This and other sections of this Prospectus contain information relating to the PRC economy and the PRC and international fertilizer and petrochemical industries and markets. The information contained within was derived from various official publications or was obtained during communications with PRC Government agencies. We have taken reasonable care in the extraction, compilation and reproduction of the information presented in this section. Neither we, the Underwriters nor any of their respective affiliates or advisers have independently verified the information directly or indirectly derived from official government sources, and such information may not be consistent with other information compiled within or outside China.

OVERVIEW OF THE GLOBAL FERTILIZER INDUSTRY

With the steady growth of the global population, on-going reduction in arable land, and progressive rise in living standards throughout the world and especially in developing countries, increased production of agricultural products is essential to ensure adequate food supply. The continuous increase in food production has significantly increased the importance of, and the demand for, fertilizers.

There are three main types of mineral fertilizers: nitrogenous fertilizers, phosphates, and potash. Each of these types of fertilizers plays a different role in the growth process of plants.

- *Nitrogen* increases the rate of growth of plants, increasing seed and fruit production and improving the quality of leaf and forage crops. It is a part of all living cells and is a necessary part of all proteins, enzymes and metabolic processes involved in the synthesis and transfer of energy. Nitrogen is vital to a plant's ability to produce chlorophyll, the green pigment of the plant that is responsible for photosynthesis.
- *Phosphorus* is a primary nutrient that encourages rooting, blooming and fruit production in plants. It is also an essential part of the process of photosynthesis and helps with the transformation of solar energy into chemical energy, leading to proper plant development.
- *Potassium,* or potash, helps in the building of protein, photosynthesis, fruit quality and reduction of diseases. Potassium is absorbed by plants in larger amounts than any other mineral element except nitrogen and, in some cases, calcium. It also helps plants resist disease and aids in winter hardiness. It is supplied to plants by soil minerals, organic materials, and fertilizer.

Global Demand and Supply of Fertilizer

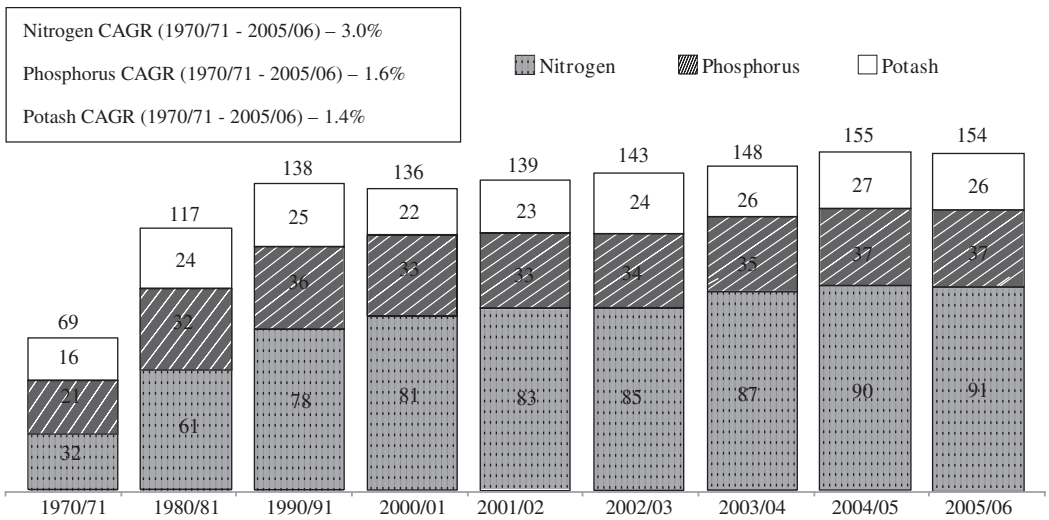
Global fertilizer demand has steadily risen since the 1960s, primarily as a result of the increase in the world's population and the related decline in the number of hectares per capita dedicated to crop production. According to FAO, global population increased by over 74.8% between 1970 and 2005, and is expected to reach 8 billion by 2030. FAO statistics also indicate that arable land has declined from 0.38 hectares per capita in 1970 to 0.23 hectares per capita in 2000, with a projected continued decline to 0.15 hectares per capita by 2050.

In addition, the continuous rise in living standards and per capita income has resulted in a change in the structure of food production and consumption. According to the IFA in its summary report issued in June 2005, on a global scale, the development of bioenergy and food diversification are factors that affect the agricultural outlook. Increased per capita income has led to a continued growth in

the consumption of meat, dairy and other high-protein products. The production of these food products often requires high volumes of grain, thereby increasing the demand for fertilizers.

According to the IFA, global fertilizer consumption increased from approximately 69.0 million tonnes during the 1970/71 fertilizer season to a consumption level of 154.0 million tonnes during the 2005/06 fertilizer season, representing a CAGR of 2.3%. The chart below sets forth information on the consumption levels and the growth trends of the three main types of fertilizers from 1970/71 to 2005/06:

Global consumption of fertilizers (million tonnes nutrients)



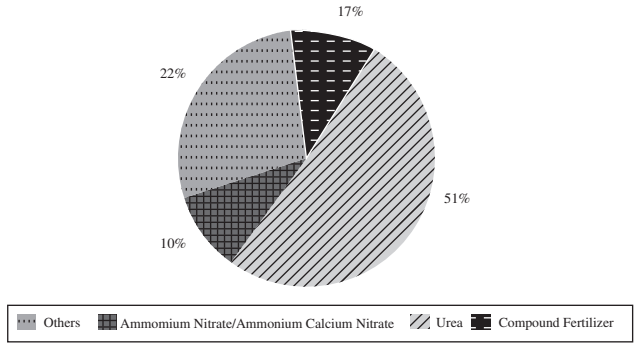
Source: IFA

Global fertilizer production in 2004 grew by approximately 4% from 2003, according to the IFA in its summary report issued in June 2005. To keep pace with the continued growth in world fertilizer demand, global fertilizer production capacity is also expected to expand, according to the IFA.

Overview of the Global Urea Industry

According to the IFA, the global market for nitrogenous fertilizers, which primarily consists of urea, ammonia and ammonium nitrate, is the largest of the three main types of fertilizers, accounting for 59.1% of total fertilizer consumption in 2005/06. Urea is produced when ammonia and carbon dioxide are combined under high pressure. Composed of approximately 46% nitrogen, it is the most commonly used dehydrated nitrogenous fertilizer product and is widely used in developing countries. In the international market, it is more widely traded than other nitrogenous fertilizer products. As shown in the chart below, urea represented 51% of all nitrogenous fertilizer products consumed globally during the 2003/04 fertilizer season.

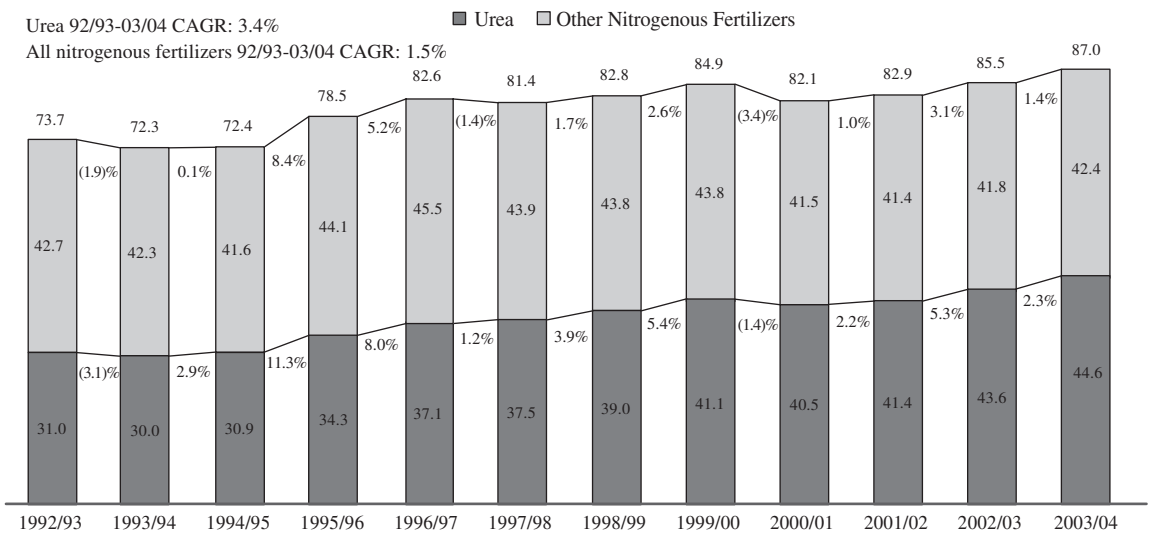
Breakdown of Global Consumption of Nitrogenous Fertilizers in 2003/04



Source: IFA

The following chart shows the global consumption of urea products between 1992/93 and 2003/04. Urea consumption rose from 31.0 million tonnes nutrient in 1992/93 to 44.6 million tonnes nutrient in 2003/04, representing a CAGR of 3.4%, which is higher than that of total nitrogenous fertilizer consumption during the same period.

Breakdown of global nitrogenous fertilizers consumption (million tonnes nutrient)



Source: IFA

According to the IFA, global urea production grew from 48.8 million tonnes nutrient in 1999 to 56.7 million tonnes nutrient in 2004, and in 2004, global urea production achieved a year-on-year growth of 7.4%. According to the IFA, China was the largest producer of urea in 2004.

IFA statistics also show that world trade of urea products increased from 11.1 million tonnes nutrient in 1999 to 13.2 million tonnes nutrient in 2004, representing a 18.9% increase. Among the ten largest urea-producing countries, most are comparatively large urea-consuming developing countries with China being first and India coming second, based on IFA statistics. Urea products produced in China and India are used predominantly to satisfy domestic demand; only excess products are exported.

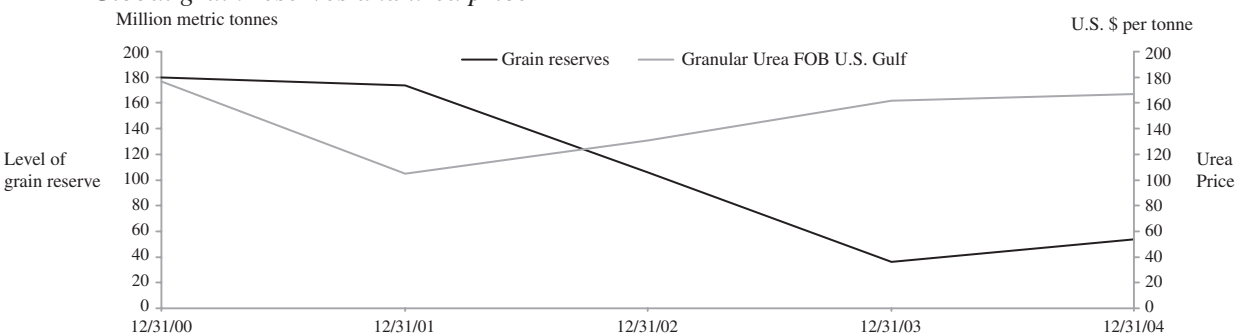
FACTORS AFFECTING PRICE OF UREA IN THE GLOBAL MARKET

The fertilizer industry is cyclical, reflecting the commodity nature of ammonia and major finished fertilizer products. The price of urea is impacted by the level of global grain reserves, price fluctuations of raw materials and anticipated expansion of global urea production capacities.

Global Grain Reserves and Urea Prices

Grain reserves are a major factor affecting the demand for, and price of, fertilizers; low reserves signify that farmers must increase grain output in order to maintain grain supply, and since per capita cultivatable farmland is limited, farmers must increase their use of fertilizers to raise unit output. At the same time, grain shortages cause grain prices and farmers' incomes to rise, enabling farmers to purchase more fertilizers for increased grain production. The chart below shows the negative correlation between global grain reserves and urea prices.

Global grain reserves and urea price

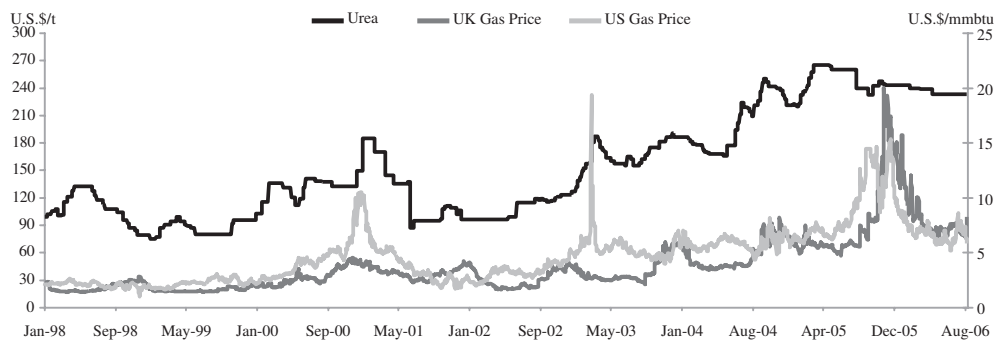


Source: Datastream, United States Department of Agriculture

Natural Gas and Urea Price Trends

Globally, natural gas is the main raw material used to produce ammonia, typically representing approximately 70% to 90% of the ammonia production cost. As ammonia is a key component used in the production of urea, fluctuations in natural gas prices often affect the price of urea. As shown in the following chart, granular urea prices rose overall between 2002 and 2005, reaching a peak in the second half of 2005:

Urea (Spot FOB) and Gas prices



Source: DataStream, Bloomberg

Expansion of Global Urea Production Capacities

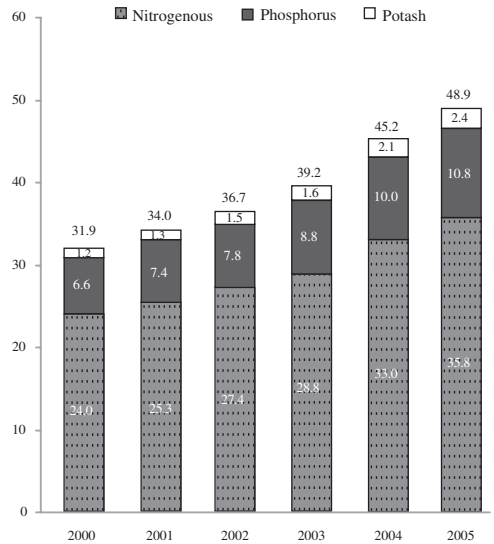
The expansion of urea production capacities also affects future price trends for urea. The fertilizer industry is characterized as being capital and technology intensive, and there are benefits from economies of scale.

According to the 2005 IFA annual report, world urea capacity was 144 million tonnes in 2005. World urea capacity is forecasted by the IFA, in its summary report issued in June 2005, to grow to 166 million tonnes by 2009, representing an estimated overall growth of 15.3%. During the period from 2005 to 2009, new projects and expansions are forecasted by the IFA to add approximately 24 million tonnes of urea capacity, of which 60% would be located in major urea consumption countries.

OVERVIEW OF CHINA'S FERTILIZER INDUSTRY

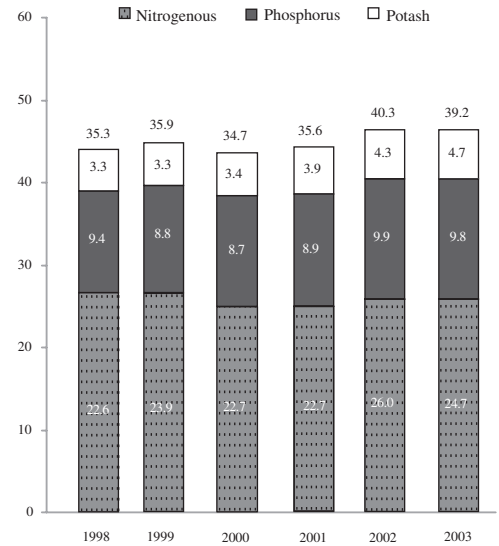
According to the IFA, China was the largest fertilizer consuming country in the world in 2003, with approximately 26.5% of world consumption, and was estimated by the IFA in November 2005 to remain the largest consuming country in the world in both 2004 and 2005. Between 2000 and 2005, fertilizer production in China grew at a CAGR of 8.9%, while between 1998 and 2003, fertilizer consumption in China grew at a CAGR of 2.1%, according to CNFA and the IFA, respectively. The following two charts below set forth the breakdown of fertilizer production and consumption in China for the periods indicated:

Fertilizer production in China (million tonnes nutrient)



Source: CNFA

Fertilizer consumption in China (million tonnes nutrient)

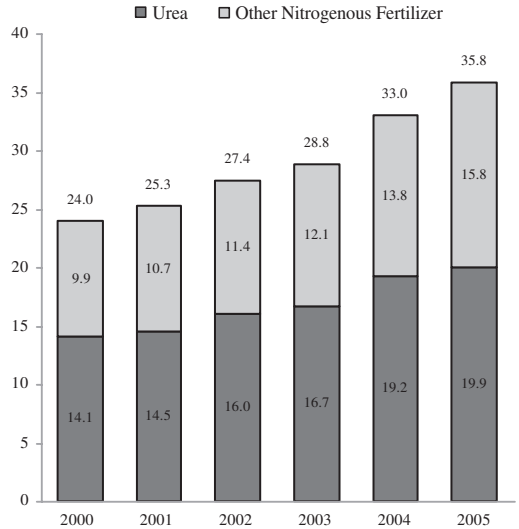


Source: IFA

Among all fertilizer products, nitrogenous fertilizers are the most widely produced and consumed in China. According to CNFA, production of nitrogenous fertilizers comprised 73.2% of China's total fertilizer production in 2005. According to the IFA, consumption of nitrogenous fertilizers comprised 63.1% of China's total fertilizer consumption in 2003. Furthermore, among all nitrogenous fertilizers, urea is the most commonly used product in China. According to CNFA, in 2005, urea production and apparent consumption in China reached 19.9 million tonnes nutrient and 18.5 million tonnes nutrient, representing 55.8% and 58.3% of total domestic nitrogenous fertilizer

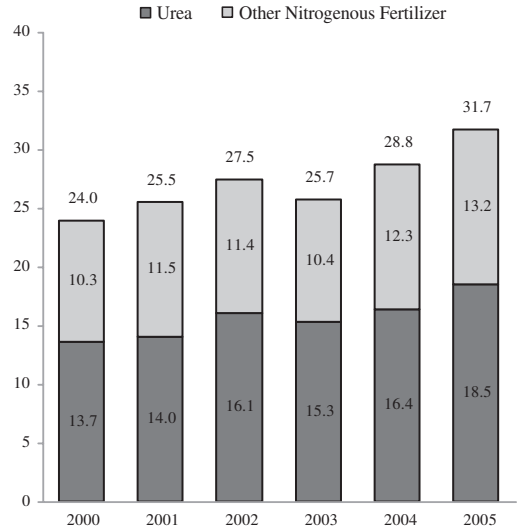
production and apparent consumption, respectively. The following two charts show the breakdown of production and apparent consumption of nitrogenous fertilizers in China for the periods indicated:

Breakdown of nitrogenous fertilizers production in China (million tonnes nutrient)



Source: CNFA

Breakdown of nitrogenous fertilizers apparent consumption in China (million tonnes nutrient)



Source: CNFA
(Note: Assuming the average nutrient percentage of urea to be 46.30%)

In addition, China has been moving towards a more balanced application of fertilizer products by encouraging the development of compound fertilizers to improve efficiency. As a result, the Chinese compound fertilizer sector has developed rapidly in the past few years and is estimated to outpace other sectors in the near future in terms of consumption increase.

Overview of Nitrogenous Fertilizer Production Enterprises in China

Nitrogenous fertilizer producers in China can generally be categorized as large, mid-sized or small enterprises. Nitrogenous fertilizer producers with annual production capacities of synthetic ammonia of over 150,000 tonnes are currently categorized as large enterprises, while nitrogenous fertilizer producers with annual production capacities ranging between 50,000 tonnes and 150,000 tonnes are classified by the CNFA as mid-sized enterprises. According to statistics published by CNFA, in 2005 large urea producers were generally more energy efficient and were generally oil or natural gas based. Mid-sized urea producers were less energy efficient and have limited production capacity. Some mid-sized enterprises, however, have undergone technological improvement and capacity expansion.

The PRC fertilizer industry is highly fragmented. According to statistics published by the CNFA, the production volume of China's top three urea producers accounted for approximately 10.0% of actual total production, while that of China's top ten producers accounted for approximately 25.6% in 2005. According to China's industrial policy, the PRC Government supports and encourages the growth and development of large nitrogenous fertilizer enterprises and industry consolidation aiming to

update production technology and reduce pollution. The following table sets forth the breakdown of large- and mid-sized nitrogenous fertilizer production enterprises in 2005:

Breakdown of Large- and Mid-Sized Nitrogenous Fertilizer Production Enterprises (2005)

Fertilizers Production Classification	Large Nitrogenous Fertilizer producers	Mid-sized Nitrogenous Fertilizer producers
Annual production of synthetic ammonia (tonnes)	>150,000	50,000-150,000
Number of enterprises	26	50

Producers classified by types of raw material	No of large nitrogenous fertilizer producers	Percentage of large nitrogenous fertilizer producers	No. of mid-sized nitrogenous fertilizer producers	Percentage of mid-sized nitrogenous fertilizer producers
Natural gas	18*	69%	11*	22%
Residual oil	4*	15%	3	6%
Light oil	3	12%	—	—
Coal and coke	2	8%	37*	74%

* One of the large nitrogenous fertilizer producers had facilities utilizing both natural gas and residual oil as raw materials, while one of the mid-sized nitrogenous fertilizer producers had facilities utilizing both natural gas as well as coal and coke as raw materials.

Source: Annual Report for National Large Nitrogenous Fertilizer Production (2005) and Annual Report for National Mid-sized Nitrogenous Fertilizer Production (2005) issued by CNFA

OVERVIEW OF CHINA'S UREA INDUSTRY

As in other areas around the world, urea is the most widely consumed mineral fertilizer among all mineral fertilizers in China. According to CNFA, apparent consumption of urea in China rose from 13.7 million tonnes nutrient in 2000 to 18.5 million tonnes nutrient in 2005, representing a CAGR of 6.19%. The growth of China's fertilizer industry, in particular its urea industry, and the price of urea, are both affected and driven by a number of macroeconomic factors such as the development of the agricultural industry, increases in population, government support, global urea prices and domestic price ceilings.

Rapid Development of China's Agricultural Industry

According to statistics published by the International Monetary Fund, China has been one of the fastest growing developing countries in the world over the last twenty years. According to the National Bureau of Statistics in China, the agricultural industry in China achieved a year-on-year real GDP growth of 5.2% in 2005. The GDP of the agricultural industry in China grew from RMB800.8 billion in 1991 to RMB2,271.8 billion in 2005, representing a CAGR of 7.7%.

To facilitate the development of the agricultural industry, the PRC Government has adopted a number of measures to protect farmers' welfare and motivate them to undertake farming activities. These measures include abolishing agricultural tax and directly subsidizing the farming of certain grains. China ceased to levy agricultural tax in the whole nation from 1 January 2006.

In February 2004, the State Council of the PRC announced a guideline for local governments to improve the average income of farmers to motivate them to engage in farming activities. According to the National Bureau of Statistics of China, in 2005, the average annual income of rural residents in

China reached RMB3,255.0, representing a year on year growth rate of 6.2% from 2004. The increase in farmers' incomes also boosts their ability to withstand higher fertilizer prices.

Increasing Population and Expanding Economy

China has the largest population of any country in the world. The demand for food, especially grain, is expected to increase significantly along with the rise in both population and living standards. According to the National Bureau of Statistics of China, China's population was 1,158.2 million in 1991 and 1,307.6 million in 2005, representing a growth of 12.9%. In the same period, GDP per capita grew from RMB1,690.5 to RMB13,943.6, with a CAGR of 16.3%. In addition, as China continues to pursue economic reform and industrialization, the amount of arable land available for crop production is likely to decrease. There will be a need to increase crop yields to ensure a sufficient supply of crops which is expected to lead to further increases in fertilizer consumption.

Government Support

As fertilizer usage is key to increasing grain production yields, the PRC Government encourages fertilizer application and hence production. Fertilizer production enterprises are given a number of benefits by the PRC Government in terms of water supply, electricity supply, and transportation.

Since 2004, the PRC Government has introduced several preferential VAT policies directly for the benefit of fertilizer production enterprises where, for instance, 50% of the VAT collected from mineral fertilizer producers by tax authorities became refundable to these producers. To further support the industry, from 1 July 2005, urea producers were temporarily exempt from paying VAT pursuant to a joint announcement made in May 2005 by the MOF and SAT.

The purpose of these preferential tax policies, and other supportive policies from the government, is to ensure sufficient domestic fertilizer supply and stable fertilizer prices.

Global Urea Prices and domestic price ceiling

International natural gas prices have risen significantly over the last several years. This increase in prices of natural gas, the principal raw material for urea production, has increased the production cost and driven up international market prices of urea. Meanwhile, domestic urea prices in China have generally been lower than international market prices since July 2004. In China, to incentivize farming activities, NDRC publishes domestic urea wholesale price ceilings from time to time. Different price control measures with respect to ex-factory prices of fertilizers are imposed on large producers and mid- and small-sized producers, respectively. For large producers, with annual production capacity of ammonia of over 150,000 tonnes, the base price of urea products is set by the NDRC or the relevant local development and reform commission at RMB1,500 per tonne, subject to a maximum upward price adjustment of 15%, from 1 January 2006. Export sales of urea products are not subject to price control, but exported urea products are not entitled to VAT refund and are subject to a seasonal export tariff. Therefore, some Chinese urea producers have sought to increase production capacity to capitalize on potential market opportunities overseas at different times.

OVERVIEW OF THE GLOBAL METHANOL INDUSTRY

Methanol is an important commercial and multi-purpose chemical that is produced from natural gas and coal. Methanol is traditionally used as a raw material to produce formaldehyde, MTBE and acetic acid. However, the practical and commercial applications of methanol have expanded significantly over the years. Methanol is also used to produce various household products such as polyester and nylon for carpets and furniture, magnetic recording tape, DVDs and CDs, recyclable PET bottles, and pharmaceutical products.

The increased commercial applications of methanol will likely contribute to the increase in global demand for methanol, according to CMAI. The following table sets forth information on the global production volume of, and demand for, methanol for the periods indicated:

Global Production of and Demand for Methanol (million tonnes):

Year	Production volume	Demand
2000	31.64	30.99
2001	31.28	31.31
2002	31.69	32.29
2003	32.49	32.73
2004	34.29	34.10
2005	35.89	35.66

Source: CMAI

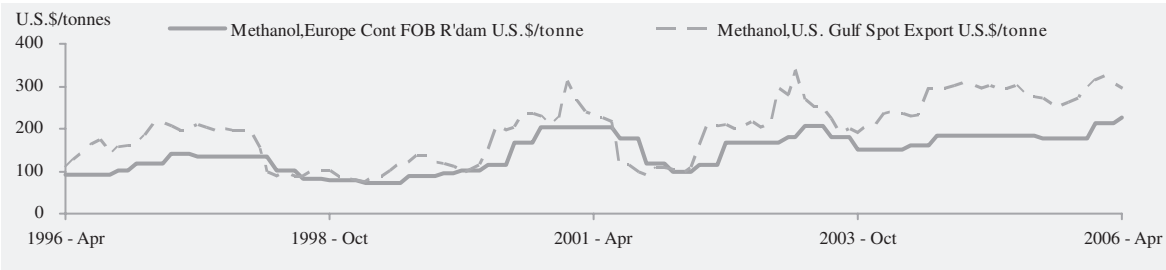
As a result of continued modernization and industrialization in China and the rest of Asia, the demand for methanol in Asia is expected to increase, according to CMAI. We therefore expect Asia to be one of the main growth drivers in the global demand for methanol. Northeast Asia is also expected to experience the largest single regional growth through 2009 according to CMAI. According to CMAI forecasts made in 2005, global methanol consumption will increase by 23.2% from 35.66 million tonnes in 2005 to 43.93 million tonnes in 2010.

CMAI statistics show that due to their vast reserves of natural gas, South America and the Middle East were the largest producing regions in the world in 2005, representing approximately 47.0% of total methanol production, while Northeast Asia was the third largest producing region. CMAI statistics also show that in 2005, most of the world's methanol was exported from South America and the Middle East, which together accounted for almost 76% of total global exports of methanol. According to CMAI, the largest methanol importing regions in 2005 were North America, Northeast Asia and Western Europe, which were net importers of methanol.

According to CMAI, the global methanol industry is expected to continue to grow, with many producers expanding their production capacity to meet rising demand. According to a monthly report issued by CMAI in June 2005, over 17.5 million metric tonnes of net new capacity is forecast from 2004 to 2008.

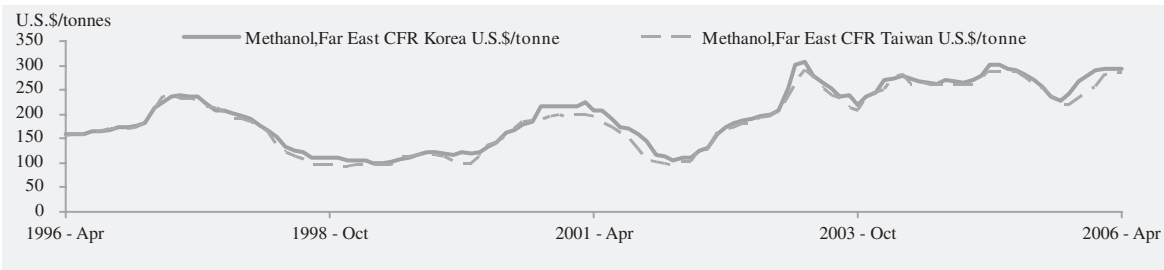
The following charts set forth export prices of methanol in Europe and the U.S. Gulf, as well as Korea and Taiwan, respectively, between April 1996 and April 2006.

Methanol, Europe FOB price and U.S. Gulf spot export price (U.S.$/tonne)



Source: Datastream

Methanol, Far East CFR Korea and Taiwan (U.S.$/tonne)



Source: Datastream

OVERVIEW OF THE METHANOL INDUSTRY IN CHINA

The majority of methanol production enterprises in China are small in scale with no producer having an annual production capacity of more than 350,000 tonnes in 2003. The production technology and equipment utilized by these facilities are generally less energy efficient than those utilized by overseas producers. Coal is currently far more widely used than natural gas for the production of methanol in China. In recent years, the scale of production has expanded significantly, leading to material increases in methanol production capacity and production volumes in China.

Demand and Supply of Methanol in China

According to CMAI, China was Asia's largest methanol producing and consuming country in 2003. Production of methanol in China in 2003 represented approximately 9.3% of production worldwide, while China represented approximately 13.4% of worldwide consumption in the same year according to CMAI. Based on statistics published by CMAI, China is also forecast to be the fastest growing market for methanol in the next few years until 2009. China's methanol consumption is forecast by CMAI to rise to 7.3 million metric tonnes in 2009, representing an estimated 18.5% of total global consumption.

According to the China Chemical Industry Yearbook and the China Petrochemical Corporation Yearbook 2005, apparent consumption of methanol in China was 2.9 million tonnes in 1999 and reached 6.6 million tonnes in 2005. We expect consumption of methanol to increase considerably,

largely due to rising demand for it as a raw material for the production of downstream products mainly including formaldehyde, MTBE and acetic acid, and also due to the expanded applications of methanol in a growing number of industries. The table below sets forth the production volumes, consumption volumes and import and export volumes of methanol in China for the periods indicated:

Production Volumes, Consumption Volumes, Import and Export Volumes of Methanol in China (unit: thousand tonnes)

Year	Production Volume	Apparent Consumption Volume	Import Volume	Export Volume
1999	1,464.8	2,948.9	1,373.9	1.3
2000	1,986.9	3,293.0	1,306.5	0.5
2001	2,064.8	3,576.5	1,521.3	9.6
2002	2,334.6	4,133.3	1,799.6	0.9
2003	2,998.7	4,339.6	1,401.6	50.8
2004	4,406.0	5,732.0	1,359.0	33.0
2005	5,356.4	6,662.2	1,360.3	54.5

Source: China Chemical Industry Yearbook 2004-2005 (for 1999 to 2003), China Petrochemical Corporation Yearbook 2005 (中國石油化工集團公司年鑑2005) (for 2004 to 2005)

China's methanol output has significantly increased in recent years. Between 1999 and 2005, the annual production of methanol rose from 1,464,800 tonnes to 5,356,400 tonnes, representing a CAGR of 23.8%. According to statistics published in the China Chemical Industry Yearbook, however, domestic production of methanol is insufficient to meet the current domestic demand in China. In 2005, approximately 20.4% of total domestic demand was met by imports, with net imports amounting to 1,360,300 tonnes. In general, domestic producers are less cost effective than international players due to lack of economies of scale. Nevertheless, it is expected that China's total methanol production capacity will grow as a result of plant expansion and new construction.

The Trend of Methanol Prices in China

Domestic prices of methanol in China decrease when volumes of methanol imports are high. Methanol prices are also impacted by gasoline prices. In 2003-2004, due largely to the rise in gasoline prices, methanol spot prices, CIF, in Northeast China strengthened to between approximately U.S.$200.0 to U.S.$300.0 per tonne, according to CMAI. However, we expect domestic methanol production costs and methanol prices to ease as new, more advanced production equipment is acquired and large scale methanol production facilities commence operation.

The chart below sets forth China's average methanol import and export prices:

Trend of Methanol Prices in China

Year	Unit: U.S.$/tonne Import Price	Export Price
1999	108.43	302.69
2000	143.83	589.80
2001	139.87	214.90
2002	154.88	456.05
2003	234.08	239.70
2004	254.53	260.79

Source: China Chemical Industry Yearbook 2004-2005 (for 1999 to 2003), China Petrochemical Corporation Yearbook 2005 (中國石油化工集團公司年鑑2005) (for 2004 to 2005)

OVERVIEW OF THE POLYOXYMETHYLENE INDUSTRY

Polyoxymethylene, or POM, also known as polytrioxane or polyformaldehyde, is formed from the polymerization of formaldehyde and is an important polyacetal resin. It is an engineering plastic used to make gears, bushings and other mechanical parts. POM is a thermoplastic with good physical and processing properties. It has the following characteristics: low relative density, good shock resistance and endurance, excellent wear resistance and corrosion proof properties, is self lubricating and has good electrical conductivity. Products and parts made from POM are widely used in segments such as the automobile, electronics, industrial machinery and agriculture industries.

Global production of POM is mainly concentrated in developed countries and regions such as the United States, Western Europe and Japan. According to CCIN, global annual production capacity of POM in 2003 was approximately 840,000 tonnes, with the United States, Western Europe and Japan together accounting for 69% of total global annual production capacity. In recent years, the production capacity of POM in Asia has also grown rapidly.

According to CCIN, the POM industry in China has also experienced rapid growth in recent years. In 2004, domestic consumption of POM in China amounted to approximately 200,000 tonnes, with approximately 188,500 tonnes of imports. The following table sets out the import and export of POM in China between 1998 and 2003:

Import and Export in China ('000 tonnes)

	1998	1999	2000	2001	2002	2003
Import	63.4	90.6	108.3	109.0	135.5	151.5
Export	7.5	7.9	9.1	10.0	9.0	9.3

Source: China Chemical Industry Yearbook 2004/2005

The designed production capacity for POM in China in 2004 was approximately 40,000 tonnes per annum, based on statistics published by CCIN. The electronics industry is the main consumer of POM in China. The rapid development of the electronics industry in recent years has resulted in increasing demand for POM. We also expect the automobile industry to be another driver for demand for POM in China in the near future. According to China Chemical Industry Yearbook 2004/2005, the designed annual production capacity of POM in China is forecast to grow to approximately 220,000 tonnes per annum by 2010.