
REGULATIONS

OVERVIEW

Our business, which includes the following two business segments, (i) environmental protection and energy conservation solutions and (ii) renewable energy equipment manufacturing and services, is extensively regulated by PRC policies, relevant laws and regulations and other competent government authorities. These laws and regulations mainly relate to requirements for environmental protection and energy conservation, supervision of pollutant discharge by coal-fired power plants, flue gas emissions reduction services and wastewater treatment services and supervision of renewable energy equipment manufacturing and sales. In addition, all our operations in the PRC are subject to applicable PRC taxation and general regulations, such as work safety and labor protection.

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 (among others): (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 investment projects; (iii) supervising the reforms of state-owned enterprises; (iv) formulating and coordinating the implementation of industrial and investment policies for the environmental protection and energy conservation industries; and (v) setting power tariffs.

The Ministry of Environmental Protection (formerly known as the State Environmental Protection Administration). The Ministry of Environmental Protection is responsible for (i) developing and organizing the implementation of national policies and plans for environmental protection, (ii) drafting laws, regulations, and formulating administrative rules for environmental protection, (iii) the overall coordination, supervision and management of key environmental issues, and (iv) the supervision and management of the prevention and control of environmental pollution, including developing environmental monitoring programs and information publication systems.

The Ministry of Housing and Urban-Rural Development (formerly known as the Ministry of Construction). The Ministry of Housing and Urban-Rural Development is responsible for the promotion and management of building energy conservation and emissions reduction in the urban and rural areas, drafting and implementing energy conservation policies and regulations, and organizing major energy conservation projects.

The MOST. The MOST drafts and implements laws and regulations relating to science and technology research plans and regulates the national high-tech industrial development zones. The MOST is also responsible for budgeting, final accounting, and supervision of science and technology funds, and recommending major policies and implementing rules on science and technology resources allocation.

The National Energy Administration (“NEA”). The NEA is a national administration managed by the NDRC. Its major duties include (i) formulating energy development

REGULATIONS

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 national development and construction of offshore wind power projects.

The Ministry of Finance. The Ministry of Finance determines financial policies for major energy project construction and manages the special funds for renewable energy equipment.

The SERC. 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 noncompetitive 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 on environmental protection policies, regulations and standards.

The State Administration of Work Safety. The State Administration of Work Safety is responsible for, among other things, (i) supervising and managing the safe production of renewable energy equipment; and (ii) implementing and supervising laws and regulations governing energy equipment operations and project construction safety.

The MOFCOM. The MOFCOM, together with the NDRC and the MOF, encourages energy conservation and development and utilization of renewable energy through tax incentives and designating special funds for renewable energy development .

The State Administration of Taxation. The State Administration of Taxation is responsible for the promulgating and implementing of tax policies and regulations.

ENVIRONMENTAL PROTECTION SERVICES

The Regulatory Framework

The Environmental Protection Law of the PRC (《中華人民共和國環境保護法》) (the “**Environmental Protection Law**”), was promulgated by the Standing Committee of the NPC on December 26, 1989. The law sets out the legal framework for environmental protection activities in China. This legislation requires the national environmental protection scheme to be an integrated part of the national planning of economic and social development, and promotes the research and development of environmental protection technologies. The law also outlines the authorities and duties of various environmental protection regulatory agencies, authorizes the Ministry of Environmental Protection to issue national standards for environmental quality and emissions, and to monitor the environmental protection scheme of the PRC. Meanwhile, local environmental protection authorities may formulate local standards which are more rigorous than the national standards, in which case, the concerned enterprises must comply with the local standards.

Under the Environmental Protection Law, any enterprise that may cause pollution or generate other harmful substances in its operations must have an environmental protection

REGULATIONS

accountability system in place and adopt effective measures to control and properly dispose exhaust gas, wastewater, waste residue, waste dust and other wastes. Any newly-constructed industrial enterprise or existing industrial enterprise undergoing technology upgrading shall use resource-efficient equipment and technologies with low pollution emissions. Installed environmental protection equipment shall not be dismantled or left idle unless necessary, in which case, a prior approval shall be obtained from the relevant local environmental protection authority. The Ministry of Environmental Protection and local environmental protection authorities have the power to impose penalties on enterprises which fail to comply with the requirements stipulated therein.

On November 8, 2004, the former State Environmental Protection Administration promulgated the *Measures for the Administration of Qualification Licensing for Operation of Environmental Pollution Control Facilities* (《環境污染治理設施運營資質許可管理辦法》), which became effective on December 10, 2004. The measures establish a licensing system for qualification on the operation of environmental pollution control facilities and provide the conditions for obtaining such license. Each environmental pollution control facility needs to apply for its particular license according to the industry it is in, such as municipal waste water treatment, industrial waste water treatment, ash removal and SO₂ emissions reduction, and so on. Subsequently, on December 10, 2004, the former State Environmental Protection Administration issued the *Classification Criteria for the License Administration of Qualification for Operation of Environmental Pollution Control Facilities* (《環境污染治理設施運營資質分級分類標準》) to implement the aforementioned measures. The classification criteria details capital and technological requirements for enterprises applying for the qualification to operate environmental pollution control facilities, including water treatment and SO₂ and NO_x emissions reduction services.

On December 3, 2005, the State Council issued the *Decision of the State Council on Application of a Scientific Outlook on Development and Strengthening of Environmental Protection* (《關於落實科學發展觀加強環境保護的決定》). The decision emphasizes the strategic significance of environmental protection, restates the importance of the Environmental Protection Law, and stipulates that the PRC Government supports the development of a domestic, standardized and modern environmental protection industry in China. Among other things, the decision lists SO₂ emissions reduction and NO_x emissions reduction as being major environmental issues and requires the enhancement of SO₂ and NO_x emission controls in coal-fired power plants in order to solve these issues. In general, all new and expanded coal-fired power plants shall be equipped with desulfurization appliances or other SO₂ and NO_x emissions reduction measures.

On November 22, 2007, the State Council promulgated the *Notice of the State Council on Issuing the “11th Five-Year Plan” for National Environmental Protection* (《國務院關於印發國家環境保護“十一五”規劃的通知》). The notice sets forth the national goals, tasks, main investment areas and policies and measures for environmental protection, clarifies the roles and responsibilities of all levels of governments and environmental protection authorities, promotes the participation into environmental protection activities by enterprises and public and aims to build an environmental-friendly society. The notice recognizes the urgency and significance of pollution control and calls for rigorous measures for environmental protection to be taken in order to achieve the stipulated goals for environmental protection. The notice stipulates the key areas for pollution control, including, among others, (i) reduce the chemical

REGULATIONS

oxygen demand and improve the water quality; (ii) reduce SO₂ emissions and prevent air pollution and (iii) control solid waste pollution and promote the reuse or neutralization of solid waste. According to the notice, the total installed capacity of the existing fossil-fired power plants installed with desulfurization appliances must reach 213.0 GW during the 11th Five-Year Plan Period. New or expanded fossil-fired power plants must install desulfurization appliances and reserve space for desulfurization appliance installations. Besides, the notice provides that the PRC Government shall accelerate the establishment of a pollution emission permit system, promote the use of high-efficiency ash removal systems with filter bags, and promotes the research of clean coal-burning technology and NO_x control technology.

The *Notice on Issuing the Circular on Promulgation of Catalogue for Preferential Enterprise Income Tax for Environmental Protection and Energy and Water Saving Programs (Trial)* (《關於公佈環境保護節能節水項目企業所得稅優惠目錄（試行）的通知》) issued by the Ministry of Finance, The State Administration of Taxation and the NDRC was implemented on January 1, 2008. According to the catalogue, enterprises engaged in certain environmental protection and energy and water conservation projects, including municipal sewage treatment projects, industrial wastewater treatment projects, solar heat and electricity integration technical renovation projects on existing buildings, ash removal projects of steel industry, fuel-burning power plant flue gas desulfurization renovation projects, may enjoy preferential tax treatment for, as long as they meet the conditions set out in the catalogue. Among others, according to the *Regulations on the Implementation of Enterprise Income Tax of the People's Republic of China* (《中華人民共和國企業所得稅法實施條例》) which was promulgated by the Standing Committee of the NPC on March 16, 2007 and took effect on January 1, 2008, companies providing flue gas desulfurization services to coal-fired power plants may enjoy an exemption from enterprise income tax from the first to the third year and a 50% reduction in its enterprise income tax rate from the fourth to the sixth year, commencing from the first year when it receives business income. As of the Latest Practicable Date, our wholly-owned subsidiary Bengbu Guodian Longyuan Environmental Development Co., Ltd. enjoys such preferential tax policy.

On October 31, 2008, the General Office of the Ministry of Environmental Protection issued the *Notice on Improving Environmental Protection under the Current Economy* (《關於當前經濟形勢下進一步加強環境保護工作的通知》). The notice reinstates that the PRC Government shall ensure the efficient operation of pollution control facilities and emission reduction projects, and encourages the construction of emission reduction and environmental protection projects such as wastewater treatment plants, coal-fired power plants desulfuration.

On April 5, 2011, the Ministry of Environmental Protection issued the *Guiding Opinions on Encouraging the Development of Environmental Protection Industry* (《關於環保系統進一步推動環保產業發展的指導意見》). The opinions set out several key areas in the environmental protection industry during the 12th Five-Year Plan Period, includes NO_x emission reduction in the wastewater treatment plants, industrial wastewater treatment, and air pollution control.

SO₂ and NO_x Emissions Reduction

The *Law of the People's Republic of China on the Prevention and Control of Air Pollution* (《中華人民共和國大氣污染防治法》) was promulgated by the Standing Committee of the

REGULATIONS

NPC on April 29, 2000 and took effect on September 1, 2000. It outlines a regulatory framework for the prevention and control of air pollution. Under this legislation, the PRC Government promotes research on the prevention and control of air pollution, encourages and supports the application of advanced technologies for the prevention and control of air pollution and the development and utilization of clean energies such as solar power, wind power, and hydropower.

Specifically, the law stipulates that any newly-built or expanded fuel-burning power plant or any large or medium-scale enterprise whose SO₂ emissions exceed the prescribed pollutant emission standards or the index of national air quality control must install desulfurization and ash removal appliances or adopt other SO₂ control measures. In addition, the law provides that, any enterprise located in the acid rain control areas or SO₂ pollution control areas whose SO₂ emissions exceed the prescribed standard shall lower its discharges within a time limit. The enterprises shall control their NO_x discharges as well.

On March 28, 2007, the NDRC and the Ministry of Environmental Protection issued the *Notice on issuing the 11th Five-Year Plan for SO₂ Treatment of Existing Coal-Fired Power Plant* (《關於印發現有燃煤電廠二氧化硫治理“十一五”規劃的通知》). The notice focuses on SO₂ treatment of existing coal-fired power plants and sets forth the following targets: (i) by the end of 2010, 90% of existing fuel-burning power plants shall comply with the SO₂ emissions standards, (ii) annual SO₂ emissions amount shall be reduced to 5,020,000 tons in 2010, and (iii) the capacity of desulfurization appliances in operation or under construction reaches 230 GW. Further, the notice establishes the principle of encouraging the development of advanced flue gas desulfurization technologies and industrialization of desulfurization services. The notice also sets forth a list of key projects subject to compulsory desulfurization treatment.

The Provisional Measures on the Administration of Tariffs of the Desulfurized Coal-Fired Power Plants and Operation of the Desulfurization Facilities (Trial) (《燃煤發電機組脫硫電價及脫硫設施運行管理辦法(試行)》) were jointly issued by the NDRC and the Ministry of Environmental Protection on May 29, 2007 and came into force on July 1, 2007. The measures require that all new or expanded fossil-fired power plants install desulfurization appliances in accordance with the *11th Five-Year Plan for SO₂ Treatment of Existing Coal-Fired Power Plant*. A fossil-fired power plant which has installed desulfurization appliances shall be entitled to receive an additional on-grid tariff subsidy being RMB 0.015 per kWh for electricity generated by the power plant, after receipt of the desulfurization appliance quality certificate issued by the national or provincial environmental protection governmental agency. For fossil-fired power plants using coal with an average sulfur content of more than 2% or less than 0.5%, the amount of the desulfurization tariff subsidy may be adjusted by the local government, subject to review and approval by the provincial pricing bureaus and the NDRC. The notice also provides for measures to ensure utilization of the desulfurization appliances, including prohibition of suspending the operation of the desulfurization appliance by the power plants, compulsory installation of on-line flue gas monitor system which shall be connected to the network of provincial environmental protection agency and the power grid company. Furthermore, the notice imposes penalties on power plants for which the utilization rate of installed desulfurization appliances is 90% or below.

REGULATIONS

The NDRC issued a notice on increasing on-grid tariff (the “**Notice**”) on November 30, 2011. According to this Notice, starting from December 1, 2011, the average on-grid tariff of coal-fired power plants in the PRC is increased by RMB2.6 cents per kWh. In particular, a new denitrification subsidy of RMB0.8 cent per kWh is added to the on-grid tariff of a selection of 14 PRC provinces (Guangdong, Hainan, Sichuan, Gansu, Ningxia, Beijing, Tianjin, Hebei, Shanxi, Shandong, Shanghai, Jiangsu, Zhejiang and Fujian) to subsidize the coal-fired power plants for their costs incurred for compliance with the NO_x emissions requirement. In addition, the Notice also stipulates that effective from December 1, 2011, the surcharge on power sales, which is part of the sources for the PRC Government’s designated renewable energy development fund, is increased to RMB0.8 cent per kWh, from RMB0.4 cent per kWh.

On May 29, 2007, the NDRC and the Ministry of Environmental Protection jointly promulgated the *Notice of Pilot Plan of Concession of Fossil-Fired Power Plant Flue Gas Desulfurization* (《關於開展火電廠煙氣脫硫特許經營試點工作的通知》). The notice provides for the framework and implementing rules of the flue gas desulfurization concession pilot plan of fossil-fired power plants in China and aims to improve the utilization rate of the desulfurization appliances installed at the fossil-fired power plants. According to the notice, flue gas desulfurization concession means that, under coordination by the relevant governmental agency, the fossil-fired power plant operation enters into a concession agreement with the professional flue gas desulfurization service provider for the right to income from flue gas desulfurization, which comprises the right to receive a special tariff for desulfurization and all other incentives for flue gas desulfurization. In return, the professional flue gas desulfurization service provider is responsible for the investment, construction, operation and maintenance and daily administration of the desulfurization appliance and for achieving the desulfurization targets set out in the concession agreement. As a general principle, the power plants are still responsible for environmental protection and shall be legally liable for non-compliance with the emissions standards, while the desulfurization service provider shall enjoy all benefits granted by the favorable policies. The power plants shall specify the desulfurization requirements applicable to the desulfurization service providers in the concession agreement. If failure to comply with the relevant emission standards is caused by the power plant, the power plant shall be liable for the respective penalties. If failure to comply is caused for reasons relating to the desulfurization appliance, the flue gas desulfurization service provider shall be liable for breach of its contractual obligations and may be liable to compensate the power plant, for losses suffered due to the deduction of the subsidized price of desulfurization, governmental penalties or other relevant losses.

On January 3, 2008, the NDRC and the Ministry of Environmental Protection issued the *Notice on Issuing the 11th Five-Year Plan for Prevention and Control of Acid Rain and SO₂ Pollution* (《關於印發國家酸雨和二氧化硫污染防治“十一五”規劃的通知》). The Plan stipulates that the fuel-burning power industry SO₂ emissions shall be reduced to 10,000,000 tons by 2010. By 2020, the national SO₂ emissions are expected to be significantly reduced and NO_x emissions are expected to be effectively controlled.

On January 27, 2010, the Ministry of Environmental Protection released the *Notice of Fossil-Fired Power Plant NO_x Emission Prevention and Treatment Policy* (關於發佈《火電廠氮氧化物防治技術政策》的通知), which establishes the framework for NO_x reduction under the 12th Five-Year Plan. The policy applies to all fuel-burning power plants with a capacity of 200 MW or more. In designated ‘key regions’ around Beijing, Shanghai, and Guangdong, the policy

REGULATIONS

applies to all power plants regardless of capacity. All qualifying plants are required install emission reduction facilities.

On July 29, 2011, the Ministry of Environmental Protection and General Administration of Quality Supervision, Inspection and Quarantine (國家質量監督檢驗檢疫總局) issued the revised Emission Standard of Air Pollutants for Thermal Power Plants (《火電廠大氣污染物排放標準》), which will take effect on January 1, 2012 and July 1, 2014 for new power plants and existing power plants, respectively. Except for key regions where a set of stricter environmental protection standards shall apply, the Emission Standard of Air Pollutants for Thermal Power Plants imposes the following requirements, among others to coal-fired power plants nationwide: (i) the maximum NO_x emissions permitted shall be 100 mg/m³; (ii) the maximum SO₂ emissions permitted shall be 100 mg/m³ and 200 mg/m³ for new power plants and existing power plants, respectively (except for Guangxi, Sichuan, Chongqing and Guizhou, where the standards shall be 200 mg/m³ and 400 mg/m³ for new power plants and existing power plants, respectively); and (iii) maximum fly ash emissions permitted shall be 30 mg/m³. The Emission Standard defines key regions as regions which are more susceptible to serious atmospheric environmental pollution, due to either a weakening carrying capacity of environment or a fragile ecological environment, and thus requires a stricter control on the emission of pollutants. The specific scope of such key regions is subject to regulations to be issued by the Ministry of Environmental Protection.

Wastewater Treatment

Law of the People's Republic of China on the Prevention and Control of Water Pollution (the “**Prevention and Control of Water Pollution Law**”) (《中華人民共和國水污染防治法》) was promulgated by the Standing Committee of the NPC on May 11, 1984. It was amended on February 28, 2008 and took effect on June 1, 2008. The main purpose of this legislation is to prevent and control water pollution, protect and improve the environment, and ensure drinking water safety. The law stipulates that the PRC Government shall rigorously control industrial waste water pollution and municipal domestic waste water pollution, as well as prevent and control agricultural non-point source water pollution. Under this legislation, the PRC Government encourages and supports scientific research relating to the prevention and control of water pollution and the application of advanced technologies in the field.

According to the Prevention and Control of Water Pollution Law, all entities are obliged to protect water resources. Water pollutant discharges shall meet national or local discharge standards and major water pollutant discharge control parameters. In addition, the PRC Government applies a licensing system for water pollutant discharge. Enterprises which directly or indirectly discharge industrial waste water must obtain a pollutant discharge license. Municipal sewage treatment plants must also obtain pollutant discharge licenses. The State Council reserves the authority to provide for specific measures and implementation rules for the administration of water pollutant discharge licenses. Enterprises are prohibited from discharging waste water without (or in violation of) the discharge license. The law also promulgates specific regulations regarding various types of wastewater, including industrial waste water, municipal waste water, and agricultural waste water. The law prohibits the construction of small-scale industrial projects that seriously pollute water and the environment, do not conform to the national industrial policies and imposes legal liability on

REGULATIONS

entities and persons who fail to comply with the aforementioned requirements, including penalties, administrative measures, and criminal liability.

On March 19, 2004, the Ministry of Construction issued the *Measures for the Administration on the Concession of Municipal Public Utilities* (《市政公用事業特許經營管理辦法》). The measures became effective on May 1, 2004 and set out the main regulatory scheme for the concession of municipal public utilities. According to these measures, municipal water treatment industry shall be based on the concession system, pursuant to which, the government selects the investors or operators of municipal public utilities from the market according to the relevant laws and regulations, and specifies the period of time and scope of such operators' engagement in the products of or service to municipal public utilities. The Ministry of Construction (now the Ministry of Housing and Urban-Rural Development) is responsible for supervising and regulating the operation of the concession system of municipal public utilities. The measures also set out the requirements for concession bidders, contents for the concession agreements and the concession period. Bidders participating in the bidding of concession right shall meet the requirements stipulated in the measures and shall concurrently execute a concession agreement with the competent government authority. The term of concession shall be determined considering factors, such as the character, scale and method of operation, but shall not exceed 30 years. Upon the expiration of the concession term, the competent authority shall organize a public tender to choose the next concession operator in accordance with the procedures as stipulated in the measure. The measures also provides that the concession agreement shall set out, among others, the methods or standards to determine the price charged for products or services provided in relation to municipal public utilities, and the adjustment mechanism and procedures thereof. Relevant departments of the local governments shall examine, approve and supervise the price charged in accordance with principles and procedures as prescribed by the relevant laws and regulations.

ENERGY CONSERVATION SERVICES

Launched on November 10, 2004 by NDRC, the *Medium and Long-term Plans of Energy Conservation* (《節能中長期專項規劃》) detail energy conservation goals and implementing plans for China during the 11th Five-Year Plan period (2005-2010) and 2010-2020. According to the plan, China shall continue to prioritize and promote energy conservation, and reinforce energy conservation regulations on high energy consumption sectors. Necessary expenses for energy conservation management and energy conservative renovations shall be included in the relevant government fiscal budgets to provide funding and subsidy to support major energy conservation projects such as upgrading of fossil-fired industrial boilers and the improvement of waste heat recovery.

The *Energy Conservation Law of the PRC* (《中華人民共和國節約能源法》) (the “**Energy Conservation Law**”), as amended on October 28, 2007, has been implemented since April 1, 2008. Under this legislation, energy conservation is a basic national policy of China and the PRC Government implements an energy development strategy that concurrently promotes energy conservation and energy exploitation and prioritizes energy conservation. Under the Energy Conservation Law, the PRC Government shall implement industrial policies that are favorable to energy conservation and environmental protection, restrict the development of high-energy consumption and high pollution industries and develop industries that are energy-

REGULATIONS

efficient and environmental-friendly. The law requires the grid operator to arrange for on-grid connection of electricity generated by heat and power cogeneration appliances, waste heat or waste pressure recovery appliances or other energy-conservation appliances. The PRC Government also encourages the use of energy-efficient and energy-saving equipment and the application of energy conservation technologies including cogeneration of heat and electricity, waste heat recovery, clean coal and energy consumption monitoring and control systems. Moreover, the Energy Conservation Law mandates enterprises to carry out technological transformation for energy conservation. The law also sets out an incentive scheme to encourage the development and use of energy conservation technologies and appliances.

The NDRC, the Ministry of Finance, and the People's Bank of China and the State Administration of Taxation jointly promulgated the *Opinions on Accelerating to Promote Energy Management Contract to Facilitate the Development of Energy Saving Service Industry* (《關於加快推行合同能源管理促進節能服務產業發展的意見》) on April 2, 2010. The opinions stipulate that the PRC Government will implement policies and measures promoting the development of energy saving industry including providing financial support, tax benefits, improving accounting system and financial services. The opinions also provide that the PRC Government shall support the growth of energy conservation service companies.

On June 3, 2010, the NDRC and the Ministry of Finance jointly issued *Interim Measures on Financial Incentive Funds for Energy Management Contract Projects* (《合同能源管理項目獎勵資金管理辦法》). According to the measures, the financial incentive funds of the PRC government are to be applied to the enterprises providing energy conservation services as contractors for energy companies.

RENEWABLE ENERGY EQUIPMENT SALES AND SYSTEM SOLUTION SERVICES

The Regulatory Framework

The Renewable Energy Law of the PRC (《中華人民共和國可再生能源法》) was promulgated on February 28, 2005, and has been implemented since January 1, 2006. Subsequently, the amendment of *The Renewable Energy Law of the PRC* was promulgated on December 26, 2009, and has been implemented since April 1, 2010. It outlines a regulatory framework for the development and use of renewable energy, which includes, among other things, wind energy and solar energy. The main purpose of this legislation is to promote the development and use of renewable energy, increase energy supply, improve the energy structure, secure the safety of energy, protect the environment and eventually achieve sustainable economic and social development in China.

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 relation to renewable energy, which include (i) scientific research, standard establishment and demonstrative projects relating to renewable energy development and utilization, (ii) renewable energy utilization project for civil energy consumption in villages and pasturing areas, (iii) construction of independent power system using renewable energies in remote areas and islands; (iv) resource exploration and evaluation for renewable energies and construction of related information system; (v) localization of equipments production designed to boost the development and utilization of

REGULATIONS

renewable energies. 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. As of the Latest Practicable Date, the Company has not received any such preferential loans with financial discounts. In addition, the state shall adopt a tax incentive policy for projects that are listed in the renewable energy industry development guidance catalogue. Such tax incentive policy refers to the preferential policy to be enacted and revised by the relevant departments under the State Council in respect of technical research and development, demonstrative projects, fiscal taxation, product prices, marketing and import and export and so on with regard to renewable energy development and utilization projects and related system equipments manufacturing in fields of wind energy, solar energy, biological substance energy, geothermal energy, ocean energy and water energy. The Group has not enjoyed such tax incentive policy as of the Latest Practicable Date.

On August 31, 2007, the NDRC issued the *Medium and Long-Term Development Plan for Renewable Energy* (《可再生能源中長期發展規劃》), which stipulates that China will 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 "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. With respect to solar power generation, the plan addresses the development of solar power in the areas of (i) household solar power generation system or small-scale PV power station for remote areas; (ii) on-grid rooftop solar power system and solar power system used in public on-grid facilities; (iii) large-scale PV and solar thermal power station. The plan also stipulates that there is a large potential for PV application in communications, meteorology, long distance pipelines, railways, and public roads.

The *Notice from the NDRC Regarding the Issuance of the 11th Five-Year Plan for the Development of Renewable Energy* (《國家發展改革委關於印發可再生能源發展“十一五”規劃的通知》) 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 is approximately 9 GW and the total install capacity of wind power in China is expected to reach 10GW by 2010. In addition, domestic production capacity for wind power equipment and components is expected to increase to 5 GW per year in terms of whole unit, 8 GW in terms of parts and components 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 shall 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

REGULATIONS

will reach 8,000 sets. Further, the notice purports to support the domestic development of wind power equipment manufacturing and fully increase the technology level and production capacity of domestically produced wind power equipment and components. Regarding solar power, the notice stipulates that a stable market for solar power shall be developed and necessary solar power generation technology and demonstrative projects be developed and established. In the meanwhile, urban solar system application and on-grid solar power plants shall be developed.

A Development Guide Directory for the Renewable Energy Industry (《可再生能源產業發展指導目錄》) 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 guide covers, among others, manufacturing and sales of WTG, solar cell and solar module.

On February 13, 2006, the State Council submitted its *Several Opinions on Accelerating Revival of the Equipment Manufacturing Industry* (《關於加快振興裝備製造業的若干意見》). The opinions are designed to enhance the competitiveness of the Chinese equipment manufacturing industry and are aimed at domestic equipment manufacturing enterprises which possess a competitive edge, maintaining independent intellectual property rights and key technologies. The opinions call for the large-scale production of renewable energy equipment in order to meet the power industry demand.

The *Interim Measures for Management of Special Funds for the Development of Renewable Energy* (《可再生能源發展專項資金管理暫行辦法》) 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 to support five categories of renewable energy construction projects or relevant projects, such as scientific and technical research on the development and utilization of renewable energy and domestic production of equipment, which will be supported by the aforementioned special funds provided by the PRC Government in forms of discount loans and subsidies.

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* (《國務院批轉發展改革委等部門關於抑制部分行業產能過剩和重複建設引導產業健康發展若干意見的通知》), in which the PRC Government states that in its implementation of regulations on prevention of overcapacity in the wind power equipment industry, it will exercise strict control over the reckless expansion of the production of wind power equipment, further the development of leading enterprises. In principle, no new complete equipment manufacturing plants will be approved or registered; in the invitation of bids for wind power projects, it's strictly forbidden to adopt the provision requiring investors to use local wind power equipment and/or invest in the construction of local wind power manufacturing projects; a system of wind power equipment standards, testing and certification should be established and/or improved, and the products using outdated technologies and those from unauthorized enterprise should be prohibited from accessing the market.

REGULATIONS

R&D, Manufacturing and Sales of WTGs

The NDRC and Ministry of Finance issued the *Notice of NDRC and Ministry of Finance of Issuance of Implementing Opinions on Promoting the Development of Wind Power Industry* (《國家發展改革委、財政部關於印發促進風電產業發展實施意見的通知》) in 2006. The opinions set forth the major targets and basic principles for promoting the development of Wind Power during the 11th Five-Year Plan period.

The *Interim Measures for Management of Special Funds for the Industrialization of Wind Power Generation Equipment* (《風力發電設備產業化專項資金暫行管理辦法》) was promulgated by the Ministry of Finance on August 11, 2008, which 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 thereunder.

On December 23, 2010, the NDRC promulgated the *Notice of the NPRC of Several Opinions on Promoting Healthy Development of Wind Power Equipment Production Industry* (《國家發展和改革委員會關於印發促進風電裝備產業健康有序發展若干意見的通知》). The opinions provides that the State shall promote the simultaneous development of wind power equipment manufacturing industry and wind power industry, continue to support the technology advancement of wind power equipment, and establish reporting systems for wind power equipment operation and quality, intensify the integration of electricity produced by wind power and the power grid and improve the policies and measures for the development of wind farm industry.

Solar Power Generation

On July 24, 2011, the NDRC issued the *Notice regarding Improvement to the Feed-in Tariff Policy On-grid Solar Photovoltaic Power Generation by the NDRC* (《國家發展改革委關於完善太陽能光伏發電上網電價政策的通知》) which took effect immediately.

The notice provides for a unified on-grid tariff system for solar photovoltaic power generation applicable to all non-concessionary power generation projects nationwide:

Pursuant to the Notice, for projects approved before July 1, 2011 and commencing operation before December 31, 2011 and the pricing of which has not been reviewed and approved by the NDRC, a uniformed on-grid tariff of RMB1.15/kWh (after tax) applies; for projects approved on and after July 1, 2011 or approved before July 1, 2011 but not commencing operations before December 31, 2011, if the project is located in Tibet, the on-grid tariff of RMB1.15/kWh (after tax) still applies; if the project is located in other provinces in the PRC, a uniformed on-grid tariff of RMB1.0/kWh (after tax) applies. The NDRC may adjust the on-grid tariff from time to time based on changes in investment cost and technology development in the future.

The notice further provides that for projects whose ownership is determined through concessionary bidding process, the on-grid price shall be set in accordance with the bidding

REGULATIONS

process but shall be no higher than the on-grid tariff for the non-concessionary projects stipulated in the notice. For projects having received the PRC Government's subsidy, the applicable tariff shall be the same as the on-grid tariff for coal-fired power plants with desulfurization installations in the same location.

SAFETY AND LABOR PROTECTION

In accordance with laws and regulations such as *the Law of Safe Production of the PRC* (《中華人民共和國安全生產法》), which has been implemented since November 1, 2002 and amended on August 27, 2009, and *Regulations on Safe Production Licenses* (《中華人民共和國安全生產許可證條例》), 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. All entities shall be equipped with the conditions for safe production as provided in the laws, administrative regulations, national standards and industrial standards. Any entity that is not equipped with the conditions for safe production may not engage in production or business operation activities. The entities shall offer education and training programs to their employees regarding production safety so as to ensure that the employees have the necessary knowledge of production safety. The employment contracts entered into between the employers and the employees shall include provisions about how to safeguard the production safety for the employees and avoid vocational injuries. Provisions of purchasing employment injury insurances for the employees shall also be included in the employment contracts.

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* 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

Enterprises Income Tax

According to the new *Enterprise Income Tax Law of the People's Republic of China* (《中華人民共和國企業所得稅法》) which took effect on January 1, 2008, PRC enterprises typically pay an enterprise income tax at the rate of 25% and enterprises identified as

REGULATIONS

high-and-new-technology enterprises requiring key state support enjoy a preferential enterprise income 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* (《關於中國居民企業向境外H股非居民企業股東派發股息代扣代繳企業所得稅有關問題的通知》) 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.

Personal Income Tax

According to an official letter dated June 28, 2011 from the State Administration of Taxation of the PRC to the Hong Kong Inland Revenue Department (the “**Letter**”), the individual income tax shall be withheld at a tax rate of 10% on dividends distributed by PRC companies to individual shareholders who are Hong Kong residents. The Letter further stipulates that individual H shareholders who are Hong Kong residents do not have to undergo the application process for entitlement of the preferential tax rate. For foreign individual H shareholders who are residents of jurisdictions with different withholding agreements under a tax treaty with the PRC, the tax rate under the specific tax treaty applies. For individual H shareholders who are residents of jurisdictions with no taxation arrangement with China, the individual income tax shall be withheld at a tax rate of 20% on dividends distributed to these foreign H shareholders.

Value Added Tax

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.