
THE PRC LAWS AND REGULATIONS RELATING TO THE INDUSTRY

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LAWS AND REGULATIONS RELATING TO MINERAL RESOURCES

The “Mineral Resources Law of the PRC” (“Mineral Resources Law”) (中華人民共和國礦產資源法) was promulgated by the Standing Committee of the NPC on 19 March 1986 and became effective on 1 October 1986. On 29 August 1996, the Standing Committee of the NPC amended the “Mineral Resources Law”. The amended “Mineral Resources Law” became effective on 1 January 1997.

The “Mineral Resources Law” and its implementation rules are as follows:

- All mineral resources of the PRC, including such resources on the earth’s surface or underground, are owned by the State. The State ownership of mineral resources shall remain unchanged notwithstanding that the ownership or the right to use the land to which such mineral resources are attached has been granted to a different entity or individual.
- MOLAR is responsible for the supervision and administration of the mining and exploration of mineral resources nationwide. The geology and mineral resources departments of the PRC government of the respective provinces, autonomous regions and municipalities are responsible for the supervision and administration of the exploration, development and mining of mineral resources within their respective jurisdictions.
- Enterprises engaged in the mining or exploration of mineral resources must obtain mining and exploration permits, as the case may be, which are transferable for consideration only in certain circumstances as provided under PRC laws, subject to approval by relevant administrative authorities. Furthermore, if the mining activities involve gold resources, in accordance with the “Provisions on the Administration of Obtaining the Letter of Approval for Mining of Gold Minerals” (辦理開採黃金礦產批准書管理規定), promulgated by the National Development and Reform Commission on 17 December 2003 and became effective on 1 January 2004, the Gold Operating Permit (開採黃金礦產批准書) must also be obtained. The maximum validity period of the initial term of a Gold Operating Permit for a gold mine having an ore processing capacity of more than 500 tpd, an ore processing capacity ranging from 100 tpd to 500 tpd and an ore processing capacity of less than 100 tpd shall be 15 years, 10 years and 5 years, respectively.
- MOLAR and the Geological and Mineral Resources Department of the PRC government of the provinces, autonomous regions and municipalities authorized by MOLAR are responsible for the granting of exploration and mining permits. Generally, holders of exploration permits and mining permits have those rights and obligations as prescribed by laws.

- Anyone who exploits mineral resources must pay a resources tax and resources compensation levy in accordance with relevant regulations of the State. In accordance with “Provisional Regulations on Resources Tax of the PRC” (中華人民共和國資源稅暫行條例), the amount of the resources tax is computed on the basis of the taxable amount. In accordance with “Administrative Rules on the Levy of Mineral Resources Compensation” (礦產資源補償費徵收管理規定), the resources compensation levy shall be calculated in accordance with the following formula:

$$\text{Amount of the resources compensation levy payable} = \text{Sales revenue of mineral products} \times \text{Compensation levy rate} \times \text{Coefficient of mining recovery rate}$$

Rights and Obligations of Holders of Exploration Permits

The rights exercisable by a holder of an exploration permit include, among other things, the following: (1) to carry out exploration in the designated area and within the prescribed time; (2) to have access to the exploration area and its adjacent areas; (3) to temporarily use the land in accordance with the needs of the exploration project; (4) to have priority in obtaining the mining right of the mineral resources as specified in the exploration permit and the exploration right of other newly discovered minerals within the designated exploration area; (5) upon fulfillment of the prescribed minimum expenditure requirements, to transfer the exploration right to any third party upon government approval; and (6) to sell the mineral products extracted from the surface of the land in the exploration area, except for those mineral products which are required by the State Council to be sold to designated units.

The obligations of a holder of an exploration permit include, among other things, the following: (1) to commence and complete the exploration work within the term of the exploration permit; (2) to carry out the exploration work in accordance with the exploration plan and to ensure no occurrence of unauthorized mining activities; (3) to carry out integrated exploration and assessment on the paragenetic and associated mineral resources; and (4) to submit an exploration report regarding the mineral resources to the relevant government authority for approval.

Rights and Obligations of Holders of Mining Permits

The rights exercisable by a holder of a mining permit include, among other things, the following: (1) to engage in mining activities in the designated area and within the term prescribed under the mining permit; (2) to set up ore processing facilities and amenities within the designated area; (3) to engage in exploration and production within the vicinity of the mine as set out in the mining permit; (4) to sell the mineral products, except for those minerals which are required by the State Council to be sold to designated units; and (5) to acquire the land use rights attaching to the mine.

The obligations of a holder of a mining permit include, among other things, the following: (1) to carry out mining activities in the prescribed designated area and within the term of the mining permit; (2) to effectively protect and reasonably extract the mineral resources and to integrate the use of the mineral resources; (3) to pay resources tax and resources compensation levy; (4) to submit to the supervision and management by the relevant government authorities; and (5) to submit a report on the utilization of mineral resources to the relevant government authority.

Renewal of Exploration and Mining Permits

In accordance with the “Administrative Measures on Registration of Mineral Resources Exploitation” (礦產資源開採登記管理辦法), the validity period of a mining permit shall be determined according to the scale of the mine. The maximum validity period of the initial term of a mining permit for a big-scale mine, medium-scale mine and small-scale mine shall be 30 years, 20 years and 10 years, respectively.

In accordance with the “Administrative Measures on Registration of Tenement of Mineral Resources Exploration and Survey” (礦產資源勘查區塊登記管理辦法), the maximum validity period of the initial term of exploration permits shall be three years.

However, the State Council issued the 《國務院關於加強地質工作的決定》(國發(2006年)4號) (State Council Regarding the Reinforcement of the Geological Work (No. 4 document issued by State Council (2006)) which stipulates that the State Council will enforce the monitoring and management of the exploration activities of mineral resources and will prohibit activities of marking without exploration and mining without exploration (圈而不探或以採代探的行為). In light of the above, when approving the validity period of exploration permits and mining permits, the Department of Land and Resources (國土資源部門) of all the provinces in the PRC will act in accordance with their internal guidelines and principles and will normally grant mining permits and explorations permits with a validity period of approximately 3 years and a validity period of approximately 1–2 years respectively. As confirmed by the Inner Mongolia Autonomous Region Department of Land and Resources (內蒙古自治區國土資源廳), the department will normally grant gold mining enterprises a mining permit with a validity period of less than 3 years in practice.

Also, according to the list of exploration permits and mining permits issued in 2006 and 2007 by the Inner Mongolia Autonomous Region Department of Land and Resources (內蒙古自治區國土資源廳), the validity periods of the mining permits and exploration permits are similar to that of ours.

Both King & Wood, our PRC legal adviser, and our Directors consider that so long as we have not violated any relevant laws, regulations or policies as a holder of an exploration permit or a mining permit, there should be no impediments for us to renew our mining permits and exploration permits. We have not violated any relevant laws, regulations or policies applicable to our exploration or mining permits.

In accordance with the relevant provisions stipulated in the “Administrative Measures on Registration of Tenement of Mineral Resources Exploration and Survey” (礦產資源勘查區塊登記管理辦法) and the “Administrative Measures on Registration of Mineral Resources Exploitation” (礦產資源開採登記管理辦法), exploration permits and mining permits can be renewed within a prescribed period prior to their expiration, upon compliance with the prescribed extension procedure. Each renewal of exploration permit shall not exceed two years. Where a holder of an exploration permit or a mining permit fails to renew its permit, such exploration or mining permit shall be automatically annulled upon expiration.

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As advised by King & Wood, our PRC legal adviser, our current exploration and mining operations have complied with the relevant laws and administrative regulations pertaining to the Mineral Resources Law and its implementation regulations. During the Track Record Period, we have not been penalized as a result of breaching any laws and regulations in relation to our mining and exploration operations.

In accordance with our business licenses and the relevant permits and approvals, we engage in gold exploration, mining and processing. Pursuant to the Mineral Resources Law and its implementation regulations, we have obtained the relevant permits and certificates, including letter of approval for the mining of gold minerals, one exploration permit, four mining permits and eight production safety permits, all of which are required for us to conduct our operations within our approved business scope.

Qualifications for initial admission and renewal of exploration and mining permits

The relevant PRC laws and regulations contain certain specific qualifications for the initial issue of exploration and mining permits. In accordance with the “Notice on Regulations regarding the Registration of Exploration and Exploitation of Mineral Resources” (關於礦產資源勘查登記、開採登記有關規定的通知) issued by the Department of Land and Resources, the registration authority (that is the Department of Land and Resources) shall focus on the following aspects in the examination of an application for an exploration permit:

- whether the exploration areas applied for have already been applied for by other parties;
- whether the application form is properly filed, the exhibits are complete and the required materials are correctly supplied;
- whether the exploration areas applied for are out of the permitted registered areas and are classified as continuous areas;
- whether exploration or mining rights have already been granted in respect of the exploration areas applied for;
- in relation to exploration areas where exploration activities were funded by the State, whether the value of the relevant exploration right is properly assessed, whether the assessment result has been confirmed by relevant government authorities and the payment method of consideration for such exploration rights has been ratified by the relevant government authorities;
- within the 90 days prior to the making of the application, whether the exploration right of the exploration areas applied for has been revoked; and
- within the 6 months prior to the making of the application, whether an exploration license held by the applicant was revoked.

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In accordance with the “Notice on Regulations regarding the Registration of Exploration and Exploitation of Mineral Resources” (關於礦產資源勘查登記、開採登記有關規定的通知) issued by the Department of Land and Resources, the registration authority (that is the Department of Land and Resources) shall, after receiving the application materials for a mining permit and the investigation results of the low-level registration authority, will examine the following aspects in the examination of an application for a mining permit:

- whether the range and acreage of the mining area applied for is the same as those of the approved areas by the registered authority;
- whether the production quantity of mines will change and whether it complies with the devised mineral reserves;
- whether the designed mine life of the mines is reasonable;
- whether the integrated exploration, use and recycle of mining resources are reasonable;
- whether the applicant of mining rights meets the prescribed qualifications; and
- other aspects required for inspection.

The relevant PRC laws and regulations have not set forth any specific standards and qualifications for the renewal of exploration and mining permits. As confirmed by the Department of Land and Resources, it does have a system of standards and qualifications in deciding whether to renew exploration and mining permits, but will not disclose such standards and qualifications to the public.

Documents to be submitted for the application/renewal of mining permits

Pursuant to relevant PRC laws and regulations, the documents to be submitted to the relevant government authorities for the application of mining permit include the following:

- application document and the mining area diagram;
- qualification document of the applicant;
- exploitation plan of mineral resources;
- approval documents for establishment of mining enterprise;
- environmental impact assessment report for the mining of mineral resources; and
- other documents required by the department in charge of geology and mineral resources under the State Council.

Relevant PRC laws and regulations do not provide which documents shall be submitted to the relevant government authorities for the renewal of mining permit. However, the Department of Land and Resources (國土資源部) publicizes on its official website (<http://www.mlr.gov.cn>) the application documents which must be submitted to the Department of Land and Resources for renewal of mining permit, as follows:

- an application for the renewal of a mining permit;
- the reserved copy and the counterpart copy of the original mining permit;

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- the opinion of the Department of Land and Resources at the provincial level regarding the mining right holder's fulfillment of its obligations and documents proving that the mining right holder has fulfilled its obligations under the license;
- the documents providing the residual reserves;
- an explanation of the exploitation of the mine;
- in relation to a mining right that was transferred for consideration the relevant materials regarding the evaluation, confirmation and amount paid for such mining right;
- a copy of the business license;
- in the case of a foreign-invested enterprise, a copy of the certificate of approval for a foreign-invested enterprise; and
- pre-renewal compliance record in relation to mineral resource registration and mineral resource register.

Fees

Holders of exploration permits and holders of mining permits are subject to exploration right usage fees and mining right usage fees, respectively. In accordance with the "Administrative Measures on Registration of Mineral Resources Exploitation" (礦產資源開採登記管理辦法), mining right usage fees shall be payable on an annual basis. The rate of mining right usage fees shall be RMB1,000 per km² of mining area per year. On the other hand, in accordance with the "Administrative Measures on Registration of Tenement of Mineral Resources Exploration and Survey" (礦產資源勘查區塊登記管理辦法), exploration right usage fees shall be calculated according to the terms of the exploration permit and shall be payable on an annual basis. The rate of exploration right usage fee for the first year through the third year of exploration shall be RMB100 per km² of exploration area per year. From the fourth year of exploration onwards, the rate will be increased by RMB100 per km² of exploration area per year. However, the annual maximum rate shall not exceed RMB500 per km² of exploration area.

The exploration right usage fee and mining right usage fees paid by us for each of the two years ended 31 December 2006 and 31 December 2007 and for the ten months ended 31 October 2008 were RMB630, RMB11,390 and RMB33,322, respectively.

Laws and Regulations relating to the Administration of Gold

Pursuant to the "Administrative Regulations on Gold and Silver of the PRC" (中華人民共和國金銀管理條例) promulgated and implemented on 15 June 1983, purchases of gold and silver were made centrally by the PBOC. No entity or individual was permitted to purchase gold and silver without the consent of the PBOC. All gold and silver produced by mining enterprises, rural communes, brigades, armed forces or individuals engaged in the production of gold and silver (including those with ore exploration, production and smelting as their supplementary business) were required to be sold to the PBOC, and could not be retained individually for sale, exchange or use. Entities requiring gold and silver for use were required to submit a proposal to the PBOC on the proposed use of gold and silver for examination and approval.

On 30 October 2002, the SGE commenced operation under the supervision of the State Council. Thereafter, the PBOC ceased its operation in gold allocation and gold purchase. All PRC gold producers are now required to sell their standard gold bullion through the SGE, and prices of gold on the SGE are

determined by market demand and supply, which essentially converge with the price of gold in the international market. On 27 February 2003, the State Council promulgated the “Decision of the State Council in relation to Termination of the Second Batch of Administrative Approval Projects and Amendment of the Management Method of Certain Administrative Approval Projects” (國務院關於取消第二批行政審批項目和改變一批行政審批項目管理方式的決定) and canceled the approval requirements for the production and sale of gold. As a result, the policy of “centralized purchase and allocation of gold” as stipulated under the “Administrative Regulations on Gold and Silver of the PRC” has been terminated in practice.

Since the promulgation of the “Administrative Permission Law of the PRC” (中華人民共和國行政許可法) on 27 August 2003, the State Council reformed the administrative approval system and clarified that the outstanding projects would be subject to administrative approval by its departments. The State Council promulgated the “Decision of the State Council on the Enactment of Administrative Permission for Certain Administrative Approval Projects which Shall be Retained” (國務院對確需保留的行政審批項目設定行政許可的決定) on 29 June 2004. According to the decision, the import and export of gold and gold products remain subject to administrative examination and approval. The authority responsible for such examination and approval is the PBOC. Such decision became effective as of 1 July 2004.

Laws and Regulations Relating to Environmental Protection

The PRC government has formulated a comprehensive set of environmental protection laws and regulations that cover areas such as land rehabilitation, sewage discharge and waste disposal. The State Environmental Protection Administration Bureau (國家環境保護總局) regulates matters relating to environmental protection in the PRC and formulates the national standards on environmental quality and discharge of pollutants. The environmental protection departments at the county level or above are responsible for matters relating to environmental protection within their own jurisdictions.

The “Environmental Protection Law of the PRC” (“Environmental Protection Law”) (中華人民共和國環境保護法) and the “Administrative Regulations on Environmental Protection for Construction Projects” (建設項目環境保護管理條例) stipulate that prior to the construction of new production facilities or expansion or transformation of existing facilities that may cause a significant impact on the environment, a report on the environmental impact of the construction project shall be submitted to the relevant environmental protection authority. Newly constructed production facilities cannot operate until the relevant department is satisfied that such facilities are in compliance with all relevant environmental protection standards. Pursuant to the requirements of the “Environmental Protection Law”, any production facilities that could possibly cause pollution or other public hazards shall adopt measures on environmental protection and shall establish a system on environmental protection and administration. Effective measures shall be adopted to prevent and control the pollution and harm caused to the environment by the emission of exhaust air, sewage, waste residues, dust, malodorous gas, radioactive substances, noise, vibration and electromagnetic radiation. Enterprises that discharge pollutants shall register with the relevant environmental protection authority. The State Environmental Protection Administration Bureau formulates national standards on emission of pollutants in accordance with the national standards on environmental quality and the national economic and technological conditions. Governments at the provincial level and of the autonomous regions and municipalities may formulate their respective local standards on the discharge of pollutants for items not specified in the national standards. The local governments may formulate local standards which are more stringent than the national ones. Pursuant to the requirements under the “Law on Prevention of Water Pollution of the PRC” (中華人民共和國水污染防治法), “Law on Prevention of Air Pollution of the PRC” (中華人民

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共和國大氣污染防治法) 和 “Administrative Regulations on Levy and Utilization of Sewage Charge” (排污費徵收使用管理條例), enterprises which discharge water or air pollutants shall pay discharge fees pursuant to the types and volume of pollutants discharged. The discharge fees are calculated by the local environmental protection authority which shall review and verify the types and volume of pollutants discharged. Once the discharge fees have been calculated, a notice on payment of discharge fees shall be issued to the relevant enterprises. In addition, enterprises which discharge sulfur dioxide at a level exceeding the prescribed standards are required to install “de-sulfurizing devices” or adopt other “de-sulfurizing” measures to control the emission of sulfur dioxide.

Pursuant to the “Mineral Resources Law”, “Land Administration Law of the PRC” (中華人民共和國土地管理法) and “Rules on Land Rehabilitation” (土地復墾規定), exploitation of mineral resources shall be conducted in compliance with the legal requirements on environmental protection so as to prevent environmental pollution. With respect to any damage caused to cultivated land, grassland or forest as a result of exploration or mining activities, mining enterprises shall restore the land to a state appropriate for use by reclamation, re-planting trees or grasses or such other measures as are appropriate to the local conditions. In the event that the mining enterprise is unable to rehabilitate or the rehabilitation does not comply with the relevant requirements, the mining enterprise shall pay a fee for land rehabilitation. Upon the closure of a mine, a report in relation to land rehabilitation and environmental protection shall be submitted for approval. Enterprises that fail to perform or satisfy the requirements on land rehabilitation will be penalized by the relevant land administration authority.

In accordance with the “Law on Prevention of Environmental Pollution Caused by Solid Waste of the PRC” (中華人民共和國固體廢物污染環境防治法), entities and individuals collecting, storing, transporting, utilizing or disposing of solid waste shall take precautions against the spread, loss and leakage of such solid waste or adopt such other measures for preventing such solid waste from polluting the environment.

The penalties for breaches of the environmental protection laws vary from warnings, fines to administrative sanctions, depending on the degree of damage. Any entity whose construction projects fail to satisfy the requirements on pollution prevention may be ordered to suspend its production or operation and be subject to a fine. The person responsible for the entity may be subject to criminal liability for serious breaches resulting in significant damage to private or public property or personal death or injury. Our current production and operating activities have been in compliance with the relevant requirements on environmental protection. During the Track Record Period, our Group has not been penalized as a result of breaching any environment protection laws and regulations.

Laws and Regulations relating to Production Safety

The PRC government has formulated a relatively comprehensive set of laws and regulations on production safety, including the “Law on Production Safety of the PRC” (中華人民共和國安全生產法), the “Law on Mine Safety of the PRC” (中華人民共和國礦山安全法) as well as “Regulations on Mine Safety” (礦山安全條例) and “Regulations on the Monitoring of Mine Safety” (礦山安全監察條例) promulgated by the State Council, which pertain to the mining, processing and smelting operation of the mining industry. The State Administration of Work Safety (國家安全生產監督管理總局) is responsible for the overall supervision and management of the production safety nationwide, while the departments in charge of production safety at the county level or above are responsible for the overall supervision and management of production safety within their own jurisdictions.

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The PRC government implements a licensing system for production safety of mining enterprises under the “Regulations on Production Safety License” (安全生產許可證條例). No mining enterprise may engage in production activities without holding a valid production safety license. Enterprises which fail to fulfill the production safety conditions may not carry out any production activity. Mining enterprises which have obtained the production safety licenses shall not lower their production safety standards, and shall be subject to the supervision and inspection of the licensing authorities from time to time. If the licensing authorities are of the opinion that the mining enterprises do not fulfill the production safety requirements, may order it to rectify within a specified period. In the event that the production safety requirements are not fulfilled after the relevant specified period, the production safety licenses may be withheld or revoked.

The PRC government has also formulated a set of national standards on production safety for the mining industry. In general, the mine design shall comply with production safety requirements and industry practice. Each underground mine shaft is required to have at least two safety exits and the mine shall be equipped with transportation and communication facilities, which connect the mine to the outside. The mine design must be approved in accordance with the requisite procedures.

A mining enterprise shall have its own management body or designated safety management team handling production safety matters. Education and training on production safety shall be provided to workers to ensure that they fully understand the regulations on and the procedures required for production safety and are able to master the necessary skills for operation safety for their respective positions. Those not having received such said education and training may not be allowed to work at the mine.

Pursuant to the “Regulations on Mine Safety” (礦山安全條例), the PRC government also implemented a safety supervision system in mines and established the mine safety supervisory authorities. The major responsibilities of such supervisory authorities include, among other things, the following: (1) to supervise the provision of safety education and training by mining enterprises; (2) to approve mine design and carry out examinations upon completion of mine construction; (3) to monitor the status of the construction of safety facilities carried out by the mining enterprises; (4) to inspect the safety of mines and require the mining enterprises to rectify any facilities or equipment that fall below the requisite safety standards within a particular time limit; (5) to investigate mining accidents and to supervise the handling of mining accidents; (6) to impose fines or administrative sanctions or submit the case to the judicial authorities for legal actions against the mining enterprises, the management or any related staff thereof who have severely violated the “Regulations on Mine Safety” (礦山安全條例); and (7) to suggest the relevant authorities suspending or closing the operation of mining enterprises which cannot meet the basic safety requirements.

Upon occurrence of accidents, mining enterprises shall immediately take measures to rescue their workers and report any deaths or injuries to the relevant authority. In the event of a minor accident, the mining enterprise shall be responsible for investigating and handling the case. In the event of a serious accident, the government, the relevant authority, the labor union and the mining enterprise shall conduct an investigation and handle the case together. In addition, the mining enterprise shall pay compensation to any employee who was injured or died in the accident in accordance with the national requirements. Such mining enterprise may only resume production after the relevant danger at the scene has been eliminated.

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In addition, pursuant to the “Law on Production Safety of the PRC” (中華人民共和國安全生產法), the PRC government implemented an accountability system for incidents relating to production safety. The responsible person for a production safety incident may be subject to demotion or termination of employment, and may be subject to criminal liabilities.

During the Track Record Period we have not been penalized as a result of breaching any production safety laws and regulations.

Laws and Regulations relating to Taxation

Enterprises engaged in the mining of mineral resources must pay resources tax in accordance with relevant regulations of the State. In accordance with the “Provisional Regulations on Resources Tax of the PRC” (中華人民共和國資源稅暫行條例), which became effective as of 1 January 1994, the rate of the resources tax ranges from RMB0.40 to RMB30 per tonne of mineral products. The amount of resources compensation levy payable is computed on the basis of the sales revenue of mineral products. According to the “Implementing Rules for the Provisional Regulations on Resources Tax of the PRC” (中華人民共和國資源稅暫行條例實施細則) issued by the Ministry of Finance which became effective as of 30 December 1993, resources tax is levied according to the grade of mines and the applicable amount of tax per tonne of ore produced as provided in the schedules attached to these implementing rules. The resources tax rates applicable to gold ore ranges from RMB1.3 per tonne to RMB2.5 per tonne; the resources tax rates applicable to silver ore ranges from RMB0.4 per tonne to RMB3.0 per tonne; the resources tax rates applicable to lead and zinc ore ranges from RMB2.0 per tonne to RMB4.0 per tonne; and the resources tax rates applicable to copper ore ranges from RMB1.2 per tonne to RMB1.6 per tonne. For companies which are not listed in such schedules, the rates of resource tax will be decided by provincial government within a range of 30% and the decision will be reported to the Ministry of Finance and the State Administration of Taxation for records.

On 19 May 2006, the Ministry of Finance (財政部) and the State Administration of Taxation (國家稅務總局) issued “Notices on Adjusting Policies with respect to Resource Tax of Rock Gold Ore” (關於調整岩金礦資源稅有關政策的通知), which became effective on 1 May 2006. The notice is about the adjustment of tax, which, among other things, adjusted upwards the rates of resource tax for various grades of rock and gold mines. The resources tax rates applicable to gold ore ranges from RMB1.5 per tonne to RMB7.0 per tonne.

On 5 July 2007, the Ministry of Finance (財政部) and the State Administration of Taxation (國家稅務總局) issued “Notices on Adjusting the Tax Rate Standard of Resource Tax of Lead, Zinc and Other Tax Items” (關於調整鉛鋅礦石等稅目資源稅適用稅額標準的通知), which, effective on 1 August 2007, sets forth that the resources tax rates applicable to lead and zinc ore ranges from RMB10.0 per tonne to RMB20.0 per tonne, and the resources rates applicable to copper ore ranges from RMB5.0 per tonne to RMB7.0 per tonne. We have paid resources tax according to the provisions of the relevant PRC laws and regulations. For companies that are not listed in this notice, the adjustment of resources tax will be decided by provincial government within a range of 30% with reference to the rates applicable to the neighboring mines listed in this notice and the decision will be reported to the Ministry of Finance and the State Administration of Taxation for filing.

The PRC government encourages the development of the gold industry by implementing a policy of preferential treatment on taxation. In accordance with the “Notice from Ministry of Finance and State Tax Bureau in Relation to Exemption of Value Added Tax on Gold Production” (財政部、國家稅務總局關於黃金生產環節免徵增值稅問題的通知) promulgated in 1994 and other relevant laws and

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regulations, gold produced and sold by gold mining and smelting enterprises are exempted from VAT. “Notice regarding issues on Tax Policy on Gold Transactions” issued by the Ministry of Finance and the State Tax Bureau (財政部、國家稅務總局關於黃金稅收政策問題的通知) on 12 September 2002 provides that gold production enterprises engaged in the sales of standard gold and gold sand (containing gold content) are exempt from VAT. For transactions with physical settlement, the tax authority will issue VAT invoices based on the actual transaction price and immediately refund any VAT levied and paid. Pursuant to the “Provisional Regulations on Value-Added Tax of the PRC” (中華人民共和國增值稅暫行條例), silver and concentrates of sulfur and other metals such as copper, lead and zinc produced and sold by us, as well as processing fees we receive for treating ores and concentrates for third parties, are subject to VAT at the rate of 6%.

During the Track Record Period, the enterprise income tax rate applicable to Chifeng Fuqiao, Shirengou Mining, Nantaizi Mining and Luotuochang Mining was 33%, and the enterprise income tax rate applicable to Fubon Industrial was 27%. On 16 March 2007, the NPC enacted a new enterprise income tax law, or the New Enterprise Income Tax Law (中華人民共和國企業所得稅法), which has taken into effect from 1 January 2008. The implementing rules of the New Enterprise Income Tax Law (中華人民共和國企業所得稅法實施條例) (the “Implementing Rules”), were adopted on 6 December 2007 and have taken into effect from 1 January 2008. Under the New Enterprise Income Tax Law, the Implementing Rules, foreign invested enterprises, such as Fubon Industrial, and domestic companies, such as Chifeng Fuqiao, Shirengou Mining, Nantaizi Mining and Luotuochang Mining would be subject to Enterprise Income Tax at a uniform rate of 25%.

The category and tax rate of other major taxes to which we are subject are as follows:

<u>Tax categories</u>	<u>Reference for tax calculation</u>	<u>Tax rate</u>	<u>Legislation</u>
Corporate income tax . . .	Production income, Operation income and other income, net of the related costs, expenses and losses incurred	25%	Enterprise Income Tax Law of the PRC
Value-added tax	Increased value	6%	Provisional Regulations on Value-Added Tax of the PRC
Business tax	Service income	3%/5%	Provisional Regulations on Business Tax of the PRC
City maintenance and construction tax	Business tax and VAT	5% (county, municipality, town), 7% (urban area)	Provisional Regulations on City Maintenance and Construction
Resources tax	Taxable amount	RMB2–4/tonne (nonferrous metals)	Provisional Regulations on Resources Tax of the PRC

THE PRC LAWS AND REGULATIONS RELATING TO THE INDUSTRY

Tax categories	Reference for tax calculation	Tax rate	Legislation
Education surcharge. . .	Business tax and VAT	3% <i>(Note)</i>	Education Law of the PRC, Provisional Rules on the Levy of Education Surcharges of the PRC
Property tax	The residue value after deducting 10%–30% of the original value of the property	1.2%	Provisional Regulations on Property Tax of the PRC

Note: In addition to the statutory levy at the rate of 3% of our business tax and VAT, we are subject to an additional levy of local education surcharge at the rate of 1% of our revenue from sales of gold in accordance with local government policy.

During the Track Record Period, we had not been subject to any penalty for breach of laws and regulations on taxation.

Laws and Regulations relating to the Control of Currency Conversion

RMB currently is not a freely convertible currency. Under the current foreign exchange regulations in the PRC, PRC incorporated entities can effect foreign exchange for current-account transactions (including the distribution of dividends) only through accounts permitted by the PRC government. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures from trade related transactions, can be made in foreign currencies without prior approval from SAFE by complying with certain procedural requirements. However, approval from SAFE or its local branch is required where Renminbi is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of loans denominated in foreign currencies.

Since 1994, the conversion of RMB into foreign currencies, including U.S. dollars, has been based on rates set by the PBOC, which are set daily based on the previous business day's interbank foreign exchange market rates and current exchange rates on the world financial markets. From 1994 to 20 July 2005, the official exchange rate for the conversion of RMB to U.S. dollars was generally stable. On 21 July 2005, the PRC government introduced a managed floating exchange rate system to allow the value of the RMB to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. On the same day, the value of the RMB appreciated by approximately 2% against the U.S. dollar. The PRC government has since made, and in the future may make, further adjustments to the exchange rate system. From 21 July 2005 to 23 January 2009, the value of RMB has further appreciated by approximately 21.1% against the U.S. dollar.

OTHER RELEVANT LAWS AND REGULATIONS

Reforms of Investment Systems by the State Council

Pursuant to the “Decision of the State Council on the Reform of Investment System” (國務院關於投資體制改革的決定), which came into effect on 16 July 2004, significant changes have been made to the government approval regime for major investment projects in the PRC. The State Council abolished the requirements of government examination and approval for investment projects not utilizing government funds, and replaced such requirements with a verification and filing system. With respect to non-government funded projects, verification would only be required for major or restricted projects while other projects, irrespective of size, are only subject to a filing requirement. According to the Catalogue of Investment Projects Requiring Government Verification and Approval (2004 Version) (政府核准的投資項目目錄(2004)年本), mining development projects with a production capacity of 500 tonnes per day or above are subject to verification by the Department of Investment under the State Council (國務院投資主管部門) while other mine development projects are subject to verification by the Department of Investment at the provincial level. We are not subject to verification by the Department of Investment under the State Council (國務院投資主管部門). As none of Shirengou Mining, Nantaizi Mining and Luotuochang Mining has established a new mining development project with a production capacity of 500 tonnes per day or above, Shirengou Mining, Nantaizi Mining and Luotuochang Mining shall only be subject to verification by the Department of Investment at the provincial level, rather than the Department of Investment under the State Council (國務院投資主管部門). Shirengou Mining, Nantaizi Mining and Luotuochang Mining have respectively passed verification by the Department of Investment at the provincial level.

In relation to Nantaizi Mining:

- (i) the original production capacity of the ore processing facility located at the Nantaizi Gold Mine was 300 tpd, however the production capacity has since been expanded to 500 tpd due to an expansion of production capacity of 200 tpd, and then subsequently expanded to 990 tpd due to a further expansion of production capacity of 490 tpd; and
- (ii) in accordance with the interpretation of the Decision of the State Council on Reform of the Investment System (國務院關於投資體制改革的決定), the gold mining and extracting project invested and established by Nantaizi Mining is subject to approval at the Inner Mongolia level, and has been examined and approved by Inner Mongolia Autonomous Region Development and Reform Commission (內蒙古自治區發展和改革委員會).

King & Wood, our PRC legal adviser, has confirmed that Nantaizi Mining is not required to apply further to State Development and Reform Commission for project approval for its gold mining and extracting project at the Nantaizi Gold Mine. The above opinion is also confirmed by the confirmation letter issued by Inner Mongolia Autonomous Region Development and Reform Commission (內蒙古自治區發展和改革委員會) to Nantaizi Mining on 30 July 2008.

Similarly, in relation to Luotuochang Mining:

- (i) the original production capacity of the ore processing facility located at the Luotuochang Gold Mine was 350 tpd, however the production capacity has since been expanded to 500 tpd due to a expansion of production capacity of 150 tpd, and then subsequently expanded to 800 tpd due to a further expansion of production capacity of 300 tpd; and

- (ii) in accordance with the interpretation of the Decision of the State Council on Reform of the Investment System (國務院關於投資體制改革的決定), the gold mining and extracting project invested and established by Luotuochang Mining is subject to approval at the Inner Mongolia level, and has been examined and approved by Inner Mongolia Autonomous Region Development and Reform Commission (內蒙古自治區發展和改革委員會).

King & Wood, our PRC legal adviser, confirm that Luotuochang Mining is not required to apply further to State Development and Reform Commission for project approval for its gold mining and extracting project at the Luotuochang Gold Mine. The above opinion is also confirmed by the confirmation letter issued by Inner Mongolia Autonomous Region Development and Reform Commission (內蒙古自治區發展和改革委員會) to Luotuochang Mining on 30 July 2008.

Laws and Regulations relating to Foreign Investment in Gold

The exploration and mining of precious metals (gold, silver and platinum) is subject to the “Catalogue of Industries for Guiding Foreign Investment (Revised 2007)” (外商投資產業指導目錄(2007修訂)). The “Verification and Approval of Foreign-Invested Projects Tentative Administrative Procedures” (外商投資項目核准暫行管理辦法) further provides that projects being subject to the aforementioned catalog, which have a total investment of:

- less than US\$50 million, must be submitted to and approved by provincial-level development and reform departments;
- US\$50 million or more, must be submitted to and approved by the National Development and Reform Commission; and
- US\$100 million or more, must be examined by the National Development and Reform Commission and following such examination must be submitted to and approved by the State Council.