



China: Global largest producer of textile machinery

China has become the largest producer of textile machinery in the world, delivering the most diversified and the largest quantity of products, while its import has also been increasing at a high speed in recent years. Specifically, the import of air-jet looms, shuttle-less looms, circular knitting machines, hosiery machines and cotton processing machinery have all increased. This means that China's demand is still strong for textile machinery. The focus of global textile production will shift to inland of China and also to other parts of South Eastern Asia, and China will be the most potential consumer of textile machinery in the world.

China's textile machinery market has been growing rapidly in recent years, and the gross industrial output value of textile machinery manufacturing in China reached RMB 72.64 billion in 2008, up by 4.9% year-on-year basis.

The gross profit was RMB 4.07 billion, up by 9.6%, but the profit of the sector increased a generous RMB 356 million from year ago, as the profit margin was only 5.6%, far lower than average profit margin of the manufacturing in China as a whole.

The demand for China's textile machinery is increasing and its future potential for growth is enormous despite the current economic scenario. The global textile production center is shifting to mainland China and Southeast Asia. China has become the most promising textile machinery market in the world. Besides, textile machinery technology upgrading has also gathered pace in the short term.

China still has a big gap to bridge with the world's advanced level in terms of textile machinery automation, reliability, equipment serialization and variety adaptability. Chinese textile machinery enterprises still need to strengthen their technology innovations and independent R&D abilities.

Economic indexes of textile machinery

Based on all the statistics unveiled by CTMA recently, major economic indexes of textile machinery indicate a small drop down year-on-year, but overall profit margin faced a severe plunge.

Year	Gross Output (RMB bn)	Gross Profit (RMB bn)	Profit Margin	Increase of Profit Margin
2004	38.458	2.06	5.3 %	-
2005	47.499	2.35	4.9 %	.039 %
2006	52.844	2.81	5.3 %	0.37 %
2007	69.183	3.71	5.4 %	0.05 %
2008	72.642	4.07	5.6 %	0.23 %

Total industrial output value reached 21.2 billion RMB, down by 6.4% and profit income amounted to 0.536 billion RMB, down by a striking 48.24%. 253 companies are facing a great deficit and that is a 41.34% upturn which means 24.8% of overall textile machinery companies are facing losses in the first five months. All these statistics are concluded through a deep-down running situation investigation of the 1020 textile machine suppliers nationwide with a year-on-year analysis.

Fluctuation in demand and increased competitive pressure

World textile machinery manufacturers including China face challenges in the days ahead, including fluctuation in demand and increased competitive pressure. According to ACIMIT's estimates, the decline amounted to as much as 18% of current prices in 2008 compared to 2007. These alarming figures for the sector are the result of the overall economic and financial crisis which has by now spread through all segments of the real economy.

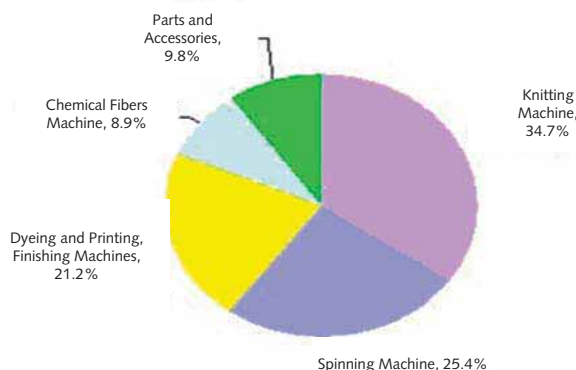
Major exporting countries of textile and clothing items have observed a significant drop in export volumes, due to a slumping demand from European markets and the United States. A downsizing of production for many textile businesses has meant that plans for investments originally foreseen have now been inevitably postponed.

With the U.S., Japan and all of Europe mired in the worst global recession in 30 years, China has shown a restorative strength. Despite all restorative signs from the recession, whether China is truly recovering remains a question. "Although the country's economy began to rebound recently, the economy is not on a solid footing and faces uncertainties both from home and abroad," said Yao Jingyuan, Chief Economist with the National Bureau of Statistics. To further lift the country's economy, Chinese President Hu Jintao and Premier Wen Jiabao called for efforts to stick to the government's proactive fiscal policy and moderately easy monetary policy to sustain the economic growth as the country's economy is at a critical moment and the foundation for recovery is not solid. Hu said the Chinese economy is generally improving because of the stimulus packages the Chinese government rolled out to weather the global economic downturn, but caution against risks should be strengthened.

Year 2009 is unquestionably a rather difficult year for all sectors of China textile industry. Although global market demand still remains weakened and withered, textile industry is beginning to show signals of rebounding, thanks to the some increase in domestic demand as well as the positive effect of macroeconomic stimulating policies of the government. As concluded from all the data unveiled by relative authoritative agencies, domestic textile industry is probably genuinely walking out of shadow since March this year although things still needed to be cautious.

Overall industrial output value of the 52, 000 billion RMB over-scale textile industry totaled 1,715 billion RMB, increasing by 6.44% year-on-year, which is also the fourth consecutive increasing.

China: Export of Textile Machinery - 2008





Although the increasing rate is 10.75% lower in comparison with that of 2008, total output and market demand can almost strike a balance.

Fixed asset investment of over five million RMB reached 135 billion RMB in the first half year which is a 6.35% year-on-year increase. Although the increasing rate is down by 7.89% when annually compared, it is also the fourth consecutive increasing since March this year. New investment programs could to a certain extent represent or indicate the market demand orientation, 3,930 new programs were launched from January to June 2009, increasing by 22.05%, which in another way indicated the confidence that the industry holds to a promising market recovery.

Overall domestic sales value for over-scale textile markets reached up to US \$1,338 billion, increasing by 10.72% year-on-year. Although the increasing rate has descended by 9.68% in contrast with last year, a 1.3% increase can not be neglected when comparing with the first five months which indicated that domestic demand beginning to show its impact.

Profit margin of textile industry remains negative since 2009. Nonetheless, the descending magnitude is obviously narrowing down since January. Profit margin of over-scale

enterprises reached up to 43.2 billion RMB, down by 0.14% annually.

Almost all countries around the globe face downturn exportation; China textile industry maintains and reinforces a certain share. According to the statistics unveiled by American Commercial Department, overall import of America apparel from around the world has down by 14.12%, import from China decreased 3.72% but taking up 34.74% of its overall import and that is a 3.75% increase year-on-year.

The overall textile machinery output value and marketing income showed negative growth in recent 10 years ever since 2008. This downturn trend still remains in 2009. According to the statistics of China Textile Machinery Association, the overall industry output value reaches 21.8 billion yuan, down by 6.4% year-on-year, leaving textile machinery industry the only negative-growth industry throughout all sectors of textile. Other indexes are also declining -sales revenue and profit income are down by 5.2% and 48.2% separately.

Chinese textiles and garment manufacturing industry

The textile industry plays a significant role in China's national economy. On one hand, the textile industry is a traditional advantageous industry in China and textile products serve as important foreign

trade goods. On the other hand, development of the textile industry will be a major factor affecting demands, supplies and prices of the garment industry. Due to the aggravating financial crisis and the gloomy global economy, China's textile industry begins to see a depression and its output value represents a downtrend. From January to December of 2008, the total export value of China's textile industry stood at US \$65.406 billion, a year-on-year increase of 16.6% and a link-relative-ratio decrease of 1.5%.

The growth rate of export value saw an apparent slip in 2008. Textile export in February and November of 2008 both witnessed a year-on-year reduction, with export in December the same as that of 2007. It can be implied that although China adjusted export tax rebate twice in the second half of 2008, the export of the textile industry did not show an obvious improvement.

In spite of the gloomy export market, China's textile industry still represents surplus. The surplus in 2008 reached US \$49.171 billion. Import and export changes in these five years show that the surplus of the textile industry in China sees an uptrend. Due to fluctuating prices of raw materials, tight policies and the gloomy foreign trade market, China's textile industry was in depression in 2008 and many enterprises suffered great pressure.◆

China's textile industry affected by global financial crisis

China's textile industry is a traditional pillar industry of national economy and is greatly affected by the global financial crisis, the industry experienced negative growth since 2003. However, the textile and garment industry will insist on self-regulation and carry out their corporate social responsibilities.

Textile products mainly contain cotton, wool, silk, chemical fiber and some primary dyeing and printing products. Thus analysis and research of the textile industry will focus on the industrial chain of these products and development trend of related industries. Actually, the textile industry mainly involves processing such raw materials as cotton, wool and silk and materials for daily necessities like clothes and so on. The industry which is closely linked to both the textile industry and the chemical industry is the chemical fiber textile industry, especially the man-made chemical fiber textile industry. In addition, the process of dyeing and printing may use many chemical instruments.

The rapid development of China's economy, increasing demands and favorable policies all contribute to the improvement of the textile industry. However, some adverse factors and risks also exist. These risks mainly include rising costs, uncertainty of demands of downstream market and so on. In 2009, development of China's textile industry mainly relied on government's policies which helped the industry to reduce risks of the whole industry by means of industrial planning, concentration and stimulus packages.

Most risks come from increasing labor costs and stricter environment-protection requirements listed on "Law of the People's Republic of China on Employment Contracts".

Labor always serves as an important advantage for China's textile industry. The requirement of raising wages will lead to an increase of 5% in labor cost. However, China's textile industry, whose sales profit rate can not reach 5%, will suffer more pressure. Energy-saving policies set limitations to output and water emission, which also imposes great pressure on enterprises.

The demand and supply of the textile industry in China shows that domestic demands will serve as the major factor stimulating development of the textile industry. Thus risks are mainly from export demands.

Although the textile industry has seen a recovery since the second half of 2008 due to the rising export tax rebates, international trade environment does not clear up and risks still exist as the growth of global economy slows down and demand for costume slumps.

Meanwhile, trade barriers and environment-protection requirements will affect the export of China's textile industry and further exacerbate competition on textile market. The overall situation of the textile industry shows that risks in 2009 are mainly from gloomy demands for textile products.

CSR Report: Textile Enterprises-2008