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## PRC REGULATORY OVERVIEW

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### PRC Laws and Regulations Relating to the Industry

The sale and usage of coal mining products in the PRC must comply with The Interim Rules on the Administration of Safety Symbol for Coal Mining Products (《煤礦礦用產品安全標誌管理暫行辦法》), promulgated by the State Administration of Coal Mine Safety on 26 November 2001. The Coal Mining Products Safety Symbol, composed of a certificate and mark, is proof that the product meets national and industry safety standards. Products listed in the Coal Mining Products Catalogue which is distributed by the State Administration of Coal Mine Safety, are required to obtain the safety symbol. The Safety Symbol is issued by a certifying institution chosen by the State Administration of Coal Mine Safety. As at the Latest Practicable Date, we have obtained Safety Symbols for our products which are listed in the Coal Mining Products Catalogue.

The manufacture of explosion-protected electrical apparatus must comply with the Regulations on the Administration of Production Permits for Industrial Products (《工業產品生產許可證管理條例》), promulgated by the State Council of the PRC on 9 July 2005, and its Implementation Rules (《工業產品生產許可證管理條例實施辦法》), promulgated by the State Quality Inspection Bureau on 15 September 2005. Products listed in the Industrial Products Catalogue are subject to the Production Permit System; a manufacturer cannot produce any product listed in the Industrial Products Catalogue unless a Production Permit has been obtained. As at the Latest Practicable Date, we have obtained Production Permits for the manufacture of our explosion-protected electrical apparatus which are listed in the Coal Mining Products Catalogue.

### PRC Laws and Regulations Relating to Foreign Investment

Under the updated Industrial Guidance Catalogue for Foreign Investment (《外商投資產業指導目錄(2007年修訂)》), jointly issued by the NDRC and the Ministry of Commerce on 30 November 2004 and revised on 31 October 2007, effective on 1 December 2007, foreign investment in the "manufacturing of mining trolleys or loading and transporting devices : mechanical drive tippers for mines of 100 tons or more, mobile crushers, wheeled diggers of 3000m<sup>3</sup>/h or more, loading machines for mines of 5 m<sup>3</sup> or more, electric driving mining machines of 2000 kW or more, etc." is categorised as an encouraged investment. According to the Provisions on Guiding the Foreign Investment Direction (《指導外商投資方向規定》), and the Comments Regarding Further Encouraging Foreign Investment (《關於當前進一步鼓勵外商投資的意見》), an encouraged foreign investment is entitled to receive certain benefits and incentives from the government, mainly in terms of taxation.

Pursuant to the SAFE's Notice on Relevant Issues Concerning Foreign Exchange Administration for PRC Residents to Engage in Financing and Inbound Investment via Overseas Special Purpose Vehicles (《國家外匯管理局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》), which is called SAFE Circular No. 75, issued on 21 October 2005, effective on 1 November 2005, (i) a PRC citizen residing in the PRC (a "**PRC Resident**") must register with the local branch of SAFE before he or she may establish or control an overseas special purpose vehicle ("**SPV**") for the purpose of overseas equity financing (including convertible debt financing) with the assets of or equity interests in a domestic enterprise which is owned by he or she; (ii) when a PRC Resident contributes the assets of or its equity interests in a domestic enterprise to an overseas SPV, or engages in overseas financing after contributing assets or equity interests to an overseas SPV, such PRC Resident must register his or her interest in the overseas SPV or any

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changes to his or her interest in the overseas SPV with the local branch of SAFE; and (iii) when the overseas SPV undergoes a material event outside of China, such as 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 branch of SAFE.

Under SAFE Circular No. 75, failure to comply with the registration procedures may result in penalties, including imposition of restrictions on a PRC subsidiary's foreign exchange activities and its ability to distribute dividends to the overseas SPV.

On 8 August 2006, six PRC regulatory agencies, including the CSRC, enacted the Provisions Regarding Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (《關於外國投資者並購境內企業的規定》) (the "New M&A Rules") to regulate foreign investment in PRC domestic enterprises. The New M&A Rules provide that the Ministry of Commerce must be notified in advance of any transaction in which a foreign investor takes control of a PRC domestic enterprise, and if any of the following situations exists: (i) the transaction involves an important industry in China, (ii) the transaction may affect national "economic security", or (iii) the PRC domestic enterprise has a well-known trademark or historical Chinese trade name in China. The New M&A Rules contain a provision requiring overseas SPVs, formed for listing purposes through acquisitions of PRC domestic companies and controlled by PRC individuals, to obtain the approval of the CSRC prior to publicly listing their securities on an overseas stock exchange. On 21 September 2006, the CSRC issued a clarification that sets forth the criteria and process for obtaining any required approval from the CSRC.

### Tax Law

On 1 January 2008, the Foreign-funded Enterprise and Foreign Enterprise Income Tax Law of the PRC (《中華人民共和國外商投資企業和外國企業所得稅法》) was abolished, and the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》), promulgated on March 16, 2007, became effective. Pursuant to the Enterprise Income Tax Law of the PRC, the income tax rate for both domestic-funded enterprises and foreign-funded enterprises is 25%.

Pursuant to the Notice on the Implementation of the Enterprise Income Tax Transition Preferential Policy (《國務院關於實施企業所得稅過渡優惠政策的通知》), enacted by the State Council of the PRC on 26 December 2007, enterprises that had enjoyed the preferential policy that first two years full exemption and from the third to the fifth years half deduction of the income tax since the first profit-making year, shall continue to enjoy the former policy until the preferential period expired; enterprises that had not enjoyed the aforesaid preferential policy due to their failure to make profit shall enjoy the aforesaid preferential policy from 2008.

### Environmental Law

Manufacturing businesses are subject to PRC environmental laws and regulations, which include the PRC Environmental Protection Law (《中華人民共和國環境保護法》), PRC Law on the Prevention and Control of Water Pollution (《中華人民共和國水污染防治法》), PRC Law on the Prevention and Control of Atmospheric Pollution (《中華人民共和國大氣污染防治法》), PRC Law on the Prevention and Control of Pollution From Environmental Noise (《中華人民共和國環境雜訊污染防

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治法)), and the PRC Law on the Prevention and Control of Environmental Pollution by Solid Waste (《固體廢物污染環境防治法》) (collectively as the "**Environmental Laws**"). The Environmental Laws govern a broad range of environmental matters, including air pollution, noise emissions, sewage, and waste discharge.

According to the Environmental Laws, all business operations that may cause environmental pollution and other public hazards are required to incorporate environmental protection measures into their plans and establish a reliable system for environmental protection. These operations must adopt effective measures to prevent and control pollution levels and harm caused to the environment in the form of waste gas, liquid and solid waste, dust, malodorous gas, radioactive substances, noise, vibration, and electromagnetic radiation generated in the course of production, construction, or other activities.

According to the Environmental Laws, companies are also required to carry out an environment impact assessment before commencing construction of production facilities and install pollution treatment facilities that meet the relevant environmental standards to treat pollutants before discharge.

### **Labour and Safety Law**

The PRC has many labour and safety laws, including the PRC Labour Law (《中華人民共和國勞動法》), the PRC Labour Contract Law (《中華人民共和國勞動合同法》), the Regulation of Insurance for Work-Related Injury (《工傷保險條例》), the Unemployment Insurance Law (《失業保險條例》), the Provisional Measures on Insurance for Maternity of Employees (《企業職工生育保險試行辦法》), the Interim Provisions on Registration of Social Insurance (《社會保險登記管理暫行辦法》), the Interim Regulation on the Collection and Payment of Social Insurance Premiums (《社會保險費征繳暫行條例》), and other related regulations, rules and provisions issued by the relevant governmental authorities from time to time for operations in the PRC.

According to the PRC Labour Law (《中華人民共和國勞動法》) and the PRC Labour Contract Law (《中華人民共和國勞動合同法》), labour contracts in written form shall be executed to establish labour relationships between employers and employees. Wages cannot be lower than local minimum wage. The company must establish a system for labour safety and sanitation, strictly abide by state standards, and provide relevant education to its employees. Employees are also required to work in safe and sanitary conditions meeting State rules and standards, and carry out regular health examinations of employees engaged in hazardous occupations.

As required under the Regulation of Insurance for Work-Related Injury (《工傷保險條例》), the Provisional Measures on Insurance for Maternity of Employees (《企業職工生育保險試行辦法》), the Interim Regulation on the Collection and Payment of Social Insurance Premiums (《社會保險費征繳暫行條例》), and the Interim Provisions on Registration of Social Insurance (《社會保險登記管理暫行辦法》), companies are obliged to provide employees in the PRC with welfare schemes covering pension insurance, unemployment insurance, maternity insurance, injury insurance and medical insurance.

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Companies are subject to the PRC Production Safety Law (《中華人民共和國安全生產法》) (the "**Production Safety Law**"), which requires that safe production conditions as required by the Production Safety Law and other relevant laws, administrative regulations, national standards and industrial standards in respect of our manufacturing business are maintained. It further provides that any entity that is not sufficiently equipped to ensure safe production may not engage in production and business operation activities, and that companies must provide production safety education and training programs to employees. The design, manufacture, installation, use, checking, and maintenance of the safety equipment are required to conform with applicable national or industrial standards. In addition, labour protection equipment must meet national or industrial standards, and companies must supervise and educate their employees to wear or use such equipment according to the prescribed rules.