



China Viscose Fiber Industry Report, 2010

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4. Operation of China’s Viscose Fiber Industry

4.1 Overall Growth

The total number of viscose fiber manufacturers in China reached ** in Jan. – Aug. 2010. The key financial data of viscose fiber industry in China in 2010 was as followed: total industrial output value accumulated RMB ** billion, up ** % YoY; total assets value hit RMB** billion, up 25.2% YoY; operating income was RMB ** billion, up 46.2% YoY; total profits arrived at RMB ** billion, decreasing RMB 233 million compared to the same period of 2009; total export value soared to RMB ** billion, up 41% YoY. All of these data has showed the prosperous increasing trend of China’s viscose fiber industry.

Growth of China Viscose Industry, 2009-2010(RMB mln)



Source: National Statistics of China, ResearchInChina

During Jan. - Aug. 2010, the total investment of viscose fiber industry achieved RMB** billion, up 49.5% YoY. The amount of projects under construction during Jan. –Aug. 2010 was **, up 21.7% compared to the same period last year. Among these projects, ** projects were newly constructed, up 3.45% YoY. As of Aug. 2010, 33 projects had been completed, up 22.2% YoY, accounting for 32.7% of the total number of the projects, which indicated the sound development of investment projects of viscose fiber industry.

Fixed Asset Investment in Viscose Industry, 2009-2010

Time	Value of Investment	Number of Project	Project Newly Constructed	Projected Completed
	(RMB mln)			
2009.1-8	**	**	**	27
2010.1-8	**	**	**	33
YoY Growth (%)	49.5	21.69	3.45	22.22

Source: National Statistics of China, ResearchInChina

5. Viscose Fiber Market

5.1 Production

5.1.1 Capacity and Distribution

The capacity of viscose fiber in China was ** tons approximately, among which, capacity of viscose staple fiber accounted for ** tons and viscose filament yarn accumulated ** tons. It is expected that about 700 thousand tons' capacity of viscose staple fiber will be put into operation in 2011.

Major Viscose Manufacturers and Their Capacity in China, 2010

Manufacturers	Capacity (Kiloton)	Other information
Shandong Helon	278	Viscose staple fiber(270 thousand tons), viscose filament yarn(8000 tons)
Zhejiang Fulida	280	Newly-added capacity of 200 thousand tons in May 2011
Tangshan Sanyou	**	**
Xinxiang Chemical Fiber	**	**
Saideli (Jiangxi) Chemical Fiber	**	**
Jiangsu Aoyang Technology	**	**
Manasi Aoyang	**	**
Longda (Jiangxi) Differential Chemical Fiber	**	**
China Silver Hawk Chemical Fiber	**	**
Shandong Yamei Textile	**	**
Jiangsu Xiangsheng Viscose Fiber Stock	**	**
Jilin Chemical Fiber	88	Normal viscose staple fiber (17 thousand tons), normal viscose filament yarn (16 thousand tons), bamboo pulp viscose staple fiber (48 thousand tons), bamboo pulp viscose filament yarn (7000 tons)
Lenzing (Nanjing) Fibers	**	**
Hubei Birla Jingwei Fibers	**	**
Nanjing Chemical Fiber	**	**
Yibin Grace Group	**	**
Others	**	**
Total	**	**

Source: ResearchInChina

In 2010, key manufacturers of viscose staple fiber in China were Zhejiang Fulida Co., Ltd. (280 thousand tons), Shandong Helon Co., Ltd. (270 thousand tons), Jiangsu Aoyang Technology Co., Ltd (** thousand tons), Tangshan Sanyou Chemical Industries Co., Ltd. (** thousand tons) and Saideli (Jiangxi) Chemical Fiber Co., Ltd. (** thousand tons).

Among domestic manufacturers, with a high concentration ration, the capacities of top 5 viscose staple fiber manufacturers accounted for ** % of the total capacities. Chinese viscose fiber manufacturers hold a certain pricing right for its downstream industry- textile industry. However, due to the low technology and financial barrier, the pricing power is not that obvious.

Distribution of Viscose Staple Fiber Capacity in China, 2010



Source: ResearchInChina

In 2010, major viscose filament yarn manufacturers in China included Yibin Grace Group Co. (** thousand tons), Xinxiang Chemical Fiber Co., Ltd. (** thousand tons), Jilin Chemical Fiber Co., Ltd. (23 thousand tons) and Baoding Swan Co., Ltd. (** thousand tons).

Distribution of Viscose Filament Yarn Capacity in China, 2010



Source: ResearchInChina

China's viscose filament yarn industry has been always in the situation of blind expansion, with a serious trend of pursuing quantity rather than quality, which resulted in imbalanced supply & demand with higher price and fewer buyers. Meanwhile, polyester filament yarn has taken partial market of the viscose filament yarn and influenced its development on a certain extent. In addition, the decreased cotton sown area has lead to the raw material price soaring of viscose filament yarn, and further reduced the gross margin of viscose filament yarn.

5.1.2 Output and Distribution

The total output of viscose fiber in China registered at ** million tons in 2009, accounting for over **% of the world's total. Moreover, during Jan. – Nov. 2010, this number hit ** million tons and increased **% compared to ** million tons during the same period 2009.

Viscose Fiber Output in China, 2006-2010 (Unit: mln tons)



Source: National Statistics of China, ResearchInChina

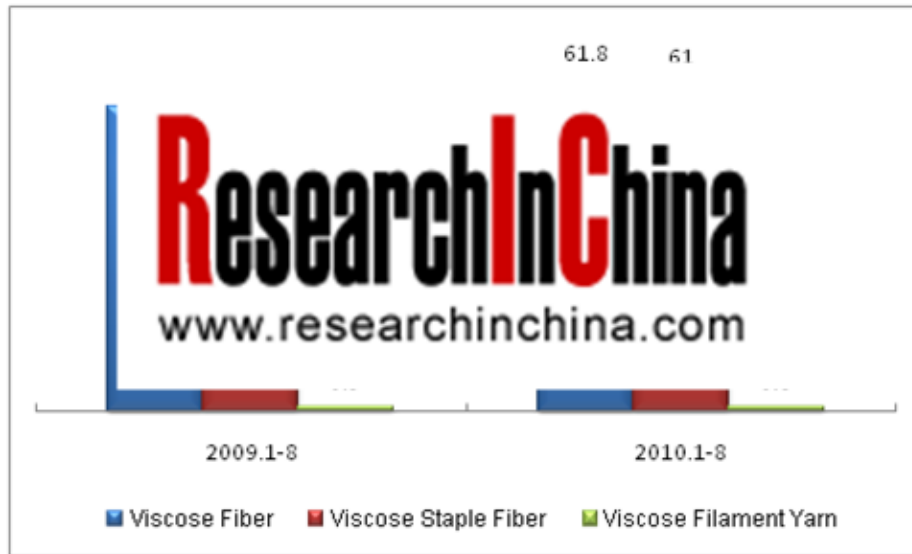
5.2 Import and Export

5.2.1 Import of Viscose Fiber

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From January to August 2010, the import volume of viscose fiber was ** tons, up 9.8% year on year; the import volume of viscose staple fiber was ** tons, up 10.1% year on year; the import volume of viscose filament yarn was ** tons, down slightly year on year.

Viscose Fiber Import Volume, 2009-2010 (Unit: 1,000 tons)



Source: China Chemical Fibers Association; ResearchInChina

According to the country of origin, from January to August 2010, the volume of viscose staple fiber imported from Austria was ** tons, accounting for 38.5% of the total import volume, basically consistent with the same period in 2009; the volume of viscose staple fiber imported from Indonesia was ** tons, accounting for the second largest share (13.6%) of the total import volume; the growth in imports from Indonesia resulted from the capacity expansion of Lenzing in Indonesia.

Viscose Fiber Import Volume (by Country), 2009-2010



Source: China Chemical Fibers Association; ResearchInChina

According to the import value, from January to August 2010, the import value of viscose staple fiber was USD **, up 19.8% year on year; the import value of viscose filament yarn was only USD **.

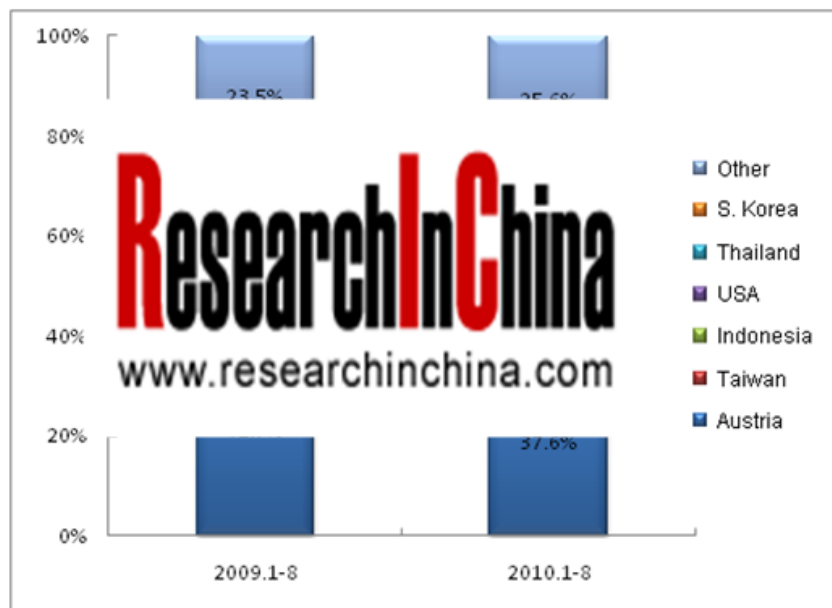
Import Value of Viscose Staple Fiber and Viscose Filament Yarn, 2009-2010 (Unit: USD mln)



Source: China Chemical Fibers Association; ResearchInChina

According to the import value by country, Austria accounted for the largest import value, which was USD** in the first eight months of 2010, accounting for 37.6% of the total import value; the value of imports from Taiwan was USD**, ranking the second place with 11% share; the value of imports from Indonesia grew significantly year on year and reached USD**, accounting for 10.6%.

Viscose Fiber Import Value (by Country), 2009-2010

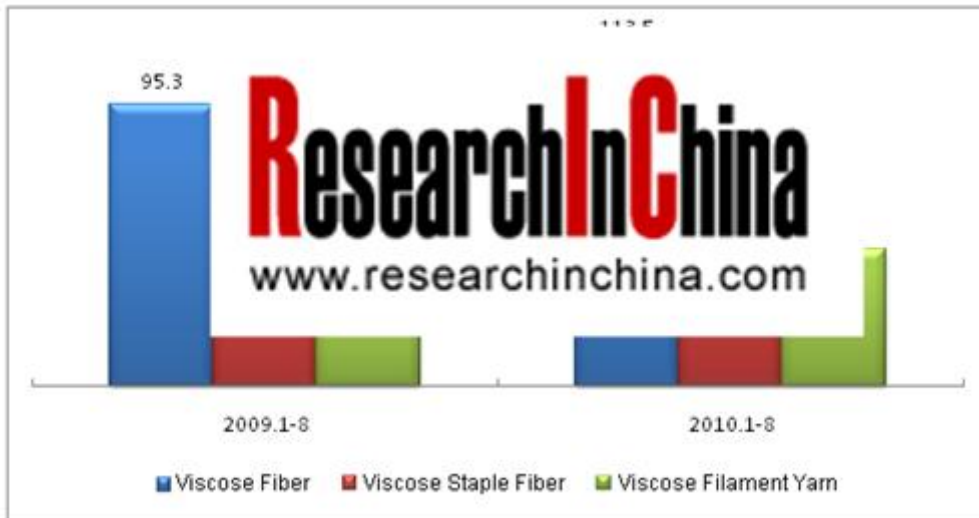


Source: China Chemical Fibers Association; ResearchInChina

5.2.3 Export of Viscose Fiber

From January to August 2010, the export volume of viscose fiber was ** tons, up 19.1% year on year; the export volume of viscose staple fiber was ** tons, up 16.9% year on year; the export volume of viscose filament yarn was ** tons, up 22.4% year on year.

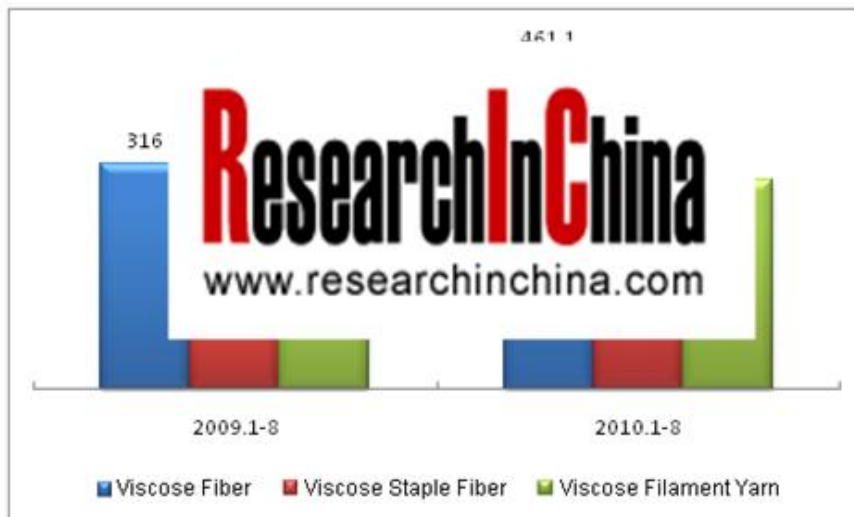
Viscose Fiber Export Volume, 2009-2010 (Unit: 1,000 tons)



Source: China Chemical Fibers Association; ResearchInChina

According to the export value of viscose fiber, from January to August 2010, the total export value was USD**, up 45.9% year on year; the export value of viscose staple fiber was USD**, up 45.8% year on year; the export value of viscose filament yarn was USD**, up 46% year on year.

Viscose Fiber Export Value, 2009-2010 (Unit: USD mln)



Source: China Chemical Fibers Association; ResearchInChina

6.5 Shandong Helon Co., Ltd.

6.5.1 Profile

Listed in Shenzhen Stock Exchange on December 26, 1996, Shandong Helon Co., Ltd. possesses 15 holding subsidiaries including Shandong Helon Polytex Chemical Fibre Co., Ltd., Shandong Helon Textile Science & Technology Co., Ltd., and Xinjiang Helon Chemical Fiber Co., Ltd., and it has purchased the shares of Xinjiang Talimu Agriculture Cotton Pulp Co., Ltd.

Its major products cover viscose filament yarn, viscose staple fiber, cotton pulp, cord fabric, canvas, and nonwoven fabric. In 2010, its capacity turned out to be 270-kiloton viscose staple fiber, 8-kiloton viscose filament yarn, 250-kiloton cotton pulp, 15-kiloton terylene cord fabric, 18-kiloton canvas, 12-kiloton HMLS, and 7.5-kiloton nonwoven fabric. The products have been distributed to more than 20 countries and regions like Southeast Asia, EU, Middle East, and South America.

Capacity of Shandong Helon, 2010

Product	Capacity (Kt)
Viscose Staple Fiber	270
Viscose Filament Yarn	8
Cotton Pulp	250
Terylene Cord Fabric	15
Canvas	18
HMLS	12
Nonwoven Fabric	7.5

Source: ResearchInChina

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6.5.2 Operation

In 2009, the operating income totaled RMB3.514 billion, higher than that before the financial crisis; the profit turned out to be RMB137 million, yet the loss was approximately RMB200 million in 2008. During the first three quarters of 2010, the operating income arrived at RMB**, up **%YoY, while the total profit suffered the dramatic decrease, primarily due to the substantially rising production cost especially the raw material cost.

Revenue and Profit of Shandong Helon, 2007-2010 (Unit: RMB mln)



Source: Annual Report of Shandong Helon; ResearchInChina

In 2009, the revenue from viscose staple fiber hit RMB**, occupying ** of the operating income, and the gross margin reached 15.1%. In H1 2010, the revenue from viscose staple fiber contributed ** to the operating income by RMB**, and the gross margin hit 11.4%, taking the lead in the industry and indicating the relatively powerful market competitiveness despite the certain decline against 2009.

Operation of Shandong Helon by Product, 2009-2010

Product	Operating Income (RMB mln)	Proportion in Operating Income	Gross Margin (%)	Growth Rate of Operating Income (%)	Growth Rate of Gross Margin (%)
2009					
Viscose Staple Fiber	**	**	15.1%	63.8%	5.8%
Viscose Filament Yarn	**	**	**	**	**
Pulp	**	**	**	**	**
Canvas & Cord Fabric	**	**	**	**	**
Other	**	**	**	**	**
Total	3490	100.0%	13.1%	26.5%	4.9%
2010H1					
Viscose Staple Fiber	**	**	11.4%	55.0%	-3.6%
Viscose Filament Yarn	**	**	**	**	**
Pulp	**	**	**	**	**
Canvas & Cord Fabric	**	**	**	**	**
Other	**	**	**	**	**
Total	2100	100.0%	10.9%	47.8%	-3.4%

Source: Annual Report of Shandong Helon; ResearchInChina

6.5.3 Development

Shandong Helon is the second largest manufacturer of viscose fiber in China. In July 2009, the respective annual capacity of 50-kiloton viscose staple fiber of Xinjiang Phase II project and the headquarters was put into operation, and the annual capacity of viscose staple fiber of Shandong Helon therefore rested on 270 kilotons; hereinto, Xinjiang Helon held 100 kilotons, and Shandong headquarters 170 kilotons (including 45-kiloton differential fiber). Meanwhile, the company supports the production line of cotton pulp with integrated industry chain and low cost. Yet the real core competitiveness of the company lies in the R&D and production capability of differential fiber. The high wet modulus fiber, flame retardant fiber, and antibacterial fiber independently developed by Shandong Helon has filled up the domestic vacancy and achieved the internationally advanced level.

Capacity Expansion of Viscose Staple Fiber and Pulp of Shandong Helon, 2007-2009

	2007	2008	2009	2010
Viscose Staple Fiber (Kt)	120	170	**	**
Cotton Pulp (Kt)	155	180	**	**

Source: Bulletin of Shandong Helon; ResearchInChina

Shandong Helon has invested a lot in differential fiber and expanded the market of high wet modulus antibacterial viscose staple fiber which is priced as high as RMB80000 with the gross margin over 45%. Along with the market exploitation, the release of 15-kiloton capacity will bring along generous profit to the company.

In H2 2009, Shandong Helon raised the capital through private placement for the investment in the following two projects: 1. the reconstruction project with the annual capacity of ** -ton differential & functionalized jute pulp cellulose; 2. the project with the annual capacity of ** -ton high brightness, fine denier, and differential viscose staple fiber. The differential jute pulp fiber features the gross margin of 35% or so and the price higher than RMB24000. The raw materials consist of jute and ambary. The company is currently practicing the trial planting of ambary in Xinjiang and it will find another important profit growth point if the raw materials are qualified.

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