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## REGULATORY OVERVIEW

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Substantially all of our operations are conducted in China. The following is a summary of the PRC laws and regulations that are material to our business operations within the territory of the PRC.

### POLICY ON FOREIGN INVESTMENT

Under the Foreign Investment Industries Guidance Catalog (as amended in 2007) (外商投資產業指導目錄(2007年修訂)), which was promulgated by the NDRC and the MOFCOM and amended in 2011 and 2015 respectively, the environmental protection industry, including biomass, hazardous waste treatment, solar energy and wind power industries, falls within the category of industries in which foreign investment is encouraged. Foreign investors may participate in the construction and operation of environmental protection projects in China through joint ventures or wholly foreign owned subsidiaries.

### APPROVAL, REGISTERED CAPITAL AND CAPITAL FUND SYSTEMS FOR INVESTMENT PROJECTS

#### Approval System of Investment Projects

The Decision on Institutional Reform of Investment System (國務院關於投資體制改革的決定), which was promulgated by the State Council and became effective on July 16, 2004, provides that investment projects are subject to approval or filing requirement. The State Council issued the 2014 Catalog of Investment Projects Requiring Approval by the Government (政府核准的投資項目目錄(2014年本)) on October 31, 2014 which was abolished by the 2016 Catalog of Investment Projects Requiring Approval by the Government (政府核准的投資項目目錄(2016年本)) (the “**Investment Approval Catalogs**”) both of which set forth the types of projects requiring approval of competent project approval authorities. Projects that are not listed on the Investment Approval Catalogs do not require prior approval. According to the Investment Approval Catalog and applicable regulations, biomass and wind power projects generally require examination and approval by local governmental authorities.

#### Registered Capital System

According to the Provisional Regulations for the Proportion of Registered Capital to Total Investment Amount of Sino-foreign Equity Joint Ventures (國家工商行政管理局關於中外合資經營企業註冊資本與投資總額比例的暫行規定) (the “**Provisional Regulations**”), which was promulgated by the SAIC and effective from March 1, 1987, the registered capital of a Sino-foreign equity joint venture shall be appropriate for the scale and scope of its production and operations.

Under the Provisional Regulations, where the total investment amount of a Sino-foreign equity joint venture is between US\$3 million and US\$10 million (US\$10 million inclusive), its registered capital shall be at least 50% of its total investment amount; where the total investment amount of a Sino-foreign equity joint venture is between US\$10 million and US\$30 million (US\$30 million inclusive), its registered capital shall be at least 40% of its total investment amount; where the total investment amount of a Sino-foreign equity joint venture exceeds US\$30 million, its registered capital shall be at least one-third of its total investment amount.

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### Capital Fund System

According to the Notice of the State Council on Trial Implementation of Capital Fund System in Fixed Asset Investment Projects (國務院關於固定資產投資項目試行資本金制度的通知), which was promulgated and implemented by the State Council on August 23, 1996, the Notice of the State Council on Adjusting the Proportions of Capital Fund in Fixed Asset Investment Projects (國務院關於調整固定資產投資項目資本金比例的通知), which was promulgated by the State Council and effective from May 25, 2009, and the Notice of the State Council on Adjusting and Improving the Capital Fund System for Fixed Asset Investment Projects (國務院關於調整和完善固定資產投資項目資本金制度的通知), which was promulgated by the State Council and effective from September 9, 2015, a capital fund system is adopted for fixed asset investment projects.

Under the capital fund system, shareholders of a project company must contribute a certain percentage of the total investment amount as equity capital into the project company, and may borrow the remaining portion from external sources such as banks. The proportion of such contribution in biomass, hazardous waste treatment, solar energy and wind power projects must be no less than 20% of the total investment amount, and the specific proportion will be determined by the approving authority of the relevant project after reviewing the feasibility study report, taking into consideration the project's future economic benefits and the banks' willingness to issue loans.

### POLICY ON BIOMASS, SOLAR AND WIND ENERGY

Pursuant to the PRC Renewable Energy Law (中華人民共和國可再生能源法), which was enacted on December 26, 2009 and amended by the Decision of the Standing Committee of the NPC on Amending the Renewable Energy Law of the PRC (全國人大常委會關於修改〈中華人民共和國可再生能源法〉的決定) on April 1, 2010, China has implemented a mandatory off-take system that requires power grid companies to purchase all electricity generated from renewable sources. The department in charge of energy under the State Council shall act jointly with the national electricity regulatory bodies and the department of finance under the State Council to determine the ratios of electricity generated from renewable sources to the total electricity generation as part of the national plans, and to establish practical rules on the priority given to the purchase of electricity generated from renewable sources. Such practical rules will be enforced under the supervision of the department in charge of energy under the State Council and national electricity regulatory bodies.

Power grid companies shall enter into electricity grid connection agreements with officially licensed or enrolled renewable energy power generation enterprises, and shall within the coverage of their power grids purchase all of the electricity generated from renewable sources that meets relevant technical standards.

Pursuant to the Notice of the NDRC on Issuing Administrative Provisions on Renewable Energy Power Generation (國家發改委關於印發〈可再生能源發電有關管理規定〉的通知), which became effective on January 5, 2006, the on-grid tariff for electricity generated from renewable sources shall be determined by price regulatory authorities of the State Council based on the types of renewable sources and resource zones. The on-grid tariff for electricity generated by renewable energy projects established through public bidding shall be the price of the winning bid.

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### **Biomass Power Generation**

According to the Notice of the NDRC on Improving the Pricing Policy Regarding Electricity Generated from Agricultural Waste and Forestry Residue (國家發展改革委關於完善農林生物質發電價格政策的通知), which became effective on July 1, 2010, for biomass projects approved after July 1, 2010 and not established through public bidding, the benchmark on-grid tariff is RMB0.75/kWh, inclusive of VAT. For biomass projects established through concession bidding, the on-grid tariff shall be the price of the winning bid. However, such price shall not be higher than the benchmark on-grid tariff. Biomass projects refer to projects using agricultural waste and forestry residue as raw materials.

### **Household Waste-to-Energy**

According to the Notice of the NDRC in Relation to the Optimization of Waste-to-Energy Power Tariff Policy (國家發展改革委關於完善垃圾焚燒發電價格政策的通知), which became effective on April 1, 2012, for household waste-to-energy projects approved after January 1, 2006 and using domestic waste as the raw material, the on-grid tariff is calculated based on the amount of waste to be treated and the on-grid electricity. Each ton of domestic waste received is first presumed to generate 280kWh of on-grid electricity and is priced at a uniform benchmark on-grid tariff of RMB0.65/kWh, inclusive of VAT. The remaining on-grid electricity is priced on the basis of on-grid tariff for local coal-fueled generators. If the presumed on-grid electricity is less than 50% of the actual on-grid electricity, the relevant project will be treated as a conventional power generation project which is not entitled to waste-to-energy subsidies. If the presumed on-grid electricity is higher than 50% of but lower than the actual on-grid electricity, the presumed on-grid electricity will be treated as the waste-to-energy on-grid electricity. When the presumed on-grid electricity is higher than the actual on-grid electricity, the actual on-grid electricity will be treated as the waste-to-energy on-grid electricity.

### **Wind Power**

According to the Notice of the NDRC on Improving the Policies for On-Grid Wind Power Tariffs (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 became effective on August 1, 2009, for wind power projects approved after August 1, 2009, the benchmark on-grid tariff for ground wind power is set based on the specific resource zones where the project is located. There are currently four resource zones, and the current on-grid tariffs with respect to these resource zones are RMB0.51/kWh, RMB0.54/kWh, RMB0.58/kWh and RMB0.61/kWh, respectively. According to the NDRC Notice Regarding Adjustment to On-Grid Tariffs of Solar Energy and Ground Wind Power Projects (國家發改委關於調整光伏發電陸上風電標杆上網電價的通知), which was published on December 26, 2016, for ground wind power projects approved on or after January 1, 2018, the on-grid tariff will be lowered to RMB0.40/kWh, RMB0.45/kWh, RMB0.49/kWh and RMB0.57/kWh for the four resource zones for wind power projects in China. For Shanxi Province, where our wind power projects are located, the on-grid tariff is RMB0.61/kWh.

### **Solar Energy**

According to the Notice of the NDRC on Improving the Policies for On-Grid Solar Energy Tariffs (國家發展改革委關於完善太陽能光伏發電上網電價政策的通知), which became effective on July 24,

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2011, the on-grid tariffs for solar energy are subject to a national benchmark standard. Specifically, for solar energy projects outside Tibet approved after July 1, 2011, or approved before July 1, 2011 but not established and operated before December 31, 2011, the benchmark on-grid tariff is RMB1.0/kWh, inclusive of VAT. For solar energy projects established through concession bidding, the on-grid tariff shall be the price of the winning bid. However, such price shall not be higher than the benchmark tariff. The benchmark tariffs for certain solar energy projects are also subject to local governmental policies in certain regions such as Jiangsu Province.

Pursuant to the Notice of the NDRC on Utilizing the Price Leverage Effects to Encourage the Healthy Development of the Solar Energy Industry (國家發展改革委關於發揮價格槓桿作用促進光伏產業健康發展的通知), which became effective on August 26, 2013 and is applicable to solar energy projects filed for record or approval after September 1, 2013, or before September 1, 2013 but operated on or after January 1, 2014, the benchmark on-grid tariff for solar energy projects was set at RMB0.90/kWh, RMB0.95/kWh and RMB1.00/kWh based on local solar energy resources and generating plant construction costs. Pursuant to the NDRC Notice Regarding Adjustment to On-Grid Tariffs of Solar Energy and Ground Wind Power Projects (國家發改委關於調整光伏發電陸上風電標杆上網電價的通知), which was published on December 26, 2016, for solar energy projects commencing operation on or after January 1, 2017, the on-grid tariff will be lowered to RMB0.65/kWh, RMB0.75/kWh and RMB0.85/kWh for the three resource zones for solar energy projects in China.

### PRICING FOR HAZARDOUS WASTE TREATMENT

According to the Notice of Implementing Hazardous Waste Treatment Fee Mechanism to Encourage the Industrialization of Hazardous Waste Treatment (關於實行危險廢物處置收費制度促進危險廢物處置產業化的通知) jointly promulgated by the NDRC, MEP, Ministry of Health, Ministry of Finance (the “MOF”) and Ministry of Construction and became effective on November 18, 2003, the amount of the hazardous waste treatment fee shall be determined on the general principle of providing compensation for the costs of hazardous waste treatment and providing reasonable profits to the hazardous waste treatment companies. The specific principle and method for determining the treatment fees shall be formulated by the price administration department of each province, autonomous region or municipality directly under the central government. The specific standards for collecting waste treatment fees shall be formulated by the price administration department of the government in a prefecture-level city, while at the same time, it shall be put on record with the price administration department of a provincial government.

### PRICING FOR HEAT SUPPLY

According to the Interim Provisions on the Administration of the Construction of Power Generating Projects of Heat-Electricity Cogeneration and Comprehensive Utilization of Coal Sludge (熱電聯產和煤矸石綜合利用發電項目建設管理暫行規定), which became effective on January 17, 2007, the initial price of heat supply produced from a heat-electricity cogeneration project shall be determined by the price administration department of a government in the provincial level or an authorized government in the municipal or county level, based on the principle of providing reasonable compensation for the costs of the heat supply and providing reasonable profits to the heat supply companies.

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### PROJECT DEVELOPMENT

#### Concession Arrangements

According to the Opinion on Accelerating the Marketization of Municipal Public Utilities Industry (關於加快市政公用行業市場化進程的意見), which became effective on December 27, 2002, government authorities are required to select investors and operators of waste-to-energy projects through public bidding and enter into concession agreements to grant concession rights to service concession providers for municipal public utilities projects. According to the Measures for the Administration on the Concession of Municipal Public Utilities (市政公用事業特許經營管理辦法) (the “**Concession Measures**”) promulgated by the former Ministry of Construction, which became effective on May 1, 2004, and the Opinion of Ministry of Construction on Strengthening the Supervision of Municipal Public Utilities (建設部關於加強市政公用事業監管的意見), which became effective on September 10, 2005, provisions regarding concessions rights for municipal public utilities are applicable to waste-to-energy projects if such projects are operated under concession rights. The Administrative Measures for the Franchising of Infrastructure and Public Utilities (基礎設施和公用事業特許經營管理辦法), which became effective on June 1, 2015, further sets forth concession rules applicable to infrastructure and public utilities in energy, environmental protection and municipal engineering sectors, such as the extension of the terms for concession rights for a period beyond 30 years based on the nature of the project.

#### Bidding and Tender Requirements

Pursuant to the Government Procurement Law of the PRC (中華人民共和國政府採購法), which was amended and became effective on August 31, 2014, government procurement may be conducted in the form of public bidding, invitation bidding, competitive negotiation or other methods recognized by relevant authorities. Although public bidding is generally deemed as the primary method for government procurement, services and/or constructions are allowed to be procured by the government through competitive negotiation under one of the following circumstances:(i) after conducting public bidding, no tender has been submitted, no eligible tender is presented or no re-bidding is achieved; (ii) detailed specifications or specific requirements cannot be determined due to complex technologies or unusual natural conditions; (iii) the time required for conducting public bidding cannot meet the urgent demand for relevant services and/or constructions; or (iv) the total price of the services and/or construction cannot be determined prior to public bidding.

Pursuant to the Concession Measures, concession rights for waste-to-energy projects shall be granted by municipal public utility authorities through a tender process, if such projects are operated under concession rights. Such tender requirement under the Concession Measures is applicable to projects granted prior to June 1, 2015. For projects granted on or after June 1, 2015, the Administrative Measures for the Franchising of Infrastructure and Public Utilities (基礎設施和公用事業特許經營管理辦法) which was jointly promulgated by several governmental authorities of the PRC including the NDRC and became effective on June 1, 2015, also allows competitive negotiation for this type of projects in addition to the tender process.

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### BUSINESS LICENSES AND QUALIFICATIONS

#### **Electric Power Business License**

According to the Regulations on Supervision of Electric Power (電力監管條例), which was promulgated by the State Council and became effective on May 1, 2005, and the Regulations on the Administration of Power Business Permit (電力業務許可證管理規定), which was promulgated by the former Electricity Regulation Committee and became effective on December 1, 2005, anyone engaging in the electric power business in the PRC shall obtain an electric power business license from electricity regulatory authorities. Entities or individuals who fail to obtain such license may not conduct any electric power business, otherwise the illegal gains from such electric power business will be confiscated, and the entities or individuals will be subject to a fine in an amount no more than 5 times of the illegal gains.

The electric power business license is valid for 20 years. Within 30 days prior to the expiration of the license, licensees who seek for renewals shall submit the applications to the electricity regulatory authorities.

#### **Hazardous Waste Business License**

According to the Measures for the Administration on Hazardous Waste Business Licensing (危險廢物經營許可證管理辦法), which was promulgated by the State Council, became effective on July 1, 2004 and was amended on December 7, 2013, entities engaging in the hazardous waste collection, storage and treatment business shall obtain a hazardous waste business license from environmental protection regulatory authorities under the municipal government at county level or above. Entities may not engage in the hazardous waste collection, storage or treatment business without a valid hazardous waste business license or full compliance with such license, otherwise the illegal gains will be confiscated, and the entities will be subject to a fine in an amount no more than the illegal gains.

The comprehensive hazardous waste business license is valid for five years, and the hazardous waste business license for waste collection activities is valid for three years. Within 30 days prior to the expiration of the license, licensees who seek for renewals shall submit the applications to the original approving environmental protection authorities.

#### **Water Withdrawal License**

According to the Water Law of the People's Republic of China (中華人民共和國水法), which was enacted by the NPC and became effective on October 1, 2002, the Regulations on Administration of Water Withdrawal Licensing and Collection of Water Resources Charges (取水許可和水資源費徵收管理條例), which was promulgated by the State Council and became effective on April 15, 2006, and the Measures on Administration of Water Withdrawal Licensing (取水許可管理辦法), which was promulgated by the Ministry of Water Resources and became effective on April 9, 2008, except for the ones lawfully exempted from applying for a water withdrawal license, entities and individuals that obtain water resources from rivers, lakes or underground, and have water extradition works or facilities completed and conducted 30-day trial run, shall apply for water license with the competent departments of water administration or drainage management under the municipal government at

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county level or above, and obtain the water rights, subject to water resources fee. Water extraction shall be limited within the approved annual water withdrawal plan, and any exceeding portion shall be charged with an extra fee. Violation of such water withdrawal licensing requirements may result in a fine of up to RMB100,000.

Water license generally lasts for five years but not more than ten years. Within 45 days prior to the expiration of the license, licensees who seek for renewals shall submit the applications to the original approving authorities.

### **Pollutant Discharge License**

The PRC Air Pollution Prevention and Control Law (中華人民共和國大氣污染防治法), which became effective on January 1, 2016, and the PRC Water Pollution Prevention and Control Law (中華人民共和國水污染防治法), which became effective on June 1, 2008, announced the implementation of pollutants discharge licensing system. The violation of each law may result in a fine of up to RMB1,000,000. Certain local regulations have set out specific requirements for the approval of pollutant discharge licenses, such as the Measures for the Administration of Water Pollutants Discharge Licenses of Jiangsu Province (江蘇省排放水污染物許可證管理辦法), which was promulgated by the government of Jiangsu Province and became effective on October 1, 2011, and the Measures on the Prevention and Control of Air Pollution of Anhui Province (安徽省大氣污染防治條例), which was promulgated by the People's Congress of Anhui Province and became effective on March 1, 2015.

According to the Interim Measures for the Administration of Pollutant Discharge Licenses (排污許可證管理暫行規定), which became effective on December 23, 2016, pollutant discharge licenses shall be approved and issued by the competent environmental protection administration at county level or above. Pollutant discharge licenses are generally valid for three to five years. No later than 30 days before the expiration of the terms of each license, licensees who seek for extensions shall apply for a new license with the original issuing authorities.

### **Land, Planning and Construction Permits**

Pursuant to the PRC Land Administration Law (中華人民共和國土地管理法), which was amended on August 28, 2004 with retroactive effect from January 1, 1999, state-owned land and collectively owned land may be granted or allocated to be used by entities or individuals in accordance with the law. Entities and individuals with land use rights have obligations to protect, manage and rationally utilize the land. The PRC government at or above the county level shall register and put on record the right to use the state-owned land by the entities or individuals, and issue certificates to certify and confirm such land use rights.

Pursuant to the Notice on the Adoption of Real Estate Register and Certificate Formats (Trial) (關於啟用不動產登記簿證樣式(試行)的通知) which was issued by the Ministry of Land and Resources of the PRC and became effective on March 1, 2015, a real estate right certificate mechanism was introduced and adopted to replace the functions of the land use right certificates. Commencing from March 1, 2015, the real estate registration authorities shall issue real estate right certificates instead of land use right certificates as proof of the underlying real estate rights. However, land use right certificates issued prior to the adoption of the real estate right certificate mechanism by a local authority shall remain effective until their dates of expiration.

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According to the PRC Urban and Rural Planning Law (中華人民共和國城鄉規劃法), which was amended and became effective on April 24, 2015, a construction land planning permit is required for the use of both allocated land and granted land. Entities or individuals engaged in construction activities shall also obtain a construction work planning permit prior to the construction of any buildings, structures, roads, pipelines or other construction works within the planned area in a city or town. Entities or individuals who fail to obtain such construction land planning permit may be subject to a fine of up to 10% of the total construction costs, and a confiscation of illegal gains.

According to the PRC Construction Law (中華人民共和國建築法), which became effective on July 1, 2011, and the Administrative Regulations on the Quality of Construction Projects (建設工程質量管理條例), which became effective on January 30, 2000, an entity engaged in construction activities shall, prior to the commencement of a construction project, apply for a construction work commencement permit with competent construction administrative authorities at or above the county level of the project location, except for small projects that fall within the scope as determined by the competent construction administrative authorities, which are exempt from such requirements. Construction entities that illegally commence the project without obtaining a construction work commencement permit shall be ordered to stop the construction work and to carry out remedial actions within a prescribed time limit and may be subject to a fine in an amount between 1% to 2% of the total contractual price of the project.

### **Inspection and Acceptance on Completion of Construction Projects**

According to the Rules on the Administration of Construction Quality (建設工程質量管理條例), which became effective on January 30, 2000, and Administrative Measures for the Filing of As-built Inspection and Acceptance of Housing, Building and Municipal Infrastructure Projects (房屋建築和市政基礎設施工程竣工驗收備案管理辦法), which was amended and became effective on October 19, 2009, a construction project shall not be delivered for use unless it has passed the acceptance inspections. The relevant construction entities shall issue certificate(s) of acceptance inspections on construction completion (“Completion Certificates”) to confirm that the project has passed acceptance inspections of completion in relation to the construction quality of the project, and file the Completion Certificates to a competent construction administrative department at or above the county level at the place where the project is located within 15 days from the day when the construction project passes the acceptance inspections.

Where a construction entity illegally delivers the construction project for use without obtaining the acceptance inspections or in circumstances where it failed to pass the acceptance inspections, it shall be ordered to carry out remedial actions and also pay a fine of not less than 2% but not exceeding 4% of the contractual project price, and shall be obliged to compensate for the losses and damages, if any. If the construction entity fails to file a record of passing the acceptance inspections in respect of the project within 15 days from the day when the construction project passes the acceptance inspections, it shall be ordered to carry out remedial actions within a prescribed time limit and shall be fined not less than RMB200,000 but not exceeding RMB500,000.



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### LAWS, REGULATIONS AND POLICIES ON ENVIRONMENTAL PROTECTION

According to the PRC Environmental Protection Law (中華人民共和國環境保護法), which was amended and became effective on January 1, 2015, entities that cause pollution or other toxics to the environment shall implement environmental protection measures and establish an environmental protection liability system against relevant personnel. Such entities shall take effective measures to prevent and control pollution and damages to the environment. The design, construction and commission of facilities for the prevention and control of pollution shall be conducted at the same time with that of the project's main body. No permission shall be given for a construction project to be commissioned or utilized until such facilities have been examined and accepted by the competent environmental protection administrative authorities.

According to the Laws of the PRC on the Prevention and Treatment of Water Pollution (中華人民共和國水污染防治法), which became effective on November 1, 1984 and amended on May 15, 1996 and February 28, 2008, environmental impact assessment shall be conducted on any new construction, reconstruction and expansion of projects or other installations on water which directly or indirectly discharge pollutants into the water according to law. Enterprises and institutions that discharge pollutants directly or indirectly into the water shall obtain the Pollutants Discharge Permit. Enterprises and institutions that discharge pollutants directly into the water shall pay pollutant discharge fees based on the types and quantity of the sewage, and the pollutant discharge charging standards.

According to the Law of the PRC on Prevention and Treatment of Atmospheric Pollution (中華人民共和國大氣污染防治法), which became effective on June 1, 1988 and amended on August 29, 1995, April 29, 2000 and August 29, 2015, entities that construct projects capable to discharge pollutants into the air shall conduct environmental impact assessments and disclose documents related to such environmental impact assessments. The pollutants discharged into the air shall comply with relevant discharge standards and be within the limits under the volume control target requirements of key atmospheric pollutants. The total volume control targets and related implementation measures shall be jointly established by the environmental protection authorities and other relevant departments of the State Council.

### 13<sup>th</sup> Five-Year Plan and Other Environmental Policies

On March 16, 2016, the State Council promulgated the 13<sup>th</sup> Five-Year Plan of the PRC on National Economic and Social Development (中華人民共和國國民經濟和社會發展第十三個五年計劃綱要), which states that the Chinese government will actively promote the innovation on energy technologies and establish a safe, efficient, economic and clean modern energy industry system, will focus on raising energy output, improving energy supply structure and accelerating renewable development, especially to accelerate the development of biomass energy, solar energy, wind power, hydropower and geothermal energy, and to safely and efficiently develop nuclear power.

### Environmental Impact Assessment

According to the Regulations on the Administration of Construction Project Environmental Protection (建設項目環境保護管理條例), which became effective on November 29, 1998, and the PRC Environmental Impact Appraisal Law (中華人民共和國環境影響評價法), which became effective on

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September 1, 2003 and was further amended and implemented on September 1, 2016, the PRC has established a system to appraise the environmental impact of construction projects and categorize the appraisal based on the degree of impact on the environment from the construction projects. In the case of potentially significant environmental impact, an environmental impact appraisal report shall provide a comprehensive appraisal on the impact. In the case of potentially slight environmental impact, an environmental impact report form shall provide an analysis or special appraisal on such impact. In the case of minimal environmental impact, no appraisal is required but an environmental impact form shall be filed. Such environmental impact appraisal documents in relation to the construction project shall be submitted to competent environmental protection administrative authorities for approval in accordance with requirements of the State Council. The construction entity may not commence the construction of the projects without obtaining the approval from the environmental protection administrative authorities.

According to the Administration Measures for Examination and Approval of Environmental Protection Facilities of Construction Projects (建設項目竣工環境保護驗收管理辦法), which became effective on February 1, 2002, the environmental inspection and acceptance reports shall be prepared and issued by certified institutes with relevant qualifications. A construction entity shall, before the construction project commences operation, file an application with the competent environmental protection administrative authority for inspection on the completed construction.

### Emission Standards

A CDM is an arrangement under the Kyoto Protocol and UNFCCC. It allows industrialized countries with a greenhouse gas emission reduction commitment to invest in emission reducing projects in developing countries in order to earn CERs. These credits can be used by investors from industrialized countries against domestic emission reduction targets or sold to other interested parties, and therefore provides an alternative to more expensive emission reductions in their own countries.

The PRC approved and ratified the UNFCCC in 1993 and the Kyoto Protocol in 2002, but with no binding obligation to meet emission reduction targets. Among the central organizations that are responsible for policy-making, approval and supervision of CDM projects in the PRC, the National Climate Change Coordination Committee is responsible for policy-making and general coordination, while the National CDM Board is responsible for the examination and approval of CDM projects to be implemented in the PRC.

On August 3, 2011, the Measures for Operation and Management of Clean Development Mechanism Projects (清潔發展機制項目運行管理辦法) (the “**CDM Measures**”) were promulgated by the NDRC jointly with the Ministry of Science and Technology (the “**MOST**”), the Ministry of Foreign Affairs (the “**MFA**”) and the MOF. The CDM Measures set forth general rules and specific requirements for the application for, and approval of, CDM projects, including, among others, the following:

- only companies wholly-owned or controlled by Chinese parties may carry out CDM projects in the PRC. Consequently, a company controlled by foreign parties does not qualify to apply for PRC government’s approval for a CDM project.

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- the approval procedures of CDM projects includes (i) a review by experts from relevant organizations appointed by the NDRC, (ii) an examination of applications for approval of a CDM project by the National CDM Board and (iii) approval jointly by the NDRC, MOST and MFA, promulgated by the NDRC.
- the CDM Board will review the price of the sale of the CERs generated in the PRC.
- for CDM projects, (i) CERs produced from a particular CDM project are owned by the PRC project owner and (ii) the PRC government imposes a levy on the proceeds from selling CERs under a CDM project at various levels depending on the types of projects. With respect to wind power projects that develop and utilize renewable energy and are encouraged as a matter of the government policy, only 2.0% of the proceeds are payable to the PRC government.

On November 25, 2009, a standing meeting was held in State Council, at which it was decided that by 2020, CO<sub>2</sub> emission per unit of GDP of China will be reduced by 40.0% to 45.0% from that of 2005, and such index shall be a restraining guideline, and incorporated into the mid-and long-term plans of social economic development, and related domestic statistics monitoring and examination methods will be made.

### LABOR PROTECTION

Pursuant to the PRC Labor Law (中華人民共和國勞動法), which became effective on August 27, 2009, the PRC Labor Contract Law (中華人民共和國勞動合同法), which became effective on January 1, 2008 and amended on July 1, 2013, and the Regulation on the Implementation of the Labor Contract Law of the PRC (中華人民共和國勞動合同法實施條例), which became effective on September 18, 2008, employers and employees shall enter into written employment contracts to establish their employment relationship. The employment contracts shall set forth the terms, duties, remuneration, disciplinary rules of the employment and conditions to terminate the employment contracts.

Employers and employees shall fulfill their respective obligations pursuant to the terms of the employment contracts. Remunerations of the employees shall not be lower than the minimum wage standards as stipulated by local governments, and employers shall pay remuneration to employees on time and in full as required under the contracts and strictly adhere to the working quota standards. The employment contracts can only be terminated in accordance with relevant labor laws.

Pursuant to the Social Insurance Law of the PRC (中華人民共和國社會保險法), which became effective on July 1, 2011, employees shall participate in basic pension insurance, basic medical insurance, unemployment insurance, work-related injury insurance and maternity insurance schemes. Basic pension insurance, basic medical insurance and unemployment insurance contributions shall be paid by both employers and employees while contributions for work-related injury insurance and maternity insurance shall solely be borne by employers.

Pursuant to the Regulations on the Administration of Housing Provident Fund (住房公積金管理條例), which became effective on April 3, 1999 and was amended on March 24, 2002, each PRC company shall register with applicable housing provident fund management center and establish a special housing provident fund account in an entrusted bank. Each PRC company and their

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employees are both required to contribute to the provident fund and each of their respective deposits shall not be less than 5% of the employee's monthly average wage of the preceding year.

### LAWS AND REGULATIONS ON INTELLECTUAL PROPERTY

#### Patent

Pursuant to the Patent Law of the PRC (中華人民共和國專利法), which became effective on April 1, 1985 and amended and effective from October 1, 2009, an individual or entity may apply for patent rights in connection with any inventions, utility models or designs. The validity term of the patent rights for each invention shall be 20 years while the validity terms of utility models and designs shall be ten years, all commencing from the date of application. Unless otherwise stipulated by law, no individual or entity may, without the authorization of the patent owner, exploit the patents, that is, to make, use, offer to sell, sell or import patented products, use the patented process, or use, offer to sell, sell or import any product manufactured directly through the patented process, for commercial purposes.

#### Trademark

Pursuant to the Trademark Law of the PRC (中華人民共和國商標法), which was amended on August 30, 2013 and became effective on May 1, 2014 (the "**Trademark Law**"), the right to exclusive use of a registered trademark shall be limited to trademarks which have been approved for registration and to goods for which the use of trademark has been approved. The period of validity of a registered trademark shall be ten years, commencing from the date of registration, and may be extended thereafter, with each extension for ten years. According to the Trademark Law, using a trademark that is identical with or similar to a registered trademark in connection with the same or similar goods without the authorization of the owner of the registered trademark constitutes an infringement of the exclusive right to use a registered trademark. The infringer may be required in accordance with the regulations to undertake to cease the infringement, take remedial action, and pay damages, etc.

### TAXATION LAWS AND REGULATIONS

#### Enterprise Income Tax

According to the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法), which became effective on January 1, 2008 (the "**EIT Law**"), and the Implementation Rules to the Enterprise Income Tax Law (中華人民共和國企業所得稅法實施條例), which became effective on January 1, 2008 (the "**Implementation Rules**"), both domestic and foreign-invested enterprises are generally subject to the same income tax rate of 25%. Resident enterprises, namely, the enterprises set up in the PRC under the PRC law, or incorporated under the laws of a foreign jurisdiction but with its actual administrative organization in the PRC, must pay enterprise income tax for incomes originating from both within and outside the PRC. In addition, non-resident enterprises that have set up branch offices or establishments in the PRC must pay enterprise income tax in relation to income sourced within the PRC and obtained by such branch offices or establishments, as well as income generated from outside the PRC but with actual connections to such branch offices or establishments. Moreover, non-resident enterprises with

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no branch offices or establishments in the PRC, or no actual connection between their income and their branch offices or establishments, must also pay enterprise income tax in relation to income sourced within the PRC.

According to the EIT Law and the Implementation Rules, an environmental protection project or energy and water saving project that meets certain requirements is entitled to an enterprise income tax exemption for the first three years after such project generates revenue and a 50% reduction from enterprise income tax for the following three years. The scope and categories of such projects are specified in the Catalog of Enterprise Income Tax Preferences for Environmental Protection and Energy and Water Saving Projects (Trial) (環境保護、節能節水項目企業所得稅優惠目錄(試行)) issued by the MOF, the SAT and the NDRC, which became effective on December 31, 2009. The waste-to-energy portion in our integrated biomass and waste-to-energy projects, hazardous waste treatment projects, solar energy projects and wind power projects are listed in this catalog, and the relevant project companies are entitled to the tax exemption and reduction based on the above schedule.

According to the Implementation Rules on the PRC Enterprise Income Tax Law (中華人民共和國企業所得稅法實施條例), as biomass raw materials are listed in the Catalog of Resources Entitled to Beneficial Enterprise Income Tax Treatment for Comprehensive Utilization (2008) (資源綜合利用企業所得稅優惠目錄(2008)), the revenue of an eligible operating company under PRC GAAP is deemed to be 90% of the actual revenue for purposes of calculating the amount of its enterprise income tax.

### **Business Tax**

According to the Letter of Reply Regarding Business Tax on Waste Treatment of the SAT (國家稅務總局關於垃圾處置費徵收營業稅問題的批覆), which became effective on November 30, 2005, income generated from waste treatment activities conducted by entities and individuals is not subject to business tax.

### **Value-added Tax**

According to the Notice on the Value-Added Tax Policy Concerning Utilization of Resources and Other Products (關於資源綜合利用及其他產品增值稅政策的通知) promulgated by the SAT in December 2008, a biomass operating company is entitled to a 100% refund of VAT for electricity generated before July 2015. This notice was replaced by the Notice on Issuing the Catalog of Value-Added Tax Preferential Policies for Products and Labor Services Involving Comprehensive Utilization of Resources (關於印發《資源綜合利用產品和勞務增值稅優惠目錄》的通知), which became effective in July 2015, according to which a biomass operating company is entitled to a 100% refund of VAT for electricity and heat generated from biomass raw materials and a waste-to-energy operating company is be entitled to 70% refund of VAT for household waste treatment service fees.

According to the Notice on VAT Policy for Photovoltaic Electricity Generation (關於光伏發電增值稅政策的通知) jointly issued by the MOF and the SAT in September 2013, solar energy

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project companies were entitled to 50% refund of VAT for electricity generated until December 31, 2015. Such 50% refund was further extended from January 1, 2016 to December 31, 2018 pursuant to the Notice on Continuing on VAT Policy for Photovoltaic Electricity Generation (關於繼續執行光伏發電增值稅政策的通知) jointly issued by the MOF and the SAT in July 2016. According to the Notice on VAT Policies for Wind Power Generation Projects issued by the MOF and the SAT in June 2015, wind power project companies are entitled to 50% refund of VAT for electricity generated.

### LAWS AND REGULATIONS ON FOREIGN EXCHANGE AND DIVIDENDS

#### Foreign Currency Exchange

According to the Foreign Exchange Administration Rules of the PRC (中華人民共和國外匯管理條例), which became effective on April 1, 1996 and was amended on August 5, 2008, foreign exchange settlement does not apply to capital items, such as capital transfer, direct investment, equity investment, derivative products or loans unless prior approval by competent foreign exchange administrative authorities is obtained. Foreign institutions or individuals conducting direct investment in the PRC shall register with the foreign exchange administrative department after obtaining the approval from the competent authority. Capital item foreign exchange and settlement funds shall be used for the purposes approved by national foreign exchange administrative authorities. The PRC institutions or individuals conducting direct investment overseas or issuing or trading negotiable securities or derivative products overseas shall complete the registration according to the requirements of the national foreign exchange administrative authorities. The foreign exchange income of a domestic institution or individual may be transferred back into the PRC or deposited overseas. The terms or conditions for such transfer or deposit are subject to regulations of relevant foreign exchange authorities. Payment and receipt of foreign exchange under current items shall be based on true and legal transactions.

The transfer of capital item foreign exchange overseas shall be conducted pursuant to the requirements of the national foreign exchange administrative authorities. The foreign exchange funds to be transferred overseas shall be self-owned funds or purchased from financial institutions engaged in foreign exchange settlement business.

#### Dividend Distribution

According to the Law of the PRC on Foreign-funded Enterprises (中華人民共和國外資企業法), which was amended on October 31, 2000, and further amended on September 3, 2016 and its implementation rules, foreign-funded enterprises shall open bank accounts with the Bank of China or a bank designated by national foreign exchange administrative authorities. Foreign exchange income of foreign-funded enterprises shall be deposited into the foreign exchange account at the deposit bank, and the foreign exchange expenses shall be deducted from the foreign exchange account as well. Foreign investors may remit abroad their legitimate profit, other lawful incomes and liquidated funds received from the foreign-funded enterprises.

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The PRC and the Hong Kong SAR signed the Arrangement between the Mainland of China and the Hong Kong SAR for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income (內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排) (the “**Comprehensive Arrangement**”) on August 21, 2006, which became effective on December 8, 2006. According to the Comprehensive Arrangement, dividends paid by a PRC resident company to a Hong Kong resident company are subject to a withholding tax rate of 5%, provided that such Hong Kong resident company directly holds at least 25% of the equity interests of the PRC resident company. The withholding tax rate of 10% applies to dividends paid by a PRC resident company to a Hong Kong resident company if such Hong Kong resident company holds less than 25% of the equity interests of the PRC resident company.

Moreover, according to the Notice of the State Administration of Taxation on Relevant Issues concerning the Implementation of Dividend Clauses in Tax Agreements (國家稅務總局關於執行稅收協定股息條款有關問題的通知), which became effective on February 20, 2009, each of the following conditions must be satisfied in order for a taxpayer to enjoy the preferential tax treatments under the tax agreement for dividends received from a PRC resident enterprise where required by a treaty: (1) such taxpayer that receives dividends shall, pursuant to the provisions of the tax agreement, be a company; (2) the taxpayer shall directly hold at least the requisite prescribed proportion of the owner’s equity interests and voting shares of the PRC resident company; and (3) the proportion of equities owned by such taxpayer in the PRC resident company shall, at any time within the consecutive 12 months prior to obtaining the dividends, comply with the proportion requirements under the tax agreement.

According to the Administrative Measures for Non-resident Taxpayers to Enjoy Treatments under Tax Treaties (非居民納稅人享受稅收協定待遇管理辦法), which became effective on November 1, 2015, non-resident taxpayers (as defined under the EIT Law) entitled to preferential tax benefits under the tax treaties will spontaneously enjoy such benefits when they file their own tax returns, or when their withholding agents file the withholding tax returns for such taxpayers, to the competent tax authorities.