PRC LAWS AND REGULATIONS

Overview

With the aim of promoting industrial restructuring, the State Council and the National Development and Reform Commission promulgated the "Interim Provisions on Promoting Adjustment to Industrial Structure" and the "Guiding Catalogue for the Adjustment of Industrial Structure" on 2 December 2005. According to the above-mentioned catalogue, related enterprises are categorised into three types of industries: encourage, restricted and prohibited. Industries that have not been included in the above three categories of the "Guiding Catalogue for the Adjustment of Industrial Structure" (such as iron ore mining industry) as confirmed by relevant laws, regulations and policies of China are considered to be permitted.

Mining Laws

"Mining Resources Law" and its implementation rules

In accordance with the "Mining Resources Law" 《礦產資源法》 which was promulgated on 19 March 1986, officially implemented on 1 October 1986 and revised on 29 August 1996 and the "Rules for Implementation of the Mining Resources Law" 《礦產資源法實施細則》 promulgated on 26 March 1994, (a) the ownership of mining resources belongs to the State and is to be exercised by the State Council on the behalf of the State; (b) departments that are responsible for geology and mining resources under the State Council may supervise and manage the exploration and exploitation of mining resources nationwide upon authorisation of the State Council. Departments which are responsible for geology and mining resources in the provinces, autonomous regions and municipalities directly under the Central Government shall supervise and manage the exploration and exploitation of mining resources within their respective scope of administration; and (c) any enterprise must apply for various prospecting and mining rights in accordance with relevant laws, regulations and policies of China prior to the exploration and exploitation of mining resources. Mining enterprises may undertake survey within specified mining areas that have obtained mining rights as according to their proposed production.

"Provision on the Administration of the Collection of Mining Resources Compensation Fees"

In accordance with the "Provision on the Administration of the Collection of Mining Resources Compensation Fees" 《礦產資源補償費徵收管理規定》 which was promulgated on 27 February 1994, officially implemented on 1 April 1994 and revised on 3 July 1997, in the case that a mining right holder decides to exploit mining resources within the territory of China and in the sea areas under its jurisdiction, unless otherwise as specially provided in the laws or administrative regulations of China, the mining resources compensation fees shall be paid by the mining right holder.

"Measures for the Registration and Administration of Mining Resources Exploitation"

The "Measures for the Registration and Administration of Mining Resources Exploitation" 《礦產資源開採登記管理辦法》 ("State Council Document No. 241") was promulgated by China's State Council and was officially implemented on 12 February 1998. According to the essence in State Council Document No. 241, for any change in relation to the scope of mining area, key mining minerals, exploitation method and the name of mining enterprise and/or any transfer of mining rights as approved in accordance with the laws, mining right holders must submit registration applications in respect of the changes to relevant registration authorities within the term of the mining permit. In the case that exploitation has still to be continued upon expiry of the mining permit, mining right holders must submit applications to the registry for extension within 30 days prior to the expiry of the mining permit. In the case that a mining right holder fails to submit application for extension prior to the expiry of the mining permit, the mining permit will be automatically terminated.

"Measures for the Administration of the Transfer of Prospecting and Mining Rights"

In accordance with the "Measures for the Administration of the Transfer of Prospecting and Mining Rights" 《探礦權採礦權轉讓管理辦法》 promulgated by the State Council of the People's Republic of China on 12 February 1998, prospecting and mining rights cannot be transferred except for the following circumstances, (a) prospecting right holders have the right to carry out specified explorations in the designated areas and the priority to obtain mining rights for mining resources within the exploration areas. Prospecting right holders may transfer the prospecting right to other parties after fulfilling the specified minimum input to exploration and obtaining approval; (b) in the case that mining enterprises which have obtained mining rights are required to change the entity of the mining right as a result of the change in the ownership of the enterprise's assets arising from the enterprise's merger, separation, joint venture or cooperative operation with other parties, asset disposal or other circumstances, they may transfer the mining right to other parties for exploitation upon approval. In respect of the applicant applying for the transfer of prospecting or mining right, the review and approval authorities shall decide on whether to approve the transfer or not within 40 days starting from the date of receipt of the application.

"Measures for the Administration of the Royalties and Fees of Prospecting and Mining Rights"

In accordance with the "Measures for the Administration of the Royalties and Fees of Prospecting and Mining Rights" 《探礦權採礦權使用費和價款管理辦法》 promulgated by the Ministry of Finance and the Ministry of Land and Resources on 7 June 1999, entities that carry out mining resources exploration and exploitation activities within the territory of China and in the sea areas under its jurisdiction must pay royalties and fees for prospecting and mining rights. Royalties for prospecting rights are calculated according to the size of the block on a prospecting year basis, that is, RMB100 per year for every square kilometer for the period from the first to third year of exploration and an increase of RMB100 per year for every square kilometer from the fourth year of exploration onwards but the maximum amount shall not

exceed RMB500 per year for every square kilometer. Royalties for mining rights are calculated yearly according to the size of the mining area, that is, RMB1,000 per year for every square kilometer. In respect of the standards for receiving fees for prospecting and mining rights, the fees concerned, with the assessed prices as confirmed by the department in charge of geology and mineral resources under the State Council as the basis, must be settled at one time or by installment. However, the maximum payment period of the fees for prospecting rights shall not exceed two years while that for mining rights shall not exceed six years. Royalties and fees for prospecting and mining rights are to be paid by holders of prospecting and mining rights at the time of exploration and exploitation registration or annual inspection. Holders of prospecting and mining rights will pay royalties and fees for prospecting and mining rights directly to the "special account for royalties and fees for prospecting and mining rights" opened by the finance department in accordance with the standards as confirmed by the registration authorities at the time of exploration and exploitation registration or annual inspection.

"Notice on Relevant Issues Concerning the Deepening of Reforms on the System of Requiring Compensation for the Acquisition of Prospecting and Mining Rights" and supplementary notice"

In accordance with the "Notice of the Ministry of Finance and the Ministry of Land and Resources on Relevant Issues Concerning the Deepening of Reforms on the System of Requiring Compensation for the Acquisition of Prospecting and Mining Rights" 《關於深化探礦權採礦權有償取得制度改革有關問題的通知》 and the "Supplementary Notice of the Ministry of Finance and the Ministry of Land and Resources on Relevant Issues Concerning the Deepening of Reforms on the System of Requiring Compensation for the Acquisition of Prospecting and Mining Rights" promulgated by the Ministry of Finance and the Ministry of Land and Resources on 25 October 2006 and 28 February 2008 respectively, prospecting and mining rights must, in principle, be granted for a fee and any holder of prospecting and mining rights for proven mineral resources but without making compensation must pay the fees of such rights to the State. Unless otherwise approved, all prospecting and mining rights must be granted through public tender, auction or listing. Holders of prospecting and mining rights must settle the full amount of payment required on time.

If it is difficult to settle the fees of prospecting and mining rights for once, the fees may be paid by installment within the term of the prospecting and mining rights upon approval of the prospecting and mining rights approval and registration authorities, of which the fees for prospecting rights may be paid within two years with the payment in the first year not less than 60% of the total while the fees for mining rights may be paid within ten years with the payment in the first year not less than 20% of the total. Holders of prospecting and mining rights paying by installment will bear fund possession costs not lower than the levels of bank loan interest rates for the same period.

"Provisions on the Administration of the Collection of Mineral Resources Compensation Fees"

In accordance with the "Provisions on the Administration of the Collection of Mineral Resources Compensation Fees" 《礦產資源補償費徵收管理規定》 promulgated by the State Council on 27 February 1994 and revised on 3 July 1997, mineral resources compensation fees are calculated at a certain proportion of the sales revenue of mineral products. Mineral resources compensation fees are included in the management fees of enterprises and are calculated according to the following formula:

Resources compensation fees	=	Sales revenue of mineral products	×	Compensation rate	×	Coefficient of Mining recovery rate

Any adjustment in mineral resources compensation fees shall be jointly confirmed by the Ministry of Finance, the Ministry of Land and Resources and the National Development and Reform Commission and shall be implemented upon approval of the State Council. Mineral resources compensation fees are to be collected by the department of land and resources together with the finance department. Mining right holders shall pay mineral resources compensation fees for the first half year on or before 31 July of each year and fees for the second half year on or before 31 January of the following year. In accordance with the "Reply on Issues Concerning the Collection of Mineral Resources Compensation Fees" (Ministry of Land and Resources Letter No. 259 dated 5 October 1998) issued by the Ministry of Land and Resources, those exploiting mining resources within China and other sea areas under her jurisdiction shall, irrespective of purpose, pay mineral resources compensation fees in accordance with the national provisions and the rate is 2%.

Under specific circumstances, mineral resources compensation fees may be reduced or exempted upon joint approval of the department of land and resources and the finance department at the provincial level. In the case that the reduction in mineral resources compensation fees exceeds 50% of the payable mineral resources compensation fees, the approval of the provincial people's government is required. Any approval for the reduction of mineral resources compensation fees must be reported to the Ministry of Finance and the Ministry of Land and Resources for record-keeping.

"Interim Measures on the Supervision and Control of Mineral Resources"

The State Council promulgated and implemented the "Interim Measures on the Supervision and Control of Mineral Resources" 《礦產資源監督管理暫行辦法》 on 29 April 1987 with the aim of strengthening the supervision and control of the development, utilization and safeguard of mineral resources of mining enterprises. Provisions are formulated with regard to the responsibilities of the department in charge of geology and mineral resources under the State Council, the responsibilities of the department in charge of geology and mineral resources under the provincial people's government, the responsibilities of relevant authorities under the State Council and the provincial people's government, the internal supervision and

administration responsibilities of geological survey organizations of mining enterprises and the responsibilities of mining enterprises and mineral fields and legal sanction, etc. It is provided that: the recovery, dilution and recycling rates as required in mining design shall be the important annual planning indicators for assessing mining enterprises; while exploiting major minerals, symbiotic and associated minerals with industrial value must be recycled comprehensively under technically feasible and economically reasonable conditions; effective safeguard measures shall be adopted for minerals that cannot be comprehensively utilised for the time being; mining enterprises shall strengthen the control of unmarketable ore, powder ore, middlings, tailings, waste rock and gangue and study their way of usage in a positive manner; those that cannot be utilised for the time being shall be properly stacked and stored under the principle of land conservation to prevent their outflow and pollution to the environment; the provincial people's government shall formulate measures for the supervision and control of the development, utilization and safeguard of mineral resources of township collective mining enterprises and individual mining businesses and shall organize for implementation.

"Measures on the Registration and Management of Areas for Surveying Mineral Resources"

The State Council promulgated the "Measures on the Registration and Management of Areas for Surveying Mineral Resources" 《礦產資源勘查區塊登記管理辦法》 with Decree No. 240 on 12 February 1998 under which a unified system of mineral resource exploration block registration and management is implemented by the State and specific provisions are made with regard to several key aspects as follows: the system of mineral resources exploration block registration and management; the system of restricting maximum surveying area; the system of requiring compensation for the acquisition of prospecting rights; the system of exploration investors; the system of exclusive exploration; the system of minimum exploration input; the system for fees of prospecting right; the system of prospecting right extension and reservation; and the special system of petroleum and natural gas exploration.

Special Provisions for Industry Access

China has formulated special provisions with regard to the integration and industry of mineral resources: the "Notice of the State Council on the Rectification of the Order of the Mining Industry to Safeguard the State Ownership of Mineral Resources", the "Notice of the General Office of the State Council on the Opinion Concerning Further Governance and Rectification of the Mineral Resources Management Order as Transferred to the Ministry of Land and Resources", the "Notice of the State Council on Comprehensive Rectification and Specification of the Order of Mineral Resources Development", the "Notice of the General Office of the State Council on the Opinion Concerning the Integration of Mineral Resources Development as Transferred to Departments such as the Ministry of Land and Resources" and the "Notice on Further Promotion of the Consolidation of Mineral Resources Development", etc.

PRC Laws in Relation to Products

In accordance with the "Regulations of the People's Republic of China on the Administration of Production Permits for Industrial Products" 《中華人民共和國工業產品生產許可証管理條例》 promulgated by China's State Council on 9 July 2005 and officially implemented on 1 September 2005 and the related "Implementation Measures" promulgated by the State Administration of Quality Supervision on 15 September 2005 and officially implemented on 1 November 2005, products in the "Product Catalogue of the Nationally-Implemented Production Permit System" must comply with the production permit system. Enterprises are not allowed to produce any product in the "Product Catalogue of the Nationally-Implemented Production Permit System" without obtaining the production permit. The production of iron ore concentrates, iron ore pellets and ilmenite concentrates has not yet been included in the "Product Catalogue of the Nationally-Implemented Production Permit System".

PRC Laws in Relation to Foreign Investments in the Mining Industry

In accordance with the "Catalogue for the Guidance of Foreign Investment Industries (Revision in 2007)" 《外商投資產業指導目錄》 officially implemented on 1 December 2007, foreign investments in the exploration, exploitation and design of iron ore mines are considered as encouraged investments. According to the "Opinion on Further Encouragement of Foreign Investments" and the "Provisions on Guidance of Foreign Investments" officially implemented on 3 August 1999 and 1 April 2002 respectively, encouraged foreign investments may obtain a number of interests granted by the Chinese government primarily as encouragement.

PRC Laws in Relation to Foreign Exchange

In accordance with provisions of the "Regulations of the People's Republic of China on the Administration of Foreign Exchange" 《中華人民共和國外匯管理條例》 promulgated on 29 January 1996, officially implemented on 1 April 1996 and revised on 5 August 2008, international transactions arising from the sale of goods and others which are paid in foreign currency will not be subject to the constraints and control of the Chinese government. Some specified organizations in China, including foreign investment companies, may buy, sell and/or remit foreign currency at certain banks authorised for foreign exchange under circumstances where valid business documents are provided to such banks. However, in the case of overseas investments of domestic enterprises, relevant capital account transactions have to be approved by the State Administration of Foreign Exchange.

In accordance with the "Notice on Relevant Issues Concerning Foreign Exchange Control on Domestic Residents' Corporate Financing and Roundtrip Investment through Offshore 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》 ("State Administration of Foreign Exchange Document No. 75") promulgated on 21 October 2005 and officially implemented on 1 November 2005, it is provided for the change in capital that, (a) a Chinese citizen ("Chinese resident") must apply to the local branch of the State Administration of Foreign Exchange for the registration of an overseas special

purpose company established or held for the purpose of raising funds through overseas share offering before setting up or holding our Company; (b) in the case that the Chinese resident provides assets or equities to the overseas special purpose company or participates in the overseas financing of the overseas special purpose company after providing assets or equities via a domestic enterprise, the Chinese resident must register with the local branch of the State Administration of Foreign Exchange for his/her equities or any change in his/her equities in the overseas special purpose company; and (c) when there is a material change in the capital of the overseas special purpose company outside China, such as the change in equity or merger and acquisition, the Chinese resident must register such change with the local branch of the State Administration of Foreign Exchange within 30 days upon commencement of project. According to the essence of the State Administration of Foreign Exchange Document No. 75, enterprises and businesses that fail to comply with such registration procedures will be subject to punishment, including restrictions on the foreign exchange activities of their affiliates in China and their capability to distribute dividends to other overseas special purpose companies.

Mr. Li, as one of the Controlling Shareholders and a Chinese resident, is required to file foreign exchange registrations of overseas investments with State Administration of Foreign Exchange of the PRC under the State Administration of Foreign Exchange Document No. 75 for his establishment of offshore companies and conducting return investment activities, details of which are set out in the section headed "History and development" in this prospectus.

Our PRC Legal Advisers confirmed that Mr. Li has completed the relevant registration procedures required under the State Administration of Foreign Exchange Document No. 75 with the State Administration of Foreign Exchange of the PRC (Shandong Province Branch) (國家外匯管理局山東省分局).

On 21 July 2005, the People's Bank of China promulgated the "Public Announcement of the People's Bank of China on Improving Reforms on the Renminbi Exchange Rate Formation Mechanism" announcing that China would achieve reforms of the exchange rate mechanism by controlling the fluctuations in exchange rate and this would not be limited to the US dollar but including a basket of currencies.

The State Administration of Foreign Exchange promulgated the "Notice of the State Administration of Foreign Exchange on Relevant Business Operational Issues Concerning Improving the Administration of the Payment and Settlement of Foreign Exchange Capital of Foreign-Funded Enterprises" (Document No. 142) on 29 August 2008. According to Document No. 142, foreign-funded enterprises shall undertake capital verification in advance through an accounting firm when applying for the settlement of foreign exchange capital. Funds obtained from the settlement of foreign exchange capital shall only be employed for purposes within the scope of business as approved by relevant authorities and, unless otherwise provided, shall not be used for equity investments. Except foreign-funded real estate enterprises, it is not allowed to use funds obtained from the settlement of foreign exchange capital to purchase domestic real estate not for own use. Moreover, foreign-funded enterprises shall not make any unauthorised change in the purpose of funds obtained from the settlement of foreign exchange capital without the permission of the State Administration of Foreign Exchange and shall not use the funds to repay Related Renminbi loans if the funds obtained from such loans have not been used.

As advised by our PRC Legal Advisers, there are two ways to transfer the net proceeds from the Share Offer to the PRC, namely, by way of shareholders loan to Shandong Ishine or by way of capital injection into Shandong Ishine. As advised by our PRC Legal Advisers, under PRC laws, foreign invested enterprise can either (i) accept loan of foreign currency of an amount up to the difference between the amount of its total investment and the amount of its registered capital without having to obtain any government approval, or (ii) by way of capital injection i.e. to increase its registered capital. Subject to submission of all necessary information to the relevant PRC authorities in accordance with PRC laws and regulations, our PRC Legal Advisers consider there is no legal impediment to transfer the net proceeds from the Share Offer to the PRC by way of accepting loan of foreign currency of an amount up to the difference between the amount of its total investment and the amount of its registered capital, and/or capital injection into Shandong Ishine.

PRC Laws in Relation to Quality

The revised "Product Quality Law of the People's Republic of China" was promulgated on 8 July 2000 and was officially implemented on 1 September 2000. The department in charge of quality supervision under the State Council is responsible for the supervision of product quality nationwide while the local quality supervisory bureaus at or above the county level are responsible for the supervision of product quality within their respective administrative areas. Producers and distributors must establish an internal quality management system for the strict implementation of quality standards and corresponding quality assessment procedures. Enterprises are encouraged by the State to ensure that the quality of their products has reached and surpassed the industrial, national and international standards.

PRC Laws in Relation to Environmental Protection

China's laws and regulations relating to environmental protection include: the "Environmental Protection Law of the People's Republic of China" promulgated and officially implemented on 26 December 1989; the "Air Pollution Prevention Law of the People's Republic of China" revised on 29 April 2000 and officially implemented on 1 September 2000; the "Water Pollution Prevention Law of the People's Republic of China" revised on 28 February 2008 and officially implemented on 1 June 2008 and relevant "Implementation Rules of the Water Pollution Prevention Law of the People's Republic of China" promulgated and officially implemented on 20 March 2000; the "Regulations on Environmental Protection of Construction Projects" promulgated and officially implemented on 29 November 1998 and the "Measures for the Administration of Environmental Acceptance Check of Construction Projects Upon Completion" promulgated on 27 December 2001 and officially implemented on 1 February 2002.

According to the "Environmental Protection Law of the People's Republic of China", the competent department for the administration of environmental protection under the State Council is to assess national environmental quality standards and the country's economic and technological conditions to formulate national emission standards. Provincial, autonomous region and municipal people's governments under the Central Government may formulate local

emission standards for projects that have not been expressly provided in the national emission standards and may formulate stricter local emission standards for projects that have been provided in the national emission standards. Local emission standards must be declared to the State Environmental Protection Administration. All enterprises that discharge pollutants in regions where local emission standards are formulated shall comply with relevant local standards.

Companies causing environmental pollution and other hazards must incorporate environmental protection into their plans, establish an environmental protection responsibility system, adopt effective measures and prevent and control the impact of environmental pollution and hazards arising from waste gas, wastewater, water residues, dust, malodorous gases, radioactive materials, noise, vibration, electromagnetic radiation and others in the course of production, construction and other activities.

Enterprises must register and submit environmental impact assessment report to local environmental protection bureaus for approval prior to the construction of new production facilities or the implementation of major expansion or reconstruction of existing production facilities. In the construction project, facilities for the prevention and control of pollution must be designed, constructed and operated simultaneously with the main project. The construction project can only be operated for production or used only after the installation of facilities for the prevention and control of pollution has passed the acceptance check of the environmental protection department which has reviewed and approved its environmental impact assessment report.

In accordance with the "Regulations for the Administration of the Collection and Usage of Fees for Pollutant Discharge" promulgated on 2 January 2003 and entered into force on 1 July 2003 and the "Measures for the Administration of Standards for the Collection of Fees for Pollutant Discharge" and the "Regulations for the Administration of the Collection and Usage of Fees for Pollutant Discharge" (effective from 1 July 2003) jointly promulgated by the State Development Planning Commission, the State Environmental Protection Administration, the Ministry of Finance and other relevant government departments, any company that directly discharges pollutants to the environment must pay fees for pollutant discharge in accordance with the laws. The type and amount of fees for pollutant discharge is to be approved by the environmental protection departments under the local people's government at or above the county level in accordance with the right of approval as provided by the State Environmental Protection Administration and companies discharging pollutants will be notified of the type and amount of the fees.

Companies discharging pollutants are to pay fees for pollutant discharge in accordance with applicable environmental protection laws and regulations, such as the "Air Pollution Prevention Law of the People's Republic of China", the "Marine Environmental Protection Law of the People's Republic of China", the "Water Pollution Prevention Law of the People's Republic of China", the "Solid Waste Pollution Prevention Law of the People's Republic of China" and the "Environmental Noise Pollution Prevention Law of the People's Republic of China".

"Regulations for the Prevention and Control of Pollution from Tailings"

The "Regulations for the Prevention and Control of Pollution from Tailings" promulgated by the State Environmental Protection Administration on 17 August 1992 and amended on 22 December 2010 by 《關於廢止、修改部分環保部門規章和規範性文件的決定》 was implemented starting from 1 October 1992, and was revised on 22 December 2010.

Tailings in the Regulations were referred to as waste produced in the dressing and hydrometallurgical processes. A unified supervision and management is implemented by the environmental protection departments under the local people's government at or above the county level to prevent and control pollution from tailings within their own jurisdiction. Enterprises producing tailings must undergo pollutant discharge declaration and registration with local environmental protection departments in accordance with the provisions. The utilization of disposed tailings or other facilities has to be approved by the local and municipal environmental protection departments and has to be reported the provincial environmental protection department for record.

PRC Laws in Relation to Geology and Environmental Protection

In accordance with the "Interim Measures for the Administration of Guarantee Money for the Geological and Environmental Governance at Mines in the Shandong Province" promulgated on 28 November 2005 and officially implemented on 1 January 2006, (a) guarantee money for the geological and environmental governance at mines (herein referred to as guarantee money) is a reserve fund paid by a person with mining right for the geological and environmental governance at mines; (b) a person with mining right shall pay the guarantee money in full at one time within the three-year (including three years) term of the mining permit. In the case that the term of the mining permit is over three years, a person with mining right may pay the guarantee money by installment. The amount of the first payment shall not be lower than 30% of the total amount payable and the remaining may be paid once every three years with the amount of each payment not lower than 50% of the remaining amount but the total amount to be cleared one year prior to the expiry of the mining permit. A person with mining right shall sign a "Responsibility Document on the Geological and Environmental Governance at Mines" with the department of land and resources in charge of the collection of guarantee money within one month upon receipt of the mining permit and settle the payment of guarantee money; (c) a "check and fund separation" system is implemented for the receipt and payment of guarantee money under which the money is centralized at a special financial account and is treated as current funds; (d) a person with mining right shall complete the geological and environmental governance and apply to the department of land and resources in charge of the collection of guarantee money in writing for acceptance check prior to the termination, shutdown or closure of the mines; and (e) if the requirements of Article 13 of the "Regulations on the Geological and Environmental Governance at Mines in the Shandong Province" are fulfilled as confirmed by the acceptance check, the department of land and resources in charge of the collection of guarantee money shall issue a notification on the passing of the acceptance check on the geological and environmental governance and return the principal and interests of the guarantee money to the concerned party in a timely manner. In

the case of failure to fulfill the requirements, the department of land and resources in charge of the collection of guarantee money shall order the concerned party for governance to be completed within a specified period of time. In the case of failure to perform geological and environmental governance or the requirements have still not been reached, the department of land and resources in charge of the collection of guarantee money shall, by way of methods including public tender, organize relevant companies for governance using the guarantee money. Any fee in excess of the guarantee money paid (including interests) shall be borne by the person with mining right.

Laws in Relation to Production Safety

In accordance with the "Production Safety Law of the People's Republic of China" promulgated on 29 June 2002 and officially implemented on 1 November 2002 and the "Mine Safety Law of the People's Republic of China" promulgated on 7 November 1992 and officially implemented on 1 May 1993 and its "Implementation Rules" promulgated and officially implemented on 30 October 1996, mine safety are supervised and controlled by the departments in charge of labor affairs and mining enterprises.

Mining enterprises must set up facilities to ensure production safety, establish a sound safety management system, adopt effective measures to improve working conditions and strengthen the control over mine safety to ensure that the process of production is safe. The design of a mine construction project must comply with the safety rules and technical standards of the mining industry and must be approved by the department in charge of mining enterprises. A mine construction project must be constructed in accordance with the design as approved by the department in charge of mining enterprises. The design of the safety facilities of a mine construction project must be checked by the departments in charge of labor affairs and must be commenced simultaneously with the main project. Safety facilities of a mine construction project must be reviewed and approved by the departments in charge of mining enterprises and labor affairs upon completion. In the case of failure to fulfill the safety rules and technical standards of the mining industry, the project's application for approval and operation will then be rejected.

Mining businesses must fulfill several conditions to ensure production safety. Mining enterprises must comply with various safety rules and technical standards of the mining industry (depending on the type of mineral to be exploited), establish and improve production safety responsibility systems and provide safety education and training to employees. The head of the mine is responsible for the production safety work of the enterprise concerned.

"Regulations on Production Safety Permit"

The "Regulations on Production Safety Permit" was promulgated and officially implemented on 13 January 2004. According to the provisions of the Regulations, (a) production safety permit is applicable to enterprises and businesses engaged in mining and companies without production safety permit are prohibited to produce any product; (b) mining companies must obtain a production safety permit valid for three years prior to the production of any product; and (c) in the case of the need to extend the permit, companies must apply to local administration and certification bodies for extension three months prior to the expiry of the original permit.

"Measures on the Implementation of Production Safety Permit for Non-Coal Mining Enterprises"

In accordance with the "Measures on the Implementation of Production Safety Permit for Non-Coal Mining Enterprises" promulgated by the State Administration of Work Safety on 8 June 2009 and the "Regulations on Production Safety Permit" promulgated by the State Council on 13 January 2004, non-coal mining enterprises must obtain production safety permit according to relevant provisions and are prohibited from engaging in any production activities without obtaining the permit. The State Administration of Work Safety is responsible for the guidance and supervision on the production safety permit for non-coal mining enterprises in China. It also takes charge of the issuance of production safety permit to non-coal mining enterprises managed by the Central Government (including group companies, corporations and listed companies) and offshore oil and gas companies. The provincial coal mine safety administration department is responsible for the issuance and administration of production safety permit for non-coal mining enterprises other than those mentioned above and other non-mining enterprises with non-coal mines or tailing facilities.

Non-coal mining enterprises must fulfill several production safety requirements to obtain production safety permit. The department in charge of the issuance and administration of production safety license shall issue production safety permit to enterprises that meet the production safety requirements in accordance with relevant provisions. In respect of metal and non-metal miners, whether a production safety permit can be obtained or not depends on their respective production systems. The enterprises concerned must renew production safety permit once every three years and must submit application to the department in charge of the issuance and administration of production safety license three months upon prior to the expiry of the permit.

In the case that the mining permit expires within the term of the production safety permit, non-coal mining enterprises shall report to the authority in charge of the issuance of production safety permit within 15 days prior to the expiry of the mining permit and return the original and copies of the production safety permit.

"Program on the Implementation of Production Safety Permit for Non-Coal Mining Enterprises in the Shandong Province"

The Shandong Provincial Administration of Work Safety promulgated the "Program on the Implementation of Production Safety Permit for Non-Coal Mining Enterprises in the Shandong Province" (Shandong Provincial Administration of Work Safety Circular No. 2009-133) on 31 December 2009 providing more specific provisions in accordance with the "Regulations on Production Safety Permit" and "Measures on the Implementation of Production Safety Permit for Non-Coal Mining Enterprises" in combination with the conditions of the Shandong Province. Metal and non-metal miners engaged in blasting operations shall submit the "Blasting Permit" or the "Explosive Materials Permit".

"Interim Measures on the Financial Management of Safety Production Fees of High Risk Enterprises"

The Ministry of Finance and the State Administration of Work Safety promulgated the "Interim Measures on the Financial Management of Safety Production Fees of High Risk Enterprises" on 8 December 2006. Safety production fees are the cost of enterprises specially used for improving production environment according to standard requirements.

Enterprises engaged in mining in China shall make a provision for production safety fees. The standard amount of provisioning for metal mines is RMB4 per tonne for open-pit mine and RMB8 per tonne for underground mine. For coal mines and coal-related non-metal mines, underwater mines, mines susceptible to spontaneous combustion, underground mines below protected buildings and railways and other mines with special production safety requirements, the standard amount of provision may be increased to not more than 50% upon joint approval of the provincial bureaus for the administration of work safety and finance.

"Regulations on Civil Explosives Safety Management"

The "Regulations on Civil Explosives Safety Management" was promulgated by the State Council on 26 April 2006 and has been implemented since 1 September 2006. These Regulations are applicable to the production, sale, purchase, import and export, transport, blasting and storage of civil explosives and the sale and purchase of ammonium nitrate.

Public security bodies are responsible for the management of civil explosives safety, the purchase and transport of civil explosives, the supervision and management of blasting safety and the monitoring of the flow of civil explosives.

The person-in-charge of a company engaged in the production, sale, purchase and transport of civil explosives and blasting operations (herein referred to as civil explosives company) is the person in charge of the management of civil explosives safety in our Company and takes full responsibility for the management of the safety of civil explosives of our Company.

A company which applies for the undertaking of blasting operations shall submit application to relevant public security bodies of the people's government in accordance with the provisions of the public security department under the State Council and shall provide relevant proofs of its compliance with the terms as provided in Article 31 of these Regulations. Public security bodies that have accepted the application shall review it within 20 days starting from the date of acceptance of the application. In the case that the terms are fulfilled, a "Blasting Permit" will be issued. Otherwise, no "Blasting Permit" will be issued and the applicant will be notified of the reasons in writing.

A company engaged in blasting operations shall implement professional and technical training of its staff dealing with blasting operations, safety control and warehouse management. Staffs dealing with blasting operations are only allowed to undertake blasting operations after passing the assessment of the district's public security bodies under the municipal people's government and obtaining the "Blasting Worker Permit".

Samples for the "Civil Explosives Production Permit" and the "Civil Explosives Sale Permit" are provided by the department in charge of defense science, technology and industry under the State Council while samples for "Civil Explosives Purchase Permit", "Civil Explosives Transport Permit", "Blasting Permit" and "Blasting Worker Permit" are provided by the public security department under the State Council.

"Interim Measures on the Supervision and Administration of the Construction Safety of Non-Coal Contract Mining Projects in the Shandong Province"

The Shandong Provincial Administration of Work Safety promulgated the "Interim Measures on the Supervision and Administration of the Construction Safety of Non-Coal Contract Mining Projects in the Shandong Province" on 31 May 2005 stipulating provisions on the construction safety of contract mining projects.

Enterprises engaged in excavation or geological prospecting shall obtain production safety permit in accordance with the provisions of the "Regulations on Production Safety Permit" and "Measures on the Implementation of Production Safety Permit for Non-Coal Mining Enterprises". Those that have not obtained a production safety permit are prohibited to engage in production and prospecting activities. A production safety permit is to be issued by the provincial bureau for the administration of work safety of the location where the enterprise concerned is situated (place of business registration).

Enterprises engaged in contract engineering, excavation or geological prospecting must sign a special production safety management agreement simultaneously with the conclusion of the subcontracting contract in order to specify production safety management responsibilities and obligations and safety measures that shall be adopted in terms of excavation, power supply, drainage, ventilation, transport and the installation, repair, maintenance and alternation of related safety equipments and facilities, etc. The production safety management agreement must be signed by the key person-in-charge of the entrusting enterprise and the contractor and must be sealed by both enterprises.

The person in charge of the construction of a contract excavation or geological prospecting project must possess a letter of assignment or appointment documents issued by the excavation or geological prospecting company. Upon conclusion of the subcontracting contract and the production safety management agreement with the entrusting enterprise, the excavation or geological prospecting company shall register at the bureau for the administration of work safety of the location where the entrusting party is situated.

The person in charge of the construction of a contract excavation or geological prospecting project and staffs dealing with safety management of the project must receive professional training and obtain corresponding safety certificates in accordance with the provisions. Staffs dealing with special operations in the construction of a contract excavation or geological prospecting project shall only come to work upon the receipt of special operations permit. The number of staffs with special operations permit shall be in line with the construction safety requirements.

"Regulations on Tailings Pond Safety Supervision and Management"

The "Regulations on Tailings Pond Safety Supervision and Management" was promulgated by the State Administration of Work Safety on 18 April 2011 and has been implemented since 1 July 2011. The in-charge persons of production and operation entities and work safety administration personnel shall be assigned only after taking training examination and having acquired the safety certificate in accordance with Provisions.

The production and operation entities engaging in tailing pond shall establish and complete the work safety accountability systems of tailing pond; establish and complete rules and regulations on work safety and technical operating rules for work safety, and conduct effective safety administration over tailing pond.

Specific provisions are stipulated with regard to the safety management of tailing ponds in terms of areas such as, the management of tailings ponds, tailings discharge and dam construction, the control of the level of tailings ponds and flood, the management of drainage and seepage control facilities, the earthquake and seismic safety of tailing ponds, the safety inspection of flood control at tailings ponds, drainage structures, tailings dams and tailings reservoir and the assessment, management and supervision of the safety of tailings ponds.

"(Trial) Measures on the Supervision and Management of the Safety of Tailings Facilities"

The "(Trial) Measures on the Supervision and Management of the Safety of Tailings Facilities" was promulgated and implemented by the former Ministry of Labor on 21 April 1995. Tailings facilities are facilities found at the concentrators (workshops) of mining enterprises and other production processes, such as tailings storage facilities, slurry transport system, water clarification and recycling system, water infiltration and recovery system and drainage system.

Mining enterprises shall be responsible for the safety of tailings facilities and must ensure: (a) the implementation of design review and final acceptance report as participated and approved by the labor administration department; (b) the availability of tailings facility safety assessment and materials categorised by the level of hazards from relevant departments and experts; (c) the availability of assessment compliance report issued by the tailings facility safety technical inspection agencies as authorised by the labor administration department; (d) the allocation of a person in charge of the safety of tailings facilities; (e) the preparation of safety management rules and necessary technical materials; (f) the frequent check of original records; (g) the preparation of records on the inspections of departments in charge of labor administration and mining enterprises and the governance programs and rectifications on hidden danger as identified by the enterprises and (h) the preparation of disaster preparedness plans and measures.

PRC Laws in Relation to Labor

In accordance with the "Labor Law of the People's Republic of China" promulgated on 5 July 1994 and officially implemented on 1 January 1995 and the "Labor Contract Law of the People's Republic of China" promulgated on 29 June 2007 and officially implemented on 1 January 2008, in the case that an employment relationship is established between an enterprise and its staff, a written employment contract must be signed. The maximum total working hours per day and per week are stipulated respectively in the laws. The laws have also provided for the minimum wage standards. Enterprise entities must establish and develop an occupational safety and health system, implement the national occupational safety and health regulations and standards, provide employees with occupational safety and health training in order to prevent operational accidents and to reduce occupational diseases.

In accordance with the provisions of the "Regulations on Work-Related Injury Insurance" promulgated on 27 April 2003, officially implemented on 1 January 2004 and revised on 1 January 2011 and the "Trial Measures for Maternity Insurance of Enterprise Employees" promulgated on 14 December 1994 and officially implemented on 1 January 1995, Chinese enterprises must purchase work-related injury and maternity insurances for their employees.

In accordance with the provisions of the "Interim Regulations on the Collection and Payment of Social Insurance Premiums" promulgated and officially implemented on 22 January 1999 and the "Interim Measures on the Registration of Social Insurance Premiums" promulgated and officially implemented on 19 March 1999, basic pension insurance, medical insurance and unemployment insurance are incorporated into social insurance. In China, all companies and employees must contribute to the social insurance scheme.

In accordance with the provisions of the "Social Insurance Law of the People's Republic of China" promulgated on 28 October 2010 and implemented on 1 July 2011, the State has established a social insurance system which includes basic pension insurance, basic medical insurance, work-related injury insurance, unemployment insurance and maternity insurance, ensuring that citizens have the right to material assistance as provided by the State and the community in accordance with the laws under circumstances related to old age, illness, work-related injury, unemployment, maternity and others. Individuals shall enjoy social insurance benefits under the laws and have the right to supervise their employers on the payment of premiums.

In accordance with the provisions of the "Regulations on Housing Provident Fund Management" promulgated and officially implemented on 3 April 1999 and revised on 24 March 2002, Chinese companies must register at the Housing Provident Fund Management Centre and open a housing fund management account at their entrusted banks. In China, all companies and employees must contribute to the housing provident fund and the amount of their respective contributions shall not be lower than 5% of the average salary of each employee in the previous year.

PRC Laws in Relation to Taxation

Enterprise Income Tax

The new tax law was officially implemented on 1 January 2008 to replace the original "Income Tax Law of the of the People's Republic of China on Enterprises with Foreign Investment and Foreign Enterprises" and "Interim Regulations on Enterprise Tax Law of the of the People's Republic of China". Under the new tax law, the majority of domestic enterprises and enterprises with foreign investment shall be subject to a uniform 25% enterprise income tax rate and several transitional periods and measures are planned. The "Notice of the State Council on the Implementation of Preferential Policies on the Transition of Enterprise Income Tax" (the Notice) promulgated and officially implemented on 26 December 2007 further explained that, starting from 1 January 2008, enterprises originally enjoying the "two-year exemption and three-year reduction by half" enterprise income tax concession and other regular tax exemptions and reductions in accordance with the governing tax laws, administrative provisions and relevant documents at that time shall continue to enjoy such concessions until expiry upon implementation of the new tax law. However, for enterprises which have not enjoyed such concessions due to the absence of profit prior to 2008, their tax holidays shall be calculated starting from 1 January 2008 until expiry.

Resource Tax

In accordance with the provisions of the "Interim Regulations on Resource Tax of the People's Republic of China" promulgated on 25 December 1993 and officially implemented on 1 January 1994, all enterprises engaged in the exploitation of mineral products within China must pay resource tax. The taxable items and amount of resource tax shall be implemented in accordance with the "Table of Resource Taxable Items and Range of Tax Rates" attached to these Regulations and relevant provisions of the Ministry of Finance. The adjustment of taxable items and range of tax rates is to be determined by the State Council. Tax rates for ferrous metal ores range from RMB2 to RMB30 per tonne.

In accordance with the provisions of the "Notice of the Ministry of Finance and the State Administration of Taxation on the Adjustment of Resource Tax Policy for Taxable Items such as Molybdenum Ore" promulgated on 12 December 2005 and officially implemented on 1 January 2006, the resource tax rate for molybdenum ore would be lowered to 60% of the standard tax rate for the time being. In accordance with the provisions of the "Notice of the Ministry of Finance and the State Administration of Taxation on the Applicable Resource Tax Rate Standard for Taxable Items such as Tin Ore" 《財政部國家税務總局關於調整錫礦石等資源税適用税率標準的通知》 officially implemented on 1 February 2012, the resource tax rate for iron ore would be adjusted from 60% to 80% of the standard tax rate for the time being.

Value-Added Tax

In accordance with the provisions of the "Notice on the Value-Added Tax Rates for Mining and Dressing Products of Metal Ores and Non-Metallic Minerals" 《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 officially implemented on 1 January 2009, starting from 1 January 2009, the value-added tax rates for mining and dressing products of metal ores and non-metallic minerals (including iron ore) would be adjusted to 17% from 13%.

PRC Laws in Relation to the Distribution of Dividends

In accordance with the "Implementation Rules for the Wholly Foreign Owned Enterprise Law of the People's Republic of China" promulgated and officially implemented on 20 December 1990 and revised on 12 April 2001 based on the modification of the Implementation Rules for the Wholly Foreign Owned Enterprise Law of the People's Republic of China, it is provided that foreign enterprises must pay a certain amount of tax prior to the distribution of dividends and reallocate their proceeds as reserve fund, staff bonus and welfare fund. The proportion of the amount allocated to staff bonus and welfare fund is to be determined by the enterprises themselves.

In accordance with the "Notice of the Ministry of Finance and the State Administration of Taxation on the Several Preferential Policies on Enterprise Income Tax", the undistributed profits earned by enterprises with foreign investment prior to 1 January 2008 and distributed to foreign investors later may be exempted from China's withholding tax whereas the profits earned and distributed after 1 January 2008 shall be subject to China's withholding tax in accordance with the new enterprises tax law.

It is provided in the new enterprises tax law that dividends and other China-derived passive income of non-resident enterprises shall be subject to a withholding tax at the rate of 20% of standard tax rate. Under the implementation regulations, the tax rate would be lowered from 20% to 10% with effect from 1 January 2008. China and Hong Kong signed the "Arrangement for the Avoidance of Double Taxation on Income and Prevention of Fiscal Evasion with respect to Taxes on Income" on 21 August 2006. According to the arrangement, the applicable withholding tax rate for dividends distributed by Chinese companies to Hong Kong residents shall not exceed 5% under the condition that the recipient must be a company holding at least 25% of the capital of the Chinese company concerned for 12 months prior to the distribution of dividends. If the recipient is a company holding less than 25% of the capital of the Chinese company, the applicable withholding tax rate for dividends distributed by the Chinese company to the Hong Kong resident shall be 10%.

According to the "Notice of the State Administration of Taxation on How to Understand and Identify the "Beneficial Owner" in Tax Agreements", a beneficial owner is a person who has the ownership and control over income, or over the rights or assets that generate such income, and must generally engage in substantive business activities. A Hong Kong resident is also required to be a beneficial owner to enjoy the tax concessions.

PRC Laws in Relation to Land

In accordance with the provisions of the "Land Administration Law of the People's Republic of China" promulgated on 25 June 1986, officially implemented on 1 January 1987 and revised on 28 August 2004, land owned by the State and collective economic entities may be allocated and used by companies and individuals in accordance with the laws. Both the ownership and usage right of land registered in accordance with the laws are subject to the protection of the laws. In the case of the need to use land owned by the State or collective economic entities temporarily for the purpose of construction planning or geological survey, the approval of the administrative department at or above the county level is required. Land users shall sign contracts with relevant land administration department, rural collective organization or village committee on the temporary use of land and obtain the temporary land use right and pay land compensation fees in accordance with the provisions of the contract. The period of temporary use of land shall not exceed two years.

In accordance with the provisions of the "Implementation Rules on Mineral Resources Law of the People's Republic of China" promulgated and officially implemented on 26 March 1994, holders of mining right have the right to obtain land use right for the purpose of production and construction in accordance with relevant laws in China.

In accordance with the "Regulations on Land Reclamation" promulgated by the State Council on 8 November 1988 and entered into force on 1 January 1989, in the case of the creation of damage to arable land, grassland or forests as a result of mining activities, miners must adopt measures to recover the land to a usable condition within a specified period of time. Land after reclamation must meet reclamation standards as provided in the laws and can only be delivered for use after passing the acceptance check of the land administration department and relevant administrative authorities. The local land and resources bureau may punish entities or individuals that fail to perform the reclamation obligations and may request for the payment of reclamation fees and/or cancel their applications for construction land use right.

In accordance with the "Interim Measures on the Administration of the Circulation of Collective Construction Land Use Right in Linyi" (Linyi Municipal People's Government Circular No. 2001-66) promulgated by the Linyi Municipal People's Government on 25 December 2001, the Measures are applicable to the administration of collective construction land of small towns as confirmed in the overall rural land use planning outside the city planning of Linyi and the administration of the circulation of construction land use rights collectively owned by peasants. The behaviors as incurred in the circulation of construction land use rights collectively owned by peasants include the transfer, lease, appraisal and funding (purchase of shares), joint operation and construction, and pledge of land use rights collectively owned by peasants. Approved collective construction land in small towns may be centralised by the township people's government for development by granting land use rights to land users through methods such as tender and auction in the land market. Land users shall undergo registration and obtain the "Collective Land Use Permit" in accordance with the laws. Specific provisions are stipulated in the Measures on procedures for the first-time transfer and re-transfer of construction land use rights collectively owned by peasants.

Government Incentives

In accordance with the "National Plan for Mineral Resources (2008-2015)" promulgated by the Ministry of Land and Resources on 31 December 2008, iron ore mines are to be continued as the major insufficient mineral encouraged to be explored and developed while significant breakthroughs in prospecting are required to be achieved by miners during the period of the plan to increase iron ore reserves to 9 billion tonnes. The capacity to continuously supply iron ore resources is being improved in a bid to reach an iron ore production of 1.1 billion tonnes in 2015.

In accordance with the "Details on the Iron and Steel Industry Restructuring and Revitalization Plan" promulgated by the General Office of the State Council on 20 March 2009, the degree of domestic iron ore resources exploration is to be intensified along with reasonable allocation and development of domestic iron ore resources to increase resources reserve. Large enterprises with potentials are encouraged to set up wholly-owned or joint venture mines overseas and to properly organize and implement overseas mineral resources projects where preliminary work has been undertaken.

In accordance with the "Notice of the Shandong Municipal People's Government on the Issuance of the Shandong Province's Iron and Steel Industry Restructuring and Revitalization Plan" (Shandong Municipal People's Government Circular No. 2009-45), the capability to secure resources is improved. Key iron and steel enterprises are encouraged to actively implement the "going global" strategy for the development of the international resources market and to establish a mineral resources security system. The provincial iron ore resources are to be allocated and developed in a reasonable manner and those in large reserves (over 30 million tonnes) are to be allocated first to large-sized iron and steel enterprises of the province.

As expressed in the NPC and CPPCC Sessions 2011, China will invest approximately RMB1.3 trillion on building 10 million units of affordable homes in 2011 and 2012, and a total of 36 million affordable homes will be built from 2011 to 2015. Also, a new railway line will be built from 2011 to 2015 between Golmud in northwestern Qinghai Province and Korla in Xinjiang, and two other railway lines would be built between Golmud and Dunhuang in Gansu Province, and between Golmud and Chengdu in Sichuan Province during the five year period. The construction of affordable homes and railways would contribute to the increase of demand for steel, the ultimate end product of our iron ore concentrates products. Therefore, there would ultimately be an increase in demand for iron ore concentrates from the steel manufacturers, who are our customers. We believe that the general projected economic growth and the specific plans for construction projects for homes and railways are both favourable factors to the market demand of our products and would further enhance our general business development in the coming years.

The Rules on the Merger and Acquisition of Domestic Enterprises by Foreign Investors in the PRC

Under the Rules on the Merger and Acquisition of Domestic Enterprises by Foreign Investors in the PRC (關於外國投資者併購境內企業的規定) (the "M&A Rules"), which was issued by the Ministry of Commerce of the PRC (中華人民共和國商務部), State-owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會), State Administration of Taxation (國家税務總局), State Administration for Industry and Commerce (國家工商行政管理總局), China Securities Regulatory Commission (中國證券監督管理委員會) and State Administration of Foreign Exchange (國家外匯管理局) on 8 August 2006, effective on 8 September 2006 and further amended on 22 June 2009 by the Ministry of Commerce of the PRC (中華人民共和國商務部), a foreign investor is required to obtain necessary approvals when (i) a foreign investor acquires equity in a domestic non-foreign invested enterprise (the "domestic company") thereby converting it into a foreign-invested enterprise, or subscribes for new equity in a domestic company via an increase of registered capital thereby converting it into a foreign-invested enterprise; or (ii) a foreign investor establishes a foreign-invested enterprise which purchases and operates the assets of a domestic enterprise, or which purchases the assets of a domestic enterprise and injects those assets to establish a foreign-invested enterprise.

Our PRC Legal Advisers advised that the acquisition of 25% interest in Shandong Ishine by SMI from Mr. Li and Mr. G.H. Li, details of which are set out in the paragraph headed "History and Development – Our Corporate History – Shandong Ishine – Introduction of Mr. Lang and conversion into a sino-foreign joint venture company", is subject to the M&A Rules. On 7 January 2011, the Bureau of Commerce of Shandong Province (山東省商務廳) approved the aforesaid acquisition and the People's Government of Shandong Province (山東省人民政府) granted the relevant approval certificate to Shandong Ishine. On 14 January 2011, the Administration for Industry and Commerce of Shandong Province (山東省工商行政管理局) granted a new business license to Shandong Ishine for conversion of Shandong Ishine into a sino-foreign joint venture enterprise. As advised by our PRC Legal Advisers, the acquisition of 25% interest in Shandong Ishine by SMI has obtained approval from all relevant authorities and fully complied with the requirements under the M&A Rules.

For the acquisition of 75% interests in Shandong Ishine by Ishine Mining from Mr. Li, details of which are set out in the paragraph headed "History and Development – Reorganisation – Acquisition of the equity interests in Shandong Ishine", our PRC Legal Advisers advised that since Mr. Li transferred his 75% equity interest in Shandong Ishine to Ishine Mining after transformation of Shandong Ishine into a sino-foreign joint venture enterprise, the aforesaid acquisition is an acquisition of equity in a foreign invested enterprise, and as such, the M&A Rules is not applicable and approval from the China Securities Regulatory Commission is not required. Instead, the acquisition shall comply with the Rules on the Changes of Shareholding of Foreign-invested Enterprise Investor (外商投資企業投資者股權變更的若干規定) (the "Rules"), which requires approval of the original approving authority i.e. the Bureau of Commerce of Shandong Province (山東省商務廳). Our PRC Legal Advisers further advised that the aforesaid acquisition has obtained approval from all relevant authorities and fully complied with the requirements under the Rules.

AUSTRALIA LAWS AND REGULATIONS

COMMONWEALTH REGULATION

Environmental Requirements

Under the *Environment Protection and Biodiversity Conservation Act 1999* (Cth) (**Cth Environment Protection Act**), actions that are likely to have a significant impact on a "matter of national environmental significance" may be subject to a rigorous assessment and approval process. "Matters of national environmental significance" include world and national heritage properties, wetlands, listed threatened species and ecological communities and migratory species.

Proposed actions that are likely to have a significant impact on a matter of national environmental significance must be referred to the relevant Commonwealth Minister who may determine that assessment under the Cth Environment Protection Act will be required.

Native Title and Aboriginal Heritage

The *Native Title Act 1993* (Cth) (**Native Title Act**) recognises and protects common law native title in Australia over land and water. Where native title claims exist, certain procedures in the Native Title Act (known as future act procedures) must be followed to ensure the validity of the grant or renewal of a mining tenement. These procedures can include the requirement for an applicant to negotiate or consult with the relevant claimant groups. In relation to a mining lease, any agreement reached will typically involve the payment of compensation to the native title holders for impairment of native title rights and interests as a result of the grant of the mining tenement or any activities carried out by the holder of the tenement.

Important Aboriginal sites are also potentially protected by the *Aboriginal and Torres Strait Islander Heritage Protection Act 1984* (Cth) (**ATSI Act**). Protection under this ATSI Act effectively prevents disturbance of the site.

OVERVIEW OF THE MINING LAW REGIME IN WESTERN AUSTRALIA

General

The *Mining Act 1978* (WA) (**WA Mining Act**) regulates the use of mineral resources in Western Australia. In Western Australia, the Crown owns all minerals on or below the surface of the land, except in certain limited circumstances, and, through the relevant Minister and the Department of Mines and Petroleum, grants mining tenements that confer rights to explore for and mine minerals. The WA Mining Regulations set out different royalties that are payable in respect of specified minerals when mining occurs.

A transfer or mortgage of a legal interest in a mining tenement does not pass any legal interest in a mining tenement until it is registered under the WA Mining Act.

Ishine International holds 11 granted exploration licences and 12 exploration licence applications in Western Australia. An explanation of these licenses is set out below.

Exploration Licence

The holder has a right to explore for minerals specified in the grant within the licence area. The holder may extract mineral bearing substances up to a maximum volume of 1,000 tonnes (or another amount approved by the Minister) during the term of the licence (except in respect of iron ore unless expressly authorised by the Minister).

Exploration licences applied for on or after February 10, 2006 will remain in force for five years from the date of grant and may be renewed for five years (plus further renewals of two years each) if prescribed grounds exist. The holder is required to surrender 40% of the licence area at the end of the initial term (unless exempted on certain prescribed grounds). During the first year of its term, an exploration licence granted may not be transferred without the prior written consent of the Minister.

The holder of an exploration licence generally has a priority right to convert the licence to a mining lease. An applicant for a mining lease must show that exploration results in respect of a deposit of minerals located in the area to which the mining lease application relates indicate that there is a reasonable prospect of minerals being obtained by mining operations.

Prospecting Licence

The holder has a right to prospect for minerals within the licence area, and may extract mineral bearing substances not exceeding 500 tonnes (or larger tonnage approved by the Minister) during the term of the licence.

Prospecting licences applied for on or after February 10, 2006 remain in force for a period of four years from the date of grant and may be renewed for four years (and further four year periods if the licence has "retention status", which is obtainable where an identified mineral resource exists that is impracticable to mine at the time for certain prescribed reasons). Prospecting licences may be transferred without any approvals.

The holder of a prospecting licence also has a priority right to the grant of a mining lease. An applicant for a mining lease must show that exploration results in respect of a deposit of minerals located in the area to which the mining lease application relates indicate that there is a reasonable prospect of minerals being obtained by mining operations.

Iron Ore

The holder of a prospecting licence, exploration licence, retention licence or mining licence may not prospect, explore or mine the land for iron ore (as the case may be) without written authorisation from the Western Australian Minister for Mines and Petroleum. In Western Australia, tenements which are authorised for iron ore exploration and/or mining are identified by an "I" suffix following the respective tenement number.

Crown land and pastoral leases

Section 20(5) of the WA Mining Act provides that the holding of a mining tenement does not entitle the holder to prospect, explore or mine on any Crown land that is used for, or within 100 m of, cropping land, stockyards, plantations, airstrips, occupied land, housing and other buildings and cemeteries; or land that is used for, or within 400 m of, any pastoral leases which is the site of any water works, race, dam, well or bore, without the written consent of the owner or occupier of the land, unless mining is only carried out at a depth below 30 m from the natural surface of the land.

The owners and occupiers of any land where mining takes place are entitled according to to compensation for loss and damage suffered or likely to be suffered by them resulting or arising from the mining. Where consent cannot be agreed, the warden may determine the amount for compensation.

Reserves and other land interests

Where mining tenements cover areas which are in "reserves", the consent of the Minister or of both Houses of Parliament may be required before mining activities are permitted and conditions may be imposed on such activities.

Private land

Private land which is not already subject to a mining tenement is generally considered open for mining under the WA Mining Act (subject to certain exceptions), and a mining tenement may be issued in relation to such land. However, a tenement may not be granted in respect of private land which is the site of, or within 100 m of, a yard, stockyard, garden, orchard, vineyard, plant nursery, plantation, cemetery, dam, bore, well, spring, building or a parcel of land with an area of 2,000 square metres or less, unless the consent of the private landholder and any other occupier is obtained or the tenement is only granted in respect of the land below 30 m from the surface of the private land.

The owners and occupiers of any land where mining takes place are entitled to compensation for all loss and damage suffered or likely to be suffered by them resulting from the mining. The tenement holder may not commence mining on the surface or within a depth of 30 m from the surface until compensation has been agreed with the private landowner or paid in accordance with the WA Mining Act. Compensation may be determined by agreement between the tenement holder and private landowner or occupier, or by the warden.

Environmental requirements

Under Part IV of the Environmental Protection Act 1986 (WA) (**WA Environmental Protection Act**), mining operations that are likely to have a significant impact on the environment must be referred to the Western Australian Environmental Protection Authority for assessment, and approved by the Western Australian Minister for Environment. Proposals may

be subject to conditions which dictate how the proposal is to be implemented. A breach of conditions may result in the issue of a stop order requiring operations to cease and for action to be taken to rectify the breach.

Other environmental approvals may be required to develop a mining operation, including licences for construction and operation of ore processing facilities, on-site effluent disposal systems and power generating facilities, groundwater extraction licences, native vegetation clearing permits and dangerous goods, handling, transport and storage licences.

Aboriginal heritage

The *Aboriginal Heritage Act 1972* (WA) protects sites and areas of significance to Aboriginal persons. Consent of the Minister for Indigenous Affairs is required where any use of the land is likely to result in damage to, or destruction of, an Aboriginal site or objects.

OVERVIEW OF THE MINING LAW REGIME IN QUEENSLAND

General Mining Law in Queensland

The *Mineral Resources Act 1989* (Qld) regulates exploration and development of mineral resources in Queensland, and is administered by the Minister for Employment, Skills and Mining and the Queensland government's Department of Employment, Economic Development and Innovation (Mining and Safety). Mining royalties are imposed through the *Mineral Resources Regulations 2003* (QLD).

Ishine International holds one application for an exploration permit, and has a contractual interest in three granted exploration permits in Queensland. An explanation of an exploration permit is set out below.

Exploration Permit

An exploration permit allows the holder to explore the permit area for minerals. The maximum term of an exploration permit is five years (unless otherwise determined by the Minister). The holder may apply to renew the permit for a maximum of five years.

Generally, an exploration permit will be granted either in respect of all minerals other than coal (referred to as an exploration permit for minerals, "EPM"); or solely for coal (referred to as an exploration permit for coal, "EPC"). It is possible for an EPC and an EPM to overlap and be granted over the same areas.

Unless the Minister decides otherwise, the holder of an EPM must relinquish half of the permit area within two years after its grant, and a further half of the remaining area by the end of each subsequent year.

Holders of an exploration permit may apply for a mineral development licence to conduct more intensive studies to prove the existence of a resource. Unless otherwise approved by the Minister, a person must hold either a prospecting permit, exploration permit or mineral development licence over an area as a condition to applying for a mining lease over that area.

Environmental requirements

Under the *Environmental Protection Act 1994* (Qld), the Department of Environment and Resource Management administers the regulation of the key environmental impacts of exploration and mining activities. The holder of a mining tenement must obtain an environmental authority before mining activities can be carried out on the tenement.

Aboriginal heritage

The *Aboriginal Cultural Heritage Act 2003* (Qld) (**ACH Act**) provides for the recognition and protection of Aboriginal cultural heritage. Tenement holders have a duty of care to protect Aboriginal cultural heritage when carrying out their activities.

This duty of care may be complied with in a number of ways including:

- at minimum, adhering to the Duty of Care Guidelines in the ACH Act; or

- entering into a voluntary cultural heritage management agreement, developing a Cultural Heritage Management Plan, or entering into an indigenous land use agreement or other native title agreement with the Aboriginal party.

The unlawful harm of and excavation, relocation and taking away of any object of Aboriginal cultural heritage is prohibited.

Aboriginal sites may be registered under the **ACH Act**. However, there is no requirement for a site to be registered and the **ACH Act** protects all registered and unregistered sites.

OVERVIEW OF THE MINING LAW REGIME IN SOUTH AUSTRALIA

General Mining law in South Australia

The *Mining Act 1971* (SA) (**SA Mining Act**) regulates the exploration and development of minerals in South Australia. The South Australian Minister for Mineral Resources and Energy administers the SA Mining Act through the new Department of Manufacturing, Innovation, Trade, Resources and Energy, Primary Industries and Resources South Australia.

There is a royalty payable by the tenement holder to the South Australian government on certain minerals removed from certain areas under the SA Mining Act.

Our Company has an interest in seven granted Exploration Licences, and three applications for Exploration Licences, in South Australia. An explanation of an exploration licence is set out below.

Exploration Licence

The holder is authorised to carry out exploratory operations of a kind described in the licence in respect of the licence area subject to the conditions set out in the licence. An exploration licence is granted for a term of up to five years. If an exploration licence is granted for a term of less than five years, the licence may include a right of renewal but the aggregate term of the licence cannot exceed five years.

An exploration licence may not be assigned, transferred, mortgaged, or otherwise dealt with without the written consent of the Minister.

Environmental requirements

In South Australia, the *Environment Protection Act 1993* (SA) applies to mining operations and is administered by the South Australian Environment Protection Authority.

The legislation imposes a duty on all persons not to undertake an activity that pollutes, or might pollute, the environment unless the person takes all reasonable and practicable measures to prevent or minimise any resulting environmental harm.

Aboriginal heritage

The *Aboriginal Heritage Act 1988* (SA) (**SA Heritage Act**) applies to the South Australian tenements and makes it an offence to damage or interfere with sites or objects of significance to Aboriginal tradition, archaeology, anthropology or history.

Aboriginal sites need not be registered under the SA Heritage Act, however all registered and unregistered sites are protected. The SA Heritage Act imposes obligations on the holder to report the discovery of Aboriginal sites, objects or remains.