
REGULATORY ENVIRONMENT

OVERVIEW

All of our operations are based in the PRC. Accordingly, our businesses are subject to relevant laws and regulations of the PRC. These laws and regulations govern areas including, among others, project approvals, power generation, transmission and dispatch, on-grid tariffs, environmental protection and safety. In addition, our operations are subject to general laws and regulations in the PRC, such as company law, the laws on Chinese-foreign joint ventures, labor law and tax law.

PRINCIPAL REGULATORY AUTHORITIES RELATING TO OUR BUSINESSES

We are principally subject to the governmental supervision by the following PRC government agencies:

NDRC and Administrative Departments for Investment of Local Governments

The National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會, “NDRC”) and administrative departments for investment of local governments, which are normally the local DRCs, are responsible for approving wind power projects.

The NDRC is responsible for drafting laws, regulations or rules related to the power tariff management, adjusting the policies on the power tariff, enacting national plans on adjusting the power tariff or determining the power tariff of significant national power projects. The NDRC shall solicit the opinions of the State Electricity Regulatory Commission of the PRC (中華人民共和國國家電力監管委員會, “SERC”) before working on the items set forth above. The important documents shall be jointly signed by the SERC.

The NDRC is the PRC’s national authority for accepting and approving CDM projects.

National Energy Commission

On January 22, 2010, in accordance with the Notice of the General Office of the State Council on Setting up National Energy Commission (《國務院辦公廳關於成立國家能源委員會的通知》), the State Council decided to set up the National Energy Commission (國家能源委員會, “NEC”) responsible for researching and drafting national energy development plans, reviewing the significant issues related to energy security and development, as well as generally coordinating the significant issues related to national energy exploitation and international energy cooperation. The Director of the NEC Office is concurrently held by the head of the NDRC and the Vice Director is concurrently held by the head of National Energy Administration (能源局, “NEA”). The NEA, which is under the administration of the NDRC, is responsible for the work of the NEC.

State Electricity Regulatory Commission

The SERC is responsible for the overall regulation of the national power sector, with direct leadership over its local branches. The SERC is also responsible for promulgating regulations for the power sector and rules for power market, supervising the operations and legal compliance of the power industry, issuing and administering Electric Power Business Permits (電力業務許可證) and providing statistics and information of power market.

Ministry of Land and Resources

The Ministry of Land and Resources of the PRC (中華人民共和國國土資源部, “MLR”) is responsible for planning, administration, protection and rational utilization of natural resources such as land, mineral and marine resources in the PRC, including enacting relevant laws and regulations and promulgating the rules governing the management of land, mineral and marine resources (with the exception of marine fishery resources managed by

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the Ministry of Agriculture). MLR is also responsible for formulating the technical criteria, rules, standards and measures for land, mineral and marine resources.

Ministry of Housing and Urban-rural Development

The Ministry of Housing and Urban-Rural Development of the PRC (中華人民共和國住房和城鄉建設部, “MOHURD”) is responsible for, among others, drafting laws and regulations related to prospecting, design, construction and construction control, as well as supervising and directing the implementation thereof. MOHURD is also responsible for formulating rules on the housing ownership, housing lease, housing area management, real estate appraisal and brokerage management, property management, housing requisition, demolition and relocation, and supervising the implementation thereof.

Ministry of Environmental Protection

The Ministry of Environmental Protection of the PRC (中華人民共和國環境保護部, “MEP”) is responsible for enacting and implementing the policies and plans related to national environmental protection, drafting relevant laws and regulations and formulating ministerial rules. The MEP is also responsible for the coordination and supervision of the significant environmental protection issues.

State Administration of Work Safety

The State Administration of Work Safety of the PRC (中華人民共和國國家安全生產監督管理總局, “SAWS”) is responsible for supervising work safety of power generation operations and project construction, and implementing various safety regulations.

State Administration of Taxation

The State Administration of Taxation of the PRC (中華人民共和國國家稅務總局, “SAT”) is responsible for drafting tax laws and regulations, formulating detailed implementation rules, enacting rules on tax service and collection and supervising the implementation thereof, monitoring and examining the implementation of the tax laws and policies, and directing and supervising the local tax administration.

State-owned Assets Supervision and Administration Commission of the State Council

The State-owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會, “SASAC”), which is authorized on behalf of the state to fulfill the investors’ responsibilities and supervise the state-owned assets of the central state-owned enterprises (except financial enterprises), has an indirect influence over us as our controlling shareholder, Huaneng Group is a state-owned enterprise under their direct supervision.

LAWS AND REGULATIONS IN THE PRC WIND POWER INDUSTRY AND RENEWABLE ENERGY

The regulatory framework of the PRC power industry is set out in the Electric Power Law of the PRC (《中華人民共和國電力法》, “Electric Power Law”) which became effective on April 1, 1996. One of the purposes of the Electric Power Law is to protect the legitimate interests of investors, operators and users and to ensure the safety of power operations. The Electric Power Law also states that the PRC government encourages the PRC and foreign companies or individuals to invest in the power industry and set up power plants and regulates these investments. The Renewable Energy Law sets out the regulatory framework for the development and use of

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renewable energy. Renewable energy includes wind energy, solar energy, hydropower, biomass power, geothermal energy, ocean energy and certain other types of non-fossil energy.

The main administration regulations governing the power industry include the Electric Power Regulatory Ordinance (《電力監管條例》) and The Regulations on the Administration of Electric Power Dispatch to Grids (《電網調度管理條例》), effective on May 1, 2005 and November 1, 1993, respectively. The Electric Power Regulatory Ordinance sets forth regulatory requirements for many aspects of the power industry, including, among others, the issuance of Electric Power Business Permit, the regulatory inspections of power producers and grid companies, and the legal liabilities from violations of the regulatory requirements. The Regulations on the Administration of Electric Power Dispatch to Grids regulates the power dispatch to grids.

The ministerial rules related to power industry are mainly set forth by the NDRC, SERC, MLR, MOHURD, MEP and SAT.

From construction to operation, wind power projects shall go through prescribed procedures to procure NDRC approval, land use rights, building ownership and Electric Power Business Permit. In addition, wind power producers should also comply with regulations related to electricity dispatch, on-grid tariffs and taxation.

Approval of Wind Power Projects

The Catalogue of Investment Projects Subject to the Government Examination and Approval (《政府核准的投資項目目錄》) issued by the State Council in 2004 provides that wind power projects with installed capacity of 50 MW or above should be approved by the administrative departments for investment of the State Council. Other wind power projects should be approved by the administrative departments for investment of local governments and report to the NDRC afterwards. The investment department of the State Council refers to the NDRC and the “administrative departments for investment of local governments” refers to the local DRC (planning commissions) and economic and trade commissions (economic commissions) with the functions of investment administration as provided by the local governments. The relevant approval procedure is stated in the Interim Measures on Examination and Approval of Enterprise Investment Projects (《企業投資項目核准暫行辦法》) issued by the NDRC dated September 15, 2004.

Obtaining the Land Use Rights and Building Ownership

In accordance with the Land Administration Law of the PRC (《中華人民共和國土地管理法》), “Land Administration Law”) as amended on August 28, 2004 and the Urban Real Estate Administration Law of the PRC (《中華人民共和國城市房地產管理法》), “Real Estate Administration Law”), land use rights and real estate ownership should be registered and confirmed by certificates. Those certificates shall be obtained in compliance with the required legal procedures after the wind power projects are approved by the NDRC.

According to the Provisional Measures on the Use of Construction Land and Administration of Environmental Protection of Wind Power Project (《風電場工程建設用地和環境保護管理暫行辦法》) issued by the NDRC, MLR and MEP, which became effective on August 9, 2005, wind power project operators should, prior to obtaining NDRC approval, obtain preliminary consent on the use of the land from the provincial land resource administration department and solicit the opinion of the environmental protection administration department. Once the project is approved, the wind farm operators are required to strengthen the environmental protection design based on the requirements set out in the environment impact reports and in the NDRC approval. The power plant is allowed to start operations when it passes the environmental protection completion inspection in accordance with the legal procedure.

Obtaining the Electric Power Business Permit

Pursuant to the SERC's Provision on the Administration of the Electric Power Business Permit (《電力業務許可證管理規定》, the "Permit Provision"), which became effective on December 1, 2005, the electric power business permit should be obtained before engaging in any electric power business in the PRC. Unless otherwise provided by the SERC, any company or individual in the PRC may not engage in any electric power business (including power generation, transmission, dispatch and sales) without obtaining an electric power business permit from the SERC. According to the Permit Provision, an applicant for the electric power business permit for power generation should obtain relevant government approvals based on the power plant's construction plan, generation capacity and environmental compliance.

Dispatch

Pursuant to the Regulations on the Administration of Electric Power Dispatch to Grids (《電網調度管理條例》, the "Dispatch Regulations") issued by the State Council, effective on November 1, 1993, all electric power producers and grid companies must comply with the general dispatch of the dispatch center. Dispatch centers are responsible for the administration and dispatch of power plants connected to the grid.

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

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

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

Dispatch Priority of Renewable Energy Generation

On August 2, 2007, the State Council approved the Provisional Measures on the Dispatch of Energy Saving Power Generation (《節能發電調度辦法(試行)》), which is aimed at optimizing the efficient use of natural resources and encouraging energy savings to achieve sustainability. Pursuant to this regulation, renewable power producers (including wind, solar and tidal power producers) enjoy the highest dispatch priority. The dispatch priority of power generation units is determined in the following preferential order: (a) non-adjustable power generation units utilizing renewable energy sources; (b) adjustable power generation units utilizing renewable energy sources; (c) nuclear power generation units; (d) cogeneration units and resources comprehensive utilization power generation units; (e) gas-fired power generation units; (f) other coal power generation units, including cogeneration units without heat load; and (g) oil-fired power generation units.

On-Grid Tariff Administration

The Electric Power Law sets out the general principles for the determination of power tariffs, according to which, tariffs are to be formulated to provide reasonable compensation for costs and a reasonable return on investment, to share expenses fairly and to promote the construction of further power projects. The on-grid power tariffs of power plants, the supply power tariffs between the grid companies and the sales power tariffs of the grid companies are based on a centralized policy, fixed in accordance with a unified principle and administered at different levels. The on-grid tariffs are subject to review and approval by the NDRC and other competent pricing bureaus.

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

On March 28, 2005, the NDRC issued the Provisional Measures for the Administration of On-grid Tariffs (《上網電價管理暫行辦法》), which provides regulatory guidance for the Reform Plan. For power plants within the regional grids that have not implemented competitive bidding tariff-setting mechanisms, on-grid tariffs will be set by relevant pricing bureaus based on economic life cycle of power projects and in accordance with the principles of reasonable compensation for costs, a reasonable return on investment and tax compliance. For power plants within the regional grids that have implemented competitive bidding tariff-setting mechanisms, on-grid tariffs are two folds: (i) a capacity tariff determined by the NDRC based on the average investment cost of the power producers competing within the same regional grid and (ii) a competitive tariff determined through the competitive bidding process. This NDRC regulation became effective from May 1, 2005.

The Circular Regulations on the Administration of Issues Related to the Electricity Energy Transaction Prices (《關於規範電能交易價格管理等有關問題的通知》) issued by the NDRC, SERC and NEA dated October 11, 2009 provides that other than the interprovincial or cross-regional electricity energy transactions, all on-grid power should be priced in accordance with the tariffs set by the pricing bureaus of the government unless otherwise provided by the state. All producers of renewable energy, except the hydropower producers, must comply with the on-grid tariffs approved by the pricing bureaus.

Mandatory Purchase, Tariffs and Cost Compensation Program of the Renewable Energy

The Renewable Energy Law provides that all electricity power generated from renewable energy shall be purchased in full amount. Grid companies shall purchase the full amount of on-grid electricity generated by approved renewable energy plants whose power generation projects meet the grid connection technical standards in the areas covered by the grid companies’ power grids. Power grid companies shall improve the power grid construction in order to better absorb electricity generated from renewable energy.

According to the Renewable Energy Law and the Provisions on the Administration of Power Generation from Renewable Energy (《可再生能源發電有關管理規定》), the relevant pricing authority under the State Council determines the on-grid tariffs for renewable energy power based on the factors including the power generated from different types of renewable energy, different geographic locations, and the need to facilitate the development and use of renewable energy on a reasonable commercial basis. The pricing authority also adjusts and announces the on-grid tariffs according to the technology for developing and using the renewable energy.

The Provisional Administrative Measures on the Price of Renewable Electricity and Cost Sharing Program (《可再生能源發電價格和費用分攤管理試行辦法》, the “Price and Cost Sharing Regulation”), which was promulgated by the NDRC and became effective on January 1, 2006, provides that for wind power projects that obtained approvals from the NDRC or provincial DRCs after December 31, 2005, the on-grid tariff is the “government guided price”, which shall be determined through public tender and then approved by the

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government. For other renewable energy projects including solar, tidal and geothermal power, their on-grid tariffs are the “government fixed price”, which shall be determined by the relevant pricing authorities under the State Council based on reasonable cost and reasonable return on investment. In addition, the Price and Cost Sharing Regulation provides for a cost sharing program where the end users shall pay the additional tariff (compared to the average on-grid tariff of coal power generation with flue gas desulfurization) and the expenses for connecting to the grid.

On July 24, 2009, the NDRC issued the Circular Regarding the Furtherance of On-grid Pricing Policy of Wind Power (《關於完善風力發電上網電價政策的通知》) (the “On-grid Tariff Circular”), which became effective on August 1, 2009. For the wind power projects approved before August 1, 2009, the on-grid tariffs shall comply with the regulations issued then. In accordance with this On-grid Tariff Circular, for all onshore wind power projects approved thereafter, the on-grid tariff as determined by government guided price discussed above has been replaced by the geographically unified tariff. Specifically, the PRC is categorized into four wind resource zones, and all onshore wind power projects in the same zone are subject to the same standard on-grid tariff (including VAT), respectively RMB0.51/kWh, RMB0.54/kWh, RMB0.58/kWh and RMB0.61/kWh, applicable to that zone. For wind farms spanning across areas with different fixed on-grid tariffs, the higher tariff applies. The On-grid Tariff Circular continues the wind power tariffs sharing system as described above. For the wind power projects, the portion of tariffs which equals the average on-grid tariff of coal power generation with flue gas desulfurization is paid by provincial grid companies and the portion above by end users. The portion to be paid by the grid companies is adjusted according to the adjustments of the average on-grid tariff of coal power generation with flue gas desulfurization.

Pursuant to the amendment of the Renewable Energy Law which became effective on April 1, 2010, the “Cost Sharing Program” is changed to “Cost Compensation Program.” Under this program, the state financial authority initiates a renewable energy development fund out of financial resources from the annual designated funds arranged by the state financial authority, the additional tariffs for the power generated from renewable energy paid by the end users and other resources. The development fund for renewable energy may be used to compensate grid companies for the additional costs they incur to purchase power generated from renewable energy sources above the average on-grid tariff they pay to purchase power generated from non-renewable energy sources.

Designated Funds

The Guidance Catalogue on Renewable Energy Industrial Development (《可再生能源產業發展指導目錄》, the “Catalogue”), issued by the NDRC on November 29, 2005, sets out the description and technical specifications for 88 types of renewable energy projects that may be entitled to preferential tax treatment or designated funding.

The Interim Measures on Administration of Designated Fund for the Development of Renewable Energy (《可再生能源發展專項資金管理暫行辦法》), which became effective on May 30, 2006, states that the Ministry of Finance (“MOF”) will allocate funds from the PRC central financial budget to support the development of renewable energy, especially the development of power generation from wind, solar and ocean energy. The MOF will be responsible for granting the final approval for applications for funding support submitted by companies and individuals. The designated fund may be used for unprofitable renewable energy projects that provide substantial public benefits or subsidized loans to renewable energy projects that satisfy the necessary requirements for financing and are within the descriptions in the Catalogue.

CDM

CDM is an arrangement under the Kyoto Protocol to the UNFCCC. It allows industrialized countries with a greenhouse gas emission reduction commitment to invest in emission reducing projects in developing countries in order to earn CERs. These credits can be used by investors from industrialized countries against domestic

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emission reduction targets or sold to other interested parties, and therefore provide an alternative to more expensive emission reductions in their own countries.

The PRC approved and ratified the UNFCCC in 1993 and the Kyoto Protocol in 2002, but with no binding obligation to meet emission reduction targets. Among the central organizations that are responsible for policy-making, approval and supervision of CDM projects in the PRC, the National Climate Change Coordination Committee is responsible for policy-making and general coordination, while the National CDM Board is responsible for the examination and approval of CDM projects to be implemented in the PRC.

On October 12, 2005, the Measures for Operation and Management of Clean Development Mechanism Projects (《清潔發展機制項目運行管理辦法》, the “CDM Measures”) were promulgated by the NDRC jointly with the Ministry of Science and Technology (“MOST”), the Ministry of Foreign Affairs (“MFA”) and MOF. The CDM Measures set forth general rules and specific requirements for the application for, and approval of, CDM projects, including, among others, the following:

- only companies wholly-owned or controlled by Chinese parties may carry out CDM projects in the PRC.
- the approval procedures of CDM projects includes (i) a review by experts from relevant organizations appointed by the NDRC, (ii) an examination of applications for approval of a CDM project by the National CDM Board and (iii) approval jointly by the NDRC, MOST and MFA, issued by the NDRC.
- for CDM projects, the resources of emission reductions are owned by the PRC government, but the CERs produced from a particular CDM project are owned by the PRC project owner, therefore, the income obtained from transfer of CDM emission reduction shall be owned by the PRC government and the project owner. The distribution proportions of the income between the government and the project owner are different according to different greenhouse gases. With respect to wind power projects that develop and utilize renewable energy and are encouraged as a matter of government policy, only 2% of the proceeds are payable to the PRC government.

ENVIRONMENT PROTECTION

According to the Interim Measures for Management of Construction Land and Environment Protection of Wind Power Projects (《風電場工程建設用地和環境保護管理暫行辦法》) jointly issued by the NDRC, MLR and MEP on August 9, 2005, the construction of wind power projects should be appraised on environmental aspects and approved by local provincial environment authorities. The wind farms should be designed and constructed according to the requirements of the environment authorities. After the construction, the facilities for environment protection of wind power projects should be inspected in accordance with relevant procedures. Otherwise, the project is not allowed to be put into operation.

SAFETY AND LABOR PROTECTION

The Work Safety Law of the PRC (《中華人民共和國安全生產法》), which became effective on November 1, 2002, is the principal law governing the supervision and administration of work safety and labor protection for power projects. In accordance with the Measures on Supervision and Administration of the Work Safety of Electricity Industry (《電力安全生產監督管理辦法》), issued by the SERC in March 2004, power plants are responsible for maintaining their safety operations in accordance with requirements set by the regional grid in which they are located. Power plants are required to report to the SERC, the SAWS and relevant local governmental authorities any serious safety accident within 24 hours.

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

The Employment Contract Law of the PRC (《中華人民共和國勞動合同法》) was promulgated on June 29, 2007 and became effective on January 1, 2008. This law governs the establishment of employment relationships between employers and employees, and the execution, performance, termination of, and the amendment to, employment contracts. Compared to the PRC Labor Law, the PRC Employment Contract Law provides additional protection to employees by requiring written labor employment contracts, 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 contributions for their employees.

TAXATION

The renewable energy industry in the PRC generally enjoys certain tax incentives and rebates.

Enterprise Income Tax Law

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

On March 16, 2007, the PRC National People’s Congress enacted the PRC Enterprise Income Tax Law (the “New EIT Law”), which, together with its related implementation rules issued by the PRC State Council on December 6, 2007, became effective on January 1, 2008. The New EIT Law imposes a single uniform income tax rate of 25% on all Chinese enterprises, including foreign invested enterprises, and eliminates or modifies most of the tax exemptions, reductions and preferential treatments available under the previous tax laws and regulations. On December 26, 2007, the PRC State Council issued a Notice on the Implementation of the Transitional Preferential Tax Policies (《國務院關於實施企業所得稅過渡優惠政策的通知》), or Circular 39. Pursuant to Circular 39 and the New EIT Law, certain of our subsidiaries are entitled to apply the transitional rates of 18%, 20%, 22%, 24% and 25% for 2008, 2009, 2010, 2011 and 2012 onwards, respectively. Further, as of January 1, 2008, the enterprises that previously enjoyed “two-year exemption and three-year reduction by half” of the enterprise income tax and other preferential treatments in the form of tax deductions and exemptions within specified periods may, after the implementation of the New EIT Law, continue to enjoy the relevant preferential treatments until the expiration of the time period. However, if such an enterprise has not enjoyed the preferential treatments yet because of its failure to make profits, its preferential time period shall be calculated from 2008.

Under the New EIT Law, the preferential tax treatment for encouraged enterprises located in western China and certain industry-oriented tax incentives are still available. The Chinese and foreign-invested enterprises within the state-encouraged industry located in western China are taxed at a preferential income tax rate of 15% for years from 2001 to 2010.

In addition, pursuant to the Circular on the Execution of the Catalogue of Public Infrastructure Projects Entitled for Preferential Tax Treatment (“Circular 46”) (《財政部、國家稅務總局關於執行公共基礎設施項目企業所得稅優惠目錄有關問題的通知》) and Circular on the Implementation of the Catalogue of the Key Public

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Infrastructure Projects Supported by the State and Entitled for Preferential Tax Treatment (“Circular 90”) (《國家稅務總局關於實施國家重點扶持的公共基礎設施項目企業所得稅優惠問題的通知》), an enterprise set up after January 1, 2008 and engaged in public infrastructure projects is entitled to three-year full exemption followed by a three-year 50% exemption commencing from the first year it generates operating income. Accordingly, wind power projects which have obtained government approval on or after January 1, 2008 are fully exempted from EIT for three years starting from the year when operating income is first derived from the sales of electricity, and is 50% exempted from EIT for three years thereafter.

VAT Law

Pursuant to the “Notice on Value Added Tax Policy Regarding Comprehensive Utilization of Resources and Other Products” (《關於資源綜合利用及其他產品增值稅政策的通知》), wind power projects are entitled to a tax rebate equivalent to 50% of the VAT payable by the wind power business.

Under the Interim Regulation of the PRC on Value Added Taxes (《中華人民共和國增值稅暫行條例》), 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.