

All of our business operations are based in the PRC and we are required to comply with a range of laws and regulations concerning establishment of manufacturing facilities, production safety, hazardous chemicals and industrial products. The laws and regulations concerning our business and operations in the PRC mainly include the following:

- Interim Provisions for Promoting Industrial Restructuring (《促進產業結構調整暫行規定》)
- The Guideline Catalogue for Industrial Restructuring (2005 Version) (《產業結構調整指導目錄(2005年本)》);
- Notice on the Implementation of the Catalogue of Restricted Uses of Land (2006 Version) and the Catalogue of Prohibited Uses of Land (2006 Version) (《關於發佈實施〈限制用地項目目錄(2006年本)〉和〈禁止用地項目目錄(2006年本)〉的通知》);
- Notice on the Issuance of the Catalogue of Restricted Uses of Land (2006 Version Supplement) and the Catalogue of Prohibited Uses of Land (2006 Version Supplement) (《關於印發〈限制用地項目目錄(2006年本增補本)〉和〈禁止用地項目目錄(2006年本增補本)〉的通知》)
- Production Safety Law of the PRC (《中華人民共和國安全生產法》);
- Regulations on Safety Production Permit (《安全生產許可證條例》);
- Regulations on the Safety Administration of Hazardous Chemicals (《危險化學品安全管理條例》);
- Measures for Implementation of Safety Production Permit of Hazardous Chemical Production Enterprises (《危險化學品生產企業安全生產許可證實施辦法》);
- Measures for the Administration of Hazardous Chemical Operation Licence (《危險化學品經營許可證管理辦法》);
- Measures for the Administration of Registration of Hazardous Chemicals (《危險化學品登記管理辦法》);
- Measures for Implementation of Safety Licensing for Hazardous Chemical Construction Projects (《危險化學品建設項目安全許可實驗辦法》);
- Regulations on the Administration of Production Licence for Industrial Products of the PRC (《中華人民共和國工業產品生產許可證管理條例》);
- Measures for Implementation of the Regulations on the Administration of Production Licence for Industrial Products of the PRC (《中華人民共和國工業產品生產許可證管理條例實施辦法》);
- Notice on the Implementation of Industrial Policies regarding the Production Permission for Industrial Products (《關於工業產品生產許可工作中嚴格執行國家產業政策有關問題的通知》);

- Regulations on the Import and Export Tariff of the PRC (《中華人民共和國進出口關稅條例》); and
- The 2007 Tariff Implementation Plan, 2008 Tariff Implementation Plan, 2009 Tariff Implementation Plan and 2010 Tariff Implementation Plan (《2007年關稅實施方案》, 《2008年關稅實施方案》, 《2009年關稅實施方案》及《2010年關稅實施方案》).

Certain important provisions of the aforesaid laws and regulations are set out as follows:

## **LAWS AND REGULATIONS IN RELATION TO ESTABLISHMENT OF ETHYLENE OXIDE MANUFACTURING FACILITIES**

### **Interim Provisions for Promoting Industrial Restructuring and the Guideline Catalogue for Industrial Restructuring (2005 Version)**

The Interim Provisions for Promoting Industrial Restructuring was promulgated by the State Council and became effective on 2 December 2005. The Industrial Restructuring Catalogue was promulgated by the NDRC and became effective on the even date.

According to the Interim Provisions for Promoting Industrial Restructuring, industries are classified into three categories, namely Encouraged, Restricted and Eliminated. The rest of the industries which are not listed in the Industrial Restructuring Catalogue but are in compliance with the relevant laws, regulations and state policies are recognised as Permitted category. Investment in the Encouraged industries are welcome and can enjoy certain preferential policies prescribed by the government authorities, while new investment in the Restricted industries and investment (no matter new or already made) in the Eliminated industries are prohibited. Under the Industrial Restructuring Catalogue, construction and operation of ethylene oxide manufacturing facilities with an annual capacity of less than 200,000 MT is classified into the Restricted category, which means new investment in the ethylene oxide manufacturing facilities is prohibited unless the annual capacity of such facilities reaches or exceeds 200,000 MT.

### **Notice on the Implementation of the Catalogue of Restricted Uses of Land (2006 version) and the Catalogue of Prohibited Uses of Land (2006 version) and the Supplements**

The Land Catalogue was jointly promulgated by the Ministry of Land and Resources of the PRC and the NDRC and became effective on 12 December 2006. The Notice on the Issuance of the Catalogue of Restricted Uses of Land (2006 Version Supplement) and the Catalogue of Prohibited Uses of Land (2006 Version Supplement) was promulgated by the Ministry of Land and Resources of the PRC and became effective on 10 November 2009.

According to the aforesaid notices, all levels of national land and resources administrative authorities as well as investment administrative authorities are not allowed to carry out relevant procedures for construction projects listed in categories 1 to 10 under the Catalogue of Restricted Uses of Land (2006 Version) as well as in the Catalogue of Prohibited Uses of Land (2006 Version and 2006 Version Supplement). The ethylene oxide construction projects with an annual capacity of less than 200,000 MT fall into category 4 of the Catalogue of Restricted Uses of Land (2006 Version), which limits ethylene oxide production enterprises to construct new ethylene oxide manufacturing facilities with an annual capacity of less than 200,000 MT.

**LAWS AND REGULATIONS IN RELATION TO SAFE PRODUCTION****Production Safety Law of the PRC**

The Production Safety Law of the PRC (the “Production Safety Law”) was promulgated by the SCNPC on 29 June 2002 and became effective on 1 November 2002.

The Production Safety Law was adopted to strengthen the supervision and administration of production safety, prevent and reduce production accidents, protect people’s life and property and promote economic development.

The Production Safety Law applies to enterprises engaged in production activities within the PRC and provides that enterprises engaged in production activities shall meet the production safety requirements prescribed by relevant laws, administrative regulations and national or industrial standards, failure of which will result in prohibition of engaging in production activities. Such enterprises are also required to strengthen the production safety management, establish the responsibility system for production safety, improve work conditions and ensure safe production.

The Production Safety Law in particular stipulates the responsibilities of the person in charge of the production safety, including the responsibilities to establish and improve the system of attributing responsibility for production safety, formulate the safe production and operation rules, ensure the effective investment in production safety areas, oversee and inspect production safety work and eliminate the potential danger of production accidents timely, formulate and execute the emergency rescue plans for production accidents, and report production accidents honestly and timely. If an enterprise fails to meet the requirements as provided by the Production Safety Law and other relevant laws, administrative regulations and national or industrial standards, it may be ordered to suspend business and rectify the violations. Failure to rectify the violations within a prescribed period of time may lead to shutdown of the enterprise and revocation of the relevant licences.

**Regulations on Safety Production Permit**

The Regulations on Safety Production Permit were promulgated by the State Council and became effective on 13 January 2004.

The Regulations on Safety Production Permit were adopted to strictly regulate the conditions for safe production, further strengthen the supervision and administration of safe production, prevent and reduce production accidents.

The Regulations on Safety Production Permit stipulate that hazardous chemical manufacturing enterprises shall obtain a safety production permit. Enterprises without the safety production permit are not allowed to engage in hazardous chemical production activities. The administrative department of work safety under the State Council is responsible for the issuance and administration of safety production permits for hazardous chemical production enterprises, while local work safety authorities at the provincial level are responsible for the issuance and administration of safety production permits for

enterprises not under the administration of the central government. The safety production permit shall be valid for 3 years. To obtain a safety production permit, an enterprise shall satisfy certain safety-related conditions, mainly including:

- (1) establishing the responsibility system for production safety, and formulating a whole set of safe production regulations and operating rules;
- (2) ensuring that the investment in safe production complies with the production safety requirements;
- (3) setting up administrative departments for production safety and employing full-time administrative personnel in charge of production safety;
- (4) ensuring that the operational staff completed the production safety education and training;
- (5) ensuring that the production premises, worksites, safety facilities, equipment and technologies comply with the requirements of the relevant production safety laws, regulations, standards and rules; and
- (6) conducting safety evaluation in accordance with the law.

If an enterprise violates the provisions of the Regulations on Safety Production Permit and commences production without obtaining the safety production permit or fails to renew the safety production permit upon its expiration, the relevant authorities may order it to suspend production, confiscate the illegal gains and impose a fine on the enterprise. If a criminal offense is committed, the offender may be subject to criminal liabilities.

## **LAWS AND REGULATIONS IN RELATION TO HAZARDOUS CHEMICALS**

### **Regulations on the Safety Administration of Hazardous Chemicals**

The Regulations on the Safety Administration of Hazardous Chemicals were promulgated by the State Council on 26 January 2002 and became effective on 15 March 2002.

The Regulations on the Safety Administration of Hazardous Chemicals were adopted to strengthen the safety control over hazardous chemicals, safeguard people's life and property and protect the environment.

The Regulations on the Safety Administration of Hazardous Chemicals prescribe that the production, operation, storage, transportation and usage of hazardous chemicals and disposal of disused hazardous chemicals within the PRC must comply with the provisions of the aforesaid regulations. Hazardous chemical production enterprises must apply to the relevant department of the State Council for the production licence of hazardous chemicals, failure of which will result in prohibition against commencing the production. Any entity or individual shall not be engaged in the sale and operation of hazardous chemicals without permission. Hazardous chemical production and storage enterprises as well as entities using highly toxic chemicals and other hazardous chemicals, the quantity of which constitutes major hazard sources shall register the hazardous chemicals with competent authorities.

If an enterprise violates the Regulations on the Safety Administration of Hazardous Chemicals, the relevant authorities may order it to close down or to suspend production, and order it to destroy the hazardous chemicals. Any illegal gains may be confiscated and a fine may be imposed on the enterprise by relevant authorities. If a criminal offense is committed, the responsible person may be subject to criminal liabilities.

### **Measures for Implementation of Safety Production Permit of Hazardous Chemical Production Enterprises**

The Measures for Implementation of Safety Production Permit of Hazardous Chemical Production Enterprises were formulated according to the Regulations on Safety Production Permit, and were promulgated by the State Administration of Work Safety of the PRC and State Administration of Coal Mine Safety of the PRC and became effective on 17 May 2004.

According to the aforesaid measures, hazardous chemical production enterprises must obtain the safety production permit. The local work safety authorities at the provincial level are responsible for the issuance and administration of safety production permits for local hazardous chemical production enterprises.

If a hazardous chemical production enterprise commences production without obtaining the safety production permit, the relevant authorities may order it to suspend production, confiscate the illegal gains and impose a fine on the enterprise. If a criminal offense is committed, the offender may be subject to criminal liabilities.

### **Measures for the Administration of Hazardous Chemical Operation Licence**

The Measures for the Administration of Hazardous Chemical Operation Licence were promulgated by the former State Economic and Trade Commission on 8 October 2002 and became effective on 15 November 2002.

The Measures for the Administration of Hazardous Chemical Operation Licence were adopted to strengthen the safety administration of hazardous chemicals, regulate the operation and sale of hazardous chemicals and protect people's life and property.

The Measures for the Administration of Hazardous Chemical Operation Licence establishes a licensing system for the operation and sale of hazardous chemicals. Entities engaged in the operation and sale of hazardous chemicals shall obtain the hazardous chemical operation licence pursuant to the aforesaid measures before registration with the administrative bureaus for industry and commerce. No entity or individual may operate or sell hazardous chemicals without obtaining the hazardous chemical operation licence and registering with the administrative bureau for industry and commerce. In the event that an entity plans to reconstruct or expand its operation or storage premises or move to another premises, or expand its business scope, it shall apply for a new hazardous chemical operation licence in advance. The hazardous chemical operation licence shall be valid for 3 years.

If an enterprise is engaged in the operation and sale of hazardous chemicals without obtaining the hazardous chemical operation licence, the relevant authorities may order it to close down or to suspend production, and order it to destroy the hazardous chemicals. Any illegal gains may be confiscated and a fine may be imposed on the enterprise by relevant authorities. If a criminal offense is constituted, the responsible person shall be subject to criminal liabilities.

#### **Measures for the Administration of Registration of Hazardous Chemicals**

The Measures for the Administration of Registration of Hazardous Chemicals were promulgated by the former State Economic and Trade Commission on 8 October 2002 and became effective on 15 November 2002.

The Measures for the Administration of Registration of Hazardous Chemicals were adopted to strengthen the safety control over hazardous chemicals, prevent chemical accidents and provide technical and information support for emergency rescue.

According to the aforesaid measures, hazardous chemical production and storage enterprises and entities using highly toxic chemicals and other hazardous chemicals, the quantity of which constitutes major hazard sources shall register the hazardous chemicals with competent authorities. Registration offices are established at the provincial level to take care of the detailed registration work and technical management for hazardous chemicals within their respective jurisdiction. Entities who fail to register with the relevant authorities may be ordered to rectify the violations and be imposed a fine.

#### **Measures for Implementation of Safety Licensing for Hazardous Chemical Construction Projects**

The Measures for Implementation of Safety Licensing for Hazardous Chemical Construction Projects were promulgated by the State Administration of Work Safety on 2 September 2006 and became effective on 1 October 2006.

According to the aforesaid measures, construction, reconstruction and expansion of the hazardous chemical production and storage installations and facilities as well as the chemical production installations and facilities with hazardous chemicals concomitant within the PRC must obtain the safety permission, otherwise, such installations and facilities shall not be constructed or put into production or use. The expression “safety licensing for construction projects” refers to the safety examination before the commencement (examination, approval and filing) of the construction projects, the examination of the design of safety facilities for construction projects as well as the final examination and acceptance thereof upon completion.

If an enterprise violates the aforesaid measures, the relevant authorities may order it to close down or to suspend production, and order it to destroy the hazardous chemicals. Any illegal gains may be confiscated and a fine may be imposed on the enterprise by relevant authorities. If a criminal offense is committed, the responsible person may be subject to criminal liabilities.

**LAWS AND REGULATIONS IN RELATION TO INDUSTRIAL PRODUCTS****Regulations on the Administration of Production Licence for Industrial Products of the PRC and the Implementation Measures**

The Regulations on the Administration of Production Licence for Industrial Products of the PRC were promulgated by the State Council on 9 July 2005 and became effective on 1 September 2005. The Measures for Implementation of the Regulations on the Administration of Production Licence for Industrial Products were promulgated by the GAQSIQ on 15 September 2005 and became effective on 1 November 2005.

Pursuant to the aforesaid regulations and implementation measures, enterprises engaged in hazardous chemical production shall obtain the production licence for industrial products. Such licence shall be valid for 5 years. An enterprise shall meet the following requirements for obtaining a production licence for industrial products:

- (1) having a business licence;
- (2) having professional technicians qualified for the production of its products;
- (3) having suitable production conditions and means of inspection and quarantine for its products;
- (4) having suitable technical documents and technique documents for its products;
- (5) having sound and effective quality control system and responsibility system;
- (6) the products complying with the relevant national standards, industrial standards and requirements for ensuring personal health and personal and property safety; and
- (7) complying with the provisions of state industrial policies, without occurrence of the following matters which are expressly eliminated and prohibited from investment and construction by the government: outdated technique, high energy consumption, environment pollution and waste of resources.

The GAQSIQ is responsible for the management of the production licence for industrial products nationwide, and local bureaus of quality supervision, inspection and quarantine at provincial level may be responsible for the issuance of production licences for some products. According to the Announcement Concerning the Issuance of Production Licence of 12 Kinds of Products Such as Electric Wires and Cables by Provincial Bureaus of Quality Supervision, Inspection and Quarantine promulgated by the GAQSIQ on 20 February 2009, the production licence for hazardous chemicals (chemical reagent, dissolved acetylene, compressed and liquefied gas, inorganic products of hazardous chemicals (category I), sulphuric acid and organic products of hazardous chemicals (category I)) shall be issued by the local bureaus of quality supervision, inspection and quarantine departments at provincial level as of 1 May 2009.



If an enterprise violates the aforesaid regulations and implementation measures, the relevant authorities may order it to rectify the violations within a prescribed period of time or to suspend production. The relevant authorities may also confiscate the illegal products, revoke the production licence, confiscate the illegal income and impose a fine on the enterprise. If a criminal offense is committed, the responsible person may be subject to criminal liabilities.

#### **Notice on the Implementation of Industrial Policies regarding the Production Permission for Industrial Products**

The Production Licence Notice was jointly promulgated by the GAQSIQ and the NDRC and became effective on 9 November 2006.

According to the Production Licence Notice, the grant of production permission shall comply with the industrial policies prescribed in the Industrial Restructuring Catalogue. The National Production Licence for Industrial Products shall not be issued to the enterprises making new investment in the industries which are listed in the Restricted category under the Industrial Restructuring Catalogue. As a result, ethylene oxide production enterprises with an annual capacity of less than 200,000 MT cannot obtain the National Production Licence for Industrial Products for the production of ethylene oxide in the PRC.

#### **LAWS AND REGULATIONS IN RELATION TO TARIFF**

##### **Regulations on the Import and Export Tariff of the PRC**

The Regulations on the Import and Export Tariff of the PRC were promulgated by the State Council on 23 November 2003 and became effective on 1 January 2004. According to the regulations, the State Council is responsible for formulating the tariff codes and tariff rates for the goods import into or export from the PRC. The Tariff Commission of the State Council, established by the State Council, is responsible for the adjustment and explanation of the tariff codes and rates. The Tariff Commission of the State Council is also entitled to select goods which are eligible for provisional tariff rates, as well as determine the corresponding provisional tariff rates and the time limit for implementation of such rates.

##### **The 2007 Tariff Implementation Plan, 2008 Tariff Implementation Plan, 2009 Tariff Implementation Plan and 2010 Tariff Implementation Plan**

The Tariff Implementation Plans in 2007 to 2010 were promulgated by the Tariff Commission of the State Council and became effective on 1 January of the respective years. According to the Tariff Implementation Plans in 2007, 2008 and 2009, although the preferential national tariff rate for the imported ethylene was set at 2% in the respective years, a provisional tariff rate of 0% was implemented which means the effective tariff rate applicable to the imported ethylene was 0% in 2007 to 2009 rather than 2%. However, in 2010, according to the 2010 Tariff Implementation Plan, the preferential national tariff rate for the imported ethylene remains at 2% but no provisional tariff rate is implemented. Therefore, the effective tariff rate applicable to the ethylene imported by our Group is 2% in 2010. The tariff rate may be adjusted by the Tariff Commission of the State Council from time to time.