

OVERVIEW

The main businesses of our Company, including the production, sale and transportation of coal, must comply with national industry policies, related laws and regulations, and are subject to extensive government regulation. The scope of regulation covers investment, exploration, production, mining rights, distribution, trading and transportation, and the production and sale of drugs. Moreover, all of operations of our Company in China are subject to the relevant fees, charges and taxes as well as laws and regulations concerning safety and environmental protection.

MAIN REGULATORY BODIES

- The State Council as the top executive body is responsible for the examination and approval of some major investment projects determined as such in the *Catalogue of Government Approved Investment Projects* (2004 Edition) published by the PRC government;
- The NDRC was established pursuant to the resolution adopted by the 10th National People's Congress in March 2003 and has taken over most of the functions previously performed by the former National Development and Planning Commission. The NDRC develops and implements the main policies concerning the socio-economic development of China; examines and approves investment projects exceeding specific investment amounts or in special industries, including the examination and approval of foreign invested projects; supervises the reform of state-owned enterprises (SOEs); and establishes industry policies and investment guidelines for the natural resource industries, such as coal, coal trading, coal-to-oil and coke production enterprises. Moreover, the NDRC works in conjunction with the MOFCOM to determine the state's total quota for coal exports and its allocation. Also, the NDRC is tasked with assessing and implementing the linked pricing mechanism between the coal price and that of electric power;
- The MLR is authorized to issue land use rights and mining rights certificates; approves the transfer and leasing of mining rights ; reviews the expense(s) of mining rights and reserve valuation;
- The MOFCOM works in conjunction with the NDRC to determine the state's total quota for coal exports and its allocation;
- The SACMS supervises the safe operation of coal mines, establishes various safety requirements, assumes responsibility for the implementation and supervision of the laws and regulations concerning coal mines and their safe operation;
- The MOR supervises the operation of the Chinese railways and develops the strategic development plan for railway transport. The MOR works together with the NDRC to examine and approve all applications for railway construction, including railways dedicated to or used for coal transport as well as the allocation of the transport capacity of the railways;
- The MEP monitors and controls environmental protection works, and exercises supervision over the environmental system throughout the country;
- The Ministry of Housing and Urban-Rural Development is responsible for managing construction projects, including railways, and managing the qualifications and quality of the design, construction and supervisory units; and
- The State Food and Drug Administration is responsible for supervision over and administration of drugs, medical apparatuses and equipment, consumer food and cosmetics in China.

COAL PRODUCTION

Main Regulations

The main Chinese laws and regulations relating to the coal resource development industry include:

- Law of Mineral Resources of the People's Republic of China (《中華人民共和國礦產資源法》);
- Implementation Rules for the Law of Mineral Resources of the People's Republic of China (《中華人民共和國礦產資源法實施細則》);

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- Coal Law of the People's Republic of China (《中華人民共和國煤炭法》);
- Interim Measures for the Supervision and Administration of Mineral Resources (《礦產資源監督管理暫行辦法》);
- Administrative Measures for Mineral Resources Exploration Area and Segment Registration (《礦產資源勘查區塊登記管理辦法》);
- Measures for the Administration of Registration of Development of Mineral Resources (《礦產資源開採登記管理辦法》);
- Administrative Measures for the Transfer of Exploration and Mining Rights (《探礦權採礦權轉讓管理辦法》);
- Notice of the General Office of the State Council on Forwarding the Opinions of the Ministry of Land and Resources for Improving and Rectifying the Order of Administration of Mineral Resources (《國務院辦公廳轉發國土資源部關於進一步治理整頓礦產資源管理秩序意見的通知》);
- Reply of the State Council on Approving the Trial Implementation Scheme of the Reform of the Non-Gratuitous Use Policy of Coal Resources (《國務院關於同意深化煤炭資源有償使用制度改革試點實施方案的批覆》);
- the People's Republic of China Resource Tax Provisional Regulations (《中華人民共和國資源稅暫行條例》);
- Measures for the Administration of Licenses for Coal Production (《煤炭生產許可證管理辦法》);
- Opinions of the General Office of the State Council for Several Issues Relating to Strengthening the Administration of the Coal Industry (《國務院辦公廳關於加強煤炭行業管理有關問題的意見》);
- Implementation Measures for Further Promoting the Integration and Non-Gratuitous Use of the Coal Resources (Trial) (《關於進一步推進煤炭資源整合和有償使用的實施辦法(試行)》);
- Special Provisions of the State Council on the Prevention of Coal Mine Production Safety Accidents (《國務院關於預防煤礦生產安全事故的特別規定》);
- Decision of the State Council Concerning the Reform of the Investment Mechanism (《國務院關於投資體制改革的決定》) (the "Investment Reform Decision");
- Catalogue of Government Approved Investment Projects (2004 Edition) (《政府核准的投資項目目錄(2004年本)》); and
- the Notice of the State Council on Adjusting the Ratio of Capital Funds of Fixed Asset Investment Projects (《國務院關於調整固定資產投資項目資本金比例的通知》).

These laws and regulations contain provisions for the exploration, mining and management of mineral resources.

Business Qualification Requirements

Pursuant to the Law of Mineral Resources of the People's Republic of China and the Coal Law of the People's Republic of China, coal mineral resources belong to the State; the state ownership of surface or underground mineral resources shall not change with the alteration of ownership or right to use the lands to which mineral resources are attached; the exploration and development of coal shall be subject to the approval and supervision of the MLR and related local mineral resource departments. Enterprises that plan to carry out coal exploration and development activities must obtain the approval and be subject to the supervision of MLR and related local mineral resource departments in advance. If the MLR and related local mineral resource departments consider that an applicant meets the requirements of the laws and regulations, an exploration license or mining license will be issued for each mine for which an application is filed. The holder of the mining right license must submit an annual report to the administrative body that issues the license. Apart from the mining right license, each coal producer must obtain a coal production license for each mine from the competent department in charge of the coal industry at the national, provincial and municipal levels of government before the producer can carry out coal production and sales activities. If a coal producer plans to engage in coal product businesses other than production or processing on its own, such as coal trading, it must also obtain a business qualification certificate issued by related authorities prior to the commencement of such business.

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Pursuant to the requirements of the Investment Reform Decision, an application shall be made to the NDRC for all coal development projects within the mining areas embraced in State plans for its approval before it can be implemented. As for other mining projects, the application shall be filed with the investment regulatory department of the local government. The NDRC shall submit major mining projects to the State Council for approval. Moreover, coal liquefaction projects with annual productivity of 500,000 tonnes or above shall be approved by the competent department in charge of investments under the State Council.

Pursuant to the requirements of the Administrative Measures for Mineral Resources Exploration Area and Segment Registration (《礦產資源勘查區塊登記管理辦法》), the State implements a unified regional registration system for exploration of mineral resources, and each enterprise that engages in the exploration of mineral resources must apply to the related administrative department for an exploration license, pay the related use fee for the exploration right and the price of exploration right, which is determined through assessment so as to become the holder of the exploration right.

Pursuant to the requirements of the Measures for the Administration of Registration of Development of Mineral Resources (《礦產資源開採登記管理辦法》), each enterprise that engages in coal mining must go through registration and examination and approval procedures with the competent department in charge of geology and mineral resources under the State Council before becoming the holder of the mining right, apply for the mining license, and pay the related use fee and the price of the exploration right. Before applying for the mining right, the applicant for a mining right shall apply to the relevant registration and administration authorities for the demarcation of mining areas in accordance with an approved geologic reserve report.

Moreover, pursuant to the requirements of the Chinese laws and regulations concerning the resource development industry, various other qualifications shall be obtained with respect to the quantity and reserve of the resources involved in the exploration and resource development, including the geologic exploration qualification, qualification of the appraisal unit of mining rights, professional qualification of the appraiser of mining rights, qualification of the appraisal unit of mineral reserves and the professional qualifications of the appraiser of mineral reserves.

Pursuant to the Law of Mineral Resources of the People's Republic of China (《中華人民共和國礦產資源法》) and the Coal Law of the People's Republic of China (《中華人民共和國煤炭法》), each coal production enterprise must reach a specified resource recycling rate. The recycling rate is determined by the relevant coal regulatory departments under the State Council in accordance with the resource quantity and mining conditions of each mine. Any coal production enterprise that fails to meet the required recycling rate may be subject to penalties, including the revocation of its production license.

It is illegal for any entity or individual to carry out mining operations in areas in which another coal production enterprise has already been authorized to carry out development activities. If the mining operation of an entity undermines the production or living standard of others, it must compensate the damaged parties for the losses sustained and take necessary remedial measures. Pursuant to the requirements of the Detailed Rules of Implementation of the Law of Mineral Resources of the People's Republic of China (《中華人民共和國礦產資源法實施細則》), a mine operator must comply with particular procedures in closing down a mine, including but not limited to the submission of geologic activities reports of the mine to be closed down to the department that originally approved the operation of the coal mining and a mine closedown report must be submitted to related mineral resources departments.

Related Rectifying Efforts of Coal Resources and Mining

The Investment Reform Decision introduces major revisions to the government examination and approval procedures of the main investment projects of China. The purpose of the legislation is to minimize direct intervention by the PRC government in enterprise operations; permit allocation of the resources through the market mechanism; increase investment efficiency and promote the sustainable, coordinated and sound development of the Chinese economy. With the release of the Investment Reform Decision, the government simplified the examination and approval of fixed asset investment projects that do not utilize government funds for investment and construction, which are managed by the government by means of "approval" and "filing." Other than the investment projects listed in the Catalogue of Government Approved Investment Projects

《政府核准的投資項目目錄》(major and restricted fixed asset investment projects that do not utilize government funds for investment and construction are specified therein) and projects in which investment is specifically prohibited by the laws and regulations of the State and the State Council, all projects are subject to management by means of filing.

Pursuant to the attachment of the Investment Reform Decision, the Catalogue of Government Approved Investment Projects (2004 Edition) 《政府核准的投資項目目錄(2004年本)》, coal development, coal liquefaction and railway construction are major investment projects that are subject to approval and an application must be filed for approval of such investment projects pursuant to the Investment Reform Decision and related administrative provisions issued by the NDRC.

The Coal Law of the People's Republic of China 《中華人民共和國煤炭法》, issued in 1996 and amended respectively in 2009 and 2011 by the Standing Committee of the National People's Congress, provides requirements for the supervision and administration of coal production development and planning and mine construction, coal production and coal safety, coal trading and protection of the coal mine areas and specifies the rights of the coal administration departments to supervise and inspect the coal enterprises and coal trading enterprises with respect to the implementation of the coal related laws and regulations. The law also increases the market access requirements for coal trading to prevent enterprises and individuals with insufficient capital and obsolete equipment from entering the coal industry, and requires coal production enterprises to provide and use safe production fees and safe production risk deposits and make other investments in safe production pursuant to the requirements of the State. To ensure optimized use of coal resources, safe production and environmental protection, the government agencies are required to examine the scope of the mining areas, mining proposals, production technology conditions, safety measures and environmental protection measures when issuing mining licenses and approving the establishment of coal production enterprises.

On June 7, 2005, the State Council published Certain Opinions on the Promotion of the Coal Industry Health Development 《關於促進煤炭工業健康發展的若干意見》, and announced the development objectives and principles of the PRC government for the development and standardization of the coal industry aim at improving the supervision of the development of coal resource; accelerating the transformation of industry structure; improving the coal supply system and enhancing the safety of the coal mine production and environmental management.

In order to stringently protect and reasonably develop coal resources, eliminate obsolete production capacities, adjust and optimize the structure of the coal industry, enhance the degree of intensiveness and productivity level of coal production and promote a continuous, stable and healthy development of the coal industry, the General Office of the State Council forwarded NDRC's *Certain Opinions on Accelerating the Merger and Restructuring of Coal Mine Enterprises* 《關於加快推進煤礦企業兼併重組的若干意見》 on October 6, 2010 to raise certain opinions on accelerating the merger and restructuring of coal mine enterprises, by which the important implications, guiding principles and main missions of accelerating the recommendation of the merger and restructuring of coal enterprises have been elucidated. At the same time, it was also suggested that the merger and restructuring of coal enterprises should be based on such policy measures as scientific allocation of coal resources, enhancement of support from fiscal and tax policies, widening of financing means, as well as provision of support for the enhancement of enterprises' productivity levels.

Coal Operations and Production Capacity

Pursuant to the Measures for the Supervision of Coal Trading 《煤炭經營監管辦法》 published by the NDRC on December 27, 2004 and came into effect on January 27, 2005, the State has established policies regarding coal trading and qualifications for the coal business (including wholesale and retail sales of raw coal and processed coal and processing and distribution of civil coal). An enterprise must obtain coal trading qualification certificate before pursuing in the coal business. A coal production enterprise must obtain coal trading certificate before selling any coal products produced and processed by someone other than itself. No person shall trade coal products produced and processed by a coal mining enterprise without a coal production license or products of a coal trading enterprise without the coal trading qualification or sell coal products to a coal trading enterprise without the coal trading qualification certificate.

The Rules on the Administration of the Production Capacity of Coal Mines 《煤礦生產能力管理辦法》 were jointly promulgated by the NDRC, the State Administration of Work Safety and the SACMS and came into

effect on April 30, 2006. It provides that the maximum annual volume of coal production at a given mine, as determined by the department in charge of the issue and administration of coal production permits, shall be stated on the coal production permit issued in respect of the mine. On a national level, the department in charge of the coal industry under the State Council shall be responsible for guiding the supervision and administration of coal mine production capacities, and shall be directly responsible for the supervision and administration of the production capacity of coal enterprises owned by the central government. On a local level, the department in charge of the coal industry under the local people's governments at or above county level shall be responsible for the supervision and administration of coal mine production capacities in their own administrative regions, except in the case of coal enterprises owned by the central government. The Special Provisions of the State Council on the Prevention of Coal Mine Production Safety Accidents (《國務院關於預防煤礦生產安全事故的特別規定》) effective from September 3, 2005 onwards, also provides that a coal mine shall not produce in excess of its permitted capacity. If a coal mine's actual production exceeds its permitted capacity, an order will be given by the relevant department in charge to suspend the production and rectify relevant infringing activities. In the meantime, fines will be imposed on the coal mine of no less than RMB500,000 but no more than RMB2,000,000 and on the mine manager of no less than RMB30,000 but no more than RMB150,000. In cases where a coal mine exceeds its permitted production twice or more in any given three month period, the coal production permit, mine manager's qualification certificate and mine manager's safety qualification certificate may be revoked and an application may be made to the local government to shut down the coal mine.

The NDRC, the Ministry of Industry and Information Technology, the Ministry of Supervision, the Ministry of Finance and the Ministry of Land and Resources promulgated the *Notice on Certain Opinions on Hampering the Excessive Production Capacities and Duplicated Construction in Certain Industries and Promoting the Healthy Development of Sectors* (《關於抑制部分行業產能過剩和重複建設引導產業健康發展若干意見的通知》) on September 26, 2009, in which the severity of the issues of excessive production capacities and duplicated construction in industries like the coal chemistry industry was explained, the policy orientation regarding the hampering of excessive production capacities and duplicated construction was elucidated, and specific requirements were proposed concerning the recent development objectives and elimination of obsolete production capacities of various industries in the related sector. The notice also focused on putting forward responsive measures for hampering excessive production capacities and duplicated construction, which include stringent market entrance, enhancement of environmental supervision, lawful supply and use of related land, implementation of a financial policy that stresses both protection and control, rigorous management of project approval, sufficient efforts in merger and restructuring work, establishment of an information release system and implementation of a system of accountability as well as further elaboration of the regime reform.

The NDRC, the National Energy Administration, the State Administration of Work Safety and the SACMS issued the *Notice on Further Promoting the Work for Eliminating Obsolete Production Capacities in the Coal Industry during the 12th Five-year Plan* (《關於「十二五」期間進一步推進煤炭行業淘汰落後產能工作的通知》) in October 2011, in which the planned eliminated tonnage of obsolete production capacities in the national coal industry during the 12th Five-year Plan and the number of small coal mines that have gone out of the market were released. Clearer elimination standards for the production capacity, recovery rate, level of mechanization and safety aspects of coal mines were also given.

On March 23, 2011, the NDRC issued the *Notice on Regulating an Orderly Development of the Coal Chemistry Sector* (《關於規範煤化工產業有序發展的通知》), in which various places were requested to render the sector entrance policies more stringent, enhance the management of project approval, strengthen the allocation of key resources, and implement an administrative system of accountability in respect of the development of the coal chemistry sector. Development and reform bodies of various levels are requested to strictly comply with the relevant national management provisions and approval procedures regarding construction projects, to further enhance the management of project approval in the coal chemistry sector, and not to delegate the approval authority to lower-level bodies; Strengthening of allocation of key resources for coal chemistry production and strengthening of environmental assessment review and energy-saving review on coal chemistry projects, management on aspects such as water and land use approval are requested.

In March 2012, the NDRC established the *Twelfth Five-year Plan on the Development of Coal Industry* (《煤炭工業發展“十二五”規劃》) with proposals on the orderly establishment of upgrade demonstration work on modern coal chemistry and policies on the promotion of efficient and clean utilization of coal. Specific proposals are made in the *Twelfth Five-year Plan on the Development of Coal Industry* on the stable promotion

of the development of demonstration projects of advanced coal processing, selection of regions with suitable coal types and relatively rich water resources in areas such as Inner Mongolia and Xinjiang, key support on the development of demonstration work of coal-to-oil, coal-to-synthetic natural gas, coal-to-olefin, coal-to-ethylene glycol, etc. of large enterprises and the acceleration of application of advanced technology on industrialization.

Pricing

Since the PRC government eliminated the price control over the coal used for power generation in 2002, the domestic coal price is primarily driven by the market. However, the central government still has the right to take interim price intervention measures against particular coal types. For instance, between June 19 and December 31, 2008, the NDRC implemented an interim price intervention measure for coal used for power generation for the entire country and determined the maximum price of the coal at the main ports and distribution centers in order to implement the measure. Moreover, through the control of the electricity price and allocation of transport capacity of the country's railways, the PRC government could indirectly influence coal prices.

Railway Transport

Railway construction

The MOR is responsible for the planning and administration of China's national railway system. Any plan to build a new railway line must conform to the national railway development plan and be approved by the MOR or its designated department in advance. Before a railway line is put into commercial operation, related governmental departments must approve the construction plan of the railway line.

Allocation of transport capacity of the railway

Coal produced in the provinces and regions far away from the coastal areas is transported to the primary consumers in the coastal areas by rail. The MOR and the NDRC are responsible for allocating the coal transport capacity of the national railway system. Each year, coal production enterprises must apply to the MOR for a portion of the transport capacity. The MOR and the NDRC will give full consideration to the needs of different coal production enterprises that adopt railway transport, and publish the annual quota of transport capacity of the railway. If a coal production enterprise needs additional railway transport capacity outside the annual railway transport capacity allocation plan published by the MOR, it shall apply to related railway and transport regulatory authorities for additional transport capacity.

Freight charge

China's railway system must collect freight charges from the coal production enterprises that use the railway system for coal transport at the unified rate of cargo freight determined by the NDRC. The NDRC determines the rate of the freight by taking into account the construction cost of the railway and a reasonable return on investment, and the freight of the railway lines owned and operated by a coal production enterprise itself may not exceed the maximum freight approved by the NDRC. Any adjustment of such maximum freight is subject to the approval of the NDRC. The maximum freight reflects the construction cost of the railway and a reasonable return on investment.

Safety

China has promulgated relatively comprehensive laws, regulations, rules and codes governing production safety and coal mine production safety. Pursuant to existing regulations, the safety facilities of a coal mine project must be designed, built and put into operation simultaneously with its main project.

Pursuant to the Mining Safety Law of the PRC (《中華人民共和國礦山安全法》), promulgated by the SCNPC on November 7, 1992 and revised on August 27, 2009, mining enterprises must install facilities to ensure safe production, establish and enhance safety management systems, and take effective measures to both strengthen the safety administration of mines and improve the work conditions of staff and workers. Labor authorities at county level and above are responsible for the administration and supervision of these safety measures. Design plans for the engineering and construction of a mine must comply with mining industry safety rules and technological standards and are subject to approval by the labor authorities and geological and mineral administrative authorities under the State Council. The engineering and construction of a mine must be

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in accordance with the approved design plans and, after the installation of requisite safety facilities, completed mines are subject to inspection and approval by both the geological and mineral administrative authorities and the labor authorities before the mine can commence operations. Any breach of the above provisions may result in fines, suspension of operations and/or the revocation of relevant mining right licenses or the business license of the mine operator.

The State adheres to integrated administration of the coal mines and strengthens the coal mine production safety assurance system. The SACMS is responsible for centralized supervision and monitoring of coal mine safety. Safety measures, such as ventilation, fire-proof, water-proof, gas-proof, toxic-proof and dust-proof facilities and coal safety resources, must comply with statutory mandatory requirements. The coal mines must allocate and use reserved funds according to the law and related regulations to meet coal mine safety technology standards. The coal mines must implement the gas inspection policy in strictly.

SACMS is the PRC government authority that is responsible for supervising the safety of coal production. To conduct any coal mine construction project, the safety design and procedures of the project must be examined and approved by SACMS or its local branch. Upon completion of the project and before it is put into operation, coal mine equipment and conditions must pass re-inspection and acceptance performed by SACMS or its local branch. The design of the coal mine must pass the examination and approval of SACMS, and the operating conditions of the ventilation equipment and fire-proof facilities must pass a inspection performed by the SACMS. The coal mine design, equipment, apparatus, tools, metering devices and protective items used must conform to the relevant safety standards. In accordance with the Measures for Administrative Penalties for Coal Mine Safety (《煤礦安全監察行政處罰辦法》) (promulgated by SACMS and enters into force as of August 15, 2003), the SACMS has the right to inspect the conditions of coal production enterprises on a regular basis for safety pursuant to the laws and regulations concerning safe production and coal mine safety. No coal producer shall mine a coal pillar without authorization or undermine production safety of neighboring coal mines by employing dangerous mining methods. Coal production enterprises that do not meet the relevant safety requirements may be assessed penalties such as fines or suspension of business. In accordance with the Regulations Governing the Reporting, Investigation and Disposition of Production Safety Accident (《生產安全事故報告和調查處理條例》) passed by the One Hundred and Seventy-second Session of the Standing Committee of the State Council on March 28, 2007 and implemented since June 1, 2007, in the event of any production safety accidents that involve personal injury/death and direct economic loss, the relevant person(s) at the scene of accident shall immediately report the accident to the relevant person in charge of its employer, and such person in charge shall report, within one hour, the same to the production safety supervision and administration department and the relevant department in charge of supervision and administration of production safety under the people's governments at the county level or above where the relevant accident is located.

Pursuant to the requirements of the Measures for the Implementation of Safe Production Licenses of Coal Mine Enterprises (《煤礦企業安全生產許可證實施辦法》) effective as of May 17, 2004, any coal mine in operation must have a valid production safety license issued by the SACMS. No coal mine enterprise shall engage in coal production before obtaining a production safety license. Coal mine enterprises and coal mines that fail to fulfill the safe production requirements set forth in the document or violate the terms of the document will be penalized accordingly. The production safety license shall remain valid for an initial term of three years, which may be renewed if the coal mine still meets the safe production requirements established by relevant agencies upon the expiration of the license. No operation of a coal mine without a valid production safety license is permitted. In order to further strengthen the supervision over the safety of the coal mines, the Coal Mine Safety Code (《煤礦安全規程》) effective as of January 1, 2005 revised by the SACMS provides that all coal production enterprises in China shall comply with high safe production requirements and meet stringent safe production standards. Moreover, pursuant to the Special Provisions of the State Council on the Prevention of Coal Mine Production Safety Accidents (《國務院關於預防煤礦生產安全事故的特別規定》) effective as of September 3, 2005, coal mine enterprises shall be responsible for preventing coal mine related production safety accidents. If a coal mine fails to obtain mining right license, safe production license, coal production safety license or business license and the mine manager fails to obtain mine manager qualification certificate and mine manager safety qualification certificate by law, the coal mine shall not carry out production. Each coal mine shall have sufficient safety equipment, facilities and resources, appropriate safety accident prevention measures and a sound emergency accident contingency plan. Coal mine enterprises shall establish the potential safety risk monitoring, inspection, handling and reporting policies. In case that any major potential safety risk of production listed in the documents is identified in a coal mine, the enterprise shall

cease production immediately and eliminate the potential safety risk. Coal mine enterprises shall provide safety education and training to their underground personnel and specific operational personnel in accordance with relevant rules and regulations of the State. The person-in-charge of the coal mine and the management personnel responsible for production and operation shall lead the shift to work underground in accordance with the rules and regulations of the State and create the underground registration files.

On July 19, 2010, the State Council released the Notice of the General Office of the State Council on Further Improving Production Safety of Enterprises (《國務院辦公廳關於進一步加強企業安全生產工作的通知》), requiring enterprises, particularly those in the coal mining and other mining, transportation, construction, dangerous chemicals, fireworks, civil explosives, metallurgy industries, to improve safety management. This Notice requires enterprises to conduct frequent safety inspections, enhance the responsibility and accountability of persons in charge of production, and improve safety education and training for employees.

Pursuant to the requirements of the Law of Railways of the People's Republic of China (《中華人民共和國鐵路法》) (the "Law of Railways") effective as of May 1, 1991, the MOR and other related government agencies shall be responsible for the supervision and administration of operation safety of the railways in China. The Law of Railways and relevant specific industry regulations state the requirements for the maintenance and periodic inspection of the railway equipment.

Transfer of Mining Rights

Pursuant to the Interim Provisions on the Administration of the Transfer of Mineral Property Rights (《礦業權出讓轉讓管理暫行規定》) promulgated by the MLR on November 1, 2000, mining rights, including exploratory rights and excavation rights, are categorized as "property rights" and may be transferred through sale, contribution as registered capital to a PRC registered company, establishment of a joint exploration or exploitation arrangement, and other means as permitted by the regulations. The transfer of mining rights is subject to supervision and approval by the geological and mineral administrative authorities under the State Council and at the provincial level.

ENVIRONMENTAL PROTECTION

On September 1, 2006, the State Administration of Environmental Protection and the State Administration of Quality Supervision, Inspection and Quarantine (SAQIQ) jointly promulgated the Standard for Discharge of Pollutants of the Coal Industry (《煤炭工業污染物排放標準》), which, effective as of October 1, 2006, is applicable to all coal mines, including open pit mines, coal preparation plants, coal gangue, coal storage and loading and unloading stations.

Mining operations, including open pit mine and underground mine operations may affect the surface and underground environment, and result in pollution of the water bodies, collapses and other environmental damages. In order to effectively regulate the negative influences of the coal industry on the environment, China has promulgated a series of laws and regulations.

With these laws and regulations in place, China has established a system of national and local environmental protection system, and promulgated national and local standards for discharge control, externally discharged wastes and pollutants, generation, handling, storage, transportation, processing and disposal of waste materials resulting from production facilities, land reclamation and reforestation.

Promulgated by the National People's Congress on December 26, 1989, the Environmental Protection Law of the People's Republic of China (the "Environmental Protection Law") (《中華人民共和國環境保護法》) is the most important environmental protection law in China. It sets forth the basic principles of coordinated development of economic growth, social progress and environmental protection and defines the rights and responsibilities of the different levels of government in China.

Pursuant to the Environmental Protection Law of the People's Republic of China, for the purpose of preventing environmental pollution and protecting the ecological environment, the State Administration of Environmental Protection is authorized to establish national environmental quality standards and discharge standards and is responsible for monitoring the national environmental protection system. The environmental protection department under the people's governments at the county level or above shall be responsible for

environmental protection work in the areas under their jurisdiction. The environmental protection department of the local governments shall have the right to develop local standards more stringently than the national standards, and enterprises must comply with the more stringent ones of the national and local environmental protection standards. The Environmental Protection Law of the People's Republic of China provides that any factory whose operation may result in pollution or other hazardous substances shall adopt environmental protection measures in its operations, establish an environmental protection accountability mechanism, and take effective measures to control and properly disposal of waste gas, waste water, waste slag, dust and other waste materials.

Moreover, any new project, expansion project or renovation project that involves direct or indirect discharge of pollutants into the environment and other equipment installation projects shall comply with the laws and regulations of the State concerning environmental protection of related projects. Entities that undertake these projects shall submit a statement of pollutant discharge to the competent departments, describing the discharge quantity, type, discharge location, handling methods and other related information concerning the pollutants in detail for review. The competent departments may allow the operator of the construction projects to discharge a certain quantity of pollutants, provided that the operator shall pay the pollutant discharge fee and obtain the pollutant discharge license for the relevant quantity. The discharge of pollutants shall be subject to the supervision of the competent department in charge of environmental protection. In case any entity discharges pollutants exceeding the standards, local environmental protection department shall have the right to impose fines equivalent to several times that of the pollutant discharge fee, order it to cease operation or take other remedy measures.

Pursuant to the Law of the People's Republic of China on Environmental Impact Assessment (《中華人民共和國環境影響評價法》) passed by the Standing Committee of the National People's Congress on October 28, 2002 and implemented from September 1, 2003, relevant departments under the State Council, the people's government at the city (with districts) level or above and its relevant departments must organize environmental impact assessments for specific plans, including but not limited to development plans for energy and natural resources, before they are submitted for examination and approval and furnish the environmental impact assessment report to the agencies that are responsible for the examination and approval of the specific plans. Moreover, before the people's government at the city (with districts) level or above examines and approves the draft of a specific plan and makes decisions, the competent administrative department in charge of environmental protection designated by the people's government or other departments shall convene a review panel formed by representatives of relevant departments and experts to review the environmental impact report and provide written review opinions. In the environmental impact report of a construction project, the operator of the project shall assess possible pollution and environmentally hazardous substances of the project and their possible impact on the ecological environment and describe the prevention and control measures. The Operator shall submit the report to the competent department in charge of environmental protection for examination and approval in accordance with the specified procedures. Moreover, before a wastewater discharge port can be built within a water source reserve area (for instance, the canal, irrigation channel and reservoir, etc.), the consent of related departments in charge of the water source reserve area must be obtained.

Any facility that is built for the purpose of prevention and control of environmental protection must be designed, built and put into use or operation simultaneously with the main body of related projects. The above facility is also subject to the inspection of the competent department in charge of environmental protection. In the event that these facilities fail to fulfill the specified requirements, the operator is not allowed to put them into operation or use.

Land reclamation in the mining areas is another issue that the PRC government attaches great importance to and strives to solve. Pursuant to the Law of Land Administration of the People's Republic of China (《中華人民共和國土地管理法》) promulgated on June 25, 1986 and revised as of August 28, 2004 and the Provisions on Land Reclamation (《土地復墾規定》) promulgated by the State Council in 1988 and effective as of January 1, 1989, if the coal mining operations damage the arable land, grassland or forest, the coal production enterprise must take measures within the specified time to restore the damaged land to the arable status. The reclaimed land may be put into use only upon the fulfillment of the reclamation requirements set forth in the laws from time to time passing an inspection and approval by the land administration department. If the coal production enterprise fails to meet the above requirements or fails to restore the land in the mining areas to its original status, the local bureau of land and resources may impose fines on it, force it to pay land reclamation fee and/or reject the application for the land use right it submits.

REGULATIONS

The Law of Water Pollution Prevention and Control of the People's Republic of China (《中華人民共和國水污染防治法》) promulgated by the Standing Committee of the National People's Congress in 1984 and revised in 2008 and the Regulations Governing the Collection and Use of the Pollutant Discharge Fee (《排污費徵收使用管理條例》) promulgated by the State Council on January 2, 2003 and effective as of July 1, 2003 state the requirements for the wastewater discharge of coal mines. It is necessary to submit an environmental impact report for any newly-built project (such as a coal mine), which includes assessment of possible water pollution accidents on the project and their impact on the ecological environment. Moreover, the environmental impact report shall also describe related measures to be taken to prevent and control the water pollution accidents. Any new production facility must be equipped with wastewater treatment equipment, which shall be put into use simultaneously with the production facilities. For construction projects that involve the discharge of pollutants to the water, it is necessary to pay the pollutant discharge fee pursuant to the requirements of relevant laws and regulations of the State. Moreover, the Law of Atmosphere Pollution Prevention and Control of the People's Republic of China (《中華人民共和國大氣污染防治法》) promulgated by the Standing Committee of the National People's Congress in 1987 and revised in 2000 sets out supervision and administration measures for the prevention and control of pollution caused by burning coal, motorized vehicles/vessels, waste gases, dust and feter to the atmosphere, and the Law of Prevention and Control of Environmental Pollution Caused by Solid Wastes of the People's Republic of China (《中華人民共和國固體廢物污染環境防治法》) promulgated by the Standing Committee of the National People's Congress in 1995 and revised in 2004 states the supervisory and administrative measures for the prevention and control of environmental pollution caused by solid wastes.

Any person that violates the Environmental Protection Law of the People's Republic of China and various laws and regulations concerning environmental protection may be penalized through warnings, liquidated damages and fines. Any entity that commences construction or production activities before the environmental protection department inspects and approves the pollutant and waste control and treatment facilities may be ordered to cease production or operation and be fined. In the event of major property loss and personnel injury/death due to violation of the laws, the person that violates the related environmental protection laws and regulations may be held criminally liable.

The remedies set forth in the Law of Environmental Protection and various environmental protection regulations include warnings, liquidated damages and mandatory fines. Any entity that fails to install pollution prevention and control facilities in building a project in order to comply with applicable environmental protection regulations may be ordered to cease production or operation and be fined. Any person that seriously violates the environmental protection laws and regulations resulting in property losses or personnel injury/death may be held criminally liable.

According to the series of laws and regulations including the Provisions on Environmental Protection of Railways (《鐵路環境保護規定》) promulgated by the MOR in 1997, railway operators must take measures to minimize the pollution caused by coal powder and dust and noise to the environment along the railway lines.

In addition to the environmental protection laws and regulations of the People's Republic of China, China and over 160 other countries are signatories to the 1992 United Nations Framework Convention on Climate Change (《聯合國氣候變化框架公約》). The Convention aims to limit the emission of carbon dioxide and other greenhouse gases. In December 1997, 84 signatory states of the Convention including China formulated a set of emission standards for the developed countries in Kyoto, Japan. The limitations known as the Kyoto Protocol (《京都議定書》) set forth the emission control objectives of reducing greenhouse gas emissions and such objectives may adversely affect the demand for and price of coal. The Kyoto Protocol came into force on February 16, 2005. Currently, the Kyoto Protocol does not include any particular emission standard for several countries including China.

REGULATIONS

TAXES AND EXPENSES

The table below lists the specific taxes and expenses payable by Chinese coal production enterprises as well as the rates of tax or expense.

<u>Item</u>	<u>Tax base</u>	<u>Tax rate</u>	<u>Related business classification</u>
Corporate income tax	Amount of taxable income	25% ¹	All
Value-added tax	Income	17%	All
Business tax	Service income	3% or 5%	All
Urban development tax	Total amount of value-added tax plus business tax	1%, 5% or 7%	All
Educational surtax	Total amount of value-added tax plus business tax	3%	All
Local educational surtax	Total amount of value-added tax plus business tax	1%	All
Resource tax	Total sales volume of raw coal or coal products	RMB0.3 to RMB5 per tonne	Coal
Mining right charge	Scope of the mining area	RMB1,000 per square kilometer per annum	Coal
Mineral resource compensation	Sales revenue of coal	1% of the re-mining rate of approved mining divided by the actual re-mining rate of mining	Coal
Fee for keeping simple re-production	Raw coal output	RMB8.50 per tonne or RMB10.50	Coal
Coal production safety expense	Raw coal output	No less than RMB5.0 per tonne to RMB30.0 per tonne	Coal

(1) Our Company and certain of our subsidiaries are entitled to a preferential corporate income tax rate of 15% during the Track Record Period.

DRUG MANUFACTURING INDUSTRY

Drug Manufacturing

No drug manufacturer may commence operations before obtaining a business license, drug manufacturing license, medicine Good Manufacture Practice certificate, medical examination and approval documents as well as other permits and licenses.

Drug Manufacturing License and Business License

Each drug manufacturer shall obtain a drug manufacturing license issued by the Administration of Food and Drugs at the provincial level under the PRC government. Before issuing the license, relevant authorities must determine that the manufacturer's production facilities, hygiene conditions, quality control system, management structure and equipment meet the relevant indicators and standards. In accordance with Regulations for the Implementation of the Law of Administration of Drugs of the People's Republic of China (《中華人民共和國藥品管理法實施條例》) effective as of September 15, 2002, the license shall remain valid for five years and may be renewed as long as it is submitted to relevant authorities by the license holder for review at least six months prior to the expiry date.

Drug Examination, Approval and Registration

Pursuant to the Measures for the Administration of Drug Registration (《藥品註冊管理辦法》) effective as of October 1, 2007, a new drug must be registered and approved by the State Administration of Drugs and

Food before it can be manufactured. The registration and approval procedures require the manufacturer to submit an application for registration to the State Administration of Drugs and Food specifying the effect and quality, the manufacturing process of related drugs as well as the production facilities to be used by the manufacturer. Depending on the nature of the drugs to be examined, the quality of the data supplied as well as the workload of the State Administration of Drugs and Food, the procedures generally take at least several months. To obtain the approval documents of the State Administration of Drugs and Food for registration and production, the manufacturer must also conduct pre-clinical trials, apply to the State Administration of Drugs and Food for permission to conduct clinical trials and submit the clinical data to the State Administration of Drugs and Food for examination and approval upon the completion of the clinical trials. In January 2009, the State Administration of Drugs and Food promulgated the Provisions on Special Approval for the Registration of New Drugs (《新藥註冊特殊審批管理規定》), streamlining the conventional procedures for the approval of certain new drugs.

Drug Distribution

Drug Trading License and Business License

The approval of the local administration for drugs and food under the people's government of the province, autonomous region or municipality directly under the central government of China is required before a drug wholesale company may be established. Once the application is examined and approved, relevant authorities will issue a drug trading license. The approval of the local administration of drugs and food under the people's government at the county level or above is required before a drug retailing store can be opened. Once the application is examined and approved, relevant authorities will issue a business license. Once the license is obtained, the related drug wholesale or retail company must be registered with the relevant administrations for industry and commerce. Related administrations must check the operator's facilities, warehouses, hygiene conditions, quality control system, personnel (including whether the pharmacists and other professionals have relevant qualifications) and equipment before issuing the license. Pursuant to the Measures for the Administration of the Drug Trading License (《藥品經營許可證管理辦法》) effective as of April 1, 2004, the drug trading license shall be valid for five years and may be renewed as long as it has submitted to related departments responsible for the examination and approval of the license for review by the license holder at least six months prior to the expiry date. Moreover, the drug businesses must obtain a business license issued by the relevant administration for industry and commerce prior to the commencement of business.