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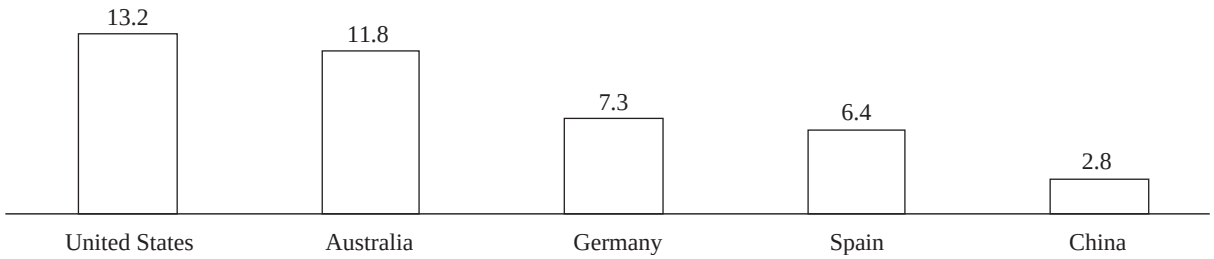
Power Generation

The global demand for electricity has increased substantially with the rapid growth of the global economy, in particular the economic growth of developing countries and corresponding increases in energy consumption levels. According to statistics from the EIA, global power generation volume has increased from 14,848.7 TWh in 2001 to 18,778.7 TWh in 2007 at a CAGR of 4.0%. Correspondingly, to meet the global demand for power generation, the world's accumulated installed capacity has also increased, from 3,551.4 GW in 2001 to 4,428.4 GW in 2007 at a CAGR of 3.7%.

Similarly, there has been a considerable rise in China's power generation volume from 1,480.8 TWh in 2001 to 3,663.9 TWh in 2009 at a CAGR of 12.0% as the development and industrialization of its economy progresses at an accelerated pace. To meet the demand for power generation in China, China's accumulated installed power capacity has increased significantly, from 338.6 GW in 2001 to 874.1 GW in 2009 at a CAGR of 12.6%. Although the growth rate of China's power generation volume and installed capacity has been much higher than the world average in recent years, as indicated in the following chart, China's per capita power generation volume is still significantly lower than those of developed countries, suggesting its demand for power generation will continue to increase.

Per capita power generation volume of various countries in 2009 (MWh)



Source: BP Statistical Review of World Energy 2010, United Nations Population Fund State of World Population 2009

Renewable Power Generation

With rising concern over energy shortages, the environmental threat posed by global warming and the emission of greenhouse gases, there has been growing pressure in the power generation industry for improved energy savings and emission reductions. This has translated into vast growth potential for the renewable power generation industry. According to the EIA, global accumulated installed capacity of renewable energy grew from 63.9 GW in 2001 to 160.4 GW in 2007, at a CAGR of 16.6%, and accounted for 3.6% of global installed capacity of all energy sources in 2007 as compared to 1.8% in 2001.

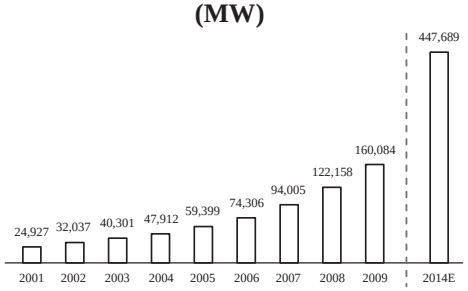
Renewable energy is a viable alternative capable of meeting the energy needs of the growing Chinese economy and its sustained development, especially in view of the rapid depletion of finite conventional energy sources such as oil, coal and natural gas. Moreover, the emission of greenhouse gases in the PRC has increased in tandem with the rapid growth of its economy. According to the IEA's World Energy Outlook 2008, China has surpassed the United States as the world's largest source of carbon dioxide emissions from power generation through the use of coal, petroleum and natural gases, with 2,829 million tonnes of carbon dioxide emissions in 2006. In 2002, China formally ratified the Kyoto Protocol, promulgated a series of laws and regulations since 2005 to encourage the development and use of renewable energy, and also pledged on November 26, 2009 to cut its greenhouse gas emissions per unit of GDP by 40% to 45% by 2020 compared with 2005 levels. Please see the section entitled "Regulations" in this prospectus for further details. According to statistical data from CEIC, China's installed capacity of renewable energy has grown rapidly in recent years at a CAGR of 60.4% between 2001 and 2009.

Global Wind Power Generation

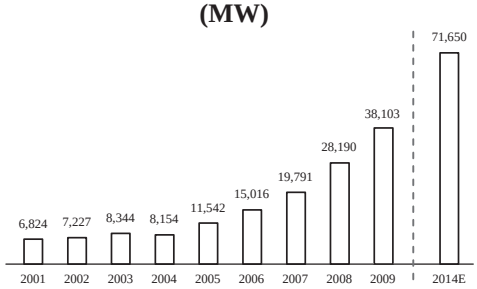
With more mature and reliable technology, and as one of the most price-competitive forms of renewable energy, wind power is generally perceived as having the greatest commercial value among renewable energy sources and is being vigorously promoted by various governments. For instance, in the United States, under its American Recovery and Reinvestment Act of 2009, up to US$93.0 million in incentives for wind energy has been set aside in the form of grants, loan guarantees and tax incentives. Accumulated installed wind power capacity registered rapid growth from 24.9 GW in 2001 to 160.1 GW in 2009 at a CAGR of 26.2% according to statistics from BTM[(1)], whereas newly installed wind power capacity increased to 38.1 GW in 2009, a growth of 35.2% over the previous year. It is further estimated that installed wind power capacity will continue to grow rapidly in the future and the CAGR of the accumulated installed wind power capacity and newly installed wind power capacity will be 22.8% and 13.5% respectively, from 2009 to 2014.

The following charts show the growth of the accumulated global installed wind power capacity and newly installed wind power capacity from 2001 to 2009 as well as the estimated accumulated installed wind power capacity and newly installed wind power capacity in 2014.

Accumulated global installed wind power capacity (MW)



Newly installed global wind power capacity (MW)



Note: The difference between the accumulated global installed wind power capacity for any two consecutive years is not equal to the newly installed global wind power capacity for the more recent of the same two years because some of the already installed WTGs were decommissioned.

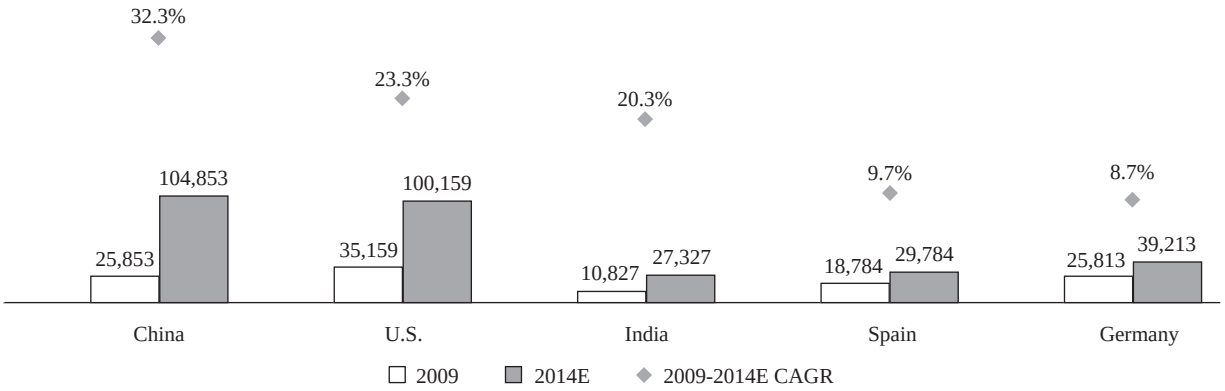
Source: BTM

(1) Founded in 1986, BTM is a private independent consultancy company based in Denmark and specializing in renewable energy, including wind energy. BTM states on its website that its staff has been working with wind energy utilization since 1979. Services provided by BTM include market assessment and business development, appraisal and due diligence investigations. It has published, among other things, International Wind Energy Development - World Market Update, a non-governmental publication, on an annual basis since 1995, which contains statistics and market updates regarding the global wind energy industry. Neither the Directors nor the Joint Sponsors commissioned BTM to prepare any research report and BTM is an Independent Third Party of our Group.

According to the World Meteorological Organization and the Chinese Academy of Meteorological Sciences, there is approximately 20,000 GW of wind energy resources globally available for use. Much of these wind energy resources are distributed across the northern and western coastal areas of Europe and parts of the Mediterranean Sea, East Asia and certain parts of the interior, northern and western coastal areas in Africa, the western and southern coastal areas in Australia, the coastal and certain interior areas in North America, especially the mountain areas, as well as the southern portion of South America. According to BTM, the top five wind power markets in 2009 based on accumulated installed capacity were the United States, China, Germany, Spain and India, and growth in the global accumulated installed wind power capacity is expected to come primarily from China and the United States. It is estimated that the CAGR of the accumulated installed wind power capacity of these two countries will reach 32.3% and 23.3%, respectively, from 2009 to 2014, while installed wind power capacity in Europe will continue to grow, but at a slower rate.

The following chart shows the accumulated installed wind power capacity of these top five wind power markets and their estimated accumulated installed wind power capacity by 2014 and the CAGR for 2009 to 2014.

Accumulated installed wind power capacity in 2009 and 2014 (MW)



Source: BTM

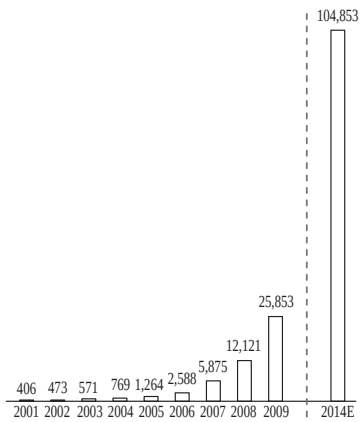
Wind Power Generation in China

The wind power industry in the PRC has grown more rapidly than most other forms of renewable energy in recent years. According to the CEIC, as at December 31, 2009, wind power accounted for more than 99% of the accumulated installed capacity of renewable energy in the PRC. China also became the world's largest wind power market in 2009 in terms of newly installed wind power capacity with 13.8 GW, and electricity generated from wind power accounted for 0.7% of total electricity generated in China.

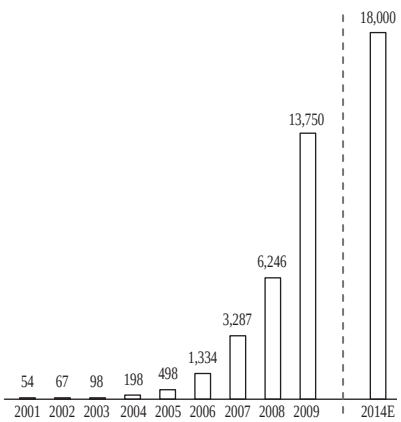
Despite such high growth rates, according to the EIA and BTM, China's installed wind power capacity accounted for only 0.8% of China's accumulated installed capacity in 2007, significantly less than the 16.8%, 16.6% and 1.7% of Germany, Spain and the United States, respectively. Historically, China has exceeded installed wind power capacity targets set by its government on numerous occasions. For example, the PRC Government established a wind power development plan in accordance with the *11th Five-Year Plan for Renewable Energy* issued by the NDRC with a target accumulated installed wind power capacity of 10 GW by the end of 2010, but in fact, China's accumulated installed wind power capacity exceeded 12.1 GW by the end of 2008. According to BTM, China's accumulated installed wind power capacity is expected to grow more than four-fold from 2009 to 2014, representing a CAGR of 32.3%. Moreover, the Chinese Wind Energy Association[(1)] forecasted that China's accumulated installed wind power capacity will grow almost ten-fold from 2009 to 2020, reaching 247.8 GW in 2020, representing a CAGR of 22.8%. Even though industry reports have made positive forecasts on the Chinese wind power market, the Chinese wind power market has repeatedly out-performed forecasts. For example, in March 2008, BTM forecasted China's newly installed wind power capacity in 2008 would be 5.5 GW, but the actual newly installed wind power capacity was 6.2 GW; in March 2009, BTM forecasted China's newly installed wind power capacity in 2009 would be 7.3 GW, but the actual newly installed wind power capacity was 13.8 GW.

The following charts show China's accumulated installed wind power capacity and newly installed wind power capacity from 2001 to 2009 and estimated accumulated installed wind power capacity and newly installed wind power capacity by 2014.

China's accumulated installed wind power capacity (MW)



China's newly installed wind power capacity (MW)



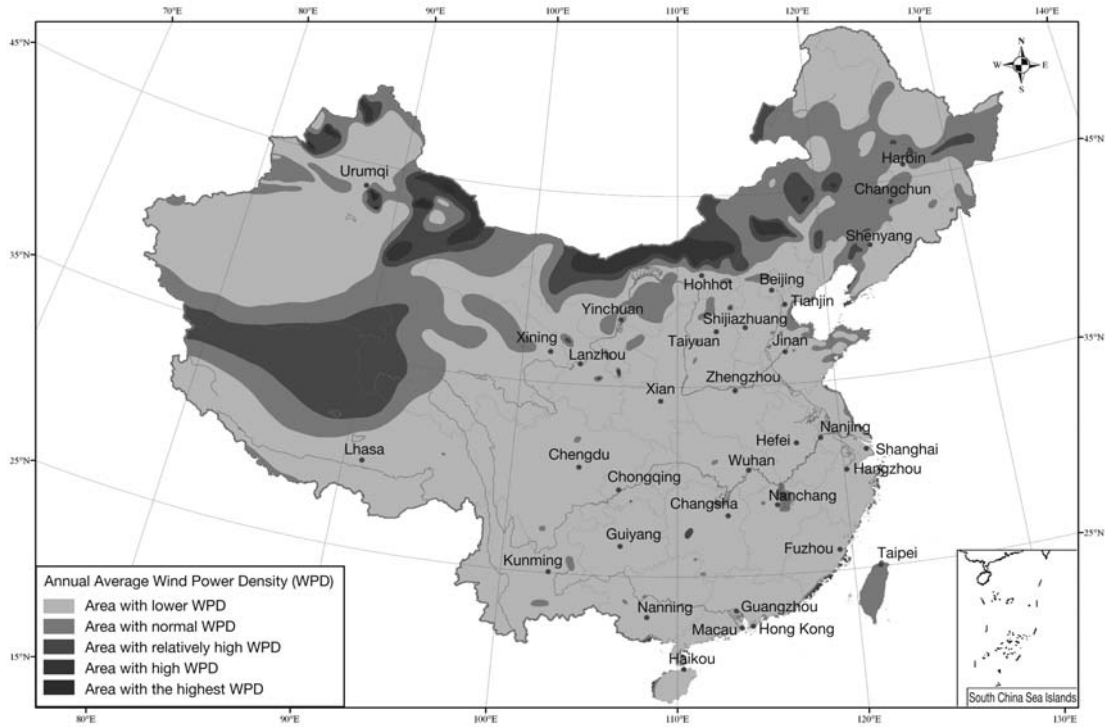
Source: BTM

China possesses abundant wind energy resources. According to the assessment results of the United Nations Environment Program, China has technically feasible wind power resources of 3,000 GW and BTM estimated that wind energy will be the third largest energy source for power generation by 2030, after coal and hydropower. China's wind energy resources are distributed extensively throughout the north of China as well as the coastal and island areas of China. According to statistics published by the Chinese Wind Energy Association, the top five wind power markets in 2009 based on accumulated installed wind power capacity were Inner Mongolia, Hebei, Liaoning, Jilin and Heilongjiang, with 9,196.2 MW, 2,788.1 MW, 2,425.3 MW, 2,063.9 MW and 1,659.8 MW, respectively.

[(1)] Our independent non-executive Director, Mr. Shi Pengfei is the vice chairman of the Chinese Wind Energy Association. Neither our Group nor the Joint Sponsors commissioned the Chinese Wind Energy Association nor Mr. Shi Pengfei to prepare any research report and the Chinese Wind Energy Association is an Independent Third Party of our Group.

The following map shows the distribution of wind energy resources in the PRC.

Distribution of wind energy resources in China



Note: Wind Power Density refers to the amount energy available at the site for conversion by a wind turbine and is measured in watts per square meter.

Source: Chinese Academy of Meteorological Sciences

In 2009, the NDRC classified the country into four categories of wind energy resource areas in the *National Wind Power Generation Benchmark On-Grid Tariffs Schedule*. Different benchmark power tariffs apply to each category to ensure adequate investment return for wind power investors, therefore it is estimated that this policy will effectively promote the rapid growth of newly installed wind power capacity in areas with poorer wind energy resources and construction conditions.

Growth Drivers of the Global Wind Power Industry

We believe that the following growth drivers will facilitate the development of the global wind power industry, thereby increasing the demand for our products and services:

Energy independence and security considerations Increased concern about energy security and energy independence are pushing countries, particularly those with insufficient conventional energy resources, towards renewable energy sources which provide a local and secure supply and reduce risk of volatility in prices of conventional energy sources.

Environmental concerns There is growing awareness of environmental protection issues and greenhouse gas emissions from the use of fossil energy. As one of the lowest greenhouse gas emission producing alternative energy sources and being relatively easy to develop on a large-scale basis, wind power has garnered widespread support.

Rising global energy demand and increasing costs of fossil fuels Statistics published by the EIA have shown that future economic growth and an increase in energy consumption will lead to greater global demand for energy. This is expected to reduce the supplies of and eventually exhaust finite fossil fuel sources such as coal, petroleum and natural gas, resulting in price hikes. Countries are turning to renewable energy to mitigate these pressures and limit their impact.

Governmental support for renewable energy and wind power Countries have enacted financial policies such as preferential tax rates and feed-in tariffs to encourage the development of renewable energy, in particular wind power. In addition, wind energy provides support to the pursuit of sustained economic development and creates employment opportunities for the local population.

Cost advantages of wind power The cost of wind power is, to a substantial extent, lower than that of other forms of renewable energy, and under certain circumstances, gradually becoming cost competitive with conventional energy sources. Moreover, factors such as expansion in the scale of wind farm projects, technological advancements which improve the efficiency and availability of wind power equipment, greater economies of scale in the production of wind power equipment as well as more low cost financing opportunities for wind farm projects are expected to further reduce the cost of wind power.

Technological advancements in wind power Investments in the R&D of wind power have resulted in major technological breakthroughs. Future wind power technological advancements will continue to improve the performance of wind power equipment while reducing the cost of wind power, thereby allowing greater development of global wind energy resources.

Growth Drivers of the PRC Wind Power Industry

In addition to the above main growth drivers of the global wind power industry, primary factors driving the growth of wind power generation in China include:

Policy requirements China has implemented a series of wind power policies which have sped up the development of the wind power industry, including a target of having 3% and 8% of attributable installed capacity of renewable power generation by power producers with attributable installed capacity of over 5 GW by 2010 and 2020, respectively. Please see the section entitled "Regulations — Overall Industry Regulation Planning and Guidance" in this prospectus for more details. Investment in wind power has consequently increased to better meet these new requirements.

Preferential support The PRC Government has launched a series of favorable policies for wind power including preferential tax rates, on-grid benchmark tariffs, facilitating bank loans, investment in R&D and stipulating that Chinese power grids must purchase all the power generated from renewable energy and construct infrastructure for transmission and distribution of such power. Please see the section entitled "Regulations" in this prospectus. Those favorable policies encourage strategic and financial investors to invest in wind farms, which could generate attractive returns.

Improvements in grid infrastructure The PRC Government and state-owned grids have implemented several measures and indicated plans to significantly invest in the construction of ultra high voltage transmission infrastructure, and a smart grid featuring distributed power supply and storage. Such measures will help address the grid connectivity bottleneck currently faced by the wind power industry.

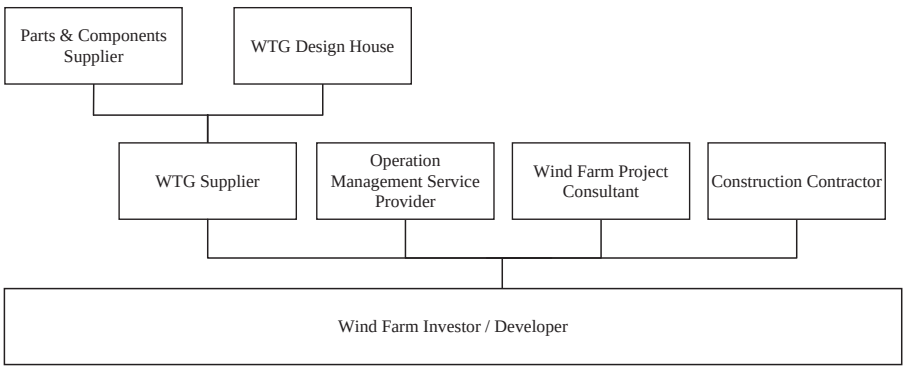
Better ability to exploit wind resources Potential wind farm projects have recently been identified in China's inland provinces such as Jiangxi, Henan, Shanxi and Shaanxi, and these areas have consequently become emerging

markets for the wind power industry. With a better ability to exploit wind resources, more areas for development are expected to be identified in China.

Wind Power Value Chain

The wind power value chain consists of parts and components suppliers, WTG design houses, WTG suppliers, operation and management service providers, wind farm project consultants, construction contractors as well as wind farm investors and developers. The following diagram illustrates the value chain of the wind power industry.

Value chain of the wind power industry

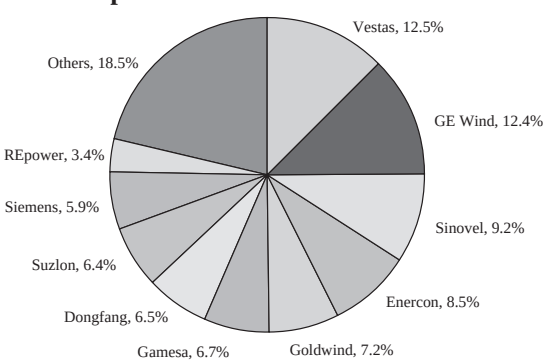


Global WTG Manufacturing Industry

Competitive Landscape

Presently, the global WTG manufacturing industry features a high degree of concentration. According to BTM, in 2009, the top ten WTG manufacturers accounted for the vast majority of the global newly installed wind power capacity. In addition, with the rapid development of the wind power market in China, three Chinese WTG manufacturers, namely our Group, Sinovel Wind Group Co., Ltd.[(1)] and Dongfang Electric Co., Ltd.[(2)], are among the list of the world's top ten WTG manufacturers, as shown in the chart below.

The top ten WTG manufacturers in 2009



Note: Each of the above percentages is calculated by dividing the new capacity sold by the respective manufacturer in 2009 by the newly installed capacity in the industry in 2009, and the sum of the above percentages is less than 100%.

Source: BTM

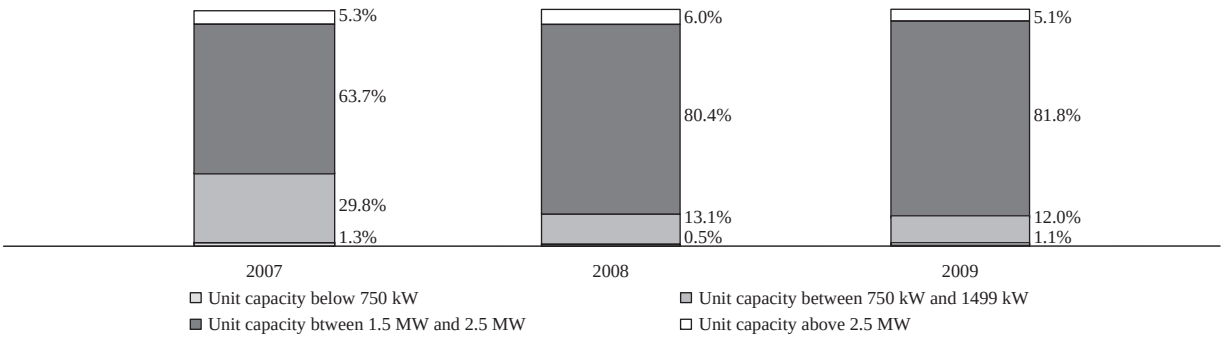
(1) Sinovel Wind Group Co., Ltd. is a PRC manufacturer of wind power generation equipment and principally engaged in the production and sales of WTGs.

(2) Dongfang Electric Co., Ltd. is a PRC company whose business includes production and sales of hydropower, thermo power, nuclear power and wind power generation equipment.

WTG Product Mix

WTGs can be categorized by their unit capacity or by their ultimate installation location (onshore and offshore). Recent WTG technology trends have included increasing unit capacity of WTGs and more installations of offshore WTGs. According to BTM, the average unit capacity of newly installed WTGs globally exceeded 1.6 MW in 2009 and WTGs with unit capacity of over 1.5 MW accounted for 86.9% of the newly installed capacity in 2009, an increase of 17.9 percentage points from 2007. The following chart provides a breakdown of the newly installed capacity of WTGs globally by unit capacity for 2007, 2008 and 2009.

Newly Installed Capacity of WTGs Globally by Unit Capacity



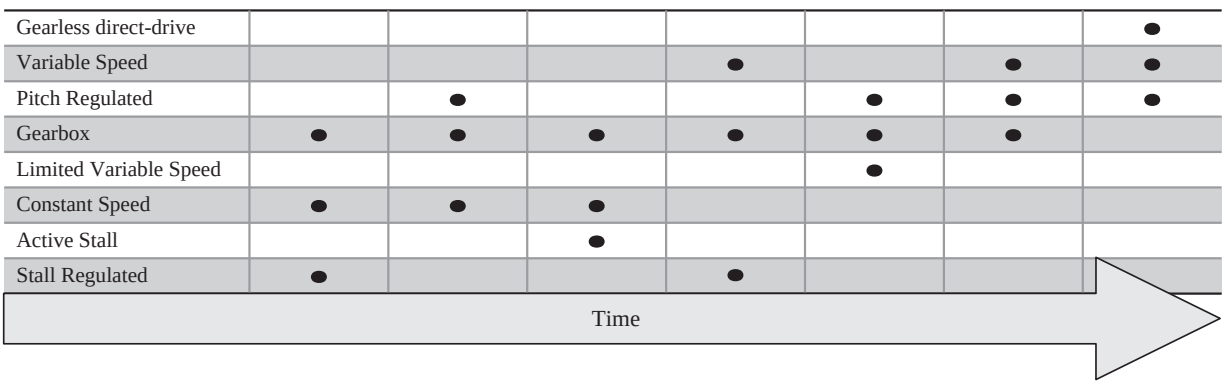
Source: BTM

BTM has also indicated that new installations of offshore WTGs are expected to increase significantly between 2010 and 2014, with annual newly installed capacity reaching 1,374 MW, 1,418 MW, 3,525 MW, 3,216 MW and 3,955 MW, accounting for 3.3%, 2.9%, 5.9%, 4.9% and 5.5% of the annual newly installed capacity globally, respectively.

WTG Technology Evolution

With the continued increase in unit capacity, WTG technology has evolved substantially as indicated in the chart below, from stall regulated to pitch regulated from constant speed to variable speed, and from gearbox drive to gearless direct-drive technology, with a resulting increase in efficiency and reliability and lower maintenance costs. According to BTM, gearless direct-drive WTGs account for 13.9% of the global newly installed capacity in 2009, an increase of 2 percentage points from 2008.

Global WTG Technology Trends



Source: European Wind Energy Association Wind Energy — The Facts (March 2009)

Supply Chain of Key Components

A typical WTG consists of approximately 8,000 parts and components. WTG manufacturers generally choose to purchase such parts and components from external suppliers or manufacture components in-house. Core parts and components of WTGs include:

Blade Blades may be purchased or manufactured in-house by WTG manufacturers.

Control system The control system usually consists of a converter system, a variable pitch system and a master control system and is generally manufactured in-house by WTG manufacturers.

Generator The wind power generator is mostly manufactured by large generator manufacturers.

Drive train system The drive train system mainly consists of the gearbox, bearings, a wheel hub and a spindle and is generally outsourced.

Tower The tower is usually manufactured locally in close proximity to the project site.

China's WTG Manufacturing Industry

Competitive Landscape

Compared to Europe and North America, the PRC wind power industry is relatively new and Chinese WTG manufacturers generally chose to acquire foreign WTG technologies through licensing or the establishment of joint ventures. In 2005, the PRC Government introduced the requirement that at least 70% of the wind turbine components (by purchase value) are to be domestically manufactured (repealed in 2009) and this played a large role in promoting the initial development of the PRC wind power equipment manufacturing industry. With the gradual growth of the domestic manufacturers, they have managed to be more cost-competitive and are now able to supply auxiliary parts and components in a timely manner and offer localized after-sales services, resulting in a steady growth in their market share compared to foreign competitors. According to BTM, WTGs manufactured by domestic and Sino-foreign joint venture suppliers had already accounted for 87.7% of China's newly installed wind power capacity in 2009.

The following chart shows the market share of Chinese WTG manufacturers from 2004 to 2009.

Market Share of WTG Manufacturers in the PRC

Source: BTM

Currently, the PRC WTG manufacturing industry is relatively concentrated. According to statistics published by the Chinese Wind Energy Association, the five largest WTG manufacturers in the PRC in terms of accumulated

installed capacity as at December 31, 2009 were Sinovel Wind Group Co., Ltd., our Group, Dongfang Electric Co., Ltd, Vestas Wind Systems A/S[(1)] and Gamesa Corporación Tecnológica, S.A.[(2)]with a market share of 21.9%, 20.7%, 12.9%, 7.8% and 7.1%, respectively.

The investment cost for a wind farm project is not only determined by the price of WTGs but also that of ancillary equipment as well as construction, operation and maintenance costs. As WTGs have a 20-year lifespan and operate outdoors year-round, PRC wind farm investors and developers often consider the efficiency, reliability and maintenance costs of WTGs and the quality of after-sales services in addition to price before making a purchase. Therefore, those WTG manufacturers that are able to offer highly reliable WTG products with effective designs at lower production costs have a competitive advantage in the PRC market.

WTG Product Mix and Technological Trends

According to statistics published by BTM, the average unit capacity of newly installed WTGs in China has grown from 726 kW in 2003 to 1,360 kW in 2009, representing an increase of over 80%. In terms of accumulated installed capacity, the average unit capacity of WTGs in China has grown from 539 kW in 2003 to 1,170 kW in 2009, representing an increase of over 100%, showing a clear trend towards larger-sized units. Among WTG models, 1.5 MW WTGs constitute the largest segment in China and the following chart shows the market share of the 1.5 MW WTGs from 2005 to 2009.

Market Share of WTGs with 1.5 MW Unit Capacity in the PRC

Source: Chinese Wind Energy Association

In November 2007, Asia's first offshore 1.5 MW direct-drive permanent magnet WTG, which was manufactured by us, was installed in Bohai Bay, PRC. With growing attention paid to offshore wind resources, an increasing number of Chinese WTG manufacturers are expected to manufacture offshore WTG products. According to the Chinese Wind Energy Association, China's newly installed capacity of offshore WTGs, will be 114 MW, 215 MW, 260 MW, 380 MW, 700 MW and 1000 MW from 2010 to 2015, respectively, representing a CAGR of 54.4%.

Prior to 2008, WTGs installed in China mainly adopted the gearbox-driven technology. However, as the advantages of gearless direct-drive WTGs have been gradually recognized by Chinese wind power investors, the proportion of installed capacity of WTGs adopting the direct-drive technology has been increasing. According to the Chinese Wind Energy Association, the market share of direct-drive WTGs in China grew from 0.2% in 2005 to 17.5% in 2009, and it was forecasted that the increase will continue.

(1) Vestas Wind Systems A/S is a Danish manufacturer of wind power generation equipment.

(2) Gamesa Corporación Tecnológica, S.A. is a Spanish manufacturer of power generation equipment, mainly wind power generation equipment.

Entry Barriers

We believe the entry barriers to the PRC WTG manufacturing industry are as follows:

Track record Buyers exercise great care in selecting WTG manufacturers and historical performance is perceived as a reliable indicator of product quality and capabilities of a WTG manufacturer. WTG manufacturers with a longer operating history generally have a competitive advantage as it takes three to five years to bring a WTG from the design stage to actual production.

Technological expertise The design and manufacture of WTGs with large capacities are highly complex, involving a wide variety of technologies, including aerodynamics, multi-body dynamics, simulation technology and testing technologies. In order to develop a WTG series suitable for the PRC's diverse geographical climates and able to meet the needs of Chinese customers, WTG manufacturers must possess both practical experience and technological expertise.

Supply chain WTG manufacturers must possess strong supply chain management capability and maintain long-term relationships with parts and components suppliers for the design and manufacture of WTGs. As the technical barriers for the manufacture of various core components are high, WTG manufacturers will require a substantial amount of time to collaborate with domestic suppliers so as to ensure a stable and high quality supply. In particular, foreign WTG manufacturers may encounter greater difficulties in establishing a supply chain in China.

Financial strength The WTG manufacturing industry requires significant initial investment. Such initial investment may not be recovered in the near term and profitability is realized only after a certain level of production scale has been attained, so WTG manufacturers must have a strong capital position and ready access to financing.

Qualified personnel The wind power industry being an emerging industry, there is a general lack of personnel with extensive industry experience who are well-versed in the technologies involved. For small-scale manufacturers or new entrants, their technical personnel may lack the practical experience and technical expertise possessed by the technical personnel of large manufacturers or those with a longer operating history.

Remediation capability Risks of design and product defects arise as the unit capacity and volume of WTGs produced increase. With the mass deployment of WTGs in the PRC and the related contractual warranties and obligations involved, any significant PRC WTG manufacturer must have the financial and technical capability to remediate technical defaults on a large scale, facing a possible sudden decline in customer orders or being exposed to product liability claims.