

**AA[®] Acidity Regulator Quarterly China Report-
Q2**

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Headline

On 13 May, the State Council of China decided to increase the tariff rates on some imported goods from the U.S. since 1 June, 2019. The list included some acidity regulator products. Previously, the U.S. government announced that, since 10 May, the tariff rate on the USD200 billion list of imported Chinese goods would rise to 25% from 10%.

On 29 April, COFCO Biochemical published its 2018 full-year financials, unveiling a 11.40% YoY increase in sales but a 48.02% decline in net profit. This performance continued in Q1, as its sales rose by 3.27% YoY, while the net profit fell by 47.84% YoY.

On 20 June, Shanghe Branch of Jinan Ecological Environment Bureau announced its plan to deliberate the EIA report of Xinhong Pharmaceutical's 18,000 t/a gluconate food additives project, which is estimated to commission in Aug. 2019.

On 24 May, the CSRC published Henan Jindan's IPO Letter of Intent. Compared to its 1st attempt, the company has boosted its financials and profits, abating the overreliance on government subsidies. However, its shortage of working capitals remains an obstacle to IPO.

Influenced by the high price of raw material—corn, overcapacity and shrinking demand from downstream industries, the average price of citric acid in Q2 increased slightly quarter on quarter, but showed a continuous downward tendency month on month. It is expected that the price of citric acid will rise and fall within a limited range in the short term.





Editor's Note

Welcome to Acidity Regulator Quarterly China Report-Q2 2019.

In terms of market dynamics, on 13 May, the State Council of China decided to increase the tariff rate on some imports from the United States since 1 June, 2019. The list included some acidity regulator products. Previously, the U.S. government announced that, since 10 May, the tariff rate on the USD200 billion list of imported Chinese goods would rise to 25% from 10%.

When it comes to the enterprises, on 29 April, COFCO Biochemical (Anhui) Co., Ltd. published its 2018 full-year financials. Sales in 2018 was USD2,576.39 million (RMB17.70 billion), increasing by 11.40% year on year. But net profit in this year was USD70.30 million (RMB483 million), dropping by 48.02% year on year. This performance continued in Q1 2019, as its sales was USD670.16 million (RMB4.61 billion), rising by 3.27% year on year, while the net profit was USD8.43 million (RMB57.93 million), falling by 47.84% year on year. On 24 May, the CSRC published Henan Jindan Lactic Acid Technology Co., Ltd.'s IPO Letter of Intent. Compared to its 1st attempt, the company has boosted its financials and profits, abating the overreliance on government subsidies. However, its shortage of working capitals remains an obstacle to IPO.

As for the price, influenced by the high price of raw material—corn, overcapacity and shrinking demand from downstream industries, the average price of citric acid in Q2 increased slightly quarter on quarter, but showed a continuous downward tendency month on month. It is expected that the price of citric acid will rise and fall within a limited range in the short term.

The USD/RMB exchange rate in this Quarterly Report is USD1.00=RMB6.8716 on 1 July, 2019, sourced from the People's Bank of China. All the prices mentioned in this Report will include the VAT, unless otherwise specified.



Market Dynamics

China decides to increase tariff on some imported U.S. goods since 1 June

Summary: On 13 May, the State Council of China decided to increase the tariff rates on some imported goods from the U.S. since 1 June, 2019. The list included some acidity regulator products. Previously, the U.S. government announced that, since 10 May, the tariff rate on the USD200 billion list of imported Chinese goods would rise to 25% from 10%.

On 9 May, 2019, the U.S. government proclaimed that the tariff rate on the USD200 billion list of goods imported from China would be increased from 10% to 25% since 12 a.m. on 10 May, 2019. And the list involved some acidity regulator products. Previously, the U.S. had imposed a tariff on imported Chinese goods (worth USD200 billion) at a rate of 10% since 12 p.m. on 24 September, 2019.

Table 1: U.S. tariff list towards China (related to acidity regulator products)

Products	HS codes	Present Tariff Rate	Original Tariff Rate
citric acid	2918.14.00	25%	10%
sodium citrate	2918.15.10		
tartaric acid	2918.12.00		
tartrate and tartaric ester	2918.13.50		
malic acid	2918.19.60		
lactic acid	2918.11.10		
acetic acid	2915.21.00		
phosphoric acid	2809.20.00		
gluconic acid	2918.16.10		

Source: CCM

In response to the U.S. tariffs, on 13 May, 2019, the Ministry of Finance of the People's Republic of China announced a decision by the Tariff Commission of the State Council (TCSC) that since 12 a.m. on 1 June, 2019, the tariff rates of some U.S. goods on the USD60 billion goods list would be adjusted to 25%, 20% or 10%. For the previous goods that were imposed the tariff of 5%, another 5% would be added. And some acidity regulator products were involved with it.

Table 2: China's tariff list towards U.S. (related to acidity regulator products)

Products	HS codes	Present Tariff Rates	Original Tariff Rates
tartaric acid	29181200	25%	10%
tartrate and tartaric ester	29181300		
other anhydrous acetic acid	29152119		
other acetic acid	29152190		
lactic acid and its salts and esters	29181100	20%	10%
citric acid	29181400		
citrate and citric acid esters	29181500	10%	5%
gluconic acid and its salts and esters	29181600		

Note: Date: 1 June

Source: CCM

As early as 18 September, 2018, the TCSC decided to impose a 10% or 5% tariff on 5207 items from the U.S. (about USD60 billion). It would come into effect since 12:01 on 24 September, 2018. The tariff list also covered some acidity regulator products.

Changes in China's tariff rate on acidity regulator goods imported from the U.S. (compared with the two tariff lists on 13 May and 18 September, 2018)

- From 5% tariff to 10% tariff: gluconic acid and its salts and esters (HS code 29181600), citrate and citric acid esters (HS code 29181500)
- From 10% tariff to 20% tariff: citric acid (HS code 29181400), lactic acid and its salts and esters (HS code 29181100)
- From 10% tariff to 25% tariff: tartaric acid (HS code 29181200), tartrate and tartaric ester (HS code 29181300), other anhydrous acetic acid (HS code 29152119), other acetic acid (HS code 29152190)

China's imports of acidity regulator products from the U.S. (as of the end of May 2019)

- Tartaric acid (HS code 29181200): 0.50 tonnes, accounting for 1.11% of total imports
- Tartrate and tartaric ester (HS code 29181300): 0.02 tonnes, accounting for 0.01% of total imports
- Other anhydrous acetic acid (HS code 29152119): 1.84 tonnes, accounting for 0.03% of total imports
- Other acetic acid (HS code 29152190): 4.96 tonnes, accounting for 0.52% of total imports

By the end of May, 2019, the amount of these acidity regulator products imported by from the U.S. all accounted for less than 2% of



the total imports. Although the tariff rose, it had little impact on them.

Company Development

COFCO Biochemical's 2018 net profit down

Summary: On 29 April, COFCO Biochemical published its 2018 full-year financials, unveiling an 11.40% YoY increase in sales but a 48.02% decline in net profit. This performance continued in Q1, as its sales rose by 3.27% YoY, while the net profit fell by 47.84% YoY.

On 29 April, 2019, COFCO Biochemical (Anhui) Co., Ltd. (COFCO Biochemical) announced its 2018 full-year financials:

- Sales: USD2.58 billion (RMB17.70 billion), up 14.40%
- Net profit: USD70.30 million (RMB483 million), down 48.02%

The citric acid & citrate business remained the company's major source of income last year with its revenue from this segment shrank by 21.81% to USD114.75 million (RMB788 million); the proportion to total revenue also declined by 1.90 percentage points to 4.45%. Operational costs of this activity hit USD104.40 million (RMB717 million), down 10.23% and accounting for 4.85% of the total (1.10 percentage lower than in 2017).

COFCO Biochemical attributed these decreases to fierce market competition and changes in its development strategies. In 2018, capacity expansion in the corn intensive-processing industry delivered a heavy blow to food additive manufacturers, especially citric acid producers. Overcapacity, along with the abolishment of political subsidies, weakened their profitability. Economic restructuring and consumption upgrading decelerated the growth of market demands, intensifying competition in the citric acid industry with falling product prices and profits. Given that, COFCO Biochemical added edible alcohol, starch & starch sugar, and monosodium glutamate & derivatives into its product mix, watering down the dominance of the citric acid business.

COFCO Biochemical predicted more obvious price fluctuations in the future as the overcapacity in the citric acid and starch sugar markets will remain.

Notably, the company's citric acid & citrate spin-off - COFCO Biochemical (Thailand) Co., Ltd. – also boasts plant and production lines in Rayong Province, Thailand. It achieved annual sales of USD0.19 million (RMB1.33 million) in 2018.

Also on 29 April, COFCO Biochemical published its Q1 financials:

- Sales: USD670.16 million (RMB4.61 billion), up 3.27% YoY
- Net profit: USD8.43 million (RMB57.93 million), down 47.84% YoY

EIA report of Xinhong Pharmaceutical's food additive project

Summary: On 20 June, Shanghe Branch of Jinan Ecological Environment Bureau announced its plan to deliberate the EIA report of Xinhong Pharmaceutical's 18,000 t/a gluconate food additives project, which is estimated to commission in Aug. 2019.

On 20 June, Shanghe Branch of Jinan Ecological Environment Bureau published the environmental impact assessment (EIA) of 18,000 t/a gluconate food additives in Shandong Xinhong Pharmaceutical Co., Ltd. (Xinhong Pharmaceutical) to collect public





opinions before 21 June.

According to the announcement, this project is newly built with a total investment of USD2.91 million (RMB20 million), including USD24,739.51 (RMB0.17 million) for environmental protection, which accounts for 0.85% of the total. Covering an area of 71,563 m², this is scheduled to be put into operation in this Aug.

Currently, Xinhong Pharmaceutical's gluconate plant has made its 18,000 t/a sodium gluconate production lines idle and only 4,000 t/a calcium gluconate, though it has been equipped with a 1,800 m³/d wastewater treatment centre and a 4 t/h gas-based steam boiler. In order to improve its competitiveness, Xinhong Pharmaceutical intends to reutilise its unused glucuronolactone workshop (3,000 m²) and gluconate workshop (1,000 m²) in the central north part of its plant for this time's new project.

Upon completion, this project will significantly expand the company's gluconate capacity, adding 18,000 t/a food additives for sale.

- 3,344.50 t/a gluconic acid (2,000 t/a for sale & 1,344.50 t/a for self-use)
- 200 t/a zinc gluconate
- 200 t/a copper gluconate
- 100 t/a manganese gluconate
- 50 t/a magnesium gluconate
- 200 t/a ferrous gluconate
- 200 t/a sodium gluconate
- 15,000 t/a glucuronolactone
- 1,170 t/a gluconic acid mother liquor (by-product)

As estimated, 3,753.50 t/a of crude glucose (3,716 t/a glucose & 37.50 t/a impurities) will be consumed to produce 12,296 t/a gluconic acid solution (3,344.50 t/a gluconic acid & 8,951.50 t/a water).

This project obtained the filing certificate in Dec. 2018, which showed several details.

- Location: Economic Development Zone of Shanghe County
- Investment in gluconate production line: USD2.91 million (RMB20 million)
- Predicted output: 18,000 t/a
- Predicted output value: USD18.92 million (RMB130 million)
- Construction period: until Aug. 2019

Established in Sept. 2002, Xinhong Pharmaceutical is located in the No. 11 of Huiyuan Street, Shanghe Industrial Park, Jinan City, Shandong Province. It covers a floor area of 71,563 m² plus a building area of 11,100 m², and is engaged in the production and sale of gluconate like sodium/calcium gluconate.





Henan Jindan reapplies for IPO

Summary: On 24 May, the CSRC published Henan Jindan's IPO Letter of Intent. Compared to its 1st attempt, the company has boosted its financials and profits, abating the overreliance on government subsidies. However, its shortage of working capitals remains an obstacle to IPO.

On 24 May, 2019, the China Securities Regulatory Commission (CSRC) announced a letter of intent from Henan Jindan Lactic Acid Technology Co., Ltd. (Henan Jindan), marking the official start of the company's 2nd application for initial public offering (IPO).

With a capacity of 128,000 t/a, Henan Jindan is China's largest high-tech lactic acid & lactate manufacturer, integrating the R&D, production and sale of this series. Lactic acid, lactate and saccharification residue serve as the company's major sources of income with these 3 products contributing 95% of its total sales and lactic acid about 70%. Meanwhile, its technical upgrading has been optimising its product mix and improving margins of these businesses.

Actually, Henan Jindan tested the water in 2016 but only saw its IPO application rejected in Dec. 2017 for underperformance – its sales in 2013, 2014 and 2015 hit USD88.77 million (RMB610 million), USD89.06 million (RMB612 million) and USD82.95 million (RMB570 million) respectively.

Furthermore, a large part of the company's revenue came from government allowances, making up 40%+ of its net profit.

- 2013 – USD1.81 million (RMB12.47 million)
- 2014 – USD2.34 million (RMB16.08 million)
- 2015 – USD2.72 million (RMB18.66 million)
- H1 2016 – USD2.07 million (RMB14.21 million)

Since then, it has attached great importance in financial improvement. On 8 April, its 2018 full-year financial report was released, showing obvious growths.

Sales

- 2018 – USD116.71 million (RMB802 million), up 22.94%
- 2017 – USD94.88 million (RMB652 million)
- 2016 – USD85.28 million (RMB586 million)

Profit

- 2018 – USD13.34 million (RMB91.64 million), up 75.19%
- 2017 – USD7.53 million (RMB51.73 million)
- 2016 – USD5.36 million (RMB36.83 million)

Government subsidy

- 2018 – USD1.37 million (RMB9.39 million), 11.29% of its net profit
- 2017 – USD2.08 million (RMB14.29 million)
- 2016 – USD3.44 million (RMB23.61 million)





With shrinking subsidies and rising net profits, Henan Jindan is gradually getting rid of the dependence on government assistance.

If its IPO is approved this time, Henan Jindan will use raised fund for its 50,000 t/a optically pure L-lactic acid project plus a 10,000 t/a polylactide project and to replenish its working capital.

Notably, a tight budget has troubled Henan Jindan for a long time. In the past 3 years, its debt ratio remained higher than other listed counterparts, reaching 45.55%, 42.70% and 47.17% respectively. It is likely to increase debt financing for its production line upgrading and polylactide capacity expansion. Given that, its mounting liabilities will possibly give rise to uncertainties over its IPO.

Price Update

Ex-works prices of acidity regulators in China, Q2 2019

Table 3: Ex-works prices of acidity regulators in China, Q2 2019

Product	19 April		19 May		19 June	
	USD/t	RMB/t	USD/t	RMB/t	USD/t	RMB/t
Anhydrous citric acid	672.33	4,620	648.76	4,458	616.01	4,233
Monohydrate citric acid	771.29	5,300	749.75	5,152	706.39	4,854
Lactic acid	N/A	N/A	N/A	N/A	1,382.50	9,500
Sodium gluconate	N/A	N/A	N/A	N/A	553.00	3,800

Source: CCM

Price of citric acid continues to fall in Q2 2019

Summary: Influenced by the high price of raw material—corn, overcapacity and shrinking demand from downstream industries, the average price of citric acid in Q2 increased slightly quarter on quarter, but showed a continuous downward tendency month on month. It is expected that the price of citric acid will rise and fall within a limited range in the short term.

The average price of citric acid in Q2 was USD647.43/t (RMB4,448.89/t), increasing by 1.55% from USD637.54/t (RMB4,380.95/t) in Q1. The average price of anhydrous citric acid was USD750.44/t (RMB5,156.70/t), increasing by 0.84% from USD744.20/t (RMB5,113.82/t) in Q1. In Q2, the average prices of citric acid and anhydrous citric acid did increase quarter on quarter. However, on a monthly basis, the price continued to go down. The details are as follows.

- The average prices of citric acid monohydrate were: USD 684.60/t (RMB4,600.00/t) in April, USD 661.03/t (RMB4,451.67/t) in May, USD623.40/t (RMB4,295.00/t) in June.
- The average prices of anhydrous citric acid were: USD788.77/t (RMB5300.00/t) in April, USD764.90/t (RMB5151.11/t) in May and USD728.49/t (RMB5019.00/t) in June.

In Q2, the overall price of citric acid rose slightly compared with that of Q1, mainly because the market price of citric acid in April was in a steady state after the constant increase in March. In April, corn market continued to run strongly, and the overall price of corn went up apparently, leading to the increase of citric acid production cost. Before the Spring Festival, the market price of citric acid stayed in a low level, but after the festival, manufacturers promoted a rebound in the market price under the cost pressure and gradually followed up the market transactions.

In May and June, the market price of citric acid continued to fall, mainly because the sales performance was poor and the stocks





brought pressure to bear on the manufacturers. Meanwhile, triggered by the demand from downstream industries, imbalance between supply and demand intensified. To seize the market share, suppliers were willing to push the price down only for selling.

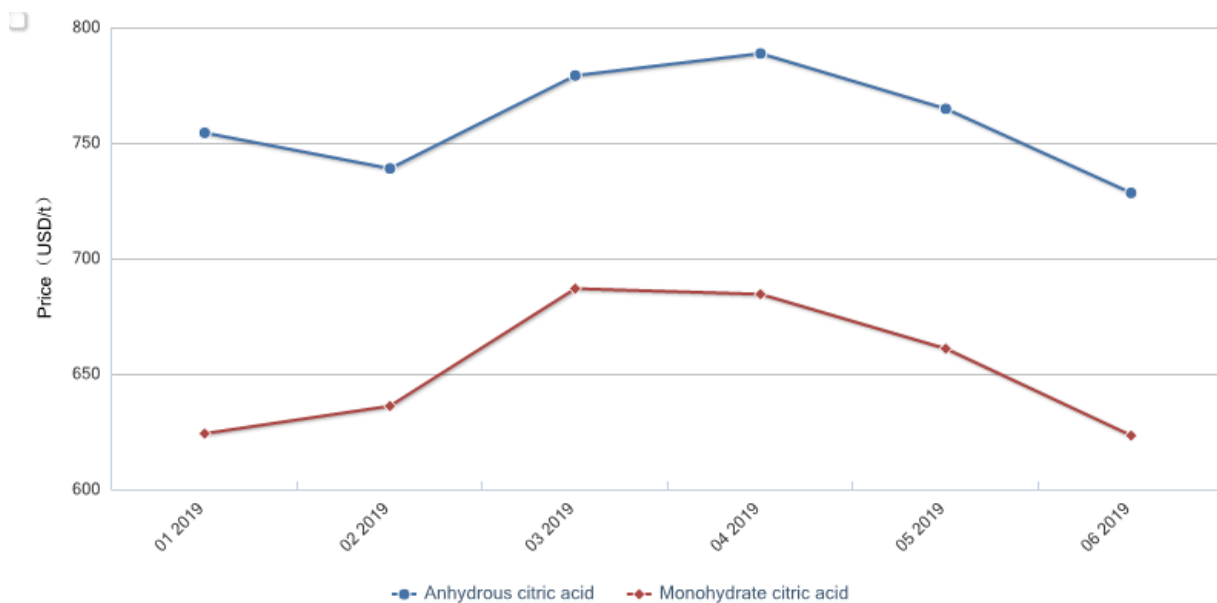
In terms of the market supply, in Q2, main production enterprises in the upper reaches ensured sufficient supply, but it is difficult to match with the demand, resulting in the increasing overcapacity of the industry. In addition, the 0.10 million tonnes of citric acid project of Linyi Qixing Lemon Co., Ltd. is under construction and is expected to be put into production around October, which implies the potential oversupply in the near future. In this case, some citric acid manufacturers had limited their productions in June, and some will shut down for maintenance in July and August. In the future, there will be a downward tendency in the production so that the supply is expected to decrease in the next quarter.

The demand from downstream industries for drinks had increased in Q2 as the weather turned hot. However, the demand for drinks accounted for a small proportion of the demand for citric acid, so it was quite hard to promote the overall market. Moreover, due to the production restrictions and maintenance of downstream chemical factories, the demand for citric acid was reduced to a certain extent. On the whole, the downstream purchase mainly lied in the replenishment so that citric acid manufacturers felt hard to clean up their stocks.

As for the raw material, the corn price in Q2 rose steadily, making the production cost of citric acid increase too.

At present, the slump of citric acid market is mainly because of the imbalance between supply and demand. With high production efficiency, the overcapacity of citric acid intensifies so that manufacturers have to endure sales pressure. In July, some enterprises may limit production and embark on maintenance. At that time, the supply of citric acid in the market will be reduced, and the pressure of suppliers may be alleviated to a certain extent. Due to the poor profit and manufacturers' reluctance to reduce the price further, citric acid price is expected to rise and fall within a limited range.

Figure 1: Ex-works price of citric acid in China, Jan.–June, 2019



Source: CCM

Import and Export Analysis



**Exports of acidity regulators and raw materials from China, Q1 2019**

Table 4: Exports of some acidity regulators and their raw materials (with independent HS codes) in China, Q1 2019

Product	Q1 2019		Q4 2018		QoQ change of export volume	QoQ change of export value
	Export volume, tonne	Export value, USD	Export volume, tonne	Export value, USD		
Citric acid	281,907.39	182,391,132	238,119.08	161,355,584	+18.39%	+13.04%
Lactic acid and its salts and esters	11,718.81	15,535,236	11,428.67	17,817,075	+2.54%	-12.81%
Tartaric acid	12,161.77	34,066,871	10,450.52	29,775,105	+16.37%	+14.41%
Tartrate and tartaric ester	298.67	1,059,916	578.94	1,932,947	-48.41%	-45.17%

Source: CCM

Table 5: Top 3 export destinations of some acidity regulators and their raw materials (with independent HS codes) in China, Q1 2019

Product	1		2		3		Others, tonne	Total, tonne
	Destination	Export volume, tonne	Destination	Export volume, tonne	Destination	Export volume, tonne		
Citric acid	India	45,277.00	Mexico	16,227.91	Turkey	15,479.00	204,923.48	281,907.39
Lactic acid and its salts and esters	Netherlands	1,859.04	Russia	1,814.83	South Korea	1,084.70	6,960.25	11,718.81
Tartaric acid	Australia	1,592.05	India	1,560.00	Russia	1,518.70	7,491.02	12,161.77
Tartrate and tartaric ester	South Africa	51.00	Japan	47.74	South Korea	47.60	152.33	298.67

Source: CCM

News in Brief**Jiangsu strengthens work safety & environmental inspections**

On 27 April, the *Plan for the Rectification and Improvement of Work Safety and Environmental Protection of the Chemical Industry in Jiangsu Province* was issued, a follow-up of tightened scrutiny triggered by the deadly blast of Jiangsu Tianjiayi Chemical Co., Ltd. exploded on 21 March. As of late June, 4 batches of provincial inspections had been launched, as well as the Work Safety Month campaign, in a bid for major risk minimisation and safety confirmation. Since most of fine chemical industrial parks in Jiangsu Province have suspended or reduced production, regional acidity production is definitely affected.

Progresses of COFCO Biochemical's projects

According to a report on tencent.com published on 5 May, COFCO Biochemical (Anhui) Co., Ltd.'s (COFCO Biochemical) Bangbu plant had been shut down with most of its workers leaving for its new factory in the Mohekou Industrial Park in Huaishang District, Bangbu City. This relocation started in 2013 and is predicted to be completed by the end of 2020, a move required by the local government for environmental protection and industrial restructuring.

On 24 June, the company decided to offer USD53.84 million (RMB370 million) worth of financing guarantee to its Thailand and Hong Kong spin-offs. This Thailand plant is its key overseas asset, producing and selling citric acid and citrate. COFCO Biochemical's plan is to support its citric acid activity to withstand fiercer competition.





Qixing Lemon's 500,000 t/a acidity project

On 27 June, 2019, the People's Government of Yishui County published details of Yishui Qixing Lemon Technology Co., Ltd.'s (Qixing Lemon) 500,000 t/a acidity project.

- Location: Lushan District, Yishui County
- Total Investment: USD393 million (RMB2.70 billion)
- Capacity: 440,000 t/a citric acid; 60,000 t/a sodium citrate
- 1st phase: 88,000 t/a citric acid; 12,000 t/a sodium citrate (1 production line)
- 2nd phase: 352,000 t/a citric acid; 48,000 t/a sodium citrate (2 production lines)
- Commissioning date: March 2021

EIA report of Henan Jindan's optically pure L-lactic acid project issued

On 7 May, 2019, the Ecological Environmental Bureau of Zhoukou City approved the environmental impact assessment (EIA) report of the 50,000 t/a optically pure L-lactic acid project launched by Henan Jindan Lactic Acid Technology Co., Ltd. (Henan Jindan).

Details of the project

- Total investment: USD44.98 million (RMB309.06 million)
- Location: the industrial cluster in Dancheng County, Zhoukou City, Henan Province
- Floor area: 60,030 m²

Constant Strong Chemical launches a 10,000 t/a fumaric acid project

According to the news in Installation Information Net on 25 June, 2019, the 10,000 t/a fumaric acid project of Shanxi Constant Strong Chemical Co., Ltd. (Constant Strong Chemical) is in the preparation stage now. As the announcement shows, it is a new project in Yuncheng City, Shanxi Province with a total investment of USD8.73 million (RMB60 million), covering an area of 4, 000 square metres. After completion, 10,000 tonnes of fumaric acid can be produced in one year.



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