

常熟三爱富中昊化工新材料有限公司
CHANGSHU 3F ZHONGHAO NEW CHEMICAL MATERIALS CO., LTD

Changshu, Jiangsu Province, China

June 30, 2006

Dear CDM Executive Board Members:

On June 8, 2006, Changshu 3F Zhonghao New Chemical Materials Co. Ltd (3F Zhonghao) was notified by email that our HFC23 Decomposition CDM Project was under consideration for review because three requests for review were received from the members of the Executive Board. As a follow up to your invitation for submission of comments on the request for review, please find our reply to the issues raised in the request for review:

(a) Regarding the start date of the first crediting period, we originally believed that the project would be registered before May 1st, 2006, and our project activity (storage of HFC23 gas) could be started on May 1st, 2006, as per schedule. Therefore the start date of the first crediting period in the project design document was stated as May 1st, 2006. Considering the delay in the project registration and the request for review on the start date, we have then decided to revise the start date of the first crediting period to the October 1st, 2006.

(b) Regarding the increase of HCFC22 production at 3F Zhonghao from 2002 to 2004, we submit that the production data are accurate and validated by the DOE, Japanese Quality Assurance Organization, during their second site visit to production facility from June 19 to 20, 2006. The HCFC22 production for the period 2002 to 2004 was as expected by the 3F Zhonghao management team and was as per the capacity expansion planned before 2000. The changes observed in HCFC22 production is in response to a plant level operational factors, market demand, and self-consumption for downstream production and are in line with the overall situation of Chinese fluorochemical industry. The following evidence supports the above explanation.

1. With regard to records of production and data management, we have strict management and control systems for purchase, production and sales and the original record, data management system, and documentation is complete and reliable. The company is a majority holding company and is publicly listed on the Shanghai Stock Exchange. 3F's financial statements, including production, inventory, and sales data go through strict audit oversight of the Certified Public Accountant for the holding company's Annual report. The Company has obtained certification of ISO9001 in 2002 and an independent registrar audited its quality management system at the 6th, 16th, 26th month within every 3 years assured it meets ISO9001 standard.

2. With regard to production data, we clarify that 3F Zhonghao had invested in and constructed the two HCFC22 facilities, each with a design capacity of 20,000 tons per year anticipating the market demand and application of HCFC22 as feedstock for the expanded downstream products. The China Changshu Economy Committee approved the

investment proposals for these two HCFC22 facilities (Line A and Line B) on December 30, 1999 and October 11, 2000 respectively. The copies of the two official approval documents are enclosed for your reference.

3. With regard to plant level operational factors, market demand and self-consumption for downstream products, 3F Zhonghao is within the overall HCFC22 sector production pattern in China. The following additional information supports our explanation in this regard.

a). The production, sales and export of household air conditioners and demand for HCFC22 as feedstock increased in China during the past few years. According to the Ozone Secretariat of the Montreal Protocol, the production of all HCFC products including HCFC22 increased in China from 2002 to 2005. Amount of HCFC22 production in China increased sharply from 144,793 tons in 2002 to 186,483 tons in 2003, 247,687 tons in 2004 and 311,640 tons in 2005. (Official figure of Chinese Government submitted to Ozone Secretariat in Nairobi)

b). Our successful R&D and expansion of HCFC22 downstream products (TFP, HFP, HFC-125, HFC-227ea) increased our self-consumption of HCFC22 as feedstock.

c). Initial production of line B was not stable and had to be shut down occasionally for maintenance in 2002. After the completion of maintenance, the quality of our HCFC22 product (such as purity) is significantly improved. Applications of the HCFC22 also expanded with the improvement of its quality and thus promoted its production and sales.

The combination of industry related factors and plant level operational and maintenance factors reflect in the production of 14,375 tons in 2002, 19,974 tons in 2003, 30,979 tons in 2004, and 37,423 tons in 2005. We submit that the annual production is within the designed capacity of the two HCFC22 production facilities and the Letters of Approval issued for the purpose.

Finally, we would like to stress that 3F Zhonghao data related to production, sales, new product development and number of employees reflects not only its fast growth but also its contribution to the local and regional economy and the sustainable development objectives. In this context, the HCFC22 production increase is not an isolated event, but is a result of reliable market forecast, well-designed business plan, and successful execution.

We hope that the above information clarifies the issues outlined in the review of request

Thank you for your consideration and best regards,

Xuezhong Shen
Vice President
Changshu 3F Zhonghao New Chemical Materials Co. Ltd

Changshu Economy Committee

No. (1999)90

APPROVAL FOR CHANGSHU 3F FLUOROCHEMICAL INDUSTRY CO.LTD 20,000 TONNES PER YEAR DIFLUOROCHLOROMETHANE PRODUCTION PROJECT FEASIBILITY STUDY

Changshu 3F Fluorochemical Industry Co. Ltd:

We acknowledge the receipt of your application for starting a production facility of 20,000 tonnes per annum of difluorochloromethane and the supporting project feasibility study. In order to achieve the economies of scale in the production of difluorochloromethane, we hereby approve Changshu 3F Fluorochemical Industry Co. Ltd's request for a production unit with capacity to produce 20,000 tonnes difluorochloromethane of per annum.

Description of the project: The proposed difluorochloromethane production facility uses HF and chloroform as raw materials to produce difluorochloromethane through catalyst reaction, deacid, condense, and distillation. The company needs to acquire 75 acres of new land, and to construct 4800 square meters of production building, chilling facility, cooling water recycle facility, and production control system.

Total investment for this project is estimated at 21 million RMB, of this amount, 14.7 million RMB is for the purchase of equipment made domestically. The company will use its own capital to make the investment.

Difluorochloromethane production capacity of this project is 20,000 tonnes per year, and this project is expected to increase the company's revenue by 175 million RMB, tax by 26.25 million RMB, and profit by 25 million RMB.

Please implement this project in compliance with "three together" principle and construction should not start before getting the necessary construction permits.

December 30, 1999

Cc: Changshu Environmental Protection Bureau

Changshu Economy Committee

No. (2000)122

APPROVAL FOR CHANGSHU 3F FLUOROCHEMICAL INDUSTRY CO.LTD 20,000 TONNES PER YEAR DIFLUOROCHLOROMETHANE PRODUCTION PROJECT FEASIBILITY STUDY

Changshu 3F Fluorochemical Industry Co. Ltd:

We acknowledge the receipt of your application for production facility of 20,000 tonnes per annum of difluorochloromethane and the supporting project feasibility study. After reviewing the application, our response is as follows.

- a) Approve the production capacity for 20,000 tonnes per annum of difluorochloromethane, which will enhance the competitiveness of the company, promote new product development, improve product quality, and strengthen production capability.
- b) Under the project, one difluorochloromethane facility shall be constructed, which feeds HF and chloroform as raw materials in specified proportion and speed, and produces difluorochloromethane through catalyst reaction, deacid, compress, condense, and distillation. The facility will occupy 5,000 square meters of land and 2,760 square meters of buildings, and requires chilling facility and production control system.
- c) The project should be implemented strictly in compliance with the “three together” principle.
- d) Total investment for this project is 32.24 million RMB, of this amount, 22.5 million is for the purchase of equipment made in China. The company will use its own capital to make the investment.
- e) Difluorochloromethane production capacity of this project is 20,000 tonnes per year, and the project is expected to increase the company’s revenue by 198 million RMB, tax by 29.8 million RMB, and profit by 27.5 million RMB.

Please pay due attention to the project preparation after obtaining this approval, and start construction of this project as early as possible.

October 11, 2000

Cc: Changshu Environmental Protection Bureau, Changshu 3F Fluorochemical Industry Co. Ltd