

CHEMICAL INDUSTRY REGULATIONS***Supervising and Competent Authorities***

The PRC natural gas chemicals industry is regulated by the State Council and a number of different state authorities and departments including the NDRC, the General Administration of Quality Supervision, Inspection and Quarantine (“Quality Supervision Authority”) and SAWS. These administrative bodies promulgate rules and regulations in relation to the production, operation, storage, transportation and handling of chemical products, especially dangerous chemicals. The relevant local authorities are responsible for the implementation and enforcement of the regulations and policies issued by the above administrative bodies. Among these authorities, the Industrial Department of the NDRC and its local counterparts are the main authority responsible for the planning and implementation of the industry development strategy as well as reviewing and approving the investment plans of large-scale enterprises.

Production Permit

In January 2002, the State Council issued the Regulations on the Safety Administration of Dangerous Chemicals (危險化學品安全管理條例) (“Dangerous Chemicals Regulations”) which became effective on 15 March 2002. The Dangerous Chemicals Regulations apply to the production, sales, storage, transportation and usage of dangerous chemicals, including methanol, as well as disposal of dangerous chemical waste. In July and September of 2005, the State Council issued the Regulations on the Administration of Production Permits for Industrial Products (工業產品生產許可證管理條例) and its implementation rules respectively, which are applicable to the production of industrial products, including dangerous chemicals. According to the above regulations, every entity engaged in the production of dangerous chemicals must obtain a Production Permit (生產許可證) from the Quality Supervision Authority before it can begin production.

Safety Production Permit

In January 2004, the State Council issued the Regulations on the Administration of Safety Production Permits (安全生產許可證管理條例). The said regulations provide that an enterprise engaged in the production of dangerous chemicals must obtain a Safety Production Permit (安全生產許可證) from the local SAWS.

Dangerous Chemicals Business License

The National Economic and Trade Commission, which was later abolished in 2003 and whose responsibilities were assumed by the MOC and the SDRC, promulgated the Administration Measures on the Dangerous Chemicals Business License (危險化學品經營許可證管理辦法) (“Business License Measures”) in October 2002. Pursuant to the Business License Measures, an entity is required to obtain a Dangerous Chemicals Business License (危險化學品經營許可證) from the local SAWS (provincial and municipal SAWS) before it can engage in the retail and wholesale business of dangerous chemicals.

Road Transportation Permit

According to the Business License Measures, an entity must obtain the necessary qualification and a Road Transportation Permit from the local transportation authority before it may transport dangerous chemicals.

Fertilizer Pricing Rules

In November 1998, the State Council issued the Notice on Deepening the Reform of the Fertilizer Distribution System (關於深化化肥流通體制改革的通知) (“Notice”). According to the Notice, the ex-factory price of fertilizer is the state guidance price. Enterprises could, within the limits of the guidance and taking into account the market situation, make their own decisions on fertilizer prices. At present, all fertilizer producers operating ammonia production facilities with production capacities of over 150,000 tonnes per annum are subject to a 15% upward ceiling above a base price prescribed by the NDRC or the relevant local development and reform commission of RMB1,500 per tonne. In addition, the provincial government has the authority to set price ceilings for selected fertilizers under limited circumstances. For example, the maximum retail price for the granular urea produced at Fudao Phase I is RMB1,960 according to the local regulations in Hainan.

The NDRC is making progress in planning a reform of freeing fertilizer products from the state guidance pricing to tend towards market-determined pricing and gradually reduce relevant preferential treatment, while also establishing a subsidy system under which farmers will obtain subsidies if fertilizer prices rise.

Fertilizer Import Tariff Rate Quota

In January 2002, the previous National Economic and Trade Commission and the Customs jointly issued the Interim Measures on the Fertilizer Import Tariff Rate Quota (化肥進口關稅配額管理暫行辦法) (“Interim Measures”). According to the Interim Measures and the terms of China’s WTO Concession Commitment, the PRC Government can selectively impose tariff rate quotas on certain types of fertilizers and allocate these quotas to qualified applicants. The tariff rates currently applicable to the imports within and in excess of the quota are 4% and 50%, respectively.

Urea Export Tax Refund and Tariff Rate

The NDRC, the State Tax Bureau and the General Administration of Customs review and revise the export tax refund policy and the export tariff rates for fertilizers taking into consideration the market situation, price and other relevant factors, although such reviews and revisions are not conducted at a fixed time interval. In March 2004, the NDRC and STBD declared that the export tax refund policy is no longer applicable to fertilizer products. According to the “2006 Notice on the Production Supply and Pricing of Fertilizers” issued jointly by the NDRC and the MOF, the export tariff rate of fertilizers will be 30% from January to September and 15% from October to December in 2006.

PORT REGULATIONS

Port Business License

The Ministry of Transportation and its local authorities are responsible for the administration of ports. The Port Law (港口法), issued in June 2003, is the basic legislative document governing port businesses in China, and regulates the planning, construction, maintenance, operation, safety and supervision of ports. In order to implement the Port Law, the Ministry of Transportation issued the Administrative Regulations on Port Businesses (港口經營管理規定) and the Administrative Regulations on Management of Dangerous Goods at Ports (港口危險貨物管理規定) in August 2003 and June 2004, respectively. According to the above laws and regulations, an entity is required to obtain a Port

Business License (港口經營許可證) from the local transportation authority if it intends to engage in port business. An additional Qualification Certificate for Management of Dangerous Goods at Port (危險貨物港口作業認可證) is also required if there are any dangerous goods involved in the business activities.

Registration Certificate of International Liner Services Qualification

According to the Regulations on International Ocean Shipping (海運條例) issued by the State Council in December 2001 and its implementation rules issued by the Ministry of Transportation in January 2003, an enterprise is required to obtain a Registration Certificate of International Liner Services Qualification (國際船舶代理經營資格登記證) from the Ministry of Transportation to engage in international shipping.

Port Charge Pricing Rules

Port charges are a price fixed by the NDRC. The specific prices are included in the PRC Port Charge Standards (Foreign Trade) (中華人民共和國交通部港口收費規則(外貿部分)) and the PRC Port Charge Standards (Domestic Trade) (中華人民共和國港口收費規則(內貿部分)) issued by the Ministry of Transportation in December 2001 and June 2005, respectively.

FOREIGN INVESTMENT POLICIES

Pursuant to the most recent Catalogue for the Guidance of Foreign Investment Industries jointly promulgated by the NDRC and MOFCOM on 30 November 2004, foreign investment in the production of biological fertilizers and high-density fertilizers (such as potash and phosphate fertilizers) as well as the construction and operation of public terminal port facilities are encouraged. On the other hand, foreign investment in vessels, freight forwarding and foreign vessel cargo handling agency services are restricted, except where the aggregate equity interest held by foreign investors in the vessels agency companies does not exceed 49% and investment in foreign vessel cargo handling agencies is in the form of an equity joint venture or contractual joint venture.

ENVIRONMENTAL REGULATIONS

Manufacturers and ports in China are required to comply with general requirements under the Environmental Protection Law (環境保護法) and other specific laws and regulations under the Noise Pollution Prevention Law (環境雜訊污染防治法), Air Pollution Prevention Law (大氣污染防治法), Water Pollution Prevention Law (水污染防治法) and Solid Waste Pollution Prevention Law (固體廢物污染環境防治法), which govern noise, air, water and solid waste pollution, respectively. In December 1999, the State Environment Protection Bureau published the statutory wastewater discharge standards of ammonia manufacturers. According to these laws and regulations, an enterprise emitting and discharging pollutants in excess of permitted levels must pay waste discharge fees, while an enterprise causing serious environmental pollution is given a limited time to rectify. Penalties for non-compliance include fines, administrative sanctions and suspension or termination of production or business.