
REGULATORY ENVIRONMENT

OVERVIEW

Our operations are based in the PRC. Accordingly, our renewable energy businesses of wind power and hydropower and coal-fired energy businesses are subject to relevant regulations by the PRC government. The regulations govern a wide range of areas including, among others, project approvals, power generation, transmission and dispatch, on-grid tariffs, land acquisition and resettlement compensation, environmental protection and safety. In addition, our operations are subject to general regulations in the PRC without industry-specific requirements, such as foreign investments, foreign exchange control and taxation.

PRINCIPAL REGULATORY AUTHORITIES

Our operations are principally subject to the supervision and management by the following PRC governmental agencies:

- The NDRC and provincial DRC are responsible for:
 - setting and implementing major policies concerning China's economic and social development;
 - reviewing and approving investment projects in the power industry at a certain scale;
 - promulgating regulations and rules in connection with the operation of power plants;
 - approving power tariffs; and
 - accepting and approving CDM projects.
- The SERC and its local branches are mainly responsible for:
 - promulgating rules for the power industry;
 - 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
 - supervising the power market.

REGULATORY ENVIRONMENT

- The MEP and local branches are responsible for:
 - approving Environmental Impact Assessment documents of power plants; and
 - examination and acceptance of environmental protection facilities of power plants.
- The SAWS is responsible for supervising work safety in regard to power generation operations and project construction, and formulating various safety regulations.
- The MOFCOM, together with the NDRC and the MOF, encourages energy saving and rational development and utilization of renewable energy through tax incentives and designating special funds for the development of renewable energy (including wind power and hydropower).
- The SAT is responsible for promulgating and implementing tax policies and regulations.
- The MLR is responsible for approving as to the compliance with relevant regulations on planning, administration, protection and reasonable utilization, etc., of the land occupied by power supply projects.

MAJOR LAWS AND REGULATIONS

China has established corresponding supervision and management systems with respect to project approvals, power generation, transmission and dispatch, on-grid tariffs, etc. The relevant major laws and regulations include the Electric Power Law of the PRC (《中華人民共和國電力法》), the Electric Power Regulatory Ordinance (《電力監管條例》), the Provision on the Administration of the Electric Power Business Permit (《電力業務許可證管理規定》), the Regulations on the Administration of Electric Power Dispatch to Networks and Grids (《電網調度管理條例》), the Provisional Measures for the Administration of On-grid Tariff (《上網電價管理暫行辦法》), the Renewable Energy Law, Provisions on the Administration of Power Generation from Renewable Energy (《可再生能源發電有關管理規定》), 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 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 Supervision Measures on Purchase of the Full Amount of Renewable Energy Power by Grid Enterprises (《電網企業全額收購可再生能源電量監管辦法》), the Provisional Measures on the Dispatch of Energy Saving Power Generation (《節能發電調度辦法(試行)》), Provisional Measures on Special Fund Management for Development of Renewable Energy (《可再生能源發展專項資金管理暫行辦法》), Interim Provisions for Promoting Industrial Restructuring (《促進產業結構調整暫行規定》), Renewable Energy Development Under the 11th Five-Year Plan (《可再生能源發展“十一五”規劃》), Notice Regarding Accelerating Adjustments to the Power Industry Structure (《關於加快電力工業結構調整促進健康有序發展有關工作的通知》), 11th Five-Year Plan and 2020 Development Plan for Power Industry (《電力行業“十一五”計劃及2020年發展規劃》), Energy Status and Policy of China – White Book (《中國的能源狀況與政策》白皮書) and Middle and Long Term Development Program for Renewable Energy (《可再生能源中長期發展規劃》), etc.

REGULATORY ENVIRONMENT

(1) Overall Regulations

The Electric Power Law of the PRC (《中華人民共和國電力法》) (the “Electric Power Law”) which became effective on April 1, 1996 and was revised and effected on August 27, 2009 is the first national law enacted specifically for the power industry. Its contents include regulatory provisions with respect to power construction, power production and grid management, pricing and tariffs and protection of power facilities, etc. The Electric Power Law aims 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 PRC and foreign investment in the power industry.

The Electric Power Regulatory Ordinance (《電力監管條例》), which became effective on May 1, 2005, 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 generators and grid companies and the legal liabilities from violations of the regulatory requirements.

(2) Project Approval

According to the “PRC Administrative Licensing Law (《中華人民共和國行政許可法》),” the “Decision on the Reformation of the Investment System 《關於投資體制改革的決定》,” the “Provisional Management Measures on Approval of Foreign Investment Projects (《外商投資專案核准暫行管理辦法》)” and the “Notice on Enhancing and Standardizing the Management of New Projects (《關於加強和規範新開工項目管理的通知》),” project construction entities shall obtain documents regarding urban planning approval, the preliminary approval on project sites and the approval on the environmental impact assessment documents as issued by the relevant administrative department before submitting the project application to the project approval authority. Upon obtaining the project approval documents, constructions shall be carried out in accordance with the requirements set out therein.

According to the “Government Approved Investment Project Directory (2004 version) (《政府核准的投資專案目錄》 (2004年本)),” wind power projects with installed capacity of 50,000 kilowatts or above shall be approved by the State Council department in charge of investment, and other wind power projects shall be approved by local government authority in charge of investment. Hydropower projects to be constructed over main rivers with total installed capacity of 250000 kilowatts or above shall be approved by the State Council department in charge of investment, and other projects shall be approved by the local government authority in charge of investment. Coal-fired power plants shall be approved by the State Council department in charge of investment.

(3) 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 PRC power industry adopted the market-access permit system.

REGULATORY ENVIRONMENT

Pursuant to the Permit Provision, unless otherwise provided by the SERC, no company or individual in the PRC may engage in any electric power business (including power generation, transmission, dispatch and sales) without obtaining an electric power business permit issued by the SERC. To apply for an electric power business permit, the following conditions must be fulfilled:

- construction of the power plant has been examined and approved by the relevant authorities;
- the power generation facilities have the ability to run; and
- the power plant is in compliance with the relevant environmental protection regulations and requirements.

According to the SERC, power plants which were constructed and became operational after December 1, 2005 must obtain the electric power business permit as soon as possible. Among them, those power plants completed before July 31, 2006 shall obtain the electric power business permit by the end of 2006. For power plants completed after August 1, 2006, such power plant shall obtain an electric power business permit for its newly constructed projects, as well as its existing projects within three months from the commencement of operations.

According to the requirements of SERC, applications for the permits of newly constructed power generating units shall be submitted prior to completion and inspection, and grid-connection operation is, in principle, not allowed without obtaining the permits.

(4) 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 the planned output of power plants connected to the grid.

The Regulations on the Administration of Electric Power Dispatch to Networks and Grids (《電網調度管理條例》) (the “Dispatch Regulations”) promulgated by the State Council, effective on November 1, 1993, regulates the operation of dispatch centers. Pursuant to the Dispatch Regulations and the Implementation Measures for Regulations on the Administration of Electric Power Dispatch to Networks and Grids (《電網調度管理條例實施辦法》), which was implemented on October 11, 1994, dispatch centers are established at each of five levels: the national dispatch center, the dispatch centers of the interprovincial (autonomous regions and municipalities included) power grid, the dispatch centers of the provincial-level 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 a projected hour-by-hour output schedule for the following day, based on expected demand, the weather and other factors.

REGULATORY ENVIRONMENT

The dispatch centers 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 center's dispatch (the "Dispatch Agreements");
- interconnection agreements between power grids; and
- the actual conditions of the grid, including equipment capacities and safety reserve margins.

(5) On-grid Tariff

Since it came into effect in 1996, the Electric Power Law has set forth the general principles for the setting of power tariffs. 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 tariffs for planned output and excess output are subject to the procedures involving review and approval by the NDRC and the provincial 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 promulgated the Provisional Measures for the Administration of On-grid Tariff (《上網電價管理暫行辦法》), which became effective on May 1, 2005. It provides regulatory guidance for the Reform Plan. For power plants within the regional grids that have not implemented competitive bidding mechanisms, on-grid tariffs will be determined and announced by relevant pricing bureaus 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 fold: (i) a capacity tariff determined by the NDRC 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.

These Provisional Measures specifically provide that, temporarily, enterprises of new energies such as wind power and geothermal power and renewable energy enterprises do not participate in market competition. Priorities are given to grid enterprises to buy out the power generated at tariffs determined by the government or at competitive tariffs. The government can regulate the percentages of new energy and renewable energy in the total amount of electricity to be sold by the electricity supply enterprises to establish specialized competitive new energy and renewable energy markets.

REGULATORY ENVIRONMENT

On October 11, 2009, the National Development and Reform Commission, the Energy Board of the National Development and Reform Commission and the Electricity Regulatory Commission issued the “Notice on Standardizing the Management of Electricity Trading Prices and others (《關於規範電能交易價格管理等有關問題的通知》).” This Notice provides that, except for inter-provincial or inter-regional power transactions, all on-grid tariffs shall be determined according to the tariffs set by the government department in charge of tariffs (exceptions stipulated by the state excluded). All renewable energy operators (excluding hydropower operators) must follow the on-grid tariffs as approved by the departments in charge of tariffs.

(6) Environmental Protection

During the construction and operation of our power plants, we are mainly subject to the supervision and restrictions of the following laws and regulations: 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 Treatment of Water Pollution (《中華人民共和國水污染防治法》), the PRC Law on the Prevention and Treatment of Air Pollution (《中華人民共和國大氣污染防治法》), the PRC Law on Prevention and Treatment 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》).

(7) Production Safety

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 for power projects. 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》, the “Measures on Supervision”), promulgated in March 2004, is an important departmental rule and regulation regulating the production safety of the power industry. The Measures on Supervision provides that power plants must operate safely in accordance with the provisions as set by the local power grid. In case of extraordinary or serious physical accident, or accidents of power, equipment damage, power plant collapse or fires, power plants are required to report to the SERC, the SAWS and relevant local government authorities within 24 hours.

REGULATORY PROVISIONS ON RENEWABLE ENERGY SUCH AS WIND POWER AND HYDROPOWER

(1) On Overall Regulations

According to the Renewable Energy Law which came into effect on January 1, 2006 and the Guidance Catalog on Renewable Energy Industrial Development (《可再生能源產業發展指導目錄》, the “Catalog”), promulgated by the NDRC on November 29, 2005, renewable energy includes wind power, solar power, hydropower, biomass energy, geothermal energy, ocean energy and certain other types of non-fossil energy. The Renewable Energy Law sets out the regulatory framework for the development and use of renewable energy.

REGULATORY ENVIRONMENT

On March 3, 2008, the NDRC announced the Renewable Energy Development Under the 11th Five-Year Plan (《可再生能源發展“十一五”規劃》 (FA GAI NENG YUAN No. [2008]610 發改能源[2008]610號)), setting out the main focus in construction of a strategic plan for hydro-electricity during the 11th Five-Year Plan period of the state and mentioned that during the 11th Five-Year Plan period, the development target of new installed hydropower capacity of the whole country is 73,000 MW. It also mentioned a plan to build up the hydro-electricity capabilities of eight provinces and regions including Sichuan and Fujian during the 11th Five-Year Plan period.

The 12th session of the 11th Standing Committee of the National People's Congress held on December 26, 2009, examined and passed the Decision on Modifying the Renewable Energy Law of the PRC (《關於修改《中華人民共和國可再生能源法》的決定》). The revised Renewable Energy Law, taking effect on April 1, 2010, mainly provided the following supplements:

- to refine the system of protective buyouts of renewable energy and to ascertain and publish minimum targets for protective buyouts of renewable energy; and
- to establish a renewable energy development fund with government fund nature to support the construction of renewable energy projects and to compensate for energy tariffs.

The State Council promulgated “The 12th Five-year Plan (《中華人民共和國國民經濟和社會發展第十二個五年規劃綱要》)” in 2010, which states that the Chinese government will actively promote in energy production and usage patterns, to establish a safe, stable, economic and clean modern energy industry system, to accelerate energy development, to promote clean and efficient use of traditional energy, to actively develop hydropower while protecting the ecosystem and to efficiently develop nuclear power while ensuring safety.

(2) On Project Construction

According to the Provisional Measures for the Administration of Land Use and Environmental Protection of Wind Farm Construction (《風電場工程建設用地和環境保護管理暫行辦法》), promulgated by the NDRC, MLR and the former SEPA on August 9, 2005, before applying for project approval, the entity responsible for the construction of wind power plants projects shall obtain land use preliminary approval from the provincial land and resource authorities, and an environmental impact assessment approval from the provincial environmental protection administrative department.

According to the Large and Medium-sized Water Conservancy and Hydropower Project Construction Related Land Requisition Compensation and Resettlement Ordinance (《大中型水利水電工程建設徵地補償和移民安置條例》), implemented by the State Council on September 1, 2006, a resettlement plan shall be prepared for large and medium-sized water conservancy and hydropower projects, which shall be approved by the provincial resettlement authorities or resettlement authorities in the State Council level. Land uses of large and

REGULATORY ENVIRONMENT

medium-sized water conservancy and hydropower projects shall go through application and approval procedures according to law as to land requisition compensation, to implement the practice of one submission for approval, staging collection and payment on schedule. In the case of occupying cultivated land for large and medium-sized water conservancy and hydropower project construction, the sum of the land compensation fees and the resettlement fees shall be 16 times the average output value of the three years preceding the requisition of the cultivate land. If the relocated residents cannot maintain their original living standards from the land compensation fees and the resettlement fees, the adjustment of the rough calculation of investments shall be submitted by the project corporation or the competent department to the project approval department for approval. The compensation fees for other land (not including the arable land) requisitioned and the standard of compensating for ground attachments and green crops on the land requisitioned shall be determined by various provinces, autonomous regions and municipalities. The compensation for the fixtures on land requisitioned shall be made according to the principle of original scale, original standards or restoration of the original functions. If the compensation is insufficient to build basic houses for poor migrants, proper subsidies shall be given to them. Before any large or medium-sized water conservancy and hydropower project is to be constructed, the project corporation must sign the settlement and compensation agreement, according to an approved resettlement plan, with the people's government of the corresponding province, autonomous region, municipality directly under the central government where the reservoir area and Resettlement area are located. After finishing the resettlement work, or at the moment when the resettlement work reach the periodical target, the resettlement management administration of the State Council or the people's government of the corresponding province, autonomous region, municipality directly under the central government shall organize relevant departments to conduct acceptance. If the resettlement project has not been accepted or is considered unqualified after the acceptance check, the relevant departments may not proceed the check and acceptance of the completed capital construction project. In addition, the State Council implemented the provisions of the Dam Safety Management Ordinance (《水庫大壩安全管理條例》) on March 22, 1991, accordingly, for the construction of dams, entities with the relevant qualification certificates shall be employed for the design and construction work. Upon completion of the dam, the construction entity shall apply to the department in charge of the dam for examination and acceptance.

(3) On Dispatch and Price Determination

- *To enjoy buyout and dispatch priority*

According to the Renewable Energy Law, grid enterprises shall enter into a grid connection agreement with the approved or recorded renewable energy production enterprises to buy out the grid connection power of the renewable energy power plants in the area covered by the grid enterprises for grid connection volume, and to provide on-grid services and the relevant technical support.

REGULATORY ENVIRONMENT

On April 18, 2006, the NDRC, the MLR, the MOR, the MOC, the MWR, the SEPA, the CBRC and the SERC jointly promulgated the Notice Regarding Accelerating Adjustments to the Power Industry Structure (《關於加快電力工業結構調整促進健康有序發展有關工作的通知》). The Notice expressly stated that efforts to support renewable energy will be stepped up to put all hydro-electric power on-grid and to achieve the same price for electricity within the same grid.

On August 2, 2007, the State Council issued 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, the dispatch priority of power generating units is determined in the following sequence: (a) non-adjustable power generation units utilizing renewable fuels; (b) adjustable power generating units utilizing renewable fuels; (c) nuclear power generating units; (d) cogeneration units and resource comprehensive utilization power generating units; (e) gas-fired power generating units; (f) other coal power generating units, including cogeneration units without heat load; and (g) oil-fired power generating units.

In addition, pursuant to the Supervision Measures on the Purchase of the Full Amount of Renewable Energy Power by Grid Enterprises (《電網企業全額收購可再生能源電量監管辦法》), which became effective on September 1, 2007, the SERC and its local branches should supervise the grid enterprises to discharge their buyout and dispatch priority duties. Grid enterprises that fail to discharge these duties and cause losses of renewable energy enterprises shall compensate and correct the faults within 15 days upon the affirmation of the power supervisory authority, otherwise the grid enterprise may be fined a sum of no more than that of the losses of the renewable energy enterprise.

- ***Tariff and Cost Sharing Program***

Unlike the bidding grid mechanism of the traditional power generation business, 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 SDRC is responsible to set the on-grid tariffs for renewable energy power projects, its tariff determination factors include the characters of 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 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 details for the setting of renewable energy tariffs. According to the Cost and Sharing Program, there are two types of on-grid tariff for electricity generated from renewable energy: government fixed price and government guided price.

REGULATORY ENVIRONMENT

In addition, pursuant to the Price and Cost Sharing Regulation, for the renewable energy projects approved after January 1, 2006, the differences between the costs of grid enterprises and the costs calculated by the average on-grid tariffs of coal power generation will be borne by end-users. As such, the Price and Cost Sharing Regulation provides that: (i) the amount that on-grid tariff exceeds the local benchmark on-grid tariff of desulfurized coal unit, (ii) the amount that operation maintenance expense for independent electric system of public renewable energy with state investment or subsidy exceeds the average sales tariff of the local provincial grid, and (iii) the grid-connecting expense of renewable resource power generating projects, will be borne by end-users within the coverage of grid enterprises at provincial or above levels by payment of tariff surcharges. According to the Circular of the NDRC on adjustment of on-grid tariffs across China, the additional on-grid tariff shall be increased to RMB4 per MWh as of December 20, 2009.

On January 11, 2007, the NDRC promulgated the Provisional Measures on Adjustment to Additional On-grid Tariff for renewable energy (《可再生能源電價附加收入調配執行協法》) to make subsidy rates for renewable energy consistent, as shown below:

- (1) subsidy amount for power generating projects of renewable energy = (on-grid tariff of renewable energy – local provincial-level benchmark electricity price of desulfurized coal unit) × grid power by generation of renewable energy;
- (2) subsidy amount of independent electric system of public renewable energy = operation maintenance expense for independent electric system of public renewable energy – average sales tariff of the local provincial grid × power generation of independent electric system of public renewable energy;
- (3) grid-connecting expense of renewable resource power generating projects refers to the investment and operation maintenance expense for power transmission and transformation for connecting the renewable resource power generating projects to connect to the grid. The rate shall be dependent on the length of route: RMB0.01 per KWh for less than 50 km, RMB0.02 per KWh for 50-100 km, and RMB0.03 per KWh for 100 km and more.

On July 20, 2009, “the NDRC promulgated the Circular Regarding the Furtherance of On-grid Pricing Policy of Wind Power (《國家發展改革委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 and applies to all onshore wind power projects approved thereafter. In accordance with this circular, the on-grid tariff as determined by “government guided price” discussed above has been replaced by a geographically unified tariff, a form of government-fixed price. Specifically, the PRC is categorized into four wind resource zones, and all onshore wind power projects in the same zone apply the same standard on-grid tariff (including VAT) (RMB0.51/kWh, RMB0.54/kWh, RMB0.58/kWh or RMB0.61/kWh) applicable to that zone. For wind farms spanning across areas with different fixed on-grid tariffs, the higher tariff applies. The new on-grid tariffs will continue to be subsidized by on-grid tariff premiums enjoyed by renewable energy projects in general.

REGULATORY ENVIRONMENT

(4) CDMs

A CDM is an arrangement under the Kyoto Protocol and 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 emission reduction targets or sold to other interested parties, and therefore provides 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 August 3, 2011, 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. Consequently, a company controlled by foreign parties does not qualify to apply for PRC government’s approval for a CDM project.
- 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, promulgated by the NPRC.
- the CDM Board will review the floor price of the sale of the CERs generated in the PRC.
- for CDM projects, (i) CERs produced from a particular CDM project are owned by the PRC project owner and (ii) 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 that develop and utilize renewable energy and are encouraged as a matter of the government policy, only 2.0% of the proceeds are payable to the PRC government.

On November 25, 2009, a standing meeting was held in State Council, at which it was decided that by 2020, CO₂ emission per unit of GDP of China will be reduced by 40.0% to 45.0% from that of 2005, and such index shall be a restraining guideline, and incorporated into the mid-and long-term plans of social economic development, and related domestic statistics monitoring and examination methods will be made.

REGULATORY ENVIRONMENT

(5) Renewable Energy Development Fund and Designated Funds

According to the Renewable Energy Law, the state will establish a renewable energy development fund, the funding to come from sources including a special purpose fund arranged during this financial year, with additional income to be collected from renewable power tariff according to the law.

The Interim Measures on Administration of Designated Fund for the Development of Renewable Energy, 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.

(6) Tax Preferences

In China, enterprises that engage in renewable energy enjoy certain tax preferences. The Guidance Catalog on Renewable Energy Industrial Development (《可再生能源產業發展指導目錄》) (the “Catalog”), promulgated by the NDRC on November 29, 2005, sets out 88 types of renewable energy projects that may be entitled to preferential tax treatment or designated funding if requirements of other laws and regulations are satisfied by these types of projects.

- ***Corporate Income Tax***

Pursuant to the Circular on the Execution of the Catalog of Public Infrastructure Projects Entitled for Preferential Tax Treatment (《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》) (the “46th Document”) of MOF and SAT, for the investment and operation income of enterprises established after January 1, 2008 and that engage in public infrastructure projects, starting from the tax year in which the project generates the first production and operation income, the corporate income tax will be exempted for the first three years, and a 50.0% exemption will apply to the period from the fourth to the sixth year.

- ***VAT Law***

According to “Circular 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》)” co-released by MOF and SAT on December 9, 2008, the VAT from sales of power generated by wind is entitled to a 50.0% refund.

Effective as of January 1, 2009, the VAT refund policy available for certain foreign-invested enterprises that purchase domestically manufactured equipment was abolished pursuant to the Circular on the Abolishment of the Tax Refund Policy for the

REGULATORY ENVIRONMENT

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》), which was jointly promulgated by MOF and SAT on December 25, 2008. However, foreign-invested enterprise that purchase domestically manufactured equipment receive VAT invoices and submit a VAT refund application with the relevant tax authorities, on or prior to June 30, 2009, are entitled to receive the VAT refund as before.

SPECIAL REQUIREMENTS AND POLICIES APPLICABLE TO COAL POWER GENERATION

(1) On-grid Tariffs

To accelerate the development of desulphurizing facilities and to reduce the emission of carbon dioxide, the Provisional Measures on the Administration of Price of the Desulphurized Coal Power and Operation of the Desulphurizing Facilities (《燃煤發電機組脫硫電價及脫硫設施運行管理辦法(試行)》) was jointly issued by the NDRC and former SEPA and became effective on July 1, 2007. Regarding the on-grid tariffs, these measures include, among others, the following:

- construction of new or extended coal power plants should be conducted pursuant to the relevant standards regarding the installation of desulphurizing facilities, and the applicable on-grid tariff corresponding to the benchmark price of desulphurized coal power set by the NDRC;
- a tariff surcharge of RMB0.015 per KWh will be added to the selling price of electricity generated from desulphurized coal power generators; and
- power plants using coal with average sulphureous content above 2.0% or below 0.5%, the tariff surcharge for the installation of desulphurizing facilities of which may be set by the local government and subject to a review and approval process involving the provincial pricing bureaus and the NDRC.

In December 2004, the NDRC, with the approval of the State Council, issued a new policy (《關於建立煤電聯動機制的意見》) to link thermal coal and power prices, which will allow coal power generation companies to pass through 70.0% of certain increases in coal prices to end users through increases in on-grid tariffs. Under this new policy, when the average coal price increases by more than 50.0% within a six-month period, power generation companies may pass on to end-users 70.0% of such increase through an increase in on-grid tariffs, while power generation companies will bear the remaining 30.0% of the increased coal costs. If the average coal prices increase by less than 5.0% within such six-month period, the on-grid tariffs would remain unchanged, but the rate increase may be accumulated in the next six-month period. This new policy is retroactively applied from June 2004, using the sale prices of thermal coal as of the end of May 2004 as the base for calculating the fluctuation of the average coal prices during the following six-month period.

REGULATORY ENVIRONMENT

The first round of coal-electricity price linkage was implemented in May 2005, in accordance with the NDRC's mechanism. The national average retail tariff of electricity has risen by RMB0.0252 per unit of electricity from May 1, 2005. The second round of coal-electricity price linkage was implemented on June 30, 2006, by which time the tariffs had risen by RMB0.025. On June 19, 2008, NDRC announced the third round, which increased the national average retail tariffs of electricity by RMB0.025 per KWh.

(2) On Environmental Protection

Pursuant to the Emission Standards of Air Pollutants for Coal Power Plants (《火電廠大氣污染物排放標準》) (the "Emission Standards"), which became effective on January 1, 2004, newly built, extended or reconstructed coal-fired power plant projects that were constructed and commenced commercial operation or received environmental certification before December 31, 1996 must implement the first stage of emissions control standards. Projects that received environmental certification on or before January 1, 1997 but before the implementation of the Emission Standards, must implement the second stage of emission control requirements. From January 1, 2004, power projects that received the environmental certification (including the environmental certification received during the second stage, for the fifth anniversary from the approval date, coal-fired power plant projects which construction have not commenced before the implementation of this emission standard) must implement the third stage of emission control requirement.

The Administration Regulation on the Levy and Use of Discharge Fees (《排污費徵收使用管理條例》) promulgated by the State Council together with two implementing rules (collectively, the "Discharge Fees Regulations") came into effect on July 1, 2003. According to the Discharge Fees Regulations and starting from July 1, 2005, the discharge fees for the emission of sulphur dioxide will be comparable to the general discharge fees for the emission of air pollutants. In addition, the discharge fees for the emission of nitrous oxide became comparable to the general discharge fees for emission of air pollutants starting from July 1, 2004. The Discharge Fees Regulations also provide that the amount of sulphur dioxide discharge by power plants with installed capacities of over 300 MW shall be evaluated and limits determined by the environmental protection administrative authorities at the respective levels of the provinces, autonomous regions and municipalities directly under the PRC Government. Power plants with desulphurization equipment are expected to substantially lower discharge fees than other coal power plants.

According to the Measures on the Administration of Environmental Protection of Electric Power Industry (《電力工業環境保護管理辦法》), which became effective on December 2, 1996, coal power construction projects are subject to the PRC's environmental impact assessment system. The power generators may choose its environmental assessor, subject to the confirmation of local administrative authorities in charge of environmental protection at the provincial level, and file an environmental impact assessment report with the local administrative authorities. In addition, power plants must assign a specific department and its personnel to discharge its obligations with regard to environmental protection. Power enterprises should also set aside funds for the prevention and treatment of environmental pollution caused by their own operations or constructions.

REGULATORY ENVIRONMENT

(3) Incentives of Tax Preferences and Transmission Priorities, etc.

According to the Administrative Measures on the Recognition of Comprehensive Resource Utilization Encouraged by the State (《國家鼓勵的資源綜合利用認定管理辦法》), if a coal power plant uses no less than 60% coal sludge as fuel and blends this fuel with coke, it may be recognized by the PRC government as a Resource Comprehensive Utilization Plant, which would entitle it to a reduction of 50% of the VAT levied on electricity generation according to the applicable PRC tax laws.

According to the Interim Provisions on the Administration of the Construction of Power Generating Projects of Steam-Electricity Cogeneration and Comprehensive Utilization of Coal Sludge (《熱電聯產和煤矸石綜合利用發電專案建設管理暫行規定》), if a coal power plant provides steam simultaneously during the power generation process, the power generating units may be recognized as cogeneration units by the PRC government, which entitles it to sell steam to the customers within the heat zone of the coal plant (generally within an eight-kilometer radius) on an exclusive basis and enjoy higher dispatch priority under some conditions.

During the Track Record Period, our coal-fired power plants were not entitled to the tax preferences and transmission priority as discussed above.