This section contains certain statistics, industry data or other information relating to the industry that are derived from various government or official sources that are publicly available as well as research reports published by Information Research Limited (IRL), a global consultancy providing market research and analysis services to the paints and coatings industry and an independent third party.

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OVERVIEW OF THE WESTERN EUROPEAN AND PRC MARKETS OF PAINT AND COATINGS INDUSTRY

The paint and coatings industry is largely divided into decorative coatings, general industry coatings and UV-curable coatings. The business of our Group would largely fall under the general industry coating category. The Western European region is a leading market where the paint and coatings know-how and technology is well established with a steady market growth in paint and coatings demand whereas the PRC market is driven by the growth of the Chinese economy where growth of industrial application grows exponentially. We strongly believe that the paint and coatings industry in the PRC has benefited from compelling industry fundamentals such as rapid economic growth, urbanization and increasing disposable income and will continue to thrive in the near future.

According to Information Research Limited (IRL) ("**IRL**"), a global consultancy providing market research and analysis services to the global paints and coatings industry, the total consumption of paint for coatings in Western Europe was 6.52 million tonnes in 2008 and is estimated to fall to 6.05 million tonnes in 2009 due to contraction of some European economies. It is forecasted to reach 6.28 million tonnes by 2014. The paint and coatings market in the PRC has grown rapidly as well: despite the collapse of export market in late 2008, growth in 2008 took over the coatings market to just over 6.4 million tonnes in 2008. With the government economic stimuli for the domestic market and long-term recovery in overseas spending power, it is forecasted that total demand in the Chinese paint and coatings sector will rise to over 9.57 million tonnes by 2013, registering a growth of 8.4% per annum.

PAINT AND COATINGS INDUSTRY IN THE WESTERN EUROPE

According to IRL, Western European paint and coatings market divides empirically between decorative paints (63.7%) and industrial coatings (36.3%) in 2008, compared to 62.7% and 37.3% respectively in 2003.

IRL expected that industrial coatings in Western Europe face difficult times on a number of fronts, including the general poor condition of the automotive sector and a decline in demand for exported and consumer goods, as well as finishing within the construction sector. Those in the coatings for plastics sector in Western Europe have been reporting 25% to 40% drops in demand in the final stages of 2008. However, as many new items come to be produced in plastic, there exists optimism for the sector.

Total consumption of paints and coatings for the Western European Market was 6.52 million tonnes in 2008 and was estimated to drop to 6.05 million tonnes in 2009, reflecting contraction of demand due to the unfavourable economic conditions across the region and falling export markets. IRL predicted the market to stagnate in 2010 before starting to recover in 2011, although major economies were all tipped to experience further contraction in 2010. Italy and Spain, where, for the year ended 31 December 2008, we generated approximately 1.25% and approximately 3.55%, respectively, of our aggregate sales, were probably hit the hardest. According to IRL, Germany, where our Company is based, reportedly performed well as a coating market. The table below provides the market forecasts for Western Europe from 2009 to 2014.

Market Forecast for the Entire Western European Paint and Coatings Sector, 2009-2014

	Estimated Market Sizes in 2009 (Tonnes)			Estimated Market Sizes in 2014 (Tonnes)	
Country	**Total Decorative**	**Total Industrial**	**Grand Total**	**Total Demand**	**Overall Market Growth in % pa**
Germany	1,044,000	475,100	1,519,100	1,709,700	2.4
Spain	475,000	300,000	775,000	700,500	-2.0
Italy	584,600	352,000	936,600	846,400	-2.0
France	588,400	231,200	819,600	829,500	0.2
UK	418,000	282,200	700,200	835,000	3.6
Belgium	51,700	33,500	85,200	88,600	0.8
Netherlands	179,100	43,600	222,700	250,600	2.4
Norway	59,100	26,200	85,300	92,700	1.7
Sweden	94,100	54,300	148,400	156,900	1.1
Denmark	65,400	64,200	129,600	135,900	1.0
Finland	44,400	39,400	83,800	94,300	2.4
Switzerland	61,800	24,500	86,300	97,100	2.4
Austria	82,400	55,000	137,400	147,000	1.4
Greece	105,400	72,700	178,100	164,200	-1.6
Portugal	58,800	35,400	94,200	90,500	-0.8
Ireland	35,000	15,000	50,000	45,500	-1.9
Total	3,947,200	2,104,300	6,051,500	6,284,400	0.7

Source: IRL

In both the decorative and industrial sectors, legislation and compliance agendas associated with the REACH legislation are now inevitable. The new REACH legislation, which stands for Registration, Evaluation and Authorisation of Chemicals that came into effect on 1 June 2007 and applies to any business that uses chemicals, has significantly reduced the availability of chemical substances in the European Union and in turn could have a negative impact on the development of the coating sector in the region. By considering the general industrial coatings market, it is best-appreciated that many will either pursue a switch to high-solids solvent-based coatings in preference to investing in the water-based coatings route, which is widely associated with more expensive raw materials, or expand business in other more profitable countries, such as the PRC.

Paint and Coatings Industry in Germany

As shown in the table above, Germany maintains the largest paint and coatings consumption in the Western European region, with a total consumption of 1,102,500 tonnes in decorative coatings and 524,100 tonnes of paint and coatings in industrial applications in 2008. IRL estimated Germany's combined market size in decorative and industrial coatings sectors to decrease to 1,519,100 tonnes in 2009, but increase to 1,709,700 tonnes in 2014, based on a prediction of an annual growth rate of 2.4% per annum. The tables below detail production statistics of different types of solvent-based and water-based paints from 2003 to 2008.

German Production of Conventional Solvent-Based Paints, 2003-2008 (Tonnes)

	2003	2004	2005	2006	2007	2008
Solvent-based systems						
Air-drying alkyds	84,922	84,517	83,671	88,588	86,494	80,172
Thermally-cured alkyds	27,208	27,996	24,543	22,795	19,345	16,032
Oil paints	3,042	3,162	6,210	6,054	7,529	6,602
Nitrocellulose	30,222	30,290	27,614	26,640	26,935	24,031
Bitumen & tar-based coatings	32,421	28,412	28,165	28,516	23,978	20,938
Shellac or other natural polymer-based types	5,294	5,843	5,618	5,679	4,701	3,899
Phenolic, urea and melamine lacquers	4,746	4,344	3,943	4,189	3,995	3,496
Polyester-based	55,911	61,093	53,554	55,511	62,058	75,048
Epoxy systems	60,468	63,606	65,214	68,958	70,936	71,877
Polyurethane-based	65,786	67,792	71,204	68,119	65,873	66,497
Polystyrene and polyvinyl systems	22,756	26,728	24,661	26,184	23,281	21,582
Acrylic-based systems	62,598	61,808	58,987	50,821	43,243	40,754
Other systems based on synthetic polymers	46,156	47,710	47,443	42,890	42,265	40,957
Total solvent-based paints	501,530	513,301	500,827	494,944	480,633	471,885

Sources: Coatings COMET and Farbe und Lack

German Production of Water-based Coatings and Plaster Finishes, 2003-2008 (Tonnes)

	2003	**2004**	**2005**	**2006**	**2007**	**2008**
High solids coatings	32,789	28,130	29,821	33,026	40,447	42,086
Powder coatings	65,339	65,278	65,410	73,535	70,721	71,281
Sub-total low solvent or solvent-less	98,128	93,408	95,231	106,561	111,168	113,367
Water-based Systems						
Interior dispersion paints	576,214	610,138	631,999	635,957	650,135	628,574
Exterior dispersion paints	175,294	172,910	168,728	174,624	176,141	160,364
Primers or undercoats	76,275	83,316	82,986	80,622	80,790	78,358
Resin-based plasters	168,446	176,196	179,273	200,269	178,735	173,027
Distempers	20,139	22,087	22,526	22,696	23,772	24,875
Silicate paints	31,892	30,352	31,248	30,506	28,635	27,653
Silicate plaster finishes	11,908	14,871	13,166	27,064	39,390	44,320
Gloss emulsion paints	74,244	81,343	90,269	91,672	99,397	103,389
Electrocoats or other industrial water-thinnalbes	42,596	35,472	36,536	36,707	38,271	17,697
Aqueous phenolic, urea and melamine enamels	1,325	1,147	971	1,038	1,098	1,199
Painters' fillers	145,752	151,891	158,356	189,429	168,298	175,745
Silicone-based paints	10,336	10,900	10,890	10,640	9,593	8,350
Silicone-based plaster finishes	12,396	13,312	16,426	19,248	20,923	21,906
Other paints based on synthetic polymers	100,890	113,636	118,760	121,047	119,537	80,483
Other paints based on modified natural polymers	2,041	1,844	2,422	2,161	3,298	2,732
Total water-based paints and plasters	1,449,748	1,519,415	1,564,556	1,643,680	1,638,013	1,548,672

Sources: Coatings COMET and Farbe und Lack

Protective Coatings in Germany

The German protective coatings industry regards oil, gas and petrochemicals, power generation and steel protection their most important end-use industries. It is purported that these three industries account for approximately 50% of the German protective coatings market.

There are at least 80 companies registered as being active in the industrial coatings sector in Germany. Big players in the protective coatings market often lose out to medium-sized local companies due to their local presence, especially when contracts are for public facilities and there are technical specifications that have to be met which may be subject to change.

This makes the medium-sized companies more agile and more able to concentrate more intensely on delivering excellent customer service. Companies with local experience therefore play an important role in the market.

Traditional solvent-based coatings still account for approximately 50% of the German protective coatings market. This is followed by high solids-based coatings that are thought to possess 30% of the market. Water-based coatings account for 10% of the market, although this figure is thought to be on the increase (along with high solids), as the demand for eco-friendly protective coatings grows.

Future growth for end-use industries in Germany are thought to be modest and in line with GDP (approximately 2-3% pa). Industrial production, in general, is expected to grow at 2.1% throughout 2007.

Coatings for Plastics Market in Germany

The coatings for plastics manufacturers in Germany operate with a more regional outlook, selling their products to German-speaking countries, Eastern Europe and further afield. Automotive OEMs and consumer electronics manufacturers are the major consumers of coatings for plastics in Germany. The market has been estimated at 55,000 tonnes in 2008. The table bellows shows the production breakdown of coatings for plastics by application in 2008.

Split of the German Coatings for Plastics Market by Application, 2008 (Tonnes and %)

Industry	**Volume** *(Tonnes)*	**Market Share** *(%)*
Automotive	24,750	45
Electronics/Electrical Goods	13,750	25
Packaging	8,250	15
Construction	5,500	10
Others	2,750	5

Source: IRL & Industry

Automotive and automotive OEM industries represent the largest consumer of coatings for plastics in Germany. Around 60% of all output in the German coatings for plastics sector is solvent-based. Automotive end-users are widely tipped to be interested in changing coatings technologies to water-based formulations. In terms of coating technology, polyurethanes and acrylic-based coatings are the two widely adopted technologies in the German coatings for plastics market, primarily due to the sheer dominance of the market by the automotive sector, whose coatings consumption is almost entirely based on these two technologies.

IRL observed that UV-curable coatings have been steadily growing in demand for the last three years. There are indications of a continuous growth trend over the next three to five years, which coincides with the introduction of REACH. Automotive manufacturers are actively pursuing the development of techniques to make the coating technology suitable for basecoat applications, primarily due to the speed at which coatings can be cured.

PAINT AND COATINGS INDUSTRY IN THE PRC

The target areas for economic stimulation in the PRC are the rural communities and markets on the one hand and environmentally-friendly and energy-efficient technologies on the other. Rural communities represent the next stage in the PRC's infrastructural development and through a combination of rising incomes, new infrastructure and in the long-run, higher levels of rural car ownership, the government can count on a second wave of prosperity in its domestic market which will shore up its own industries.

We see the trends in environmentally-friendly coatings favour the greater use of water-based coatings in the architectural coatings sector. Technologies for reducing VOCs and residual formaldehyde levels have been key development areas, as have antibacterial and performance attributes. Other environmentally-friendly formulations enjoying good demand are from the automotive OEM sector, where they are a necessary tie-in for the rising concept of the eco-friendly small car, and the protective coatings sector, where VOC reduction is still desirable.

Consumption of Paints by End Use Sectors in the PRC

Although architectural coatings constitute the largest segment of the market, the overall demand pattern shows that industrial coatings command the majority of the market, correlating with a growing market of infrastructure and the finishing of manufactured goods. The table below shows paints consumption by different end use sectors in the PRC in 2008 and predicts their respective consumption amount in 2013.

Consumption of Paints by End Use Sectors in the PRC, 2008-2013

Application	**2008** *(Tonnes)*	**2013** *(Tonnes)*	**Growth** *(%)*
Architectural	1,925,000	2,623,000	6.4
Protective	1,335,440	2,289,400	11.4
Wood	1,057,000	1,401,000	5.8
Powder	591,600	1,000,000	11.1
Automotive OEM	426,105	672,000	9.5
Marine	286,890	346,300	3.8
Road marking	220,000	370,000	11.0
Coil	151,000	225,000	8.3
Plastic	102,300	147,000	7.5
Automotive Refinishing	78,000	145,000	13.2
Others (can, aircraft, packaging etc)	226,810	360,000	9.7
Total	6,400,145	9,578,700	8.4

Source: IRL

The strongest future growth areas in the PRC, as seen above, include protective coatings, powder coatings and automotive OEM.

Automotive OEM (and refinishing) continue on their growth path in the PRC on the back of rising car ownership and a thriving car repair sector. Vehicle ownership in the PRC reaches more than 64 million as in 2009, creating an enormous potential market for automotive OEM. According to a survey conducted by the National Bureau of Statistics of China on 65,000 urban households, per capita disposable income of urban households in the first half of 2009 was RMB 8,856, representing a year-on-year increase of 9.8 percent and a real growth of 11.2 percent after deducting price factors. As the annual per capita disposable income of urban households in the PRC is expected to continue to increase, the demand of paint and coatings products in the niche market is anticipated to grow dramatically in the PRC.

Automotive OEM Coatings in the PRC is in High Demand

With the continuing boom in car purchasing in the PRC, automotive coatings will continue in their considerable potential in next few years. Government group purchases, increasing personal use and favourable car loan policies have all led to ongoing growth in car ownership in the PRC, which in return, further stimulates future automotive coatings demand.

Production of Automotive OEM Coatings in the PRC, 2004-8

Year	Production *(Tonnes)*	Growth Rate *(%)*
2004	152,253	—
2005	176,019	15.6
2006	208,557	18.5
2007	246,113	18.0
2008	263,416	7.0

Source: IRL and China National Coating Industry Association

According to IRL, the huge market potential in the PRC automotive OEM paint market has attracted international coatings producers to increase their presence in the PRC over the last couple of years.

As a result of the large potential markets for automotive coatings in China, all of the world's top automotive coatings producers have invested in the Chinese market. International companies and their invested local production dominate the high-end market, supplying to the major international automotive OEM manufacturers. Those international players control the core technology of automotive OEM coatings production and set a high technical threshold for newcomers. In order to prevent the disclosure of technologies, they are reluctant in terms of vertical integration. They import part of or sometimes all of the core raw materials into their plants in China.

According to IRL, by the end of 2008, the output for automotive coatings has ranked the PRC second in the world only to the US.

Moreover, as environmental concerns have been given a higher profile by both industry authorities and customers, eco-friendly vehicles have been the new target for automotive OEM coatings development recently. Ever since 2006, with the launch of the new Technical Standard for Cleaner Production of Garage Painting, moves in this direction have gathered pace.

IRL anticipated the PRC automotive OEM coatings market to continue to expand. The demand will be stimulated by increased vehicle production, especially passenger cars. The variety of automotive OEM coatings in demand will be affected by the PRC government's automotive stimulus plan. Coatings for economical cars and rural vehicles will be more welcome in the future, as well as for environmentally-friendly cars. The supply of automotive coatings will also increase as a result of upgraded production capacity in the manufacturing plants of international coating companies.

Strong Growth in Coatings for Plastics in the PRC

The Chinese coatings for plastics industry started in the 1980s with demand mainly from the toy industry. Such demand has remained stable since 2000. In contrast, the demand for coatings for plastics from other industries such as home appliances, IT products, electrical equipment and mobile phones has increased quickly and total production for plastics in various end use sectors has continued to grow since 2000.

The mobile phone market in the PRC

The PRC has become the largest producer of mobile phones in the world with average production at over 300 million handsets per year, over half of them for export. All of the international mobile phone companies have large production units in the PRC, which boosts the demand for high quality plastic paints for mobile phones in the PRC. The emergence of the mobile phone decoration and repair industry is also encouraging for the coatings sector as a comprehensive range of decorative and special effect coatings will be applied to mobile handsets.

The electrical appliances market in the PRC

The PRC home appliance industry has entered a relatively mature phase in terms of its industrial structure and the overall market. The industry is moving from the previous fragmented state towards consolidation. Large domestic companies and foreign companies have taken the major share of the refrigerators, washing machines, air conditioners, and other home appliances market.

Foreign investment plays a major part in the PRC appliances industry. The larger international companies have either set up joint ventures or established their own plants in the PRC. Most of the international companies have also established local production in the PRC. The tables below show production of major appliances in the PRC from 2003 to 2008.

The PRC Production of Major Appliances, 2003-8 (Million Units)

Year	TV Sets	Growth Rate *(%)*	Sound Systems	Growth Rate *(%)*	Air Conditioners	Growth Rate *(%)*
2003	65.4	—	55.4	—	48.2	—
2004	74.3	13.6	54.7	-1.3	63.9	32.6
2005	82.8	11.4	70.9	29.6	67.7	5.9
2006	83.8	1.2	55.4	-21.9	68.5	1.2
2007	84.3	0.6	52.4	-5.4	80.1	16.9
2008	84.5	0.2	52.0	-0.8	86.5	8.0

Source: National Bureau of Statistics

The PRC Production of Major Appliances, 2003-8 (Million Units)

Year	Refrigerators	Growth Rate *(%)*	Washing Machines	Growth Rate *(%)*
2003	22.4	—	19.6	—
2004	30.1	34.4	25.3	29.1
2005	29.9	-0.7	30.4	20.2
2006	35.3	18.1	35.6	17.1
2007	44.0	24.6	38.6	8.4
2008	51.1	16.1	40.1	3.9

Source: National Bureau of Statistics

In 2008, the markets for the main home appliances (excluding sound systems) grew relative to 2007. Refrigerators and air conditioners maintained their dramatic growth rates, of 16% and 8%, respectively. Flat-panel TV sets, especially LCD TVs, have become mainstream products during these two years. Given the increasing incomes of people living in rural areas, the appliance market grew sharply in 2007. With the governmental drive of "Appliances to the Countryside", the sales of basic appliances still kept the significant growth in 2008. All these sustainable growth in demand of home appliances in the PRC would increase the demand of decorative and special effect coatings in solvent-borne technologies for application.

Coil Coatings in the PRC

Coil coatings are widely used in the PRC. The coil coatings industry grew rapidly in 2006 and 2007 due to favorable government policy in the infrastructure industry. Production reached 145,000 tonnes in 2007, registering a dramatic increase from 80,000 tonnes in 2005. In 2008, although the demand from coil painted sheets declined due to the impact of the global economic recession, strong demand from reconstruction projects following the Sichuan earthquake led to an overall production increase of approximately 4% over 2007. The following table indicates the growing trend of coil coatings production in the PRC from the years of 2002 to 2008:

Coil Coatings Production in the PRC, 2002-8

Year	Production	Growth
	(Tonnes)	*(%)*
2002	32,000	—
2003	52,600	64.4
2004	60,000	14.1
2005	80,000	33.3
2006	120,000	50.0
2007	145,000	20.8
2008	151,000	4.1

Source: IRL

There are over 200 coil coatings manufactures in the PRC. Traditionally, coil coatings production is concentrated in Shanghai, Jiangsu, Hangzhou, Guangdong and Qingdao. In recent years, production has expanded to the other regions, such as Beijing and Tianjin, etc.

Trends and drivers in coil coatings in the PRC

Due to the impact of the global economic recession, growth of the Chinese economy has slowed down since the fourth quarter of 2008. GDP growth was 6.1% in the first quarter of 2009 — the lowest growth in recent years. However, with the economic stimulation policy by the Chinese government in infrastructure construction, automotive industry and some large projects, coil coatings and powder coatings used in these applications are expected to grow faster than in the end of 2008 and first quarter of 2009.

The total demand for coil coatings is expected to increase only slightly in 2009 owing to the decline in exports of appliances. However, the demand for coil coatings for major construction projects is forecast to increase relatively quickly over the next five years. Construction projects for the 2010 Expo Shanghai and 2010 Guangzhou Asian Games are expected to bring future demand for coil coatings. Consumption of coil coatings from domestic manufacturers increased dramatically in 2008, and the trend is expected to continue for the next few years.

Powder Coatings in the PRC

In the present decade, the Chinese powder coatings market has grown at rates exceeding 10% per annum up until 2007, which was actually much less rapid than the rates seen before the turn of the century. In 2008, due to the impact of the global economic crisis, exports of Chinese appliances declined sharply, resulting in decreasing demand for powder coatings. Consumption decreased by 13% compared with 2007.

The top three applications for powder coatings in the PRC are appliances, architecture and pipelines, which collectively account for about 73% of all powder coatings consumption. The biggest single end-market is appliances (as shown in the following table), which reflects the country possessing the world's largest production of refrigerators and freezers, washing machines, microwaves and other white goods. The share of powder coatings consumption for appliances has declined a little because of the slowdown in the appliances industry.

The potential growth in the Chinese powder coatings market attracted many international companies to establish their local production in the PRC. Application of powder coatings for pipelines in the PRC is far higher than the global mean. Pipeline uses account for about 18% of the total market. It is expected that such demand should increase rapidly over next few years, in line with the Chinese government's economic stimulation policy, which is to invest in infrastructure, construction, oil and gas transportation and major sea-crossing bridges. Automotive powder coatings accounted about 3.6% of the total consumption of powder coatings in 2008. They are used on automotive engines, wheels, gear sticks, mirrors, windscreen wipers and horns. Powder coatings for interiors take the largest share of automotive applications in the PRC.

Trends and drivers in powder coatings in the PRC

The Chinese powder coatings sector was fairly flat in 2008 due to the influence of the global economic recession; furthermore, in the first quarter of 2009, output has declined for the first time in recent years. However, stimulated by the Ten Industries Stimulation Plan by the Chinese government from 2009, the powder coatings industry should return to growth in the next few years. Moreover, given stricter environmental requirements and developing powder coatings technologies, the use of powder coatings in the automotive sector is expected to increase. In addition, the reduction of purchasing taxes on small cars and allowances for purchasing cars in rural area policies led to a growth in the Chinese automotive industry in first quarter of 2009. The sales of automobiles in first quarter of 2009 reached 2,678,800 units, becoming the largest automotive market around the world. It is expected that the total sales should reach 10.2 million units in 2009, increasing at 8.7% over 2008. With the recovery of the Chinese automotive and construction industry starting in the first quarter 2009, the Chinese powder coatings market is expected to resume growth in 2009 and continue on this path in the next few years.

The Chinese Coatings Industry is Still Lagging Behind

The main ingredients of paint systems are resins (also known as binders), pigments, solvents and additives. The pigment is contained within the binder and on drying cures to give a hard adhesive film. The pigment is usually a powder of white or coloured particles. A sub-class of pigments comprises the extenders (fillers), whose main purpose is to cheapen the paint system. Solvents are traditionally organic liquids, although water is increasingly preferred around the world due to the rising environmental agenda. The Chinese coatings resin industry has grown quickly in recent years. Most of major coatings resins can now be supplied by domestic production. However, high-grade and special coatings resins are still imported from overseas, mainly from Europe, North America and Japan. Similarly, the Chinese coatings additives industry is still lagging behind that of developed countries. International companies therefore dominate the additives market.

On the other hand, the PRC has over 90% sufficiency of raw materials for paint production. Imports are mainly additives and selected solvents and resins. As a result, it is very cost effective to establish production operations in the PRC. The following table shows the relative importance of the different types of raw materials available in Chinese market.

Breakdown of Consumption of Raw Materials for Coatings in the PRC, 2008

Raw Material Type	**Consumption** *(Tonnes)*
Solvents	1,880,000
Resins	1,880,000
White pigments	1,020,000
Extenders	730,000
Water	638,000
Coloured pigments	157,000
Other Additives	75,000
Total	6,380,000

Source: IRL

Since the second half of 2008, influenced mainly by the global economic recession, the Chinese coatings raw materials industry has faced a difficult situation with capacity utilisations often running below 50%, causing some small manufacturers to have gone out of business. The Chinese economy has rebounded since the beginning of 2009, mainly through the automotive industry and infrastructure construction, which will restore large demand for coatings raw materials. As a result of our strong brand name and reputation in the European automotive sector, we have already established a solid foundation in the automotive coatings in the PRC and we aim to continue expand our presence there as part of our globalisation strategy.