
REGULATORY OVERVIEW

The Group's business operations are subject to national and industrial policies, relevant laws and regulations and extensive governmental supervision as applicable in both the PRC and Mongolia.

MAIN REGULATORS IN THE PRC

The Group is principally subject to governmental supervision and regulations by the following PRC governmental authorities:

1. State Council

The State Council is responsible for checking and approving material investment projects in the coal category recognised by “《政府核准的投資項目錄》 (Catalogue of Government Approved Investment Projects)” promulgated in 2004. The State Council also oversees the healthy and stable development of the coal industry and provides relevant guiding opinions and suggestions.

2. The National Development and Reform Commission of the PRC

The National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會) (the “NDRC”) formulates industry policies and investment directions for the coal industry, as well as approves and grants permission for prospective coal projects. The NDRC is responsible for the supervision and administration of coal operations in the PRC. Departments designated for the examination of coal operation qualifications by the provincial, autonomous region, municipal government are responsible for the supervision and administration of coal operations within their respective jurisdiction.

3. Ministry of Environmental Protection of the PRC

The Ministry of Environmental Protection of the PRC (中華人民共和國環境保護部) is responsible for formulating national environment protection directions, policies and regulations. It is in charge of carrying out environmental impact assessments of material economic and technical policies, development plans and material economic development projects.

4. Ministry of Railway

The Ministry of Railway of the PRC (中華人民共和國鐵道部) (the “Ministry of Railway”) is in charge of monitoring railway operations in China and of formulating strategic development plans for railway transportation. The Ministry of Railway and the NDRC jointly approve all applications for railway construction plans, including railways used or designated for coal transportation.

5. China National Coal Industry Association

The China National Coal Industry Association (中國煤炭工業協會) is a voluntary body that is mainly responsible for formulating relevant industry standards for the coal industry and liaising with the government and providing guidance to the coal industry.

6. Ministry of Communications

The Ministry of Communications (交通運輸部) oversees the road transportation industry.

7. Ministry of Land and Resources

The Ministry of Land and Resources (國土資源部) is responsible for granting land use rights.

8. Ministry of Commerce

The Ministry of Commerce (商務部), formerly known as the Ministry of Foreign Trade and Economic Co-operation (對外貿易經濟合作部), is an executive agency of the State Council. It is responsible for formulating development strategies, guidelines and policies of domestic and foreign trade and international economic cooperation, formulating regulations governing domestic and foreign trade, consumer protection, market competition and foreign investments, and negotiating bilateral and multilateral trade agreements.

MAJOR LAWS AND REGULATIONS OF THE PRC

The Group's business operations in the PRC are principally subject to the following laws and regulations of the PRC:

1. The Coal Law of the PRC

In August 1996, the Standing Committee of the National People's Congress promulgated the Coal Law of the PRC (中華人民共和國煤炭法) (the "**Coal Law**"), which took effect on 1 December 1996. It is aimed at promoting a rational utilisation and protection of coal resources, standardising coal production and operating activities, and facilitating and protecting the development of the coal industry.

2. The Measures for the Regulation of Coal Operations

The NDRC promulgated the Measures for the Regulation of Coal Operations on 27 December 2004. The Measures aim to strengthen the supervision of coal operations by standardising and maintaining coal operation procedures.

Pursuant to the Measures for the Regulation of Coal Operations, (i) China implemented an examination and qualification system for coal operations (with respect to activities such as wholesaling and retailing of raw coal and its processed products and processing and distribution of coal for civilian use); (ii) the establishment of a coal operation enterprise is subject to the relevant qualification examination.

3. The Measures for the Administration of Inspection of Imported and Exported Coal

On 30 May 2006, the Measures for the Administration of Inspection of Imported and Exported Coal (進出口煤炭檢驗管理辦法) (the "**Coal Import and Export Measures**") were promulgated by the General Administration for Quality Supervision, Inspection and Quarantine (國家質量監督檢驗檢疫總局) and took effect on 1 August 2006. The Coal Import and Export Measures set forth the requirements for the examination and supervision of imported coal.

4. Environmental Protection Law of the People's Republic of China

The PRC Environmental Protection Law (中華人民共和國環境保護法) (the "**Environmental Protection Law**") was promulgated by the Standing Committee of the National People's Congress on 26 December 1989 and became effective on the same day. The Environmental Protection Law requires all operations that produce pollutants or other hazards to adopt effective measures to control and properly dispose of waste materials.

5. Regulations on Road Transportation of the PRC

The Regulations on Road Transportation of the PRC (中華人民共和國道路運輸條例) (the “Road Transportation Regulations”) was promulgated by the State Council on 14 April 2004 and took effect on 1 July 2004. The Road Transportation Regulations aim at maintaining an orderly road transportation market, ensuring road safety, protecting the interests of relevant parties and promoting the healthy development of the road transportation industry.

Pursuant to the Road Transportation Regulations, the transportation department of the State Council is responsible for the administration of national road transportation. The transportation department of the State Council is responsible for the administration of road transportation at the national level, and the people’s government of county level or above is responsible for the administration of road transportation within its jurisdiction. The actual administration is carried out by the relevant road transportation authorities of county level or above.

6. The Foreign Trade Law of the People’s Republic of China

The Foreign Trade Law of the PRC (中華人民共和國對外貿易法) (the “**Foreign Trade Law**”) was adopted at the seventh meeting of the Standing Committee of the Eighth National Peoples Congress on 12 May 1994 and amended at the eighth meeting of the Standing Committee of the Tenth National People’s Congress on 6 April 2004. The amended Foreign Trade Law is promulgated with effect on 1 July 2004. The Foreign Trade Law aims at broadening the opening up of the Chinese market, developing foreign trade, maintaining the order of foreign trade, protecting the lawful rights and interests of the foreign trade business operators, and promoting the healthy development of the socialist market economy. It applies to foreign trade and the protection of foreign-trade-related intellectual property.

According to the Foreign Trade Law, (i) the State allows the free import and export of goods and technology, unless otherwise provided for in any law or administrative regulation, (ii) the State will impose a quota or licensing system for goods subject to import or export restrictions, and no import or export of such goods may be made unless permitted by the Ministry of Commerce either independently or in conjunction with other relevant departments of the State Council.

7. The Regulation of the PRC on the Administration of the Import and Export of Goods

The Regulations of the PRC on the Administration of the Import and Export of Goods (中華人民共和國) were promulgated on 31 October 2001 and took effect on 1 January 2002. They aim at standardising the administration of the import and export of goods, maintaining the order of import and export of goods and promoting the healthy development of foreign trade. Pursuant to the regulations, the State allows the free importation and exportation of goods and upholds the fair and orderly import and export of goods according to law. Unless it is clearly provided in laws or administrative regulations to forbid or restrict the import or export of goods, no entity or individual may establish or maintain prohibitive or restrictive measures over the import or export of goods.

COAL OPERATIONS IN THE PRC

Import of Coal

Pursuant to the Coal Import and Export Measures, imported coal is subject to inspection by the inspection and quarantine authority at the port of unloading. Prior to unloading, receivers of imported

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coal or their agents are required to report to the relevant inspection and quarantine authority in accordance with the rules of the General Administration of Quality Supervision, Inspection and Quarantine of the PRC (中華人民共和國國家質量監督檢驗檢疫總局). Unloading is supervised by the inspection and quarantine authority, and must take place at facilities that are equipped for such inspection. The inspection and quarantine authority will inspect the imported coal for quality, quantity and weight with respect to health, safety and environmental criteria. Imported coal may not be sold or used unless the results of the inspection are satisfactory.

Sale and Processing of Coal

Pursuant to the Measures for the Regulation of Coal Operations, an enterprise may not engage in the processing and sale of coal that is not self-produced without a Coal Operation Certificate. In order to obtain a Coal Operation Certificate, an enterprise must have:

- an appropriate registered capital for the scale of its operation;
- a fixed place of operation;
- appropriate facilities and coal storage commensurate with the scale of its operation;
- facilities for the inspection of the quantity, weight and quality of coal that meet the relevant standards;
- reasonable compliance with national requirements in relation to the overall business planning and environmental protection for coal operations; and
- other conditions as stipulated under relevant laws and administrative regulations.

The Measures for the Regulation of Coal Operations does not restrict or forbid the grant of coal operation certificates to foreign invested enterprises.

TRANSPORTATION AND LOGISTICS IN THE PRC

Road

Pursuant to the Road Transportation Regulations, an operator of freight transportation must have vehicles suitable for the business and which have passed the relevant examination, have drivers that meet the prescribed age and qualification requirements and have in place a safety system. A freight transport operator must hold a road transportation license (道路運輸經營許可證), and register with the relevant administration for industry and commerce authorities accordingly. A foreign invested enterprise may engage in the operations of road transportation and related business.

Railway

The allocation of coal transportation capacity within the national railway system is made by the Ministry of Railway, and the annual railway transportation allocation is determined by the NDRC or its designated authorities.

Freight tariffs for the transportation of coal are set by railway operators in accordance with the uniform railway freight tariff guideline issued by the NDRC. Railway operators may not charge more than the maximum tariffs approved by the NDRC. Any adjustment to the maximum tariff requires approval from the NDRC and the Ministry of Railway.

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ENVIRONMENTAL PROTECTION REGULATIONS OF THE PRC

Pursuant to the Environmental Protection Law, new construction, expansion or reconstruction projects and other installations that directly or indirectly discharge pollutants into the environment are subject to relevant State regulations governing environmental protection for such projects. Entities undertaking such projects must submit a pollutant discharge declaration statement to the competent authorities for examination detailing the amount, type, location and method of treatment. The authorities will allow the construction project operator to release a certain amount of pollutants into the environment and will issue a pollutant discharge licence for that amount of discharge subject to the payment of discharge fees. The release of pollutants is subject to monitoring by the competent environmental protection authorities. Enterprises and public institutions which directly or indirectly discharge industrial waste water or medical sewage to waters or which are required to obtain the pollutant discharge license before discharging waste water and sewage water must obtain the pollutant discharge license. If an enterprise discharges water pollutants beyond the state or local standards for the discharge of water pollutants or exceed the total allowed volume for the discharge of major water pollutants, the local environmental protection bureau may fine the entity up to five times the discharge fees payable by the offending entity for its allowable discharge, remedy the effects of the pollution within the prescribed time, or order the entity to shut down.

In the environmental impact statement of a construction project, the project operator must make an assessment regarding the pollution and environmental hazards the project is likely to produce, evaluate the project's impact on the ecosystem, and outline measures for the prevention and control of environmental damage. The operator must submit the statement according to the specified procedure to the competent environmental protection authority for examination and approval.

The system for the prevention and control of pollution must be designed, constructed and put into use or operation simultaneously with the main project. A project may only commence operations upon satisfactory inspection and acceptance by the relevant environmental authorities of the pollution prevention and control system.

Violators of the PRC environmental protection law and various environmental regulations may be subject to warnings, payment of damages and fines. Any entity undertaking construction work or carrying out activities before the pollution and waste control and processing facilities are inspected and approved by the environmental protection department may be ordered to suspend production or operations and may be fined. Violators of relevant environment protection laws and regulations may also be exposed to criminal liability if violations result in severe loss of property, personal injuries or death.

In addition to the PRC environmental laws and regulations, China is a signatory to the 1992 United Nations Framework Convention on Climate Change and the 1998 Kyoto Protocol, which propose emission targets to reduce greenhouse gas emissions. The Kyoto Protocol came into force on 16 February 2005. At present, the Kyoto Protocol has not set any specific emission targets for China.

OTHERS

(i) Notice on the Opinions of NDRC and Other Departments on Prevention of Overcapacity and Repetitive Constructions in Certain Industries to Promote Healthy Development (《國務院批轉發展改革委等部門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》) (“Opinion”).

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Under the Opinion issued by the State Council jointly with NDRC, Ministry of Industry and Information Technology (工業和信息化部), Ministry of Supervision (監察部), Ministry of Finance, Ministry of Land and Resources, Ministry of Environmental Protection, PBOC, General Administration of Quality Supervision, Inspection and Quarantine, China Banking Regulatory Commission (中國銀監會), China Securities Regulatory Commission (中國證監會), the examination and approval authorities in charge of investment management at all levels are in principle not to approve projects in relation to expansion of capacity in industries which are considered having excess capacity, including the steel and coal chemical industries.

Further, under the Opinion, in order to prevent overcapacity and repetitive construction, financial institutions are prohibited from granting loans to projects that do not comply with key industry adjustment and revitalisation plans and relevant industry policies, and those which are not approved in accordance with required procedures, and each of these projects and their promoters are not allowed to seek financing through initial public offering and other methods.

(ii) Notice on Further Eliminating Backward Production Capacities (《國務院關於進一步加強淘汰落後產能工作的通知》) (“**Notice**”)

Under the Notice issued by the State Council, the coal industry and the iron and steel industry have been identified as two of the target industries where backward production capacities are aimed to be eliminated. In respect of the coal industry, 8,000 small coal mines which do not meet safe production conditions, do not conform to the industry policy on waste resources and pollute environment or has a total production capacity of 200 million tonnes or less are required to shut down by the end of 2010. In respect of the iron and steel industry, blast furnaces for iron with a capacity of 400 cubic meters or less and converters and electric furnaces for steel with a capacity of 30 tonnes or less will be eliminated by the end of 2011.

Further, the Notice provides for the strengthening of certain economic and legal control measures including the use of pricing mechanism such as differential prices for electricity and reform of prices for resource products in eliminating backward production capacities.

(iii) Provisional Intervention Measures on Price for Thermal Coal (《國家發展和改革委員會公告2008年第46號 — 關於對全國發電用煤實施臨時價格干預措施》) and Notice on Further Improving the Provisional Intervention Measures on Price for Thermal Coal (《國家發展改革委關於進一步完善電煤價格臨時干預措施的通知》) (collectively, “**Measures**”)

Under the Provisional Intervention Measures on Price for Thermal Coal and Notice on Further Improving the Provisional Intervention Measures on Price for Thermal Coal by the NDRC, the State will intervene and control the pricing of thermal coal.

The current business of the Group does not fall within the industries of steel and coal chemistry as restricted by the Opinions or the Notice, and the main business of Group does not involve thermal coal. The Group has been advised by its legal adviser on PRC law, King & Wood, that the Opinions, the Notice and the Measures do not apply to its current and normal business operation.

Further, save for one customer of the Group which accounted for 0.3% of the total revenue of the Group in 2009, none of the other customers of the Group is listed in the lists of steel makers or coking plant with backwards production capacity for 2010 (《2010年煉鋼淘汰落後產能企業名單》 and 《2010年焦炭淘汰落後產能企業名單》) published by the Ministry of Industry and Information Technology. The Directors are therefore of the view that the Opinions and the Notice have no direct material adverse effect on the Group and its major customers.

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MONGOLIAN OPERATIONS

The Group's business operations in Mongolia are principally subject to the following laws and regulations of Mongolia:

1. Minerals Legislation

The minerals sector in Mongolia is governed predominately by three bodies of law: the 2006 Minerals Law of Mongolia ("**Minerals Law**"), the Nuclear Energy Law and the Subsoil Law. In the case of coal mining, the Minerals Law governs the entire life cycle of a minerals deposit from licensing through exploration, development, mining and mine closure. While a much older law, the Subsoil Law regulates the construction of mining support and process facilities.

Administration of minerals legislation and mining activity in Mongolia is largely the responsibility of the Minerals Resource Authority ("**MRA**") which together with the Petroleum Authority falls under the Ministry of Mineral Resources and Energy ("**MMRE**").

2. Minerals Licensing

All minerals exploration and exploitation, with the exception of common construction material, must be conducted under a license issued by MRA (licenses to conduct exploration and exploitation of uranium are issued separately by the Nuclear Energy Authority in accordance with the Nuclear Energy Law). Under the Minerals Law, two separate licenses are issued by MRA whereby the rights to conduct mineral exploration over a licensed area are separated from the rights to mine/exploit. In each case, the license-holder must (i) be a registered Mongolian legal entity (generally a private limited liability company), and (ii) pay annual fees with respect to each hectare of licensed land.

An exploration license is granted through public tender for an initial period of three years and is renewable for (2) three-year periods for a total period of nine years. At the end of nine years, an exploration license must be converted from an exploration license into a mining license or returned to the State.

An exploration license-holder must (i) satisfy annual expenditure requirements outlined in the Minerals Law so as to maintain its right to conduct exploration activities in the licensed area, (ii) prepare annual exploration activities reports, (iii) obtain approval of an environmental protection plan on each three year renewal period, monitor its exploration activities in accordance with its environmental protection plan and report yearly on its compliance with the same, and (iv) pay a yearly reclamation bond to the soum administration.

Under the Minerals Law the Mongolian state ("**Mongolian State**") has a right to participate in a mineral company's exploitation of minerals deposit within its territory. The Mongolian State may participate (as an equity holder) up to 34% or up to 50%, according to the following considerations.

According to the Minerals Law, the Mongolian Parliament has the right to designate a minerals deposit as being strategically important. By definition, a minerals deposit is strategically important where its scope may have a potential impact on national security, national or regional economic and social development, or that is producing or has the potential to produce more than five percent (5%) of the total annual gross domestic product. The law is not clear on when the Mongolian Parliament may make such designation other than it can be made on recommendation from the Mongolian government or on its own initiative and must be made where the minerals license has a proven mineral reserves. As such, a designation may be made at the time the minerals reserve is registered, during development of

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the mining property, or at any future date during mining production. Conversely, the law does not contemplate what would happen in the event a previously designated minerals deposit of strategic importance no longer meets the qualification under the law. If a minerals deposit is designated as strategically important the Mongolian State's equity position can be up to 34% in the case of private party-funded exploration and up to 50% in the case of Mongolian State-funded or partly funded exploration. The precise percentage participation by the Mongolian State will be determined on a case-by-case basis according to recommendations of the Mongolian government and negotiations with the relevant license holder. Additionally, the Minerals Law requires that the license-holder of a strategically important minerals deposit list at least 10 % of its shares on the Mongolian Stock Exchange.

In accordance with Parliament Resolution 27 (2007), the Mongolian Parliament defined 15 mineral deposits as being strategically important together with an additional 39 mineral deposits which could potentially be defined as being strategically important. As of the Latest Practicable Date, and to the knowledge of the Company's Mongolian legal advisers, Parliament has not added any additional minerals deposits to the lists of mineral deposits defined as strategic deposits or potentially strategic deposits.

3. Environmental Legislation

The environmental legislation of Mongolia is largely comprised of the Law of Mongolia on Environmental Protection ("**Environmental Protection Law**") and the Law of Mongolia on Environmental Impact Assessments ("**EIA Law**"). The Environmental Protection Law is the primary law regulating relations between the State, citizens, business entities and organisations in order to guarantee the human right to live in a healthy and safe environment, the ecological balance between social and economic development, the protection of the environment for present and future generations, the proper use of natural resources and the restoration of available resources. Alternatively, the EIA Law regulates relations that arise in connection with the protection of the environment, prevention of ecological misbalance, use of natural resources, assessment of environmental impact and decision-making at the start of projects.

All exploration license-holders must prepare an environmental protection plan, and report yearly to the MRA about its compliance with that plan. Additionally the license-holder is required to pay 50% of its yearly environmental reclamation budget ("**Bond**") to the soum administration. The Minerals Law allows the soum administration to use the Bond for reclamation in the event the license-holder does not undertake reclamation in the licensed area as required by the law and the license-holder's environmental protection plan.

All mining projects undertaken in Mongolia are required to conduct a detailed environmental impact assessment ("**DEIA**"), according to the standards set forth in the EIA Law, to assess the impact the project will have on the environment and human health. The DEIA, as approved by the Ministry of Nature and Tourism, must be submitted to the mining commissioning committee prior to commencement of commercial production. Additionally, a mining license-holder is required to prepare an environmental protection plan and report yearly on its compliance with the terms of this plan. As with an exploration license, a mining license-holder must pay a 50% Bond to the state central authority. In the event the mining license-holder does not properly conduct reclamation activities, the Minerals Law allows the State to undertake those activities from the yearly Bond.

4. Law On Prohibiting The Exploration And Mining of Minerals From Beginning Of River Source, and the Protection Area Of Water Reservoir Land And Wood Reservoir Area (“Water Basin Law”)

In July 2009, Mongolia’s Parliament passed the Water Basin Law which attempts to prohibit mineral exploration and/or mining in river basins and forested areas. The Government has listed a number of minerals licenses that are subject to revocation because of the overlap between “water basins” and/or “forested areas”. According to the terms of the law, existing exploration and mining licenses in those areas will be revoked and the license-holder will be compensated.

5. Taxes and Royalties

Tax Laws

Mongolia does not have a comprehensive tax code, but rather relies on a group of individual laws that regulate the taxation of corporate income, goods and services. With regard to minerals resource companies, the corporate Tax Law, the Value Added Tax Law and Law on the Tax of Some Commodities are the most relevant laws.

Corporate Tax Law

The income tax rates applicable to a Mongolian company are 10% on the first three billion MNT and 25% on amounts in excess of this amount. In September 2009, the Parliament passed an amendment to the Corporate Tax Law that allows for loss-carry forward periods of four to eight years which is double the previous provision. The law allows for a range of deductible expenses in calculating taxable income. Additionally, 10% of invested capital in certain priority sectors can be applied as a credit against other taxes payable.

Value Added Tax

Mongolia imposes a value added tax at a rate of 10% on (with some very limited exceptions) imported and exported goods (including some minerals products), services rendered to residents of Mongolia from outside Mongolia, and goods sold and services rendered within Mongolia. As a general rule most exports are “zero-rated” (i.e. the VAT rate for exports is 0% and the exporter can credit value added tax paid to produce the exports against other taxes payable). The list of exempted imported goods generally changes on an annual basis as approved by the Government.

The Law on Tax of Some Commodities (“Windfall Profits Tax”)

The Windfall Profits Tax passed in May 2006 added a 68% tax on the sales value of copper concentrate and gold metal over a threshold market price. The Parliament repealed the Windfall Profits Tax for all purposes effective as of January 2011.

Minerals Royalties

The Minerals Law provides for a royalty at the rate of 5% on the sales value of minerals with the exception of domestically sold coal and common construction minerals that are sold, shipped for sale, or otherwise used. The royalty rate for domestically sold coal and construction minerals is 2.5%.

6. Foreign Investment Law

Foreign investors in Mongolia are protected by many of its law most notably the Constitution of Mongolia and the Foreign Investment Law. The Foreign Investment Law statutorily provides that foreign investors (those natural or legal persons which have invested at least 25% in a Mongolian registered company) are entitled, amongst other things, to wholly or partially own a Mongolian company and to buy and sell shares of Mongolian entities in any sector or areas of production; and a foreign investor also has the right to participate in concession and product sharing agreements and exploitation of natural resources. Additionally the law provides that foreign investors shall not receive less favourable conditions with regard to its investment than those accorded to domestic investors and that:

- (a) a foreign investment within the territory of Mongolia shall enjoy the legal protection guaranteed by the Constitution, this law and other legislation, consistent with those laws and international treaties to which Mongolia is a party;
- (b) a foreign investment within the territory of Mongolia shall not be unlawfully expropriated;
- (c) investments of foreign investors may be expropriated only for public purposes or interests and only in accordance with due process of law on a non-discriminatory basis and on payment of full compensation where compensation shall be determined by the value of the expropriated assets at the time of expropriation or public notice of expropriation. Such compensation shall be paid without delay (unless specified otherwise in an international treaty to which Mongolia is a party; and
- (d) losses suffered by foreign investors due to a state of emergency or war in Mongolia shall be treated equally with losses suffered by Mongolian investors.

7. Investment in Road Infrastructure

Mongolia's 2007 Road Master Plan ("**Plan**") aspires to construct several sealed roads over the next five years in the South Gobi region. While this plan does not have the force of law, it does indicate the Government of Mongolia's intention to development the infrastructure in the South Gobi region assuming the necessary funds are available. Where the State cannot finance road construction, the Plan suggests that mining companies will be encouraged to finance and build the roads it requires for its operations. Upon completion of such construction, the Plan contemplated that the mining companies will turn the roads over to the State's control and the State will operate them as "toll roads" so as to recoup certain costs.

The Plan is in keeping with the Land Law and the Law on Auto Roads which allows road infrastructure to be built and used by private companies; ; however, prohibits the land under the road-base being transferred into private party ownership. In January 2010 (effective date 1 March 2010), Parliament passed the Concessions Law of Mongolia which allows private companies to build, renovate, possess, operate, transfer, lease and in some cases own ("**Regime**") certain public projects (e.g., energy plants, roads, railways, housing, etc.) ("**Projects**"). All Projects, with rare exception, are let through a tender process from a list of public projects that have been approved by the Government of Mongolia. Much like the Law on Auto Roads, the Concession Law of Mongolia prohibits any land associated with a Project from being owned (in the sense of fee simple absolute ownership) by the concessionaire. Rather according to the Land Law, the concessionaire is entitled to receive a

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possession or *use* right which is contractually guaranteed by the Government of Mongolia. Such possession and use rights range in duration from 1 to 60 years.

In the event the Company wished to build a road within the territory of Mongolia, it would be required to submit a bid under the State's tender rules (tender rules allow both domestic and foreign companies to participate in Project tenders). If it were successful in such a bid, the Concession Law of Mongolia requires that the company (as the successful bidder) negotiate a concession agreement with the Government of Mongolia which defines the particular Regime for the road project. In no event would the company obtain fee simple absolute title over the land under the road base. Rather the company would be entitled to either a possession or use right (depending on its level of foreign investment) in accordance with the terms of the Land Law.

8. Transportation and Export/Import Laws

With the exception of the Mongolian-China Border Railway Agreement of 1954 and The Minutes of First Consultation Meeting of the Mongolian-Chinese Railway Joint Working Committee held on 15-16 January 2009, Ulaanbaatar, Mongolia which regulate rail transportation between the countries, there are no other transportation treaties which regulate transportation. As such, the domestic law of Mongolia will apply to: (1) the movement of goods within the territory of Mongolia, (2) customs controls and clearing and (3) taxation and duties. The relevant laws are Mongolia's Civil Code, Value-Added Tax Law, Corporate Income Tax Law, Customs Law and the Law on Auto Transportation Law and associated regulations.

The transport of coal by auto roads is regulated by the Auto Transportation Law, Regulation No 201 Transportation of Passenger and Goods by Auto Vehicle and the Licensing Law. In particular, the laws and regulation governing the movement of coal requires that freight or haul trucks must obtain special permission (license) to transport goods (including coal) on the roads of Mongolia.

All goods transported from the territory of Mongolia into China must pass through a border control point and must submit to certain customs clearing procedures. In particular coal product must be sampled by customs officials and freight haulers must demonstrate that the appropriate royalties have been paid by the coal producer.

As such, the domestic coal producer will be responsible for withholding corporate income tax (subject to a double taxation treaty) from all payments made to the coal purchaser. Mineral exports from Mongolia are either zero-rated or exempt. In particular coal is zero rated meaning that no value added tax is payable.