
REGULATORY OVERVIEW

Our operations of gas-fired power, wind power and hydropower are all subject to policies of the PRC government, the relevant laws and regulations of the PRC and the regulation by the relevant governmental departments. These laws and regulations govern a wide range of areas including, among others, project approvals, power generation, transmission and dispatch, on-grid tariffs and environmental protection and safety. In addition, our operations are subject to taxes and other fees in the PRC and the general laws and regulations without industry-specific requirements, such as those governing foreign investments and foreign exchange issues.

I. PRINCIPAL REGULATORY AUTHORITIES

1. The State Council, the supreme administrative power of the PRC, has the power to approve certain special production and investment projects contained in the Decision of the State Council on Reforming the Investment System (《國務院關於投資體制改革的決定》) or the Guideline Catalog for Adjustment of Industrial Structure (《產業結構調整指導目錄》).

2. The National Energy Commission (國家能源委員會). The General Office of the State Council issued on January 22, 2010 the Notice on the Establishment of the National Energy Commission (Guo. Ban. Fa. [2010] No.12) (《關於成立國家能源委員會的通知 (國辦發[2010]12號)》), which declared that the National Energy Commission was founded from that day. The premier of the State Council is the director of the Commission, a vice premier is the vice director, and the ministers of the relevant ministries and heads of other relevant departments of the State Council are the members of the Commission. According to the Notice, the Commission is responsible for determining the State's energy development policies, reviewing the material issues regarding the energy safety and the energy development, and coordinating major events in domestic energy development and international cooperation.

3. The National Development and Reform Commission (NDRC) and provincial DRC are responsible for:

- (1) Determining and implementing major policies concerning China's economic and social development;
- (2) Reviewing and approving investment projects at certain scale of investment or of certain special industrial categories;
- (3) Formulating and promulgating and assisting in implementing industrial and investment policies for the renewable energy industry such as solar power generation, hydropower and wind power;
- (4) Promulgating regulations and rules in connection with the operation of power plants;
- (5) Setting power tariffs and accepting and approving CDM projects;

REGULATORY OVERVIEW

4. The National Energy Administration (國家能源局), a national administration under the NDRC, is principally responsible for:

- (1) Researching domestic and overseas the status of development and usage of energies, proposing energy development strategy and major policies;
- (2) Researching and drafting energy development plan and giving suggestion on system reform;
- (3) Regulating the sectors of petroleum, natural gas, coal and electric power among others, directing the local development of energy resources;
- (4) Proposing measures for saving energy and developing new energies;
- (5) Managing the national petroleum storage;
- (6) Implementing, coordinating and managing governmental cooperation with foreign countries;
- (7) Doing routine work for the general office of the National Energy Commission.

5. The State Electricity Regulatory Commission (SERC) and local electricity regulatory authorities are mainly responsible for:

- (1) Researching and drafting laws and regulations, as well as relevant amendments, on regulation of electricity industry, formulating regulatory rules for the sector; and setting rules for electricity market operations;
- (2) Regulating the operation of electricity market, maintaining market order, and ensuring a level-playing field;
- (3) Regulating electricity transmission, distribution and non-competitive power generation businesses;
- (4) Participating in setting, and inspecting and supervising the implementation of, technical and safety standards, quantitative and qualitative codes for electricity industry,
- (5) Issuing and administering power business licenses;
- (6) Supervising and inspecting the implementation of environmental protection laws, regulations, policies and standards in electricity sector in conjunction with relevant authorities of environmental protection;
- (7) Supervising and inspecting relevant tariff levels;
- (8) Investigating into violations of laws and regulations by participants in the electric market, and handling disputes among them, in accordance with the relevant laws and regulations.

REGULATORY OVERVIEW

6. The MOFCOM, which, together with the NDRC and the Ministry of Finance (MOF), encourage energy saving and reasonable development and utilization of renewable energy through tax incentives and providing funds for the development of renewable energy.

7. The State Administration of Work Safety (SAWS), which together with the local work safety authorities, is responsible for supervising and managing work safety in power generation operations and project construction, and formulating work safety regulations.

8. The Ministry of Environment Protection (MEP), which is responsible for the supervision of environmental protection and monitoring of the PRC's environmental protection system at the national level.

9. The State Administration of Taxation (SAT), which is responsible for promulgating and implementing tax policies and regulations.

10. State-owned Assets Supervision and Administration Commission of People's Government of Beijing Municipality, which is authorized by Beijing Municipal Government to perform the functions as an investor on its behalf, and controls and directs BEIH, our controlling shareholder, therefore it may impose important influence over us.

II. OVERALL REGULATORY SCHEME AND GUIDELINES FOR THE POWER INDUSTRY IN THE PRC

The Electric Power Law of the People's Republic of China ("Electric Power Law," 《中華人民共和國電力法》) adopted at the 17th Meeting of the Standing Committee of the 8th People's Congress of the PRC and effective as of April 1, 1996 and the Electric Power Regulatory Ordinance (《電力監管條例》) adopted at the 80th executive meeting of the State Council on February 2, 2005 and effective as of May 1, 2005 provide for the overall regulatory framework of the PRC power industry and the guidelines for the industry. 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 and regulates domestic and foreign investment in the power industry. The Electric Power Regulatory Ordinance (《電力監管條例》) sets forth regulatory requirements for many aspects of the power industry, including, among others, the issuance of Electric Power Business Permit (《電力業務許可證》), the regulatory inspections of power generators and grid companies and the legal liabilities for violations of the regulatory requirements.

At present, the Check-Compliance-Approval System (核准制, under which the governmental authorities check whether a project meets the published requirements, if so, the governmental authorities must approve the project) is applied with respect to the electric power industry, particularly, non-governmental-funded electric power generation projects. Under the Decision of the State Council on Reforming the Investment System (《國務院關於投資體制改革的決定》) promulgated and effective as of July 16, 2004, electric power investment projects are subject to the Check-Compliance-Approval by the State Council or other relevant investment administration authorities. Under the Check-Compliance-Approval System (核准制), the power of the government to approve investment projects are set forth in the Catalog of Investment Projects Subject to Check-Compliance-Approval approved and promulgated by the State Council.

REGULATORY OVERVIEW

1. Check-Compliance-Approval of Electric Power Projects

Under the Decision of the State Council on Reforming the Investment System (《國務院關於投資體制改革的決定》) and the Catalog of Investment Projects Subject to Check-Compliance-Approval by the Government (《政府核准投資項目目錄》) 2004 attached to it, for hydroelectric projects, power projects on major rivers and hydropower projects with the total installed capacity of 250,000 kilowatt or more shall be subject to the approval of the competent investment administration departments of the State Council, and other projects shall be subject to the approval of the competent investment administration departments of local governments; steam power projects shall be subject to the approval of the competent investment administration department of local governments, except that coal power projects shall be subject to the approval of the competent investment administration department of the State Council; wind power projects with total installed capacity of 50,000 kilowatt or more shall be subject to the approval of the competent investment department administration of the State Council, and other projects shall be subject to the approval of the corresponding department of local governments.

2. Electric Power Business License (《電力業務許可證》)

The SERC issued on October 13, 2005 the Provisions on the Administration of Electric Power Business Licenses (the “Provisions on Licenses”) (《電力業務許可證管理規定》), which provides that the market access license system is applied to the electric power industry in the PRC, and the Provisions on Licenses took effect on December 1, 2005. Under the Provisions on License, 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 sale) without holding an electric power business license issued by the SERC; where an enterprise don't hold an Electric Power Business License, but unlawfully engages in any electric power operations, it will be subject to administrative penalty, and where such violation constitutes a criminal offense, it will be subject to criminal liabilities according to law. The Electric Power Business License is applied to three kinds of operations: power generation, transmission and supply, and its valid term is 20 years. The SERC has the power to issue and regulate electric power business licenses. Under the Provisions on Licenses, any enterprise that applies for an Electric Power Business License for Power Generation (發電業務許可證) shall meet the following requirements: the construction of its power generation project has been approved by the relevant administrative authority; its power generation facilities have the corresponding capability; and its power generation project meets the relevant provisions on and requirements for environmental protection. According to the Notice on Acceleration of the Issue of Electric Power Business Licenses (《關於加快電力業務許可證頒發工作的通知》) issued by the SERC, power plants which were constructed and went into operation after December 1, 2005 and the construction of all power generation projects had been completed before July 31, 2006 must obtain an electric power business license applicable to power generation companies by the end of 2006; the construction of those power generation projects was completed after August 1, 2006 and those newly constructed power generating projects shall obtain a electric power business license for its newly constructed projects as well as its existing projects within three months from the commencement of operation of the projects.

3. Dispatch

All electric power generated in China is dispatched through power grids, except for electric power generated by facilities not connected to a grid. Dispatch of power to each grid is administered by dispatch centers. Dispatch centers are responsible for the administration and dispatch of planned output of power plants connected to the grid. Dispatch centers shall comply with the Regulations on the Administration of Electric Power Dispatch to Networks and Grids (《電網調度管理條例》, the “Dispatch Regulations”) issued by the State Council, effective on November 1, 1993, and the Rules for the Implementation of the Regulations on the Administration of Electric Power Dispatch to Networks and Grids (《電網調度管理條例實施辦法》, the “Rules for Implementation”) issued by the former Ministry of Electric Industry and effective on October 11, 1994.

Pursuant to the Dispatch Regulations and the Rules for Implementation, the operation of the grid shall be carried out on the principles of “centralized dispatch” and “decentralized management”. 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. The dispatch centers of the interprovincial power grid and of the provincial power grid shall, based on the plan made and issued by the central government, the relevant power supply agreements and the access to grid agreements, and the capacity of the grid equipment, formulate annual power generation and supply plan for the region which they cover, and shall file the power generation and supply plan to the SERC.

Under the Interim Measures for the Promotion of Openness, Equity and Justice in Power Dispatch (《電監會關於促進電力調度公開、公平、公正的暫行辦法》) issued by the SERC and effective as of January 1, 2004, dispatch centers shall, pursuant to the power purchase and sale agreements and the access to grid and power dispatch agreements, formulate a dispatch plan, adopt appropriate operation method, enhance the economic return and social benefit of the operation of the grid, all subject to the overall requirement of the operation of the grid.

4. On-grid Tariff

The Electric Power Law has set forth the general principles for the determination of power tariffs. Tariffs are to be formulated to provide reasonable compensation for costs and reasonable return on investment, to share expenses fairly and to promote the construction of power projects. The on-grid tariffs for planned output and excess output are subject to the annual review and approval process by the NDRC and the provincial pricing bureaus.

With respect to distribution of the power to set on-grid tariff, the Electric Power Law provides that the on-grid tariff of the interprovincial grid or the provincial grid shall be primarily determined jointly by the relevant power generation enterprises and the operators of the grid through consultation, but shall be subject to the approval of the relevant administration departments of the State Council; and the on-grid-tariff of independent grid shall be primarily determined jointly by the relevant power generation enterprises and the operators of the grid through consultation, but shall be subject to the approval of the relevant price administration authority.

REGULATORY OVERVIEW

In addition to the relevant provisions in the Electric Power Law, the State Council approved in July 2003 the Power Tariff Reform Plan (《電價改革方案》) (the “Reform Plan”), which states that the long-term objective of the power tariff reform is to establish a sound and transparent on-grid tariff-setting mechanism.

The NDRC issued on March 28, 2005 the Provisional Measures for the Administration of On-grid Tariff (《上網電價管理暫行辦法》), which took effect as of May 1, 2005 and provides for regulatory guidance for the Reform Plan. For power plants within the regional grids that have not implemented competitive bidding tariff-setting mechanisms, on-grid tariffs will be set and announced by relevant pricing administration authorities based on production costs plus a reasonable investment return. For power plants within the regional grids that have implemented competitive bidding tariff-setting mechanisms, on-grid tariffs are two folds: (i) a capacity grid tariff determined by the pricing administration department based on the average investment cost of the power generators competing within the same regional grid and (ii) a competitive tariff determined through the competitive bidding process; enterprises of such new and renewable energies as the wind and geothermal power are permitted not to participate in the market competition for the time being, and the electric power produced by them shall be purchased by grid enterprises in priority at the price fixed by government or at the bidding price, and the government will determine the proportion of electric quantity of new and renewable energies to the sold electric quantity of an electricity supplying enterprise in good time and establish a dedicated competitive market for new and renewable energies.

Under the Regulations on the Power Generation by Using Renewable Energies (《可再生能源發電有關管理規定》) issued by the NDRC and effective as of January 5, 2006, the on-grid-tariff of the power generated by using renewable energies shall be determined by the pricing administration department under the State Council according to the categories of the renewable energies and the regions where the plants are located and on the principle of reasonable economy and the principle that the development and usage of the renewable energies shall be enhanced, and shall be adjusted from time to time according to the development status of the technologies of the development and use of the renewable energies.

III. REGULATORY REQUIREMENTS RELATING TO RENEWABLE ENERGIES

1. Overall Regulatory Scheme

The Outline of the Development of New and Renewable Energies (《新能源和可再生能源發展綱要》), effective as of January 5, 1995, provides that the principle for the development of the energy industry in the PRC is to save energy, to enhance the efficiency of the use of energy, and to substitute clean energy as much as possible for mineral fuel of high carbon.

The Law of the People’s Republic of China on Saving Energy (《中華人民共和國節約能源法》) adopted by the Standing Committee of the Eighth National People’s Congress on November 1, 1997 was amended on October 28, 2007. The law as amended took effect as of April 1, 2008. According to the law, saving energy is a fundamental policy of the PRC.

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 came into effect on January 1, 2006. The Amendment to the

REGULATORY OVERVIEW

Renewable Energy Law of the PRC was adopted at the 12th Meeting of the Standing Committee of the 11th National People's Congress on December 26, 2009, which provides for the regulatory framework for the development and use of renewable energies. Renewable energy includes wind energy, solar energy, hydropower, biomass power, geothermal energy, ocean energy and certain other types of non-fossil energy. It is stated in the law that PRC will first develop and use renewable energies and enhance the development of the market of renewable energies through setting overall target for the total quantity of renewable energies developed and consumed and other relevant measures.

The Guiding Catalog for the Development of Renewable Energy Industry (《可再生能源產業發展指導目錄》, the "Catalog") issued by the NDRC on November 29, 2005 sets forth 88 types of renewable energies covering wind power, solar power, biomass power, geothermal energy and ocean energy and water power the project of which may be entitled to preferential tax treatment or designated funding if other requirements are satisfied. For projects of the energies listed in the Catalog which are worth being popularized, the relevant departments of the State Council will set down preferential treatment in respect of technical development, project demonstration, taxation, pricing, marketing and sale, import and import among others.

2. Project Approval

Under the Decision of the State Council on Institutional Reforming the Investment System (《國務院關於投資體制改革的決定》), the Interim Measures on Examination and Approval of Enterprise Investment Projects (《企業投資項目核准暫行辦法》) and the Interim Measures on Administration of Examining and Approving Foreign Invested Projects (《外商投資項目核准暫行管理辦法》), before commencing construction, a renewable energy power generation project must obtain requisite permits and government approvals, which include approvals related to pre-approval views of the project construction sites, environmental impact assessment, project approvals and construction permits.

The Provisions on the Administration of Power Generation from Renewable Energy (《可再生能源發電有關管理規定》), effective on January 5, 2006, provides that hydropower projects on major rivers and projects with the total installed capacity of 250 MW or above and wind power projects with installed capacity of 50 MW or above is subject to the approval by the NDRC, other power generation projects is subject to approval by the provincial DRC and a report on such projects shall be filed with the NDRC. Filing with and approval by the NDRC are required for other renewable projects including biomass, geothermal, oceanic and solar power projects if the owners of such projects apply for supports of government policies and funding.

On January 22, 2010, the National Energy Administration (國家能源局) and the State Oceanic Administration (國家海洋局) jointly promulgated the Interim Measures for Management of the Development and Construction of Offshore Wind Power Projects (《海上風電開發建設管理暫行辦法》), which stipulates that offshore wind power projects are the projects located at sea areas where the coastal line is below the average level of spring tide and high tide over a multiple year period, which includes projects located on deserted islands in the corresponding sea area. The National Energy Administration is responsible for the management of the development and construction of offshore wind power projects at the national level. The Provincial (regional, municipal) Energy Administration of the coastal

REGULATORY OVERVIEW

province is responsible for the management of the development and construction of offshore wind power projects within its administration under the direction of National Energy Administration. The enterprises engaged in the development and investment of the offshore wind power projects will be selected through a tender process on a priority basis, the tender conditions of which should be the network electricity price, the project plan, the technical competence and the business performance. Such enterprises shall be Chinese funded enterprises or Sino-foreign joint venture enterprises controlled by Chinese investors (with equity interest of above 50.0%). In addition, offshore wind power projects shall not commence construction until approvals of such projects and the right to use such sea area has been obtained.

On August 31, 2007, the National Development and Reform Commission (國家發展和改革委員會) promulgated the Medium and Long-term Development Plan of Renewable Energy (《可再生能源中長期發展規劃》), which provides that for the purpose of accelerating the development of solar power technology and doing a good job in strategic reserve of solar technology, the PRC would establish large scale solar photovoltaic and solar thermal power plants, by 2020, the PRC planned to increase its cumulative solar photovoltaic power capacity to 200MW, and the solar thermal power capacity to 200MW.

According to the Medium and Long-term Development Plan of Renewable Energy (《可再生能源中長期發展規劃》), China planned to build waste-to-energy power plants in the economic developed area with rare land resources, the key areas include the cities under the governance of the Central Government, the cities at provincial level, the costal cities, the tourist cities and the cities near major streams and lakes. By 2010, the aggregate installed capacity of power generation based on waste-to-energy would be 500MW and further, by 2020, the aggregate installed capacity of such power generation would be 3GW.

3. Mandatory Purchase and Dispatch Priority

Under the Renewable Energy Law, the Provisions on the Administration of Power Generation from Renewable Energy (《可再生能源發電有關管理規定》) and the Regulatory Rules for the Purchase by Grid Enterprises of All Electric Power Generated from Renewable Energies (《電網企業全額收購可再生能源電量監管辦法》) effective as of September 1, 2007, mandatory obligations shall be imposed on grid companies to purchase all the electricity generated from renewable energy projects that are within the coverage of their grids, and to provide grid-connected services. In addition, the SERC and its local branches should supervise grid companies' performing their mandatory purchase obligation and grid-connection obligations under the Renewable Energy Law. Grid companies that fail to satisfy these obligations may be penalized. The SERC may also determine a time limit within which the grid companies must compensate the losses incurred by such renewable energy enterprise and remedy their failure, otherwise they may be given a fine not exceeding the amount of the losses suffered by such renewable energy enterprise.

On August 2, 2007, the State Council approved the Measures for the Dispatch of Energy Saving Power (For Trial) (《節能發電調度辦法(試行)》), which is designated to improve the efficiency in use of natural resources and encourage energy savings to achieve sustainable development. The Measures cover all power generation units which have access to the grid.

REGULATORY OVERVIEW

Pursuant to the Measures, power generators are able to enjoy the highest dispatch priority if they use renewable energy including wind, solar and tidal power.

Pursuant to the Measures for the Dispatch of Energy Saving Power (For Trial), the order of the power dispatch priority enjoyed by power generation units shall be as follow: (a) non-adjustable power generation units utilizing renewable fuels; (b) adjustable power generation units utilizing renewable fuels; (c) nuclear power generation units; (d) cogeneration units and resources comprehensive utilization power generation units; (e) gas-fired power generation units; (f) other coal power generation units, including cogeneration units without heat load; and (g) oil-fired power generation units.

4. Tariff and Cost Sharing Program

According to the Renewable Energy Law and the Provisions on the Administration of Power Generation from Renewable Energy (《可再生能源發電有關管理規定》), the relevant pricing administration department under the State Council shall determines the on-grid tariffs of renewable energy power based on various factors, including the natures of the power generated from different types of renewable energies, different geographic locations, and the need to enhance the development and use of renewable energy on a reasonable commercial basis.

The Trial Measure for the Renewable Resources Tariff and Cost Sharing (《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”) was promulgated by the NDRC and became effective on January 1, 2006, which provides for details for the determination of renewable energy tariffs. The Price and Cost Sharing Regulation provides that there are two types of on-grid tariffs for electricity generated from renewable energy: “government fixed price” and “government guided price.”

(1) For wind power projects that were approved by the NDRC or provincial DRCs from 2006 (including 2006), the on-grid tariff shall be the “government guided price”, which is determined by the price administration department of the State Council based on the price determined through the public tender procedure.

(2) On-grid tariffs for biomass projects which win a bidding process shall be determined based on the price offered by such projects in the bidding process, while all other biomass projects are subject to “government fixed price,” which shall be determined by the relevant pricing authorities and equivalent to provincial or local on-grid price of desulfurized coal power in 2005 plus a government subsidy of RMB0.25 per kWh. This government subsidy will be eliminated once a biomass project has been in operation for 15 years. For all biomass projects approved after 2010, the government subsidy provided per kWh generated will decrease at an annual rate of 2%.

(3) The on-grid tariffs of power generated by projects of other renewable energy shall be “government fixed price,” which is determined by the relevant pricing authorities on the basis of “reasonable cost plus reasonable return on investment.”

In addition, pursuant to the Price and Cost Sharing Regulation, for the renewable energy projects approved after January 1, 2006, the resulting additional cost that grid companies pay compared to the cost calculated on the basis of the average on-grid tariff of coal power generation may be passed to end-users. The Cost Sharing Program states that

REGULATORY OVERVIEW

(a) the price difference between on-grid renewable energy power and on-grid desulfurized coal power, (b) the price difference between the costs relating to the operation and the maintenance of the public and independent renewable power system invested or subsidized by the State and the average sales tariff of the local provincial grid, as well as (c) the grid-connection fee for renewable energy power projects will be borne by end-users within the coverage of the grid companies at or above the provincial level by paying a tax-free tariff surcharge. According to notices about on-grid tariff adjustment in various regions of the PRC issued by the NDRC, the tariff surcharge is increased to RMB4.0 per MWh with effect from November 20, 2009.

On July 24, 2009, the NDRC issued the Notice on improving on-grid Tariff Policy for Wind Power (《關於完善風力發電上網電價政策的通知》), which has come into effect on August 1, 2009. Under the Circular, the territory of the PRC is divided into four kinds of wind power regions according to the status of the wind power and the conditions for construction of wind power projects, and different standard on-grid tariffs shall be determined for the four kinds of wind power regions, that is RMB0.51/kWh, RMB0.54/kWh, RMB0.58/kWh or RMB0.61/kWh respectively for the four kinds of wind power regions. Under the Circular, the standard on-grid tariff for a wind power region shall be applied to the wind power generated by all overland wind power projects which were or will be approved after August 1, 2009. For wind farms spanning across regions with different fixed on-grid tariffs, the higher tariff applies.

The NDRC, SERC and the National Energy Administration (《國家能源局》) jointly issued the Circular on the Regulation of the Price of Electric Power and Other Issues (《關於規範電能交易價格管理等有關問題的通知》) on October 11, 2009. Under the Circular, after the commercial operation of the power generation units, except for the transaction of electric power between different provinces or between different regions or otherwise provided by the relevant laws and national regulations, all on-grid electric power generated by them is subject to the on-grid tariffs determined by the pricing authority; before the commercial operation of the power generation units, the on-grid tariffs of the electric power generated by them shall be a certain percentage of the standard on-grid tariff of desulfurized coal power of the region: 50% applies to hydropower, and the renewable power generation units other than hydropower are subject to the on-grid tariff approved by the relevant price authority from the date when they begin to transmit electric power to the grid; as to the alternative power generation as approved by the relevant authority or the transaction of power generation rights, the power generation enterprises shall only have the right to provide such quantity of power and to charge such price as agreed in the relevant contract or agreement.

5. Designated-Purpose-Subsidy

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

REGULATORY OVERVIEW

The Notice of Temporary Measures on Management of Subsidy Funding to Beijing Urban Public Use Enterprises (《關於印發北京市城市公用企業補貼資金使用管理暫行辦法的通知》) issued by the Beijing Municipal Finance Bureau (北京市財政局) on April 14, 2003 and effective as of the same day provides that subsidy shall be granted for public urban utility products which the public is very concerned about, subject to government-fixed-price, specialists' demonstration or pricing hearing, and used to make up the difference between the reasonable cost and the government-fixed-price of such products. The subsidy for urban public utility enterprises is classified into two kinds: the subsidy for loss due to government policy and the designated-purpose-subsidy. Our gas power generation enterprise is entitled to the subsidy for loss due to government policy, which is granted on the basis of combination of fixed quote and fixed quantity. At the end of each year, the enterprises involved shall engage a qualified accounting firm to comprehensively audit the use by them of the subsidy they have been given and submit to the Beijing Municipal Finance Bureau (北京市財政局) the audit report together with the financial statements of the enterprises and the statement on the use of the subsidy within a period set by the Beijing Municipal Finance Bureau (北京市財政局). Beijing Municipal Finance Bureau evaluates and checks the use by the enterprises of the subsidy given to them based on such documents.

The Notice on Improving the Management on Subsidy to Power Enterprises (《北京市財政局關於加強電力企業補貼資金管理的通知》) issued by the Beijing Municipal Finance Bureau (北京市財政局) on April 14, 2009 and effective as of the same day provides that subsidy shall be declared by Price Administrative Department of Beijing and granted to gas power and wind power companies in addition to on-grid tariff as provided by the NDRC. The principle for subsidy granted to gas power and wind power enterprise is “gross amount control and fixed subsidy”, which means the price administrative authority will determine the amount of the subsidy based on the annual approved quantity of on-grid electricity generation entitled to subsidies, and no subsidy will be provided for the actual electricity generated in excess of the aforementioned approved amount. In the meantime, a subsidy will be provided to the power enterprise according to a calculation standard based on the gap between the each enterprise's on-grid tariffs (excluding tax) applied by the price administrative authority of Beijing and the settlement tariffs approved by the NDRC. The actual subsidy paid by Beijing Municipal Finance Bureau is adjusted annually according to adjustment in on-grid tariffs. In the beginning of every year, each enterprise should prepare the subsidy funding budget according to the relevant tariffs application documents published by the Price Administrative Department of Beijing on its own electricity sales plan. The enterprise will be granted 80% of the budget after entering into the electricity sales contract with the power grid companies. At the end of each year, the power enterprise should adjust the number according to the implementation of the budget and settle the subsidy on the basis of Annual Audit Report of the Enterprise before the end of January of the next year.

The Company's subsidiaries, Taiyanggong Power and Jingfeng Power, have obtained natural gas price subsidies based on approvals from the Beijing Municipal Finance Bureau (北京市財政局). For more details, please see “Financial Information—Significant Factors Affecting Our Results of Operations and Financial Condition—Government grants and subsidies”. According to the Notice of Temporary Measures on Management of Subsidy Funding to Beijing Urban Public Use Enterprises (《關於印發北京市城市公用企業補貼資金使用管理暫行辦法的通知》), the enterprise wishing to be

REGULATORY OVERVIEW

continually granted such subsidies should make relevant application for, and obtain the approval of the Beijing Municipal Finance Bureau (北京市財政局).

6. CDM

CDM is an arrangement under the Kyoto Protocol under the UNFCCC. It is designed to reduce the emission of greenhouse gas through international cooperation. It allows industrialized countries with a greenhouse gas emission reduction commitment to invest in emission reducing projects in developing countries in order to earn Certified Emission Reductions (CERs). These CERs can be used by investors from industrialized countries to offset their domestic emission reduction commitment or sold to others, and therefore provides an alternative to more expensive emission reductions in their own countries. Therefore CDM is a win-win arrangement for both developed and developing countries.

The PRC joined the UNFCCC in 1993. The PRC, as one of the signatory states of the Kyoto Protocol, filed a ratification letter to the UN in August 2002 to ratify the Kyoto Protocol of UNFCCC.

Among the central governmental agencies in charge of policy-making, approval and regulation of CDM projects in PRC, the Office of the National Leading Committee on Climate Change is responsible for policy-making and overall coordination, and the National CDM Board is responsible for checking and approving CDM 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 jointly promulgated by the NDRC, the Ministry of Science and Technology (科技部, “MOST”), the Ministry of Foreign Affairs (外交部, “MFA”) and MOF, which states that the CDM allows developed countries to obtain CERs generated by CDM projects through cooperation between the developed and developing countries with respect to such CDM projects. The CDM Measures set forth general rules and specific requirements for the examination and approval of CDM projects, including, among others, the following:

- (1) Only companies wholly-owned or controlled by Chinese party may carry out CDM projects in the PRC;
- (2) The approval procedure of CDM projects is as follows: (i) review by experts from relevant organizations appointed by the NDRC, (ii) examination and approval by the National CDM Board of applications for approval of a CDM project and (iii) approval jointly by the NDRC, MOST and MFA and issue by the NPRC of a Letter of Approval;
- (3) The CDM Board sets the floor price of the CERs generated in and sold from the PRC; and
- (4) With respect to CDM projects approved on or after October 12, 2005, (i) the resources of emission reductions are owned by the PRC government, (ii) CERs produced from a particular CDM project are owned by the project owner, (iii) the PRC government imposes a levy on the proceeds from selling CERs under a CDM project at various levels depending on the types of projects. With respect to wind power projects, whose development is encouraged by the PRC government, the PRC government takes only 2% of the proceeds.

IV. WORK SAFETY AND LABOR PROTECTION

Under the Circular of the Ministry of Water Resources and Electric Power on Promulgation of the Ordinance for Work Safety in Electric Power Generation Industry (《水利電力部關於頒發〈電力安全生產工作條例〉的通知》) issued by the former Ministry of Water Resources and Electric Power (水利電力部) on March 8, 1988, any electric power related enterprises shall establish a strict safety responsibility distribution scheme and a work safety supervision scheme.

Under 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 and was amended on August 27, 2009, and the Regulation on Work Safety License (《安全生產許可證條例》), which took effect on January 13, 2004, and other relevant laws and regulations, the State Administration of Work Safety shall regulate and supervise the work safety in the PRC. Under the Measures on Supervision and Administration of the Work Safety in Electricity Industry (《電力安全生產監管辦法》) issued by the SERC in March 2004, the SERC is responsible for specific supervision and administration of the electric power related enterprises in the PRC, and the State Administration of Work Safety is responsible for the comprehensive administration of the electric power related enterprises in the PRC. Electric power-related enterprises themselves are responsible for maintaining their safe operations, so they must strictly comply with the relevant laws and regulations, industrial code and standards. Upon the occurrence of the major or great personal injury or death accidents, power grid accidents, damage of facilities, collapse of dam of power plant, and fire accidents, the electric power enterprises involved shall send a report to the SERC and copy such report to the State Administration of Work Safety and the local work safety administration within 24 hours after the occurrence.

Under the Interim Provisions on the Investigation into Electric Power Generation Accidents (《電力生產事故調查暫行規定》) promulgated on December 28, 2004 and effective as of March 1, 2005, if any electric power enterprise incurs any major personal injury accident or more serious ones, power grid accident, equipment accident, fire accident, dam-collapse accident, or any other power failure that results in serious harm to the public, it shall immediately, but in no case later than 24 hours, report to the SERC the time, place, survey of the accident and the emergency measures being taken. The Circular on the Issue of Interim Provisions on the Information Submission of Electric Work Safety (《關於印發〈電力安全生產信息報送暫行規定〉的通知》) issued by the SERC on March 10, 2004 provides for the rules for counting and reporting electric power related accidents.

The Labor Law of the PRC (《中華人民共和國勞動法》), promulgated on July 5, 1994 and effective as of January 1, 1995, was principally designed to set forth the rights and obligations of the two parties to an employment, to protect the legitimate rights and interests of the employees and to establish and develop harmonious and stable employment relationships. The Employment Contract Law of the PRC (《中華人民共和國勞動合同法》) and the Implementing Regulations for the Employment Contract Law of the PRC (《中華人民共和國勞動合同法實施條例》) principally deal with the employment relationship between employers and employees, the entry into, performance and termination of, and amendment to, an employment contract. Compared to the Labor Law of the PRC (《中華人民共和國勞動法》) effective as of January 1, 1995, the Labor Contract Law of the PRC principally provides that employers shall sign written contract with their employees and enter into a long-term employment contract with

REGULATORY OVERVIEW

their employees if the conditions are satisfied, and limit the scope of the events under which employees shall pay fine for their breach of employment contract and set forth more serious penalty over employers who fail to pay salary to and social insurance premium for their employees, and in turn provide for protection measures to employees.

V. ENVIRONMENT PROTECTION

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

The Environmental Protection Law (《環境保護法》) promulgated by the Standing Committee of the National People's Congress of the PRC in 1989 is the most important environmental protections legislation in the PRC. The law provides for the fundamental principle that the economic growth, social progress and environment protection shall be harmoniously coordinated and sets forth the powers and responsibilities of the governments of all levels in respect of environment protection.

Under the Environmental Protection Law (《環境保護法》), the competent Environmental Protection Ministry under the State Council (國家環保部) has the power to determine the national standards for environment quality and the standards for the emission of pollutants and comprehensively regulate and supervise the nationwide environment; the people's governments at the level of county and above are in charge of the environmental protection in their jurisdiction. Local environmental protection authorities have the power to set more strict environmental protection standards, and the enterprises discharge pollutants in the relevant region shall strictly comply with both national and local standards. In addition, the Environmental Protection Law (《環境保護法》) provides that any enterprise which may pollute the environment or produce harmful substance shall take measures to protect the environment, establish an environment protection mechanism, and take effective measures to control and appropriately treat solid wastes, waste water, dust and other waste substances.

Under the Provisional Regulations on the Land Use by Wind Power Farm and Environment Protection (《風電場工程建設用地和環境保護管理暫行辦法》) effective as of August 9, 2005, construction of wind power farm is subject to environment impact appraisal. The environment impact appraisal for a wind power farm shall be approved by the province-level environment protection authority of the region where the farm is located. Any wind power farm construction project involving a national nature protection area shall be approved by a province-level environment protection authority after obtain the review opinion of the national environmental protection authority.

On September 4, 2008, the Ministry of Environmental Protection (國家環境保護部), the National Development and Reform Commission (國家發展和改革委員會) and the State Energy Administration (國家能源局) jointly promulgated the Circular on Further Strengthening the Administration on Environment Impact Assessment of Biomass Power Projects (《關於進一步加強生物質發電項目環境影響評價管理工作的通知》). According to this Circular, the location

REGULATORY OVERVIEW

and scale of the waste incineration power generation projects shall be determined based on the overall city plan, the land use plan and the specific plan of environmental sanitation (or the centralized disposal plan for municipal solid waste, etc.). In addition to the areas prohibited by the State and local laws and regulations from using as the location of projects in the pollutant category, the following areas are generally not allowed to build new municipal waste incineration power plants, including, the urban built-up areas, the areas where the environment quality fails to reach the requirements and no effective measures were taken to reduce the pollutants, and the areas where the establishment of such projects will result in a failure in reaching the relevant environmental protection requirements by the sensitive areas.

Any person who violates the Environment Protection Law (《環境保護法》) or any other relevant law or regulation may be subject to warning, damages and/or fine among other administrative penalties. If an enterprise put into use the pollution prevention facility attached to its project before such facility is finished or to meets the relevant requirements, it may be ordered by the relevant environment protection authority to cease to operate and may be fined. If any violation of such laws and regulations results in serious damage to property or personal injury or death, the persons involved in such violation may bear criminal responsibilities.

VI. BIDDING

Under the Bidding Law of the People's Republic of China (《中華人民共和國招標投標法》) effective on January 1, 2000 and relevant regulations, bidding process is mandatory within China with respect to projects such as large-scale infrastructure and public utilities relating to social public interests and public security, including the survey, design, construction, supervision of the project, and the procurement of the important equipment, materials relevant to the construction of the project, which, pursuant to Regulations for Tendering Extension and Scope Standards of Engineering Construction Projects (《工程建設項目招標範圍和規模標準規定》) promulgated by the former State Development Planning Commission (國家發展計劃委員會) on May 1, 2000, refer to such infrastructure projects as electric power and new energy.

VII. TAXATION

1. Enterprise Income Tax

Under Enterprise Income Tax Law of the RPC (《企業所得稅法》) effective as of January 1, 2008, general Chinese enterprises are subject to enterprise income tax at the rate of 25%, and enterprises which are identified as hi-tech enterprises specially supported by government are subject to enterprise income tax at the rate of 15%. Additionally, under the Enterprise Income Tax Law and the Notice of the State Council on the Implementation of the Transitional Preferential Policies (《關於實施企業所得稅過渡優惠政策的通知》) in respect of Enterprise Income Tax, for the enterprises that were established prior to the issuance of this Law and enjoyed lower tax rates according to the provisions of the previous tax laws or administrative regulations or any equivalent documents, the preferential income tax rates enjoyed by them shall be gradually transferred to the tax rate provided in this Law within five years after this Law is promulgated; and pursuant to the provisions of the State Council, the enterprises that have enjoyed the preferential treatment of tax exemption for a fixed term may continue to enjoy such treatment after the promulgation of this Law until the fixed term expires, however,

REGULATORY OVERVIEW

for those that have failed to enjoy the preferential treatment due to failure to make profits, the term of preferential treatment may be counted from 2008.

Under the Enterprise Income Tax Law of the PRC and the Notice of the State Administration of Taxation on the Issues concerning Withholding the Enterprise Income Tax on the Dividends Paid by Chinese Resident Enterprises to H-share Holders Which Are Overseas Non-resident 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》) effective as of November 6, 2008, where a Chinese resident enterprise pays dividends for the year of 2008 or any year thereafter to its H-share holders which are overseas non-resident enterprises, it shall withhold the enterprise income tax thereon at the uniform rate of 10%, unless the jurisdiction in which the foreign investors were registered and China have entered into other arrangement for the tax rate.

Under the Notice on Issues Relevant to Implementation of the Catalogue of Public Infrastructure Projects Enjoying Enterprise Income Tax Preferences issued by the Ministry of Finance and State Administration of Taxation (《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》), public infrastructure projects which were approved after January 1, 2008 may be exempted from the enterprise income tax for first three years from the first year when they have revenue generated by their operation, and shall enjoy the preferential tax treatment of reduction by 50% from the fourth to the sixth year.

Under the Circular on the Preferential Taxation Policies for the West Region Development Campaign (《關於西部大開發稅收優惠政策問題的通知》) issued by the Ministry of Finance, the State Administration of Taxation and the General Administration of Customs (海關總署) and the Guideline Catalog for Adjustment of Industrial Structure (《產業結構調整指導目錄》) (2005 Version), issued by the NDRC, hydropower and wind power fall into the category of “Being Encouraged”; the industries which fall into the category of “Being Encouraged” are entitled to a preferential enterprise income tax rate of 15% from 2001 to 2010; domestic electric power enterprises newly established in the West Region shall be entitled to exemption from enterprise income tax for two years after its operation and to a preferential tax treatment of reduction by half from the third year to the fifth year if 70% of their total income are generated by their electric power business.

The State Council issued the Several Opinions of the State Council on Further Doing a Good Job in the Utilization of Foreign Investment (《國務院關於進一步做好利用外資工作的若干意見》) on April 6, 2010, which provides that the foreign invested enterprises located in the West Region which meet some requirements may continue to enjoy preferential enterprise income tax rate.

2. Value Added Tax

Under the Rules for the Collection of Value Added Tax on Electric Power Products (《電力產品增值稅徵收管理辦法》) issued by the State Administration of Taxation on December 22, 2004 and effective as of February 1, 2005, entities and persons producing or selling electric power products shall pay value added tax in accordance with the Rules.

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

REGULATORY OVERVIEW

are entitled to a tax rebate equivalent to 50% of the VAT payable with respect to our wind power business and power generation by using the straws of crops is also entitled to a preferential VAT policy.

Under the Provisional Regulations of the People's Republic of China on Value-added Tax (《中華人民共和國增值稅暫行條例》) (as amended in 2008) effective as of January 1, 2009 and the Notice of the Ministry of Finance and the State Administration of Taxation on Several Issues concerning the Nationwide Implementation of Value-added Tax Reform (《財政部、國家稅務總局關於全國實施增值稅轉型改革若干問題的通知》), a general taxpayer of VAT shall be entitled to offsetting the input value added tax paid by it for its fixed assets purchased or made by itself against its payable output value added tax amount, and the amount indicated in the relevant value added tax offset invoices shall be used as the basis for the calculation of the offset amount.

Pursuant to the Notice on the Abolishment of the Tax Refund Policy for the Purchase of Domestically Manufactured Equipment by Foreign Invested Enterprises (《關於停止外商投資企業購買國產設備退稅政策的通知》) jointly promulgated by MOF and SAT on December 25, 2008, the VAT refund policy available for certain foreign invested enterprises that purchase domestically manufactured equipment was abolished from January 1, 2009, however foreign invested enterprises that purchase domestically manufactured equipment, receive VAT invoices and submit a VAT refund application to the relevant tax authorities on or prior to June 30, 2009 are still entitled to receive the VAT refund in respect of such purchase.

Under the Circular on Continuing to Implement the Preferential Tax Policy for Heat Supply Enterprises (《關於繼續執行供熱企業相關稅收優惠政策的通知》) issued by MOF and SAT on November 27, 2006 and the Circular on Continuing to Implement the Preferential Policies on VAT, Real Estate Tax and Urban Land Use Tax Policy for Heat-Supply Enterprises (《財政部、國家稅務總局關於繼續執行供熱企業增值稅、房產稅、城鎮土地使用稅優惠政策的通知》) which took effect on January 1, 2009, the heat supply enterprises located in "Three North Region" (including Beijing, Tianjin, Hebei, Inner Mongolia, North East Region and North West Region) shall continue to be exempted from value added tax in respect of their revenue collected from the residents as heat supply fee (including the fees collected by heat supply enterprises directly from personal residents and those paid by enterprises or other organizations on behalf of residents). Therefore, our gas thermal power and heat enterprises are entitled to the exemption of value added tax in respect of their revenue from their supply of heat to residents.