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OVERVIEW

Our business, which includes our three business segments, (i) WTG R&D, manufacturing and sales, (ii) wind power services, and (iii) wind farm investment, development and sale, is extensively regulated by PRC policies, relevant laws and regulations and other competent government authorities. These laws and regulations mainly relate to the supervision of the wind power industry, the administration of special funds for wind power equipment, the management of wind power concession projects and policies governing the grid tariff of wind power generation. In addition, all our operations in the PRC are subject to fees and taxes, as well as safety and environmental laws and regulations.

Major Regulatory Authorities

The State Council. As the highest administrative body, the State Council is responsible for examining and approving certain specific industrial and development projects classified as “encouraged” in the *Guidance Directory of Industrial Restructuring*.

The NDRC. The NDRC has several functions, which include: (i) formulating and implementing major policies related to economic and social development in the PRC; (ii) examining and approving investment projects that exceed a certain level of investment or fall under special industrial categories, including foreign invested projects; (iii) supervising reforms conducted by state-owned enterprises; (iv) formulating and coordinating the implementation of industrial and investment policies for the renewable resources industries, such as the solar power, hydropower and wind power generation industries; and (v) among other things, setting power tariffs, accepting and approving CDM projects.

The National Energy Administration (“NEA”). The NEA is a national administration managed by the NDRC. Its duties include (i) formulating energy development strategies, plans and policies along with the submission of recommendations on energy system reforms; (ii) implementing the management of oil, natural gas, coal and electric power; (iii) proposing policy measures for the development of renewable energy and energy conservation by the energy industries; (iv) reviewing international cooperation projects in the energy industries; and (v) managing the nationwide development and construction of offshore wind power projects.

The Ministry of Finance. The Ministry of Finance determines policies for wind power project construction and manages the special funds for wind power equipment.

The SERC (together with the local power bureaus). The SERC and the local power bureaus are responsible for (i) regulating the operations of the power market, power transmission and supply as well as businesses for non-competitive power services; (ii) participating in the formulation of power technologies, safety, quotas, and quality standards, and the supervision and examination thereof; (iii) issuing and managing electric power business licenses; and (iv) coordinating with environmental protection authorities on the supervision and examination of the implementation by the power industry of environmental protection policies, regulations and standards.

The State Administration of Work Safety. The State Administration of Work Safety Supervision and the local work safety supervision and management authorities are responsible for (i) supervising and managing the safe production of large wind power equipment; and (ii) implementing and supervising laws and regulations governing energy equipment operations and project construction safety.

The State Administration of Quality Supervision. The State Administration of Quality Supervision and the local authorities for quality supervision, inspection and quarantine are responsible for (i) supervising and managing product quality and safety matters (including mandatory inspections and risk monitoring); (ii) monitoring and spot-checking by the state; and (iii) managing the production licenses of industrial products.

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The State Environmental Protection Ministry. The State Environmental Protection Ministry supervises and controls environmental protection works and monitors the environmental systems of the entire country.

State Oceanic Administration. The State Oceanic Administration is responsible for the management and supervision of the usage of sea areas and environmental protection in relation to the development and construction of offshore wind power projects.

Major Regulations

Major industrial policies, laws and regulations governing the production and sale of wind power equipment include *The Energy Conservation Law of the PRC*, *The Renewable Energy Law of the PRC*, *The Electric Power Law of the PRC*, *The Medium and Long-Term Development Plan for Renewable Energy*, *Notice from the NDRC Regarding the Issuance of the 11th Five-Year Plan for the Development of Renewable Energy*, *A Development Guide Directory for the Renewable Energy Industry*, *Relevant Management Regulations on Power Generation by Renewable Energy*, *Management Measures for Preliminary Work on Wind Power Concession Projects*, *Interim Measures for Management of Special Funds for the Development of Renewable Energy*, *Interim Measures for Management of Special Funds for the Industrialization of Wind Power Generation Equipment*, *Measures on Supervision and Administration of Grid Enterprises in the Purchase of Renewable Energy Power*, *Notice from the NDRC Regarding Perfection of Policies Regarding the Grid Tariffs of Wind Power Generation*, and *Interim Measures for the Adjustment and Assignment of Additional Revenue from Electricity Tariff from Renewable Energy*.

Overall Industry Regulation Planning and Guidance

The Energy Conservation Law of the PRC promulgated by the Standing Committee of the 8th NPC on November 1, 1997, as amended on October 28, 2007, has been implemented since April 1, 2008. Under this legislation, the conservation of resources is recognized as a basic national policy of China. The PRC Government implements an energy development strategy that concurrently promotes conservation and development, and recognizes energy conservation as a priority.

The Renewable Energy Law of the PRC was promulgated on February 28, 2005, and has been implemented since January 1, 2006. The amendment of *The Renewable Energy Law of the PRC* was passed by the 12th meeting of the Standing Committee of the 11th NPC on December 26, 2009. It outlines a regulatory framework for the development and use of renewable energy. The main purpose of this legislation is to promote the development and use of renewable energy, increase energy supply, improve the energy structure, safeguard the safety of energy, protect the environment and eventually achieve sustainable economic and social development in China.

The law stipulates that power grids shall sign grid connection agreements with renewable power generation enterprises, acquire the full amount of their grid-connected power and provide power grid connection services in relation to power generated by renewable energy sources. Meanwhile, the law has also preliminarily formulated measures for the management of on-grid tariffs for renewable energy. Under this law, the higher costs incurred for purchasing electricity generated by renewable energy as compared to costs calculated on the basis of the average on-grid tariff for electricity generated by conventional energy sources shall be compensated by amounts collected from a renewable energy tariff imposed on the sale of electricity nationwide. Grid connection costs and relevant expenses reasonably incurred by a power grid in purchasing electricity generated by renewable energy may be included in its power transmission costs and recovered through the retail electricity price.

In addition, the law provides for the establishment of a renewable energy development fund, which shall be used for compensation payments of additional costs and the support of five production and construction activities in

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relation to renewable energy. It also provides that financial institutions may offer preferential loans with financial discounts for renewable energy development and utilization projects, which are listed in the renewable energy industry development guidance catalogue and which fulfill credit requirements. In addition, the state shall adopt a tax incentive policy for projects that are listed in the renewable energy industry development guidance catalogue.

On August 31, 2007, the NDRC issued the *Medium and Long-Term Development Plan for Renewable Energy*, which indicates that China should strive to achieve the goal of having at least 10% and 15% of the total energy consumption in the PRC being made up of consumption of renewable energy (including hydropower) by 2010 and 2020, respectively. In regions covered by a major power grid, the percentage of power generated by renewable energy sources shall reach at least 1% and 3% of the total power generated by the power grid by 2010 and 2020, respectively. Meanwhile, for investors with attributable installed capacity of over 5 GW for power generation, the percentage of the attributable installed capacity of renewable power generation must reach over 3% and 8% of the attributable installed power capacity owned by them by 2010 and 2020, respectively. Moreover, with respect to wind power generation, the plan also requires full leverage of the economic strength of the more developed coastal regions and the natural resources of China's "the three northern regions", being the northwestern, northern and northeastern regions, to construct large and mega wind power stations. The plan also calls for other regions in China to construct medium and small wind power stations as appropriate.

The *Notice from the NDRC Regarding the Issuance of the 11th Five-Year Plan for the Development of Renewable Energy* was promulgated by the NDRC and took effect on March 3, 2008. According to this notice, during the 11th Five-Year Plan period, newly installed wind power capacity in China was approximately 9 GW and the total install capacity of wind power in China is expected to reach 10 GW by 2010. In addition, annual production capacity for wind power equipment and whole units manufactured domestically will reach 5 GW, and the production capacity of parts and components is expected to reach 8 GW by 2010, laying a solid foundation for the rapid development of wind power after 2010. Together with the construction of power supply facilities in regions with no electricity supply, a small wind power equipment industry and market should be actively developed. This notice anticipates that by 2010, the number of small WTGs in use will reach 300,000 units, with a total capacity of 75 MW, and the annual equipment production capacity will reach 8,000 sets. It further anticipates that approximately 30 key large wind farms that exceed 100 MW and five wind power bases at the 1,000 MW level will be constructed. This notice is aimed at fully leveraging the advantage of "the three northern regions" in wind power resources and constructing large and mega wind farms in those regions.

A Development Guide Directory for the Renewable Energy Industry was promulgated by the NDRC on November 29, 2005. The document sets out 88 types of renewable energy projects (including hydropower) which, if other requirements are met, will be entitled to favorable tax rates, preferential loans with discounts and special funds. The directory provides an itemized description of the technologies of the renewable energy (including hydropower) projects, so as to facilitate the provision of information by competent government authorities and the development of policies and measures to support such projects.

The *Relevant Management Regulations on Power Generation by Renewable Energy* was promulgated by the NDRC on January 5, 2006, and provides that: (i) management of projects for power generation from renewable energy (including hydropower), including electricity generated from wind power, will be implemented in a hierarchical fashion by the central and local governments, while the NRDC is responsible for the planning and policy development of projects for power generation from renewable energy (including hydropower) at the state level, in addition to the management of projects that require state examination or approval. The competent authorities of provincial governments in charge of energy are responsible for the management of projects for power generation from renewable energy (including hydropower) within their own jurisdictions; (ii) wind power

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generation projects at 50 MW and above will require examination and approval by the NDRC while other projects will require the examination and approval by competent authorities of provincial governments in charge of investments and filing with the NDRC. Projects involving power generation from biomass, geothermal, ocean and solar energy that require state policy and funding support should be filed with the NDRC; (iii) grid tariffs of projects for power generation from renewable energy (including hydropower) shall be set by competent authorities of the State Council in charge of pricing, taking into account the characteristics of different types of renewable energy (including hydropower) for power generation and different regions, on the principle of promoting the development and utilization of renewable energy (including hydropower) on a reasonable and economical basis, and shall be adjusted and disclosed to the public at appropriate times based on the progress of the technologies that develop and utilize renewable energy (including hydropower); and (iv) power generation enterprises shall actively invest in and construct projects for power generation from renewable energy (including hydropower) and comply with obligations imposed by the state in relation to the power generation quotas for renewable energy sources (including hydropower), while the quota targets and management measures for power generation shall be separately provided for, and large power generation enterprises shall invest in renewable power generation projects as a priority.

The *Management Measures for Preliminary Work on Wind Power Concession Projects*, which was promulgated in 2003 by the NDRC, expressly provides that a wind power concession project refers to a wind power generation project, the construction of which requires a public bid for investor selection. Preliminary work of wind power concession projects includes wind energy resource evaluation, wind farm site selection and wind farm pre-feasibility study.

Production of Wind Power Equipment

Management of special funds

On February 13, 2006, the State Council submitted its *Several Opinions on Accelerating Revival of the Equipment Manufacturing Industry*. These opinions are designed to enhance the competitiveness of the PRC's equipment manufacturing industry and are aimed at domestic equipment manufacturing enterprises that have a competitive edge, independent intellectual property rights and key technologies, in order to meet the demands of key sectors such as energy, transportation, raw materials and national defense. These include the production of large-scale renewable energy equipment, such as WTGs, in order to meet the domestic demand for electric power construction.

The *Interim Measures for Management of Special Funds for the Development of Renewable Energy* has been implemented since May 30, 2006. These measures state that the PRC Government will set up "special funds for the development of renewable energy" whereby five categories of renewable energy construction or relevant projects, such as scientific and technical research on the development and utilization of renewable energy and localized production of equipment, will be supported by subsidies and discount loans.

The *Interim Measures for Management of Special Funds for the Industrialization of Wind Power Generation Equipment* was promulgated by the Ministry of Finance on August 11, 2008, and provides funding support for the industrialization of enterprises in the PRC that manufacture wind power generation equipment (including whole machines and impellers, gearboxes, power generators as well as parts and components such as inverters and bearings) with PRC investments and controlled by PRC investors. Funds for such industrialization come mainly in the form of subsidies to enterprises for the production of the first 50 units of MW-level WTGs which are newly-developed and produced after industrialization. The subsidies also cover ancillary parts and components. The amount of subsidies is based on installed capacity and other standards provided.

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Domestically manufactured wind power equipment components

On July 4, 2005, the NDRC promulgated the *Notice of the NDRC in Relation to the Relevant Requirements of the Management of Wind Power Construction*, which stipulates that at least 70% of wind turbine components (by purchase value) shall be manufactured domestically. This requirement had a relatively large effect on promoting the initial development of the PRC wind power equipment manufacturing industry. As a result of significant improvements in the production standards and after-sales service capabilities of domestic manufacturers, the pricing and after-sale services of domestically manufactured WTGs are now more competitive. In 2009, the PRC Government removed the restriction on the proportion of wind turbine components that must be domestically manufactured, which resulted in the PRC WTG market becoming completely market-oriented.

Prevention of overcapacity in wind power equipment industry

On September 26, 2009, the State Council promulgated the *Notice of the NDRC and other Departments of Certain Opinions in Relation to Curbing Overcapacity and Repeated Construction in Some Industries and Guiding the Healthy Development of Industries*, in which the PRC Government stated that in its implementation of regulations on prevention of overcapacity in the wind power equipment industry, it will “exercise strict control over the blind expansion of the production of wind power equipment, encourage leading enterprises to become larger and stronger” and limit price competition. As such, we are of the view that this policy will not have any material adverse effect on leading wind power equipment manufacturers in the PRC, including our Group.

Wind Power Project Development

Power Generation Business License

On September 28, 2005, the chairman’s Office Meeting of the SERC promulgated the *Provisions on the Administration of Electric Power Business Licenses* (the “**Licensing Provisions**”), which stipulates that the PRC electric power industry must adopt a market access license system. According to the Licensing Provisions, the electric power business licenses are divided into three categories, namely power generation, power transmission and power supply, each corresponding to enterprises engaging in the businesses of power generation, power transmission and power supply. No PRC company or individual is allowed to participate in any electric power activities without having obtained an electric power business license issued by the SERC unless otherwise stipulated by the SERC. Electric power activities include but are not limited to power generation, power transmission, power distribution and power supply. According to the *Notice Regarding Expediting the Issuance of Electric Power Business Licenses* promulgated by the SERC, power plants that were constructed and commenced operations between December 1, 2005 and July 31, 2006 must obtain a power generation business license by the end of 2006. For power plants that commenced operations after August 1, 2006 which have newly constructed power generation projects, their operators must obtain power generation business licenses within three months after both the new and existing projects commence operations. Pursuant to the Licensing Provisions, an application for a power generation business license can only be filed after the relevant administrative approvals in respect of inspection of the power generation project upon completion, inspection of the power generation equipment upon commencement of operations, as well as environmental compliance matters have been obtained.

Offshore Wind Power Projects

On January 22, 2010, the NEA and the State Oceanic Administration jointly promulgated the *Interim Measures for Management of the Development and Construction of Offshore Wind Power Projects*, which stipulate that offshore wind power projects are the projects located at sea areas where the coastal line is below the average

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level of spring tide and high tide over a multiple year period and on deserted islands in the corresponding sea area. According to the measures, the enterprises engaged in the development and investment of the offshore wind power projects will be selected through a tender process on a priority basis. Such enterprises shall be Chinese funded enterprises or Sino-foreign joint venture enterprises controlled by Chinese investors (with equity interest of above 50.0%). In addition, offshore wind power projects shall not commence construction until approvals of such projects and the right to use such sea area has been obtained.

Supervision of Power Supply

On November 26, 2009, the chairman's Office Meeting of the SERC promulgated the *Measures for Supervision of Power Supply*, which stipulates that enterprises with electric power business licenses and engaging in power supply business should be subject to the supervision of the SERC and its agencies. The scope of supervision includes the enterprise's power supply capacity, quality of the power supply, safety conditions of the power supply, circumstances of fulfilling obligations relating to universal service of electric power as well as situations relating to the handling of power consumption business.

Dispatch

In the PRC, except for power generated by facilities not connected to the power grids, all power is distributed through power grids. In such cases, a distribution center manages and is responsible for distributing power to various power grids. The operations of such distribution centers are subject to supervision under the *Power Grid Dispatch Management Regulations* promulgated and implemented on November 1, 1993 by the State Council (the "**Dispatch Regulations**") and their implementing measures.

The Dispatch Regulations and their implementing measures provide that distribution centers shall be divided into five levels, namely national power grid, multi-provincial power grid, provincial power grid, municipal power grid and county power grid levels. Based on comprehensive consideration of relevant factors such as daily power load demand, internal water level, fuel supplies, capacity of power grid equipment and equipment servicing requirements, the distribution centers will prepare a daily power generation curve for implementation by the various power plants, including active power, reactive power and voltage.

Distribution centers prepare power generation and power supply distribution plans in accordance with plans issued by the state, relevant power supply and power grid synchronization agreements, and the equipment capacities of power grids.

Power Generation Prices and Quotas

The determination of the price of electric power is represented as a matter of principle in the relevant provisions of *The Electric Power Law of the PRC* (the "**Electric Power Law**"). In short, the price of electric power should represent a rational compensation for the cost of power generation and provide a reasonable return on investment. The price should take into account a fair allocation of expenditure, encourage the construction of power generation projects and go through an annual examination and approval process by the NDRC and provincial pricing authorities.

In addition to the relevant provisions of the Electric Power Law, on July 3, 2003, the State Council approved the *Reform Plan for the Price of Electric Power* (the "**Reform Plan**"), which notes that the long term goal is to establish a standardized and transparent pricing mechanism for electric power on the power grid.

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On March 28, 2005, the NDRC promulgated the *Interim Measures for the Administration of the Power Grid Electric Power Price*. These measures took effect on May 1, 2005, and provide regulatory guidance with respect to the above reform plan. For power plants located within power grids in areas where a pricing mechanism for power based on competitive bidding has not been implemented, competent authorities in charge of price shall determine and disclose the power tariff of the power grids to the public. This price is based on the production cost and a reasonable return on investment. For power plants located in areas where a pricing mechanism for power based on competitive bidding has been implemented, the power tariff comprises two components: (a) the WTG capacity tariff as determined by the NDRC, which is based on the average cost of investment in various power generation units within the power grids in the same area; and (b) the power tariff determined through a competitive bidding process. In addition, the NDRC plans to gradually achieve the transition from WTG capacity tariff to power tariff.

The *Interim Trial Measures for the Administration of the Price of Renewable Energy Power Generation and Expense Allocation* was issued by the NDRC and has been implemented since January 1, 2006. These measures correspond to the *Notice Regarding the Relevant Requirements for the Construction and Management of Wind Power*. These measures also provide that the power price of wind farms shall be measured and determined by competent authorities of the State Council in charge of prices based on actual circumstances of various regions on the principle of cost plus profit, and shall be made public. The notice provides that the power price of wind power concession construction projects shall be determined through a tendering process, but cannot be higher than the power price level set by competent authorities of the State Council in charge of prices. Meanwhile, such measures determine the price allocation mechanism for wind power projects.

The *Measures on Supervision and Administration of Grid Enterprises in the Purchase of Renewable Energy Power* was implemented on September 1, 2007, which further enforces *The Renewable Energy Law of the PRC* (the “**Renewable Energy Law**”) and the relevant regulations. The measures effectively promote power grid synchronization for power generation from renewable energy in China and regulate the actions carried out by power grids in relation to their acquisition of the full amount of electricity generated from renewable energy. The electric power regulatory authorities implement the regulation of eight aspects of the design of renewable energy projects, covering the construction of projects for power generation from renewable energy by power grids, dispatch of power generated from renewable energy on a priority basis by power distribution authorities, and acquisition of the full amount of the electricity generated from renewable energy by power grids. The power regulation authorities may disclose to the public any acts by electric power enterprises or power distribution authorities in violation of state rules on the acquisition of the full amount of the electricity generated from renewable energy, and how such acts are being dealt with.

The *Interim Measures for the Adjustment and Assignment of Additional Revenue from Electricity Tariff from Renewable Energy* provides that power grid access fees for wind farms shall be incorporated into a surcharge on the electric power price of renewable energy in order to compensate wind farms. The *Notice from the NDRC Regarding Perfection of Policies Regarding the Grid Tariffs of Wind Power Generation*, which has been implemented since August 1, 2009, provides that the benchmark power prices for wind power, based on the degree of wind energy resources and the project construction conditions, will be from RMB0.51 per kWh to RMB0.61 per kWh.

The *Notice for Regulating Relevant Issues of Electric Energy Trading Price Management*, which was promulgated by the NDRC, the SERC and the NEA on October 11, 2009, clarified the trading prices between power generation enterprises and power grids, and prices for cross-provincial and cross-regional electric energy trading. According to the notice, once the power generation unit is put into commercial operation, other than cross-provincial and cross-regional trading of electric energy and as otherwise provided by the state, on-grid tariffs formulated by the competent governmental department in charge of pricing should apply to its on-grid power

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output. Prior to commercial operation of the power generation unit, on-grid tariffs approved by the competent department in charge of pricing is applicable from the date on which power generation units for renewable energy sources establish connection to the grid. When power generation enterprises commence the ramp-up process or voluntarily stop operations, and have to purchase electricity from power grids as a result, the applicable price should be in accordance with the large-scale industrial class power tariff standards in the local catalog price list. Prices of cross-provincial and cross-regional trading of electric energy shall consist of power delivery prices, power transmission prices (costs) and transmission losses.

In addition to the above, the relevant departments promulgate notices from time to time regarding matters relating to additional allocation and subsidies of renewable energy tariffs for a certain period pursuant to the above-mentioned laws and regulations. An example is the *Notice from the NDRC and the SERC Regarding the Trading Scheme for Subsidies and Quota of Power Tariffs for Renewable Energy from January to June, 2009* promulgated by the NDRC and the SERC on December 17, 2009, which regulates relevant matters such as projects with subsidies for renewable energy tariffs, the amount of such subsidies, and trading of power tariffs with quotas from January to June, 2009.

Mandatory Purchase and Priority Right of Distribution

According to the *Relevant Management Regulations on Power Generation by Renewable Energy*, the SERC and its authorized agencies should supervise the power grids in respect of their mandatory purchase and grid-connection obligations. Power grids that are unable to, or fail to, perform the above responsibilities will be penalized. The SERC may also require power grids to compensate losses suffered by the relevant renewable energy enterprises and remedy their non-performance within a designated period of time. If the power grids refuse, they may be subject to a fine in an amount not exceeding two times the amount of the renewable power generation enterprises' losses. These measures took effect on September 1, 2007.

On August 2, 2007, the State Council approved its *Measures for Energy Conservation in the Dispatch of Power Generation (Trial)*, with the aims of improving the utilization of natural resources, encouraging conservation of energy and achieving sustainable development. According to these measures, power generation companies that use non-adjustable renewable energy sources (including hydropower) such as wind, solar energy and hydropower enjoy the highest priority with respect to distribution of renewable energy resources.

The right to priority in the dispatch of power generation units is determined by laws and regulations, and power is dispatched according to the following order: (i) non-adjustable power generation units that use renewable energy (including hydropower); (ii) adjustable power generation units that use renewable energy (including hydropower); (iii) nuclear energy power generation units; (iv) thermal power units and power generation units with integrated utilization of resources; (v) gas power generation units; (vi) other coal fuelled power generation units with no thermal load, which include thermal power units with no thermal loads; and (vii) fuel oil power generation units.

CDM

The arrangements of the CDM was established by the Kyoto Protocol under the United Nations Framework Convention on Climate Change, which principally states that industrialized countries contributing to a reduction of greenhouse gas emissions can invest in projects in developing countries that reduce greenhouse gas emissions, and obtain emission credits, known as CERs, therefrom. Investors from industrialized countries can use such CERs to offset their domestic emission reduction goals or sell them to others, which provide an alternative to the high costs of emissions reduction in their own countries.

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In 1993 and 2002, China ratified and signed the United Nations Framework Convention on Climate Change and the Kyoto Protocol, respectively, but these did not give rise to responsibilities of a binding nature to achieve emission reduction goals. Among the relevant government authorities in the PRC, the State Climate Change Countermeasure Coordination Group Office is responsible for the formulation of policies and overall coordination, while the State CDM Commission is responsible for the examination and approval of CDM projects implemented in China.

The NDRC and the MOST, the Ministry of Foreign Affairs and the Ministry of Finance of the PRC jointly promulgated the *Measures for Operation and Management of CDM Projects* on October 12, 2005. The measures set out the rules and requirements for the examination and approval of CDM projects. The contents include but are not limited to:

- (a) entities which are permitted to conduct CDM projects in the PRC are restricted to companies that are wholly owned or controlled by a PRC partner. Therefore, a company controlled by foreign investors is prohibited from conducting CDM projects in the PRC;
- (b) the examination and approval of a CDM project is conducted according to the following procedures: (i) the NDRC appoints experts from a relevant organization to make an evaluation; (ii) the State CDM Project Review Council reviews and approves the CDM project; and (iii) the NDRC, MOST and the Ministry of Foreign Affairs jointly issues a certificate of approval; and
- (c) with respect to any CDM project approved after October 12, 2005, (i) the PRC Government has the right of recourse for reduction of emissions; (ii) ownership of the credits generated by a CDM project is vested in the owners of the CDM project; and, (iii) the fees imposed by the PRC Government is based on the proceeds generated from the sale of CERs under a CDM project, as against the different rates under the category of the CDM project. With respect to renewable energy, the development and utilization of which are encouraged by government policies (such as wind power projects), the PRC Government will only charge 2.0% of the transfer amount of greenhouse gas emission reductions.

Safe Production and Labor Protection

In accordance with laws and regulations such as *The Law of Safe Production of the PRC*, which has been implemented since November 1, 2002 and amended on August 27, 2009, and *Regulations on Safe Production Licenses*, which has been implemented since January 13, 2004, the State Administration of Work Safety performs comprehensive supervision and management of safe production work in the PRC. Organizations engaging in production and operation activities in the PRC must comply with the laws and regulations governing safe production, strengthen safe production management, establish and refine their safe production responsibility system, improve safe production conditions and ensure safe production. According to the *Interim Regulations on Investigations into Accidents in Power Production*, electric power enterprises must make a report to the SERC upon the occurrence of any major personal accident, power grid accident, equipment accident or fire accident, or power plant dam collapse as well as any power outage accident that has a serious effect on the society.

Environmental Protection

The PRC environmental protection laws and regulations that apply to our wind power equipment production and wind power project construction business include *The Environmental Protection Law of the PRC*, *The Law of the PRC on Prevention and Control of Water Pollution*, *The Law of the PRC on the Prevention and Control of*

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Atmospheric Pollution, The Law of the PRC on Prevention of Environmental Pollution Caused by Solid Waste and The Law of the PRC on Appraising Environment Impacts.

The Environmental Protection Law of the PRC (the “**Environmental Protection Law**”) was promulgated on December 26, 1989 by the Standing Committee of the NPC and is the most important environmental protection law in the PRC. This law formulated the basic principles of coordinating the development of economic growth, social advancement and environmental protection, and outlines the powers and duties of the various levels of government in the PRC.

Under the Environmental Protection Law, in order to prevent environmental pollution and to protect the ecological environment, the State Ministry of Environmental Protection is authorized to develop nationwide standards for environmental quality and emissions, and is responsible for monitoring the environmental protection system of the PRC. The environmental protection authorities at various levels of the PRC Government (at and above the county level) are responsible for environmental protection work within their own jurisdictions. Local environmental protection authorities have the power to formulate local standards that are more rigorous than national standards, and enterprises must comply with the more rigorous standard as between the state and local environmental protection standards. The Environmental Protection Law provides that any enterprise that may cause pollution or generate other harmful substances in its operations must adopt environmental protection measures in its operations by creating an environmental protection responsibility mechanism and adopting effective measures to control and properly dispose of exhaust gas, wastewater, waste residue, waste dust and other wastes.

In addition, any newly-constructed project, expansion project or renovation project and other equipment installation project that directly or indirectly discharges pollutants into the environment must comply with applicable state environmental protection regulations governing such project. The entity undertaking such project must submit a pollutant discharge declaration to the competent authorities, setting out in details the relevant matters such as the volume and type of discharge, the locations of the discharge and handling methods for examination purposes. The competent authorities may permit an operator which constructs a project to discharge a certain amount of pollutants, but if the pollutant discharge standards provided by the state or local governments are exceeded, a pollutant discharge fee must be paid and a pollutant discharge permit for discharge in the volume set out above must be obtained. In addition, even if the discharge standards have not been exceeded, an operator which discharges any pollutant into a body of water must pay a pollutant discharge fee. Discharge of pollutants is subject to supervision of the competent environmental protection authorities. If an operator fails to pay a pollutant discharge fee in accordance with the relevant provisions, the local environmental protection administrations are authorised to impose a penalty in an amount equivalent to of several times of the pollutant discharge fee, order the operator to cease operations, or adopt other measures for remedy.

To facilitate the thorough implementation and performance of *the Renewable Energy Law of the PRC*, and to support the development of wind power, standardize and accelerate the development and construction of wind farms and promote sustainable social and economic development in accordance with applicable state laws and regulations, and taking into account the characteristics of the construction of wind farms, the NDRC, the Ministry of Land and Resources and the State Ministry of Environmental Protection have jointly developed the *Interim Measures for Management Of Land Used for Wind Power Farm Project Construction and Environmental Protection*. These interim measures took effect on August 9, 2005 and provide that the construction of wind energy projects must comply with the PRC environmental impact assessment system. Under this system, the local competent authorities at the provincial level where such construction is located are in charge of environmental protection and are responsible for the review, examination and approval of the environmental impact assessment of wind energy projects. If the wind energy project is constructed on land which involves the natural reserves of the

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state, local competent authorities in charge of environmental protection must seek the opinion of the Ministry of Environmental Protection before issuing an approval.

Those who violate the Environmental Protection Law and various other environmental protection regulations may be given warnings and ordered to pay damages and fines. Any entity that carries out construction work or production activities prior to examination and approval by the environmental protection authorities of pollution and waste control and treatment facilities may be ordered to cease production or operations, and may be subject to fines. If any major property loss or personal injury or death arises as a result of any violation of such laws, the persons violating environmental protection laws and regulations may be held criminally responsible.

Taxes

Enterprises Income Tax

According to the New EIT Law which took effect on January 1, 2008, PRC enterprises typically pay an enterprise income tax at the rate of 25% and enterprises identified as high-and-new-technology enterprises requiring key state support enjoy a preferential enterprise income tax rate of 15%. Our Company has been identified as a high-and-new-technology enterprise and has obtained the relevant certificate, as such, we are subject to an enterprise income tax rate of 15%. In addition, according to the New EIT Law and the *Notice Regarding Implementation of Transitional Favorable Policies for Enterprise Income Tax* promulgated by the State Council on December 26, 2007, the preferential tax treatments for enterprises located in western China still apply. Our subsidiaries located in western China shall pay enterprise income tax at the preferential tax rate of 15%.

According to the *Notice for Issues Regarding the Withholding of Enterprise Income Tax for Dividends Distributed by Resident Enterprises in China to Non-resident Enterprises Holding H-shares of the Enterprises* promulgated by the State Administration of Taxation on November 6, 2008, enterprise income tax shall be withheld at a uniform tax rate of 10% on dividends for 2008 and the subsequent years which are distributed by PRC resident enterprises to foreign H shareholders that are non-resident enterprises, except where the jurisdiction in which the foreign investor is established has a different withholding arrangement under a tax treaty with the PRC.

According to the *Notice on Issues on Implementation of the Directory of Favorable Enterprise Income Tax for Public Infrastructure Projects* from the Ministry of Finance and the State Administration of Taxation, enterprises that were set up after January 1, 2008, which carry out public infrastructure works are entitled to a three-year enterprise income tax exemption period beginning from the first year in which they generate revenue. Furthermore, they are entitled to a 50% enterprise income tax relief in the next three subsequent years. Thus, a wind power project that receives an approval document from the governmental authorities on January 1, 2008 or thereafter is entitled to foregoing preferential tax policies starting from the first year it generates revenue from the sale of wind power.

Value-Added Tax

In accordance with the *Notice Regarding Policy Issues on the Comprehensive Use of Resources and Value-Added Taxes of Other Products*, we enjoy a preferential treatment of a 50% instant rebate on value-added tax levied on our sale of electricity generated by wind energy.

The value-added tax reform was implemented on January 1, 2009. The amended value-added tax regulations and their implementing regulations allow an ordinary payer of value-added tax to offset input value-added tax against output value-added tax for the fixed assets purchased or made by it in accordance with the calculations based on the relevant value-added tax credit receipts.

REGULATIONS

On December 25, 2008, the Ministry of Commerce and the State Administration of Taxation jointly promulgated the *Notice on Cessation of Tax Refund Policies for Enterprises with Foreign Investment that Purchase Chinese-Made Equipment*. This notice provides that, starting from January 1, 2009, the tax refund policies on value-added tax for foreign-invested enterprises which purchase equipment made in the PRC would be revoked unless such enterprises had purchased such equipment prior to June 30, 2009, or had received special value-added tax invoices and declared a tax refund with the relevant tax authorities during the previous transaction period, in which case they would still be entitled to a refund of the value-added tax.