

REGULATIONS

The laws, regulations and normative documents governing the high speed steel, die steel and their cutting tool products in China are mainly “Standardization Law of PRC”, “Environment Protection Law of PRC” and “Law of the People’s Republic of China on Prevention and Control of Environmental Pollution by Solid Waste”. The followings are certain relevant provisions in the above laws, regulations and normative documents that governing the high speed steel, die steel and their cutting tool products.

- **“Standardisation Law of PRC”** <<中華人民共和國標準化法>> (passed on the 5th Session of the Standing Committee of the 7th National People’s Congress on 29 December 1988 and came into effect on 1 April 1989)

According to the law, high speed steel and its cutting tool products are required to meet the state standard of China. Enterprises are also encouraged to adopt the international standard and foreign advanced standard. **(Note: the twist drill, a high speed steel cutting tool, produced by the Group was awarded the No. (2006) 3200C019 “Adopting International Standard Product Marking Certificate” from Jiangsu Province Quality and Technology Supervision Bureau on 22 May 2006.)**

- **“Environment Protection Law of PRC”** <<中華人民共和國環境保護法>> (passed on the 11th Session of the Standing Committee of the 7th National People’s Congress on 26 December 1989, promulgated by order No. 22 of the President of the People’s Republic of China on 26 December 1989 and came into effect since the date of promulgation)

According to the law, the units that cause environmental pollutions and other social harms are required to introduce environmental protection in their operation plan and establish an accountability system on environmental protection. Enterprises have to adopt effective measures to prevent and control the pollutions and harms by the exhaust gas, waste water, waste residue, dust, odor, radioactive substance, noise, vibration and electromagnetic wave radiation produced during the production and other activities.

Enterprises that discharge pollutants in their operation have to report and register according to the requirements of the environmental protection administrative competent division of the State Council. Enterprises that discharge pollutants exceeding the state or local standard of pollutant discharge have to pay the pollutant discharge fee for the additional discharge in accordance with the state requirements and be responsible for the remediation of the pollution.

- **“Law of the People’s Republic of China on Prevention and Control of Water Pollution”** <<中華人民共和國水污染防治法>> (passed on the 5th Session of the Standing Committee of the 6th National People’s Congress on 11 May 1984 and revised by the 19th Session of the Standing Committee of the 8th National People’s Congress on 15 May 1996)

According to the law, the construction projects under establishment, expansion and reconstruction that discharge polluted water directly or indirectly have to comply with the state environmental protection administrative requirements relating to

construction projects. The equipments used for preventing and controlling water pollution must be designed, constructed and operated with the main construction in the same time. Enterprises that discharge polluted water directly or indirectly should report and register with the environmental protection division in the place where the enterprises are located for their equipments that discharge pollutants, the facilities that dispose pollutants, and the type, amount and concentration of the pollutants under their ordinary operation in accordance with the requirements of the environmental protection division of the State Council. Enterprises are also required to provide the related technology information about the prevention and control of water pollution.

Enterprises that discharge polluted water have to pay the pollutant discharge fees according to the state requirements. Enterprises that discharge pollutants in excess of the state or local standard of pollutant discharge have to pay the pollutant discharge fee for the additional discharge in accordance with the state requirements. Enterprises should also apply clean production process that has a high utilization rate of raw materials and low pollutant discharge. Enterprises should also reinforce the management and reduce the production of pollutants.

Enterprises that have breached the above requirements, may be ordered to cease their illegal activities and rectify within a limited period, be warned, be imposed a penalty and be ordered to cease their businesses by the environmental protection administrative competent division.

- **“Law of the People’s Republic of China on the Prevention and Control of Atmospheric Pollution”** <<中華人民共和國大氣污染防治法>> (passed in the 22nd Session of the Standing Committee of the 6th National People’s Congress on 5 September 1987, revised by the 15th Session of the Standing Committee of the 8th National People’s Congress on 29 August 1995 and the 15th Session of the Standing Committee of the 9th National People’s Congress on 29 April 2000, and came into effect on 1 September 2000)

According to the law, the projects under establishment, expansion and reconstruction that discharge atmospheric pollutants have to comply with the state environmental protection administrative requirements relating to construction projects. Enterprises that discharge polluted gas should report to the environmental protection administrative competent division in the place where the enterprises are located for their equipments that discharge pollutants, the facilities that dispose pollutants, and the type, amount and concentration of the pollutants under their ordinary operation. Enterprises are also required to provide the related technology information about the prevention and control of atmospheric pollution. The concentration of the pollutants must not exceed the state and local standard of discharge.

Enterprises should also firstly apply a clean production process that has a high utilization rate of energy and low pollutant discharge, and reduce the production of pollutants. Enterprises that have breached the above requirements, may be ordered to cease their illegal activities and rectify within a limited period, be warned, be imposed a penalty and be ordered to cease their businesses by the environmental protection administrative competent division.

- **“Law of the People’s Republic of China on Prevention and Control of Environmental Pollution by Solid Waste”** <<中華人民共和國固體廢物污染環境防治法>> (passed on the 16th Session of the Standing Committee of the 8th National People’s Congress on 30 October 1995, revised by the 13th Session of the Standing Committee of the 10th National People’s Congress on 29 December 2004, and came into effect on 1 April 2005)

On the prevention and control of the solid waste pollution, the State has applied the principles of reducing the production and harm of solid wastes; fully and reasonably using the solid wastes and disposing solid wastes in a harmless way, so as to promote clean production and recurring economic development.

China has adopted economic and technological policies and measures that are beneficial to the integrated-use of solid wastes to fully recycle and reasonably use solid wastes. China also encourages units and individuals to purchase and use recycled products and products that can be reused.

In respect of the prevention and control of solid waste pollution in China, polluters have legally liability. The producers, salesmen, importers and users of products are legally liable on the solid wastes they produced. Enterprises should reasonably choose and use raw materials, energy resources and other resources; apply advanced production process and equipments; reduce the production volume of industrial solid wastes and diminish the harm of industrial solid wastes. For those who cause environmental pollution by solid wastes should eliminate the harms, compensate according to the law and carry out measures to restore the environment to the original condition.

- **“PRC Law on Products Quality”** (《中華人民共和國產品質量法》) (passed on the 30th Session of the Standing Committee of the 7th National People’s Congress on 22 February 1993, revised by the 16th Session of the Standing Committee of the 9th National People’s Congress on 8 July 2000, and came into effect on 1 September 2000).

According to the law, the producers and salesmen should establish a completed and internal management system for the product quality; strictly regulate the quality of positions held, the quality of responsibilities and the corresponding assessment. Products should pass the quality assessment and those without passing the quality assessment should not pretend to have passed such assessment.

China encourages the use of scientific quality management and advanced scientific technology and promotes that the quality of products should reach and be above the industry standard, the state standard and the international standard.

China also carries out a quality accreditation system for enterprises according to the quality management standard generally used in the world. Enterprises can apply, of their own will, for the quality certificate from the accreditation institutions that are approved by the quality supervision division of the State Council or approved by the division authorized by the quality supervision division of the State Council.

The quality of products should satisfy the following requirements:

- (1) No unreasonable risks of personal and property safety. Reach the state standard and industry standard of securing personal health, personal safety and property safety (if any);
- (2) Have the functions that the products should have, except the defect that have been explained;
- (3) Reach the standards that are stated on the products or its packing and meet the quality stated by product illustration and sample.

Producers and salesmen who have breached the “PRC Law on Products Quality” (《中華人民共和國產品質量法》), supervision division of quality technology can order them to cease their production and sale, forfeit the products that are illegally produced and sold, impose a fine on them, forfeit their gains from illegal operation and suspend their business license (as the case may be). If the breach is criminal, the producers and salesmen are liable for the legal responsibility.

- **“Cleaner Production Promotion Law”** <<中華人民共和國清潔生產促進法>> (passed in the 28th Session of the Standing Committee of the 9th National People’s Congress on 29 June 2002 and came into effect on 1 January 2003)

The law encourages the firstly purchase and use of recycled products that are beneficial to the environmental and resource protections; the use of technology and equipment with a high utilization rate of resources and less pollutant caused and displacement of the technology and equipment with a low utilization rate of resources and more pollutant caused; and the integrated and recurring use of the waste materials produced during the production process. The law also requires enterprises to recycle and reuse wastes that are produced during the production process whenever economically and technologically feasible or to transfer the wastes to other enterprises or individuals that having such economic and technological conditions.

If the pollutant discharge is in excess of the state and local standard of discharge or exceeds the control standard of total pollutant discharge required by the local government, the enterprises should examine the clean production process.

- **“Interim Provisions for the Administration of Environmental Protection regarding the Import of Waste Materials”** (《廢物進口環境保護管理暫行規定》) (promulgated by the Environment Control No. [1996] 204 (環控[1996]204號) of the State Environmental Protection Administration, the Ministry of Foreign Trade and Economic Cooperation, the General Administration of Customs, the State Administration For Industry and Commerce and the State Administration of Import and Export Commodities Inspection on 1 March 1996)

The law requires that units apply for importing wastes must satisfy the following requirements:

- (1) Units apply for importing wastes as raw materials must be corporate bodies that are established according to laws and have the ability and the corresponding equipments of preventing and controlling pollution.

- (2) The wastes being applied for import must be listed in the “the Catalogue of Wastes Used as Raw Materials subject to State Import Restriction” (《國家限制進口的可用作原料的廢物目錄》).

For successful application for wastes import, the State Environmental Protection Administration will issue a “Certificate of Importing Wastes” (《進口廢物批准證書》) with a term of one year.

- **“Development Policy for the Iron and Steel Industry”** (《鋼鐵產業發展政策》) (promulgated by the Order No. 35 of the State Development and Reform Commission on 8 July 2005)

China promotes the application of short production process that use scrap steel as raw materials; encourages special steel enterprises to research, develop and produce special steels including die steel, heat-resistant steel, cold-resistant steel and corrosion-resistant steel; and also encouraged steel enterprises to produce high-strength steel and corrosion-resistant steel, enhance the strength and life span of the steels and reduce the amount of steels used.

- **“Guiding Catalogue for Industry Restructuring (2005 Edition)”** (《產業結構調整指導目錄 (2005年本)》) (Promulgated by Order No. 40 of the State Development and Reform Commission on 2 December 2005)

In the catalogue, the production of high-strength steel has been listed as the industry under the Government’s encouragement; and the productions of the key parts of computer numerical controlled machines and the cutting tools have also been listed as the items under the State’s encouragement.

- **The “11th Five-Year Plan for Economic and Social Development for the People’s Republic of China”** (《中華人民共和國國民經濟和社會發展第十一個五年規劃綱要》) (approved on the 4th Session of the 10th National People’s Congress on 14 March 2006)

The Plan requires steel enterprises to drive the development of recurring economy for the steel industry and to play their roles of product manufacture, energy transformation and disposal of wasted materials.

- **The “‘11th Five-Year’ Plan for technology development in Jiangsu Province”** (《江蘇省科技發展 “十一五” 規劃綱要》) (the [Su Zheng Fa Instrument No. (2006) 52] issued by the local government in Jiangsu Province on 18 April 2006)

The Plan has clearly stated that high-end die steel and high speed steel are listed as the products under key development in the areas of new materials and application.

- **“11th Five-Year’ Guidance Opinion on the Integrated Use of Resources”** (《“十一五” 資源綜合利用指導意見》)

The Opinion clearly provided that: the principles of extended use, high-efficiently use and cleanly use should be insisted. It also involved a key promotion on reusing and recycling wastes that having wide usage and high potential to be transformed into resources; extending industry chain reasonably; developing integrated-used products with high additional value; reducing secondary pollutions; enhancing the

utilization ratio of the resources; and achieving economic benefit, social benefit and environmental benefit in one mechanism. For the recycled resources that satisfy the standard on environmental protection control (such as scrap steel, wasted and coloured metal and wasted paper), the use of foreign market should be promoted by policy.

- “Guideline for Current Priorities for Development in Key Sectors of Hi-Tech Industry (2007) (《當前優先發展的高技術產業化重點領域指南（2007年度）》) (jointly issued on No. 6 of the 2007 Notice of the State Development and Reform Commission, Ministry of Science and Technology, Ministry of Commerce, State Intellectual Property Office jointly issued on 23 January 2007)

According to the Guideline, high-efficient and low-cost steel is one of the current priorities for development in the key sectors of hi-tech industry. The rolling process of tiny steel materials, the smelting process of advanced micro-alloy, high uniformity and quality mould input and highly-clean steels, the production processes of high-strength and heat-resistant alloy steel and forging, and the production process of extremely high-strength steel are also involved.

China encourages enterprises to recycle and reuse scrap steel; to research, develop and produce special steels such as high speed steel and die steel; and produce high performance high speed steel cutting tools. China is going to be a world-class manufacture base and there will be greater development opportunity for the enterprises producing high speed steel, die steel and high speed steel cutting tools.

According to the PRC legal adviser of the Company, the Group has obtained all necessary approvals and licenses for the operation of its business. In particular, TG Tools has been registered as an importer and exporter to facilitate its imports of raw materials and exports of tools and steel in its ordinary course of business. Such annual registration will expire on 9 September 2009. In addition, TG Tools has obtained a licence from the State Environmental Bureau to import waste raw materials with a validity period until 31 December 2007. The Company has renewed the necessary registration/licenses and has been granted the necessary registration/licenses year to year during the Track Record Period. As advised by the PRC legal advisor, the Company does not perceive any material obstacle in renewing the registration and the licence. During the Track Record Period, the Group has complied with all relevant laws and regulations.