China Medium Density Fiberboard Industry Report, 2009

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1. Industry Background

1.3 MDF Industry

1.3.1 Operation

Since 2001, China has had growing fiberboard production capacity. By the end of 2008, the average annual growth rate had been over 21%. Impacted by the rising prices of fiberboards in Q4 2006, the investment in fiberboard industry increased greatly in 2007. The new round of investment led to the completion and operation of a large number of fiberboard production lines in 2008. As of the end of 2008, China’s annual fiberboard production capacity had reached 32.93 million cubic meters. Owing to the short-term oversupply situation in fiberboard market, the investment and construction in fiberboard production lines slowed down significantly. According to the projects currently under construction, it is expected that fiberboard production capacity will reach 36 million cubic meters in 2010, and productivity obviously became lower.

China’s Total Fiberboard Output Capacity, 2001-2008

East China is a key fiberboard production area in China. In 2008, its fiberboard production capacity reached ** cubic meters, increasing by 13.9% over 2007.
1.3.2 MDF

Medium (High) Density Fiberboard is the sub-industry of man-made board manufacturing industry. In China, MDF, with the density averaging 450-880kg/cubic meters, are mainly used in such industries as furniture manufacturing, architecture, vehicle and ship building as well as household appliances. While the MDF with density exceeding 880kg/cubic meters and thickness below 8mm are used to make high-grade decorative materials and packing materials including enhanced wood floors, underboardings for electronic industry use and decoration plates.

China is a major manufacturer in MDF manufacturing industry, but is not yet strong in this field. A large majority of manufactures lag behind in scales, equipments and technologies and product quality. Most of China’s existing MDF manufactures produce less than 30 thousand cubic meters MDF each year, comparing to 69% of its foreign counterparts whose yearly output surpass 100 thousand cubic meters. Due to the high price of import continuous flat press, most small enterprises in MDF industry are used multi opening presses in China. The capacity of MDF enterprises which apply import continuous flat presses only account for 20% of China’s total. In terms of product quality, there is a huge gap between large and medium enterprise and the small ones. According to the inspection findings from General Administration of Quality Supervision, Inspection and Quarantine of the People's Republic of China in 2005, Synthetical qualification rate of MDF was 73%, and that of the large and medium enterprise and the small ones was respectively 90% and 55%. The products with high formaldehyde emission, thickness variation and soaking swell rate took the lion’s share. Therefore, although the large yield of MDF in China, the product quality has yet to improve. High quality MDF of China is in short supply and remains robust import demands.
3. Supply and Demand in MDF Industry

3.1 Global MDF Supply

The global output capacity of manmade board has recently exceeded 200 million m³, of which MDF is over** m³, particle board ** m³, and plywood board ** m³. According to the statistics, the total demand of manmade board registered an increase of ** m³ worldwide during the period of 2001-2005; it is expected that the global production and consumption of manmade board will sustain a moderate growth for the next five years and its annual output will realized ** m³ by 2010. Meanwhile, due to the scare wood resource in the world, it is likely that some countries would strengthen trade protection measures and non-tariff trade protection measures on wood resource, further tightening wood resource supply in the world. Handicapped by this condition, the product structure of manmade board will be adjusted. In manmade board consumption, the proportion of plywood board will decrease year by year, while the proportion of fiberboard and particle board will expand worldwide dued to abundant raw material supply, excellent performance and broad sales market.

3.2 China’s MDF Supply

<table>
<thead>
<tr>
<th>Region</th>
<th>Category</th>
<th>Scale (10 thousand m³)</th>
</tr>
</thead>
<tbody>
<tr>
<td>East China</td>
<td>MDF</td>
<td>137</td>
</tr>
<tr>
<td>South China</td>
<td>MDF</td>
<td>***</td>
</tr>
<tr>
<td>Heilongjiang</td>
<td>MDF</td>
<td>***</td>
</tr>
<tr>
<td>Jilin</td>
<td>MDF</td>
<td>***</td>
</tr>
<tr>
<td>Sichuan</td>
<td>MDF</td>
<td>***</td>
</tr>
<tr>
<td>Shanxi</td>
<td>MDF</td>
<td>***</td>
</tr>
<tr>
<td>Hunan</td>
<td>MDF</td>
<td>15</td>
</tr>
<tr>
<td>Sum</td>
<td></td>
<td>***</td>
</tr>
</tbody>
</table>

Source: National Bureau of Statistics of China; ResearchInChina

Between 2008 and 2009, the newly increased output capacity of MDF reached *** m³, of which Eastern China occupied *** m³ or **% of the total.
Between 2005 and 2009, the mean annual output of MDF and HDF in China realized 28.4 million m³. In particular, the output of China’s MDF and HDF reached 41.5 million m³ in 2009, up 16.7% over 2008 year on year.
5. Key Companies

5.1 Dare Technology Group

5.1.1 Overview

Dare Technology is a leader in China flooring industry. At present, its products mainly include prefinished floor and solid wood floor, constituting "spinning cone" product structure which covers Power Dekor, Funuo, Homenice, Power Dekor Kährs and Homebon, aiming at high, medium and low-end laminate floor markets. The designed production capacity of wood floor reaches more than 38 million m², including 26 million m² of prefinished floor and 12 million m² of solid wood laminate floor. In addition, the proposed production capacity of prefinished floor and solid wood laminate floor is about 12 million m².

5.1.2 Structure of Main Business Revenue and Profit

The main operating industries of Dare Technology include: packaging industry, mechanical manufacturing industry and decorative material industry. The decorative material industry is the main source of its revenue. The main products include aluminum foil, aluminum foil composite paper, card paper, package printing product, polypropylene tow, wheel hub, high and medium density fiberboard and wood floor.

By industry, the main businesses of Dare Technology are dominated on decorative material industry, in 2008, the revenue of the industry accounted for **% of the main business revenue and the profit accounted for **% of the main business profit. In H1 2009, Dare Technology continued to operate well, and achieve the business income of RMB**billion, RMB**billion (**%) of which came from decorate manufacturing, more than that in 2008; the main business profit accounted for **% of the total business profit. The concrete conditions are as shown in the following table:
Main Business Revenue and Profit of Dare Technology Group by Industry

(Omitted)

Source: Annual Report of Dare Technology Group

From the product classification, the enterprise focuses on the operation of high/medium density fiberboard and wood floor. The summation of the income of them accounted for 80.64% of the main business income in 2008, 10% more than that in 2007. In H1 2009, the income and profit from them accounted for 74.73% and 78.36% of the total business income and profit respectively. The concrete conditions are as shown below:

Main Business Revenue and Profit of Dare Technology Group by Product

<table>
<thead>
<tr>
<th>Product</th>
<th>H1 2009</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Main Business Income (RMB)</td>
<td>Proportion in Main Business Income (%)</td>
<td>Main Business Profit (RMB)</td>
<td>Proportion in Main Business Profit (%)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>2008 (RMB)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aluminum foil</td>
<td>158308495.06</td>
<td>6.70</td>
<td>29843516.76</td>
<td>5.02</td>
<td>446914200.00</td>
<td>7.98</td>
<td>69541300.00</td>
<td>5.27</td>
<td></td>
</tr>
<tr>
<td>Aluminum foil composite paper and card paper</td>
<td>160673412.28</td>
<td>6.80</td>
<td>36237613.47</td>
<td>6.09</td>
<td>327298500.00</td>
<td>5.84</td>
<td>73516800.00</td>
<td>5.57</td>
<td></td>
</tr>
<tr>
<td>Package printing product</td>
<td>104129920.33</td>
<td>4.41</td>
<td>27819357.91</td>
<td>4.68</td>
<td>243248000.00</td>
<td>4.34</td>
<td>75942500.00</td>
<td>5.75</td>
<td></td>
</tr>
<tr>
<td>Polypropylene tow</td>
<td>87057210.96</td>
<td>3.69</td>
<td>38298638.19</td>
<td>6.44</td>
<td>130408100.00</td>
<td>2.33</td>
<td>36827800.00</td>
<td>2.79</td>
<td></td>
</tr>
<tr>
<td>Wheel hub</td>
<td>86468421.20</td>
<td>3.66</td>
<td>-3460899.92</td>
<td>-0.58</td>
<td>268169100.00</td>
<td>4.79</td>
<td>-134900.00</td>
<td>-0.01</td>
<td></td>
</tr>
<tr>
<td>High and medium density fiberboard</td>
<td>893235298.17</td>
<td>37.83</td>
<td>177280771.32</td>
<td>29.80</td>
<td>2348314700.00</td>
<td>41.93</td>
<td>485726000.00</td>
<td>36.78</td>
<td></td>
</tr>
<tr>
<td>Wood floor</td>
<td>871614739.41</td>
<td>36.91</td>
<td>288956523.69</td>
<td>48.57</td>
<td>1835647000.00</td>
<td>32.78</td>
<td>579147600.00</td>
<td>43.86</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>2361487497.41</td>
<td>100.00</td>
<td>594975521.42</td>
<td>100.00</td>
<td>5599999600.00</td>
<td>100.00</td>
<td>1320567100.00</td>
<td>100.00</td>
<td></td>
</tr>
</tbody>
</table>

Source: Annual Report of Dare Technology Group
From the regional distribution of the main business income, the five regions, namely East China, North China, South China, overseas and Central South, are the main income sources. Therein, North China is the most important profit source. North China had the business income of RMB2.198 billion in 2008, up 9.15%, accounting for 39.24% of the total business income; it had the sales income of RMB842 million in H1 2009, accounting for 35.65% of the total business income.
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