
PRC LAWS AND REGULATIONS

PRC LAWS RELATING TO THE INDUSTRY

General

On December 2, 2005, to facilitate industry restructuring, the State Council and the NDRC promulgated the Interim Provisions for Promoting the Adjustment of the Industrial Structure (《促進產業結構調整暫行規定》) and the Adjustment of Industrial Structure Guidance Catalogue (《產業結構調整指導目錄》). The Adjustment of Industrial Structure Guidance Catalogue applies to all PRC enterprises, which are divided into three industry categories: encouraged, restricted and prohibited. Investment projects, which are considered as encouraged by the Industrial Structure Guidance Catalogue shall be approved, ratified or filed in accordance with the relevant provisions of the State with investment authority. Industries that do not fall within any of the three industry categories, but conform with the relevant PRC laws, regulations and policies, shall be classified under the permitted category, which is a category of industries not mentioned in the Adjustment of Industrial Structure Guidance Catalogue, such as mining of iron ore.

Mineral industry

Pursuant to the Mineral Resource Law (《礦產資源法》) promulgated on March 19, 1986, effective on October 1, 1986 and amended on August 29, 1996, and the related implementation rules promulgated on March 26, 1994, (a) mineral resources are owned by the State with the State Council exercising ownership over such resources on behalf of the State; (b) the department in charge of geology and mineral resources under the State Council is authorized by the State Council to supervise and administer the exploration and exploitation of mineral resources nationwide. The department in charge of geology and mineral resources, of each province, autonomous region or municipality directly under the Central Government is responsible for the supervision and administration of the exploration and exploitation of mineral resources within their respective administrative regions; and (c) an enterprise that intends to explore and exploit mineral resources shall apply for exploration and mining rights separately according to the relevant laws, and is required to undergo the registration process, unless a mining enterprise, which has obtained mining rights, conducts exploration operations for its own production within the defined mining areas.

Pursuant to the Provisions on the Administration of the Collection of Mineral Resources Compensation (《礦產資源補償費徵收管理規定》) promulgated on February 27, 1994, effective on April 1, 1994 and amended on July 3, 1997, mineral resources compensation shall be paid by the holder of the mining right if such holder decides to exploits mineral resources within the PRC territory, unless laws or administrative regulations provide otherwise.

The Procedures for the Registration of Mining of Mineral Resources (《礦產資源開採登記管理辦法》) ("State Council Circular No. 241") was promulgated by the State Council and became effective on February 12, 1998. Under the State Council Circular No. 241, anyone with mining rights shall file an application for registration of change(s) with the appropriate registration administration authority within the duration of the mining license term if there is any change in the scope of the mining area, the main-exploited mineral categories, the exploitation mode, the name of the mining enterprise and/or the transfer of the mining right according to the relevant laws. If continuation of mining is necessary after the expiration of the mining licence, the mining right holder shall apply for an extension with the registration authority within 30 days prior to the expiration of the term of the mining license. If the mining right holder fails to apply for an extension prior to the expiration of the term, the mining license shall terminate automatically.

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PRC LAWS RELATING TO PRODUCTS

Pursuant to the PRC Regulation regarding the Administration of Production Licences for Industrial Products (《中華人民共和國工業產品生產許可證管理條例》) promulgated by the State Council on July 9, 2005 and effective on September 1, 2005 and the related implementation rules (《實施辦法》) promulgated by the State Quality Inspection Bureau on September 15, 2005 and effective on November 1, 2005, products listed in the Industrial Products Catalogue (《國家實行生產許可證制度的產品目錄》) must comply with the production permit system. An enterprise shall not produce any product listed in the Industrial Products Catalogue without obtaining a production permit. Iron concentrates, iron pellets and titanium concentrates are not listed in the Industrial Products Catalogue.

PRC LAWS RELATING TO FOREIGN INVESTMENT IN THE MINERAL INDUSTRY

Pursuant to the Catalogue for the Guidance of Foreign Investment Industries (amended in 2007) (《外商投資產業指導目錄(2007年修訂)》) effective on December 1, 2007, foreign investment in the exploration, exploitation and design of iron mines is categorized as an encouraged investment. According to the Comments Regarding Further Encouraging Foreign Investment (《關於當前進一步鼓勵外商投資的意見》), effective on August 3, 1999 and the Provisions on Guiding the Foreign Investment Direction (《指導外商投資方向規定》), effective on April 1, 2002, an encouraged foreign investment is entitled to receive certain benefits and incentives from the PRC government.

PRC LAWS RELATING TO FOREIGN EXCHANGE

Pursuant to the Regulations on Foreign Exchange Control of the PRC (《中華人民共和國外匯管理條例》) promulgated on January 29, 1996, effective on April 1, 1996 and amended on August 5, 2008, payments made in foreign currencies for international transactions, such as the sale or purchase of goods, are not subject to PRC governmental control or restrictions. Certain organizations in the PRC, including foreign-invested enterprises, may purchase, sell and/or remit foreign currencies at certain banks authorized to conduct foreign exchange business upon providing valid commercial documents. However, approval from the SAFE is required if the transaction involves a transfer of capital, such as an overseas investment by a domestic company.

Pursuant to the Circular of the SAFE on Relevant Issues concerning Foreign Exchange Administration of Financing and Return Investments Undertaken by Domestic Residents through Overseas Special Purpose Vehicles (《關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知》) ("SAFE Circular No. 75"), promulgated on October 21, 2005 and effective on November 1, 2005, (a) a PRC citizen (a "PRC Resident") must register with the local SAFE branch before he or she establishes or controls an overseas special purpose vehicle ("SPV") for the purpose of conducting overseas equity financing; (b) when a PRC Resident contributes assets or equity interests to an overseas SPV; or engages in overseas financing after contributing assets or equity interests in a domestic enterprise to an overseas SPV, such PRC Resident must register his or her interest in the overseas SPV or any change to his or her interest in the overseas SPV with the local SAFE branch; and (c) when the overseas SPV undergoes a material change in capital outside the PRC, such as a change in share capital or merger and acquisition, the PRC Resident must, within 30 days after the occurrence of such event, register such change with the local SAFE branch. Pursuant to SAFE Circular No. 75, failure to comply with these registration procedures may result in penalties, including the imposition of restrictions on a PRC subsidiary's foreign exchange activities and its ability to distribute any dividends to the overseas SPV.

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On July 21, 2005 the PBOC issued a Public Announcement of the PBOC on Improving the Reform of the RMB Exchange Rate Regime (《中國人民銀行關於完善人民幣匯率形成機制改革的公告》), which announced that the PRC would reform the exchange rate regime by using a managed floating exchange rate, which is pegged to a basket of currencies, instead of being pegged to the US Dollar.

PRC LAWS RELATING TO QUALITY

The revised Product Quality Law of the PRC (《中華人民共和國產品質量法》) was promulgated on July 8, 2000 and became effective on September 1, 2000. The State Council's product quality supervision authority is in charge of the nationwide supervision of product quality, while the local product quality supervision authority at or above the county level is responsible for supervising the product quality within its administrative regions. Producers and sellers shall establish internal quality management systems, implement strict job quality specifications and corresponding quality evaluation procedures. The State encourages the enterprises to ensure that the quality of their products achieve and surpass the industrial, national and international standards.

PRC LAWS RELATING TO ENVIRONMENTAL PROTECTION

The PRC laws and regulations on environmental protection include the Environmental Protection Law of the PRC (《中華人民共和國環境保護法》) promulgated and effective on December 26, 1989; the Air Pollution Prevention of the PRC (《中華人民共和國大氣污染防治法》) revised on April 29, 2000 and effective on September 1, 2000; the Law of the PRC on the Prevention and Control of Water Pollution (《中華人民共和國水污染防治法》) revised on February 28, 2008 and effective on June 1, 2008 and the related implementing regulations (《中華人民共和國水污染防治法實施細則》) promulgated and effective on March 20, 2000; the Rules on the Administration concerning Environmental Protection of Construction Projects (《建設項目環境保護管理條例》) promulgated and effective on November 29, 1998 and the Regulations on Administration concerning the Environmental Protection Acceptance Check on Construction Projects (《建設項目竣工環境保護驗收管理辦法》) promulgated on December 27, 2001 and effective on February 1, 2002.

Pursuant to the laws and regulations stated above, an enterprise that discharges and dispenses toxic and hazardous materials including waste water, solid waste and waste gases, shall comply with the applicable national and local standards, as well as reporting to and registering with the applicable environmental protection authority. Failure to comply could result in a warning, an order, or a penalty against the enterprise. Before commencing a construction project, an environmental impact assessment report must be submitted to the relevant environmental protection authority for approval. An acceptance inspection by the relevant environmental protection authority is required before the completed project can commence its operations.

PRC LAWS RELATING TO GEOLOGICAL ENVIRONMENT PROTECTION

Pursuant to the Sichuan Interim Regulations on the Management of Security Deposits for the Restoration of the Geological Environment of Mines (《四川省礦山地質環境恢復治理保證金管理暫行辦法》) promulgated on March 20, 2008 and effective on May 1, 2008, (a) a holder of mining rights shall pay a security deposit to guarantee performance of obligations to restore the geological environment of the relevant mines; (b) the amount of the first installment of the security deposit shall not be less 20% of the total amount, provided that the effective term of the relevant mining permit is 11 to 20 years (inclusive) and the remainder paid once per year in an amount that in each case shall not be less than

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20% of the remaining amount provided that the security deposit shall be fully paid at least one year prior to the expiration of the relevant mining permit; (c) the entire amount of security deposit collected shall be placed in a special account; (d) prior to the closure of a mine, the holder of the mining rights shall complete the restoration of the geological environment of the mine, apply for an inspection and submit a report regarding the restoration; and (e) the security deposit together with interest shall be refunded if the inspection is satisfactory; otherwise, the relevant land and resources authority shall organize the restoration using the security deposit and the mine owners shall be liable for any shortfall if the security deposit is insufficient.

PRC LAWS RELATING TO PRODUCTION SAFETY

Pursuant to the Production Safety Law of the PRC (《中華人民共和國安全生產法》) promulgated on June 29, 2002 and effective on November 1, 2002 and the Law of the PRC on Safety in Mines (《中華人民共和國礦山安全法》) and its related implementation rules (《實施條例》) promulgated on November 7, 1992 and October 30, 1996 and effective on May 1, 1993 and October 30, 1996, respectively, (a) safety facilities in mine construction projects must be designed, constructed and put into operation at the same time as the commencement of the principal parts of the projects; (b) the design of a mine shall comply with the safety rules and technological standards of the mining industry and shall be approved by the relevant authorities; and (c) such mines may start production or operations only after they have passed the safety check and approval process as required by the relevant laws and administrative regulations.

The Regulation on Work Safety Licenses (《安全生產許可證條例》) was promulgated and became effective on January 13, 2004. Pursuant to the regulation, (a) the work safety licensing system is applicable to any enterprise engaging in mining and such enterprise may not produce any products without obtaining a work safety license; (b) prior to producing any products, the mining enterprise shall apply for a work safety license, which is valid for three years; and (c) if a work safety license needs to be extended, the enterprise must apply for an extension with the administrative authority who issued the original license three months prior to the expiration of the original license.

PRC LAWS RELATING TO LABOR

The PRC Labor Law (《中華人民共和國勞動法》) was promulgated on July 5, 1994 and effective on January 1, 1995 and the PRC Labor Contract Law (《中華人民共和國勞動合同法》) was promulgated on June 29, 2007 and effective on January 1, 2008. If an employment relationship is established between an entity and its employees, written labor contracts shall be prepared. The relevant laws stipulate the maximum number of working hours per day and per week, respectively. Furthermore, the relevant laws also set forth the minimum wages. The entities shall establish and develop systems for occupational safety and sanitation, implement the rules and standards of the State on occupational safety and sanitation, educate employees on occupational safety and sanitation, prevent accidents at work and reduce occupational hazards.

Pursuant to the Regulations on Occupational Injury Insurance (《工傷保險條例》) promulgated on April 27, 2003 and effective on January 1, 2004 and the Interim Measures concerning the Maternity Insurance for Enterprise Employees (《企業職工生育保險試行辦法》) promulgated on December 14, 1994 and effective on January 1, 1995, PRC companies shall pay occupational injury insurance premiums and maternity insurance premiums for their employees.

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Pursuant to the Interim Regulations on the Collection and Payment of Social Insurance Premiums (《社會保險費征繳暫行條例》) promulgated and effective on January 22, 1999 and the Interim Measures concerning the Administration of the Registration of Social Insurance (《社會保險登記管理暫行辦法》) promulgated and effective on March 19, 1999, basic pension insurance, medical insurance and unemployment insurance are collectively referred to as social insurance. Both PRC companies and their employees are required to contribute to the social insurance plan.

Pursuant to the Regulations on the Administration of Housing Fund (《住房公積金管理條例》) promulgated and effective on April 3, 1999, as amended on March 24, 2002, PRC companies must register with the applicable housing fund management center and establish a special housing fund account in an entrusted bank. Both PRC companies and their employees are required to contribute to the housing fund and their respective deposits shall not be less than 5% of an individual employee's monthly average wage during the preceding year.

PRC LAWS RELATING TO TAXATION

Enterprise income tax

The New Tax Law became effective on January 1, 2008, replacing the Income Tax Law of the PRC on Enterprises with Foreign Investment and Foreign Enterprises (《中華人民共和國外商投資企業和外國企業所得稅法》) and Provisional Regulations of the PRC on Enterprise Income Tax (《中華人民共和國企業所得稅暫行條例》). The New Tax Law imposes a single uniform tax rate of 25% for most domestic enterprises and foreign-invested enterprises and contemplates various transitional periods and procedures. The Notification of the State Council on Carrying out the Transitional Preferential Policies concerning Enterprise Income Tax (《國務院關於實施企業所得稅過渡優惠政策的通知》) (the "Notification") which was promulgated and became effective on December 26, 2007 further clarifies that from January 1, 2008, the enterprises that enjoyed a "Two year exemption and three year half payment" of enterprise income tax and other preferential treatments in the form of periodic tax deductions and exemptions according to the then applicable tax laws, administrative regulations and relevant documents may, after the enactment of the Enterprise Income Tax Law, continue to enjoy such benefits until the expiration of the applicable period. Enterprises whose preferential treatment period has not commenced due to the fact that no profits had been generated in prior years will enjoy such preferential tax treatment beginning January 1, 2008 and lasting until the expiry of such period.

Resources tax

Pursuant to the Interim Regulations of the PRC on Resource Tax (《中華人民共和國資源稅暫行條例》) promulgated on December 25, 1993 and effective on January 1, 1994, any enterprise engaged in the exploitation of mineral products within the PRC is subject to pay a resource tax.

Pursuant to the Circular of the Ministry of Finance, the State Administration of the Taxation, on Adjusting the Policy on Resource Tax of Molybdenum Ore and Other Resources (《財政部、國家稅務總局關於調整鉬礦石等品目資源稅政策的通知》) promulgated on December 12, 2005 and effective on January 1, 2006, the resource tax rate on iron ore shall temporarily be adjusted to 60% of the standard rate.

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Value-added tax

Pursuant to the Notice of Value-added Tax Rate in Metal and Non-metal Mineral Dressing Products (《關於金屬礦非金屬礦採選產品增值稅稅率的通知》) promulgated on December 19, 2008 and effective on January 1, 2009, beginning from January 1, 2009 the value-added tax rate for metal and non-metal mineral dressing products, including iron ore, is adjusted from 13% to 17%.

PRC LAWS RELATING TO DIVIDEND DECLARATION

Pursuant to the Implementation Rules on the Sino-foreign Equity Joint Venture Law as amended in accordance with the Decision of the Implementation Rules on the Sino-foreign Equity Joint Venture Law (《中華人民共和國中外合資經營企業法實施條例》) promulgated and effective on September 20, 1983 and amended on July 22, 2001, the Sino-foreign equity joint venture shall pay certain taxes and allocate portions of its profits to the reserve funds, bonuses and welfare funds and expansion funds, prior to the declaration of dividends. The allocation proportion is decided by the board of directors of the Sino-foreign equity joint venture.

PRC LAWS RELATING TO LAND

Pursuant to the Land Administration Law of the PRC (《中華人民共和國土地管理法》) promulgated on June 25, 1986 and effective on January 1, 1987 and amended on August 28, 2004, land owned by the State and land collectively-owned by collective economic entities may be allocated and used by units or individuals according to the law. The ownership of land and land use rights registered according to the relevant laws shall be protected by law. In the case of temporary use of State-owned land or land collectively-owned by farmers for construction projects or by geological survey teams, approval shall be obtained from the land administrative department of the government at or above the county level. Land users shall sign contracts with relevant land administrative department or rural collective organizations or village committees for the temporary use of land, depending on the ownership of land and shall pay land compensation fees as stipulated in the contracts for the temporary use of land. The term for the temporary use of land shall generally not exceed two years.

Pursuant to the Implementation Rules on the Mineral Resources Law of the PRC (《中華人民共和國礦產資源法實施細則》) promulgated and effective on March 26, 1994, a mining rights holder shall have the right to obtain the land use rights according to the relevant laws for the purposes of production and construction.