

## INDUSTRY OVERVIEW

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### A. NON-WOVEN FABRICS INDUSTRY

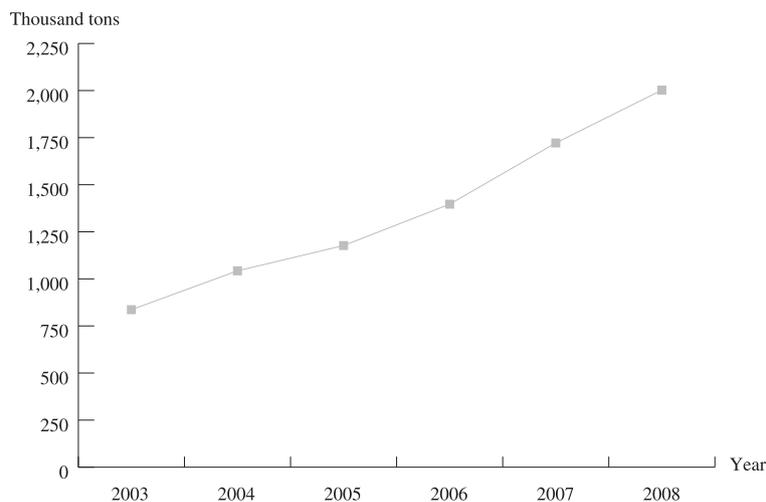
#### 1. Non-woven Fabrics Industry in China

Despite the fact that the global financial crisis in 2008 has slowed down the overall growth of the non-woven fabrics industry, the PRC government has promulgated policy like tax refund for export sales to the industry which prevented it from recession. In 2008, the annual production of non-woven fabrics has reached approximately 2 million tons, marking a growth of 16.2% from the previous year.

The top five non-woven fabrics production provinces/cities in China are Zhejiang, Shandong, Jiangsu, Fujian and Guangdong. These five provinces/cities contributed to approximately 70% out of the annual production of non-woven fabrics in China in 2008.

According to the statistics published by the National Bureau of Statistics of China, the total actual investment in textile industry in 2008 was approximately RMB272.4 billion marking an increase of 6.75% compared to 2007.

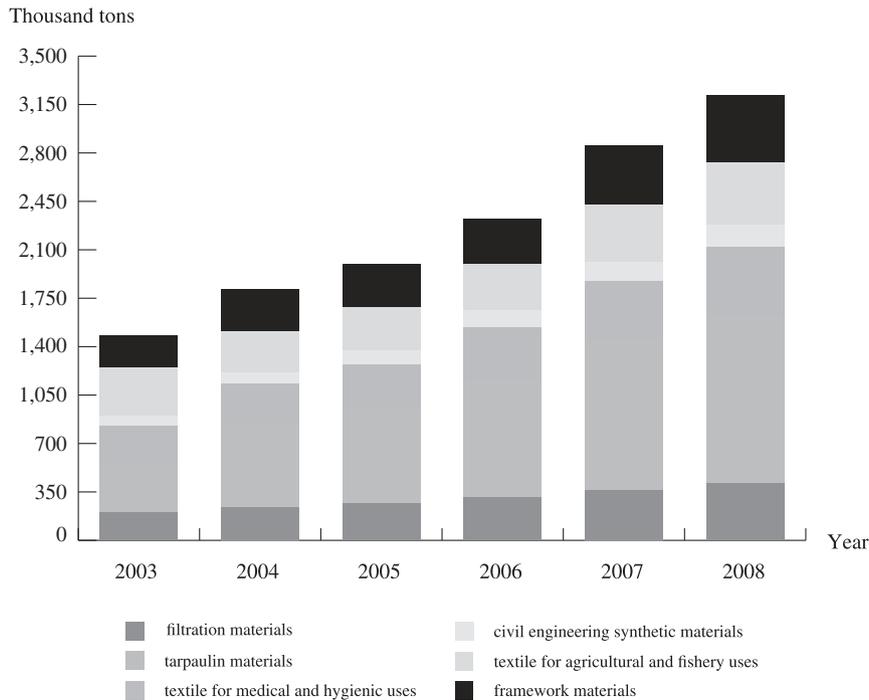
Furthermore, in 2008, total planned investment in non-woven fabrics industry has increased by 6.28% up to RMB10.8 billion compared to 2007. There were 126 new projects in 2008, marking a 0.80% increment. As at the end of December 2008, 105 new projects have been completed, representing 15.38% increase compared to the previous year. Total output of non-woven fabrics climbed from 836,400 tons in 2003 to over 2 million tons in 2008. The following table sets forth the total output of non-woven fabrics from 2003 to 2008:



Source: China Textile Industry Development Reports 2003–2008, edited by China Textile and Apparel Press

**2. Textile for Industrial Consumption**

Apart from non-woven fabrics, textile for industrial purposes (産業用紡織品) is a significant segment to the whole textile industry. Textiles in this category are mainly applied as filtration materials, tarpaulin materials, textile for medical and hygienic uses, civil engineering, synthetic materials, textile for agricultural and fishery uses and framework materials. The following table sets forth output of textiles categorised for industrial consumption from 2003 to 2008:



*Source:* China Textile Industry Development Reports 2003–2008, edited by China Textile and Apparel Press

As shown by the chart above, output of filtration materials has increased more than double from approximately 200,000 tons in 2003 to approximately 410,000 tons in 2008.

*Filtration Materials (過濾材料)*

In the past, only woven fabrics were widely consumed for filtration in industries like ceramics, pharmacy, food and beverage, metallurgy, etc.. However, as filtration standard becomes much higher, woven fabrics can no longer satisfy such standard. Nevertheless, non-woven fabrics can overcome woven fabrics' shortcomings by introducing its merits such as high quality of filtration, high output rate, low production cost, easy to be pleated, folded, moulded, etc.. Soon after introduction, non-woven fabrics have gradually replaced woven fabrics and widely been applied in different industries. This is one of the reasons for the increase in demand for non-woven fabrics filtration materials.

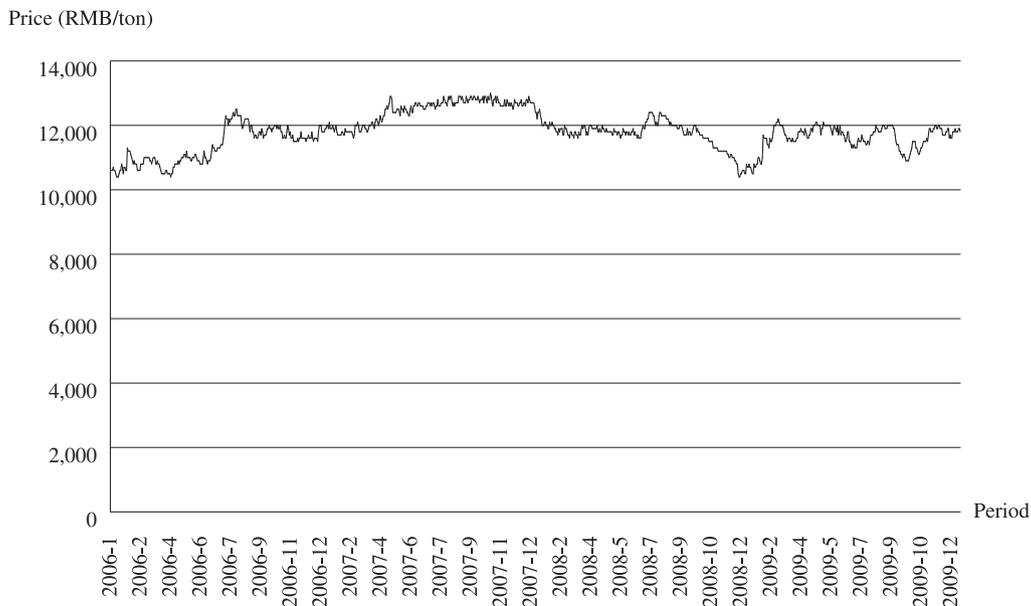
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Another factor which triggered large demand for non-woven fabrics-made filtration materials was that, in China, cement output has grown up to 800 million tons per annum, which contributed 40% out of total annual output of the world; while steel output has come to 500 million tons, which made up 25% total output of the world and coal-fired power generations has produced 200 million kilowatts of electricity, which made China becoming the second largest country relying on coal-fired power generation. These kinds of industrial activities caused ash, dust and serious air pollution. This leads to a 410,000 tons output of filtration materials in 2008, a 12.6% increment compared to 2007.

### 3. Raw materials for non-woven fabrics

With the rapid growth in production of non-woven fabrics, raw materials supply in China has risen in order to match with the growth. Principal materials of non-woven fabrics include PPS, meta-aramid fibres, ultra-high molecular weight polyethylene (UHMWPE), high tenacity PET industry yarn and PET staple fibres for spunlace non-wovens use only. The supply of high tenacity PET industry yarn has reached 500,000 tons in 2008.

According to the information provided by the website <http://www.ccfci.com>, the prices of polyester staple fibres (1.56D\*38mm), one of the raw materials for the Group's non-woven fabrics, were as follows:



Source: <http://www.ccfci.com> (中國化纖經濟信息網)

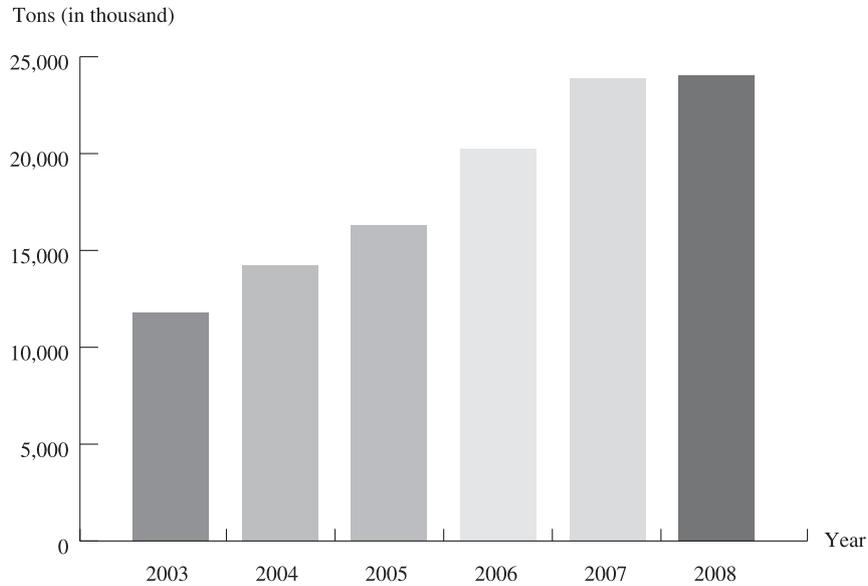
### 4. Quantity and export destination/countries of non-woven fabrics

The top ten countries importing non-woven fabrics from China are the US, Japan, Hong Kong, Korea, Russia, India, Saudi Arabia, Vietnam, Indonesia and Thailand. Quantity of export increased from 2003 to 2008. Taking the United States of America as an example, in 2003, quantity exported to the US was 2,542.8 tons which amounted to US\$5.7 million and in 2008, it had increased to 27,102 tons which amounted to US\$83.2 million.

## B. CHEMICAL FIBRES

### 1. Output

In 2008, the total output of chemical fibres has risen by 2.3% to approximately 24 million tons compared with that of 2007. However, owing to the RMB appreciation since 2007, decrease in export tax refund rate, increase in petrol price and the impact of subprime mortgage crisis, the increase in the total output of chemical fibres from 2007 to 2008 was the slowest expansion in the last 26 years. The following table sets forth output of chemical fibres from 2003 to 2008:

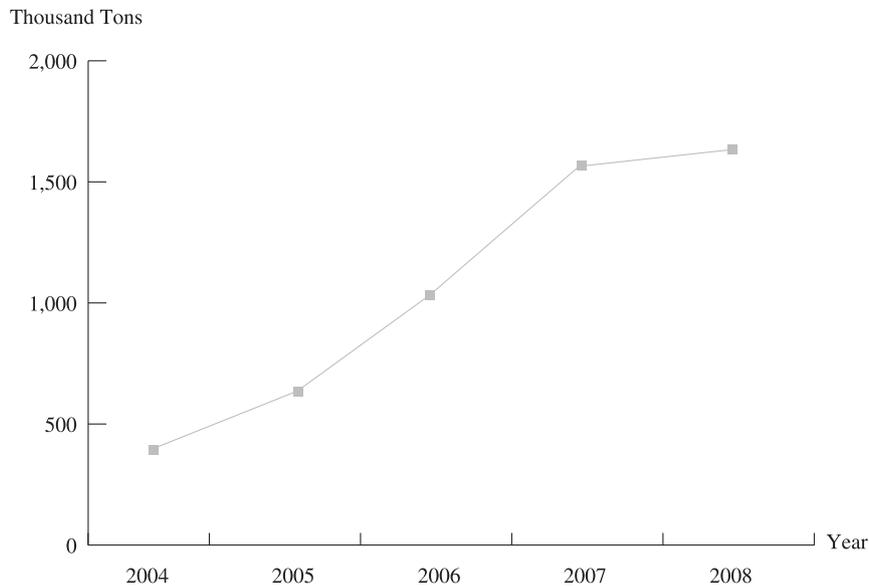


*Source:* China Textile Industry Development Reports 2003–2008, edited by China Textile and Apparel Press

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### 2. Export

The export volume of chemical fibres has increased at a decreasing rate. In 2008, although the volume of the chemical fibres export has risen by 10.7% to approximately 1,707.8 thousand tons, the growth rate has dropped by 36.4% compared to that of 2007. PET filament, PET staple and PA filament have been the top three in terms of export figure, amounted to 46.5%, 27.1% and 5.4% respectively. The following table sets forth the total export volume of chemical fibres from 2004 to 2008:

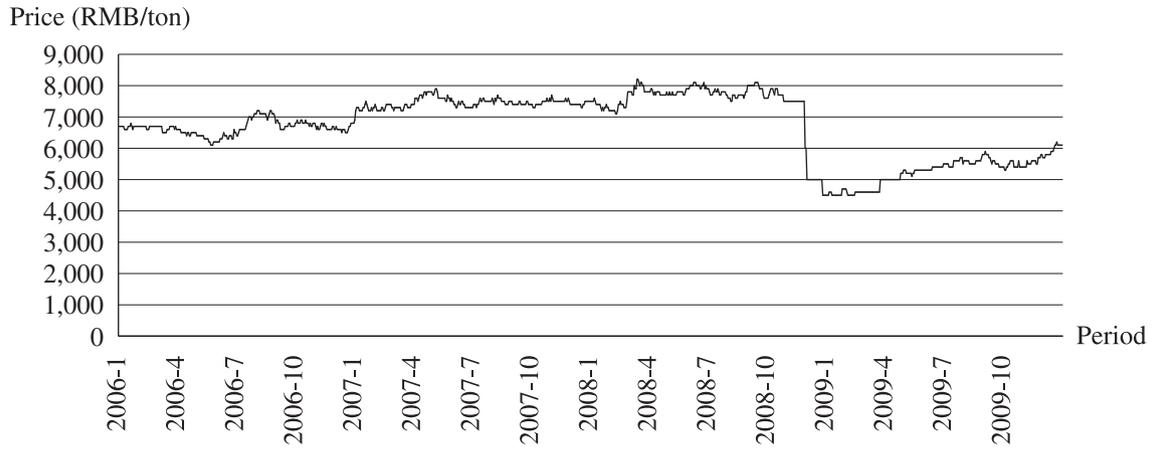


*Source:* China Textile Industry Development Reports 2004–2008, edited by China Textile and Apparel Press

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### 3. Raw materials

According to the information provided by the website <http://www.ccfci.com>, the prices of recycled cleaned PET Chips (再生淨瓶片), a raw material for polyester staple fibres, from January 2006 to October 2009 were as follows:



Source: <http://www.ccfci.com> (中國化纖經濟信息網)

The Directors believe the drastic drop of the prices of recycled PET Chips in the end of 2008 was due to the global financial crisis in the end of 2008.