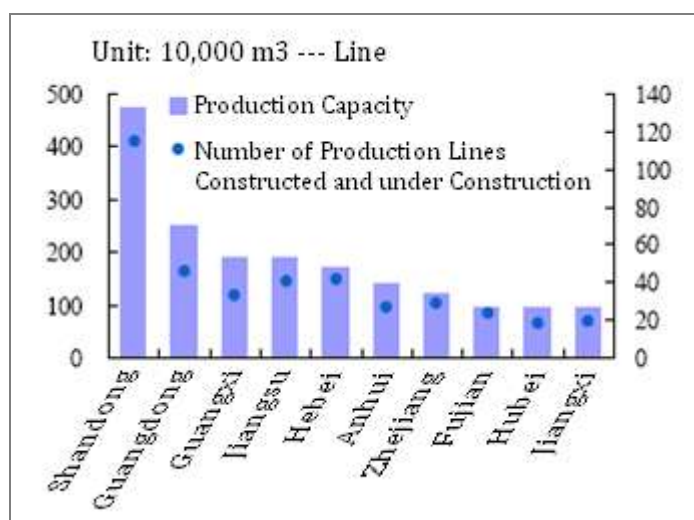


2.2 Regional Market Layout

China's medium (high) density fiberboard production is concentrated in the eastern regions. There are a number of medium (high) density fiberboard manufacturing enterprises, but the average scale of them is small, their production equipment is relatively backward, and their technology is not advanced. According to Top 100 Enterprises in China Fiberboard Industry issued by China National Forest Products Industry Association as well as Industry and Transportation Statistics Division of National Bureau of Statistics on March 18, 2005, only 13 of top 100 Chinese fiberboard enterprises gained the annual sales revenue of more than RMB300 million, 34 gained RMB100 million to RMB300 million, while the remaining 53 gained less than RMB100 million; only 20 ones sold out more than 200,000 cubic meters annually. (Source: Top 100 Enterprises in China Fiberboard Industry, China National Forest Products Industry Association, Industry and Transportation Statistics Division of National Bureau of Statistics, Forest Products Association No. 06 [2005])

China Top Ten Provinces and Regions in Terms of MDF Output, 2006



Source: Guangdong Weihua Corporation, Guotai Junan Securities Research Institute

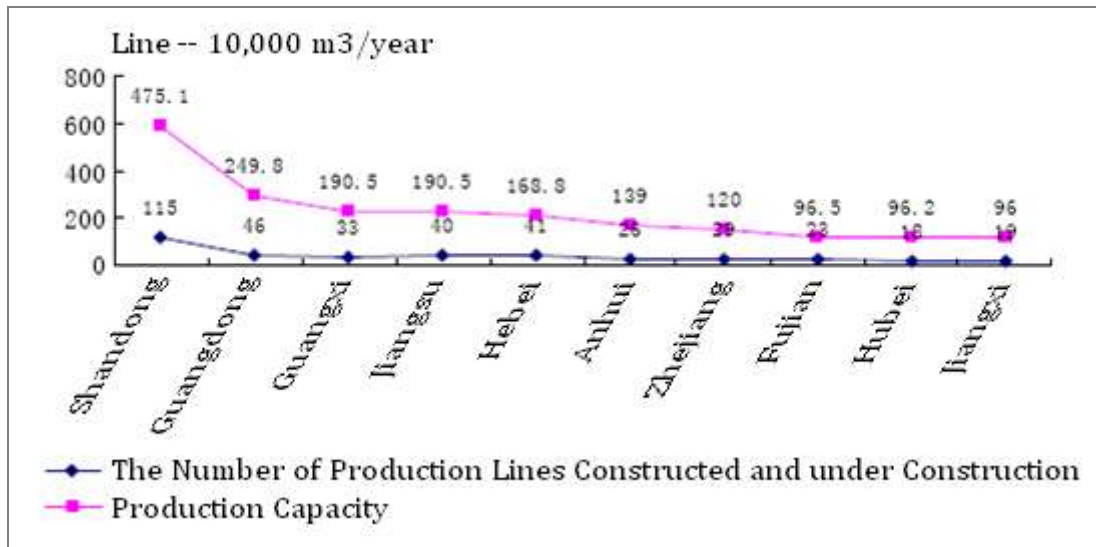
China's medium (high) density fiberboard sales markets include: Guangdong in South China, Zhejiang and Shanghai in East China, Beijing and Hebei in North China, and Chengdu in Southwest China. Guangdong has the largest sales volume, accounting for over 25% of total MDF sales volume; prices in Chengdu are slightly higher than those of other markets, and high-quality products are more popular; Zhejiang and Shanghai prefer high-quality and cheap products; prices in Beijing and Hebei are lower.

3.2 China's MDF Supply

MDF is produced by dry process, which resolves wastewater pollution problems. Since 1990s, MDF has been developing rapidly in China, and it has become the artificial board with the highest growth rate. The statistics of Food and Agriculture Organization (FAO) indicate that China surpassed the United States to be the MDF first manufacturer in 2000. In recent years, China's medium (high) density fiberboard output has gradually increased, accounting for a bigger and bigger proportion of total artificial board output. In 2006, China's medium (high) density fiberboard output reached 22.2204 million cubic meters, accounting for 29.91% of total artificial board output.

At present, there are more than 500 MDF enterprises in China, with 565 MDF production lines and the designed production capacity of 24.3 million m³. These enterprises are located in over 20 provinces and regions. Shandong and Guangdong rank top 2 in production capacity, with 4.751 million m³ and 2.498 million m³ respectively. Jiangsu and Guangxi rank third together, with the production capacity of 1.905 million m³. (Source: International Wood, May 2007)

China Top Ten Provinces & Regions in MDF Product Lines and Production Capacity, 2006

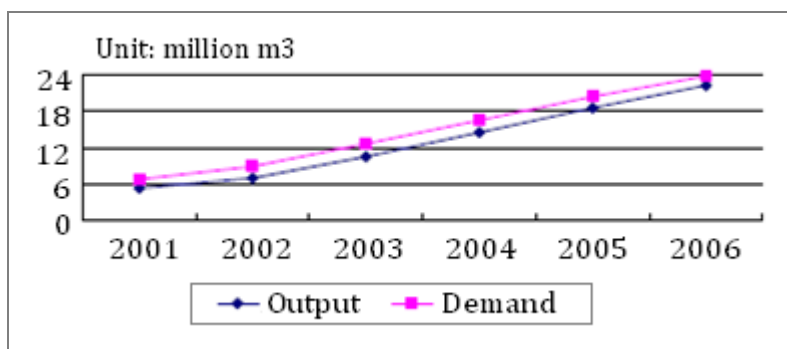


Source: China National Forest Products Industry Association

3.5 Demand

However, due to restrictions of timber resource shortage, MDF development is still lagging behind market demand generally, and the growth in MDF output has not kept up with the demand. The contradiction between medium- and high-density demand and supply is more outstanding in high-quality MDF, since it is required to import by large quantities to satisfy the demand of high-grade products in Chinese market.

China's MDF Output and Demand Comparison, 2001-2006



In addition, the imbalance in product variety structure is also a very prominent issue during industry development. Most of manufacturers are capable of producing MDF with the thickness above 8mm, but not below 8mm. Moreover, about 70% of products in China are medium- and low-end normal MDF with the thickness of 9-18mm, while only a few companies are capable of producing ultra-thick MDF above 25mm, as well as ultra-thin MDF below 3mm. Therefore, the imbalance is obviously seen in product demand and supply.

5.2 Guangdong Huawei Corporation

5.2.2 Profitability

The operation revenue mainly generates from the production and sales of medium- and high-density fiberboard, and it can produce various specifications of MDF ranging from 2mm to 40mm in accordance with market demand. During the period from 2005 to 2007, its operation revenue and net profit GAGR respectively reached 36.39% and 60.63%, which was mainly attributed to output capacity expansion of the production lines that newly put into operation, as well as product price increase driven by more market demand than supply. As an important component of main business revenue and profit, the operation revenue of MDF below 8mm had respectively accounted for 58.20%, 59.93% and 70.22% to operation revenue, showing an upward trend year after year.

Output of Main Products, 2005-2007

Unit: (m3)

Product	2007	2006	2005
≤8 mm MDF	305,363.23	179,160.54	163,554.44
>8 mm MDF	192,705.13	173,833.04	158,918.21
Total	498,068.36	352,993.58	322,472.65

Source: Guangdong Huawei Corporation

Average Selling Price Change

Product	2007		2006		2005
	Average Selling Price (RMB/m3)	Yr-on-yr	Average Selling Price (RMB/m3)	Yr-on-yr	Average Selling Price (RMB/m3)
≤8 mm MDF	1,860.99	18.12%	1,575.52	9.77%	1,435.34
>8 mm MDF	1,191.81	9.48%	1,088.65	3.82%	1,048.61

Source: Guangdong Huawei Corporation

5.2.2.2 Cost Analysis

The product cost mainly concludes fuel wood, formaldehyde, and urea, and consumes coal and power. Raw materials and energy account for around 80% of total operation cost. The growth of raw materials and energy price in recent years has impacted on its operation by some degree.

Proportions of Raw Materials and Energy in Production Cost

Item	2005	2006	2007
Raw Materials	60.45%	65.06%	68.03%
Energy	16.39%	15.70%	15.71%

Source: Guotai Junan Securities Research Institute