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## REGULATORY ENVIRONMENT

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### OVERVIEW

Substantially all of our operations are based in the PRC. Accordingly, both of our renewable energy and coal power businesses are subject to extensive regulations by the PRC government. These regulations govern a wide range of areas including, among others, project approvals, power generation, transmission and dispatch, on-grid tariffs and environmental protection and safety. In addition, our operations are subject to general regulations in the PRC without industry-specific requirements, such as foreign investments, foreign exchange control and taxation.

### Principal Regulatory Authorities Relating to our Businesses

We are principally subject to the governmental supervision and restriction by the following PRC agencies and regulatory authorities:

- The NDRC and provincial DRC are responsible for:
  - setting and implementing major policies concerning China’s economic and social development;
  - reviewing and approving investment projects in the power industry at a certain scale;
  - promulgating regulations and rules in connection with the operation of power plants;
  - setting power tariffs; and
  - accepting and approving CDM projects
- The SERC and its local branches, are mainly responsible for:
  - promulgating rules for the power industry;
  - supervising the operations and legal compliance of the power industry;
  - issuing and administering Electric Power Business Permits (電力業務許可證); and
  - supervising the power market.
- The MEP, which was formed pursuant to a resolution passed by the Eleventh National People’s Congress in March 2008 and has taken over substantially all authority from the former SEPA, is responsible for the supervision and control of environmental protection and monitoring of the PRC’s environmental system at the national level.
- The SAWS is responsible for supervising work safety of power generation operations and project construction, and implementing various safety regulations.
- The MOFCOM, which, together with the NDRC and the MOF, encourages energy saving and rational development and utilization of renewable energy through tax incentives and designating special funds for the development of renewable energy.
- The SAT, which is responsible for promulgating and implementing tax policies and regulations.
- The SASAC, which the State Council authorized on behalf of the state to fulfill the investors’ responsibilities has an indirect influence over us, as our controlling Shareholder, Guodian is a State-owned enterprise under their direct supervision. In particular, the SASAC has the power to nominate director or senior manager candidates, and instruct Guodian Group to propose their appointment; SASAC also has the power to request Guodian Group propose the removal of our Directors and senior management in accordance with relevant procedures provided by law and by our Articles of Association.

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### OVERALL REGULATORY SCHEME IN THE PRC POWER INDUSTRY

The regulatory framework of the PRC power industry is set out in the Electric Power Law of the PRC (“Electric Power Law,” 《中華人民共和國電力法》) and the Electric Power Regulatory Ordinance (《電力監管條例》), which became effective on April 1, 1996 and May 1, 2005, respectively. One of the stated purposes of the Electric Power Law is to protect the legitimate interests of investors, operators and users and to ensure the safety of power operations. The Electric Power Law also states that the PRC government encourages and regulates PRC and foreign investment in the power industry. The Electric Power Regulatory Ordinance sets forth regulatory requirements for many aspects of the power industry, including, among others, the issuance of Electric Power Business Permit, the regulatory inspections of power generators and grid companies and the legal liabilities from violations of the regulatory requirements.

#### 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》, the “Permit Provision”), which became effective on December 1, 2005, the PRC power industry adopted a market-access permit system. Pursuant to the Permit Provision, unless otherwise provided by the SERC, any company or individual in the PRC may not engage in any electric power business (including power generation, transmission, dispatch and sales) without obtaining an electric power business permit issued by the SERC. According to the SERC, power plants which were constructed and became operational after December 1, 2005 and before July 31, 2006 must obtain the electric power business permit applicable to power generation companies by the end of 2006. For power plants having newly constructed power generating projects which became operational after August 1, 2006, such power plant shall obtain a electric power business permit for its newly constructed projects as well as its existing projects within three months from the commencement of operations. According to the Permit Provision, an applicant for the electric power business permit applicable to power generation business must obtain relevant government approvals in respect of the power plant’s construction plan, generation capacity and environmental compliance.

#### 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 centers. Dispatch centers are responsible for the administration and dispatch of 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》, “the Dispatch Regulations”) issued by the State Council, effective on November 1, 1993, regulates the operation of dispatch centers.

Pursuant to the Dispatch Regulations, dispatch centers are established at each of five levels: the national dispatch center, the dispatch centers of the interprovincial power grid, the dispatch centers of the provincial power grid, the dispatch centers of the power grid of municipalities under provinces and the dispatch centers of the county power grid. Each power plant receives on a daily basis from its local dispatch center an expected hour-by-hour output schedule for the following day, based on expected demand, the weather and other factors.

The dispatch centers must dispatch electricity in compliance with electricity consumption schedules, which are generally determined according to:

- power supply agreements entered into between a power grid and large or primary electricity customers, where such agreements take into account the electricity generation and consumption plans formulated annually by the PRC Government;
- agreements entered into between a dispatch center and each power plant subject to the dispatch center’s dispatch (“Dispatch Agreements”);
- interconnection agreements between power grids; and
- the actual conditions of the grid, including equipment capacities and safety reserve margins.

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### On-grid Tariff

Since its effectiveness in 1996, the Electric Power Law has set forth the general principles for the determination of power tariffs. Tariffs are to be formulated to provide reasonable compensation for costs and a reasonable return on investment, 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 review and approval process involving the NDRC and the provincial pricing bureaus.

In July 2003, the State Council approved the Power Tariff Reform Plan (《電價改革方案》) (the “Reform Plan”) and stated that their long-term objective is to establish a standardized and transparent on-grid tariff-setting mechanism.

On March 28, 2005, the NDRC issued the Provisional Measures for the Administration of On-grid Tariff (《上網電價管理暫行辦法》), which 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 set 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 two folds: (i) a capacity tariff determined by the NDRC based on the average investment cost of the power generators competing within the same regional grid and (ii) a competitive tariff determined through the competitive bidding process. This NDRC regulation became effective from May 1, 2005.

## REGULATORY REQUIREMENTS RELATING TO RENEWABLE ENERGY

### Overall Regulatory Scheme

The challenges of increasing demand for energy, sustainable development and the increased concern regarding the negative environmental effects of energy generation using fossil fuels have led the PRC Government to pay greater attention to the development and utilization of renewable energy. The Renewable Energy Law of the PRC (《中華人民共和國可再生能源法》), which came into effect on January 1, 2006, sets out the regulatory framework for the development and use of renewable energy. Renewable energy includes wind energy, solar energy, hydropower, biomass power, geothermal energy, ocean energy and certain other types of non-fossil energy.

In response to “The 11th Five-year Plan” (《中華人民共和國國民經濟和社會發展第十一個五年規劃綱要》) announced by the State Council in 2006 in which the PRC Government plans to accelerate the development of wind, solar and biomass power, the NDRC promulgated the “Medium and Long-term Development Plan for the Development of Renewable Energy” (《可再生能源中長期發展規劃》) (the “Development Plan”) in August 2007. According to the Development Plan, the PRC planned to increase its cumulative installed wind power capacity to 5 GW by 2010, and further to 30 GW by 2020. However, taking into consideration the rapid development in the wind power industry, the NDRC then promulgated “The 11th Five-year Development Plan for the Development of Renewable Energy” (《可再生能源發展“十一五”規劃》) in March 2008, pursuant to which the target cumulative installed wind power capacity in the PRC increased to 10 GW by 2010.

The Guidance Catalogue on Renewable Energy Industrial Development (《可再生能源產業發展指導目錄》, the “Catalogue”), issued 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 other requirements are satisfied. The Catalogue describes the technical specifications for renewable energy projects to allow the relevant government departments to make policies and measures to support the projects’ development.

### Approvals

In accordance with the Decision on Institutional Reform of Investment System (《關於投資體制改革的決定》), the Interim Measures on Examination and Approval of Enterprise Investment Projects (《企業投資項目核准暫行辦法》) and the Interim Measures on Administration of Examining and Approving Foreign

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Invested Projects (《外商投資項目核准暫行管理辦法》), before commencing construction a renewable energy power generation project must obtain requisite permits and government approvals, which include approvals related to pre-approval views of the project construction sites, environmental impact assessment, project approvals and construction permits.

The Provisions on the Administration of Power Generation from Renewable Energy (《可再生能源發電有關管理規定》), which became effective on January 5, 2006, provides that wind power projects with installed capacity of 50 MW or above must be approved by the NDRC. Wind power projects with installed capacity below 50 MW must be approved by the provincial DRC and then report the project to the NDRC. Filing with and approval of the NDRC are required for other renewable projects including biomass, geothermal, oceanic and solar power projects, if the projects are under the support of government policies and funding.

The Notice of the Requirements Regarding the Administration of Wind Farm Construction (《國家發展改革委關於風電建設管理有關要求的通知》) issued by the NDRC on July 4, 2005 specifically mandates that at least 70% of a turbine's components (by purchase value) used by a wind power project must be manufactured in the PRC, otherwise the NDRC will not approve the construction of such wind power project.

### **Mandatory Purchase and Dispatch Priority**

The Renewable Energy Law imposes mandatory obligations on grid companies to purchase all the electricity generated from renewable energy projects that are within the coverage of their grids, and to provide grid-connection services and related technical supports.

In addition, pursuant to the Supervision Measures on 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 and its local branches should supervise grid companies of their mandatory purchase and grid-connection obligations under the Renewable Energy Law. Grid companies that fail to satisfy these obligations may be penalized. The SERC may also prescribe a time limit within which the grid companies must compensate the losses incurred by such renewable energy enterprise and remedy their failure, otherwise they may be fined to a sum no more than the following the losses.

On August 2, 2007, the State Council approved 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 this regulation, power generators are able to enjoy the highest dispatch priority if they use renewable energy including wind, solar and tidal power. Pursuant to such regulation, the dispatch priority of power generation units is determined in the following sequence: (a) non-adjustable power generation units utilizing renewable fuels; (b) adjustable power generation units utilizing renewable fuels; (c) nuclear power generation units; (d) cogeneration units and resources comprehensive utilization power generation units; (e) gas-fired power generation units; (f) other coal power generation units, including cogeneration units without heat load; and (g) oil-fired power generation units.

### **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 relevant pricing authority under the State Council determines the on-grid tariffs for renewable energy power based on various factors, including the 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.

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》, the "Price and Cost Sharing Regulation"), which was promulgated by the NDRC and became effective on January 1, 2006, provides details for the

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determination of renewable energy tariffs. According to the Cost and Sharing Program, there are two types of on-grid tariff for electricity generated from renewable energy: “government fixed price” and “government guided price.”

- For wind power projects that obtained approvals from the NDRC or provincial DRCs after December 31, 2005, the on-grid tariff is the “government guided price.” On-grid tariffs of concession projects are determined through public tender and then approved by the government; on-grid tariffs of non-concession projects are approved by the relevant pricing authorities by reference to the approved prices of concession projects in the neighboring areas.
- On-grid tariffs for biomass projects granted through a bidding process are based on the bid-winning prices, while all other biomass projects are “government fixed price,” which is determined by the relevant pricing authorities on the basis of provincial or local on-grid price of desulfurized coal power in 2005 plus a government subsidy of RMB0.25 per KWh. This government subsidy will be eliminated once a biomass project has been in operation for 15 years. For all biomass projects approved after 2010, the government subsidy provided per KWh generated will decrease at an annual rate of 2%.
- For other renewable energy projects including solar, tidal and geothermal power, their on-grid tariffs are “government fixed price,” which is determined by the relevant pricing authorities on the basis of “reasonable cost plus reasonable return on investment.”

In addition, pursuant to the Price and Cost Sharing Regulation, for the renewable energy projects approved after January 1, 2006, the resulting additional cost that grid companies pay compared to the cost calculated on the basis of the average on-grid tariff of coal power generation may be passed to end-users. In this regard, the Cost Sharing Program states that (i) the price difference between on-grid renewable energy power and on-grid desulfurized coal power, (ii) the price difference between the costs relating to the operation and the maintenance of the public and independent renewable power system invested or subsidized by the State and the average sales tariff of the local provincial grid, as well as (iii) the grid-connection fee for renewable energy power projects will be borne by end-users within the coverage of the grid companies at or above the provincial level by paying a tax-free tariff surcharge.

On July 24, 2009, the NDRC issued the “Circular regarding the Furtherance of On-grid Pricing Policy of Wind Power,” which has come into effect on August 1, 2009 and 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 the geographically unified tariff, a form of government-fixed price. Specifically, terrestrial China is categorized into four wind resource zones, and all onshore wind power projects in the same zone apply the same standard on-grid tariff (RMB0.51/kWh, RMB0.54/kWh, RMB0.58/kWh or RMB0.61/kWh) applicable 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 power projects in general.

The above notice also required the continuous implementation of the wind power tariffs sharing system as described above.

### ***Designated Funds***

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 May 30, 2006, states that the MOF will allocate funds from the PRC central financial budget to support the development of renewable energy. The MOF will also be responsible for granting the final approval for applications for funding support submitted by companies and individuals. The MOF may provide grants (primarily to unprofitable renewable energy projects that provide substantial public benefit) or subsidized loans/primarily to renewable energy projects that satisfy the necessary requirements for financing and are within the descriptions in the Catalogue.

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### *CDMs*

CDM is an arrangement under the Kyoto Protocol to the 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 November 12, 2005, 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 of Technology (“MOST”), the Ministry of Foreign Affairs (“MFA”) and 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.
- 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, issued by the NPRC.
- the CDM Board will review the floor price of the sale of the CERs in the PRC.
- for CDM projects approved on or after October 12, 2005, (i) the resources of emission reductions are owned by the PRC Government, (ii) CERs produced from a particular CDM project are owned by the PRC project owner, (iii) 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% of the proceeds are payable to the PRC government.

## REGULATORY REQUIREMENTS RELATING TO COAL POWER

### **Approvals**

On July 16, 2004, the PRC State Council promulgated the Decision on Institutional Reform of Investment System, (《國務院關於投資體制改革的決定》, “the Investment Reform Decision”), which significantly modifies the government approval process for major investment projects in China. Pursuant to the Investment Reform Decision, applications for all new coal power plants are required to be submitted to the NDRC for approval. Prior to the commencement of construction, applicants are also required to obtain requisite permits, including approvals related to pre-approval views of the project construction sites, construction permits and environmental impact assessment, apart from the project approvals.

### **On-grid Tariff**

To accelerate the development of desulphurizing facilities and reduce the emission of carbon dioxide in the PRC, the Provisional Measures on the Administration of Price of the Desulphurized Coal Power and

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Operation of the Desulphurizing Facilities (《燃煤發電機組脫硫電價及脫硫設施運行管理辦法(試行)》) was jointly issued by the NDRC and former SEPA and became effective on July 1, 2007. Regarding the on-grid tariffs, these measures include, among others, the following:

- construction of new or extended coal power plants should be conducted pursuant to the relevant standards regarding the installation of desulphurizing facilities, and the applicable on-grid tariff corresponding to the benchmark price of desulphurized coal power set by the NDRC;
- a tariff surcharge of RMB0.015 per KWh will be added to the selling price of electricity generated from desulphurized coal power generators; and
- power plants using coal with average sulphurous content above 2% or below 0.5%, the tariff surcharge for the installation of desulphurizing facilities of which may be set by the local government and subject to a review and approval process involving the provincial pricing bureaus and the NDRC.

In December 2004, the NDRC, with the approval of the State Council, issued a new policy (《關於建立煤電價格聯動機制的意見》) to link thermal coal and power prices, which will allow coal power generation companies to pass through 70% of certain increases in coal prices to end users through increases of on-grid tariffs. Under this new policy, when the average coal price increases by more than 5% within a six-month period, power generation companies may pass on to end-users 70% of such increase through an increase of on-grid tariffs, while power generation companies will bear the remaining 30% of the increased coal costs. If the average coal prices increase by less than 5% within such six-month period, the on-grid tariffs would remain unchanged, but the rate increase may be accumulated in the next six-month period. This new policy is retrospectively applied from June 2004, using the sale prices of thermal coal as of the end of May 2004 as the base for calculating the fluctuation of the average coal prices during the following six-month period.

The first round of coal-electricity price linkage was implemented in May 2005 in accordance with the NDRC's mechanism. The national average retail tariffs of electricity has risen by RMB0.0252 per unit of electricity from May 1, 2005. The second round of coal-electricity price linkage was implemented on June 30, 2006, by which time the tariffs had risen by RMB0.025. On June 19, 2008, NDRC announced the third round, which increased the national average retail tariffs of electricity by RMB0.025 per KWh.

### *Incentives*

According to the Administrative Measures on the Recognition of Comprehensive Resource Utilization Encouraged by the State (《國家鼓勵的資源綜合利用認定管理辦法》), if a coal power plant uses no less than 60% coal sludge as fuel and blends this coal fuel with coke, it may be recognized by the PRC government as a Resource Comprehensive Utilization Plant, which would entitle it to a reduction of 50% of the VAT levied on electricity generation according to applicable PRC tax laws.

According to the Interim Provisions on the Administration of the Construction of Power Generation Projects of Steam-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》), if a coal power plant provides steam simultaneously during the power generation process, the power generation units may be recognized as cogeneration units by the PRC government, which entitles it to sell steam to the customers within the heat zone of the coal plant (generally within an eight-kilometer radius) on an exclusive basis and enjoy higher dispatch priority under some conditions.

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### ENVIRONMENTAL PROTECTION

The main PRC environmental laws and regulations applicable to construction and operation of our power plants include the Environmental Protection Law of the PRC (《中華人民共和國環境保護法》), the PRC Law on the Prevention and Treatment of Water Pollution (《中華人民共和國水污染防治法》), the PRC Law on the Prevention and Treatment of Air Pollution (《中華人民共和國大氣污染防治法》), the PRC Law on Prevention and Treatment of Solid Waste Pollution (《中華人民共和國固體廢物污染環境防治法》) and the PRC Law on Appraising Environment Impacts (《中華人民共和國環境影響評價法》).

#### Coal Power Plants

Pursuant to the Emission Standards of Air Pollutants for Coal Power Plants (《火電廠大氣污染物排放標準》) (the "Emission Standards"), which became effective on January 1, 2004, newly built, extended or reconstructed thermal power plant projects that were constructed and commenced commercial operation or received environmental certification before 31 December 1996 must implement the first stage of emissions control standards. Projects that received environmental certification on or after January 1, 1997 but before the implementation of the Emission Standards, must implement the second stage of emission control requirement. From January 1, 2004, such power projects that received the environmental certification (including the environmental certification received during the second stage, for the fifth anniversary from the approval date, thermal power plant projects which construction have not commenced before the implementation of this emission standard) must implement the third stage of emission control requirement.

The Administration Regulation on the Levy and Use of Discharge Fees (《排污費徵收使用管理條例》) promulgated by the State Council together with two implementing rules (collectively, the "Discharge Fees Regulations") came into effect on July 1, 2003. According to the Discharge Fees Regulations and starting from July 1, 2005, the discharge fees for the emission of sulphur dioxide will be comparable to the general discharge fees for the emission of air pollutants. In addition, the discharge fees for the emission of nitrous oxide became comparable to the general discharge fees for emission of air pollutants starting from July 1, 2004. The Discharge Fees Regulations also provide that the amount of sulphur dioxide discharged by power plants with installed capacities of over 300 MW shall be evaluated and limits determined by the environmental protection administrative authorities at the respective levels of the provinces, autonomous regions and municipalities directly under the PRC Government. Power plants with desulphurization equipment are expected to pay substantially lower discharge fees than other coal power plants.

According to the Measures on the Administration of Environmental Protection of Electric Power Industry (《電力工業環境保護管理辦法》), which became effective on December 2, 1996, coal power construction projects are subject to the PRC's environmental impact assessment system. The power generators may choose its environmental assessor, subject to the confirmation of local administrative authorities in charge of environmental protection at the provincial level, and file an environmental impact assessment report with the local administrative authorities. In addition, power plants must assign a specific department and its personnel to discharge its obligations with regard to environmental protection. Power enterprises should also set aside funds for the prevention and treatment of environmental pollution caused by their own construction operation.

#### Renewable Energy

According to the Provisional Measures on the Use of Construction Land and Administration of Environmental Protection of Wind Power Project (《風電場工程建設用地和環境保護管理暫行辦法》), which became effective on August 9, 2005, the construction of wind power projects is subject to the PRC's environmental impact assessment system, in which the local administrative authorities in charge of environmental protection at the provincial level are responsible for the review and approval of the environmental impact assessment of the wind power project. In case a national nature reserve is involved in the construction site of a wind power project, the local administrative authorities in charge of environmental protection must seek MEP's comments before issuing any approval.



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### SAFETY AND LABOR PROTECTION

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, is the principal law governing the supervision and administration of work safety and labor protection for power projects. In accordance with the Measures on Supervision and Administration of the Work Safety of Electricity Industry (《電力安全生產監督管理辦法》), issued by the SERC in March 2004, power plants are responsible for maintaining their safety operations in accordance with requirements set by the regional grid in which they are located. Power plants are required to report to the SERC, the SAWS and relevant local government authorities, within 24 hours, any safety accident that causes worker fatalities or is classified as a serious or extraordinary accident.

The main PRC employment laws and regulations applicable to our power plants include the Labor Law of the PRC (《中華人民共和國勞動法》), the Employment Contract Law of the PRC (《中華人民共和國勞動合同法》) and the Implementing Regulations of the Employment Contract Law of the PRC (《中華人民共和國勞動合同法實施條例》).

The Employment Contract Law of the PRC (《中華人民共和國勞動合同法》) was promulgated on June 29, 2007 and became effective on January 1, 2008. This law governs the establishment of employment relationships between employers and employees, and the execution, performance, termination of, and the amendment to, employment contracts. Compared to the PRC Labor Law, the new PRC Employment Contract Law provides additional protection to employees by requiring written labor employment contracts and long-term contractual employment relationships, limiting the scope of the circumstances under which employees could be required to pay penalties for breach of employment contracts and imposing stricter sanctions on employers who fail to pay remuneration or social security premiums for their employees.

### TAXATION

While coal power generators in the PRC are subject to a variety of taxes and fees levied by the PRC central and local governments, the renewable energy industry in the PRC generally enjoys certain tax incentives and rebates.

#### Enterprise Income Tax Law

Prior to January 1, 2008, under the then applicable PRC law and regulations (the “Old EIT law”) entities established in China were generally subject to a 33% enterprise income tax, or EIT. However, entities that satisfied certain conditions enjoyed preferential tax treatment. In accordance with the tax laws and regulations effective until December 31, 2007, foreign invested manufacturing enterprises scheduled to operate for a period not less than ten years were exempted from paying state income tax for two years starting from its first profit making years and is allowed a 50% reduction in its tax rate in the third, fourth and fifth years. Various preferential income tax treatment was also available for enterprises in western China, in high-and-new technology zones or in special economic zones.

On March 16, 2007, the PRC National People’s Congress enacted the PRC Enterprise Income Tax Law (the “New EIT Law”), which, together with its related implementation rules issued by the PRC State Council on December 6, 2007, became effective on January 1, 2008. The New EIT Law imposes a single uniform income tax rate of 25% on all Chinese enterprises, including foreign invested enterprises, and eliminates or modifies most of the tax exemptions, reductions and preferential treatment available under the previous tax laws and regulations. On December 26, 2007, the PRC State Council issued a Notice on the Implementation of the Transitional Preferential Tax Policies (國務院關於實施企業所得稅過渡優惠政策的通知), or Circular 39. Pursuant to Circular 39, with the effectiveness of the New EIT Law, certain of our subsidiaries are entitled to apply the transitional rates of 18%, 20%, 22%, 24% and 25% for 2008, 2009, 2010, 2011 and 2012 onwards, respectively. Further, Circular 39 grandfathers the tax holidays already granted to those foreign invested production type enterprises scheduled to operate for a period not less than ten years and requires such holidays to commence on January 1, 2008 should they have not started earlier.

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Under the New EIT law, the preferential tax treatment for encouraged enterprises located in western China and certain industry-oriented tax incentives are still available. Our subsidiaries located in western China are taxed at a preferential income tax rate of 15%. Foreign invested enterprises engaged in energy transportation are also taxed at a preferential income tax rate of 15%.

In addition, pursuant to the Notice on the Execution of the Catalogue of Public Infrastructure Projects Entitled for Preferential Tax Treatment (“Circular 46”) (財政部、國家稅務總局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), an enterprise set up after January 1, 2008 and engaged in public infrastructure projects is entitled to a tax holiday of a three-year full exemption followed by a three-year 50% exemption commencing from the first year it generates operating income. Accordingly, each of our wind power projects which have obtained government approval on or after January 1, 2008 is fully exempted from EIT for three years starting from the year when operating income is first derived from the sales of wind electricity, and is 50% exempted from EIT for three years thereafter.

In addition, pursuant to the New EIT Law, starting from January 1, 2008, dividends and interest payable to foreign investors are subject to a 10% withholding tax (unless the foreign investor’s jurisdiction of incorporation has a tax treaty with the PRC that provides for a different withholding arrangement, and the preferential tax rate is approved by the competent authorities).

### VAT Law

Pursuant to the “Notice on Value Added Tax Policy Regarding Comprehensive 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》), we are entitled to a tax rebate equivalent to 50% of the VAT payable by our wind power business during the Track Record Period and we continue to enjoy such tax rebate.

Under the VAT reform, effective from January 1, 2009, general VAT payers are allowed to credit against output VAT in respect of input VAT on fixed assets purchased or self-manufactured based on the relevant VAT credit receipts in accordance with the revised VAT regulations and its implementation rules.

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 Notice 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 MOF and SAT on December 25, 2008. There is, however, a six-month transition period. Foreign invested enterprise that purchase domestically manufactured equipment, receive VAT invoices and submit 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.