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### INDUSTRY CATALOGUE AND FOREIGN INVESTMENT RESTRICTIONS

The principal regulation governing foreign ownership of mineral resources business, including the exploration, mining and processing of iron ore, in the PRC is the foreign investment catalogue, which has been amended from time to time by the PRC Government. On 31 October 2007, the NDRC and MOFCOM jointly promulgated an amended catalogue, 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)》), (“the Catalogue”), which came into effect on 1 December 2007. The Catalogue lists those industries and economic activities in which foreign investment in the PRC is encouraged, restricted or prohibited. Under PRC laws and regulations, industries that do not fall within one of the three enumerated categories, but which conform to relevant PRC laws, regulations and policies, shall be classified as permitted.

Under the current Catalogue, the exploration, mining and processing of iron ore is classified as an encouraged foreign investment industry; previously it was classified as a permitted foreign investment industry.

One of the principal implications of an industry being classified as an encouraged or permitted foreign investment industry is that relatively higher total investment may be made without approval by central authorities in the PRC, while a relatively lower total investment requires approval by central authorities for an industry classified as a restricted foreign investment industry. According to the *Interim Provisions on Approving Foreign Investment Project* (《外商投資項目核准暫行管理辦法》) promulgated by the NDRC in October 2004, a restricted foreign investment project with a total investment of US\$50 million or more requires approval by the NDRC at the central level, while an encouraged or permitted foreign investment project with a total investment of US\$100 million or more requires approval by the NDRC at the central level. Other foreign investment projects with total investments below these amounts would require only approval at the local levels of the NDRC. According to the Opinions on Improving the Utilization of Foreign Capital (《關於進一步做好利用外資工作的若干意見》) promulgated by State Council on 6 April 2010, an encouraged or permitted foreign investment project with a total investment of US\$300 million or more would require approval by central authorities, while an encouraged or permitted foreign investment project with a total investment of less than US\$300 million would only require approval by local authorities. NDRC and MOFCOM have issued specific guidelines to implement the Opinions on Improving the Utilization of Foreign Capital. Under PRC laws and regulations, the criteria for obtaining approval for fixed-asset investments include the following:

- complying with the provisions of relevant state laws and regulations and the *Catalogue for the Guidance of Foreign Investment Industries* (《外商投資產業指導目錄》) and *Catalogues of Advantageous Industry for Foreign Investment in Midwest China* (《中西部地區外商投資優勢產業目錄》);
- complying with the requirements of medium and long term country economic and social development guidelines, industry guidelines and industry structure adjustment policy;
- complying with relevant public interest and anti-trust policies of the state;
- complying with requirements relating to the guidelines of land usage, the general guidelines of the municipality and environmental protection policies;
- complying with the required technical standards of the state; and
- complying with relevant provisions for management of the capital account and foreign debt of the state.

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In July 2008, NDRC issued the *Notice on Further Reinforcing and Regulating the Administration of Foreign Investment Projects* (《關於進一步加強和規範外商投資項目管理的通知》), which requires that capital expansion and reinvestment projects of foreign-invested enterprises get approval from NDRC or its local counterparts.

As advised by our PRC legal advisor, King & Wood, we have complied with the relevant laws and regulations pertaining to the foreign investment industry catalogue.

### PRC LAWS RELATING TO THE MINERAL INDUSTRY

The *Mineral Resource Law of the PRC* (《中華人民共和國礦產資源法》) promulgated on 19 March 1986, effective on 1 October 1986 and amended on 29 August 1996, and its implementation rules promulgated on 26 March 1994 set forth the following provisions, among others:

- (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 mining of mineral resources nationwide; departments in charge of geology and mineral resources, of each provinces, autonomous regions or municipalities are responsible for the supervision and administration of the exploration and mining of mineral resources within its respective administrative regions; and
- (c) an enterprise that intends to explore and mine mineral resources shall apply for each exploration right and mining right, respectively according to the relevant PRC laws, regulations and policies, and is required to undergo the registration process for each of the exploration right and mining right, unless the mining enterprise which intends to conduct exploration operations for its own production within the defined mining areas has previously obtained the mining right.

Pursuant to the *Provisions on the Administration of the Levy of Mineral Resources Compensation* (《礦產資源補償費徵收管理規定》) promulgated on 27 February 1994, effective on 1 April 1994 and amended on 3 July 1997, mineral resources compensation shall be paid by the holder of mining rights if the holder decides to mine mineral resources within PRC territory. Unless PRC laws or administrative regulations provide otherwise; the resources compensation levy shall be calculated in accordance with the following formula:

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

*The Administrative Measures 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 12 February 1998. Under 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 permit if there is any change in the scope of the mining area, the main exploited mineral categories, the mining mode, the name of the mining enterprise and/or the transfer of the mining right according to the relevant law. If continuation of mining is necessary after the expiration of the mining permit, 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 permit. If the mining right holder fails to apply for an extension prior to the expiration of the term, the mining permit shall terminate automatically. In addition, the mining right holder is required to pay a mining right use fee (採礦權使用費), which is RMB1,000 per km<sup>2</sup> per year. Furthermore, if an applicant applies for the mining right of a mine and the mine’s exploration is financed by the state, then the applicant shall pay mining fees (採礦權價款) to the Department of Land and Resources. The mining fees shall be appraised by an appraisal agency approved

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by the relevant department of land and resources, and the appraisal result shall be confirmed by the relevant department of land and resources.

On 26 June 2010 the government of Hebei Province enacted the *Proposed Administration Measures for Payment of Mining Right Fees of Hebei Province* (《河北省礦業權價款繳納管理辦法(試行)》) (the “Measures”). Under the Measures, Mining Right Fees include exploration fees and mining fees, and the amount of mining fees payable is set equal to the amount of reserves multiplied by the payment criterion. According to the appendix to the Measures, the payment criterion for iron mine fees changes as the ore grade changes; the Measures set the payment criterion for an iron mine with ore grade lower than 20% at RMB2/tonne. Pursuant to the Measures, the payment criterion may be adjusted based on the extent of the prior exploration work and the depth of mining. If an applicant seeks to convert an exploration right into a mining right or if an applicant seeks to establish a new mining right, the Measures provide a formula to calculate the mining right fees for the application. If an applicant has not previously fully paid the required mining fees for a mining right established before the enactment of the Measures, the applicant will be required to pay mining fees in accordance with the Measures. If an applicant applies for an increased quota to mine reserves under an established mining right, then the applicant shall pay additional fees in accordance with the Measures.

Pursuant to the *Notice on Regulations regarding 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 Ministry of Land and Resources of PRC on 10 April 1998, in deciding on whether to issue an exploration permit, the registration authority shall, after receiving the enterprise’s application materials for an exploration permit and the investigation results of the low-level registration authority, but before issuing an exploration permit, determine:

- whether any other applicant has previously submitted an Application Letter with respect to the area covered by the application;
- whether the filing of the Application Registration Form is in line with the relevant filing requirements, whether the appendix is completed, whether the submitted application materials comply with relevant requirements;
- whether the area covered by the application is larger than the permitted maximum area for the application and is contiguous;
- whether any exploration right or mining right has been granted for the area covered by the application;
- with respect to an application for an area with respect to which the government paid for the exploration, and the exploration and mineral exploration rights have been approved, whether there is any evaluation of the exploration right price, whether the evaluation result has been confirmed by the mining administration authority at the state level, whether the settlement method of the exploration right price has been approved by a competent authority;
- whether the applicant has written off any exploration right with respect to the area covered by the application within 90 days prior to the application submission; and
- whether the PRC government had previously cancelled an exploration permit of the applicant within six months prior to the current application submission.

An enterprise that intends to apply for mining rights and permits must apply to the registration authority (that is the local Department of Land and Resources) for the approval of the range of the mining area first and begin construction of the mining project; then the registration authority shall, after receiving the enterprise’s application materials for a mining permit and the results of the investigation of the lower-level registration authority, examine the following aspects before issuing a mining permit:

- whether the applied range and area is consistent with the approved mining area by the registration authority;

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- whether the production quantity has changed and whether it complies with the planned utilization of mineral reserves;
- whether the designed mine life of the mines is reasonable;
- whether the integrated exploration, use and recycling of mining resources are reasonable;
- whether the applicant for mining right meets the prescribed qualifications; and
- other aspects required for inspection.

According to the *Administration Measures for the Registration of Exploration Area of Mineral Resources* (《礦資源勘查區塊登記管理辦法》) (promulgated and effective on 12 February 1998), an applicant who applies for the exploration right of a mine and the mine's exploration is financed by the state, the applicant shall pay exploration fees (探礦權價款) in addition to the exploration right use fee (探礦權使用費), which is no more than RMB500 per km<sup>2</sup> per year, to the relevant department of land and resources. The exploration fees shall be appraised by an appraisal agency approved by the relevant department of land and resources and the appraisal result shall be confirmed by the relevant department of land and resources.

As advised by our PRC legal advisor, King & Wood, our current exploration and mining operations are in compliance with the relevant laws and regulations pertaining to the Mineral Resources Law and its implementation regulations.

### PRC LAWS RELATING TO PRODUCTION SAFETY

The *Production Safety Law of the PRC* (《中華人民共和國安全生產法》) promulgated on 29 June 2002, effective on 1 November 2002 and amended on 27 August 2009, and the *Law of the PRC on Safety in Mines* (《中華人民共和國礦山安全法》) promulgated on 7 November 1992 and amended on 27 August 2009, and its related implementation rules promulgated on 30 October 1996, set forth the following provisions, among others:

- (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 government authorities;
- (c) such mines may start production or operations only after they have passed the safety inspection and approval process as required by the relevant PRC laws and administrative regulations.

The *Regulations on Production Safety Permits* (《安全生產許可證條例》) promulgated on 13 January 2004 set forth the following provisions, among others:

- (a) the production safety licensing system is applicable to any enterprise engaging in mining and such enterprise may not be engaged in any production activities without obtaining a production safety permit;
- (b) prior to producing any products, the mining enterprise shall apply for a production safety permit, which is valid for a period of three years;
- (c) if a production safety permit needs to be extended, the enterprise must apply for an extension with the competent government authority who issued the original permit three months prior to the expiration of the original permit.

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In addition, according to this regulation, we are required to have the following production safety qualifications in order to obtain the production safety permits:

- establishing and improving a production safety system consisting of chief responsible person, deputy responsible persons, management staff for production safety, functional departments and posts, post production safety responsibility system; establishment of system of safety review, occupational disease prevention, safety education and training, production safety accident management, monitoring major hazard sources and rectifying major hidden dangers, equipment safety management, production safety management, and rewards and penalties with regard to production safety; and establishment of rules and regulations of operation security tailored to different types of activities;
- compliance with production safety requirements concerning safety investment, fully withdrawing production safety fees and paying production safety risk deposits and depositing such deposits in fixed accounts pursuant to relevant laws and regulations;
- establishing a management organization for production safety, or maintaining full-time members from management dedicated to production safety;
- obtaining safety qualification certificates for the person primarily responsible for production safety, as well as members from management also responsible for production safety, after passing an examination with SAWS;
- for technical personnel, obtaining a technical operation qualification certificate after passing an examination with the relevant competent government department;
- for other operational personnel, receiving production safety education and training pursuant to rules and passing an examination.
- duly registering for employment injury insurance and paying any required insurance premium;
- formulating specific control measures against occupational hazards, and providing employees with safety equipment that complies with relevant national or industrial standards;
- all the building, rebuilding and expansion projects shall be legally assessed through safety evaluation and all the safety devices shall pass an examination and acceptance procedure with the Administration of Work Safety;
- dangerous equipment shall be periodically examined and checked according to relevant national regulations;
- formulating a contingency plan for accidents, setting up a group for emergency management and rescue, providing equipment for emergency management and rescue; establishing an organization for emergency management and rescue is not mandatory for smaller plants but a part-time emergency rescue commander must be in place to work together with the mine rescue team or other organization for emergency management and rescue; and
- complying with other conditions required by relevant national standards and industrial standards.

In addition, the *Implementation Measures on the Production Safety Permits of Non-coal Mining Enterprises* (《非煤礦山企業安全生產許可證實施辦法》) promulgated on 8 June 2009 sets forth the conditions and procedures for non-coal mining enterprises to apply for production safety permits.

According to the confirmation letter dated 3 May 2011 issued by the Lincheng County Supervision and Administration Bureau of Production Safety (“臨城縣安全生產監督管理局”), we have complied with the relevant laws and regulations pertaining to production safety. Our Directors have confirmed that we, during the period from the issuance date of the confirmation letter to the Latest Practicable Date, have

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dealt with production safety related matters pursuant to the same requirements and standards that we followed before we obtained the confirmation letter. Our PRC legal advisor, King & Wood, has confirmed that there has been no material change to the relevant laws and regulations pertaining to production safety since the issuance date of the confirmation letter.

### **PRC LAWS RELATING TO THE PRODUCTION OF METALLURGY MINERAL PRODUCTS**

Pursuant to the Rules on the Supervision and Administration of Production and Trading of Metallurgy Mineral Products of Hebei Province (《河北省冶金礦產品生產經營監督管理條例》) promulgated on 29 September 2006 and effective on 1 November 2006, “metallurgy mineral products” (冶金礦產品) include, but are not limited to, iron and other metals. The “production of metallurgy mineral products” includes, but is not limited to, mining and processing, and the entity engaged in mining and processing of metallurgy mineral products shall, after the entity has obtained the relevant business license, mining permit and production safety permits, apply to the relevant government authority for production permits for metallurgy mineral products.

### **PRC LAWS RELATING TO PRODUCT QUALITY**

The revised *Product Quality Law of the PRC* (《中華人民共和國產品質量法》) was promulgated on 8 July 2000 and amended on 27 August 2009. The product quality supervision authority under the State Council is in charge of the nationwide supervision of product quality, while local product quality supervision authorities at or above the county level are responsible for supervising product quality within their respective administrative regions. Manufacturers and sellers shall establish internal quality management systems, implement strict working quality specifications and corresponding quality evaluation procedures. The State encourages the enterprises to ensure that the quality of their products achieve and surpass industrial, national and international standards.

### **PRC LAWS 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 *Environmental Protection Law of the PRC* (《中華人民共和國環境保護法》, the “Environmental Protection Law”), sets out the legal framework for environmental protection in the PRC. MEP is primarily responsible for the supervision and administration of environmental protection work nationwide and formulating the national waste discharge limits and standards. Local environmental protection bureaus are responsible for environmental protection in their jurisdictions.

Enterprises causing environmental contamination and other public hazards must incorporate environmental protection measures into their planning and establish environmental protection systems. Those enterprises should also adopt effective measures to prevent contamination and hazards to the environment, such as waste gas, waste water, solid waste, dust, pungent gases and radioactive material as well as noise, vibration and magnetic radiation. Enterprises discharging contaminants in excess of the discharge limits prescribed by the MEP must pay non-standard discharge fees for the excess in accordance with applicable regulations, and assume responsibility for the treatment of the excessive discharge.

In accordance with the Environmental Protection Law, enterprises that discharge contaminants must report to and register with the relevant local environmental protection authorities. In accordance with the *Law on Prevention of Water Pollution of the PRC* (《中華人民共和國水污染防治法》), or the Law on Prevention of Water Pollution, enterprises which discharge industrial waste water shall obtain waste discharge permits. Enterprises discharging contaminated waste directly or indirectly into water must also report and register their contaminated wastes discharge facilities and processing facilities and the types, amounts and concentrations of contaminated wastes discharged under normal operating conditions and

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provide technical information regarding the prevention and cure of water contamination to and with the local environmental protection departments. The department in charge will examine the volume of contaminants discharged by an enterprise based on the implementation plan to control the gross volume of contaminants and will then issue waste discharge permits to those whose discharge volume does not exceed the control index for the gross volume of discharge. Under the *Law on Prevention and Control of Atmosphere Pollution of the PRC* (《中華人民共和國大氣污染防治法》), (the “Law on Prevention and Control of Air Pollution”, enterprises and institutions obliged to control their total emission of air pollutants must only emit pollutants according to verified and approved standards for the total emission of major air pollutants and the conditions of emission provided by the waste discharge permits.

The *Administrative Regulations on Environmental Protection for Construction Projects* (《建設項目環境保護管理條例》) implement an environmental impact evaluation system for construction projects. An environmental impact assessment report, an environmental impact form or an environmental registration form must be submitted to the relevant environmental protection government authorities before an enterprise may commence construction of a project which may have an impact on the environment. After the completion of a construction project, an enterprise must pass an environmental acceptance inspection of the environmental protection facilities for the construction project by the relevant environmental protection government authority before the completed project can commence operations. Furthermore, the *Regulations on Administration concerning the Environmental Protection Acceptance Inspection on Construction Projects* (《建設項目竣工環境保護驗收管理辦法》) promulgated on 27 December 2001 and effective on 1 February 2002, set forth the specific procedures and requirements for environmental protection acceptance inspections. According to this regulation, the criteria for obtaining approval for inspection of the environmental protection facilities include the following:

- all environmental protection examination or approval procedures required in the early stage of the construction project have been completed; the technical information and environmental protection files and materials are complete;
- such environmental protection facilities or other measures as required by the approved environmental impact reports (forms) or environmental registration forms and design documents have been built or adopted; environmental protection facilities have passed the test on a actual-operation basis, the waste prevention capacity of which satisfies the need of the primary construction project;
- the installation quality of environmental protection facilities complies with examination and acceptance rules, procedures and examination evaluation standards for standardized projects promulgated by the state and the competent government authorities;
- conditions for the due operation of environmental protection facilities have been met, including qualified operators after training, sound post-practice procedures and the corresponding rules and systems, availability of raw material and power supply, satisfaction of other requirements for the due operation;
- waste discharges satisfy the standards set forth in environmental impact reports (forms) or environmental registration forms and design documents and the approved requirements for the overall volume of waste discharge control index therein;
- all ecological protection measures have been adopted pursuant to environmental impact reports (forms); measures have been taken for the restoration of the environment which has been damaged during the construction phase of the construction project;
- environmental supervision and test projects, locations, establishment of responsible organizations and dedicated manpower comply with the requirements of environmental impact reports (forms) and other relevant stipulations;

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- where environmental impact reports (forms) require that environmental impact verification be conducted on sensitive areas for environmental protection, the production must be examined in accordance with an index and the construction environmental supervision process should be undertaken for the implementation of environmental protection measures during the construction phase, all such requirements have been satisfied; and
- where environmental impact reports (forms) require that construction companies should adopt measures to reduce waste discharge of other facilities or local government authorities, in which such construction projects are located, adopt “regional reduction” measures for the purpose of satisfaction of overall volume of waste discharge control requirements, such measures have been taken.

Pursuant to the Law on Prevention of Water Pollution, the Law on Prevention and Control of Air Pollution and the *Administrative Regulations on Levy and Utilization of Sewage Discharge Fees* (《排污費徵收使用管理條例》), enterprises which discharge water or air contaminants must pay discharge fees according to the type, volume and concentration of discharged contaminants. The discharge fees are calculated by the local environmental protection authority which shall review and verify the type, volume and concentration of discharged contaminants. Once the discharge fees have been calculated, a notice on payment of discharge fees shall be issued to the relevant enterprise. 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. 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.

Pursuant to the Mineral Resources Law, the *Land Administration Law of the PRC* (《中華人民共和國土地管理法》) and the Rules on Land Rehabilitation (《土地複墾規定》), mining 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.

The penalties for breaches of the environmental protection laws vary from warnings and fines to administrative sanctions, depending on the degree of damage. Administrative sanctions, in addition to fines, include impositions of deadlines for remedying the contamination, orders to stop production or use, orders to re-install contamination prevention and treatment facilities which have been removed or left unused, administrative actions against relevant responsible persons or companies, or orders to close down those enterprises. Where the violation is serious, the persons or companies responsible for the violation may be required to pay damages to victims of the contamination. For serious breaches of the Environmental Protection Law resulting in significant damage to private or public property or personal injury or death, persons or enterprises directly responsible for such contamination may be held criminally liable.



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According to the confirmation letter dated 18 May 2011 issued by the Administration of Environmental Protection of Xingtai City (“邢台市環境保護局”), we have complied with the relevant laws and administrative regulations pertaining to environmental protection. Our Directors have confirmed that we, during the period from the issuance date of the confirmation letter to the Latest Practicable Date, have dealt with environment protection related matters pursuant to the same requirements and standards that we followed before we obtained the confirmation letter. Our PRC legal advisor, King & Wood, has confirmed that there has been no material change to the relevant laws and regulations pertaining to environment protection since the issuance date of the confirmation letter.

### PRC LAWS RELATING TO LAND

The *Land Administration Law of the PRC* (《中華人民共和國土地管理法》) promulgated on 25 June 1986, effective on 1 January 1987 and amended on 28 August 2004, distinguishes between the ownership of land and the right to use land. All land in the PRC is either state-owned or collectively owned, depending on the location of the land. All land in the urban areas of a city or town is state-owned, and all land in the rural areas and all farm land is, unless otherwise specified by law, collectively owned. The State has the right to resume its ownership of land or the right to use land in accordance with law if required for the public interest.

Although all land in the PRC is owned by the State or by collectives, individuals and entities may obtain land use rights and hold such land-use rights for development purposes. Individuals and entities may acquire land use rights in different ways, the two most important being land grants from local land authorities and land transfers from land users who have already obtained land use rights. The ownership of land and land use rights registered according to relevant laws shall be protected by law.

Under the *Interim Regulations of the People’s Republic of China on Grant and Assignment of the Use Right of State-owned Urban Land* (《城鎮國有土地使用權出讓和轉讓暫行條例》) promulgated by the State Council in May 1990, China adopted a system to grant and assign the right to use state-owned land. A land user must pay a land premium to the state in consideration for the grant of the right to use a land site within a specified period of time, and the land user may assign, lease out, mortgage or otherwise commercially exploit the land use rights within the term of use. Under the relevant PRC laws and regulations, the land administration authority at the city or county level may enter into a land use rights grant contract with the land user to provide for the grant of land use rights. The land user must pay the land premium as provided by the land use rights grant contract. Under the *Regulation on Grant of State-owned Land Use Rights by Agreements* (《協議出讓國有土地使用權規定》) promulgated by the MLR on 11 June 2003, except for projects that must be granted through tender, auction and listing as required by relevant laws and regulations, land use rights may be granted through transfer by agreement and the land premium payable for the transfer by agreement of the state-owned land use rights shall not be lower than the benchmark land price.

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 26 March 1994, a mining right holder shall have the right to obtain the land use rights according to the relevant PRC laws for the purposes of production and construction.

### PRC LAWS RELATING TO FOREIGN EXCHANGE

Pursuant to the *Regulations of the PRC on Administration of Foreign Exchange* (《中華人民共和國外匯管理條例》) promulgated on 29 January 1996, effective on 1 April 1996 and amended on 5 August 2008, current account transactions, such as 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 to such banks. However, approval of the State Administration of Foreign Exchange, (“SAFE”), is required for capital account transactions.

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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 21 October 2005 and effective on 1 November 2005,

- (a) a PRC citizen or enterprises, or a PRC Resident, must register with the local SAFE branch before he, she or it establishes or controls an overseas special purpose vehicle, or SPV, for the purpose of obtaining overseas equity financing using the assets of or equity interests in a domestic enterprise;
- (b) 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 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;
- (c) when the overseas SPV undergoes a material event 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.

On 21 July 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 U.S. dollar.

### PRC LAWS RELATING TO LABOR

The *PRC Labor Law* (《中華人民共和國勞動法》) promulgated on 5 July 1994 and effective on 1 January 1995 and the *PRC Labor Contract Law* (《中華人民共和國勞動合同法》) promulgated on 29 June 2007 and effective on 1 January 2008, govern the establishment of employment relationships between employers and employees, and the conclusion, performance, termination of, and amendment of employment contracts. To establish an employment relationship, a written employment contract must be signed. Other labor-related regulations and rules stipulate maximum number of working hours per day and per week. Furthermore, other labor-related regulations and rules also set forth minimum wages. Entities must establish and develop systems for occupational safety and sanitation, implement rules and standards for national occupational safety and sanitation, educate employees on occupational safety and sanitation, prevent accidents at work and reduce occupational hazards.

Pursuant to the *Interim Regulations on the Collection and Payment of Social Insurance Premiums* (《社會保險費徵繳暫行條例》) promulgated and effective on 22 January 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 19 March 1999, basic pension insurance, medical insurance and unemployment insurance are collectively referred to as social insurance. PRC companies and their employees are each required to contribute to the social insurance plan.

Pursuant to the *Regulations on Occupational Injury Insurance* (《工傷保險條例》) promulgated on 27 April 2003 and effective on 1 January 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 14 December 1994 and effective on 1 January 1995, PRC companies must pay occupational injury insurance premiums and maternity insurance premiums for their employees.

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## REGULATION

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Pursuant to the *Regulations on the Administration of Housing Fund* (《住房公積金管理條例》) promulgated and effective on 3 April 1999, as amended on 24 March 2002, PRC companies must register with the applicable housing fund management center and establish a special housing fund account in an entrusted bank. Each of the 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.

According to the confirmation letter dated 3 May 2011 issued by the Human Resources and Social Security Bureau of Lincheng County (《臨城縣人力資源和社會保障局》), we have complied with the relevant laws and administrative regulations pertaining to labor. Our Directors have confirmed that we, during the period from the issuance date of the confirmation letter to the Latest Practicable Date, have dealt with labor related matters pursuant to the same requirements and standards that we followed before we obtained the confirmation letter. Our PRC legal advisor, King & Wood, has confirmed that there has been no material change to the relevant laws and regulations pertaining to labor since the issuance date of the confirmation letter.

### PRC LAWS RELATING TO TAXATION

#### *Enterprise Income Tax*

The *Enterprise Income Tax Law of the PRC* (《中華人民共和國企業所得稅法》) (the "Income Tax Law"), became effective on 1 January 2008 and replaced 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 Income Tax Law imposes a single uniform tax rate of 25% for most domestic and foreign-invested enterprises.

#### *Resource 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》) and its implementation rules promulgated on 25 December 1993 and on 1 January 1994, any enterprise engaged in the mining of mineral products within the PRC is subject to pay a resource tax. Iron ore production from the Yanjiazhuang Mine will be subject to a resource tax of RMB7.20/tonne.

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 12 December 2005 and effective on 1 January 2006, the resource tax rate on iron ore shall temporarily be adjusted to 60% of the standard rate.

#### *Value-added Tax*

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

We are also subject to a city-maintenance and construction levy of 1% of the VAT and an education levy of 4% of the VAT.

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## REGULATION

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According to the confirmation letters dated 3 May 2011 and 4 May 2011 issued by the Chengqu Branch of the Lincheng State Taxation Bureau and the Lincheng Local Taxation Bureau respectively, we have complied with the relevant laws and administrative regulations pertaining to taxation. Our Directors have confirmed that we, during the period from the issuance date of the confirmation letters to the Latest Practicable Date, have dealt with tax related matters pursuant to the same requirements and standards that we followed before we obtained the confirmation letter. Our PRC legal advisor, King & Wood, has confirmed that there has been no material change to the relevant laws and regulations pertaining to tax since the issuance date of the confirmation letter.

### PRC LAWS RELATING TO DIVIDEND DECLARATION

Pursuant to the *Sino-foreign Equity Joint Venture Law of the PRC* (《中華人民共和國中外合資經營企業法》) promulgated and effective on 8 July 1979 and amended on 4 April 1990 and 15 March 2001 and the *Implementation Rules of the PRC 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 20 September 1983 and amended on 15 January 1986, 21 December 1987 and 22 July 2001, the incorporation of a Sino-foreign equity joint venture shall be approved by the MOFCOM or its local counterparts. A Sino-foreign equity joint venture shall pay certain taxes and allocate portions of its profits to the reserve funds, bonuses, welfare funds and expansion funds, prior to the declaration of its dividends. The allocation proportion will be decided by the board of directors of the sino-foreign equity joint venture.

We have not declared any dividend since the incorporation of Xingye Mining.

### PRC LAWS RELATING TO MERGERS AND ACQUISITIONS

On 8 August 2006, six PRC regulatory agencies, including MOFCOM and CSRC, promulgated the Rules on Acquisition of Domestic Enterprises by Foreign Investors (《關於外國投資者併購境內企業的規定》, “the M&A Rules”). The M&A Rules, which became effective on 8 September 2006 and were amended by MOFCOM on 22 June 2009, regulate mergers and acquisitions of domestic enterprises by foreign investors. The M&A Rules, among other things, require that an offshore special purpose vehicle formed for listing purposes and controlled directly or indirectly by PRC companies or individuals (“SPV”) using its shares to acquire an equity interest in a PRC company (i.e., through a share swap) shall obtain the approval of the CSRC prior to the listing and trading of such SPV’s securities on an overseas stock exchange. As advised by our PRC legal advisor, King & Wood, it is not necessary for the Company to obtain approval from the CSRC prior to the Listing and trading of the Company’s securities on the Stock Exchange because: (i) Venca was established in 2006, Precise Power was established in 2004, and as confirmed by the Company, the capital with respect to the establishment of Venca and Precise Power was acquired duly abroad by the actual controller; (ii) Xingye Mining, a foreign invested enterprise, was established on 10 May 2006; (iii) the Group acquired the equity interest in Xingye Mining from Independent Third Parties; (iv) the Group acquired the equity interest in Xingye Mining using cash; (v) the M&A Rules do not clearly provide that a SPV using cash to acquire an equity interest in a PRC company needs to obtain approval from the CSRC prior to the listing and trading of such SPV’s securities on an overseas stock exchange; and (vi) the M&A Rules do not clearly provide that an SPV, established before 8 September 2006 and having equity and interests in China, needs to obtain approval from the CSRC prior to the listing and trading of such SPV’s securities on an overseas stock exchange.