This section sets forth a summary of the most significant regulations or requirements that affect or will potentially affect our operation and business in China or our Shareholders' right to receive dividends and other distributions from us.

RENEWABLE ENERGY LAW AND OTHER GOVERNMENT POLICIES

In February 2005, China enacted its Renewable Energy Law, which first became effective on 1 January 2006 and was amended on 26 December 2009 which became effective on 1 April 2010. The amended Renewable Energy Law sets forth policies to encourage the development as well as use of solar power and other non-fossil sources energy and their on-grid application. It also authorizes the relevant authorities to set favorable prices for the purchase of electricity generated from solar and other renewable energy sources. In addition, it encourages the installation and use of solar energy water-heating systems, solar energy heating and cooling systems, solar photovoltaic systems and other solar energy systems. It also provides financial incentives, such as national funding, preferential loans and preferential tax treatment for the development of renewable energy projects, especially those listed in the directive catalog for the development of renewable energy industry as promulgated and published by the national energy authority.

In January 2006, the NDRC promulgated the *Implementation Directive for the Renewable Energy Power Generation Industry* that provides specific measures for setting the price of electricity generated from solar and other renewable energy sources and for allocating the costs associated with renewable power generation. The directive also delegates administrative and supervisory authority among government agencies at the national and provincial level and assigns partial responsibility for implementing the Renewable Energy Law to electricity grid companies and power generation companies.

On 23 January 2007, the NDRC, the Ministry of Science and Technology, the Ministry of Commerce and the State Intellectual Property Office promulgated the *Guidelines of Prioritized High-tech Industrialization Areas in 2007*, which also promote and incentivize the use of solar power.

On 31 August 2007, the NDRC promulgated the Medium and Long-Term Development Plan for the Renewable Energy Industry, which provides for financial subsidies and preferential tax treatments for the renewable energy industry. The PRC government similarly demonstrated its commitment to renewable energy in the Eleventh Five-Year Plan for Renewable Energy Development, which was promulgated by the NDRC in March 2008. In the fourth quarter of 2010, the NDRC approved a RMB5.0 trillion new energy plan, which is pending State Council's approval. This new energy plan is intended to stimulate selected developing energy industries over the next ten years.

The PRC government has also promulgated a number of directives to support energy conservation in recent years, including the PRC Energy Conservation Law that came into effect on 1 April 2008, which encourages installing solar power facilities in buildings to achieve greater energy efficiency.

On 23 March 2009, Ministry of Finance promulgated the *Interim Measures for Administration of Government Subsidy Funds for Application of Solar Photovoltaic Technology in Building Structures* (the "129 Interim Measures"), to support the promotion of photovoltaic applications in China. Under the 129 Interim Measures, local governments are encouraged to issue and implement supporting policies for the development of photovoltaic technology and the adoption of monocrystalline silicon products with high conversion efficiency rates in solar power projects of over 50kWp.

On 26 September 2009, the State Council approved and circulated the Opinions of the NDRC and other Nine Governmental Authorities on *Restraining the Production Capacity Surplus and Duplicate Construction in Certain Industries and Guiding the Industries for Healthy Development*. On 31 October 2009, the Ministry of

Environmental Protection issued the *Notice on Relevant Issues concerning the Implementation of Restraining the Production Capacity Surplus and Duplicate Construction in Certain Industries and Guiding the Industries for Healthy Development*. According to these opinions, polysilicon production capacity in China has exceeded demand and therefore, more stringent requirements should be imposed on the construction of new facilities for polysilicon production in China. These opinions also stated in general terms that the government should encourage polysilicon manufacturers to enhance cooperation and affiliation with downstream solar product manufacturers to expand their product lines.

On 31 December 2010, the Ministry of Industry and Information Technology, the NDRC and the Ministry of Environmental Protection jointly promulgated the *Admittance Requirements of Polysilicon Industry*, which set forth that in principle, no new polysilicon project will be approved before the NDRC issues the new *Catalogue of Investment Projects Approved by the Government*. Each new solar grade polysilicon project must have an annual production capacity of at least 3,000 tons. In addition, specific requirements were imposed with respect to energy efficiency and tail gas recycling in the solar grade polysilicon production process. For example, electricity consumed in producing each kilogram of solar grade polysilicon must be less than 80 kilowatt hours, which must be further reduced to less than 60 kilowatt hours by the end of 2011. As we are not a polysilicon manufacturer and do not expect to manufacture polysilicon in the future, we do not believe these opinions or requirements will have any material impact on our business, although they may affect future cost and availability of domestic supply of solar grade polysilicon to certain extent, which may in turn affect the supply of downstream solar products including our products.

ENVIRONMENTAL REGULATIONS

We generate significant levels of waste water, noise, gaseous emissions and other industrial wastes in the course of our business operations. We are subject to a variety of government regulations related to the storage, usage and disposal of hazardous materials. The major environmental regulations applicable to us include, among others, the Environmental Protection Law of the PRC, the PRC Law on the Prevention and Control of Noise Pollution, the PRC Law on the Prevention and Control of Air Pollution, the PRC Law on the Prevention and Control of Water Pollution, the PRC Law on the Prevention and Control of Solid Waste Pollution, the PRC Law on Evaluation of Environmental Effects and the Regulations on the Administration of Construction Project Environmental Protection. There are national and local standards applicable to emissions control, discharges to surface and subsurface water, and the generation, handling, storage, transportation, treatment and disposal of waste materials.

On 26 December 1989, the Standing Committee of the National People's Congress promulgated the Environmental Protection Law, formulating the legal framework for environmental protection in China. The Environmental Protection Law provides that the State Administration of Environmental Protection ("SAEP"), is responsible for implementing uniform supervision and administration of environmental protection nationwide and establishing the national waste discharge standards. Local environmental protection bureaus are responsible for environmental protection in their respective jurisdictions. Enterprises discharging pollutant and hazardous materials must incorporate environmental protection measures into their business planning and establish environmental protection systems. Those enterprises must also adopt effective measures to prevent the release of pollutant or hazardous materials to the environment, such as waste gas, water, deposits, dusts, pungent gases and radioactive matters as well as noise, vibration and magnetic radiation. Enterprises discharging wastes in excess of the discharge standards prescribed by SAEP must pay non-standard discharge fees in accordance with applicable regulations and rectify past violations.

According to applicable PRC environmental protection laws and regulations, a company is required to register or file an environmental impact report with the relevant environmental bureau for approval before it undertakes the construction of any new production facility or any major expansion or renovation of an existing production facility. All new, renovated or rebuilt construction projects discharging wastes directly or indirectly into water must conform to the applicable environmental protection laws and regulations. Enterprises discharging wastes into water must report and register their waste discharging facilities, waste processing facilities and the types, amounts and concentrations of wastes discharged under normal operating conditions and provide technical information in respect of prevention and treatment of waste water to the local environmental protection bureau.

According to the applicable laws and regulations, authorities may impose penalties on persons or enterprises in violation of the environmental protection laws and regulations. Such penalties include warnings, fines, decisions to impose deadlines for rectification, injunction, orders to re-install contamination prevention and cure facilities which have been removed or left unused, imposition of administrative actions against relevant responsible persons, or orders to close down those enterprises or authorities. See "Risk Factors — Risks Relating to Our Business and Industry — Compliance with environmental and safe production regulations can be costly, while noncompliance with such regulations may result in adverse publicity and potentially significant monetary damages, fines and suspension of our business operations."

RESTRICTION ON FOREIGN BUSINESSES

The principal regulation governing foreign ownership of solar power businesses in the PRC is the Foreign Investment Industrial Guidance Catalog. Under the current catalog, which was amended in 2007 and became effective on 1 December 2007, the solar power business is classified as an "encouraged foreign investment industry." Encouraged foreign investment companies are entitled to certain preferential treatment, including exemption from tariffs on equipment imported for their operations, which exemptions are subject to approval from the relevant PRC government authorities.

IMPORTATION AND EXPORTATION OF GOODS

Pursuant to the Foreign Trade Law of the PRC (the "Foreign Trade Law"), which became effective on 1 July 2004, foreign trade dealers who are engaged in the import or export of goods or technologies shall register with the authority responsible for foreign trade under the State Council or its authorised bodies, unless such registration is not required under the laws and regulations of the State Council or by the authority responsible for foreign trade under the State Council. If a foreign trade dealer fails to register as required, the Customs authority shall not process the documents necessary for the import and export of goods.

According to the *Circular of the Ministry of Commerce on Relevant Issues Concerning the Record Keeping and Registration of the Foreign Trade Right by Foreign-funded Enterprises*, which became effective on 17 August 2004, if a foreign-funded enterprise which was duly established before 1 July 2004 applies to expand its permitted level of import/export business, it must, in accordance with the *Measures for the Record-keeping and Registration by Foreign Trade Dealers*, apply for an expansion of its business license and shall, in accordance with required procedures, register with authorised local institutions and receive an approval certificate and any other document as required under the Measures for the Record-keeping and Registration by Foreign Trade Dealers. No additional registration is required to receive the approval certificate in connection with the expansion applied for. The registration authorities shall affix a stamp indicating "business of distribution of import goods excluded" on the enterprise's registration form.

Pursuant to the *Administrative Provisions for the Registration of Customs Declaration Agents by the PRC Customs Authorities*, which and became effective on 1 June 2005, "consignor or consignee of export or import goods" means any legal person, other organisation or individual that directly imports or exports goods within the territory of the PRC. Consignors or consignees of imported or exported goods are required to register with their local customs authorities in accordance with applicable provisions. After registering with customs authorities, consignors or consignees of imported or exported goods may handle their own declarations at any customs port or any locality where customs supervisory affairs are handled within the customs territory of the PRC. A PRC Customs Declaration Registration Certificate for Consignor or Consignee of Import or Export Goods is valid for a period of three years.

TAX

PRC enterprise income tax is calculated based on taxable income determined under PRC accounting principles and adjustments in accordance with the tax laws and regulations. The income tax rate applicable to us actually depends on various factors, such as tax legislation, the geographic composition of our pre-tax income and non-tax deductible expenses incurred.

In accordance with the PRC Income Tax Law on Foreign Invested Enterprise and Foreign Enterprise which was effective from 1 July 1991 to 1 January 2008 (the "Former Income Tax Law"), and the related implementation rules, income generated by foreign-invested enterprises incorporated in the PRC was generally subject to an enterprise income tax of 30% and a local income tax of 3%. The Former Income Tax Law and the related rules provided certain favorable tax treatments to foreign-invested enterprises. For instance, beginning with its first year of profitability, a foreign invested manufacturing enterprise with an operating period of no less than ten years would be eligible for an enterprise income tax exemption of two years followed by a three-year 50% reduction on its applicable enterprise income tax rate.

However, the Former Income Tax Law and the above favorable tax treatment were abolished by the EIT Law, which became effective on 1 January 2008. On 6 December 2007, the State Council promulgated the *Implementation Rules of PRC Enterprise Income Tax Law*, which took effect simultaneously with the EIT Law. In addition, a number of detailed implementation regulations are still in the process of promulgation.

The EIT Law and relevant implementation rules apply a uniform 25% enterprise income tax rate to foreign-invested enterprises and domestic enterprises. Furthermore, dividends distributed out of post-2007 earnings by a foreign-invested enterprise to a non-resident enterprise shareholder are generally subject to a withholding tax of 10%, which may be reduced under any applicable bilateral tax treaty between China and the jurisdiction where the non-resident shareholder resides provided that certain conditions are met. For the impact of the EIT law and related regulations on our business, see "Risk Factors — Risks Relating to Doing Business in the PRC — Our China-sourced income is subject to PRC withholding tax under the new Enterprise Income Tax Law of the PRC and we may be subject to PRC enterprise income tax at the rate of 25% when more detailed rules are promulgated."

According to the *Administrative Measures for Non-Residents Enjoying Tax Treaty Benefits (Trial Implementation)* which was issued by the State Administration of Taxation on 24 August 2009 and became effective on 1 October 2009, the application of the preferential withholding tax rate under the bi-lateral tax treaty is subject to the approval of competent PRC tax authorities. According to the *Circular of the State Administration of Taxation on How to Understand and Identify "Beneficial Owner" under Tax Treaties* which became effective on 27 October 2009, the PRC tax authorities must evaluate whether an applicant for treaty benefits in respect of dividends, interest and royalties qualifies as a "beneficial owner" on a case-by-case basis and follow the "substance over form" principle. This circular sets forth the criteria to identify a "beneficial owner" and provides that an

applicant who does not carry out substantial business activities, or is an agent or a conduit company may not be deemed a "beneficial owner" of the PRC subsidiary and therefore may not benefit from the tax treaty.

An enterprise registered under the laws of a jurisdiction outside China may be deemed a Chinese tax resident if its place of effective management is in China. If an enterprise is deemed to be a Chinese tax resident, its worldwide income will be subject to the enterprise income tax. According to the implementation rules of the EIT Law, the term "de facto management bodies" is defined as bodies that have, in substance, overall management and control over such aspects as the production and the business, personnel, accounts and properties of the enterprise. In addition, under the EIT Law, foreign shareholders could be subject to a 10% income tax on any gains they realize from the transfer of their shares, if such gains are regarded as income derived from sources within China, and the enterprise in which they invest is considered a "tax resident enterprise" in China. Once a non-Chinese company is deemed a Chinese tax resident by following the "place of effective management" principle and any dividend distributions from such company are regarded as income derived from sources within China, Chinese income tax withholding may be imposed on dividend distributions from such Chinese tax resident to its foreign shareholders.

The EIT Law provides a five-year grandfathering period, starting from its effective date, for those enterprises established before the promulgation date of the EIT Law that were entitled to enjoy preferential tax policies under the applicable tax laws or regulations. The applicable preferential tax policies and the relevant tax laws and regulations are listed in the Circular by the State Council on the *Implementation of the Grandfathering Preferential Policies under the PRC Enterprise Income Tax Law (Guofa No. [2007] 39)* (the "Implementation Circular"), promulgated on 26 December 2007.

Under the new taxation regime under the EIT Law and relevant policies, enterprises may continue to enjoy a preferential tax rate of 15% if they qualify as "high and new technology enterprises specially supported by the PRC government," see "— High and New Technology." With respect to our PRC operations, only the "two-year exemption" and "three-year half reduction" tax preferential policy enjoyed by Shunfeng Technology is grandfathered in by the Implementation Circular. Therefore, Shunfeng Technology will be subject to a preferential tax rate of 12.5% until 31 December 2011. After 31 December 2011, Shunfeng Technology will be subject to enterprise income tax at the rate of 25%.

Pursuant to the *Provisional Regulations on the Value-added Tax* promulgated by the State Council on 13 December 1993 and amended on 10 November 2008 (the amendment came into effect on January 1 2009) (the "Provisional Regulation"), and its implementing rules, all entities and individuals engaged in the sale of goods, the provision of repairs and replacement services and the importation of goods in China are required to pay VAT. According to the Provisional Regulation, gross proceeds from sales and importation of goods and provision of services are generally subject to a VAT rate of 17% with exceptions for certain categories of goods that are taxed at a VAT rate of 13%. When exporting goods, exporters are entitled to a portion of or all the refund of VAT that they have already paid or borne. In addition, under the current Provisional Regulation, the input VAT for fixed assets is deductible from the output VAT, except for fixed assets that are non-VAT taxable items or VAT exempted items or fixed assets used in welfare activities or for personal consumption. According to former VAT levy rules, equipment imported for qualified projects was entitled to the import VAT exemption and domestic equipment purchased for qualified projects was entitled to VAT refund. However, such import VAT exemption and the VAT refunds were both eliminated as of 1 January 2009.

Pursuant to the *Circular of the State Council on Unifying the System of Urban Maintenance and Construction Tax and Education Surtax for Domestic Enterprises, Foreign-invested Enterprises and Foreign Individuals* promulgated by the State Council on 18 October 2010, foreign-invested enterprises, foreign enterprises and

foreign individuals must pay, starting from 1 December 2010, urban maintenance and construction tax ("UMCT") and education surtax ("ES") in accordance with the *Tentative Regulations of the People's Republic of China on Urban Maintenance and Construction Tax* effective from 1985, the *Tentative Rules on the Collection of Education Surtax* effective from 1986 and other administrative regulations and policies on UMCT and ES as promulgated by the State Council and relevant authorities. The tax rates for UMCT and ES applicable to us from 1 December 2010 are 7% and 3%, respectively, of the aggregated amounts of the consumption tax, value-added tax and business tax we actually pay.

HIGH AND NEW TECHNOLOGY

The PRC government identified eight high and new technology fields that will receive government support in the *Measures for the Administration of Designation of High and New Technology Enterprises* (the "Measures"), which became effective on 1 January 2008. The eight high and new technology fields are electronic information technology, biology and new medical technology, aerospace and aeronautical technology, new materials technology, high technology services, new energy and energy conservation technology, resources and environmental technology; and high and new technology used in the restructuring of traditional industries.

The Measures were enacted to elaborate on the high-tech enterprises recognition procedures stipulated under the EIT Law. Under these laws and regulations, PRC-based enterprises that meet the requirements stipulated in the Measures may apply to the applicable governmental authority for a "High and New Technology Enterprises Certificate," which will be valid for three years from the date of issuance. A PRC-based enterprise that has obtained such certification and government recognition as a high-tech enterprise may apply to the applicable tax authority to obtain applicable tax exemptions and reductions. We are in the process of applying for a High and New Technology Enterprises Certificate. If we obtain such certification, we will be qualified to apply to the applicable tax authority for preferential tax treatment to benefit from a preferential an enterprise income tax rate of 15%.

DIVIDEND DISTRIBUTION

The principal regulations governing distribution of dividends paid by wholly foreign-owned enterprises mainly include, among others:

- Wholly Foreign-Owned Enterprise Law (1986), as amended; and
- Wholly Foreign-Owned Enterprise Law Implementation Rules (1990), as amended.

Under these regulations, foreign-invested enterprises in China may pay dividends only out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, a wholly foreign-owned enterprise in China is required under applicable PRC laws and regulations to retain 10% of its accumulated profit as a legal reserve until such legal reserves reaches an amount equal to 50% of its registered capital. These reserves are not distributable as cash dividends. A foreign-invested enterprise has the discretion to allocate a portion of its after-tax profits to staff welfare, bonus funds and expansion funds, which may not be distributed to equity owners except in the event of liquidation.

REGULATION OF FOREIGN EXCHANGE IN CERTAIN RETURN INVESTMENT ACTIVITIES

In October 2005, the SAFE issued the *Notice on Issues Relating to the Administration of Foreign Exchange in Fund-raising and Round-trip Investment Activities of Domestic Residents Conducted via Offshore Special Purpose Companies* (the "SAFE Notice 75"), which became effective as of 1 November 2005, and was further supplemented by an implementing notice issued by the SAFE on 24 November 2005. The SAFE Notice 75 suspends the

implementation of two prior regulations promulgated in January and April of 2005 by SAFE. The SAFE Notice 75 states that Chinese residents, whether natural or legal persons, must register with the relevant local SAFE branch prior to establishing or taking control of an offshore entity for the purpose of overseas equity financing involving onshore assets or equity interests held by them. The term "Chinese legal person residents" as used in the SAFE Notice 75 refers to those entities with legal person status or other economic organizations established within the territory of China. The term "Chinese natural person residents" as used in the SAFE Notice 75 includes all Chinese citizens and all other natural persons, including foreigners, who habitually reside in China for economic benefit. The SAFE implementing notice published on 24 November 2005 further clarifies that the term "Chinese natural person residents" as used under SAFE Notice 75 refers to those "Chinese natural person residents" defined under the relevant PRC tax laws and those natural persons who hold any interests in domestic entities that are classified as "domestic-funding" interests.

Chinese residents are required to complete amended registrations with the local SAFE branch upon (i) injection of equity interests or assets of an onshore enterprise into an offshore entity, or (ii) subsequent overseas equity financing by such offshore entity. Chinese residents are also required to complete amended registrations or filings with the local SAFE branch within 30 days of any material change in the shareholding or capital of the offshore entity, such as changes in share capital, share transfers and long-term equity or debt investments, and provision of security. Chinese residents who have already incorporated or gained control of offshore entities that made onshore investments in China before the SAFE Notice 75 was promulgated must register their shareholding in the offshore entities with the local SAFE branch on or before 31 March 2006.

Under the SAFE Notice 75, Chinese residents are further required to repatriate into China all of their dividends, profits or capital gains obtained from their shareholdings in the offshore entity within 180 days of their receipt of such dividends, profits or capital gains. According to the *Regulations on Foreign Exchange Administration* amended in August 2008, Chinese residents are allowed to reserve foreign exchange income outside China. However, the terms and conditions for such reservation are still subject to the further interpretations by the SAFE. The registration and filing procedures under the SAFE Notice 75 are prerequisites for other approval and registration procedures necessary for capital inflow from the offshore entity, such as inbound investments or shareholders loans, or capital outflow to the offshore entity, such as the payment of profits or dividends, liquidating distributions, equity sale proceeds, or the return of funds upon a capital reduction.

To further clarify the implementation of the SAFE Notice 75, the SAFE issued Circular 106 on 29 May 2007. Under Circular 106, PRC subsidiaries of an offshore special purpose companies are required to coordinate and supervise the filing of SAFE registrations by the offshore holding company's shareholders who are PRC residents in a timely manner. If these shareholders fail to comply, the PRC subsidiaries are required to report to the local SAFE authorities. If the PRC subsidiaries of the offshore parent companies do not report to the local SAFE authorities, they may be prohibited from distributing their profits and proceeds from any reduction in capital, share transfer or liquidation to their offshore parent companies and the offshore parent companies may be restricted in its ability to contribute additional capital into their PRC subsidiaries. Moreover, failure to comply with the above SAFE registration requirements could result in liabilities under PRC laws for evasion of foreign exchange restrictions.

REGULATIONS OF MERGER AND ACQUISITION AND OVERSEAS LISTINGS

On 8 August 2006, six PRC governmental and regulatory agencies, including among others the MOFCOM and the CSRC, promulgated the New M&A Rules, which became effective on 8 September 2006 and were revised in June 2009. Article 11 of the New M&A Rules requires PRC domestic enterprises or domestic natural persons to obtain the prior approval of MOFCOM when an offshore company established or controlled by them proposes to

merge with or acquire a PRC domestic company with which such enterprises or persons have a connected relationship.

Based on the relevant implementation rules and certification from the competent provincial commercial authority, King & Wood, our PRC legal advisors, has advised us that since Shunfeng Technology was already a sino-foreign joint venture prior to the effective date of the New M&A Rules (i.e. 8 September 2006), the Article 11 of the New M&A Rules does not apply to the Restructuring in connection with the Global Offering, and CSRC approval is not required for the Global Offering or the Listing.