



TiO₂ China Monthly Report

Vol.4 Issue 07 2011



Editor's Note	II
Headlines of TiO ₂ China Monthly Report 1107	II
Supply & Demand	1
China's TiO ₂ trade surplus hit record high	1
Upstream	2
Titanium feedstock import volume continues to decline in May	2
Kenmare expects to gain market share	3
Iluka's ilmenite production decreases	4
Rio Tinto posts weak titanium feedstock production	4
Company Dynamic	5
Henan Billions goes public on July 15	5
CNNC Huayuan's restructuring fizzles out again	5
Pangang Group sees strong output	6
Tronox benefits from restructuring and strong demand	6
Huntsman wins 2011 Low Carbon Award	6
South Korea to end anti-dumping duties on China's TiO ₂	7
Downstream	7
China's coating output grows rapidly	7
Carpoly outstands coating producers in Asia Pacific	7
Kansai Paint sets up Chongqing base	8
Leading coating companies report great revenue growth	9
Price update	10
Price update of TiO ₂ and its feedstock in July 2011	10
TiO ₂ price increases in North America	11
DTT announces price increase effective in Sept. 2011	11

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Editor's Note

Welcome to CCM's TiO₂ China Monthly Report in July 2011.

A climate of unrest appears in China's economy, with 6.4% increase in CPI and 1.1% decrease in PMI in June 2011.

Premier Wen Jiabao called for intensified efforts to save energy and reduce emissions at a meeting on July 19, 2011. He added that China would press ahead with reforms of resource taxes and environmental taxes, and adjust import and export duties to curb export of high energy-consuming and high-pollution products.

The shortage of titanium feedstock continues, due to output decline and great demand all over the world. In domestic market, titanium feedstock prices keep an uptrend.

China's TiO₂ industry is in a booming period, enjoying global strong demand and rising prices. Henan Billions is one of the producers that have seized the opportunity. However, TiO₂ prices become relatively stable in domestic market, due to weak demand in this slack season.

The coating industry in China sees great output growth this year, but its profit is seriously affected by high raw material cost.

If you have any specific topics you would like us to cover or investigate any of the subjects covered in more detail, please contact us by +86-20-3761 6606, or econtact@cnchemicals.com

Exchange rate in July 2011:
USD1=RMB6.47=EUR0.70

Headlines of TiO₂ China Monthly Report 1107

China's TiO₂ trade surplus hit a record high in May 2011, with the export volume up 58.94% and the import volume up 2.37% respectively year on year.

Iluka reports ilmenite production decreases in Q2 2011, down 2% year on year.

Rio Tinto reports a 1% year-on-year decline in its TiO₂ feedstock production.

Henan Billions goes public in this month and draws much attention.

Shandong Dongjia gives up restructuring CNNC Huayuan.

Kansai Paint is to build a heavy duty coating production and sales base in Chongqing, China.

Leading coating companies report great revenue growth in Q2 2011.

Main companies covered in this issue





Supply & Demand

China's TiO₂ trade surplus hits record high

China's TiO₂ trade surplus hits a record high in May 2011, with the export volume up 58.94% and the import volume up 2.37% respectively year on year. Meanwhile, both TiO₂ import and export prices increase largely, backed by higher raw material cost and stronger demand.

Compared with last month, both China's TiO₂ import volume and export volume decline in May 2011, decreasing by 4.94% and 2.01% separately. However, China's TiO₂ trade surplus hits record high, reaching 19,515 tonnes in May 2011. The enlarged surplus is primarily due to global tight supply of TiO₂.

The gap between TiO₂ average import price and export price narrows down to USD78/t in May 2011, with TiO₂ import price up 6.59% and export price up 11.63% month on month, touching USD3,017/t and USD2,939/t respectively. The TiO₂ average import price rises by 25.29% while the average export price soars by 64.37%, as compared with the same period last year. It indicates that the demand-supply imbalance of TiO₂ over the world becomes more and more serious.

Owing to tight supply in global market, China's TiO₂ import volume retreats to 22,013 tonnes in May 2011 from 23,156 tonnes in April. Meanwhile, the average import price of TiO₂ grows by 6.59%, the highest growth rate in 2011.

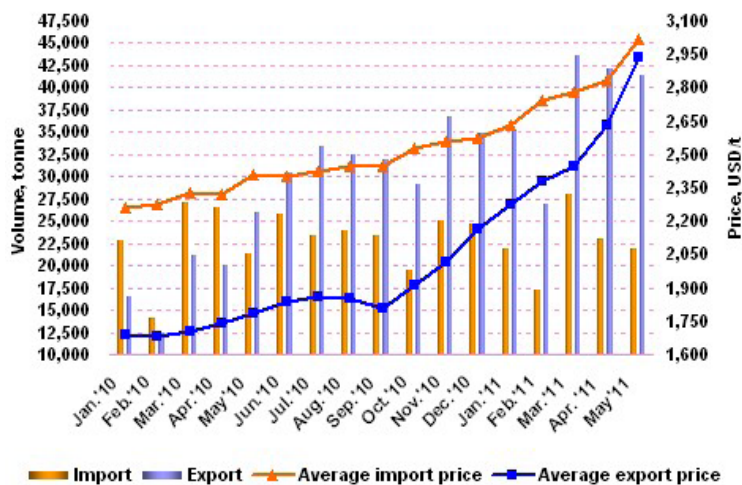
During the first five months in 2011, China totally imports 112,805 tonnes of TiO₂, compared to 112,635 tonnes in the same period last year. On one hand, global TiO₂ supply becomes inadequate; on the other hand, China gradually reduces the reliance on imported TiO₂. In the same period, the average TiO₂ import price increases by 20.71%, mainly backed by higher feedstock cost and tight supply of TiO₂.

As for the import origins, China imports the largest volume of TiO₂ from Taiwan in May 2011. The volume from the US, Australia and Japan all retreat, separately by 15.57%, 24.47% and 35.28%, due to tight supply of TiO₂ in those countries. However, China imports 1,700 tonnes of TiO₂ from Mexico, seeing an 80.85% month-on-month increase and a 129.73% year-on-year increase.

In May, the US becomes the country that has the highest TiO₂ average export price for China, which reaches USD3,010/t; the next two are Australia (USD3,003/t) and Japan (USD2,992/t).

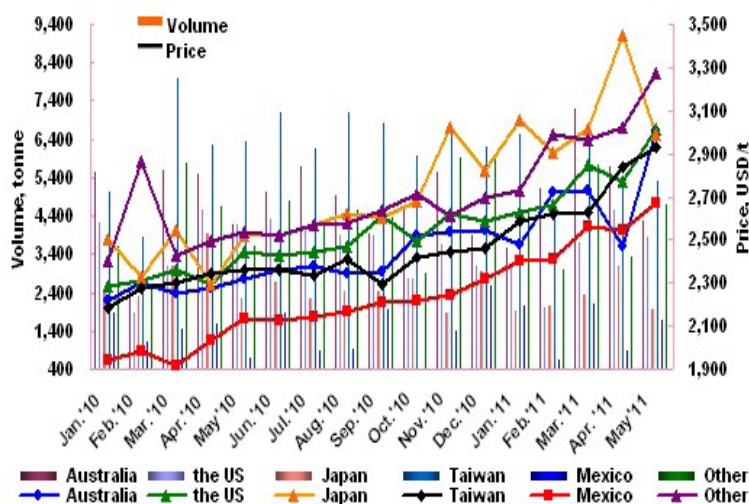
China's import volume of TiO₂ from ISK and Tronox decrease obviously in May 2011, down by 32.01% and 35.34% month on month, respectively. On the contrary, DuPont, Cristal and Huntsman all increase their export volume of TiO₂ to China in May, by 2.71%, 12.81% and 87.58% month on month, respectively.

FIGURE 1: China's TiO₂ international trade situation, Jan.'10-May '11



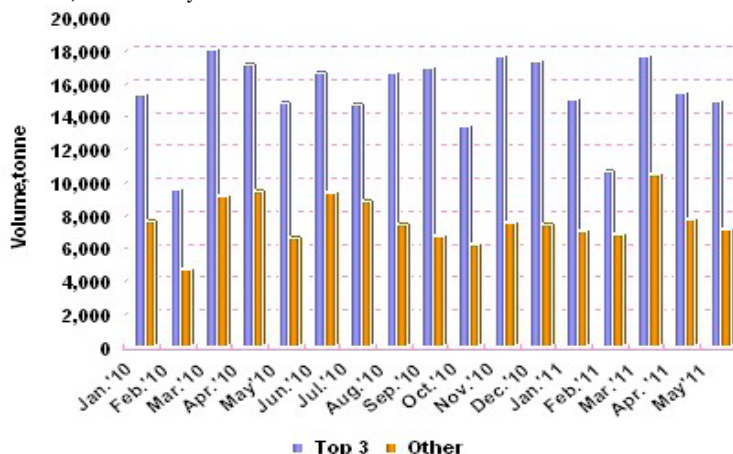
Source: China Customs; CCM International

FIGURE 2: China's TiO₂ import situation by origins, Jan.'10-May '11



Source: CCM International TiO₂ MTB import analysis

FIGURE 3: Top three multinationals' market share in China's TiO₂ import market, Jan.'10-May '11.



Source: CCM International TiO₂ MTB import analysis



In May, China totally exports 41,528 tonnes of TiO₂, which largely exceeds the import volume in the same month. It shows the global TiO₂ market becomes more and more dependent on China, along with the supply shortage of TiO₂.

China exports 190,020 tonnes of TiO₂ from January to May in 2011, up 95.54% year on year. Meanwhile, the average TiO₂ export price for this period increases by 47.47% year on year.

In May 2011, China's TiO₂ export volume increases for Asia Pacific and Middle East, separately by 6.06% and 24.64% over last month. However, the export volume of TiO₂ to other destinations (Europe, Africa, North America, South America) decreases in different degree. The TiO₂ export volume for Africa declines most obviously, by 56.02%.

In this month, China exports the largest volume of TiO₂ to South Korea in Asia-Pacific region, which accounts for more than a quarter of the total export volume from China to the region. As for Turkey, it imports 4,979 tonnes of TiO₂ from China in May 2011, taking up 56.40% of the total TiO₂ export volume from China to Middle East. Brazil in South America and the US in North America take up 68.44%, 76.93% of the total export volume from China to the regions, respectively.

In May 2011, China's top three TiO₂ exporters are Sichuan Lomon, Henan Billions and Shandong Dongjia in the order of export volume. They all export more than 4,000 tonnes of TiO₂ in this month. The fourth largest TiO₂ exporter, Ningbo Xinfu, exports 1,744 tonnes of TiO₂ in May.

The top five China TiO₂ producers hold only 43.57% of China's total TiO₂ export volume, while the top five TiO₂ multinationals hold 82.52% of China's total TiO₂ import volume. By contrast, China's TiO₂ industrial concentration is very low, which keeps it from achieving further development in the long run.

FIGURE 4: Export volume of China's TiO₂ by destinations, Jan.'10-May '11

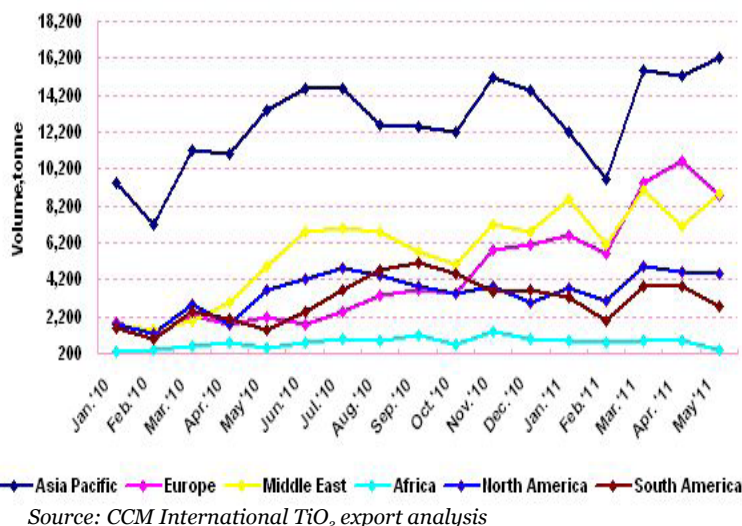
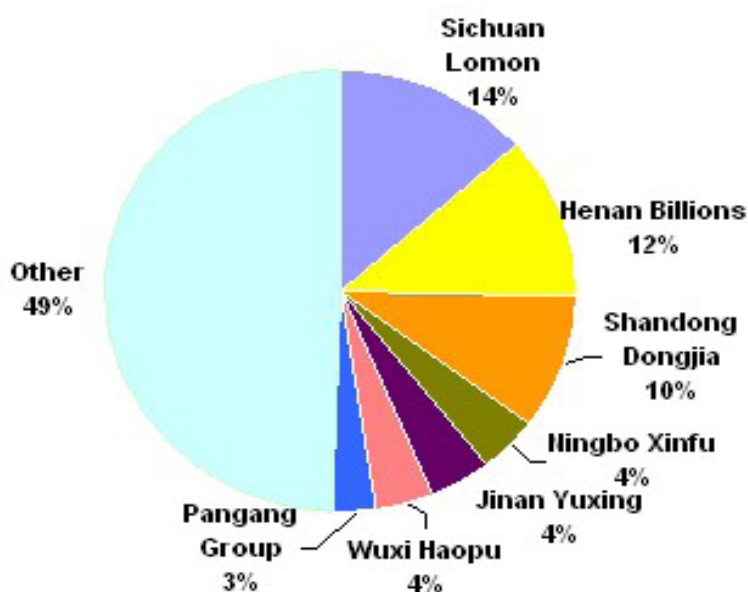


FIGURE 5: Export volume share of top TiO₂ exporters, May 2011



Source: CCM International TiO₂ export analysis

Upstream

Titanium feedstock import volume continues to decline in May

China's titanium feedstock import volume continues to decline while the average import price shoots up in May 2011, as compared with last month. It is primarily due to global tight supply of titanium feedstock.

In May 2011, China's titanium feedstock import volume is 174,088 tonnes, decreasing by 19.61% from 216,541 tonnes in last month. It keeps a downward trend from March this year, as a result of global strong demand and inadequate supply.

By May, China has totally imported 955,623 tonnes of titanium feedstock in 2011, up 16.82% year on year. It

indicates that the demand for imported titanium feedstock increases in China. However, titanium feedstock is in short supply globally now. Under the circumstances, many titanium feedstock suppliers have taken measures to strengthen their production capabilities.

The average import price of titanium feedstock is USD197/t in May 2011, increasing by 13.62% over last month, and 66.63% higher than that of May 2010, boosted by robust demand and tight supply.

The top three import origins of titanium feedstock (in volume) are Vietnam, Mozambique and India in May 2011,



which hold 75.5% of China's total import volume of titanium feedstock altogether this month.

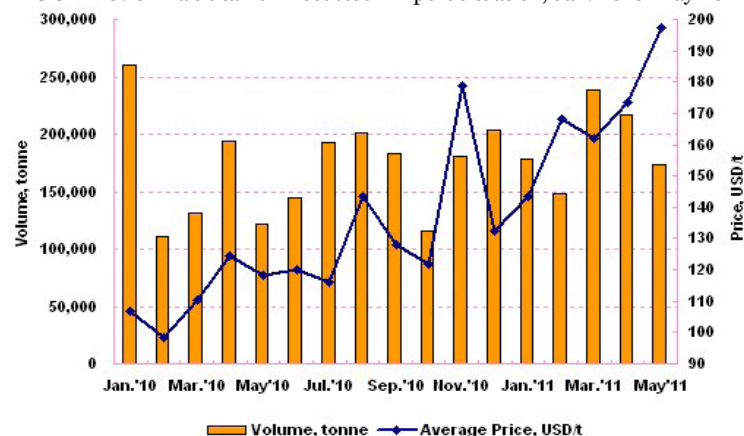
In May 2011, China imports 73,500 tonnes of titanium feedstock from Vietnam, seeing a decline of 27.37% as compared with last month. The import volume of titanium feedstock from Vietnam for the first five months this year is 406,530 tonnes, which accounts for 42.54% of China's total import volume of titanium feedstock in this period. Vietnam has been China's largest titanium feedstock import origin for ten consecutive months since August 2010. Unluckily, Vietnam will stop exporting ilmenite ore and related products by the end of 2011. Therefore, China will have to work hard to weather through the coming hard times without Vietnam's titanium feedstock supply.

Mozambique exports 30,866 tonnes of titanium feedstock to China in May 2011, seeing an increase of 28.58% over last month. India's export volume in May more than doubles that of last month.

However, a sharp decline appears in Australia's export volume of titanium feedstock to China in May, decreasing by 70.42% as compared with that in April 2011. As for Sri Lanka, its export volume has a month-on-month decrease of 47.83%.

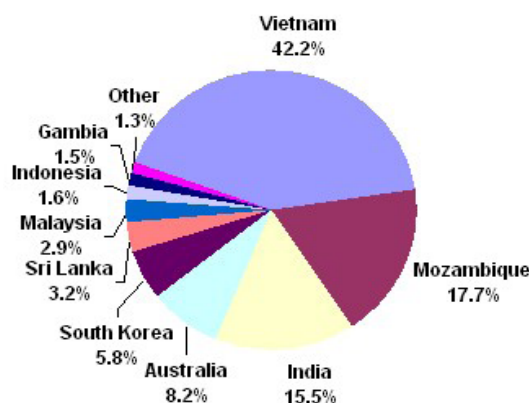
South Korea keeps stable monthly export volume of titanium feedstock to China for the first five months in 2011, which is around 10,000 tonnes.

FIGURE 6: China's titanium feedstock import situation, Jan. 2010-May 2011



Source: China Customs; CCM International

FIGURE 7: China's titanium feedstock import origins, April 2011



Source: China Customs; CCM International

TABLE 1: China's titanium feedstock import volume by origins, May 2011, tonne

Country	May	Month-on-Month ±%	Jan. till May in Total	Year-on-Year ±%
Vietnam	73,500	-27.37	406,530	15.99
Mozambique	30,866	28.58	80,130	85.24
India	27,039	111.11	158,157	-14.68
Australia	14,203	-70.42	178,499	11.23
Sri Lanka	5,576	-47.83	44,713	39.05
South Korea	10,106	0.47	50,258	334.953

Source: China Customs, CCM International

Kenmare expects to gain market share

Irish mining company Kenmare Resources Plc (Kenmare), which operates the Moma Mine on the coast of Mozambique, plans to take market share from competitors including Rio Tinto Group after finishing its expansion plan.

"We are looking at a further expansion because we have huge resource and can mine it at low cost," Kenmare Finance Director Tony McCluskey said. "All of the large players have run down their existing mines. They aren't in a position to increase their mining."

Kenmare intends to increase its ilmenite production capacity to 2,000,000t/a by 2016 from current 800,000t/a. The first expansion targeting 1,200,000t/a by 2013 is expected to give the company a 10% share in the titanium feedstock market worldwide. At present, it is in progress with the Engineering, Procurement & Construction

Management support from Aveng Group, a large South African engineering group.

In 2010, Kenmare produces 678,400 tonnes of ilmenite, up 44% year on year. In Q1 2011, the ilmenite output is 183,800 tonnes, increasing by 22% from 150,965 tonnes in Q1 2010. The increase is due to stronger demand and higher price of ilmenite.

As for external environment of Kenmare's expansion, Mozambique's government plans to revise its mining law in order to give the state a share of projects in "strategic sectors", Mozambique Mineral Resources Minister Esperanca Bias said at a conference on July 7th, 2011. The new law may be ready by the end of 2011. It will replace the Mining Law of 2002 and give the state the right to withdraw mining concession on the mineral resources that would not be exploited temporarily.

Kenmare considers that mining law revisions won't affect its current titanium operation in the country.



Challenge of global titanium feedstock supply-demand situation

Although the global titanium feedstock is in short supply, large suppliers try to control their titanium feedstock output to improve profitability, by negotiating new contractual arrangements or upgrading the low-valued products. Both Iluka Resources and Rio Tinto Group saw titanium feedstock output decline in Q1 2011, so did they in Q2 2011.

Iluka's ilmenite production decreases

Iluka Resources Limited (Iluka) issued new quarterly production report on 14 July 2011. It shows the company's ilmenite production (excluding upgradeable ilmenite, the feedstock of synthetic rutile) decreasing in the second quarter of 2011, down 2% year on year. However, its rutile production sees a 30% year-on-year increase in Q2 2011, which indicates that Iluka is changing its product mix.

Iluka has totally produced 228,900 tonnes of ilmenite for sale during the first half of 2011, compared with 231,000 tonnes in the same period last year. Its output of ilmenite for sale is 469,100 tonnes in 2010, but in July 2011 it sets 2011 guidance of ilmenite production as 460,000 tonnes.

Iluka has sold 261,100 tonnes of ilmenite in the first half of 2011, up 39% year on year. The majority of this material was sourced from Virginia, the US.

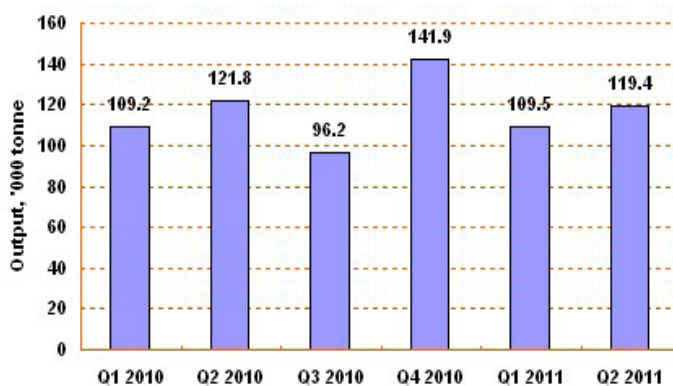
Ilmenite production overall is 169,000 tonnes in the second quarter of 2011, with 49,600 tonnes of ilmenite available for upgrading to synthetic rutile and 119,400 tonnes available for sale. Ilmenite is Iluka's lowest value product and the company upgrades it for the production of synthetic rutile, except that the chloride ilmenite produced in Virginia is sold into the US domestic market.

In Q2 2011, Iluka supplements its ilmenite feed sources for its synthetic rutile kilns by the commencement of the Tutunup South mine in the South West of Western Australia. Tutunup South was commissioned one month ahead of the schedule in June, with production ramp-up

occurring during the month. The mine is expected to have a life of five years and produce approximately 110,000 tonnes of ilmenite in 2011 and approximately 170,000 tonnes in 2012. All heavy mineral concentrate will be processed through the North Capel separation plant with the ilmenite stream utilized as feed for SR2 kiln to produce synthetic rutile.

As for the government's proposed carbon tax, Iluka's post tax liability at USD23/t would have been approximately USD4.5 million for the year ended 30 June 2010. Over 60% of Iluka's Australian carbon dioxide equivalent emissions were from the production of synthetic rutile.

FIGURE 8: Iluka's quarterly ilmenite production



Note: The ilmenite production here excludes upgradeable ilmenite, which is feedstock for synthetic rutile.
Source: Company Announcement

Rio Tinto posts weak titanium feedstock production

Rio Tinto Group (Rio Tinto) released second quarter 2011 operation review on 14 July 2011, which reported a 1% year-on-year decline in its TiO₂ feedstock production, despite Rio Tinto Fer et Titane's operations in Quebec have recovered from the seasonal reductions in available power at its smelter operations.

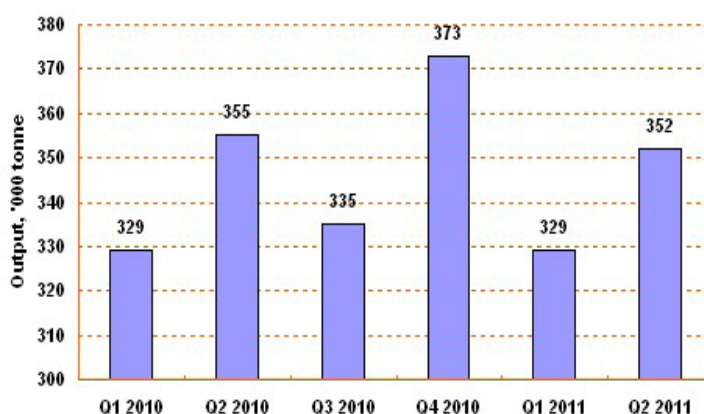
Rio Tinto Iron & Titanium totally produced 681,000 tonnes of TiO₂ feedstock during the first half of 2011, compared with 684,000 tonnes in the same period last year. It updates 2011 production guidance, aiming at an output of 1.4 million tonnes of TiO₂ feedstock for the full year, which seems very conservative compared with the output of 1,392,000 tonnes in 2010.

Rio Tinto has historically entered into multi-year contracts for the sale of TiO₂ feedstock. When these contracts expire, they will be replaced by contracts with shorter term pricing mechanisms, providing the business with ongoing and increased exposure to current market pricing.

Unluckily, Rio Tinto and other mining companies are going to pay for environment pollution. On 10 July 2011,

Australia's Prime Minister Julia Gillard said the government will require the nation's 500 largest polluters to pay a tax of USD23 per tonne carbon they produce. The tax will take effect as of mid-2012 before moving to a carbon-trading system in mid-2015.

FIGURE 9: Rio Tinto's quarterly TiO₂ feedstock production



Source: Company Announcement



Company Dynamic

Henan Billions goes public on July 15

China's leading TiO₂ producer, namely Henan Billions Chemicals Co., Ltd. (Henan Billions) went public on Shenzhen Stock Exchange (SZSE) on July 15th, 2011, becoming one of the Small & Medium Enterprise Board (SME) listed companies.

Henan Billions issued 24 million shares at USD8.5 a share (RMB55 a share) on 6 July 2011, of which 19.2 million shares are circulating shares. Its stock, with the short name of BLL (002601), rose 86.69% to close at USD15.87 a share (RMB102.68 a share) on the listing day, becoming one of the few shares at a price above USD15.46 a share (RMB100 a share). It is mainly due to the company's good performance.

One day before getting listed, Henan Billions reported that its revenue saw a 154.19% year-on-year increase in Q1 2011, and its net income nearly quadrupled that of the same period last year. The company attributes the profit growth to increasing sales volumes and selling prices. Henan Billions estimates its net income attributable to shareholders will be between USD34.8 million and USD37.9 million, up 229% to 258% year on year.

Mrs. Wu, a securities analyst said: "Henan Billions' listing is at the right time. It benefits from an improved market environment with re-emerging enthusiasm for IPO

speculation, and continuously rising prices for its TiO₂ products", she added that TiO₂ industry in China is in a booming period.

Another round of price hikes for TiO₂ products comes in July, affected by strong demand from downstream industries, limited TiO₂ production capacity expansion and rising raw material cost. Inspired by the rising prices and strong demand of TiO₂, China's TiO₂ industry will grow quickly, and the Asia Pacific area is estimated to be the world's largest market in next years.

Experts consider that the prosperity cycle of China's TiO₂ industry will last to 2014. For one thing, new capacity expansion projects can't be completed until about three years later; for another thing, China's per capita TiO₂ consumption is at a relatively low level, indicating high growth potential for its TiO₂ industry. Under this circumstance, the funds raised by IPO will make Henan Billions be able to strengthen its TiO₂ production, and finally obtain greater profit margins.

TABLE 2: Latest performance of Henan Billions, '000 USD

Period	Q1 2011	Q1 2010	2010	2009
Revenue	78,516	30,889	191,847	119,824
Profit	14,786	3,857	24,876	7,960

Source: Company Announcement

CNNC Huayuan's restructuring fizzles out again

On July 7, 2011, Gansu-based CNNC Huayuan Titanium Dioxide Co., Ltd. (CNNC Huayuan), whose stock is named *ST Titanium Dioxide (002145), said Shandong Dongjia Group (Shandong Dongjia) has decided not to continue its trusteeship of the company after expiration, as Shandong Dongjia has given up on the plan to restructure CNNC Huayuan.

It is the second time that the restructuring of CNNC Huayuan fizzles out. Previously, Jiangsu GPRO Group Co., Ltd.(GPRO), a private-owned enterprise attempted backdoor listing by restructuring CNNC Huayuan, but it failed in 2010. Later, CNNC Huayuan achieved a trusteeship agreement with Shandong Dongjia which would be responsible for the operation of CNNC Huayuan between Dec. 28th, 2010 and Aug. 31th, 2011.

Being left in a predicament of restructuring, CNNC Huayuan says it is actively looking for a new trustee. The shares of CNNC Huayuan resumed trading on July 7th, falling 2.94% to close at USD1.5 (RMB9.91).

About CNNC Huayuan

CNNC Huayuan has enjoyed a 40.03% rise in share price by April 22nd since it announced that Shandong Dongjia Group may carry out restructuring of it on Jan. 20th, 2011.

However, the company's loss widens during the first quarter this year. It reports a net loss of USD2.5 million in Q1 2011, compared with net loss of USD2.3 million in Q1

2010. Its revenue is USD9.7 in Q1 2011, down 10.2% year on year. It shows that Shandong Dongjia's trusteeship hasn't brought substantial improvement to the operation of CNNC Huayuan, which in turn discourages Shandong Dongjia from restructuring CNNC Huayuan.

About Shandong Dongjia

On March 22, 2010, Shandong Dongjia's IPO application was rejected by the Issue Review Committee of China Securities Regulatory Commission, possibly affected by strict policy restrictions at that time. Therefore, Shandong Dongjia turns to backdoor listing.

After several months trusteeship, Shandong Dongjia doesn't see any guarantee for the success to go public by restructuring CNNC Huayuan.

Besides unsatisfactory financial results of CNNC Huayuan, the relaxed policies for TiO₂ companies to go public through issuing IPO also make Shandong Dongjia give up the backdoor listing plan.

For one thing, restructuring a company can be a cost-effective way to go public and backdoor listing shall meet the requirements similar to IPO according to latest policy;

For another thing, Henan Billions sets a good example in IPO application. Therefore, Shandong Dongjia possibly regains the confidence to pursue IPO.



Tronox benefits from restructuring and strong demand

On July 7th, 2011, Tronox Incorporated (Tronox), the world's leading TiO₂ producer, reported that its net income increased from USD59 million (Q1 2010) to USD641.5 million in Q1 2011, owing to the improved operations and reduced costs through restructuring.

The company applied fresh start accounting as of February 1, 2011 as it emerged from bankruptcy on February 14, 2011, so that it realizes a USD659.1 million gain in net income in Q1 2011 due to the discharge of debt and satisfaction of claims and the revaluation of assets and liabilities.

Tronox's net sales reaches USD374.7 million in Q1 2011, a 34.4% increase from USD278.7 million reported in the prior-year's first quarter. On a non-GAAP basis, the company's adjusted net income was USD66.4 million in Q1 2011 compared with USD15.2 million in Q1 2010.

Dennis L. Wanlass, Tronox's Chief Executive Officer commented, "Constant cost reduction and increasing global demand, which resulted in an improved pricing environment, contributed significantly to our positive operating results in the first quarter."

Pigment sales are USD337.1 million in Q1 2011, compared with USD245.6 million in Q1 2010. The increase was driven by higher prices and volumes, as a result of the global economic recovery and tight supply. The operating profit of Tronox's pigment business reaches USD45.9 million in Q1 2011, increasing by USD13.5 million over the same period last year. The profit is improved primarily due to product price rise, but negatively impacted by higher production costs.

Tronox will expand production capacity at each of its three TiO₂ plants in the near term, in order to meet the increasing global demand, especially the demand from the Asia-Pacific region.

CEO Dennis Wanlass said that debottlenecking and technical advances would help the capacity in Botlek plant increase from 90,000t/a to about 115,000t/a in the Netherlands, with smaller expansions at Hamilton, Mississippi, and at its joint venture Tiwest at Kwinana, Australia.

Pangang Group sees strong output

Pangang Group sees strong output in the first half of 2011. It totally produces 30,519 tonnes of TiO₂, 52,070 tonnes of titanium slag in H1 2011, respectively increasing by 460 tonnes and 29,003 tonnes compared with the same period last year. Meanwhile, Pangang Group finishes its first half 2011 production task of 240,000 tonnes titanium concentrate ore ahead of time in mid-June, and it totally produces 253,800 tonnes of titanium concentrate ore in H1 2011.

Pangang Group continues to strengthen its production, aiming to produce 480,000 tonnes of titanium concentrate ore for the full year of 2011. The company persists in reducing production cost and avoiding losses caused by

adverse conditions. For example, it makes the best use of its own power plant to mitigate the impact of power cut during production.

In addition to impressive production, Pangang Group has improved product quality by quality control activities. The qualification rate for R-258 TiO₂ products has a year-on-year increase of 22.31%. Improved quality creates higher value of products to obtain recognition from customers.

Under the circumstances of rising prices for titanium products, Pangang Group has benefited from in-time marketing strategy and favorable pricing by intensive market research. During the first half of 2011, it has increased TiO₂ price for seven times, and raised the prices of titanium concentrate ore and titanium slag for five times. Higher prices contribute to larger profit margins for the company.

Huntsman wins 2011 Low Carbon Award

Huntsman Pigments division has won the 2011 EDF Energy Low Carbon Award, one of 12 prestigious awards made annually by the Chemical Industry Association (CIA), for its pioneering work to measure and reduce energy consumption and the carbon footprint at its TiO₂ manufacturing facility in Greatham, England.

The award was presented to Phil Wrigley, Environmental Health and Safety (EHS) director of Huntsman Pigments division, at the annual CIA Awards dinner in University of Birmingham on June 23th, 2011.

Over the last decade, the Greatham site has reduced its carbon intensity and energy consumption by almost 16% and 30% respectively. It has been achieved through a number of projects across the entire business including an investment of USD4.82 million to fund a project to recycle steam from a waste heat boiler, which brings an annual reduction of 16,000 tonnes of carbon dioxide and a specific energy reduction of 2 GJ/t.

The Low Carbon Award is given to the company, which can best demonstrate enhanced carbon management through initiatives such as improved resource efficiency, the use of alternative energy sources and solutions designed to achieve energy saving across their supply chain.

PICTURE: Huntsman's waste heat boiler at Greatham



Source: Company Announcement



South Korea to end anti-dumping duties on China's TiO₂

On July 21st 2011, South Korea said that it planned to end anti-dumping duties against Chinese pigments, as there is little damage of Chinese pigments to the local industry.

The Korea Trade Commission (KTC) decided to end the punitive duties against Chinese anatase TiO₂ as the pigment prices have risen enough to pose little threat to the local firms, the Ministry of Knowledge Economy (MKE) said in a statement on July 20th 2011.

South Korea had levied anti-dumping tariffs of 4.82% to 23.08% on Chinese anatase TiO₂ since 2005, and it has reset the rates to 4.86% to 23.08% in 2008.

"The commission decides to scrap the duty as there is little damage of Chinese pigments to the local companies. The local industry is in a stage of recovery due to the six-year anti-dumping measures," said by an official of MKE.

The decision will be notified to the Finance Ministry which will make a final decision within 50 days after receiving the official notice about ending the punitive duties, according to the KTC.

Downstream

China's coating output grows rapidly

China's coating industry sees rapid growth in 2011. The total output reaches 3.85 million tonnes for the first five months this year, increasing by 22.45% as compared with the same period last year, thanks to stronger demand of coating from indemnificatory housing construction, infrastructure and other sectors.

Among all the provinces in China, Guangdong Province has the largest output of coating between Jan. 2011 and May 2011. Its output is 791,241 tonnes, up 16.41% year on year. Guizhou Province only produces 99 tonnes of coating in the same period, becoming the province with least coating output in China.

During the past three years, Guangdong has always hold the largest annual output of coating in China, which accounts for more than one-fifth of China's total output each year. The annual growth rate of coating output in Guangdong Province is 42.58% in 2009 and 14.36% in 2010.

What's more, the production scale of coating producers in Guangdong has increased largely. For the first five months in 2010, 312 coating producers (with annual revenue above or equal to RMB5 million each) totally output 731,343 tonnes of coating, while in 2011, 222 producers (with annual revenue above or equal to RMB20 million each) output 791,241 tonnes of coating. It reflects an impressive achievement of industrial restructuring of China's coating industry.

By May, China totally outputs 3,852,175 tonnes of coating in 2011, up 22.45% year on year. Keeping at this growth rate, China's coating output in 2011 is likely to exceed 11 million tonnes. Among all six regions, East China has the largest output of coating between Jan. 2011 and May 2011, with a volume of 1,965,842 tonnes, which accounts for 52%

of China's total output. In this period, North China sees the highest growth rate of coating output, increasing by 36.46% year on year. The next is East China, with a year-on-year growth rate of 26.14%.

TABLE 3: China's coating production situation

Period	Output, tonne	Year-on-Year ±%	Number of producers
2011/1/1-2011/5/31	3,852,175	22.45	897
2010/1/1-2010/5/31	3,914,891	25.01	1,326
2009/1/1-2009/5/31	2,945,335	-9.47	1,264

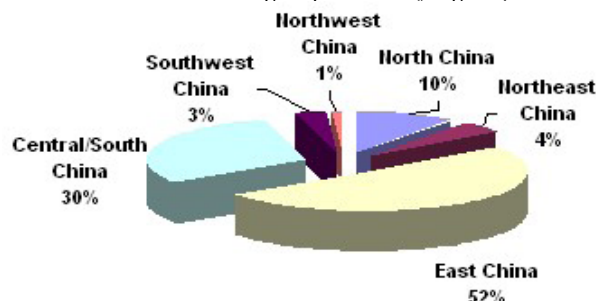
Note: "Year-on-Year±%" refers to comparison between output in this year and previous year of same producers included in statistics.
Source: China Coatings Information Network

TABLE 4: Coating output of Guangdong Province

Period	Output, tonne	Year-on-Year ±%	Number of producers
2011/1/1-2011/5/31	791,241	16.41	222
2010/1/1-2010/5/31	731,343	36.45	312
2009/1/1-2009/5/31	474,051	-19.86	299

Note: "Year-on-Year±%" refers to comparison between output in this year and previous year of same producers included in statistics.
Source: China Coatings Information Network

FIGURE 10: China's coating output share by regions, Jan.'11-May '11



Source: Company Announcement

Carpoly outstands coating producers in Asia Pacific

Guangdong Carpoly Chemical Co., Ltd. (Carpoly), one of China's leading paint and coating manufactures, ranks among the Top 25 Paint Manufactures in Asia Pacific, reported by Asia Pacific Coating Journal (APCJ)

on its June/July issue.

Carpoly ranks the 12th among Asian coating companies with sales of USD266 million. The top 3 in this ranking list



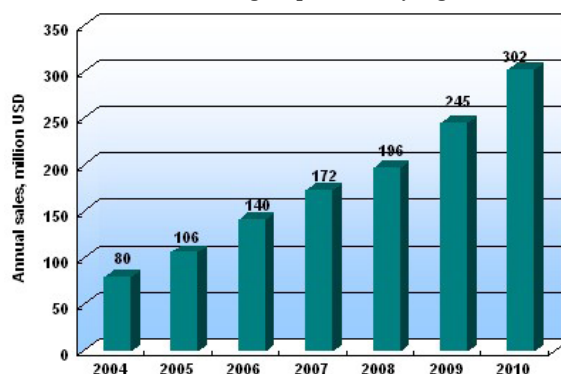
are Japan's Kansai, Nippon and India's Asian Paints, and the coating sales of them are USD2,367 million, USD2,174 million and USD1,379 million, respectively.

According to the list, Japan is the strongest country in coating business, and the next ones are South Korea and India. Some Japan coating companies' market share is attributed to China's market, for a large number of their coating products are sold to China. Differently, South Korea benefits from high market concentration, as Kumgang Korea Chemical Co., Ltd. (KCC) alone has a sales of USD949 million. By contrast, Carpoly's market share of China's coating market is only 1.7%. The low market concentration has been keeping China from developing into a strong country of coating business.

The focus of APCJ is high-growth market such as India, Singapore and China. The journal points out that Carpoly's achievement indicates high growth potential of China's coating market. During 2004 to 2010, Carpoly has an average annual growth rate of 20% in coating sales, primarily due to its efforts in marketing at home and abroad.

Carpoly started expansion from 2008 and had gradually formed bases in Guangdong, Sichuan, Shanghai and Henan Province by the end of 2009. In 2010, Carpoly extended its business range from paint to ink and packaging. It integrated Guangdong Zirantu Chemical Co., Ltd. and Jiangmen Zhenggao Industry Co., Ltd. It illustrates China's coating industry's development direction, that is, to enlarge market size and main company's market share.

FIGURE 11: China's coating output share by regions, Jan.'11-May '11



Source: Company Announcement

TABLE 5: Part of Top 25 Paint Manufactures in Asia Pacific, 2011, million USD

Rank 2011	Rank 2010	Rank 2009	Company	Country	Coatings sales
1	1	1	Kansai	Japan	2,376
2	2	2	Nippon	Japan	2,174
3	3	5	Asian Paints	India	1,349
4	4	3	KCC	South Korea	949
5	5	4	Chugoku	Japan	918
6	6	8	DNT	Japan	721
7	7	6	Dulux	Australia	663
8	8	7	SKK	Japan	638
9	9	9	Berger	India	361
10	12	11	Samhwa	South Korea	327
11	11	14	Musashi	Japan	301
12	-	-	Carpoly	China	266

Source: Asia Pacific Coating Journal

Kansai Paint sets up Chongqing base



On July 6th, Japan-based Kansai Paint Co., Ltd. (Kansai Paint), one of the world's leading paint and coating companies, declared an investment of USD11 million to build a heavy duty coating production and sales base in Chongqing, China. The base, including four new coating production lines, is supposed to be completed by 2012.

Heavy duty coating refers to anti-corrosive coating products with stronger corrosion resistance power than general type, and thus can survive under a relatively harsh corrosion environment for long time. Because of its excellent performance, heavy duty coating has drawn much attention and developed very well for decades.

The base will be located in Changshou District, Chongqing Municipality. "The location advantage, coupled with potential for future development of Chongqing, let Kansai Paint decide to set up a base there", said Chen Guanghui,

Chairman of Chongqing Kansai Paint Co., Ltd. Mr. Chen disclosed that Kansai Paint has carried out the site selection in China since 2009, and finally selected Chongqing for its preferential policies such as West Development.

The Chongqing base will mainly produce heavy duty coating in the early period and produce architectural coatings later. It is supposed to have annual capacity of 12,000 tonnes and output value of USD44.6 million (RMB290 million) after being put into operation. The heavy duty coating and related products will be primarily sold into Asia market (mainly China).

China consumed more than 3 million tonnes of heavy duty coating in 2010, becoming the world's largest production and consumption country of heavy duty coating.

With the development of China's construction, transportation and other industries, the market size of heavy duty coating becomes the second largest, next to that of architecture coating in China. Container coatings and marine coatings are two main kinds of heavy duty coating. At present, multinationals hold most market shares of China's heavy duty coating market. Take container coatings for example, four main producers--COSCO Kansai, Chugoku Marine Paints, KCC and Hempel together hold about 95% of China's total output of container coatings.

Experts point out that the Kansai Paint base in Chongqing not only ensures advanced technology in step with Japan,



but also reduces cost through local production, thus providing customers with high quality products at lower prices.

Kansai Paint first entered China in 1993 with 9 joint ventures in mainland China by now. Its strong presence in Yangtze River Delta, Pearl River Delta and Bohai Economic Zone, lets it be able to offer efficient distribution and high-quality after-sales service in China.

TABLE 6: Kansai Paint's joint venture in China

Place	Company	Established time	Main products
Tianjin	Cosco Kansai Paint & Chemicals (Tianjin) Co., Ltd.	1992	Heavy anticorrosion coating
Shanghai	Cosco Kansai Paint & Chemicals (Shanghai) Co., Ltd.	1995	Marine coating
Zhuhai	Cosco Kansai Paint & Chemicals (ZHUHAI) Co., Ltd.	2007	Heavy anticorrosion coating
Chongqing	Chongqing Kansai Paint Co., Ltd.	1995	Automobile coating
Shenyang	Kansai Paint (Shenyang) Co., Ltd.	1994	Automobile coating
Hunan	Hunan Xiangjiang Kansai Paint Co., Ltd.	1995	Automobile coating
Tianjin	Tianjin Beacon Kansai Paint & Chemicals Co., Ltd.	1995	Automobile coating
Guangzhou	Guangzhou Kansai Paint Co., Ltd.	2005	Automobile coating
Suzhou	Suzhou Kansai Paint Co., Ltd.	2006	Industrial coating

Source: CCM International

Established in 1918, Kansai Paint Co., Ltd. now has developed into the biggest and best painting producer in Japan, owning almost 30 joint ventures spreading in Europe, Asia and Latin America and so on. Its paint segment manufactures and sells automobile paints, industrial paints, construction paints, heavy duty coating, vessel paints and housing paints, etc.

Leading coating companies report great revenue growth

On July 21st 2011, three leading coating companies in the world - Akzo Nobel N.V. (AkzoNobel), PPG Industries Inc. (PPG) and the Sherwin-Williams Company (SHW), simultaneously reported their second quarter 2011 financial results, all showing great revenue growth, mainly due to sales volume growth and price increase of their products. However, their profits are shrunk by higher raw material cost in this period.

The second quarter of 2011 continues to see excellent sales performance of AkzoNobel, SHW and PPG.

AkzoNobel posts a 5% increase in quarterly revenue, thanks to sales volume growth and price increase of its products. Its three main segments, Decorative Paints, Performance Coatings and Specialty Chemicals all see high revenue growth in Q2 2011. Its products see price increase in response to the continuous rise in raw material prices.

As for PPG, it reported the sales for the second quarter 2011 of USD3.99 billion, an increase of 15.3% compared with that of Q2 2010. Each major region and segment has achieved volume growth and price increase in Q2 2011.

Compared with the same period in 2010, the net sales of SHW increase by 9.9% (USD211.7 million) to USD2.36 billion in Q2 2011, primarily due to the selling price increase and acquisitions of other companies.

TABLE 7: Financial results of leading coating companies in Q2 2011, million USD

Company	Revenue			Profit		
	Q2 2011	Q2 2010	YOY	Q2 2011	Q2 2010	YOY
AkzoNobel	5,853	5,581	4.9%	383	390	-1.8%
SHW	2,355	2,143	9.9%	179	182	-1.4%
PPG	3,986	3,458	15.3%	340	272	25.0%

Note: YOY refers to year-on-year change.

Source: Company Announcement

Profit performance of the three coating companies differs, influenced by the higher raw material cost.

In Q2 2011, profit of AkzoNobel and SHW both see year-on-year (YOY) decline, separately by 1.8% and 1.4%. By contrast, PPG enjoys profit increase in this quarter, up 25.0% year on year.

AkzoNobel's net income decreases to USD383 million in Q2 2011 from USD390 million in Q2 2010. Its EBITDA for the second quarter declines from USD877 million (in Q2 2010) to USD787 million, impacted by further raw material price inflation, unstable demand and continually week demand (particularly in mature market such as Europe).

SHW's diluted net income per common share increases 1.2% in the second quarter to a record USD1.66 per share from USD1.64 in 2Q10.

Christopher M. Connor, Chairman and Chief Executive Officer of SHW, said, "Earnings in Q2 2011 are lower than the expected ones due to high raw material cost and the timing of product price increases. SHW will continue to control cost and raise product price in an effort to keep pace with rising raw material cost."

Charles E. Bunch, PPG chairman and CEO attributes PPG's profit growth to further pricing initiatives and much effort to overcome continued input cost inflation.

TABLE 8: Financial results of leading coating companies in H1 2011, million USD

Company	Revenue			Profit		
	H1 2011	H1 2010	YOY	H1 2011	H1 2010	YOY
AkzoNobel	11,227	10,219	9.9%	566	506	11.9%
SHW	4,210	3,709	13.5%	247	214	15.5%
PPG	7,519	6,584	14.2%	568	302	88.1%

Note: YOY refers to year-on-year change.

Source: Company Announcement

In 2011, both PPG and SHW make efforts to strengthen their financial position, by acquisitions or investments.

PPG has been on an acquisition spree in the first half of 2011 as it seeks to expand the reach of its paints and other



products in fast-growing emerging markets. The company announced plans to buy Denmark-based coating company Dyrup and completed its acquisition of chlorine producer Equa-Chlor Inc. in May, and then it purchased refinish distributor Duacol Coatings South Africa Ltd. in June.

SHW continues to invest in its business. In the first six months of 2011, Paint Stores Group of SHW opened 18 new locations, and expects to open 32 to 42 more new stores in the second half this year. In July, SHW completes the acquisition of Leighs Paints, a leading UK protective and marine and fire protection coating innovator.

Both AkzoNobel and SHW reiterate their 2011 guidance, considering the adverse conditions including increasing

raw material cost.

AkzoNobel said it will cut cost by several hundred million euros to boost earnings after higher raw materials cost and weak demand hit second-quarter profit. It expects full year 2011 EBITDA growth to be between 13% and 15%.

SHW forecasts a weak third quarter and full year 2011, as it struggles to balance high raw material cost. The company cuts the top end of its full-year earnings outlook. It updates full year 2011 guidance for diluted net income per common share to be in the range of USD4.65 to USD4.85 per share, compared with its earlier estimated USD4.65 to USD5.05 per share.

Price update

Price update of TiO₂ and its feedstock in July 2011

Due to weak demand, China's TiO₂ price in domestic market shows a slow increase in July 2011. But the price of titanium feedstock keeps at a high level, it will push TiO₂ price to increase later.

TiO₂

From late June 2011, downstream buyers show great unwillingness to accept TiO₂ price increase, which leads to weak demand of TiO₂. As a result, TiO₂ producers have been very cautious with price increase and most of them keep TiO₂ price unchanged throughout June. However, the increasing price of titanium feedstock exerts severe pressure on TiO₂ producers, which maybe bring cost increase for TiO₂ products. In fact, many TiO₂ producers plan to raise TiO₂ prices, especially for rutile TiO₂ products.

A TiO₂ producer in East China says that TiO₂ price increase is inevitable forced by the pressure of rising raw materials' cost, despite weak demand from downstream industries.

According to the statistics of CCM's price monitoring, the average price for rutile TiO₂ in China's domestic market jumps to USD3,550/t in July 2011, compared with USD2,506/t in Jan. 2011, showing a 42% increase during the seven months. The average price for anatase TiO₂ in domestic market rockets to USD3,064/t in July 2011, from USD1,988/t in Jan. 2011, showing a 54% increase during

Ex-factory prices of TiO₂ and sulfuric acid, July 2011, USD/t

Area	Rutile TiO ₂		Anatase TiO ₂		Sulfuric acid 98%	
	Jun. 2011	Jul. 2011	Jun. 2011	Jul. 2011	Jun. 2011	Jul. 2011
South west	3,549-3,673	3,555-3,679	3,009-3,086	3,014-3,091	85-105	85-105
East China	3,395-3,627	3,478-3,632	3,025-3,164	3,029-3,246	100-108	91-105
Central China	3,364-3,549	3,400-3,555	2,855-3,056	2,937-3,091	80-113	85-113
South China	N/A	N/A	2,932-3,086	2,937-3,168	85-90	85-90

Source: CCM International

Titanium concentrate ore

The price of titanium concentrate ore keeps uptrend in July 2011, mainly due to the shortage in China.

In Sichuan Province with abundant titanium ore, the price of titanium concentrate ore reaches USD355/t in late June and keeps at such high level throughout July. Other places

this period. These increases are primarily due to higher cost and strong demand.

Sulfuric acid

China's sulfuric acid price keeps at a high level but becomes stable on the whole in July 2011, owing to relatively stable sulfur price and weak demand from fertilizer industry.

Some producers in East China decrease the prices of their 98% sulfuric acid products in this month. For example, a sulfuric acid producer with capacity of 1.3 million t/a produce 5,500 tonnes 98% sulfuric acid per day in July with latest price of USD93/t (RMB600/t), seeing USD3/t decline compared with that of last month.

In Central China, some producers decrease sulfuric acid prices but the others keep the price unchanged.

In South West, the sulfuric acid price keeps stable in July 2011. It indicates the demand of sulfuric acid grows weak.

As for fertilizer industry, the main downstream market of sulfuric acid in China, its export still sees no growth in July 2011. As a result, the demand for sulfuric acid decreases, proved by lower trading volume of sulfuric acid in domestic market.

in China also maintain high prices.

According to CCM's investigation, the average price of China's titanium concentrate ore increased by 47% in 2010. However, it more than doubles during the first half of 2011, showing a strong uptrend.

At present, China is facing short supply of titanium



concentrate ore, but some suppliers still control the trade volume to reduce supply. Under this circumstance, the price of titanium concentrate ore is very likely to remain high in next months.

Titanium slag

The titanium slag in China's market is in short supply with increasing price in July 2011, mainly due to tight supply of raw materials such as ilmenite.

In this month, price increase of titanium slag is far more than that of titanium concentrate ore, leading to higher cost to TiO₂ producers which adopt titanium slag as feedstock.

It is reported that Pangang Titanium, the largest producer of titanium slag in China, announced on July 1st a price

Ex-factory prices of titanium concentrate ore and titanium slag in July 2011, USD/t

Area	Titanium concentrate ore			Titanium slag		
	Grade	Jun. 2011	Jul. 2011	Grade	Jun. 2011	Jul. 2011
Sichuan	40%-46%	332-355	348-355	74%-78%	1,049-1,127	1,159-1,236
Hainan	45%-54%	301-309	301-317	N/A	N/A	N/A
Yunnan	45%-47%	270-285	270-286	77%-92%	1,451-1,481	1,515-1,530
Guangxi	50%-52%	394-424	417-464	N/A	N/A	N/A
Liaoning	N/A	N/A	N/A	92%	1,481-1,512	1,515-1,546

Source: CCM International

TiO₂ price increases in North America

In late June, TiO₂ multinationals DuPont Titanium Technologies (DTT), Cristal Global (Cristal), Tronox Incorporated (Tronox), Kronos Worldwide (Kronos) and Huntsman Pigments Division (Huntsman) sequentially announced further price hikes for TiO₂ products sold in North America. Counting in each company's previously announced increase for this area (effective on June 1st or July 1st 2011), the total markup of TiO₂ price is USD770/t for the products of the five producers.

It can be seen from the announcement time that DuPont first set a price standard, and then other main TiO₂ producers follow. These large producers have the pricing power, and easily take advantage of the growing demand

DTT announces price increase effective in Sept. 2011

In July 2011, DuPont Titanium Technologies (DTT), the world's largest TiO₂ manufacturer, announces price increase for its products sold in Latin America, Europe, Middle East and Africa, effective on Sept. 1, 2011. It is the sign of this year's fourth round of TiO₂ price hikes. The markup is between USD500/t and USD714/t (EUR500/t), hitting a record high.

Facing severe tight supply and high cost of titanium feedstock, international TiO₂ producers will no longer abide by the 90-day price protection, but renew contracts to curtail the price protection period. Under the pressure of short supply of TiO₂, downstream industries have to accept the price increase. However, the impact of the new round

increase of USD155/t (RMB1000/t) for titanium slag sold in the local area around Panzhihua region. The report also pointed out that some producers attempt higher prices by rationing titanium slag.

Suffering from short supply of titanium slag, many TiO₂ producers have to reduce or stop production. Some large TiO₂ producers ensure adequate supply by signing contracts with titanium slag suppliers with high price.

It is transparent that only TiO₂ producers with guaranteed supply of titanium feedstock can survive through the hard time. Producers with integrated industrial chain will undoubtedly enjoy higher competitiveness, while others will face production cutback or even closedown. From this point of view, the shortage of titanium slag accelerates the process of industrial structure adjustment for TiO₂ industry.

in global TiO₂ market. This situation is good for orderly market which doesn't have volatile price swings and prices are competitive. By contrast, China's TiO₂ market is disorderly without clear price standard, due to relatively decentralized production capacity.

TABLE 9: TiO₂ price increase in North America, USD/t

Company	Effective Date		Announcement date (Latest)
	June 1st, 2011	July 1st, 2011	
DTT	220	550	June 20th, 2011
Cristal	220	550	June 21st, 2011
Tronox	220	550	June 28th, 2011
Kronos	-	770	June 29th, 2011
Huntsman	440	330	June 29th, 2011

Note: The statistics are based on unit conversion of 1 cents/lbs = USD22/t from original announcements.

Source: Company Announcement

of TiO₂ price increase on China's market will be partially offset by decreased demand during the slack season.

TABLE 10: DTT's TiO₂ price increase in Sept. 2011

Region	Markup	Effective Date
Western and Central Europe, North Africa	USD714/t (EUR500/t)	Sept.1, 2011
Eastern Europe, Middle East, Southern Africa	USD700/t	Sept.1, 2011
Latin America	USD500/t for coatings grades; USD700/t for plastic and paper grades	Sept.1, 2011

Source: Company Announcement

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