

## REGULATIONS

### OVERVIEW

Most of our businesses, including coal production, coal trading and coking operations, are subject to national industrial policies, relevant laws and regulations and extensive governmental supervision. Regulations concerning our coal and coke production and trading activities govern relevant areas such as investments, exploration, production, mining rights, distribution, trading, transportation and exports. In addition, all our business operations in China are subject to fees and taxes, as well as safety and environmental protection laws and regulations.

We are principally subject to governmental supervision and regulations by the following agencies of the PRC Government:

- the State Council, which is the highest level of the executive branch, is responsible for the examination and approval of major investment projects specified in the *2004 Catalogue of Investment Projects* released by the PRC Government;
- the National Development and Reform Commission (“NDRC”), which formulates and implements major policies concerning China’s economic and social development, examines and approves investment projects exceeding certain capital expenditure amounts or in specified industry sectors, including examination and approval of foreign investment projects, oversees reform of state-owned enterprises and formulates industrial policies and investment guidelines for the natural resource industries, such as coal and coke production. In addition, the NDRC administers coal export activities and export quotas jointly with the Ministry of Commerce. The NDRC is also responsible for the evaluation and implementation of the price-linking mechanism between the prices of coal and power;
- the Ministry of Land and Resources (“MLR”), which has the authority to grant land use licenses and mining right permits, approves transfer and lease of mining rights, and reviews mining rights premium and reserve valuation;
- the Ministry of Commerce (“MOFCOM”), which determines the total volume of China’s coke exports and the allocation of quotas among authorized coke exporters, and approves foreign investment and overseas investment projects by Chinese enterprises. In addition, the MOFCOM also administers coal export activities and export quotas jointly with the NDRC;
- the State Administration of Coal Mine Safety (“SACMS”), which is responsible for the implementation and supervision of the relevant safety laws and regulations applicable to coal mines and coal mining operations;
- the Ministry of Railways (“MOR”), which supervises China’s railway operations and provides strategic development plans for railway transportation. The MOR, together with the NDRC, reviews all applications for railway construction plans, including railways designated or used for coal transportation;
- the State Environmental Protection Administration of China (“SEPA”), which supervises and controls environmental protection and monitors China’s environmental system at the national level; and
- the Ministry of Construction (“MOC”), which is responsible for the management of survey and design of construction projects, including but not limited to the survey and design of coal mines.

## REGULATIONS

In addition, our controlling shareholder, ChinaCoal Group, is a State-owned enterprise under the direct supervision of the SASAC.

The SASAC will have an indirect influence on us. In particular, the SASAC has the power to select or nominate persons, and request ChinaCoal Group to appoint such persons, as our directors or high-level management personnel. SASAC also has the power to request ChinaCoal Group to remove our Directors or high-level management personnel in accordance with legal procedures and our Articles of Association.

### RECENT LEGISLATION

On 16 July 2004, the State Council promulgated, with immediate effect, the *Decision on Institutional Reform of Investment System* (or the “*Investment Reform Decision*”). The objective of the legislation is to reduce the PRC Government’s direct intervention into enterprises’ activities, to allow the market to allocate resources and to increase investment efficiency and promote the sustained, coordinated and healthy development of the Chinese economy. With the promulgation of the *Investment Reform Decision*, governmental approvals for investment projects have been streamlined. There are three forms of government approval, namely, “approval”, “authorization” and “registration”. For investment projects that do not require or involve direct government funding, no approval will be required. Instead, only registration will be required for such investment projects, unless the investment projects are major investments and fall within the restricted sectors specified in an annual catalogue released by the State Council.

The 2004 catalogue, which was attached as an annex to the *Investment Reform Decision*, sets forth authorization requirements for major investment projects in restrictive sectors, including, among others, coal mining, railways and ports. It requires that applications for approval or authorization for such investment projects be made pursuant to the *Investment Reform Decision* and relevant administrative rules issued by the NDRC. The *Investment Reform Decision* also provides that large enterprises may submit to the State Council or the NDRC a medium- to long-term development plan, which may include multiple investment projects in different sectors, for pre-approval and registration thereafter instead of submitting projects for approval on an individual basis.

On 14 March 2005, the NDRC announced the PRC Government’s decision to revise the Coal Law of the PRC, which was promulgated in 1996 by the National People’s Congress. The NDRC concluded the comment-seeking process on 15 October 2005 and has begun the rulemaking process. This decision was made in response to concerns over the lack of a well-coordinated development plan for mining, which contributed to a significant amount of waste of valuable coal resources. The lack of effective penalty provisions or the lenient enforcement of existing provisions in the Coal Law has been cited as another important reason for the current rulemaking effort. With over 5,900 fatalities in coal mining accidents in 2005, the coal mining industry has been called the most dangerous industry in China and has caused the public to demand governmental response to improve mining safety.

The revised Coal Law is expected to strengthen the administration and management of coal reserves, to facilitate and institutionalize coal trading and to promote safe operation of coal mines in China. The revised Coal Law may raise the minimum capital investment requirement for establishing coal mining operations to preclude under-funded, improperly-equipped enterprises and individuals from entering into the coal industry. The revised Coal Law may also contain provisions requiring those that meet the higher capital investment requirement to provide for and set aside a risk prevention and management fund placed under the custody of the relevant government authorities prior to commercial production. The risk prevention and management fund will be used to compensate injured parties in the event of a mining accident. Additionally, to ensure

## REGULATIONS

optimal utilization of coal resources, the NDRC may evaluate the mining techniques and coal extraction capabilities of coal mining operators when allocating new coal reserves. The PRC Government may prefer to allocate larger coal reserves to large coal mining operators with sufficient funding and advance mining and coal extraction techniques to ensure optimal extraction of coal reserves and mining safety.

On 7 June 2005, the State Council promulgated *Several Opinions on Promoting the Healthy Development of the Coal Industry* (“*Opinions*”), announcing the PRC Government’s policies with respect to the development and restructuring of the coal industry. The *Opinions* resonated with the NDRC’s announcement on the revision of the Coal Law and reiterated the PRC Government’s policies with respect to the administration of coal reserves, enhancement of coal mine safety, encouragement of industry consolidation among coal producers, acceleration of the construction of large coal production bases, improvement of mining techniques and equipment for coal production and the organization and regulation of small coal mines.

On 1 September 2006, the SEPA and the General Administration of Quality Supervision, Inspection and Quarantine (GAQSIQ) jointly issued the *Emission Standard for Pollutants from Coal Industry* (煤炭工業污染物排放標準) (the “*Newly Enforced Standards*”), which became effective and enforceable on 1 October 2006. The *Newly Enforced Standards* are applicable to all coal mines, including open pit mines, coal processing facilities and coal waste, storage and loading depots.

In accordance with provisions thereof, all newly-established producing facilities shall adopt the *Newly Enforced Standards* as of 1 October 2006 and all producing facilities currently under operation shall adopt the *Newly Enforced Standards* as of 1 October 2007.

The *Newly Enforced Standards* mainly consist of the following:

- pollutants emission limits for waste water discharged by coal mining and processing business;
- emission limits and non-organized emission limits for gaseous pollutants discharged by the ground producing facilities of coal industry;
- technical requirement for management of the coal slack storage and loading depot; and
- guiding technical requirement for resource utilization and reuse of waste water from coal mining.

In order to further encourage the import of resource-related commodities and commodities that are beneficial to the development of new technology and control the export of resources and products involving high energy costs and high pollution, the Customs Tariff Committee of the State Council issued the *Notice on Adjusting the Provisional Import and Export Tariff Rate of Certain Commodities* (the “*Notice*”) on 27 October 2006. Such notice became effective on 1 November 2006. According to the *Notice*, the provisional duty rate levied upon 58 items of import commodities shall be reduced. At the same time, an export duty in the form of a provisional duty shall be levied upon 110 items of commodities, among which a 5% provisional export duty shall be levied upon four resource-related items such as coal and coke.

### *The Measures for Implementing Work Safety Permits in Coal Mine Enterprises*

The State Administration of Work Safety and the SACMS issued the *The Measures For Implementing Work Safety Permits In Coal Mine Enterprises*, which came into effect on 17 May 2004. Pursuant to this document, a coal mine enterprise without a work safety permit may not engage in coal production activities. Coal mining enterprises and their mines that do not satisfy the safety conditions set forth in this document, or those that violate the provisions of this document, will be punished accordingly.

## REGULATIONS

### *Special Regulations by the State Council on Preventing Work Safety Related Accidents in Coal Mines and Five Sets of Supplemental Rules and Regulations*

The *Special Regulations by the State Council on Preventing Work Safety Related Accidents in Coal Mines* was promulgated and entered into effect on 3 September 2005.

This regulation specifies that coal mine enterprises are responsible for preventing coal mine work safety-related accidents. If a coal mine has not obtained, in accordance with the law, a mining right permit, work safety permit, coal production permit or business license and if the mine manager has not obtained, in accordance with the law, a mine manager qualification certificate and a mine manager safety qualification certificate, the coal mine may not engage in production. A coal mine should have adequate safety equipment, facilities and resources and should have in place measures to guard against the occurrence of work safety-related accidents, as well as a sound contingency plan to deal with emergencies. Coal mining enterprises should establish a sound system for the detection, elimination, treatment and reporting of latent work safety-related dangers. If a major latent work safety-related danger as specified exists in a coal mine, the enterprise should immediately suspend production and eliminate the latent danger. Coal mining enterprises should provide their personnel working underground and their special operation personnel with safety education and training in accordance with relevant state regulations. The person in charge of a coal mine and the production and operation management personnel should go into mines and act as foremen on a rotating basis in accordance with state regulations, while a file recording their entry into the mine should be maintained. In addition, the State Administration of Work Safety issued five sets of supplemental measures:

(i) The *Measures for Determining Major Latent Work Safety Related Dangers in Coal Mines (for Trial Implementation)* stipulates the specific criteria for determining major latent work safety-related dangers. It further defines each of the latent safety related dangers specified in the *Special Regulations of the State Council on Preventing Work Safety Related Accidents in Coal Mines*, and lists more than 60 major latent safety related dangers.

(ii) The *Implementing Measures for the Detection and Elimination of Latent Dangers in Coal Mines and the Rectification and Closure of Such Mines (for Trial Implementation)* specifies that coal mining enterprises are responsible for the detection and elimination of latent work safety-related dangers and that the main persons in charge of coal mining enterprises are fully responsible for the detection, elimination and treatment of latent work safety-related dangers in their enterprises.

(iii) The *Measures for the Supervision and Inspection of Coal Mine Safety Training (for Trial Implementation)* specifies that coal mining enterprises must arrange and provide safety education and training to all of their mining personnel in accordance with relevant regulations; select and send their principal persons in charge, work safety management personnel and special operation personnel to qualified coal mine safety training institutions for training in a timely manner; and obtain the corresponding qualification certificates.

(iv) The *Guiding Opinions on Persons in Charge of Coal Mines and Production and Operation Management Personnel Going into Mines as Foremen* requires the various types of coal mines to arrange for their persons in charge and production and operation management personnel to go into the mines to act as foremen and to ensure that each shift has at least one such person on site directing the operations. Coal mining enterprises are required to establish such procedures, clarify foremen's duties and responsibilities and strictly implement internal management and performance appraisal.

## REGULATIONS

(v) The *Measures for Rewarding the Reporting of Major Latent Work Safety Related Dangers in, and Violations of the Law by, Coal Mines (for Trial Implementation)* specifies that all units or individuals have the right to report major latent work safety-related dangers in, and violations of law by, coal mines.

In addition, on 15 December 2004, the NDRC issued a notice announcing a government initiative to impose a price-linking mechanism between the prices of coal and electricity.

### THE COAL INDUSTRY

#### *Principal Legislations*

The Mineral Resources Law of the PRC (“MRL”), promulgated by the Standing Committee of the National People’s Congress on 19 March 1986 and amended on 29 August 1996, governs the exploration, exploitation and mining of mineral resources in China. According to the MRL, all mineral resources, including coal, are owned by the state. Except under limited circumstances, any enterprise planning to engage in the exploration, exploitation and mining of mineral resources must first apply for and obtain exploration rights and mining rights before commencing the relevant activities. The MRL prohibits the transfer of exploration and exploitation rights in general unless the transfer falls within certain specified circumstances.

The Standing Committee of the National People’s Congress promulgated the Coal Law of the PRC on 29 August 1996, which became effective on 1 December 1996, to specifically address the exploration, exploitation and mining of coal. The Coal Law sets forth requirements in many areas of coal production, including, among others, exploration, the approval of new mines, the issuance of production permits, the implementation of safety standards, the trading of coal, the protection of mining areas from destructive exploitation, the protection of miners and administrative supervision.

#### *Coal Production*

According to the MRL and the Coal Law, the MLR and the local mining resources bureau are the approving and supervising authorities of exploration and exploitation projects. Exploration and exploitation of coal must be approved by the MLR and the relevant local mining resources bureau. The MLR or the relevant local mining resources bureau will issue an exploration licence for each proposed mine or a mining right permit for each mine once it determines that the applicant has met the proscribed requirements under the relevant laws and regulations. The holder of a mining right permit must comply with certain post-approval formalities, such as the filing of annual reports with the relevant mining resources authorities that issued the permit. In addition to the mining right permit, a coal producer must obtain a coal production permit for each of its mines from the competent authorities for coal industry at the national, provincial and municipal government levels in order to commence producing and selling coal in China. The production capacity of each coal mine is subject to annual review by the NDRC or its provincial counterpart. If a coal producer intends to engage in business involving coal products which are not self-produced or self-processed, such as coal trading, it must also obtain an operational licence from the relevant authorities to conduct such business. See “— Coal trading.”

Pursuant to the *Investment Reform Decision*, applications for all coal mine development projects within the state plan mining areas are required to be submitted to the NDRC for authorization, while other mining projects are to be submitted to the investment supervisory division of the local governments. The NDRC is required to submit significant mining projects to the State Council for approval.

Under the MRL and the Coal Law, coal producers are required to achieve certain recovery rates. The recovery rates are determined by the relevant department of coal administration under the State Council in

## REGULATIONS

light of different resources and mining conditions at each mining site. Failure to achieve the requisite recovery rate may result in penalties, including the revocation of the coal producer's production permit.

It is unlawful for an entity or individual to conduct mining operations in areas previously authorized for exploitation by other mining operators. An entity whose mining operations cause harm to others in terms of production or living standards must compensate the affected parties and take necessary remedial measures. Under the *Detailed Rules for the Implementation of the Mineral Resources Law*, a mine operator must follow certain procedures in closing a mine, including, among others, submitting a mine closure geology report to the regulatory authority that originally approved the opening of the mine, and submitting a mine closure report to the relevant mineral resources bureau.

### ***Coal Trading***

#### **Export**

In China, the import and export of goods and technologies and the provision of international trade services are governed by the PRC Foreign Trade Law. The amended PRC Foreign Trade Law became effective on 1 July 2004. Under the amended Foreign Trade Law, the Cargo Import and Export Ordinance and the Administrative Measures of Coal Export Quota, coal exports remain subject to State control and require governmental approval. Under PRC regulations, only state-owned enterprises are authorized to apply for annual export quotas and the relevant coal export permits. Currently, there are only four authorized coal exporters, ChinaCoal Group, Shenhua Group, China Minmetals Corporation and Shanxi Coal Import & Export Group Company. We have entered into a Coal Export and Sales Agency Framework Agreement with ChinaCoal Group, pursuant to which we have appointed ChinaCoal Group as our non-exclusive coal export and sales agent responsible for the export of our coal products. See "Connected Transactions." Pursuant to regulations promulgated in January 2004, China's coal exports have been subject to a government approval system since 1 July 2004, under which the NDRC and the MOFCOM are responsible for determining China's total coal export quota and for allocating the quota among the authorized coal exporters. The total quota will take into consideration China's economic needs, the rational use of coal resources, the PRC Government's economic policy and the dynamics of the domestic and international coal markets. Each year, after the NDRC publishes the total coal export quota for the following year, authorized coal exporters are required to submit written applications for the following year's quota to the NDRC. The NDRC and the MOFCOM then allocate the annual quota for the following year among the authorized coal exporters. Each year's quota expires on December 31. Upon receiving quota approval, authorized coal exporters may apply for coal export permits to the relevant authority designated by the MOFCOM. Authorized coal exporters are also required to report their monthly quota usage to the NDRC.

#### **Domestic trading of coal**

Pursuant to the *Measures for the Regulation of Coal Operations* promulgated by the NDRC on 27 December 2004, the state implemented a system to examine coal operation qualifications in respect of coal operations, including the wholesaling and retailing of raw coal and processed coal products, and the processing and distribution of coal for civilian use. Before an enterprise can engage in coal operations, it must obtain a coal operation qualification certificate. A coal production enterprise that deals in coal products which it did not itself produce and process is required to obtain coal operation qualifications. Such enterprise is prohibited from dealing in coal products produced and/or processed by a coal mine enterprise that does not have a coal production permit or in coal products of a coal operation enterprise that does not have coal operation

## REGULATIONS

qualifications, and is also prohibited from selling coal products to a coal operation enterprise that does not have coal operation qualifications.

### **Pricing**

Although the PRC Government indirectly influences coal prices through its broad regulation of electricity prices and control over the allocation of national railway capacity, domestic coal prices have mainly been market-driven since 2002, when the PRC Government eliminated the price control measures for coal used in electric power generation. Prior to 2006, however, the PRC Government continued to implement temporary measures to prevent and control any unusual fluctuations in thermal coal prices. This, among other reasons, has caused thermal coal contract prices for major users to be generally lower than spot market prices during this period. On 27 December 2005, the NDRC announced the elimination of such temporary thermal coal price intervention practice, thus completely removing control over thermal coal prices, including contract prices for major users.

### ***Coke Production***

Coke production is supervised by the NDRC. The *Coke Production Industry Entry Requirements*, promulgated by the NDRC and became effective on 1 January 2005 (the “*Entry Requirements*”), sets out the requirements that a coke production plant must meet before it can be permitted to engage in coke production. According to the *Entry Requirements*, a coke production plant must demonstrate to the relevant authorities that it possesses production equipment meeting the PRC Government-proscribed technical standards, and that it is capable of producing coke of or exceeding a minimal grade level. Additionally, a coke production plant must meet the relevant requirements with respect to air pollution and waste handling and ensure that pollutants from the construction and expansion of the coke production do not exceed the legally permitted limits. The new construction, alteration and expansion of a coke production plant must meet all the relevant requirements under the *Entry Requirements* before it is permitted to engage in the commercial production of coke. The NDRC makes periodic announcements of qualified coke producers.

### ***Transportation***

#### **Railway**

The MOR is responsible for the formulation and administration of the national rail system in China. Any proposed plan for the construction of new railways must obtain prior approval from the MOR or the relevant authorities designated by the MOR. Prior to commencing operations, a rail line must pass the inspection sponsored by the relevant authority that approved the construction plan of the rail line.

Railway has been the primary method of transportation for coal production in provinces and regions far away from major consumers in coastal regions. The MOR engages in the allocation of coal transport capacity on China’s national railway system. Coal producers apply each year to the MOR for allocation of annual railway transportation capacity. The MOR, or the relevant authority designated by it, determines and promulgates the annual railway transportation allocation at the Annual National Coal Trading Convention, after taking into consideration requests from various coal producers for railway transportation. Coal producers may file application with the relevant railway and transportation regulatory authorities requesting for the allocation of freight transportation capacity that is not within the scope of the annual railway transportation allocation plan promulgated by the MOR.

## REGULATIONS

The railway operators impose freight rates on coal producers who utilize the railway for the transportation of their coal pursuant to a uniform freight rate guideline approved by the NDRC. Railway operators may not charge more than the maximum freight rate approved by the NDRC, which reflects the construction costs of the rail line as well as a reasonable investment return. Any adjustment to such maximum freight rate requires approval from the NDRC. In May 2004, the PRC Government reinstated mandatory payments to the railway construction fund by coal exporters at RMB0.033 per tonne kilometer for export coal transported on certain east-west coal transport lines of the national rail system. According to *The Notice on Issues Concerning Policies on Disposing of 18 Expired Government Funds* promulgated by the Ministry of Finance on 4 January 2006, the collection of railway construction funds will continue until the end of 2006. In addition, according to the *Notice of Adjustment of Railway Cargo Transportation Price* (關於調整鐵路貨物運輸價格的通知) issued by the NDRC and the MOR on 29 March 2006 (Fa Gai Jia Ge [2006] 510), the standard railway construction fund shall be RMB0.033 per tonne kilometer.

### **Shipping and port operations**

Under the Ports Law of the People's Republic of China, effective from 1 January 2004, a port operator must obtain the approval from the relevant government authorities in charge of transportation, safety, customs and maritime matters before it commences operation. The relevant government authorities in charge of port operations will issue a port operating license to the port operator generally within thirty days of application submission. For port operators wishing to construct new ports and ports with annual shipping capacity exceeding 2.0 million tonnes to service mineral resources, oil and gas, approvals from the NDRC and the MOC must be obtained.

Similar to freight rates, users of port facilities are charged port fees for the import and export of goods. The port fees are either set by the state or subject to a state guidance price promulgated by the MOC and reviewed and approved by the NDRC and the local pricing authority.

Shipping-related businesses, such as vessel or cargo agencies, cargo handling businesses, customs declarations businesses and logistics businesses, must also obtain requisite qualification certificates or licenses.

### ***Safety***

China has enacted relatively comprehensive sets of laws, statutes, rules and regulations governing safety and coal mine work safety. Pursuant to the existing regulations, the safety facilities of coal mining projects should be designed, constructed and put into use simultaneously with the main project.

The state insists on comprehensive regulation of coal mines and strengthening of the coal mine work safety assurance system. The SACMS is responsible for carrying out centralized regulation and monitoring of coal mine safety on a regular basis. The ventilation, fire prevention, water prevention, gas prevention, poisoning prevention, dust prevention safety facilities and safety resources of coal mines are required to comply with statutorily mandated requirements. Coal mines must make allocations of and use funds set aside to meet mining safety standards in accordance with the law and other related regulations. Coal mines must strictly implement the gas inspection system.

The SACMS is the PRC Government authority responsible for supervising of the safety of coal production. In order to proceed with the construction of a coal mine project, the project's safety designs and procedures must be examined and approved by the SACMS or its local offices. Upon the completion of a coal mine construction project and before the commencement of production, further inspection and approval by the SACMS or its local offices of the constructed facilities are required. The design of coal mines and the



## REGULATIONS

operation of the ventilation and fire-extinguishing systems all must pass the scrutiny of the SACMS. The equipment, apparatus, instruments, meters and protective articles used by coal mines must comply with safety standards. Under the *Measures for Administrative Punishment of Coal Mines Security Supervision*, promulgated and adopted by the SACMS and effective on 15 August 2003, the SACMS shall conduct regular safety inspections of coal producers pursuant to the applicable production safety and mining safety laws and regulations. Coal producers may not mine coal pillars without authorization or use dangerous coal extraction methods that threaten the work safety of adjacent coal mines. Coal producers whose operations fail to meet safety requirements are subject to penalties, including fines and suspension of operations. In the event of a mining accident involving fatalities or serious injuries, coal enterprises are required to report to the relevant government authorities in charge of labor administration and coal mines within 24 hours.

Each operating coal mine must possess a valid coal production safety permit from SACMS. The coal production safety permits are valid for an initial period of three years, and can only be renewed if the coal mine continues to meet safety requirements imposed by the relevant authorities. No coal mine may operate without having a valid coal production safety permit. To further strengthen the safety regulation of coal mines, the SACMS and SAWS issued the *Amended Coal Mine Safety Procedures* effective 1 January 2005. The *Amended Coal Mine Safety Procedures* set forth higher production safety requirements and stricter safety standards for coal producers in China.

### ***Environmental Protection***

Mining operations, including both open pit mines and underground mines, may result in disturbances of surface and underground land and cause water pollution, landslides and other types of environmental damage. To manage the adverse effects that the coal industry has on the environment, China has promulgated a series of laws and regulations.

Through these laws and regulations, China has established national and local environmental protection legal frameworks and issued standards applicable to emission controls, discharges of wastes and pollutants to the environment, generation, handling, storage, transportation, treatment and disposal of waste materials by production facilities, land rehabilitation and reforestation.

The Environmental Protection Law, promulgated by the National People's Congress on 26 December 1989, is the cardinal law for environmental protection in China. The law establishes the basic principle for coordinated advancement of economic growth, social progress and environmental protection, and defines the rights and duties of governments at all levels.

Pursuant to the Environmental Protection Law, the SEPA is empowered to formulate national environmental quality and discharge standards and to monitor China's environmental system at the national level for the purpose of preventing and eliminating environmental pollution and damage to ecosystems. Environmental protection bureaus at the county level and above are responsible for environmental protection within their areas of jurisdiction. Local environmental protection bureaus may set stricter local standards than the national standards and enterprises are required to comply with the stricter of the two sets of standards. The PRC Environmental Protection Law requires any entity operating a facility that produces pollutants or other hazards to incorporate environmental protection measures into its operations and to establish an environmental protection responsibility system, which must adopt effective measures to control and properly dispose of waste gases, waste water, waste residue, dust or other waste materials.

New construction, expansion or reconstruction projects and other installations that directly or indirectly discharge pollutants to the environment shall be subject to relevant state regulations governing environmental

## REGULATIONS

protection for such projects. Entities undertaking such projects must submit a pollutant discharge declaration statement detailing the amount, type, location and method of treatment to the competent authorities for examination. The authorities will allow the construction project operator to release a certain amount of pollutants into the environment and will issue a pollutant discharge license for that amount of discharge subject to the payment of discharge fees. The release of pollutants is subject to monitoring by the competent environmental protection authorities. If an entity discharges more than the amount permitted by the pollutant discharge license, the local environmental protection bureau can fine the entity up to several times the discharge fees payable by the offending entity for its allowable discharge, require the offending entity to close its operations, or take other measures to remedy the problem.

In the environmental impact statement of a construction project, the project operator shall make an assessment regarding the pollution and environmental hazards the project is likely to produce and its impact on the ecosystem, and measures for their prevention and control. The operator shall submit the statement according to the specified procedure to the competent environmental protection authority for examination and approval. The building of sewage outlets within any water conservancy projects, such as canals, irrigation channels and reservoirs, shall be subject to the consent of the competent authority in charge of water conservancy projects.

The facilities for the prevention and control of pollution must be designed, constructed and put into use or operation simultaneously with the main part of a construction project. Such facilities must be inspected by the competent environmental protection authority. If they do not conform to the specified requirements, the operator shall not be permitted to put the new facility into operation or use.

In addition, the *Regulations on Coal Dust Control at Ports* and *Railway Environmental Protection Regulations*, both require port or railway operators to take measures to limit coal dust pollution.

The rehabilitation of mining sites is another important issue the PRC Government has sought to address. Under the Law of Land Administration of the People's Republic of China, promulgated on 25 June 1986, and amended on 28 August 2004, and the Land Rehabilitation Regulations, issued by the State Council in 1988 and effective 1 January 1989, coal producers must undertake measures to restore the mining site to its original state within a prescribed time frame if mining activities result in damage to arable land, grassland or forest. The rehabilitated land must meet rehabilitation standards, as required by law from time to time, and may only be subsequently used upon examination and approval by the land authorities. A coal producers' failure to comply with this requirement or its failure to return the mining site to its original state will result in the imposition of fines, rehabilitation fees and/or rejection of applications for land use rights by the local bureau of land and resources.

Emissions of waste water by coal mines and coking plants are regulated by the Law on Prevention and Control of Water Pollution of the People's Republic of China, promulgated by the National People's Congress in 1984 and effective as amended in 1996, and the Administrative Regulations on the Levy and Use of Discharge Fees, issued by the State Council on 2 January 2003 and effective 1 July 2003. Any new construction projects, such as coal mines and coking plants, must submit an environmental impact statement, which shall include an assessment on the water pollution hazards the project is likely to produce and its impact on the ecosystem. The environment impact statement must also contain measures to prevent and control the water pollution hazards. Every new production facility must be equipped with waste water processing facilities which must be put in use together with the production facilities. Construction projects that discharge pollutants into water shall pay a pollutant discharge fee in accordance with state regulations.

## REGULATIONS

Violators of the Environmental Protection Law and various environmental regulations may be subject to warnings, payment of damages and fines. Any entity undertaking construction work or manufacturing activities before the pollution and waste control and processing facilities are inspected and approved by the environmental protection department may be ordered to suspend production or operations and may be fined. The violators of relevant environment protection laws and regulations may be exposed to criminal liability if violations resulted in severe loss of property, personal injuries or death.

In addition to the PRC environmental laws and regulations, China is a signatory to the 1992 United Nations Framework Convention on Climate Change and the 1998 Kyoto Protocol, which propose emission targets to reduce greenhouse gas emissions. The Kyoto Protocol came into force on 16 February 2005. At present, the Kyoto Protocol has not set any specific emission targets for certain countries, including China.

### TAXATION AND FEES

The table below sets forth material taxes and fees that are imposed upon coal producers in China, as well as reserves which we are required to set aside.

<u>Item</u>	<u>Base</u>	<u>Rate</u>	<u>Relevant business segment</u>
Corporate income tax . . . .	Taxable income	33% or 15%	All
VAT . . . . .	Revenue	13% or 17%	All
Business tax . . . . .	Revenue from service	3% or 5%	Coal trading services and coal mine design services
City construction tax . . . .	Amount of VAT and business tax	7% or 5%	All
Education surcharge . . . . .	Amount of VAT and business tax	3%	All
Resource tax . . . . .	Aggregate volume of raw coal or coal products sold	RMB 1.5-3.2 per tonne	Coal
Mining rights utilization fee . . . . .	Mining area covered	RMB 1,000 per square kilometer per year	Coal
Compensation for the depletion of coal resources . . . . .	Proceeds from the sale of coal	1% of the approved mining recovery rate divided by the actual mining recovery rate	Coal
Maintenance fee . . . . .	Volume of raw coal produced	RMB 8.50 or RMB 10.50 per tonne <sup>(1)</sup>	Coal
Safety fund . . . . .	Volume of raw coal produced	No less than RMB 3.0-8.0 per tonne <sup>(1)</sup>	Coal

(1) Pursuant to related regulations, if an enterprise has provided maintenance fees or safety fund according to the standards prescribed by the provincial or higher level of government, it is obligated to keep providing the fees if they are higher than the standard as described herein.