

Laws and regulations related to mineral resources

Under the “Mineral Resources Law”, all mineral resources of the PRC are owned by the State. The Ministry of Land and Natural Resources is responsible for the supervision and administration of the mining and exploration of mineral resources nationwide. The geology and mineral resources departments of the People’s Government of the respective provinces, autonomous regions and municipalities are responsible for the supervision and administration of the exploration, development and mining of mineral resources within their own jurisdictions. Enterprises engaged in the mining or exploration of mineral resources must obtain mining and exploration rights, as the case may be, which are transferable.

Laws and regulations relating to the administration of gold

Under the “Administrative Regulations of the PRC on Gold and Silver” promulgated and implemented in June 1983, purchases of gold and silver were made centrally by the PBOC. No entity or individual was permitted to purchase gold and silver without the consent of the PBOC. All gold and silver mined and refined by mining enterprises, rural communes, the forces and individuals engaged in the production of gold and silver (including those with ore exploration, production and refining as their supplementary business), were sold to the PBOC, and were not permitted to be retained for sale, exchange or use. Entities requiring gold and silver for use were required to submit a proposal to the PBOC on the use of gold and silver, which the PBOC would then examine and possibly approve.

On 30th October, 2002, the Shanghai Gold Exchange commenced operation under the supervision of the State Council. Thereafter, the PBOC ceased its gold allocation and gold purchase operation. All transactions of gold are now conducted through the Shanghai Gold Exchange, and prices of gold are determined by market demand and supply, which essentially converge with the price of gold in the international market. As a result, the policy of “centralised purchase and allocation” with regard to gold has virtually terminated.

The Company is now a member of the Shanghai Gold Exchange. The gold refinery of the Group has been recognised by the Shanghai Gold Exchange as one of the top ten qualified refineries in the production of gold of first grade quality.

Laws and regulations related to environmental protection

The State Environmental Protection Administration Bureau is responsible for supervision of environmental protection in, implementation of national standards for environmental quality and discharge of pollutants for, and supervision of the environmental management system of the PRC. Environmental protection bureaus at the county level or above are responsible for environmental protection within their jurisdictions.

The laws and regulations on environmental protection require each company to lodge environmental impact statements for a construction project to the environmental protection bureaus at the county level. It must be done before the construction, expansion or modification of a project commences. The environmental protection bureau inspects new production facilities and determines compliance with required environmental standards, before commencement of operation.

The “Environmental Protection Law” requires production facilities that may cause pollution or produce other toxic materials to take steps to protect the environment and establish an environmental protection and management system. The system includes the adopting of effective measures to prevent and control exhaust gas, sewage, waste residues, dust or other waste materials. Entities discharging pollutants must register with the relevant environmental protection authorities.

Penalties for breaching the Environmental Protection Law include a warning, payment of a penalty calculated on the damage incurred, or payment of a fine. When an entity has failed to adopt preventive measures or control facilities that meet the requirements of environmental protection standards, it may be liable to suspension of its production or operations and for payment of a fine. Material violation of environmental laws and regulations causing property damage or casualties may be subject to criminal liabilities.

All current production and operating activities of the Group, and investment proposals, comply with the environmental protection requirements of the State. The Group has never been penalised as a result of any breach of the laws and regulations on environmental protection.

Since the Zijinshan Gold Mine is the chief operating asset and revenue source of the Group, its compliance with environmental protection requirements is of utmost importance to the Group. The Fujian Environmental Protection Bureau issued a confirmation (閩環保科函[2003]6號) that the Company has not violated the laws and regulations on environmental protection during the Track Record Period. The other mining projects of the Group, being the Shuiyindong Gold Mine, the Paodaoling Gold Mine, the Hunchun Gold-copper Mine, and Ashele Copper-zinc Mine, comply with the laws and regulations during the Track Record Period. In the opinion of Fuzhou Zenith Law Firm, the PRC lawyers of the Company, all operating mines of the Group have not violated the laws and regulations on environmental protection during the Track Record Period.

Laws and regulations relating to taxation

The State encourages the development of the gold industry by implementing preferential treatment on taxation. “The notice of exemption of VAT on gold production” 《關於黃金生產環節免徵增值稅問題的通知》 issued by MOF and State Tax Bureau in 1994 and other relevant laws, provide that gold mining and production enterprises are exempted from VAT. “Tax policy on gold transactions” 《關於黃金稅收政策問題的通知》 issued by MOF and State Tax Bureau in 2002 provides that a gold production enterprise, such as the Group, is exempted from VAT. Transactions made by gold trading enterprises and intermediaries without physical settlement are exempted from VAT, and transactions with physical settlement are subject to VAT refund.

THE PRC LAWS AND REGULATIONS RELATING TO THE INDUSTRY

Apart from an exemption from VAT on the sales of gold, the Company is subject to corporate income tax of 33% and various sales related taxes and fees which are listed as below:

Tax categories	Tax rate
VAT	13% on copper ore sold 17% on cathode copper sold
Business tax	3% on transport services
City construction tax	5% on the sum of VAT and business tax
Resources tax	<u>Gold</u> RMB0.6/gram of gold sold or RMB1.3/tonne of gold ores processed <u>Copper</u> RMB178/tonne of cathode copper sold or RMB1.2/tonne of copper ore processed
Education surcharge	4% on the sum of VAT and business tax