
REGULATORY ENVIRONMENT

OVERVIEW

Our operations are based in the PRC. Accordingly, our various businesses are subject to relevant laws and regulations and regulatory provisions of the PRC. These laws and regulations and regulatory provisions govern the areas of project approvals, power generation, transmission and dispatch, on-grid tariffs, power engineering construction, and environmental protection and safety. In addition, our operations are subject to general laws and regulations and regulatory statutes in the PRC without industry-specific requirements, such as company law, labor law and laws related to foreign exchange and taxation.

PRINCIPAL REGULATORY AUTHORITIES

Our business operations are principally subject to the supervision and management by the following PRC governmental authorities:

NDRC and Local Development and Reform Commissions

The NDRC and local development and reform commissions are responsible for formulating and implementing the main policies in relation to the economic and social development of the PRC, examining and approving the investment projects of specific scale in the power industry, setting and adjusting the policies on tariffs, drafting regulations related to the supervision of electricity industry and power tariff management and accepting and approving CDM projects.

NEA

The NEA, a national authority under the administration of the NDRC, is responsible for drafting regulations and policies related to energy development and relevant supervision and administration, supervising the operation of the power market, regulating the order of the power market, supervising and inspecting relevant electricity tariffs, setting prices of various auxiliary electric services, researching, recommending and supervising the implementation of universal electricity service, and conducting administrative enforcement of laws related to electric power.

National Energy Commission

On January 22, 2010, in accordance with the Notice of the General Office of the State Council on Setting up the National Energy Commission (《國務院辦公廳關於成立國家能源委員會的通知》), the State Council decided to set up the National Energy Commission, which is responsible for researching and drafting national energy development plans, reviewing the significant issues related to energy security and development, and generally coordinating the significant issues related to national energy exploitation and international energy cooperation.

Ministry of Land and Resources and Local Land and Resources Authorities

The Ministry of Land and Resources (the “MLR”) and local land and resources authorities are responsible for the compliance with relevant regulations on planning, administration, protection and reasonable utilization of natural resources in land occupied by electricity projects.

Ministry of Commerce and Local Commerce Authorities

The Ministry of Commerce (the “MOFCOM”) is responsible for formulating development strategies and policies related to domestic and foreign trade and international economic cooperation,

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encouraging development of renewable energy (including wind power and solar power) through tax incentives and designating special funds, together with the NDRC and the Ministry of Finance (the “MOF”), and encouraging energy saving and rational development and utilization of renewable energy.

Ministry of Environmental Protection and Local Environmental Protection Authorities

The Ministry of Environmental Protection is responsible for enacting and implementing the regulations and policies related to national environmental protection, and it is also responsible for the coordination and supervision of the significant environmental protection issues. Local environmental protection authorities are responsible for approving the environmental impact assessment documents of electricity projects, examining for their approval the environmental protection facilities of electricity projects, and dealing with the local administrative enforcement of laws on environmental protection and emergency response and warnings within their authorities.

State Administration of Work Safety and Local Work Safety Authorities

The State Administration of Work Safety (the “SAWS”) is responsible for supervising work safety at power generation operations facilities and project construction sites, and inspecting and guiding the relevant local authorities in respect of supervision and management of work safety and their emergency response plans and documentations in regard of work safety.

State Administration of Taxation

The State Administration of Taxation (the “SAT”) is responsible for promulgating and implementing tax regulations and policies.

MAJOR LAWS AND REGULATIONS AND REGULATORY DOCUMENTS RELATING TO THE PRC POWER INDUSTRY

Industry Regulation

The Electric Power Law of the PRC (《中華人民共和國電力法》) (hereinafter referred to as the “Electric Power Law”), which became effective on April 1, 1996 and was amended on August 27, 2009, and April 24, 2015 is the first national law enacted specifically for the power industry. Its contents include regulatory provisions with respect to power construction, power production and grid management, pricing and tariffs, and protection of power facilities. The Electric Power Law aims to protect the legitimate interests of investors, operators and users and to ensure the safety of power operations. The Electric Power Law also affirms that the PRC government encourages and regulates the PRC and foreign investment in the power industry.

The Electric Power Regulatory Ordinance (《電力監管條例》), which became effective on May 1, 2005, sets forth regulatory requirements for many aspects of the power industry, including, among others, the issuance of Electric Power Business Permits, regulatory inspections of power generators and grid companies and the legal liabilities stemming from violations of regulatory requirements.

Project Approval

According to the Administrative Licensing Law of the PRC (《中華人民共和國行政許可法》) and the Notice of the General Office of the State Council on Enhancing and Standardizing the Management of New Projects (《國務院辦公廳關於加強和規範新開工項目管理的通知》), project construction entities shall

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obtain documents from the relevant administrative department issuing opinions on project site selection, preliminary approvals on project sites and approvals with respect to the environmental impact assessment documents and issuing opinions on energy saving review, before submitting the project application to the project approval authority. Upon obtaining the project approval documents, construction shall be carried out in accordance with the requirements set out therein.

Pursuant to the Interim Measures for Administration of Photovoltaic Power Plant Projects (《光伏電站項目管理暫行辦法》), the competent energy department under the State Council is responsible for the supervision and administration of the construction and operation of photovoltaic power plant projects of the PRC. Under the guidance of the competent energy department under the State Council, the provincial competent energy departments are responsible for the supervision and administration of the construction and operation of photovoltaic power plant projects of their respective areas. The relevant administrative organization of the solar power generation technology of the State is commissioned to manage the construction and operation technology of photovoltaic power plants. The competent energy department under the State Council is responsible for the preparation of the national solar power generation development plan. According to the national energy development plan and the renewable energy development plan, and on the basis of solar energy resources in various regions, technical and economic aspects of photovoltaic power plants, electricity demand and grid conditions, the construction scale and layout of photovoltaic power plants across the nation and the annual development scale of each province (region and municipality) can be identified. Based on the national solar power generation development plan, and the regional annual guiding scale target and development layout opinion from the competent energy department under the State Council, the provincial competent energy departments prepare the proposals for the annual implementation scheme regarding the construction of photovoltaic power plants in their respective regions on the principles of “overall planning, proper deployment, access to the nearest and local consumption.” The proposals for the annual implementation scheme of each province (region and municipality) regarding the construction of photovoltaic power plants shall include construction scale, project layout, grid access, a power consumption assessment and the construction plan. Each province (region and municipality) should, based on its conclusion regarding the construction, production start-up and operation of the local photovoltaic power plants, at the end of December each year submit its proposal for the implementation scheme regarding the construction of photovoltaic power plants for the next year. This proposal is to be presented to the competent energy department under the State Council. On the basis of the national solar power generation development plan, and taking into account the construction and operation of photovoltaic power plants and proposals for the annual implementation scheme submitted by each region, the competent energy department under the State Council shall confirm the annual implementation scheme for photovoltaic power plants requiring subsidies from the State, and then transmit the annual implementation scheme regarding the construction of photovoltaic power plants to each province (region and municipality). Each region should consider the annual guiding scale target from the competent energy department under the State Council (after excluding projects which have completed the formalities in the previous year but have not been put into operation) as the scale limit of new local projects filed for record for the current year. The completion of an annual implementation scheme for each region shall be decisive for the competent energy department under the State Council in determining the annual guiding scale of such region for the forthcoming year. For regions that encounter problems of light curtailment and power restriction that are not resolved on time, the new annual guiding scale target and annual implementation scheme shall cease to be transmitted to such regions. For regions with poor implementation of construction activity, their guiding scale targets for the following year shall be reduced accordingly.

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The provincial competent energy departments shall complete the filings required for the photovoltaic power plant projects in accordance with management regulations on investment projects prescribed by the State Council. Projects filed for record shall comply with the national solar power generation development plan and the regional annual guiding scale target, as well as the annual implementation scheme set by the competent energy department under the State Council, and shall have achieved grid-connection conditions.

According to the Provisional Measures for the Management of Wind Power Development and Construction (《風電開發建設管理暫行辦法》), in order to optimize the regional planning and project construction in line with the national planning, wind farm construction projects approved by the competent investment departments of the provincial governments shall proceed, within the authorized scope of management, in accordance with wind farm construction plans and annual development plans filed with the competent energy department under the State Council. From May 15, 2013, Wind farm construction projects are approved by the local competent investment departments. Project entities shall adhere to the principle of conservative and reasonable use of land resources, actualize the construction proposals and construction conditions in accordance with the relevant laws and regulations and technical requirements, and compile the project application report and prepare supportive documents necessary for project approval. A wind farm construction project can only be commenced upon approval. Where construction is not commenced within 2 years after project approval, the original approval authority of the project can withdraw such project in accordance with the relevant provisions. The commencement of the construction of a wind farm begins at the point when construction of the first wind turbine generator begins.

Electric Power Business Permit

Pursuant to the SERC's Provision on the Administration of the Electric Power Business Permit (《電力業務許可證管理規定》) (hereinafter referred to as the "Permit Provision"), which became effective on December 1, 2005, the PRC power industry adopted and as amended on May 30, 2015 the market-access permit system. Pursuant to the Permit Provision, unless otherwise provided by the SERC, no company or individual in the PRC may engage in any electric power business (including power generation, transmission, distribution and sales) without obtaining an electric power business permit issued by the SERC. To apply for an electric power business permit for power generation, the following conditions must be fulfilled: construction of the plant has been examined and approved by the relevant authorities; the power generation facilities have the ability to run; and the power plant is in compliance with the relevant environmental protection regulations and requirements. As the former SERC was incorporated into the NEA, the aforementioned function of issuing electric power business permits is exercised by the NEA.

Dispatch

All electric power generated in China is dispatched through power grids, except for electric power generated by facilities not connected to a grid. Dispatch of power to each grid is administered by dispatch institutions. Dispatch institutions are responsible for the administration and dispatch of the planned output of power plants connected to the grid.

The Regulations on the Administration of Electric Power Dispatch to Networks and Grids (《電網調度管理條例》) (hereinafter referred to as the "Dispatch Regulations"), which was promulgated by the State Council and became effective on November 1, 1993 and as amended on January 8, 2011,

regulate the operations of dispatch institutions. Pursuant to the Dispatch Regulations and the Implementation Measures for Regulations on the Administration of Electric Power Dispatch to Networks and Grids (《電網調度管理條例實施辦法》), which was implemented on October 11, 1994, dispatch institutions are established at each of five levels: the national dispatch institution, the inter-provincial, inter-autonomous regional and inter-municipal dispatch institutions, the provincial-level, autonomous regional-level and municipal-level dispatch institutions, the dispatch institutions of municipalities under provinces and the county-level dispatch institutions. Each power plant receives on a daily basis from its local dispatch institution a projected hour-by-hour output schedule for the following day, based on expected demand, the weather and other factors.

On-grid Tariff

Since it came into effect in 1996, the Electric Power Law has set forth the general principles for the setting of power tariffs. Tariffs are to be formulated to provide reasonable compensation for costs and a reasonable return on investment, to include taxes according to law, to share expenses fairly, and to promote the construction of further power projects. The on-grid tariffs for planned output and excess output are subject to procedures involving review and approval by the NDRC and the provincial pricing bureaus.

On March 28, 2005, the NDRC promulgated the Provisional Measures for the Administration of On-grid Tariff (《上網電價管理暫行辦法》), which became effective on May 1, 2005. It provides regulatory guidance for the reform plan. For power plants within the regional grids that have not implemented competitive bidding tariff-setting mechanisms, on-grid tariffs will be determined and announced by relevant pricing bureaus based on production costs plus a reasonable investment return. For power plants within the regional grids that have implemented competitive bidding tariff-setting mechanisms, on-grid tariffs are twofold: a capacity tariff determined by the NDRC based on the average investment cost of the power generators competing within the same regional grid; and a competitive power output and tariff determined through the competitive bidding process. The Provisional Measures for the Administration of On-grid Tariff specifically provide that, temporarily, enterprises of new energies such as wind power and geothermal power and renewable energy enterprises do not participate in market competition. Priorities are given to grid enterprises to buy out the power generated at tariffs determined by the government or at competitive tariffs. The government can regulate the percentages of new energy and renewable energy in the total amount of electricity to be sold by the electricity supply enterprises in a timely manner to establish specialized competitive new energy and renewable energy markets.

On October 11, 2009, the NDRC, the NEA and the SERC issued the Notice on Standardizing the Management of Electricity Trading Prices and Others (《關於規範電能交易價格管理等有關問題的通知》). This Notice provides that, except for inter-provincial or inter-regional power transactions, all on-grid tariffs shall be determined according to the tariffs set by the government department in charge of tariffs (exceptions stipulated by the state excluded) once the power generation unit is put into commercial operation. Prior to commercial operation of the power generation unit, on-grid tariffs approved by the competent department of pricing are applicable from the date on which power generation units for renewable energy sources (excluding hydropower) establish connection to the grid.

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Environmental Protection

During the construction and operation of our power plants, we are mainly subject to the supervision and restrictions prescribed by the following laws and regulations: the Environmental Protection Law of the PRC (《中華人民共和國環境保護法》), the Law on the Prevention and Treatment of Water Pollution of the PRC (《中華人民共和國水污染防治法》), the Law on the Prevention and Treatment of Air Pollution of the PRC (《中華人民共和國大氣污染防治法》), the Law on Prevention and Treatment of Solid Waste Pollution of the PRC (《中華人民共和國固體廢物污染環境防治法》), the Law on Appraising Environment Impacts of the PRC (《中華人民共和國環境影響評價法》) and the Regulations on the Administration of Environmental Protection of Construction Projects (《建設項目環境保護管理條例》).

According to the Environmental Protection Law of the PRC, the competent department of environmental protection administration under the State Council shall establish the national standards for environmental quality control. The people's governments of provinces, autonomous regions and municipalities may formulate local standards for environmental quality control for items not regulated by the national standards for environmental quality control, and may formulate local standards for environmental quality control more stringent than the national standards for items regulated by the national standards for environmental quality control. The local standards for environmental quality control shall be filed for record with the competent department of environmental protection administration under the State Council. This department is responsible for formulating national standards for the discharge of pollutants based on the national environmental quality standard and the economic and technological conditions of the State. The people's governments of provinces, autonomous regions and municipalities may formulate local standards for the discharge of pollutants for items not regulated by the national standards for the discharge of pollutants, and may formulate more stringent standards than those applied nationally for matters regulated by their national counterparts. Such local standards for the discharge of pollutants shall be filed for record with the competent department of environmental protection administration under the State Council.

Pursuant to the Law on the Prevention and Treatment of Water Pollution of the PRC, the State manages a licensing system for pollutant discharge. Enterprises and institutions which directly or indirectly discharge industrial waste water or medical waste water to surrounding water systems or which are required to obtain the pollutant discharge permit before discharging waste water and sewage must obtain the pollutant discharge permit. The specific measures and implementation steps for sewage discharge permission shall be prescribed by the State Council. All enterprises and institutions are prohibited from discharging the industrial waste water and sewage to surrounding water systems without a pollutant discharge permit or in violation of the requirements of the permit. Enterprises, institutions and individual industrial and commercial households that directly discharge pollutants to surrounding water systems shall pay a pollutant discharge fee according to the category and quantity of the discharged water pollutants as well as the charging rates of such fee.

Pursuant to the Law on the Prevention and Treatment of Air Pollution of the PRC, the State implements a system of collecting fees for discharging pollutants on the basis of the category and quantity of the atmospheric pollutants discharged, and establishes reasonable standards for collecting the fees therefor according to the demands of strengthening prevention and treatment of atmospheric pollution and the State's economic and technological conditions. The collection of fees for discharging pollutants shall be in compliance with the standards prescribed by the State, with specific measures and implementation stipulated by the State Council.

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According to the Law on Prevention and Treatment of Solid Waste Pollution of the PRC, the competent department of environmental protection administration under the State Council shall establish a system for monitoring environmental pollution by solid waste, formulate unified monitoring standards and, in conjunction with relevant departments, set up a monitoring network. The competent departments of environmental protection administration of the people's governments of large and medium-sized cities shall at regular intervals publish information regarding the category, output and disposal status of solid waste.

According to the Law on Appraising Environment Impacts of the PRC, the State classifies and manages the environmental impact assessment of construction projects in accordance with the degree of environmental impact caused by such projects. The construction entity shall prepare an environmental impact report, an environmental impact report form or fill in and submit an environmental impact registration form (collectively, the "Environment Impact Assessment Documents") according to the following requirements: (i) if the environmental impact may be significant, it shall prepare an environmental impact report so as to include a comprehensive assessment on the environmental impact; (ii) if the environment impact may be gentle, it shall prepare an environmental impact report form so as to include an analysis or special assessment of the environmental impact; (iii) if environmental impact may be very small so that it is not necessary to conduct an assessment of the environmental impact, it shall fill in and submit an environmental impact registration form. The Classified Directory for Environmental Impact Assessment of Construction Projects (建設項目的環境影響評價分類管理名錄) is developed and published by the competent department of environmental protection administration under the State Council. If the Environment Impact Assessment Documents have not been reviewed by the approval departments required by law or the project is not approved by such departments after review, the approval departments of a project shall not approve its construction and the construction entity shall not commence construction.

According to the Regulations on the Administration of Environmental Protection of Construction Projects, construction projects which cause pollution in the construction process shall comply with the national and local standards in respect of the discharge of pollutants. These projects shall also comply with the requirements regarding the control of total emission of major pollutants within the area where the control of total emission of major pollutants is implemented. Industrial construction projects should adopt clean production techniques with low energy consumption, low materials consumption and low pollutants generation, and rationally exploit natural resources to prevent environmental pollution and ecological damage. Reconstruction, expansion and technological renovation projects should adopt measures in order to address the existing environmental pollution and ecological damage related to the projects.

Production Safety

The Work Safety Law of the PRC (《中華人民共和國安全生產法》), which became effective on November 1, 2002 and was amended on August 31, 2014, is the principal law governing the supervision and administration of work safety for power projects. The Measures on Supervision and Administration of the Work Safety of Power Industry (《電力安全生產監督管理辦法》) (hereinafter referred to as the "Measures on Supervision"), promulgated in February 17, 2015, represent an important departmental rule and regulation regulating the safety at production facilities in the power industry. The power plants shall be the responsible parties for the safe production of power, adhere to PRC laws, regulations, provisions and standards in connection with safe production, establish and perfect responsibilities system of power production safety, strengthen administration of power production

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safety, improve working conditions in respect of safe power production and ensure the safety of power production. The NEA is the national wide supervision and administration party of power production safety as granted by PRC law.

REGULATORY PROVISIONS ON RENEWABLE ENERGY SUCH AS WIND POWER AND SOLAR POWER

Industry Regulation

According to the Renewable Energy Law of the PRC (《中華人民共和國可再生能源法》) (hereinafter referred to as the “Renewable Energy Law”), which came into effect on January 1, 2006 and was amended on December 26, 2009, and the Guidance Catalog on Renewable Energy Industrial Development (《可再生能源產業發展指導目錄》), promulgated by the NDRC on November 29, 2005, renewable energy includes wind power, solar power, hydropower, biomass energy, geothermal energy, ocean energy and certain other types of non-fossil energy. The Renewable Energy Law sets out the regulatory framework for the development and use of renewable energy.

Dispatch and Price Determination

(1) To enjoy buyout and dispatch priority

According to the Renewable Energy Law, grid enterprises shall enter into a grid connection agreement with the approved or recorded renewable energy production enterprises to buy out the grid connection power of renewable energy power plants that satisfy the technological standards of grid connection in the area covered by the grid enterprises for grid connection volume, and to provide on-grid services and the relevant technical support.

On August 2, 2007, the State Council issued the Provisional Measures on the Dispatch of Energy Saving Power Generation (《節能發電調度辦法(試行)》), which is aimed at optimizing the efficient use of natural resources and encouraging energy savings to achieve sustainability. Pursuant to these measures, the dispatch priority of power generating units is determined in the following sequence: non-adjustable power generation units utilizing renewable fuels; adjustable power generating units utilizing renewable fuels; nuclear power generating units; cogeneration units and resource comprehensive utilization power generating units; gas-fired power generating units; other coal power generating units, including cogeneration units without thermal load; and oil-fired power generating units.

Pursuant to the Supervision Measures on the Purchase of the Full Amount of Renewable Energy Power by Grid Enterprises (《電網企業全額收購可再生能源電量監管辦法》), which became effective on September 1, 2007, the SERC, now NEA and its local branches should supervise the grid enterprises to discharge their buyout and dispatch priority duties. Grid enterprises that fail to discharge these duties and cause losses of renewable energy enterprises shall compensate and correct the faults within 15 days upon the affirmation of the power supervisory authority; otherwise the grid enterprise may be fined a sum of no more than that of the losses of the renewable energy enterprise.

(2) Tariff and Cost Sharing Program

According to the Renewable Energy Law and the Provisions on the Administration of Power Generation from Renewable Energy (《可再生能源發電有關管理規定》), the NDRC is responsible for setting the on-grid tariffs for renewable energy power projects. Its tariff determination factors include

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the kinds of power generated from different types of renewable energy, different geographic locations, and the need to facilitate the development and use of renewable energy on a reasonable commercial basis.

Pursuant to the Provisional Administrative Measures on the Price of Renewable Electricity and Cost Sharing Program (《可再生能源發電價格和費用分攤管理試行辦法》) (hereinafter referred to as the “Price and Cost Sharing Regulation”), which was promulgated by the NDRC and became effective on January 1, 2006, there are two types of on-grid tariff for electricity generated from renewable energy: government fixed price and government guided price. Pursuant to the Price and Cost Sharing Regulation, for the renewable energy projects approved after January 1, 2006, the differences between the costs of grid enterprises and the costs calculated by the average on-grid tariffs of coal power generation will be borne by end-users. As such, the Price and Cost Sharing Regulation provides that: (i) the amount that an on-grid tariff exceeds the local benchmark on-grid tariff of desulfurized coal unit, (ii) the amount that operation maintenance expense for independent electric system of public renewable energy with state investment or subsidy exceeds the average sales tariff of the local provincial grid, and (iii) the grid-connecting expense of renewable resource power generating projects will be borne by end-users within the coverage of grid enterprises at provincial levels or above by payment of tariff surcharges. According to the Circular of the Ministry of Finance on Adjustment to Collection Standards of Additional Tariff for Renewable Energy (《財政部關於調整可再生能源電價附加徵收標準的通知》), in order to facilitate the development and use of renewable energy, effective from September 25, 2013, the collection standards of additional tariff for renewable energy in respect of power consumption (other than for the private domestic use and agricultural production) shall be increased to RMB1.5 cents/KWh.

On January 11, 2007, the NDRC promulgated the Provisional Measures on Adjustment to Additional On-grid Tariff for Renewable Energy (《可再生能源電價附加收入調配暫行協法》) to make subsidy rates for renewable energy consistent, as shown below:

Subsidy amount for power generating projects of renewable energy = (on-grid tariff of renewable energy – local provincial-level benchmark electricity price of desulfurized coal unit) × grid power output by generation of renewable energy;

Subsidy amount of independent electric system of public renewable energy = operation maintenance expense for independent electric system of public renewable energy – average sales tariff of the local provincial grid × power generation of independent electric system of public renewable energy;

Grid-connecting expense of renewable resource power generating projects refers to the investment and operation maintenance expense for power transmission and transformation for connecting the renewable resource power generating projects to connect to the grid. The rate shall be dependent on the length of route: RMB0.01/KWh for less than 50 km, RMB0.02/KWh for 50-100 km, and RMB0.03/KWh for 100 km and more.

On July 20, 2009, the NDRC promulgated the Circular Regarding the Furtherance of On-grid Pricing Policy of Wind Power (《國家發展改革委關於完善風力發電上網電價政策的通知》), which applies to all onshore wind power projects approved thereafter. In accordance with this circular, the on-grid tariff as determined by “government guided price” discussed above has been replaced by a geographically unified tariff, a form of government-fixed price. Specifically, the PRC is categorized into four wind resource zones, and all onshore wind power projects in the same zone apply the same standard on-grid tariff (including VAT) (RMB0.51/kWh, RMB0.54/kWh, RMB0.58/kWh or RMB0.61/kWh) applicable

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to that zone. For wind farms spanning across areas with different fixed on-grid tariffs, the higher tariff applies. The new on-grid tariffs will continue to be subsidized by on-grid tariff premiums enjoyed by renewable energy projects in general.

Renewable Energy Development Fund and Designated Funds

According to the Renewable Energy Law, the state will establish a renewable energy development fund, and the fund will come from sources including a special purpose fund arranged during this financial year, with additional income to be collected from renewable power tariff, applied according to pertinent statutes.

The Interim Measures on Administration of Designated Fund for the Development of Renewable Energy (《可再生能源發展專項資金管理暫行辦法》), which became effective on April 2, 2015, require that the designated fund for supporting the development and use of renewable energy and new energy shall be subject to the principles of designated fund for designated use as well as special administration of the fund. Through award, allowance, discount interest and otherwise adopted according to tasks and characteristics of a particular project, such funds shall then be given to local authorities or incorporated into the budget of central departments. The allocation of fund shall be made in line with a number of factors such as the operating nature, objective, investment cost and level of comprehensive use of energy resource of renewable energy and new energy, by using the major methods of allocation by competition, allocation by reference to factors and settlement based on actual data. For any project of settlement based on actual data, the fund will be mainly paid in advance and settled in arrears. In the process of project operation, if any adjustment is required due to significant change in operating environment and conditions, it shall be reported to the MOF and relevant authorities, and then implemented after obtaining approval. No entity or individual is allowed to hold or appropriate any designated fund for the development of renewable energy.

Tax Preferences

In China, enterprises that engage in renewable energy enjoy certain tax preferences. The Guidance Catalog on Renewable Energy Industrial Development (《可再生能源產業發展指導目錄》), promulgated by the NDRC on November 29, 2005, sets out 88 types of renewable energy projects that may be entitled to preferential tax treatment or designated funding if requirements of other laws and regulations are satisfied by these types of projects.

(1) Corporate Income Tax

Pursuant to the Circular on the Execution of the Catalog of Public Infrastructure Projects Entitled for Preferential Tax Treatment (《關於執行公共基礎設施項目企業所得稅優惠目錄有關問題的通知》), jointly promulgated by the MOF and SAT on September 23, 2008, for the investment and operation income of enterprises established after January 1, 2008 and that engage in public infrastructure projects, starting from the tax year in which the project generates its operating income, the corporate income tax will be exempted for the first three years, and a 50.0% exemption will apply to the period from the fourth to the sixth year.

(2) VAT Law

Effective as of January 1, 2009, the VAT refund policy available for certain foreign-invested enterprises that purchase domestically manufactured equipment was abolished pursuant to the Circular

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on the Abolishment of the Tax Refund Policy for the Purchase of Domestically Manufactured Equipment by Foreign Invested Enterprises (《關於停止外商投資企業購買國產設備退稅政策的通知》), which was jointly promulgated by the MOFCOM and SAT on December 25, 2008. However, foreign-invested enterprises that purchase domestically manufactured equipment and received VAT invoices and submitted a VAT refund application with the relevant tax authorities on or prior to June 30, 2009 are entitled to receive the VAT refund as before.

REGULATORY PROVISIONS ON POWER ENGINEERING CONSTRUCTION

The Construction Law of the PRC (《中華人民共和國建築法》) (hereinafter referred to as the “Construction Law”), which became effective on March 1, 1998 and was amended on April 22, 2011, is the first law in respect of the construction market and construction management in the PRC. The Construction Law provides that construction enterprises, prospecting entities, design entities and project supervisory entities which engage in construction activities shall be ranked in different classes according to their registered capital, professionals and technicians, technical equipment and performance record of completed construction projects and other qualification criteria. Only when they pass qualification examinations and obtain appropriate qualification certificates, may they engage in construction activities commensurate to the scope of their qualification classes. Entities contracting the construction work shall hold legally-obtained qualification certificates and contract projects within the business scope as allowed by their level of qualification. Construction enterprises are prohibited from contracting projects beyond the business scope as allowed by their level of qualification or in the name of other construction enterprises in any form. Construction enterprises are prohibited from allowing other entities or individuals to use their own qualification certificates, business licenses or their name in any form in order to contract construction projects.

The Notice on Issuing of the Standards for Classification of Qualifications of Construction Enterprises (《關於印發〈建築業企業資質標準〉的通知》) was implemented by the Ministry of Housing and Urban-Rural Development on January 1, 2015. It states the standards of qualification of “general contracting enterprises of power engineering” and the scope of construction that may be contracted by enterprises of each qualification level. Meanwhile, the document states as follows: “Power engineering refers to the engineering relating to the generation, transmission and distribution of electricity. It includes power generation, transmission and distribution by thermal power, hydropower, nuclear power, wind power, solar energy and other energy and their ancillary works.”

Implemented by the Ministry of Construction on February 13, 2003, the Guidance on Developing General Contracting and Construction Project Management Enterprises (《關於培育發展工程總承包和工程項目管理企業的指導意見》) states that “the prospecting, design and construction enterprises which are qualified to engage in prospecting, design or general contracting of construction projects are encouraged to undergo modification and restructuring. They are encouraged to establish institutions or project management systems for general contracting of construction projects, to replenish professionals for project management and to enhance their capability in financing so as to develop a construction company with combined functions of design, procurement and construction (construction management). Such combined functions may enable it to undertake general contracting of construction works within their qualified categories of prospecting, design and construction.”

Pursuant to the relevant provisions in the Tendering and Bidding Law of the PRC (《中華人民共和國招標投標法》), the tendering process shall be adopted for the following construction projects in the PRC (which include prospecting, design, construction and supervision of projects, and procurement

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of important equipment and materials for the construction), including projects of major infrastructure and public utility that have significant implications on the social public interest and the safety of the general public; projects entirely or partially using state-owned funds or loans from the state; and projects using loans from international organizations and foreign governments or supporting funds. The specific scope and size criteria of the aforementioned projects shall be formulated by the development and planning department of the State Council and other relevant departments of the State Council, and shall be reported to the State Council for approval.

Pursuant to the relevant provisions in the Notice of the NEA on Further Strengthening the Construction and Operation Management of Photovoltaic Power Stations (《國家能源局關於進一步加強光伏電站建設與運行管理工作的通知》), the agency of the NEA and the provincial-level energy authorities should strengthen the regulation on projects of photovoltaic power stations during and after the process. For projects of photovoltaic power stations in the annual implementation plan, they should urge and coordinate the grid enterprises to carry out the grid connection conditions in a timely manner, review the design of connection system within the prescribed time limit and issue opinions on grid connection. They should expand supervision over preliminary work and the progress of construction with respect to projects in the annual implementation plan, identify the causes for projects not completing the annual implementation plan on time, and give advice for remediation. In addition, they should supervise and inspect the implementation of national standards (including industry standards) and the completion and approval relating to the design and construction of photovoltaic power stations. For the projects of grid-connecting operation, the situation of grid connection in full amount shall be supervised. If the grid-connecting operation cannot be run at capacity, the reason and liability shall be investigated and identified and the relevant parties shall be urged to remedy the situation within a certain deadline, and the situation shall be reported to the NEA.

According to the Provisional Measures for the Administration of Land Use and Environmental Protection of Wind Farm Construction (《風電場工程建設用地和環境保護管理暫行辦法》), promulgated by the NDRC, the MLR and the former State Environmental Protection Administration on August 9, 2005, before applying for project approval, the entity responsible for the construction of wind farm projects shall obtain land use preliminary approval from the provincial land and resource authorities, and an environmental impact assessment approval from the provincial environmental protection administrative department.