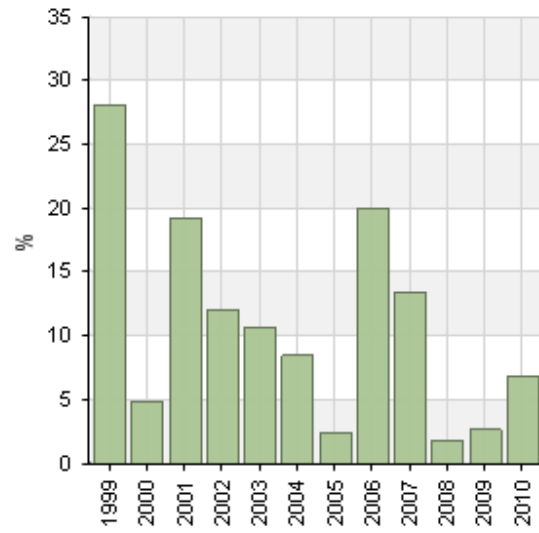
	Gross Product \$ US Million	Growth %
1998	194.7	N/A
1999	249.4	28.1
2000	261.7	4.9
2001	312.3	19.3
2002	350.0	12.1
2003	387.6	10.7
2004	420.4	8.5

2005	430.8	2.5
2006	517.0	20.0
2007	586.2	13.4
2008	597.6	1.9
2009	614.0	2.7
2010	656.5	6.9

Gross Product



Gross Product Growth Rate

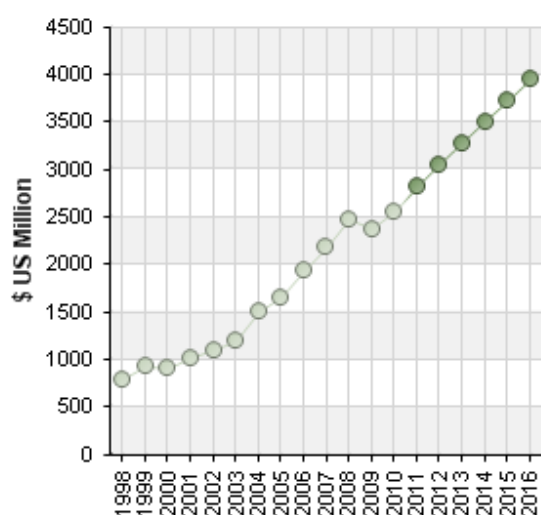


Outlook

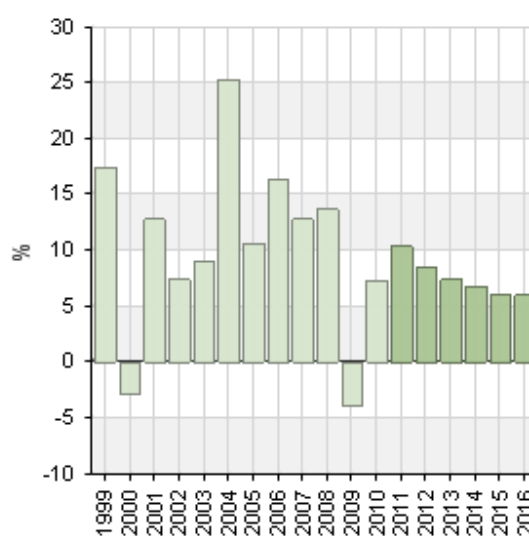
Revenue (constant prices)

	Revenue \$ US Million	Growth %
2011	2,820.4	10.4
2012	3,060.1	8.5
2013	3,286.6	7.4
2014	3,510.1	6.8
2015	3,724.2	6.1
2016	3,948.0	6.0

Revenue



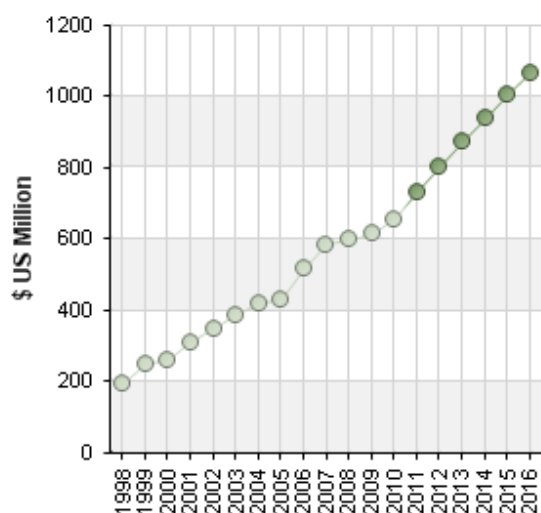
Revenue Growth Rate



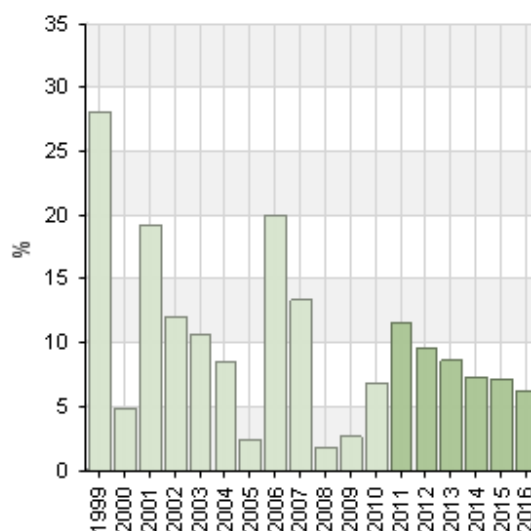
Gross Product (constant prices)

	Gross Product \$ US Million	Growth %
2011	732.7	11.6
2012	803.0	9.6
2013	872.9	8.7
2014	937.5	7.4
2015	1,005.0	7.2
2016	1,068.0	6.3

Gross Product



Gross Product Growth Rate



ACMR-IBISWorld forecasts that in the five-year period to 2015, revenue from the Musical Instrument Manufacturing Industry in China will increase with an annualized rate of 7.8%, totaling \$3.72 billion in 2015. Industry growth is expected to be strongest in 2011 with a forecast revenue increase of 10.4%. Industry revenue growth is forecast to slow steadily in subsequent years to 6.1% in 2015 as the industry matures and industry expansion becomes more difficult.

Total industry assets are expected to increase considerably to \$3.33 billion by the end of 2015, with an annualized growth rate of 6.2% in the outlook period. The increases in both industry revenue and total assets are attributable to the government accelerating education innovations in China, with schools and parents likely to pay more attention to the artistic education of children. The government is also contributing to the popularization of Western and traditional Chinese music, which is expected to stimulate demand for musical instruments in the future.

Industry competition is expected to intensify in the outlook period to 2015. Musical instrument manufacturing profits are expected to remain stable as material costs increase and firms cut costs in other areas of their business. Many companies, however, will develop new materials to replace original ones, and to reduce production costs. Other cost control measures will also be taken as there will be few opportunities to increase final prices, especially in low-end and parts markets. As a result, large-scale manufacturers will have advantages in the market due to their economies of scale. Further, domestic enterprises will be more competitive with continued brand-building and advertising.

The size of the high-end musical instruments segment is expected to increase in the following years due to increasing household disposable income levels. Competition between foreign and domestic companies will also intensify in medium and high-end markets. The leading foreign manufacturers will launch new products to increase market share in low-end segments, while domestic operators will focus on developing the mid-end markets.

More leading foreign enterprises are expected to enter the Chinese market over the outlook period due to the large potential market in China. Consolidation processes will also accelerate in this period. The number of enterprises is expected to increase to 295 by 2015, with an annualized growth rate of 1.4% from 2010. The slower growth rate compared with the current performance period is because both national and industrial standards will increase industry's

entry barriers. Also, growing competition and possible supply surpluses will discourage new players from entering the industry.

Musical instrument exports will continue to account for a large proportion of industry revenue in the outlook period. Exports are forecast to increase to \$1.92 billion by the end of 2015, with a five-year annualized growth rate of 6.5%. Exports of low- and mid-end products are expected to slow down as this market segment has become increasingly saturated with Chinese products over the current performance period. Exports of high-end musical instruments, however, are expected to continue increasing strongly in future years. The downturn in key export markets though will hinder export growth in the outlook period, as export demand slowly recovers from the aftermath of the global financial crisis and low consumer confidence.

Competing imports are forecast to total \$261.2 million by 2015, with an annualized growth rate of 5.5% from 2010. Of the musical instruments imported to China, high-end products are still expected to account for a large proportion of domestic demand, as consumers pay more attention to musical instrument quality due to increasing household disposable income levels.