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## REGULATORY FRAMEWORK

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This section sets out summaries of certain aspects of the PRC laws and regulations, which are relevant to our Group’s operation and business.

### **POLICY ON PRODUCTION OF MONOCRYSTALLINE SOLAR ENERGY WAFERS AND SEMICONDUCTORS**

#### **Overview**

The production of monocrystalline silicon ingots and polished slices with diameter of 200 mm or above is encouraged and the production of semiconductors is permitted, according to 《外商投資產業指導目錄(2007)》(The Catalogue for the Guidance of Foreign Investment Industries (2007)) effective as of 1 December 2007. Additionally, pursuant to 《外商投資產業指導目錄(2004)》(The Catalogue for the Guidance of Foreign Investment Industries (2004)) effective as of 1 January 2005 and ineffective as of 1 December 2007, the production of semiconductors was included in the catalogue of encouraged foreign investment industries.

According to 《產業結構調整指導目錄(2005)》(The Catalogue for the Adjustment of Industrial Structures (2005)) effective as of 2 December 2005, production of 6 inch by 6 inch or above monocrystalline silicon ingots and wafers is encouraged.

The NDRC issued 《高技術產業發展“十一五”規劃》(The 11th Five-Year Plan for the Development of High Technology Industries) on 28 April 2007, to encourage development of high-purity silicon materials used on solar energy cells. The PRC Government is aiming to establish its independent research, development and production system in new energy materials field.

The PRC Government encourages the development and utilisation of solar power through a series of policies which will be beneficial to the advancement of the production of monocrystalline silicon wafers and semiconductors, namely, 《中華人民共和國可再生能源法》(The Renewable Energy Law of PRC) effective as of 1 January 2006, 《可再生能源法發展“十一五”規劃》(The 11th Five-Year Plan for the Development of Renewable Energy) promulgated by NDRC on 3 March 2008 and 《中華人民共和國節約能源法》(The Energy Conservation Law of the PRC) effective as of 1 April 2008.

#### **Governmental Incentives**

《中華人民共和國可再生能源法》(The Renewable Energy Law of the PRC) sets forth policies to encourage the development and use of solar energy and other non-fossil energy, and sets out the national policy to encourage and support the use of solar and other renewable energy and the use of on-grid power generation. This law authorises the relevant pricing authorities to set favourable prices for the purchase of electricity generated by solar and other renewable power generation systems. This law also sets out the national policy to encourage the installation and use of solar energy water-heating systems, solar energy heating and cooling systems, solar photovoltaic systems and other solar energy utilisation systems. It also provides the general principles regarding financial incentives for the development of renewable energy projects. The projects, as listed in the renewable energy industry development guidance catalogue, may obtain preferential loans from financial institutions and can enjoy tax preferences. The State Council is authorised to stipulate the specific tax preferential treatments. However, no rule has been issued by the State Council pertaining to this matter.

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The NDRC promulgated several implementation directives of 《中華人民共和國可再生能源法》 (The Renewable Energy Law of the PRC). These directives set out specific measures in setting prices for electricity generated by solar and other renewal power generation systems and in sharing additional expenses occurred. The directives further allocate the administrative and supervisory authorities among different government agencies at the national and provincial levels and stipulate the responsibilities of electricity grid companies and power generation companies with respect to the implementation of 《中華人民共和國可再生能源法》 (The Renewable Energy Law of the PRC).

The Ministry of Housing and Urban-Rural Development of the PRC (formerly known as the Ministry of Construction) also issued a directive in June 2005, which seeks to expand the use of solar energy in residential and commercial buildings and encourages the increased application of solar energy in different townships. In addition, the State Council promulgated a directive in July 2005 which sets out specific measures to conserve energy resources.

The above PRC policies encourage the development and the application of solar power, which will in turn promote the growth of the wafer manufacturing industry and stimulate the demand for the solar wafers. The Directors believe that these PRC policies generally keep encouraging our Group’s business and its future growth prospect.

## ENVIRONMENTAL PROTECTION

Pursuant to 《中華人民共和國環境保護法》 (The Environmental Protection Law of the PRC) (the “Environmental Protection Law”) effective as of 26 December 1989, the State Administration for Environmental Protection (the “SAEP”) shall establish national standards for environmental quality control. The governments of provinces, autonomous regions and municipalities directly under the central government of the PRC may establish their own local standards for environmental quality control for items not specified in the national standards and shall report them to the SAEP for its record.

The Environmental Protection Law requires all enterprises and institutions that may cause environmental pollution and other public hazards shall incorporate and implement environmental protection policies into their plans and establish a responsibility system for environmental protection. These enterprises and institutions shall adopt effective measures to prevent and control the pollution and damage to the environment from waste gas, waste water, waste residues, dust, malodorous gases, radioactive substances, noise, vibration and electromagnetic radiation generated in the course of production, construction or other activities.

Installations for the prevention and control of pollution in a construction project shall be designed, built and operated together with the principal part of the project. No permission shall be given for operating a construction project, until its installations for the prevention and control of pollution are examined and assessed as eligible by the competent department of environmental protection administration which examines and approves the environmental impact statement.

New construction projects, expansion, reconstruction projects and other installations which directly or indirectly discharge pollutants into the water body shall be subject to the State regulations on environmental protection of construction projects according to 《中華人民共和國水污染防治法》 (The Law of the PRC on Prevention and Control of Water Pollution) amended on 28 February 2008 and came into effect on 1 June 2008 and the 《中華人民共和國水污染防治法實施細則》 (The Implementation Rules of the Law of the PRC on Prevention and Control of Water Pollution) effective as of 20 March 2000. Enterprises and institutions that

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discharge pollutants directly or indirectly into a water body shall report to and register with the local environmental protection department at or above the county level their existing facilities for discharging and treating water pollutants, and the categories, quantities and concentrations of water pollutants discharged under their normal operation conditions, and also submit to the same department technical information concerning prevention and control of water pollution. It is necessary to obtain the pollutant discharge permit for directly or indirectly discharging pollutants into a water body.

Enterprises and institutions that discharge pollutants directly into a water body shall pay a pollutant discharge fee counted on the basis of categories, quantities and concentrations of the water pollutants discharged.

New construction projects, expansion, or reconstruction projects that discharge pollutants into the air shall be subject to state regulations on environmental protection of construction projects according to 《中華人民共和國大氣污染防治法》 (The Law of the PRC on Prevention and Control of Atmospheric Pollution) amended on 29 April 2000 and effective as of 1 September 2000. Enterprises and institutions that discharge atmospheric pollutants shall report to the local administrative department of environmental protection of their existing discharge and treatment facilities for pollutants and the categories, quantities and concentrations of pollutants discharged under normal operation conditions and submit to the same department their technical information concerning prevention and control of atmospheric pollution.

The PRC Government implements a system of collecting fees for discharging pollutants to the air on the basis of the categories and quantities of the atmospheric pollutants discharged, and establishes reasonable standards for collecting the fees hereinbefore according to the needs of strengthening prevention and control of atmospheric pollution and the State's economic and technological conditions.

According to 《中華人民共和國環境噪聲污染防治法》 (The Law of the PRC on Prevention and Control of Environmental Pollution by Noise) effective as of 1 March 1997, new construction project, expansion, or reconstruction project shall be subject to the state regulations on environmental protection of construction projects. If noise pollutions are generated due to the use of fixed facilities during industrial production, the industrial enterprise shall report to the competent local administrative department of environmental protection at or above the county level about the categories and quantities of noise discharging facilities, the noise level under normal operation conditions and the conditions of the facilities that prevent and control noise pollution meanwhile the enterprise shall submit to the same department their technical information concerning prevention and control of noise pollution.

Industrial enterprises which discharge noises shall take treatment measures and pay a fee for excess discharge according to State regulations.

As of 1 April 2005, producers, distributors, importers and users of a product shall be responsible for the prevention and control of the solid wastes it generates or discharges under 《中華人民共和國固體廢物污染環境防治法》 (The Law of the PRC on Prevention and Control of Environmental Pollution by Solid Waste) amended on 29 December 2004.

In order for our expansion plan to comply with the environmental protection laws and regulations mentioned above, our Group will build additional in-house waste treatment facilities which will be able to accommodate with our increase in production capacity.

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### LABOUR AND PRODUCTION SAFETY

As of 1 January 2008, labour contracts shall be concluded in writing if labour relationships are to be or have been established between enterprises or institutions and the labourers under 《中華人民共和國勞動合同法》 (The Labour Contract Law of the PRC) (the “Labour Contract Law”). Enterprises and institutions are forbidden to force the labourers to work beyond the time limit and the employers shall pay labourers overtime working compensation in accordance with national regulations. In addition, the labour wages shall not be lower than local standards on minimum wages and shall be paid to the labourers timely. According to 《中華人民共和國勞動法》 (The Labour Law of the PRC) effective as of 1 January 1995, enterprises and institutions shall establish and perfect its system of work place safety and sanitation, strictly abide by State rules and standards on work place safety and sanitation, educate labourers of work place safety and sanitation. Work place safety and sanitation facilities shall comply with State-fixed standards. The enterprises and institutions shall provide labourers with work place safety and sanitation conditions which are in compliance with State stipulations and relevant articles of labour protection.

Effective as of 1 November 2002, enterprises and institutions shall be equipped with the measures for safe production as provided in the Production Safety Law and other relevant laws, administrative regulations, national standards and industrial standards under 《中華人民共和國安全生產法》 (The PRC Production Safety Law) (the “Production Safety Law”). Any entity that is not equipped with the measures for safe production is not allowed to engage in production and business operation activities. Enterprises and institutions shall offer education and training programs to the employees thereof regarding production safety. The design, manufacture, installation, use, checking, maintenance, repair and disposal of safety equipment shall be in conformity with the national standards or industrial standards. In addition, enterprises and institutions shall provide personal protective equipments that reach the national standards or industrial standards to the employees thereof, supervise and educate them to use these equipments according to the prescribed rules.

According to 《工傷保險條例》 (The Regulations on Occupational Injury Insurance) effective as of 1 January 2004, 《企業職工生育保險試行辦法》 (The Interim Measures concerning the Maternity Insurance for Enterprise Employees) effective as of 1 January 1995, 《社會保險費徵繳暫行條例》 (The Interim Regulations concerning the Levy of Social Insurance) effective as of 22 January 1999, 《社會保險登記管理暫行辦法》 (The Interim Measures concerning the Administration of the Registration of Social Insurance) effective as of 19 March 1999 and 《住房公積金管理條例》 (The Regulations concerning the Administration of Housing Fund) effective as of 3 April 1999 and amended on 24 March 2002, enterprises and institutions in the PRC shall provide their employees with welfare schemes covering pension insurance, unemployment insurance, maternity insurance, occupational injury insurance and medical insurance, as well as housing fund and other welfare plans.

According to 《中華人民共和國就業促進法》 (The Employment Promotion Law of the PRC) (the “Employment Promotion Law”) which became effective on 1 January 2008, the State seeks to create more jobs by encouraging various types of enterprises to, inter alia, expand its existing businesses. In addition, the PRC Government will establish an unemployment insurance system to secure the livelihoods of unemployed persons and assist them in finding employment. The PRC Government at and above the county level shall also establish a public employment service system and public employment service agencies to provide free services to laborers such as announcing information on supply and demand of jobs, market wage levels, vocational training and job recommendations.

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Please refer to the section headed “Risk Factors — Risks relating to the PRC — New labour laws in the PRC may adversely affect our results of operations” in this document.

### PRODUCT QUALITY

According to 《中華人民共和國產品質量法》 (The Product Quality Law of the PRC) (the “Product Quality Law”) effective as of 1 September 1993 and amended on 8 July 2000, all the activities of production and sale of any product within the territory of the PRC are subject to Product Quality Law, and producers and sellers shall set up the system on internal quality management, and be responsible for product quality requirements in accordance with this law. Any behaviours violating the Product Quality Law may cause adverse consequences initiated by relative regulatory administrations. The regulatory administrations may send a warning notice or rectification order, confiscate the proceeds from such behaviours, impose a fine, order the enterprise to cease production and operation, require product recall and even revoke the enterprise’s business licence. In more extreme cases where violation of the Criminal Law of the PRC occurred, criminal proceedings may be initiated against the enterprise and its management.

### INCOME TAX

According to 《中華人民共和國企業所得稅法》 (The Enterprise Income Tax Law of the PRC) enacted on 16 March 2007 and 《中華人民共和國企業所得稅法實施條例》 (The Implementation Regulations of Enterprise Income Tax Law of the of the PRC) enacted on 6 December 2007 (collectively the “Income Tax Law”), which both took effect on 1 January 2008, the enterprise income tax for both domestic and foreign-invested enterprises are unified at 25%. For those enterprises established before 16 March 2007 and entitled to preferential income tax treatments by the then tax related laws and administrative regulations, the Income Tax Law provides for a five-year transitional period, during which the applicable enterprise income tax rate shall be converted to the unified rate at 25% gradually.

According to 《國務院關於實施企業所得稅過渡優惠政策的通知》 (The Notice of the State Council on the Implementation of the Enterprise Income Tax Transitional Preferential Policy) issued on 26 December 2007 and took effect on 1 January 2008, enterprises that enjoy the “2-year exemption and 3-year half payment”, “5-year exemption and 5-year half payment” of the enterprise income tax and other preferential treatments in the form of periodic tax deductions and exemptions in the past may, after the Income Tax Law took effect on 1 January 2008, continue to enjoy the relevant preferential treatments according to the preferential measures and the period set out in the previous tax law, administrative regulations and relevant documents until the expiration of the said period. However, the preferential time period applicable to an enterprise shall start to run from 1 January 2008 if such enterprise has not enjoyed the preferential treatments yet because of its failure to make profits before 1 January 2008. In addition, enterprises which were entitled to a preferential income tax at the rate of 15% will gradually be levied on the unified 25% tax within five years commencing on 1 January 2008. The transitional tax rates applied to the enterprises entitled to the 15% preferential income tax rate are 18% for 2008, 20% for 2009, 22% for 2010, 24% for 2011 and 25% for 2012. Enterprises which previously enjoyed the 24% preferential tax rate are imposed with the unified 25% tax rate from 1 January 2008. Further, the tax preferential treatments applied to enterprises within the designated great western development region in the PRC will continue to be applied.

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All of our PRC subsidiaries were incorporated prior to 16 March 2007 and entitled to preferential income treatments, thus they can continue to enjoy these preferential tax treatments until the expiry of the five-year transitional period. However, after such transitional period, our PRC subsidiaries may no longer be subject to preferential tax rates enjoyed by foreign-invested enterprises and the tax rates applied to will be increased to 25%, which could have an adverse effect on our profits.

### INTELLECTUAL PROPERTY RIGHTS

According to 《中華人民共和國專利法》(The Patent Law of the PRC) (the “Patent Law”) amended as of 27 December 2008 and came into effect on 1 October 2009, the patent right for inventions will be protected for 20 years and the patent right for utility models and designs shall be protected for 10 years, commencing on their application dates, respectively. Any persons and entities using a patent without authorities from the patent owner or conducting other activities which infringe upon patent rights will be held liable for compensations to the patent owner, be imposed fines charged by relevant administrative authorities and even face criminal punishments.

The period of validity of a registered trademark shall be ten years, to be counted from the date of approval of the registration under 《中華人民共和國商標法》(The Trademark Law of the PRC) (the “Trademark Law”) amended as of 27 October 2001 and came into effect on 1 December 2001. The administrative authority for industry and commerce has the power to investigate and handle any act of infringement of the exclusive right to use a registered trademark according to law. Where the case is so serious as to constitute a crime, it shall be transferred to the judicial authority for handling.

### HIGH AND NEW TECHNOLOGY

According to 《高新技術企業認定管理辦法》(The Measures for the Administration of Designation of High and New Technology Enterprises) (the “Measures”), effective as of 1 January 2008, the eight high and new technology fields supported by the PRC Government include: (1) electronic information technology; (2) biology and new medical technology; (3) aerospace and aeronautical technology; (4) new materials technology; (5) high technology services; (6) new energy and energy conservation technology; (7) resources and environmental technology; and (8) high and new technology used on traditional industries’ restructure.

The Measures was enacted to elaborate the high-tech enterprises recognition procedures stipulated under the Income Tax Law. Under these laws and regulations, PRC-based enterprises that meet the requirements stipulated in the Measures may apply to the applicable governmental authority for a “High and New Technology Enterprises Certificate” which will be valid for three years from the date of issuance. A PRC-based enterprise that has obtained such certificate and recognised as a high-tech enterprise may apply with the applicable tax authority to obtain applicable tax exemptions and reductions. If our Group can obtain such recognition, we will be qualified to apply to the applicable tax authority for a preferential tax treatment to enjoy an enterprise income tax rate of 15%.

Our PRC subsidiaries can take advantage of such Measures to apply for “High and New Technology Enterprise Certificates” and the relevant preferential tax treatments. In December 2008, Comtec Solar obtained a “High and New Technology Enterprise Certificate” and can enjoy preferential PRC enterprise income tax treatment at a rate of 15% from the year of 2011 onwards, upon the application with the relevant tax bureau.

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### PROPERTIES

The PRC Ministry of Land and Resources promulgated 《招標拍賣掛牌出讓國有建設用地使用權規定》 (The Regulations on the Grant of State-owned Construction Land Use Rights Through Competitive Bidding, Auction and Listing-for-Sale) (the “Regulations on the Assignment of State-owned Construction Land Use Rights”) on 28 September 2007, which became effective on 1 November 2007. The Regulations stipulated the methods and procedures for the acquisition of State-owned land use rights.

According to 《中華人民共和國城鄉規劃法》 (The Urban and Rural Area Planning Law of the PRC) (the “Planning Law”) promulgated by the Standing Committee of the National People’s Congress on 28 October 2007 and implemented on 1 January 2008, if the land use rights for a project are obtained through grant, the relevant construction entity is required to obtain the Construction Land Planning Permit from the relevant planning administration authority after signing the land grant contract. A construction entity is also required to apply to the department of urban and rural planning for a Construction Works Planning Permit before commencing construction, otherwise penalties will be imposed. Upon completion of each phase of a project, a construction entity is required to submit all relevant information to the relevant state land and resources bureau within six months after the inspection of the project had been completed, failure to do so within the stipulated time will lead to penalties. Approval from the relevant urban and rural planning authority must be obtained for temporary constructions. All temporary constructions must be demolished before the expiry of the approved time limit, otherwise penalties will be imposed.