## THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in China WindPower Group Limited, you should at once hand this circular together with the accompanying form of proxy to the purchaser(s) or the transferee(s) or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or the transferee(s).

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.



A special general meeting (the "SGM") of the Company will be held at 10:00 a.m. on 7 July 2010, Wednesday, at Unit 3901, Fast East Finance Centre, 16 Harcourt Road, Admiralty, Hong Kong.

A notice convening the SGM and a form of proxy for use by the Shareholders at the SGM are enclosed. Whether or not you intend to attend and vote at the SGM in person, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon and return it to the branch share registrar and transfer office of the Company in Hong Kong, Tricor Tengis Limited, at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as practicable but in any event not later than 48 hours before the time appointed for holding the SGM or any adjournment thereof. Such form of proxy for use at the SGM is also published on the website of the Stock Exchange (www. hkexnews.hk). Completion and return of the form of proxy will not preclude you from attending and voting at the SGM or any adjourned meeting thereof should you so wish.

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In this circular, the following expressions shall have the following meanings unless the context indicates otherwise:

"2009 Framework Agreement"	the agreement entered into between Company and Liaoning Energy on 5 May 2009, in relation to, among other things, the formation of the joint ventures between the parties, guarantees which may be provided by Liaoning Energy in respect of any external borrowings of the Existing Joint Ventures, counter indemnities which may be provided by the Group to Liaoning Energy with the pledge of the Group's equity interests in the Existing Joint Ventures to Liaoning Energy and the Services
"2010 Framework Agreement"	the agreement entered into between Company and Liaoning Energy on 18 May 2010, in relation to, among other things, the proposed formation of New Joint Ventures, the Group Guarantees, the Liaoning Energy Guarantees and the Counter Indemnities
"associates"	has the meaning ascribed thereto under the Listing Rules
"Board"	the board of the Directors
"Company"	China WindPower Group Limited, a company incorporated in Bermuda with limited liability, the ordinary shares of which are listed on the main board of the Stock Exchange
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"Counter Indemnity(ies)"	counter indemnity(ies) which may be provided by the Group to Liaoning Energy with the pledge of the Group's equity interest(s) in the New Joint Ventures to Liaoning Energy as security pursuant to the 2010 Framework Agreement
"Director(s)"	the director(s) of the Company

"Enlarged Group"	the Group and the New Joint Ventures. The equity
	interests in the New Joint Ventures held by the Group
	would vary from 45% to 55% and it is the intention of
	the Company and Liaoning Energy that each of the New
	Joint Ventures shall be a jointly controlled entity upon
	its establishment, hence the New Joint Ventures would
	be equity accounted for in the financial statements of the
	Group

"Existing Joint Ventures" the joint ventures established/to be established pursuant to the 2009 Framework Agreement and the contracts dated 6 February 2009 and 10 April 2009

"Group" the Company and its subsidiaries

- "Group Guarantee(s)" the possible grant of the guarantee(s) by the Group in respect of the borrowings of the New Joint Ventures in favour of the financiers in proportion to the Group's equity interests in the New Joint Ventures
- "HK\$" Hong Kong dollars, the lawful currency of Hong Kong
- "Hong Kong" the Hong Kong Special Administrative Region of the PRC
- "Independent Shareholder(s)" Shareholder(s) which does (do) not have any material interest in the transactions contemplated under the 2010 Framework Agreement, the Services, the Waiver and the transactions contemplated thereunder and is (are) allowed to vote at the SGM in respect of the formation of the New Joint Ventures, the possible grant of the Group Guarantees, the possible grant of the Liaoning Energy Guarantees, the possible grant of the Counter Indemnities, the prospective provision of the Services (including the Revised Caps) and the Waiver

"Latest Practicable Date"	15 June 2010, the latest practicable date before the printing of this circular for ascertaining certain information contained herein
"Liaoning Energy"	遼寧能源投資(集團)有限責任公司, a company incorporated in the PRC with limited liability
"Liaoning Energy Guarantee(s)"	guarantee(s) which may be provided by Liaoning Energy in respect of any external borrowings of each New Joint Venture up to a maximum amount of RMB400,000,000 pursuant to the 2010 Framework Agreement
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"MW"	Megawatt (1,000,000 watts), the commonly used unit of power in quantifying the electricity generation
"New Joint Ventures"	the 18 joint ventures to be established by the Group and Liaoning Energy pursuant to the 2010 Framework Agreement
"PRC"	the People's Republic of China
"Revised Cap(s)"	the revised maximum annual aggregate amounts of Services (in terms of aggregate value of contracts being entered into within the same financial year) which may be provided by the Group to Liaoning Energy and its associates (including the Existing Joint Ventures and the New Joint Ventures) for the three years ending 31 December 2010, 2011 and 2012
"RMB"	Renminbi, the lawful currency of the PRC
"Services"	the services including wind power engineering, procurement and construction, manufacturing of wind tower tubes, wind power facilities design and maintenance
"SFO"	Securities and Futures Ordinance, Chapter 571 of the laws of Hong Kong

"SGM"	the special general meeting of the Company to be convened and held at Unit 3901, Far East Finance Center, 16 Harcourt Road, Admiralty, Hong Kong at 10:00 a.m. on 7 July 2010, Wednesday, for the Independent Shareholders to consider and approve, if thought fit, among other things, the formation of New Joint Ventures, the possible grant of the Group Guarantees, the possible grant of the Lioaning Energy Guarantees, the possible grant of the Counter Indemnities pursuant to the 2010 Framework Agreement, the prospective provision of the Services (including the Revised Caps) and the Wavier or any adjournment thereof (as the case may be)
"Share(s)"	ordinary share(s) of HK\$0.01 each in the share capital of the Company
"Shareholders(s)"	holder(s) of Share
"Somerley"	Somerley Limited, being the independent financial adviser to advise the independent board committee and the Independent Shareholders in respect of transactions contemplated under the 2010 Framework Agreement, the Services and the Waiver, a licensed corporation for type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Waiver"	waiver from strict compliance with Rule 14A.35(1) of the Listing Rules granted by the Stock Exchange on 28 May 2010 regarding the entering into of a master agreement

which governs the provision of the Services

# China WindPower 中国风电

# 中国风电集团有限公司 China WindPower Group Limited

(Incorporated in Bermuda with limited liability)

(Stock Code: 182)

Executive Directors: Mr. Liu Shunxing (Chairman and Chief Executive Officer) Mr. Ko Chun Shun, Johnson (Vice Chairman) Mr. Wang Xun Mr. Yang Zhifeng Ms. Liu Jianhong Mr. Yu Weizhou Ms. Ko Wing Yan, Samantha Mr. Chan Kam Kwan, Jason

Non-executive Directors: Mr. Tsoi Tong Hoo, Tony

Independent non-executive Directors: Dr. Zhou Dadi Dr. Wong Yau Kar, David Mr. Yap Fat Suan, Henry Registered office: Clarendon House 2 Church Street Hamilton HM11 Bermuda

Head office and principal place of business in Hong Kong: Unit 3901 Far East Finance Center 16 Harcourt Road Admiralty Hong Kong

18 June 2010

To the Shareholders

Dear Sir or Madam,

#### FORMATION OF JOINT VENTURES — MAJOR AND CONNECTED TRANSACTIONS POSSIBLE GRANT OF LIAONING ENERGY GUARANTEES — CONNECTED TRANSACTION POSSIBLE GRANT OF GROUP GUARANTEES AND COUNTER INDEMNITIES BY THE GROUP — MAJOR AND CONNECTED TRANSACTIONS PROVISION OF SERVICES BY THE GROUP — CONTINUING CONNECTED TRANSACTIONS REVISION OF ANNUAL CAPS AND WAIVER FROM STRICT COMPLIANCE WITH RULE 14A.35(1) OF THE LISTING RULES

#### INTRODUCTION

Reference is made to the announcements of the Company dated 14 April 2009, 5 May 2009, 18 May 2010 and 2 June 2010 and the circular of the Company dated 26 May 2009.

\* for identification purpose only

On 18 May 2010, the Company and Liaoning Energy entered into the 2010 Framework Agreement regarding, among other things, (i) the proposed formation of the New Joint Ventures, (ii) the possible grant of the Group Guarantees by the Group in respect of the borrowings of the New Joint Ventures in favour of the financiers in proportion to the Group's equity interests in the New Joint Ventures and (iii) the possible grant of the Liaoning Energy Guarantees by Liaoning Energy to the New Joint Ventures and the grant of the Counter Indemnities by the Group to Liaoning Energy with the pledge of the Group's equity interests in the New Joint Ventures as security.

Liaoning Energy is a substantial shareholder of certain Existing Joint Ventures that the Company owns more than 50% which are considered to be subsidiary undertakings of the Company for the purposes of Listing Rules. Liaoning Energy is a connected person of the Company as it is a substantial shareholder of certain of the Company's subsidiary undertakings. The proposed formation of the New Joint Ventures constitutes a major and connected transaction for the Company under the Listing Rules.

Each of (i) the possible grant of Group Guarantees by the Group in respect of the borrowings of the New Joint Ventures in favour of the financiers in proportion to the Group's equity interests in the New Joint Ventures (being associates of Liaoning Energy and therefore connected persons of the Company), (ii) the possible grant of Liaoning Energy Guarantees by Liaoning Energy (a connected person of the Company) to the Group, in conjunction with the possible grant of Counter Indemnities by the Group to Liaoning Energy in respect of the Liaoning Energy Guarantees with the pledge of the Group's equity interests in the New Joint Ventures to Liaoning Energy as security for the Counter Indemnities, shall constitute non-exempt connected transactions for the Company.

The provision of the Group Guarantees and Counter Indemnity will also constitute a major transaction for the Company under the Listing Rules.

Pursuant to the 2010 Framework Agreement, the Group will establish more New Joint Ventures with Liaoning Energy subject to the Independent Shareholders' approval at the SGM. As more Services may potentially be provided by the Group to the Existing Joint Ventures and the New Joint Ventures, the Company considers that the existing annual caps as set out in the 2009 Framework Agreement may not be sufficient to cover the amount of Services which may be provided by the Group to the Existing Joint Ventures. As such, the Company proposes to revise the existing annual caps to cover the expected amount of Services which may be provided by the Group to Liaoning Energy and its associates, including the Existing Joint Ventures and the New Joint Ventures.

The Company has applied to the Stock Exchange for a waiver from strict compliance with Rule 14A.35(1) of the Listing Rules regarding the entering into of a master agreement which governs the provision of the Services, being continuing connected transactions between the Group and Liaoning Energy and its associates. On 28 May 2010, the Stock Exchange granted the Waiver.

The Existing Joint Ventures and the New Joint Ventures are associates of Liaoning Energy under the Listing Rules and are thus connected persons of the Company. The prospective provision of the Services by the Group to Liaoning Energy and its associates (including the Existing Joint Ventures and the New Joint Ventures) shall constitute non-exempt continuing connected transactions of the Company under the Listing Rules.

## THE 2010 FRAMEWORK AGREEMENT

## 1. Formation of the New Joint Ventures

The Company and Liaoning Energy have agreed to jointly establish 18 joint ventures (the "New Joint Ventures") in Chaoyang (朝陽), Liaoning province, the PRC to undertake wind farm projects in the PRC.

### Registered capital and total investment of each of the New Joint Ventures

For each of the 18 New Joint Ventures:

Total investment:	up to RMB500,000,000 (equivalent to approximately HK\$568 million), subject to the approval from the State- owned Assets Supervision and Administration Commission of the Liaoning Provincial Government
Registered capital:	the Group and Liaoning Energy shall respectively hold (i) 55% and 45% of the equity capital in each of the 9 of the New Joint Ventures and (ii) 45% and 55% of the equity capital in each of the another 9 New Joint Ventures. The Group will enter into a separate agreement for the formation of each New Joint Venture in accordance with the relevant terms set out in the 2010 Framework Agreement. Subject to the terms of such agreement, each of the New Joint

Ventures shall have a registered capital of RMB100 million

or RMB150 million

The remaining part of the total investment of each New Joint Venture is proposed to be raised by each New Joint Venture in the form of external debts.

As mentioned above, the Group will enter into a separate agreement for the formation of each New Joint Venture in accordance with the relevant terms set out in the 2010 Framework Agreement. If there is any material change in the terms of the formation of the New Joint Ventures under the 2010 Framework Agreement, the Company will comply with the reporting, announcement and independent shareholders' approval requirements under the Listing Rules. Formation of the New Joint Ventures is subject to the Company obtaining approval from its independent shareholders as required by the Listing Rules and approval from the State-owned Assets Supervision and Administration Commission of the Liaoning Provincial Government.

## Scope of business of the New Joint Ventures

Each New Joint Venture will be responsible for one wind farm project. It is intended that each of the New Joint Ventures will undertake wind farm projects in the PRC with an initial target installed capacity of 49.5 MW.

### Board composition of the New Joint Ventures

For those New Joint Ventures in which the Group shall hold a 55% interest, there shall be five directors of which three will be nominated by the Company and two will be nominated by Liaoning Energy. For those New Joint Ventures in which the Group shall hold a 45% interest, there shall be five directors of which two will be nominated by the Company and three will be nominated by Liaoning Energy.

It is the intention of the parties to the 2010 Framework Agreement that each of the New Joint Ventures shall be a jointly controlled entity of the Company upon its establishment for accounting purpose. Accordingly, the New Joint Ventures would be equity accounted for in the consolidated financial statements of the Company after their formation.

# 2. Group Guarantees, Liaoning Energy Guarantees and Counter Indemnities of the Group

Under the 2010 Framework Agreement, for each of the New Joint Ventures, the total investment is up to RMB500,000,000. Apart from the registered capital of the New Joint Ventures, the remaining amount of the total investment in each of the New

Joint Ventures is expected to be raised by the New Joint Ventures in the form of external borrowings. Pursuant to the 2010 Framework Agreement, the Company and Liaoning Energy may provide guarantees in respect of the borrowings of the New Joint Ventures in favour of the financiers in proportion to their respective equity interests in the relative New Joint Venture as mentioned in the section headed "Registered capital and total investment of each of the New Joint Ventures" above without any charge. Based on the experience of the Company, financiers in the PRC may prefer Liaoning Energy, as the local joint venture partner, to guarantee the entire amount of any borrowing made to the New Joint Ventures.

If financiers in the PRC require Liaoning Energy, as the local joint venture partner, to guarantee the entire amount of any borrowing made to the New Joint Ventures, Liaoning Energy has agreed under the 2010 Framework Agreement that it may provide the Liaoning Energy Guarantees in respect of any external borrowings of the New Joint Ventures up to a maximum amount of RMB400,000,000 for each New Joint Venture without any charge. The Company has agreed to provide Counter Indemnities to Liaoning Energy Guarantees (the "Claim"). The indemnified amount under the Counter Indemnities shall equal the Claim times the percentage equity interest of the Group in the relevant New Joint Venture(s). Based on the maximum amount of Liaoning Energy Guarantees that may be provided by the Group is RMB3,600 million.

The Group will also pledge its equity interests in the relative New Joint Ventures as security in favour of Liaoning Energy in respect of any Counter Indemnity provided to Liaoning Energy.

Apart from the capital contribution, guarantees and indemnities mentioned above, the Company does not have any further commitment under the 2010 Framework Agreement to make any further capital contribution or provide funding to each of the New Joint Ventures.

### 3. Term of the 2010 Framework Agreement

Subject to the approval from the Independent Shareholders, the 2010 Framework Agreement shall have a term up to 31 December 2012.

#### THE SERVICES

The Company has applied to the Stock Exchange for the Waiver from strict compliance with Rule 14A.35(1) of the Listing Rules regarding the entering into of a master agreement which governs the provision of the Services, being continuing connected transactions between the Group and Liaoning Energy and its associates. On 28 May 2010, the Stock Exchange granted the Waiver.

As set out in the 2009 Framework Agreement, certain subsidiaries of the Company provide the Services. The Existing Joint Ventures will choose suppliers for the Services for their wind farm constructions through public tenders in accordance with the applicable laws and requirements in the PRC. Pursuant to the 2009 Framework Agreement, the Group may participate in public tenders organised by such Existing Joint Ventures for selecting suppliers for the Services, including wind power engineering, procurement and construction, manufacturing of wind tower tubes, wind power facilities design and maintenance.

The Group determines the terms of the tenders for the Services with reference to, among other things, the specifications of each wind farm construction plan (e.g. the estimated costs, expected margins and perceived market competition), the prevailing market prices of the wind farm equipment and facilities and quotations made by the Group to independent third parties in respect of similar projects.

The historical transactions for the Services provided by the Group to Liaoning Energy and its associates amounted to RMB60,368,000 for the nine months ended 31 December 2009.

Subject to the Independent Shareholders' approval at the SGM, the Group will establish more New Joint Ventures with Liaoning Energy pursuant to the 2010 Framework Agreement and such New Joint Ventures shall also choose suppliers for the Services for their wind farm constructions through public tenders in accordance with the applicable laws and requirements in the PRC. The Existing Joint Ventures and the New Joint Ventures are/shall be associates of Liaoning Energy and are/will, upon establishment, become connected persons of the Company. Under the 2009 Framework Agreement, for each of the financial years ending 31 March 2010, 31 March 2011 and 31 March 2012, the aggregate amounts of the Services (in terms of aggregate value of contracts being entered into within the same financial year) which may be provided by the Group to Liaoning Energy and its associates, including the Existing Joint Ventures shall not exceed RMB431,800,000, RMB328,500,000 and RMB112,000,000 respectively.

The Group in its ordinary and usual course of business may tender for the provision of Services to the Existing Joint Ventures and the New Joint Ventures. Subject to the tender results, more Services may potentially be provided by the Group to the Existing Joint Ventures and the New Joint Ventures. Accordingly, the Company considers that the existing annual caps as set out in the 2009 Framework Agreement, which were determined based on, among other things, the target installed capacity of the wind farm projects to be carried out by the Existing Joint Ventures, may not be sufficient to cover the amount of Services which may be provided by the Group to the Existing Joint Ventures and the New Joint Ventures. In addition, as announced by the Company on 16 November 2009, the financial year end date of the Company has been changed from 31 March to 31 December in order to coincide with the statutory financial year end date of the Company's principal operating subsidiaries which are mainly situated in the PRC. As such, the Company proposes to revise the existing annual caps to cover the possible amount of Services which may be provided by the Group to Liaoning Energy and its associates, including the Existing Joint Ventures and the New Joint Ventures, in respect of the next three financial years ending 31 December 2012.

### The Waiver

Pursuant to the requirements under Chapter 14A of the Listing Rules, including compliance with Rule 14A.35(1) of the Listing Rules that requires the Company to enter into a written agreement with Liaoning Energy. Liaoning Energy considers that suppliers for the Services should be selected by way of public tenders in accordance with the relevant laws and regulations in the PRC. No written framework agreement will be entered into between the Group and Liaoning Energy in relation to the proposed revision of the existing annual caps.

The Company believes that strict compliance with the written agreement requirement under Rule 14A.35(1) of the Listing Rules in respect of the Services will be unduly burdensome and it is not practicable for the Group to comply with the relevant requirements under Chapter 14A of the Listing Rules each time before the Group tenders for the Services to Liaoning Energy and its associates (including the Existing Joint Ventures and the New Joint Ventures). If the Company has to comply with the relevant requirements of the Listing Rules for each individual engagement which may be subject to the reporting, announcement and/ or independent shareholders' approval requirements, substantial time and compliance cost will be incurred, which will be significantly detrimental to the commercial bargaining position of the Company. As such, the Company had applied for, and the Stock Exchange had granted, the Waiver.

The Company will ensure that the provision of the Services by the Group to Liaoning Energy and its associates (including the Existing Joint Ventures and the New Joint Ventures) shall be subject to the conditions set out below:

- (i) the Group shall enter into a separate contract to set out the detailed terms of each individual engagement for the provision of Services to Liaoning Energy and its associates (including the Existing Joint Ventures and the New Joint Ventures);
- (ii) each individual engagement for the provision of Services will be entered into on normal commercial terms and in the ordinary course of business of the Group, and will be fair and reasonable and in the interests of the Shareholders taken as a whole;
- (iii) that the Waiver will only cover those engagements where Liaoning Energy and its associates (including the Existing Joint Ventures and the New Joint Ventures) choose suppliers for the Services for their wind farm constructions through public tenders in accordance with the applicable laws and requirements in the PRC and where the Group has tendered for such engagements;
- (iv) the Group shall determine the terms of the tenders for the Services with reference to, among other things, the specifications of each wind farm construction plan (e.g. the estimated costs, expected margins and perceived market competition), the prevailing market prices of the wind farm equipment and facilities and quotations made by the Group to independent third parties in respect of similar projects; and
- (v) the annual transaction amounts for the Services will not exceed the Revised Caps for the three financial years ending 31 December 2010, 2011 and 2012 (as detailed below).

If a tender is assigned to the Group, the Group shall enter into a separate contract to set out the detailed terms of each individual engagement for the provision of Services to Liaoning Energy and its associates (including the Existing Joint Ventures and the New Joint Ventures). To the extent that the terms of the individual engagement for the provision of Services are different from the principles as stated above, the Company will treat such engagement as a separate transaction and will comply with the reporting, announcement and/or independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Details of the Services will be disclosed in the Company's next published annual report and accounts in accordance with Rule 14A.46 of the Listing Rules. Other than Rule 14A.35(1) of the Listing Rules, the Company will fully comply with the disclosure and/ or independent shareholders' approval requirements under Chapter 14A of the Listing

Rules. The Company proposes to revise the annual caps for the Services to be provided to Liaoning Energy and its associates (including the Existing Joint Ventures and the New Joint Ventures) for the 3 years ending 31 December 2012 and comply with the reporting, announcement and/or independent shareholders' approval requirements. Please refer to the section headed "Proposed revision of annual caps" below for details.

Apart from the confirmation to be given by the independent non-executive Directors in the annual reports of the Company in accordance with Rule 14A.37 of the Listing Rules, the audit committee of the Company will also review the continuing connected transactions between the Group and Liaoning Energy and its associates (including the Existing Joint Ventures and the New Joint Ventures) on a regular basis and issue similar confirmation in the annual reports of the Company. The legal department and the internal control department of the Company shall ensure the Services will be provided in accordance with the conditions as set out above.

The Waiver, the provision of the Services to Liaoning Energy and its associates (including the Existing Joint Ventures and the New Joint Ventures) and the Revised Caps for the next three financial years ending 31 December 2012 will be subject to the approval of the Independent Shareholders. As none of the Shareholders is expected to have any material interest in the provision of Services and the Waiver, no Shareholder will be required to abstain from voting on the proposed resolutions in relation to the Services (including the Revised Caps) and the Waiver. Should the Company change the applicable pricing principles of the Services from those as set out above, the Company will make an announcement and will re-comply with the applicable requirements under the Listing Rules.

### Proposed revision of annual caps

The existing annual caps shall be revised as follows: for each of the three financial years ending 31 December 2010, 2011 and 2012, the aggregate amounts of the Services (in terms of aggregate value of contracts being entered into within the same financial year) which may be provided by the Group to Liaoning Energy and its associates, including the Existing Joint Ventures and the New Joint Ventures, shall not exceed RMB364,000,000, RMB766,000,000 and RMB665,000,000 respectively.

The above Revised Caps for the Services have been determined with reference to, among others, the target installed capacity of the wind farm projects to be carried out by the Existing Joint Ventures and the New Joint Ventures for the three financial years ending 31 December 2012, the prevailing service charges for the Services, the expected costs which may be incurred by the Group on wind power engineering, procurement and construction, the expected manufacturing and design costs of wind tower tubes and facilities, the expected margins, maintenance costs and labour costs.

# REASONS FOR THE ENTERING INTO OF THE 2010 FRAMEWORK AGREEMENT, THE SERVICES AND THE WAIVER

The Group is principally engaged in the wind power sector, investing in various wind farm projects and providing wind power engineering and construction services in the PRC. The Group sees great potential in the wind power business in the PRC in light of the favourable government policy on clean energy and the growing demand for electricity in the PRC. The Group has been setting up joint ventures with local partners, including entities owned by the relevant municipal governments, and other seasoned business partners, to develop wind power projects. The establishment of the New Joint Ventures is in the Group's usual and ordinary course of business and represents a further step by the Group to expand its wind power business in the PRC. The Company intends to finance its investment in the registered capital of the New Joint Ventures by the Group's internal resources.

As mentioned above, according to the experience of the Company, financiers in the PRC may prefer Liaoning Energy to guarantee the entire amount of any borrowing made to the New Joint Ventures. The arrangement of the Group Guarantees, the guarantees which may be provided by Liaoning Energy in respect of the borrowings of the New Joint Ventures in favour of the financiers in proportion to its respective equity interest in the relative New Joint Venture, the Liaoning Energy Guarantees and the Counter Indemnities with the pledge to be provided by the Group is agreed between the parties with a view to facilitating the New Joint Ventures to borrow moneys to meet their working capital requirements, as well as to provide funds for their start-up and operations, so that the joint venture partners will effectively be responsible for guaranteeing borrowings pro rata to their shareholdings in the New Joint Ventures.

The terms of the 2010 Framework Agreement were negotiated on an arm's length basis.

It is intended that the New Joint Ventures will undertake wind farm projects in the PRC and as such shall require the Services to facilitate the start up and the operation of the wind farm projects. As mentioned above, it is part of the principal business of the Group to provide wind power engineering, construction and maintenance services. The prospective provision of the Services will be in the ordinary and usual course of business of the Group and enhance the revenue base of the Group. On the other hand, it will also enable the Existing Joint Ventures and the New Joint Ventures to benefit from the expertise and experience of the Group. The Company considers that the existing annual caps as set out in the 2009 Framework Agreement, which were determined based on, among other things, the target installed capacity of the wind farm projects carried/ to be carried out by the Existing Joint Ventures, may not be sufficient to cover the

amount of Services which may be provided to the Existing Joint Ventures and the New Joint Ventures. In addition, as stated above, the Company had, on 16 November 2009 announced that the financial year end date of the Company was changed from 31 March to 31 December in order to coincide with the statutory financial year end date of the Company's principal operating subsidiaries which are mainly situated in the PRC. As such, the Company proposes to revise the existing annual caps to cover the expected amount of Services which may be provided to Liaoning Energy and its associates, including the Existing Joint Ventures and the New Joint Ventures in respect of the next three financial years ending 31 December 2012.

The Company will ensure that the separate contracts to be entered into for each individual engagement will be negotiated on an arm's length basis.

## **INFORMATION ON LIAONING ENERGY**

Liaoning Energy is a state-owned enterprise in the PRC owned by the State-owned Assets Supervision and Administration Commission of the Liaoning Provincial Government and is principally engaged in the development of power, high technology and energy saving projects, manufacturing and sale of related equipment and facilities in the PRC.

## FINANCIAL EFFECTS OF THE TRANSACTIONS ON THE GROUP

As mentioned in the section headed "Formation of the New Joint Ventures" in this circular, subject to the terms of separate agreements to be entered into for the formation of each New Joint Venture, each of the New Joint Ventures shall have a registered capital of RMB100 million or RMB150 million.

Upon formation of the 18 New Joint Ventures, the Group's interests in jointly controlled entities will be increased by within a range of RMB900 million to RMB1,350 million (equivalent to approximately HK\$1,022 million to approximately HK\$1,534 million) while the bank deposit and cash will decrease by the same corresponding amount on the basis that the registered capital of each of the New Joint Ventures shall be RMB100 million or RMB150 million and that all the New Joint Ventures will be accounted for as jointly controlled entities of the Group.

As mentioned above, it is the intention of the parties to the 2010 Framework Agreement that each of the New Joint Ventures shall be a jointly controlled entity of the Company upon its establishment for accounting purpose. Accordingly, the New Joint Ventures would be equity accounted for in the consolidated financial statements of the Company after their formation.

The Directors consider that the Group, as a joint venture partner of the New Joint Ventures, are expected to benefit from the profit contributions, if any, from the New Joint Ventures arising from their wind farm business to be carried out.

The possible provision of the Group Guarantees and Counter Indemnity pursuant to the 2010 Framework Agreement will have no material impact on the consolidated earnings or consolidated assets and liabilities of the Group except that the amount of Group Guarantees and Counter Indemnity, once granted, will become contingent liabilities for the Group as long as non-repayment of such loans of the New Joint Ventures does not occur.

As mentioned above, based on the maximum amount of Liaoning Energy Guarantees that may be provided by Liaoning Energy and the Group's equity interests in the New Joint Ventures, it is expected that the maximum amount of aggregate Group Guarantees and Counter Indemnities that may be provided by the Group is RMB3,600 million (equivalent to approximately HK\$4,090 million). Should the Group Guarantees and Counter Indemnities be enforced, the net asset value of the Group will be reduced accordingly.

## FINANCIAL AND TRADING PROSPECTS OF THE GROUP

With global energy supply and environmental issues taking centre stage, renewable energy alternatives are drawing growing attention of governments worldwide. The PRC government has introduced various policies which are favourable to the development of alternative energy, including wind power, in the PRC. The Directors are optimistic about the prospects of the wind power business in the PRC and thus the Group's.

The Directors are of the view that wind power will be an important renewable energy source in the PRC for the foreseeable future, and consider that the wind power business will continue to create value and benefit the Shareholders.

Therefore, the Company will continue its focus and effort to develop the Group's wind power business and continue to explore potential investment and cooperation opportunities in the PRC.

#### IMPLICATIONS OF THE LISTING RULES

#### The formation of the New Joint Ventures

Liaoning Energy is a substantial shareholder of certain Existing Joint Ventures that the Company owns more than 50% which are considered to be subsidiary undertakings of the Company for the purposes of Listing Rules. Liaoning Energy is a connected person of the Company as it is a substantial shareholder of certain of the Company's subsidiary undertakings. The proposed formation of the New Joint Ventures constitutes a connected transaction for the Company as defined under Rule 14A.13 of the Listing Rules. As certain percentage ratios in respect of the formation of the New Joint Ventures exceed 2.5% and the total relevant commitment of the Group is more than HK\$10,000,000, the formation of the New Joint Ventures is subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

As a relevant percentage ratio exceeds 25%, the proposed formation of New Joint Ventures in aggregate constitutes a major transaction for the Company under the Listing Rules.

### Group Guarantees, Liaoning Energy Guarantees and Counter Indemnities

Each of (i) the possible grant of Group Guarantees by the Group in respect of the borrowings of the New Joint Ventures in favour of the financiers in proportion to the Group's equity interests in the New Joint Ventures (being associates of Liaoning Energy and therefore connected persons of the Company), (ii) the possible grant of Liaoning Energy Guarantees by Liaoning Energy (a connected person of the Company) to the Group, in conjunction with the possible grant of Counter Indemnities by the Group to Liaoning Energy in respect of the Liaoning Energy Guarantees with the pledge of the Group's equity interests in the New Joint Ventures to Liaoning Energy as security for the Counter Indemnities, shall constitute non-exempt connected transactions for the Company under Rule 14A of the Listing Rules and are subject to the reporting, announcement and independent shareholders' approval requirements under the Listing Rules.

The possible grant of guarantees by Liaoning Energy, in respect of the borrowings of those New Joint Ventures owned as to more than 50% by the Group in favour of the financiers in proportion to Liaoning Energy's equity interests in the New Joint Ventures also constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. The above guarantees to be provided by Liaoning Energy is for the benefit of the Company on normal commercial terms and no security over the assets of the Group shall be granted in this regard. Such guarantees are exempted from the reporting, announcement and independent shareholders' approval requirements pursuant to Rule 14A.65(4) of the Listing Rules.

Based on the maximum amount of (i) the Group Guarantees and (ii) the Counter Indemnities with the pledge of the Group's equity interests in the New Joint Ventures as security that may be provided by the Group to Liaoning Energy under the 2010 Framework Agreement, as certain relevant percentage ratios exceed 25%, the provision of the Group Guarantees and Counter Indemnity will also constitute a major transaction for the Company under the Listing Rules.

## The Services and the Waiver

The Existing Joint Ventures and the New Joint Ventures are associates of Liaoning Energy under the Listing Rules and are thus connected persons of the Company. The prospective provision of the Services by the Group to Liaoning Energy and its associates (including the Existing Joint Ventures and the New Joint Ventures) shall constitute non-exempt continuing connected transactions of the Company under the Listing Rules. Accordingly, the Services, the Waiver and the relevant proposed Revised Caps are subject to the reporting, announcement and independent shareholders' approval requirements under the Listing Rules.

Liaoning Energy and its associates do not hold any Shares. No Shareholders are required to abstain from voting at the SGM to consider approving the proposed formation of the New Joint Ventures, the Group Guarantees, the Liaoning Energy Guarantees, the Counter Indemnities, the Services (including the Revised Caps) and the Waiver.

None of the Directors have a material interest in the above transactions and accordingly none of the Directors abstained from voting on the board resolution to approve the above transactions.

An independent board committee, consisting of all the independent non-executive Directors, namely Dr. Zhou Dadi, Mr. Yap Fat Suan, Henry and Dr. Wong Yau Kar, David, has been established to consider the formation of New Joint Ventures, the Group Guarantees, the Lioaning Energy Guarantees, Counter Indemnities, the Services (including the Revised Caps) and the Waiver, and to provide recommendations to the Independent Shareholders in this regard.

## SPECIAL GENERAL MEETING

The SGM shall be held at 10:00 a.m. on 7 July 2010, Wednesday, at Unit 3901, Fast East Finance Centre, 16 Harcourt Road, Admiralty, Hong Kong. The SGM will be held for the purpose of considering and, if thought fit, approving, among other things, the formation of the New Joint Ventures, the possible grant of the Group Guarantees, the

Liaoning Energy Guarantees and the Counter Indemnities, the prospective provision of the Services (including the Revised Caps) by the Group to Liaoning Energy and its associates (including the Existing Joint Ventures and the New Joint Ventures) and the Waiver. A notice convening the SGM and a form of proxy for use at the SGM are enclosed herewith. Whether or not you are able to attend the SGM, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon to the Company's branch share registrar and transfer office in Hong Kong, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not later than 48 hours before the time appointed for the holding of the SGM. Completion and return of the form of proxy will not preclude you from attending and voting at the SGM or any adjourned meeting should you so desire.

#### RECOMMENDATION

The Directors consider that (1) the terms of the 2010 Framework Agreement, the Services (including the Revised Caps) and the Waiver are on normal commercial terms, fair and reasonable; (2) the entering into of the 2010 Framework Agreement (including (i) the formation of the New Joint Ventures; (ii) the possible grant of the Group Guarantees; (iii) the possible grant of the Liaoning Energy Guarantees by Liaoning Energy to the Group, in conjunction with the possible grant of Counter Indemnities by the Group to Liaoning Energy with the pledge of the Group's equity interests in the New Joint Ventures to Liaoning Energy as security and the continuing connected transactions with respect to the Services to be provided by the Group to Liaoning Energy and its associates (including the Existing Joint Ventures and the New Joint Ventures) and the Waiver are in the interests of the Company and the Shareholders as a whole; (3) the provision of the Services is in the ordinary and usual course of business of the Group; and (4) the proposed Revised Caps for the provision of the Services are fair and reasonable. Accordingly, the Directors recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at the SGM.

Your attention is drawn to the letter from the independent board committee set out on pages 21 to 22 and the letter from Somerley set out on pages 23 to 39.

### **ADDITIONAL INFORMATION**

Shareholders may refer to the website of the Stock Exchange (www.hkexnews.hk) for the financial statements of the Group. The Shareholders may refer to the financial statements of the Group for the nine months ended 31 December 2009 published on the above website on 15 April 2010 for the five year financial summary setting out a comparative table

for the Group's financial statements for the nine months ended 31 December 2009 and the four years ended 31 March 2009 (page 124), the consolidated balance sheet of the Company as at 31 December 2009 (pages 40 to 41), being the latest published audited consolidated balance sheet of the Company and the notes to the consolidated financial statements for the nine months ended 31 December 2009 (pages 47 to 123).

Your attention is drawn to the information set out elsewhere in this circular and in the appendices to it.

Yours faithfully, For and on behalf of **China WindPower Group Limited Liu Shunxing** *Chairman and Chief Executive Officer* 



中国风电集团有限公司 China WindPower Group Limited

> (Incorporated in Bermuda with limited liability) (Stock Code: 182)

> > 18 June 2010

To the Independent Shareholders

Dear Sir or Madam,

## FORMATION OF JOINT VENTURES — MAJOR AND CONNECTED TRANSACTIONS POSSIBLE GRANT OF LIAONING ENERGY GUARANTEES — CONNECTED TRANSACTION POSSIBLE GRANT OF GROUP GUARANTEES AND COUNTER INDEMNITIES BY THE GROUP — MAJOR AND CONNECTED TRANSACTIONS PROVISION OF SERVICES BY THE GROUP — CONTINUING CONNECTED TRANSACTIONS REVISION OF ANNUAL CAPS AND WAIVER FROM STRICT COMPLIANCE WITH RULE 14A.35(1) OF THE LISTING RULES

We refer to the circular of the Company dated 18 June 2010 (the "Circular") to the Shareholders, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

We have been appointed by the Board as members of the independent board committee to advise you (i) whether the formation of the New Joint Ventures, the possible grant of the Group Guarantees, the possible grant of the Liaoning Energy Guarantees by Liaoning Energy to the New Joint Ventures, in conjunction with the possible grant of the Counter Indemnities by the Group to Liaoning Energy with the pledge of the Group's equity interests in the New Joint Ventures as security pursuant to the 2010 Framework Agreement, the prospective provision of the Services (including the Revised Caps) by the Group to Liaoning Energy and its associates (including the Existing Joint Ventures and the New Joint Ventures) and the Waiver are on normal commercial terms, and fair and reasonable so far as the Independent Shareholders are concerned and whether the above transactions are in the interests of the Company and the Shareholders as a whole, and (ii) to recommend you whether to vote for or against the resolutions regarding the 2010 Framework Agreement, the Services (including the Revised Caps) and the Waiver at the SGM.

\* for identification purpose only

## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Somerley has been appointed as the independent financial adviser to advise the independent board committee and the Independent Shareholders in this regard. Details of its advice, together with the principal factors taken into consideration in arriving at such advice, is set out on pages 23 to 39 of the Circular.

Your attention is also drawn to the letter from the Board set out on pages 5 to 20 of the Circular and the additional information set out in the appendices of the Circular.

Having considered the terms of the 2010 Framework Agreement, the Services (including the Revised Caps), the Waiver and the advice of Somerley, we are of the opinion that (1) the terms of the 2010 Framework Agreement, the Services (including the Revised Caps) and the Waiver are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned; (2) the entering into of the 2010 Framework Agreement (including (i) the formation of the New Joint Ventures; (ii) the possible grant of the Group Guarantees; (iii) the possible grant of the Liaoning Energy Guarantees by Liaoning Energy to the Group, in conjunction with the possible grant of Counter Indemnities by the Group to Liaoning Energy with the pledge of the Group's equity interests in the New Joint Ventures to Liaoning Energy as security and the continuing connected transactions with respect to the Services to be provided by the Group to Liaoning Energy and its associates (including the Existing Joint Ventures and the New Joint Ventures) and the Waiver are in the interests of the Company and the Shareholders as a whole; (3) the provision of the Services is in the ordinary and usual course of business of the Group; and (4) the proposed Revised Caps for the provision of the Services are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at the SGM to approve resolutions regarding the transactions contemplated under the 2010 Framework Agreement, the Services (including the Revised Caps) and the Waiver.

> Yours faithfully, Independent Board Committee of China WindPower Group Limited

**Dr. Zhou Dadi** Independent non-executive Director Dr. Wong Yau Kar, David Independent non-executive Director Mr. Yap Fat Suan, Henry Independent non-executive Director

The following is the letter of advice from the independent financial adviser, Somerley Limited, to the independent board committee and the Independent Shareholders, which has been prepared for the purpose of inclusion in this circular.



#### SOMERLEY LIMITED

10th Floor The Hong Kong Club Building 3A Chater Road Central Hong Kong

18 June 2010

To: the independent board committee and the Independent Shareholders

Dear Sirs,

# FORMATION OF JOINT VENTURES — MAJOR AND CONNECTED TRANSACTIONS POSSIBLE GRANT OF LIAONING ENERGY GUARANTEES — CONNECTED TRANSACTION POSSIBLE GRANT OF GROUP GUARANTEES AND COUNTER INDEMNITIES BY THE GROUP — MAJOR AND CONNECTED TRANSACTIONS PROVISION OF SERVICES BY THE GROUP — CONTINUING CONNECTED TRANSACTIONS AND REVISION OF ANNUAL CAPS AND WAIVER FROM STRICT COMPLIANCE WITH RULE 14A.35(1) OF THE LISTING RULES

We refer to our appointment as independent financial adviser to advise the independent board committee and the Independent Shareholders in connection with the 2010 Framework Agreement entered into between the Company and Liaoning Energy on 18 May 2010 regarding, among other things, (a) the proposed formation of the New Joint Ventures; (b) the possible grant of the Group Guarantees in respect of the borrowings of the New Joint Ventures in favour of the financiers in proportion to the Group's equity interests in the New Joint Ventures; (c) the possible grant of the Liaoning Energy Guarantees by Liaoning Energy in respect of any external borrowings of each New Joint Venture in conjunction with the possible grant of the Counter Indemnities by the Group to

Liaoning Energy with the pledge of the Group's equity interests in the New Joint Ventures as security; and (d) the prospective provision of the Services by the Group to Liaoning Energy and its associates (including, among others, the Existing Joint Ventures and the New Joint Ventures) as well as the proposed revised annual caps (the "Revised Caps"), and the Waiver. Details of the 2010 Framework Agreement, the Waiver, the Services and the Revised Caps are set out in the letter from the Board contained in the circular of the Company to the Shareholders dated 18 June 2010 (the "Circular"), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

Liaoning Energy is a substantial shareholder of certain Existing Joint Ventures of which the Company owns more than 50%. As such Existing Joint Ventures are considered to be subsidiary undertakings of the Company for the purposes of Listing Rules, Liaoning Energy is a connected person of the Company under the Listing Rules and the proposed formation of the New Joint Ventures constitutes a connected transaction for the Company under the Listing Rules. As at the date of the 2010 Framework Agreement, as certain percentage ratios in respect of the formation of the New Joint Ventures exceed 2.5% and the total relevant commitment of the Group is more than HK\$10,000,000, the formation of the New Joint Ventures is subject to the Independent Shareholders' approval requirements in addition to the reporting and announcement requirements under the Listing Rules. As a relevant percentage ratio exceed 25%, the proposed formation of the New Joint Ventures in aggregate also constitutes a major transaction for the Company under the Listing Rules.

Each of (a) the possible grant of the Group Guarantees by the Group in respect of the borrowings of the New Joint Ventures in favour of the financiers in proportion to the Group's equity interests in the New Joint Ventures (being associates of Liaoning Energy); and (b) the possible grant of the Liaoning Energy Guarantees by Liaoning Energy (a connected person of the Company) to the Group, in conjunction with the possible grant of the Liaoning Energy Guarantees with the pledge of the Group's equity interests in the New Joint Ventures to Liaoning Energy as security for the Counter Indemnities, shall constitute a non-exempt connected transaction for the Company under the Listing Rules and is subject to the Independent Shareholders' approval.

Based on the maximum amount of (a) the Group Guarantees and (b) the Counter Indemnities with the pledge of the Group's equity interests in the New Joint Ventures as security that may be provided by the Group to Liaoning Energy under the 2010 Framework Agreement, certain relevant percentage ratios exceed 25%. Accordingly, the provision of the Group Guarantees and Counter Indemnities will also constitute a major transaction for the Company under the Listing Rules.

The prospective provision of the Services by the Group to Liaoning Energy and its associates (including, among others, the Existing Joint Ventures and the New Joint Ventures) constitute non-exempt continuing connected transactions for the Company under the Listing Rules. Accordingly, the provision of the Services and the proposed Revised Caps for the Services for each of the financial years ending 31 December 2010, 2011 and 2012 are subject to the approval by the Independent Shareholders. It is disclosed in the letter from the Board contained in the Circular that the Company obtained the Waiver which is subject to approval by the Independent Shareholders.

In this connection, the Company will seek the Independent Shareholders' approval for the transactions contemplated under the 2010 Framework Agreement (including the formation of the New Joint Ventures, the possible grant of the Group Guarantees and the possible grant of the Liaoning Energy Guarantees to the Group in conjunction with the possible grant of the Counter Indemnities by the Group to Liaoning Energy with pledge of the Group's equity interests in the New Joint Ventures to Liaoning Energy), the provision of the Services, the Revised Caps and the Waiver at the SGM.

The independent board committee, comprising all of the three independent non-executive Directors (namely Dr. Zhou Dadi, Dr. Wong Yau Kar, David and Mr. Yap Fat Suan, Henry) has been established to consider and make a recommendation to the Independent Shareholders on whether (1) the terms of the 2010 Framework Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (2) the entering into of the 2010 Framework Agreement (including (i) the formation of the New Joint Ventures; (ii) the possible grant of the Group Guarantees; and (iii) the possible grant of Liaoning Energy Guarantees by Liaoning Energy to the Group in conjunction with the possible grant of the Counter Indemnities by the Group to Liaoning Energy with pledge of the Group's equity interests in the New Joint Ventures), the Waiver and the continuing connected transactions with respect to the Services provided by the Group to Liaoning Energy and its associates are in the interests of the Company and the Shareholders as a whole; and (3) the proposed Revised Caps for the Services for the three financial years ending 31 December 2010, 2011 and 2012 are fair and reasonable so far as the Independent Shareholders are concerned. We, Somerley Limited, have been appointed to advise the independent board committee and the Independent Shareholders in this regard.

In formulating our opinion, we have relied on the information and facts supplied, and the opinions expressed, by the executive Directors and management of the Company and have assumed that the information and facts provided and opinions expressed to us are true, accurate and complete in all material aspects and will remain so up to the time of the SGM. We have also sought and received confirmation from the executive Directors

that no material facts have been omitted from the information supplied and opinions expressed to us. We have relied on such information and consider that the information we have received is sufficient for us to reach our advice and recommendation as set out in this letter and to justify our reliance on such information. We have no reason to believe that any material information has been withheld, nor doubt the truth or accuracy of the information provided. We have, however, not conducted any independent investigation into the business and affairs of the Group and Liaoning Energy, nor have we carried out any independent verification of the information supplied.

## PRINCIPAL FACTORS AND REASONS CONSIDERED

In considering whether the terms of the 2010 Framework Agreement and the proposed Revised Caps are fair and reasonable so far as the Independent Shareholders are concerned, we have taken into account the principal factors and reasons set out below:

## A. The 2010 Framework Agreement for formation of the New Joint Ventures

## 1. Background to and reasons for the 2010 Framework Agreement

The Group is principally engaged in the wind power business and industry, investing in various wind farm projects and providing wind power engineering and construction services in the PRC. The Group's wind power businesses primarily involve (a) wind power investments and operations including, among other things, investment in wind power plants, power generation, wind resources and project development; and (b) wind power services including wind power consultancy and design, wind power engineering and construction services, wind power tower tube equipment manufacturing, and wind power plant operation and maintenance service.

As advised by the executive Directors, the prospects of wind power business in the PRC are promising because of the PRC government placing more emphasis on renewable energy alternatives, and introducing favourable policies to promote low carbon economy and development of clean and renewable energy. We understand from the executive Directors that since the commencement of wind power business in 2007, the Group has established joint ventures with local partners, including municipal governments, state-owned enterprises and other experienced business partners, to develop wind farm projects in the PRC so as to supplement organic growth. The joint venture partners of the Group include (a) 上海申華控股股份有限公司 (Shanghai Shenhua Holdings Co., Ltd.), a company listed on the Shanghai Stock Exchange; and (b) 內蒙古錫林郭白

音華煤電有限責任公司 (Inner Mongolia Xilinguo Baiyinhua Coal Electricity Company Limited), a subsidiary of 中國電力投資集團公司 (China Power Investment Corporation) which is a state-owned enterprise. The executive Directors inform us that substantial capital is required for developing the wind farm and facilities. Accordingly, the joint venture arrangement assists the Group to spread the capital risk and alleviate the pressure on cashflow. Moreover, the Group can leverage on expertise of joint venture partners to develop the business. We consider that the establishment of the New Joint Ventures pursuant to the 2010 Framework Agreement with Liaoning Energy represents a further step for the Group to expand its wind power business and this is in line with the Group's development strategy.

The executive Directors inform us that the abundant wind resource energy of the PRC is concentrated in several areas, mostly along the southeast coast and the northern part of the PRC. Liaoning Province is located in the northeastern region of the PRC. Its wind strength and speed are strong and these are favourable in the development of wind energy. We understand from the executive Directors that electricity generated by power plants has to be sold to power grid companies for onward supply to ultimate users and the on-grid tariff in Liaoning Province is quite attractive as compared to other provinces. Accordingly, the executive Directors consider that it is in the interests of the Group to develop its wind power business in Liaoning Province. Liaoning Energy is a state-owned enterprise in the PRC owned by the State-owned Assets Supervision and Administration Commission of Liaoning Provincial Government. Liaoning Energy was established in 1985 and is principally engaged in the development of power, high technology and energy saving projects, manufacturing and sale of related equipment and facilities in the PRC. As advised by the executive Directors, Liaoning Energy is one of the leading power companies in Liaoning Province.

Since a considerable amount has to be invested for a wind farm project, the Group, in general, funds part of the investment through bank or external borrowings by the joint venture company. Being a leading power company in Liaoning Province and a state-owned enterprise, the executive Directors are of the view that the Group can leverage on Liaoning Energy's established business relationship with PRC banks to help fund the investment. Accordingly, the executive Directors consider Liaoning Energy a suitable partner for the Group's wind farm project in Liaoning Province.

Prior to the entering into of the 2010 Framework Agreement, the Group entered into the 2009 Framework Agreement and other joint agreement(s) with Liaoning Energy for the establishment of joint ventures to undertake wind farm projects. The Group maintains a good and stable relationship with Liaoning Energy for development of the Group's wind power business. The executive Directors believe that the establishment of the New Joint Ventures will further foster the Group's relationship with Liaoning Energy.

# 2. Principal terms of the 2010 Framework Agreement for formation of the New Joint Ventures

Pursuant to the 2010 Framework Agreement, the Company and Liaoning Energy agreed to jointly establish eighteen joint ventures in Chaoyang (朝陽), Liaoning Province, to undertake wind farm projects in the PRC. The 2010 Framework Agreement sets out the major terms for formation of the New Joint Ventures. The Group will enter into a separate agreement for formation of each New Joint Venture in accordance with the relevant terms detailed in the 2010 Framework Agreement. Moreover, the formation of the New Joint Ventures will be subject to approval from the State-owned Assets Supervision and Administration Commission of Liaoning Provincial Government and compliance with the Listing Rules requirements by the Company. If there is any material variation of the New Joint Ventures, the Company will comply with the relevant reporting, announcement and independent shareholders' approval requirements under the Listing Rules. The principal provisions are as follows:

### (i) Shareholding structure of the New Joint Ventures

The Group and Liaoning Energy shall respectively hold (i) 55% and 45% of the equity capital in each of the 9 of the New Joint Ventures and (ii) 45% and 55% of the equity capital in each of the another 9 New Joint Ventures.

It is the intention of the parties to the 2010 Framework Agreement that each of the New Joint Ventures shall be a jointly controlled entity of the Company upon its establishment for accounting purpose.

(ii) Term of the 2010 Framework Agreement

Subject to the approval from the Independent Shareholders, the 2010 Framework Agreement shall have a term up to 31 December 2012.

#### (iii) Business scope of the New Joint Ventures

Pursuant to the 2010 Framework Agreement, it is intended that each of the New Joint Ventures will undertake wind farm projects in the PRC with an initial target installed capacity of 49.5MW.

(iv) Registered capital and total investment of each of the New Joint Ventures

Subject to the approval from the State-owned Assets Supervision and Administration Commission of Liaoning Provincial Government, total investment for each of the New Joint Ventures shall be up to RMB500 million (equivalent to approximately HK\$568 million). Subject to the terms of the separate agreement for formation of each New Joint Ventures, the registered capital of each of the New Joint Venture is either RMB100 million (equivalent to approximately HK\$113.6 million) or RMB150 million (equivalent to approximately HK\$170.5 million). The Group and Liaoning Energy shall contribute to the registered capital in cash based on their respective shareholding interests in the New Joint Ventures.

The registered capital contributions to the New Joint Ventures are expected to be funded by the Group's internal resources and save for the abovementioned capital contribution, and guarantees and indemnities as set out in the 2010 Framework Agreement (as mentioned in the letter from the Board contained in the Circular), the Company does not have any further commitment to make any further capital contribution or provide funding to each of the New Joint Ventures.

#### (v) Funding arrangement of the New Joint Ventures

The remaining portion of the total investment of each of the New Joint Ventures (being the difference between the registered capital and the total investment amount) is intended to be raised by each of the New Joint Ventures in the form of external debts.

### (vi) Management of the New Joint Ventures

The Company and Liaoning Energy are entitled to nominate board representatives in proportion to their respective shareholding interests in the New Joint Ventures. Those New Joint Ventures in which the Group shall hold a 55% interest shall have five directors and accordingly, three will be nominated by the Company and two will be nominated by Liaoning Energy. Those New Joint Ventures in which the Group shall hold a 45% interest shall have five directors, of which two will be nominated by the Company and three will be nominated by Liaoning Energy.

The 2010 Framework Agreement sets out, among other things, the principal terms which regulate the rights and obligations of the parties to the New Joint Ventures. We are of the view that those terms are based on normal commercial terms and the economic risk and return are shared among the joint venture partners on a pro-rata basis, which we consider fair and reasonable.

# 3. Financial effects of the 2010 Framework Agreement in respect of formation of the New Joint Ventures on the Group

### (i) Net assets and earnings

It is the intention of the parties to the 2010 Framework Agreement that each of the New Joint Ventures shall be a jointly controlled entity of the Company upon its establishment for accounting purpose. Accordingly, the Group's share of financial results, assets and liabilities of the New Joint Ventures will be equity accounted for in the consolidated accounts of the Group after their formation.

### (ii) Cash flow

The 2010 Framework Agreement shall have a term up to 31 December 2012 and the New Joint Ventures will be established throughout the term of the 2010 Framework Agreement. As informed by the executive Directors, based on preliminary discussions with Liaoning Energy, the annual capital contribution amount to be shared by the Group in respect of the New Joint Ventures is estimated to be approximately RMB245 million (equivalent to approximately HK\$278.4 million), RMB368

million (equivalent to approximately HK\$418.2 million) and RMB490 million (equivalent to approximately HK\$556.8 million) for the three years ending 31 December 2010, 2011 and 2012 respectively. According to the latest annual report of the Group, the Group had audited consolidated cash and cash equivalents totalling approximately HK\$1.1 billion as at 31 December 2009. As at 31 December 2009, the Group had audited consolidated net current assets of approximately HK\$1.1 billion. During the nine months ended 31 December 2009, the Group generated net cash from operating activities and net increase in cash and cash equivalents of approximately HK\$238.6 million and HK\$363.8 million respectively. On this basis, the executive Directors are of the view that the capital contribution to be made by the Group pursuant to the 2010 Framework Agreement is manageable.

#### B. Financial assistance

As set out in the 2010 Framework Agreement, the remaining part of the total investment in the New Joint Ventures is expected to be funded by external borrowings of the New Joint Ventures. Pursuant to the 2010 Framework Agreement, the Company and Liaoning Energy may provide guarantees with respect to the borrowings of the New Joint Ventures in favour of the financiers in proportion to their respective equity interests in the New Joint Venture without any charge. As advised by the executive Directors, since the entering into of the 2009 Framework Agreement and the establishment of certain Existing Joint Ventures, the Group has developed its business presence in Liaoning Province and started to build up relationships with PRC banks and financiers in Liaoning Province. Also in view of the large capital requirement for the formation of the New Joint Ventures, Liaoning Energy requests the Company to provide the Group Guarantees. The Company has accepted such request on a condition that the Company will only provide guarantee in favour of the PRC banks or financiers of the New Joint Ventures in proportion of its shareholding interests in the New Joint Ventures. However, based on the past experience of the Company, the PRC banks or financiers may prefer or require Liaoning Energy, being the local joint venture partner and a state-owned enterprise with better business relationship with local banks, to guarantee the entire amount of the New Joint Ventures' borrowings. Therefore, the executive Directors acknowledge that there is a likelihood that banks or financiers in the PRC may not accept the Group Guarantees for all newly formed joint ventures in the next three years.

In light of the above, pursuant to the 2010 Framework Agreement, Liaoning Energy agrees to guarantee up to a maximum amount of RMB400 million for each New Joint Venture with respect to any external borrowings of the New Joint Ventures without any charge. In return, the Company has agreed to provide the Counter Indemnities to Liaoning Energy in relation to any claim made against Liaoning Energy under the Liaoning Energy Guarantees (the "Claim"). The indemnified amount provided by the Company under the Counter Indemnities shall be based on the Claim and the proportion of its equity interest in the relevant New Joint Venture(s). Accordingly, based on the maximum amount of the Liaoning Energy Guarantees, the maximum amount of the Counter Indemnities that may be provided by the Group to Liaoning Energy is RMB3,600 million.

In respect of any Counter Indemnities provided to Liaoning Energy, the Group will also pledge its equity interests in the relative New Joint Ventures as security in favour of Liaoning Energy.

We are informed by the executive Directors that if the Company does not provide Liaoning Energy with the Counter Indemnities with the pledge of its equity interests in the relevant Joint Ventures, Liaoning Energy will not guarantee the entire amount of bank borrowings and will limit its amount of guarantee to such amount of bank borrowings in proportion to Liaoning Energy's equity interest in the relevant New Joint Ventures. In this case and if local banks and/or financiers do not accept the Group Guarantees, the executive Directors consider that the Group would have to extend shareholder's loans in an aggregate maximum amount of RMB3,600 million (being the maximum amount of the Counter Indemnities) to the New Joint Ventures and this will lock up a substantial amount of cash resources of the Group. Moreover, the executive Directors expect that the Group would be required to finance part of these shareholder's loans by external debts. Counter Indemnities with the pledge of equity interests in the Joint Ventures can avoid these two matters.

We are further informed by the executive Directors that after formation of the New Joint Ventures, they will actively and closely monitor the financial position, business and daily operation of the New Joint Ventures through the Group's involvement in board and management level in order to avoid loan default so as to safeguard interests of the Shareholders.

We concur with the executive Directors' view that the arrangement of the Group Guarantees, the Liaoning Energy Guarantees and the Counter Indemnities with the pledge to be provided by the Group is mainly to facilitate the New Joint Ventures to borrow moneys and joint venture partners are effectively responsible for

guaranteeing borrowings pro rata to their respective shareholdings in the New Joint Ventures. On this basis, we are of the view that the possible grant of the Group Guarantees and Liaoning Energy Guarantees in conjunction with the possible grant of the Counter Indemnities by the Company with pledge of its equity interests of the New Joint Ventures in favour of Liaoning Energy is fair and reasonable, and is in the interests of the Company and Shareholders as a whole.

## C. Continuing connected transactions and the Waiver

## 1. Reasons for the Waiver and principal terms of the provision of the Services

The Existing Joint Ventures and the New Joint Ventures are established to undertake wind farm projects in the PRC. As part of their business operations, both the Existing Joint Ventures and the New Joint Ventures will select suppliers and contractors to perform services for their wind farm construction, development and maintenance. Such selection process will be conducted through public tenders in accordance with the applicable laws and requirements in the PRC.

It is stated in the paragraph headed "Background to and reasons for the 2010 Framework Agreement" above that the Group is principally engaged in wind power businesses including, among other things, provision of wind power engineering, construction, maintenance, consultancy and design services. The executive Directors intend to bid for the wind farm construction, development and maintenance work of the Existing Joint Ventures and the New Joint Ventures because being a contractor and service provider, it is easier for the Group to monitor the quality and standard of wind farm facilities and to ensure their compliance with the Group's standard. It is also the intention of the executive Directors to bid for projects of other companies controlled by Liaoning Energy.

The executive Directors inform us that during the course of discussion of terms of the 2010 Framework Agreement, the Company explored with Liaoning Energy to include principal terms to govern the provision of the Services in the 2010 Framework Agreement. As the selection process will be conducted through public tenders in accordance with the applicable laws and requirements in the PRC, Liaoning Energy considered that the inclusion of provision of the Services in the 2010 Framework Agreement or the entering into of any framework agreement was inappropriate. It is stipulated under the Listing Rules that a written agreement with Liaoning Energy is required to

govern the provision of the Services. As such, the Company had applied for, and the Stock Exchange had granted, the Waiver in this regard. The Waiver will only cover those engagements where Liaoning Energy and its associates (including the Existing Joint Ventures and the New Joint Ventures) choose suppliers for the Services for their wind farm constructions through public tenders in accordance with the applicable laws and requirements in the PRC and where the Group has tendered for such engagements.

It is disclosed in the letter from the Board contained in the Circular that terms of the tenders for the Services will be determined by the Group taking into account a number of factors including (a) the specifications of each wind farm construction plan (e.g. the estimated costs, expected margins and perceived market competition); (b) the market prices of the wind farm equipment and facilities at the time; and (c) quotations made by the Group to independent third parties with respect to projects of similar kind. It is further disclosed in the letter from the Board contained in the Circular that the audit committee of the Company will review the continuing connected transactions between the Group and Liaoning Energy and its associates (including the Existing Joint Ventures and the New Joint Ventures) on a regular basis and issue confirmation in the annual reports of the Company. The legal department and the internal control department of the Company shall ensure the Services will be provided in accordance with the conditions as set out in the letter from the Board contained in the Circular.

The Company will ensure that each individual engagement for the provision of Services will be entered into on normal commercial terms and in the ordinary course of business of the Group, and will be fair and reasonable and in the interests of the Shareholders taken as a whole. If the Company is of the view that terms of the Services offered by Liaoning Energy and its associates (including the Existing Joint Ventures and the New Joint Ventures) are not commercially acceptable, the Company will not bid for the wind farm projects.

If the Group wins the tender, a separate contract setting out the detailed terms of each individual engagement for the provision of Services to Liaoning Energy and its associates (including the Existing Joint Ventures and the New Joint Ventures) will be entered into among the parties. To the extent that the terms of the individual engagement for the provision of Services are different from the principles as stated in the letter from the Board contained in the Circular, such engagement will be regarded as a separate transaction and the Company will comply with the reporting, announcement and/or independent shareholders' approval requirements under the Listing Rules.

We note from the 2009 annual report of the Company that the independent non-executive Directors have reviewed the provision of the Services for the nine months ended 31 December 2009 and confirmed that such transactions were entered into (a) in the ordinary and usual course of business of the Group; (b) on normal commercial terms and on terms in accordance with the 2009 Framework Agreement; and (c) in accordance with the 2009 Framework Agreement governing them on terms that were fair and reasonable and in the interests of the Shareholders as a whole. Based on this review by independent non-executive Directors and the fact that (a) the selection of suppliers by the Existing Joint Ventures and the New Joint Ventures will be conducted through public tenders in compliance with PRC legislation and requirements; (b) the Group may participate as bidders in such open process; and (c) the legal department, the internal control department and the audit committee will monitor terms of the Services, we consider that the provision of the Services will be conducted on normal commercial terms.

Given that the Services will be conducted on normal commercial terms, we are of the view that it is in the interests of the Company and the Shareholders as a whole to provide the Services. In light of the principal activities of the Group, we consider that the provision of the Services is in the ordinary and usual course of business of the Group. Based on the analysis above, we also consider that the Waiver is in the interests of the Company and the Shareholders as a whole.

### 2. The Revised Caps

The contract amount for provision of the Services is subject to the Revised Caps. As set out in the letter from the Board contained in the Circular, the maximum aggregate amount of the Services (in terms of aggregate value of contracts to be entered into within the same financial year) which may be provided by the Group to Liaoning Energy and its associates (including the Existing Joint Ventures and the New Joint Ventures) shall not exceed RMB364 million, RMB766 million and RMB665 million for each of the financial year ending 31 December 2010, 2011 and 2012 respectively.

The respective caps of RMB431.8 million, RMB328.5 million and RMB112 million for each of the financial year ending 31 March 2010, 2011 and 2012 were approved by independent shareholders of the Company in June 2009. The Company announced on 16 November 2009 that the financial year end date of the Company had been changed from 31 March to 31 December in order to

coincide with the statutory financial year end date of the Company's principal operating subsidiaries which are mainly situated in the PRC. Coupled with the proposed establishment of the New Joint Ventures, the Company proposes to revise the existing annual caps to cover the possible amount of Services which may be provided by the Group to Liaoning Energy and its associates (including the Existing Joint Ventures and the New Joint Ventures) for the three financial years ending 31 December 2010, 2011 and 2012. During the nine months ended 31 December 2009, the Group entered into contracts with Liaoning Energy and its associates (including the Existing Joint Ventures) with a total contract value of approximately RMB194.5 million.

In assessing the reasonableness of the proposed Revised Caps, we have discussed with the executive Directors and management of the Company the basis for the proposed Revised Caps. As advised by the executive Directors, the proposed Revised Caps are determined principally by reference to, among other things, the development plan of wind farm projects of the Existing Joint Ventures and the New Joint Ventures, the target installed capacity of wind farm projects to be carried out by the Existing Joint Ventures and the New Joint Ventures, the prevailing service charges for the Services, the expected costs which may be incurred by the Group and the expected margin for provision of the Services. The construction and installation costs of wind farm facilities contribute to a significant proportion of the Revised Caps. We are informed by the executive Directors that the Group engaged in certain wind farm projects in Liaoning Province in the past and the executive Directors drew on the past experience to estimate the contract sum for a typical wind farm project (including wind power facilities) of the Existing Joint Ventures and the New Joint Ventures.

After discussing with Liaoning Energy, the executive Directors conclude that a total of three Existing Joint Ventures and the New Joint Ventures will appoint suppliers for their wind farm projects through public tender for the year ending 31 December 2010. In estimating the annual cap for the year ending 31 December 2010, the executive Directors also take into account a potential contract with 昌圖遼能協鑫風力發電有限公司 (Changtu Liaoneng Xiexin Wind Power Co. Ltd.) (a joint venture owned as to 25% by the Group and 75% by Liaoning Energy) to install additional facilities for its wind farm. Based on the potential contracts for construction and installation costs of wind farm facilities together with design fee of RMB60 million and a small amount of maintenance work, the proposed Revised Cap for the year ending 31 December 2010 is estimated by the executive Directors at RMB364 million.

The executive Directors anticipate that a total of ten and eight Existing Joint Ventures and New Joint Ventures will make such appointment for construction and installation of wind farm facilities by bidding process during the two years ending 31 December 2011 and 2012 respectively. Since the contract sum for construction and installation costs of wind farm facilities contributes a majority amount of the Revised Caps for the two years ending 31 December 2011 and 2012, the Revised Caps are at peak level in 2011 and drop slightly in 2012.

With commencement of operation of wind farm of the Existing Joint Ventures and the New Joint Ventures during the three years period, the executive Directors consider that the Group may be awarded more maintenance contract work with the Existing Joint Ventures and the New Joint Ventures for the three years ending 31 December 2010, 2011 and 2012, with an estimated increase of approximately RMB36 million and RMB45 million in 2011 and 2012 respectively. Taking into account all these factors (including the potential contract sum for the wind farm construction and development mentioned above), the proposed Revised Caps for the two years ending 31 December 2011 and 2012 are determined as RMB766 million and RMB665 million respectively.

Having considered the basis on which the proposed Revised Caps were determined as described above, we are of the view that the proposed Revised Caps for the three financial years ending 31 December 2010, 2011 and 2012 are fair and reasonable.

### 3. Conditions of the continuing connected transactions

In compliance with the Listing Rules, the conduct of the continuing connected transactions in respect of provision of the Services is subject to a number of conditions which include, among other things:

(i) the proposed Revised Caps for each of the three financial years ending 31 December 2010, 2011 and 2012 will not be exceeded;

- (ii) the independent non-executive Directors must, in accordance with the Listing Rules, review annually the provision of the Services and confirm in the Company's annual report and accounts that the provision of the Services has been entered into (a) in the ordinary and usual course of business of the Company; (b) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties; and (c) on terms that are fair and reasonable and in the interests of the Shareholders as a whole;
- (iii) the auditors of the Company will, in accordance with the Listing Rules, review annually the provision of the Services and they will confirm the position in a letter to the Board (a copy of which letter will be provided to the Stock Exchange at least ten business days prior to the bulk printing of the annual report of the Company);
- (iv) the Company shall promptly notify the Stock Exchange and publish an announcement in accordance with the Listing Rules if it knows or has reason to believe that the independent non-executive Directors and/or the auditors will not be able to confirm the matters set out in points (ii) and/or (iii) above respectively;
- (v) the Company will allow, and procure that Liaoning Energy will allow, the auditors of the Company sufficient access to the relevant records of the provision of the Services for the purpose of the auditors' review as referred to in point (iii) above. The Board must state in the annual report whether its auditors have confirmed the matters stated in Rule 14A.38 of the Listing Rules; and
- (vi) the Company will comply with the applicable provisions of the Listing Rules governing connected transactions in the event that the total amount of the provision of the Services exceeds the proposed Revised Caps, or that there is any material amendment to the terms of the Services.

In light of the conditions attached to the provision of the Services, in particular, (1) the restriction of the amount of the provision of the Services by way of the proposed Revised Caps; (2) the ongoing review by the independent non-executive Directors and auditors of the Company regarding the terms of the provision of the Services; and (3) the continuing review by the auditors of the Company confirming the proposed Revised Caps not being exceeded, we are of the view that appropriate measures will be in place to govern the provision of the Services and safeguard the interests of Independent Shareholders.

### OPINION

Having taken into account the above principal factors and reasons, we consider that (1) the terms of the 2010 Framework Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (2) the entering into of the 2010 Framework Agreement (including (i) the formation of the New Joint Ventures, (ii) the possible grant of the Group Guarantees, and (iii) the possible grant of the Liaoning Energy Guarantees to the Group in conjunction with the possible grant of the Counter Indemnities by the Group to Liaoning Energy with pledge of the Group's equity interests in the New Joint Ventures), the Waiver and the continuing connected transactions with respect to the Services provided by the Group to Liaoning Energy and its associates are in the interests of the Company and the Shareholders as a whole; (3) the entering into of the 2010 Framework Agreement and the provision of the Services will be conducted on normal commercial terms; and (5) the proposed Revised Caps for the provision of the Services are fair and reasonable so far as the Independent Shareholders are concerned.

Accordingly, we advise the independent board committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the SGM.

Yours faithfully, for and on behalf of **SOMERLEY LIMITED M. N. Sabine** *Chairman* 

### INDEBTEDNESS

#### Borrowings

As at the close of business on 30 April 2010, being the latest practicable date for the purpose of this statement of indebtedness, the Group had no outstanding borrowings.

#### Contingent liabilities and pledge of assets

1. As at the close of the business on 30 April 2010, the Group had, via its whollyowned subsidiary, CWP Investment Ltd., entered into a joint venture agreement with a joint venture partner in the PRC.

CWP Investment Ltd. holds a 49% equity interest in a sino-foreign equity joint venture with limited liability in Inner Mongolia, the PRC, under the name of 二連浩 特長風協合風能開發有限公司 (Erlianhaote Changfeng Century Concord Wind Power Exploiture Co., Ltd.\*). Pursuant to a loan agreement dated 11 May 2009, Erlianhaote Changfeng Century Concord Wind Power Exploiture Co., Ltd. obtained a bank loan amounting to RMB73,000,000 from China Construction Bank. As at the close of the business on 30 April 2010, CWP Investment Ltd. had pledged its share of the equity interests in Erlianhaote Changfeng Century Concord Wind Power Exploiture Co., Ltd. as security for the bank loan.

2. As at the close of the business on 30 April 2010, the Group had, via its whollyowned subsidiary, Century Concord Wind Power Investment Co., Ltd., entered into a joint venture agreement with a joint venture partner in the PRC.

Century Concord Wind Power Investment Co., Ltd. holds a 60% equity interest in a sino-foreign equity joint venture with limited liability in Liaoning Province, the PRC, under the name of 阜新巨龍湖風力發電有限公司 (Fuxin Julonghu Wind Power Co., Ltd.\*). Pursuant to a loan agreement dated 16 September 2009, Fuxin Julonghu Wind Power Co., Ltd. obtained a bank loan amounting to RMB280,000,000 from China Construction Bank. Pursuant to the joint venture agreement entered into between Century Concord Wind Power Investment Co., Ltd. and the joint venture partner, Century Concord Wind Power Investment Co., Ltd. was required to pledge its share of the equity interests in Fuxin Julonghu Wind Power Co., Ltd. as security for the bank loan. As at the close of the business on 30 April 2010, Century Concord Wind Power Investment Co., Ltd. had pledged its share of the equity interests in Fuxin Julonghu Wind Power Co., Ltd. as security for the bank loan.

<sup>\*</sup> for identification purpose only

# FINANCIAL INFORMATION

3. As at the close of the business on 30 April 2010, the Group had, via its whollyowned subsidiary, Century Concord Wind Power Investment Co., Ltd., entered into a joint venture agreement with a joint venture partner in the PRC.

Century Concord Wind Power Investment Co., Ltd. holds a 60% equity interest in a sino-foreign equity joint venture with limited liability in Liaoning Province, the PRC, under the name of 阜新聚合風力發電有限公司 (Fuxin Juhe Wind Power Co., Ltd.\*). Pursuant to a loan agreement dated 2 March 2010, Fuxin Juhe Wind Power Co., Ltd. obtained a bank loan amounting to RMB244,365,000 from Industrial and Commercial Bank of China. Pursuant to the joint venture agreement entered into between Century Concord Wind Power Investment Co., Ltd. and the joint venture partner, Century Concord Wind Power Investment Co., Ltd. was required to pledge its share of the equity interests in Fuxin Juhe Wind Power Co., Ltd. as security for the bank loan. As at the close of the business on 30 April 2010, Century Concord Wind Power Co., Ltd. had pledged its share of the equity interests in Fuxin Juhe Wind Power.

4. As at the close of business on 30 April 2010, the subsidiaries of the Company had available unutilised banking facilities of approximately RMB100,000,000 which were guaranteed by the Company.

#### Disclaimers

Save as aforesaid, and apart from intra-group liabilities, the Group did not have any other debt securities issued and outstanding, outstanding loan capital issued or agreed to be issued, loans or other indebtedness, bank overdrafts, liabilities under acceptances (other than normal trade bills), debentures, mortgages, charges, acceptance credits, hire purchase commitments, guarantees or other material contingent liabilities as at the close of business on 30 April 2010.

### WORKING CAPITAL

The Directors, after due and careful consideration, are of the opinion that after taking into account the internal resources available to the Enlarged Group and the available banking facilities, the Enlarged Group has sufficient working capital for its requirements for at least the next twelve months from the date of this circular in the absence of unforeseeable circumstances.

### NO MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2009, being the date to which the latest published audited financial statements of the Group were made up.

#### 1. **RESPONSIBILITY STATEMENT**

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

#### 2. DISCLOSURE OF INTERESTS

## (i) Directors' and chief executives' interests and/or short positions in the Shares, underlying Shares and debentures of the Company or any associated corporation

As at the Latest Practicable Date, the following Directors had interests in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she was taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules, to be notified to the Company and the Stock Exchange:

(a) Long positions in the Shares:

	Number of Shares held and nature of interest				
Name of the Director	Personal	Family	Corporate	Total	Approximate percentage of the total issued share capital (%)
Ko Chun Shun, Johnson	_	_	2,000,000,000	2,000,000,000 <sup>1</sup>	27.47
Ko Wing Yan, Samantha	_	_	20,000,000	20,000,000 <sup>2</sup>	0.27
Yap Fat Suan, Henry	200,000	_	_	200,000	0.003

Notes:

- 1. Mr. Ko Chun Shun, Johnson is deemed to be interested in 2,000,000,000 Shares held by Gain Alpha Finance Limited ("Gain Alpha"). Gain Alpha is wholly owned by Mr. Ko Chun Shun, Johnson.
- 2. Ms. Ko Wing Yan, Samantha is deemed to be interested in 20,000,000 Shares held by Pine Coral Limited ("Pine Coral"). Pino Coral is wholly owned by Ms. Ko Wing Yan, Samantha.
- (b) Long positions in underlying Shares of shares options of the Company:

Name of Directors	Date of grant of share options	Exercise price per share HK\$	Number of share options outstanding
Liu Shunxing	1 April 2008	0.45	5,000,000
	6 April 2009	0.302	6,000,000
	4 January 2010	0.89	10,000,000
Ko Chun Shun, Johnson	6 April 2009	0.302	6,000,000
Wang Xun	1 April 2008	0.45	3,600,000
	6 April 2009	0.302	4,500,000
	4 January 2010	0.89	6,600,000
Yang Zhifeng	1 April 2008	0.45	3,600,000
	6 April 2009	0.302	4,500,000
	4 January 2010	0.89	6,600,000
Liu Jianhong	1 April 2008	0.45	3,600,000
	6 April 2009	0.302	4,500,000
	4 January 2010	0.89	6,600,000
Yu Weizhou	6 April 2009	0.302	2,000,000
	4 January 2010	0.89	6,600,000
Ko Wing Yan, Samantha	4 January 2010	0.89	3,000,000
Chan Kam Kwan, Jason	1 April 2008	0.45	1,000,000
	6 April 2009	0.302	1,200,000
	4 January 2010	0.89	1,000,000

Name of Directors	Date of grant of share options	Exercise price per share HK\$	Number of share options outstanding
Tsoi Tong Hoo, Tony	1 April 2008	0.45	1,200,000
	6 April 2009	0.302	3,000,000
	4 January 2010	0.89	800,000
Dr. Zhou Dadi	4 January 2010	0.89	1,000,000
Dr. Wong Yau Kar, David	1 April 2008	0.45	600,000
	6 April 2009	0.302	800,000
	4 January 2010	0.89	800,000
Yap Fat Suan, Henry	1 April 2008	0.45	600,000
	6 April 2009	0.302	800,000
	4 January 2010	0.89	800,000

These options were granted subject to the following vesting requirement:

On 1st anniversary of the date of grant	25%
On 2nd anniversary of the date of grant	25%
On 3rd anniversary of the date of grant	25%
On 4th anniversary of the date of grant	25%

The exercise period of these options shall be expired on the day before of 5th anniversary of the date of grant.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or the chief executive of the Company had or was deemed to have any interest or short position in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have such provisions of the SFO); or (ii) were required to be entered in the register maintained by the Company pursuant to section 352 of the SFO; or (iii) were required to be notified to the Model Code for Securities Transactions by Directors of Listed Issuers as contained in the Listing Rules.

### (ii) Directors' other interests

- (a) As at the Latest Practicable Date, none of the Directors (1) had any direct or indirect interest in any assets which have been acquired, disposed of by or leased to, or which are proposed to be acquired, disposed of by or leased to, the Company or any of its subsidiaries since 31 December 2009, the date to which the latest published audited financial statements of the Group were made up and (2) was materially interested in any contract or arrangement entered into by any member of the Company subsisting at the Latest Practicable Date which is significant in relation to the business of the Group.
- (b) As at the Latest Practicable Date, none of the Directors or their respective associates had any interest in any company or business which competes or may compete, directly or indirectly, with the businesses of the Group.

#### (iii) Substantial Shareholders

As at the Latest Practicable Date, so far as is known to, or can be ascertained after reasonable enquiry by the Directors or chief executive of the Company, the following persons, not being a Director or chief executive of the Company, had interests and/or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who are, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

(a) Long positions in the Shares:

	Number of	Approximate percentage of the total issued
Name of shareholder	Shares held	share capital (%)
China Wind Power Investment Limited (Note)	2,023,469,387	27.79%

Note:

China Wind Power Investment Limited is wholly-owned by New Energy International Limited, which in turn is a wholly-owned subsidiary of Concord International Investment Limited ("Concord International"). Four executive Directors, namely Mr. Liu Shunxing, Mr. Wang Xun, Mr. Yang Zhifeng and Ms. Liu Jianhong held as to 65.135% of the issued shares of Concord International.

(b) As at the Latest Practicable Date, the following corporation (not being a member of the Group, a Director or the chief executive of the Company) was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at the general meetings of the following member of the Group:

Name of the joint ventures	Name of shareholder	Percentage of interest in the joint ventures
阜新巨龍湖風力發電有限公司 (Fuxin Julonghu Wind Power Co., Ltd.*)	Liaoning Energy	40%
阜新千佛山風力發電有限公司 (Fuxin Qianfoshan Wind Power Co., Ltd.*)	Liaoning Energy	40%
阜新聚緣風力發電有限公司 (Fuxin Juyuan Wind Power Co., Ltd.*)	Liaoning Energy	40%
阜新聚合風力發電有限公司 (Fuxin Juhe Wind Power Co., Ltd.*)	Liaoning Energy	40%

*Note:* The above Existing Joint Ventures have been established jointly by the Group and Liaoning Energy. The Group and Liaoning Energy hold 60% and 40% equity interests in each of the above Existing Joint Ventures.

\* for identification purpose only

Save as disclosed herein, as at the Latest Practicable Date, no person had any interests and/or short positions in the Shares or underlying Shares which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who are, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

### **3. MATERIAL CONTRACTS**

The following contracts, including contracts not in the ordinary course of business, were entered into by the Group within the two years preceding the date of this circular and are or may be material:

- (a) On 6 February 2009, 協合風電投資有限公司 (Century Concord Wind Power Investment Co., Ltd.\*, ("Century Concord") a wholly-owned subsidiary of the Company) and Liaoning Energy entered into a joint venture agreement to jointly establish 阜新巨龍湖風力發電有限公司 (Fuxin Julonghu Wind Power Co., Ltd.\*). The total investment in the joint venture shall be RMB498,836,000. The registered capital of the joint venture shall be RMB100 million, of which RMB60 million shall be contributed by Century Concord. Each of Century Concord and Liaoning Energy holds a 60% and 40% equity interest in the joint venture.
- (b) A sale and purchase agreement dated 5 March 2009 entered into by the Company and Mr. Ko Chun Shun, Johnson (a substantial Shareholder and the Vice Chairman of the Company) pursuant to which Mr. Ko acquired and the Company sold the entire issued share capital of China Windpower Group Limited (a wholly-owned subsidiary of the Company) for an aggregate consideration of HK\$34 million.
- (c) On 16 March 2009, the Company and China Wind Power Holdings Limited ("CWPH", a wholly-owned subsidiary of the Company) entered into a sale and purchase agreement with CLP Power China (Northeast) Limited ("CLP", a indirect wholly-owned subsidiary of CLP Holdings Limited) (and the Company being the guarantor to such sale and purchase agreement), pursuant to which CWPH shall dispose of its 50% equity interest in a company (the "CLP JV") which indirectly owned a 49% interest in each of the two wind farm projects company in the PRC to CLP at a consideration of HK\$101,300,504 (subject to possible adjustment).

<sup>\*</sup> for identification purpose only

# **GENERAL INFORMATION**

- (d) On 16 March 2009, CWPH, CLP and the CLP JV entered into a shareholders agreement to set out the understanding reached between CWPH and CLP in respect of certain management and governance matters of the CLP JV and the respective rights and obligations of the two parties in the CLP JV.
- (e) On 10 April 2009, Century Concord and Liaoning Energy entered into a joint venture agreement to jointly establish 阜新千佛山風力發電有限公司 (Fuxin Qianfoshan Wind Power Co., Ltd.\*). The total investment in the joint venture shall be RMB498,836,000. The registered capital of the joint venture shall be RMB100 million, of which RMB60 million shall be contributed by Century Concord. Each of Century Concord and Liaoning Energy holds a 60% and 40% equity interest in the joint venture.
- (f) The 2009 Framework Agreement.
- (g) On 13 June 2009, Century Concord and 內蒙古錫林郭勒白音華煤電有限責任公司 (Inner Mongolia Xilingol League Baiyinhua Coal and Electric Co., Ltd.\*) entered into an agreement to jointly establish a joint venture at Shenyang, Liaoning, the PRC to undertake wind farm projects in the PRC. The registered capital of the joint venture shall be RMB350 million, of which RMB171.5 million shall be contributed by Century Concord. Each of Century Concord and Inner Mongolia Xilingol League Baiyinhua Coal and Electric Co., Ltd. holds a 49% and 51% equity interest in the joint venture.
- (h) On 30 June 2009, the Company signed an exclusive agreement with Fuxin Municipal Government in Liaoning Province to develop wind power electricity projects with capacity of 500MW.
- (i) On 10 July 2009, the Company entered into a memorandum of understanding with Baicheng Wind Power Development Steering Committee (白城市風電開發 領導小組) pursuant to which the Company will be granted an exclusive right to develop wind power projects with capacity of 1,500MW in Baicheng, Jilin of the PRC.
- (j) The subscription agreement dated 16 July 2009 entered into between the Company and Gain Alpha Finance Limited under which Gain Alpha Finance Limited subscribed for and the Company issued 700,000,000 Shares at HK\$0.85 each. The net proceeds of such subscription were approximately HK\$579 million.

<sup>\*</sup> for identification purpose only

# **GENERAL INFORMATION**

- (k) On 12 May 2009 and 31 August 2009, the Group entered into contracts with 東方電氣集團東方汽輪機有限公司 (Dongfang Electric Corporation Dongfang Turbine Co., Ltd.\*) regarding the purchase of wind power electricity generation equipment for the Group's wind farm project at 巨龍湖, Zhangwu (彰武), Liaoning, the PRC at a consideration of RMB323,294,070.
- (1) On 31 August 2009, the Group entered into a contract with Dongfang Electric Corporation Dongfang Turbine Co., Ltd. regarding the purchase of wind power electricity generation equipment for the Group's wind farm project at Qianfoshan (千佛山), Zhangwu, Liaoning, the PRC at a consideration of RMB309,401,400.
- (m) On 31 August 2009, the Group entered into a contract with 新彊金風科技股份 有限公司 (Xinjiang Goldwind Science & Technology Co., Ltd.\*) regarding the purchase of wind power electricity generation equipment for the Group's wind farm project at Dongfanghong (東方紅), Zhangwu, Liaoning, the PRC at a consideration of RMB316,800,000.
- (n) On 2 February 2010, 甘肅瓜州協合風力發電有限公司 (Gansu Guazhou Xiehe Wind Power Ltd.\*), a wholly-owned subsidiary of the Company entered into a contract with 華銳風電科技 (集團) 股份有限公司 (Sinovel Wind Group Co., Ltd.\*) regarding the supply of wind power electricity generation machinery at a consideration of RMB542,320,095 and was terminated by a termination agreement dated 31 May 2010.
- (o) On 9 April 2010, Century Concord entered into a joint venture agreement with 上海申華風電新能源有限公司 (Shanghai Shenhau Wind Power New Energy Co., Ltd.\*) to establish a joint venture at Zhangwu (彰武) County, Fuxin, Liaoning province, the PRC with a registered capital of RMB96 million, of which RMB48.96 million shall be contributed by Century Concord. Each of Century Concord and Shanghai Shenhau Wind Power New Energy Co., Ltd. holds a 51% and 49% equity interest in the joint venture.
- (p) On 19 April 2010, the Group entered into a contract with the Fuxin branch of Xinjiang Goldwind Science & Technology Co., Ltd. regarding the purchase of wind power electricity generation equipment for the Group's wind farm project at 平安地屯, Zhangwu (彰武), Fuxin, Liaoning province, the PRC at a consideration of RMB316,800,000.

<sup>\*</sup> for identification purpose only

# **GENERAL INFORMATION**

- (q) On 19 April 2010, the Group entered into a contract with the Fuxin branch of Xinjiang Goldwind Science & Technology Co., Ltd. regarding the purchase of wind power electricity generation equipment for the Group's wind farm project at Wuchuan (武川), Huhehaote, Inner Mongolia Autonomous Region, the PRC at a consideration of RMB296,016,000.
- (r) The 2010 Framework Agreement.
- (s) the supply contract dated 31 May 2010 entered into between Sinovel Wind Group Co., Ltd. and Gansu Guazhou Xiehe Wind Power Ltd., a wholly-owned subsidiary of the Company, for the supply of wind power electricity generation machinery and equipment at a consideration of RMB591,403,625.
- (t) the supply contract dated 31 May 2010 entered into between Sinovel Wind Group Co., Ltd. and Gansu Guazhou Xiehe Wind Power Ltd., a wholly-owned subsidiary of the Company, for the supply of wind power electricity generation machinery and equipment at a consideration of RMB589,605,181.

### 4. LITIGATION

As at the Latest Practicable Date, neither the Company nor any member of the Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance had known to the Directors to be pending or threatened by or against any member of the Group.

### 5. EXPERT AND CONSENT

The following is the qualification of the expert who has been named in this circular or has given opinion or advice which is contained in this circular:

### Name Qualifications

Somerley Limited a licensed corporation to carry out type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO

Somerley has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter or references to its name in the form and context in which they respectively appear.

## **GENERAL INFORMATION**

As at the Latest Practicable Date, Somerley did not have any shareholding, directly or indirectly, in any member of the Group or any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, Somerley did not have any direct or indirect interests in any assets which have been, since 31 December 2009 (being the date to which the latest published audited accounts of the Company were made up), acquired or disposed of by or leased to any member of the Group, or which are proposed to be acquired or disposed of by or leased to any member of the Group.

### 6. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with the Company or any member of the Group (excluding contracts expiring or determinable by the Group within one year without payment of compensation (other than statutory compensation)).

#### 7. SECRETARY OF THE COMPANY

The secretary of the Company is Mr. Chan Kam Kwan, Jason. Mr. Chan is also an executive Director. Mr. Chan graduated from the University of British Columbia with a Bachelor of Commerce degree and is a member of the American Institute of Certified Public Accountants and has over 7 years' experience acting as company secretary for listed companies.

### 8. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the Company's principal place of business in Hong Kong from the date of this circular up to and including the date of the SGM:

- (a) this circular;
- (b) the 2009 Framework Agreement;
- (c) the 2010 Framework Agreement;

- (d) the Company's memorandum of association and bye-laws;
- (e) the material contracts referred to in the section headed "Material Contracts" to in this appendix;
- (f) the letter from the independent board committee, the text of which is set out on pages 21 to 22 of this circular;
- (g) the letter from Somerley, the text of which is set out on pages 23 to 39 of this circular;
- (h) the written consent of Somerley referred to in this appendix;
- (i) the annual reports of the Company for the year ended 31 March 2008, the year ended 31 March 2009 and the nine months ended 31 December 2009 and the interim report of the Company for the six months ended 30 September 2009; and
- (j) a circular of the Company dated 18 June 2010 in relation to purchase of wind power electricity generation equipment by the Group which constitutes a major transaction of the Company under the Listing Rules.

### 9. MISCELLANEOUS

- The correspondence address of the Directors is at Unit 3901, 39/F, Far East Finance Center, 16 Harcourt Road, Admiralty, Hong Kong;
- The principal place of business in Hong Kong and correspondence address of the Company is at Unit 3901, 39/F, Far East Finance Center, 16 Harcourt Road, Admiralty, Hong Kong;
- The registered office of the Company is at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda;
- The Hong Kong branch share registrar and transfer office of the Company is Tricor Tengis Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong; and
- The English texts of this circular and the accompanying form of proxy shall prevail over the Chinese texts.