CleanTech Innovations, Inc.
Form 10-K
February 22, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2010

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission file number 001-35002

CLEANTECH INNOVATIONS, INC.
(Exact name of registrant as specified in its charter)

Nevada	98-0516425
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
C District, Maoshan Industry Park, Tieling Economic Development Zone, Tieling, Liaoning Province, China	112616
(Address of principal executive offices)	(ZIP Code)

(86) 0410-6129922
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common stock, par value $.00001 per share	Nasdaq Capital Market

Securities registered pursuant to Section 12(g) of the Act:
None

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes ¨ No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ¨ No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if smaller reporting company)	Smaller reporting company x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ¨ No x

The aggregate market value of the voting common equity held by non-affiliates was $0.00, based on the average bid and asked price of such common equity as of June 30, 2010, the last business day of the registrant's most recently completed second fiscal quarter.

As of February 18, 2011, there were 24,966,022 shares of the registrant's common stock, par value $.00001 per share, issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

None

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FORWARD-LOOKING STATEMENTS

In this report, the terms “CleanTech,” the “Company,” “we,” “us” and “our” refer to CleanTech Innovations, Inc. and its subsidiaries. Our functional currency is the U.S. Dollar, or USD, while the functional currency of our wholly owned subsidiaries, including all of our sales and nearly all our expenses, are denominated in Chinese Yuan Renminbi, or RMB, the national currency of the People’s Republic of China, which we refer to as the PRC or China. The functional currencies of our foreign operations are translated into USD for balance sheet accounts using the current exchange rates in effect as of the balance sheet date and for revenue and expense accounts using the average exchange rate during the fiscal year.

This report contains forward-looking statements regarding CleanTech, which include, but are not limited to, statements concerning our projected revenues, expenses, gross profit and income, mix of revenue, demand for our products, the benefits and potential applications for our products, the need for additional capital, our ability to obtain and successfully perform additional new contract awards and the related funding and profitability of such awards, the competitive nature of our business and markets, and product qualification requirements of our customers. These forward-looking statements are based on our current expectations, estimates and projections about our industry, management’s beliefs, and certain assumptions made by us. Words such as “anticipates,” “expects,” “intends,” “plans,” “predicts,” “potential,” “believes,” “seeks,” “hopes,” “estimates,” “should,” “may,” “will,” “with a view to” and variations of th similar expressions are intended to identify forward-looking statements. These statements are not guarantees of future performance and are subject to risks, uncertainties and assumptions that are difficult to predict. Therefore, our actual results could differ materially and adversely from those expressed in any forward-looking statements as a result of various factors. Such factors include, but are not limited to the following:

- our goals and strategies;
- our expansion plans;
- our future business development, financial conditions and results of operations;
- the expected growth of the market for our products;
- our expectations regarding demand for our products;
- our expectations regarding keeping and strengthening our relationships with key customers;
- our ability to stay abreast of market trends and technological advances;
- competition in our industry in China;
- general economic and business conditions in the regions in which we sell our products;
- relevant government policies and regulations relating to our industry; and
- market acceptance of our products.

Additionally, this report contains statistical data that we obtained from various publicly available government publications and industry-specific third party reports. Statistical data in these publications also include projections based on a number of assumptions. The rapidly changing nature of our customers’ industries results in significant uncertainties in any projections or estimates relating to the growth prospects or future condition of our market.

Furthermore, if any one or more of the assumptions underlying the market data is later found to be incorrect, actual results may differ from the projections based on these assumptions. You should not place undue reliance on these forward-looking statements.

Unless otherwise indicated, information in this report concerning economic conditions and our industry is based on information from independent industry analysts and publications, as well as our estimates. Except where otherwise noted, our estimates are derived from publicly available information released by third party sources, as well as data from our internal research, and are based on such data and our knowledge of our industry, which we believe to be reasonable. None of the independent industry publication market data cited in this report was prepared on our or our affiliates' behalf.

We do not undertake any obligation to revise or update publicly any forward-looking statements for any reason, except as required by law. Additional information on the various risks and uncertainties potentially affecting our operating results are discussed below and are contained in our publicly filed documents available through the website of the Securities and Exchange Commission, or the SEC, at www.sec.gov or upon written request to our Corporate Secretary at: C District, Maoshan Industry Park, Tieling Economic Development Zone, Tieling, Liaoning Province, China 112616.

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PART I

Item 1. Business

General

We are a manufacturer of structural towers for megawatt-class wind turbines as well as other highly engineered metal components used in the energy industry and other industries in the PRC. We currently design, manufacture, test and sell structural towers for 1, 1.5 and 3-megawatt, or MW, on-land wind turbines, and believe that we have the expertise and manufacturing capacity to provide towers for higher-powered on-land and off-shore turbines. We are currently the only wind tower manufacturer within Tieling, Liaoning Province, which we believe provides us with a competitive advantage in supplying towers to the wind-energy-rich northern provinces of China. We also manufacture specialty metal products that require advanced manufacturing and engineering capabilities, including bellows expansion joints and connecting bend pipes used for waste heat recycling in steel production and in ultra-high-voltage electricity transmission grids, as well as industrial pressure vessels. Our products provide solutions for China's increasing demand for clean energy.

We sell our products exclusively in the PRC domestic market. Our current wind tower customers include two of China's five largest state-owned utilities, which are among the top wind farm operators in China as measured by installed wind capacity. We produce wind towers, a component of wind turbine installations, but do not compete with wind turbine manufacturers. Our specialty metal products are used by large-scale industrial companies involved mainly in the steel and coke, petrochemical, high-voltage electricity transmission and thermoelectric industries.

We were founded in September 2007 and have since experienced significant growth. For the year ended December 31, 2010, our net sales were $22.3 million, a 716% increase over the year ended December 31, 2009, and we had a 29% gross margin and a 19% net margin. Sales of our wind tower products have increased rapidly. As of December 31, 2010, we had shipped 178 wind towers, including towers for 3MW wind turbines, since first introducing these products in February 2010. Wind towers accounted for approximately 93% of our net sales for the year ended December 31, 2010. We expect a majority of our revenues to continue to come from sales of our wind towers.

As of December 31, 2010, our backlog, consisting of orders that we expect to deliver in 2011, was $39.6 million, which includes $27.1 million in wind tower contracts, net of value-added tax, or VAT. We expect our backlog to increase over the first half of 2011 as we continue to bid on new projects and win currently outstanding bids for delivery in 2011.

We believe that our rapid growth will continue to benefit from the following competitive strengths:

§ Strong customer relationships with leading utility and industrial companies;
§ Geographical proximity to the multi-gigawatt pipeline of wind development projects in the northern provinces of China;
§ Technically advanced, precision manufacturing expertise demonstrated, in part, by our Class III A2 grade pressure vessel manufacturing license, a key criterion in customer selection of wind tower suppliers;
§ Proprietary product designs and intellectual property; and
§ High-quality manufacturing, stringent testing, timely delivery and customer service.

Notwithstanding the recent increase in our net sales, we may experience payment delays and we do not recognize revenue until our products are delivered, tested and accepted by our customers. Our agreements with our customers generally provide for advance and partial payments of the purchase price to be due at agreed-upon milestones throughout the project duration, with the final 10% of the contractual amount to be paid up to 24 months after

customer acceptance. Customer acceptance occurs after the customer receives and puts the product through quality inspection, a process that normally takes one to two weeks. Payments received prior to customer acceptance are recorded as unearned revenue. Payments may be received up to six months after their respective due dates, but we do not anticipate any significant credit risk because the majority of our customers are state-owned and publicly traded utilities and industrial companies in China.

Our headquarters are in Tieling, Liaoning Province, China, where we currently operate two production facilities with 17,246 square meters of combined production space. As of December 31, 2010, we had 177 full time employees.

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Our History

We operate through two wholly owned subsidiaries organized under the laws of the PRC: Liaoning Creative Bellows Co., Ltd. and Liaoning Creative Wind Power Equipment Co., Ltd., which we refer to as Creative Bellows and Creative Wind Power, respectively. Creative Bellows was incorporated on September 17, 2007, and is our wholly foreign-owned enterprise, or WFOE; Creative Bellows owns 100% of Creative Wind Power, which was incorporated on May 26, 2009. Creative Bellows provides the production expertise, employees and facilities to manufacture our wind towers, bellows expansion joints, pressure vessels and other fabricated metal specialty products. Creative Wind Power markets and sells the wind towers designed and manufactured by Creative Bellows.

We were incorporated in the State of Nevada on May 9, 2006, under the name Everton Capital Corporation, as an exploration stage company with no revenues and no operations, engaged in the search for mineral deposits or reserves. On June 18, 2010, we changed our name to CleanTech Innovations, Inc. and authorized an 8-for-1 forward split of our common stock effective July 2, 2010. Prior to the forward split, we had 5,501,000 shares of our common stock outstanding, and, after giving effect to the forward split, we had 44,008,000 shares of our common stock outstanding. We authorized the forward stock split to provide a sufficient number of shares to accommodate the trading of our common stock in the OTC marketplace after the acquisition of Creative Bellows as described below.

The acquisition of Creative Bellows was accomplished pursuant to the terms of a Share Exchange Agreement and Plan of Reorganization, dated July 2, 2010, as amended, or the Share Exchange Agreement. Pursuant to the Share Exchange Agreement, on July 2, 2010, we issued 15,122,000 shares of our common stock to the three owners of Creative Bellows and two of their designees in exchange for their agreement to enter into and consummate a series of transactions, described below, by which we acquired 100% of Creative Bellows. Concurrently with the Share Exchange Agreement and as a condition thereof, we entered into an agreement with Jonathan Woo, our former Chief Executive Officer and Director, pursuant to which he returned 40,000,000 shares of our common stock to us for cancellation. Mr. Woo received compensation of $40,000 from us for the cancellation of his shares of our common stock. Upon completion of the foregoing transactions, we had 19,130,000 shares of our common stock issued and outstanding.

On July 15, 2010, the PRC State Administration of Industry and Commerce, or the AIC, issued a Sino-foreign joint venture business license for Creative Bellows, indicating that a capital injection by Wonderful Limited, a British Virgin Islands company, was approved and registering its ownership of a 4.999% equity interest in Creative Bellows. On August 18, 2010, the AIC issued an approval registration of our capital injection of approximately $23.3 million in cash in exchange for approximately 87% of Creative Bellows. Finally, on October 15, 2010, we obtained PRC government approval to acquire the remaining minority interest in Creative Bellows held by its original shareholders and Wonderful Limited for approximately $6 million in cash. Pursuant to Waiver and Release agreements dated as of October 27, 2010, or the Waiver and Release Agreements, the selling minority shareholders of Creative Bellows waived their rights to receive cash for their equity interests in exchange for a mutual release of claims. As a result of these transactions, Creative Bellows became our 100% subsidiary effective as of October 15, 2010. We are required to contribute $14.2 million as additional contribution of capital to Creative Bellows by July 2012.

For accounting purposes, the Share Exchange Agreement and subsequent transactions described above were treated as a reverse acquisition and recapitalization of Creative Bellows because, prior to the transactions, we were a non-operating public shell and, subsequent to the transactions, the shareholders of Creative Bellows owned a majority of our outstanding common stock and exercise significant influence over the operating and financial policies of the consolidated entity.

Our Industry

Overview

Power generating capacity in China increased from 443GW in 2004 to 962GW in 2010, according to the China Electricity Council. Currently, China’s energy infrastructure is reliant predominantly on coal; however, China has limited fossil fuel reserves. As a result, China’s government has implemented social, economic, environmental, regulatory and government stimulus-related policies to drive demand for technologies that promote renewable energy production, pollution reduction and energy conservation. As identified in its 10th and 11th Five-Year Plans, China has placed a priority on renewable energy, diversification of the power supply and sustainable economic and social development. Simultaneously, China’s government is fostering pollution-reduction policies to limit carbon dioxide, wastewater discharge and other pollutant emissions while continuing to grow PRC domestic steel production and coal-based power capacity.

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China adopted its first Renewable Energy Law in 2005, fostering the development of renewable energy such as wind power. In 2007, the National Development and Reform Commission, or the NDRC, released its "Medium and Long-Term Development Plan for Renewable Energy in China," or the "2007 NDRC Plan," setting a 15% target for renewable energy consumption by 2020. The growth in wind-generated electricity will also contribute towards China's goal to cut its carbon dioxide emissions. As announced in November 2009, China's "Carbon Intensity Goal" is to cut carbon dioxide emissions per unit of GDP by 40% to 45% by 2020 compared to 2005 levels. According to the U.S. Department of Energy, a standard 1.5MW wind turbine, the most common in China, can displace 2,700 metric tons of carbon dioxide per year. These government policies are intended to help stimulate sustainable wind power and clean technology development and investment. We believe these government policies will continue to increase demand for our products, including structural wind towers and fabricated metal specialty components.

Global Wind Power Market

Wind power is the world's fastest-growing energy sector. We believe wind power is cost-efficient and mature compared to other types of renewable energy technologies. Global installed wind capacity grew at a 22.5% compound annual growth rate, or CAGR, from 2000 through 2010 according to the Global Wind Energy Council, or the GWEC, "Global Wind Statistics 2010," or the "GWEC 2010 Global Wind Statistics." In 2010, according to the GWEC 2010 Global Wind Statistics, global installed wind capacity grew by 22.5%, adding 35.8GW and bringing total installed wind capacity to 194.4GW. The growth in 2010 was led by China and the United States, with China accounting for 46.1% of all newly installed capacity and 21.8% of all worldwide capacity, according to the GWEC 2010 Global Wind Statistics. This resulted in China again adding more wind capacity in 2010 than any other country and finishing the year with the most cumulative installed capacity, 42.3GW, ahead of the United States for the first time, according to the Chinese Renewable Energy Industries Association, or CREIA. The World Wind Energy Association, or WWEA, expects the global market for wind energy to grow at a 25.3% CAGR through 2020, reaching 1,900GW in total installed capacity, according to its "World Wind Energy Report 2009," or the "WWEA 2009 Wind Report." Furthermore, wind energy is projected to represent up to 12% of global electricity production by 2020, according to the GWEC "Global Wind Energy Outlook 2010," or the "GWEC 2010 Global Wind Outlook." China is expected to remain a key driver of global wind growth for the foreseeable future. The following table illustrates global annual installed capacity additions and cumulative installed capacity.

Year	Global Annual Installed Capacity Additions (MW)	Global Cumulative Installed Capacity (MW)	Annual Growth (%)
2010	35,802	194,390	22.5
2009	38,610	158,738	32.0
2008	26,560	120,291	28.2
2007	19,866	93,820	26.7
2006	15,245	74,052	25.3
2005	11,531	59,091	24.1
2004	8,207	47,620	20.8
2003	8,133	39,431	26.8
2002	7,270	31,100	30.1
2001	6,500	23,900	37.4
2000	3,760	17,400	27.9

Source: GWEC 2010 Global Wind Statistics

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The following table illustrates 2010 global annual installed capacity additions and cumulative installed capacity by country.

Country	2010 Installed Capacity Additions (MW)	Percent of Total Market (%)	2010 Cumulative Installed Capacity (MW)	Percent of Total Market (%)
China *	16,500	46.1	42,287	21.8
United States	5,115	14.3	40,180	20.7
India	2,139	6.0	13,065	6.7
Spain	1,516	4.2	20,676	10.6
Germany	1,493	4.2	27,214	14.0
France	1,086	3.0	5,660	2.9
United Kingdom	962	2.7	5,204	2.7
Italy	948	2.6	5,797	3.0
Canada	690	1.9	4,009	2.1
Rest of World	5,353	15.0	30,298	15.5
Total	35,802	100.0	194,930	100.0

Source: GWEC 2010 Global Wind Statistics
* Provisional figures

China Wind Power Market

China currently represents the world's largest market for wind products. In 2010, China became the largest wind-producing country by cumulative installed wind capacity, according to CREIA, installing over one-third of new global wind installations. Installed wind capacity within China grew at a 63.9% CAGR from 2000 through 2010, or more than double the overall global rate, according to CREIA and the GWEC "Global Wind 2009 Report," or the "GWEC 2009 Global Wind Report." In 2010, according to CREIA, the China wind market grew 63.9%, adding 16.5GW of new capacity and bringing total installed wind capacity to 42.3GW. According to the GWEC 2009 Global Wind Report, China will add 20GW of wind capacity annually through 2014 and the PRC domestic wind market will reach 200-250GW in installed capacity by 2020. We believe that it costs approximately $1 billion to install 1GW of wind capacity in China, which will result in capital investments of approximately $200-$250 billion by 2020 in new wind turbine installations, of which wind towers constitute approximately 15-20% of the costs, according to the WWEA. The following table illustrates China's annual installed capacity additions and cumulative installed capacity.

Year	China Annual Installed Capacity Additions (MW)	China Cumulative Installed Capacity (MW)	Annual Growth (%)
2010*	16,500	42,287	63.9
2009	13,803	25,805	114.7
2008	6,153	12,020	103.4
2007	3,311	5,910	127.4
2006	1,288	2,599	106.3
2005	507	1,260	64.9
2004	197	764	34.7
2003	98	567	20.9

2002	66	469	16.7
2001	53	402	16.2
2000	73	346	15.3

Source: CREIA and GWEC 2009 Global Wind Report
* Provisional figures

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According to the Third National Wind Energy Resource Census conducted by the China Meteorological Administration in 2006, the amount of theoretically exploitable on-land and off-shore wind energy resources in China at a height of 10 meters was 4,350GW. Using numerical simulations based on the Third National Wind Energy Resource Census, the National Climate Center of the China Meteorological Administration concluded that the technically exploitable capacity at a height of 10 meters was 2,548GW. Overall, studies such as these highlight the substantial potential for wind power in China. However, wind energy resources are widely distributed in China, with resource-rich areas concentrated in the three northern (northeast, north, and northwest), southeast coastal and inland regions. The most abundant wind energy resources in northern China include the regions of Inner Mongolia, Gansu, Xinjiang, Hebei, Jilin, Liaoning, Heilongjiang and Ningxia. According to Zenith International Research, "Wind Power Capacity Analysis, February 25, 2009," or the "Zenith 2009 Wind Analysis," approximately 80% of all wind energy resources in China exist within the nine northern provinces of China, five of which are located within 500 miles of our manufacturing facilities. The following table illustrates the cumulative wind power grid-connected capacity for the provinces with the most abundant wind energy resources.

Regions	2009 Cumulative Wind Power Grid-Connected Capacity (MW)	2009 Cumulative Wind Power Grid-Connected Capacity (%)
Inner Mongolia *	9,196.2	35.6
Hebei *	2,788.1	10.8
Liaoning *	2,425.3	9.4
Jilin *	2,063.9	8.0
Heilongjiang *	1,659.8	6.4
Shandong	1,219.1	4.7
Gansu	1,188.0	4.6
Jiangsu	1,096.8	4.3
Xinjiang	1,002.6	3.9
Ningxia	682.2	2.6
Guangdong	569.3	2.2
Fujian	567.3	2.2
Shanxi	320.5	1.2
Zhejiang	234.2	0.9
Hainan	196.2	0.8
Other Regions	595.3	2.3

Source: GWEC 2010 China Wind Outlook

* Neighboring province to CleanTech's manufacturing facilities

China has committed more investment to renewable energy than any other country since 2008, according to the GWEC "China Wind Power Outlook 2010," or the "GWEC 2010 China Wind Outlook." Current guidelines published in the 2007 NDRC Plan mandate that renewable resources, including wind, generate 10% of total energy consumption by 2010 and 15% by 2020. A major part of China's commitment to achieving these targets involves the creation of a 138GW Wind Base program, which aims to build seven GW-scale wind power bases within six provinces by 2020, each with at least 10GW of capacity, according to the GWEC 2010 China Wind Outlook. Planned wind power bases in Hebei, Western Jilin and Inner Mongolia represent over 30GW of new capacity located near our manufacturing facilities. The planning and development for the program is underway and, as of 2009, 83 projects representing 14.3GW had been planned, according to the GWEC 2010 China Wind Outlook. The following map illustrates the electricity delivery plan from the main wind power bases in China.

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Source: Chinese Renewable Energy Industries Association
* CleanTech's manufacturing facilities

Wind Power Development in China

In 2009, there were approximately 330 wind project developers in China, twenty of which had newly installed capacity of more than 100MW, according to CREIA. In 2010, construction started on 378 new wind power projects in China with a total investment of up to $46 billion, according to CREIA. However, the five largest state-owned utilities have significant impact on the development of wind power resources in China, accounting for more than 58% of newly installed capacity in 2009, according to the GWEC 2010 China Wind Outlook. Our customers currently include two of these five utilities, China Guodian Corporation and China Huaneng Group, which together represented approximately 31% of newly installed capacity in 2009. The following table illustrates PRC domestic wind development market share among the largest operators.

Companies	2009 Newly Installed Capacity (MW)	Percentage of 2009 Newly Installed Capacity (%)
China Guodian Corporation *	2,600.4	18.8
China Datang Corporation	1,739.8	12.6
China Huaneng Group *	1,644.8	11.9
China Huadian Corporation	1,230.0	8.9
China Guangdong Nuclear Power Holding Co., Ltd.	854.5	6.2
Beijing Energy Investment Holding Co., Ltd.	757.5	5.5
Shenhua Group Corporation Limited	590.3	4.3
China Energy Conservation & Environmental Protection Group	400.3	2.9
China Power Investment Corporation	386.1	2.8
China Resources Power Holdings Co., Ltd.	309.8	2.2

Source: GWEC 2010 China Wind Outlook
* Current CleanTech customers

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Wind Tower Market Opportunity in China

Based on the GWEC's estimate of 200-250GW of installed capacity by 2020 and an average tower selling price of approximately $90,000 per MW, based upon our contracted backlog, we believe the total PRC domestic market for wind towers could represent $18-$23 billion by 2020. Within 500 miles of our manufacturing facilities, where we believe we have competitive advantages, we estimate that approximately 130GW of total exploitable capacity exists, based on the Zenith 2009 Wind Analysis. In addition, the NDRC planned the construction of over 30GW of specific Wind Base projects located near our facilities by 2020. Assuming an average selling price of approximately $90,000 per MW, this represents a total addressable market of $11.7 billion in our current region alone and $2.7 billion for specific Wind Base projects by 2020.

Renewable Energy Policy and Regulation in China

National renewable energy policies and a supportive regulatory framework have driven the growth of renewable energy in China. Several initiatives mandated by China's Renewable Energy Law, first adopted in 2005, such as feed-in tariffs, aggressive targets for renewable energy, priority dispatch and mandatory purchase for wind power, favorable taxation and abolishment of the 70% local content requirement have established the foundation for the rapid development of wind power. The key initiatives are outlined below:

§ Feed-in tariffs: In 2009, China replaced its centrally controlled bidding pricing system with a wind feed-in tariff ranging from RMB 0.51/kWh to RMB 0.61/kWh in four wind energy resource zones, representing a significant premium to coal power.

§ Aggressive targets for renewable energy: The 2007 NDRC Plan sets forth a renewable energy consumption target, including energy generated by wind, of at least 15% of China's energy supply by 2020. Further, the 2007 NDRC Plan sets forth an obligation for larger power-generating companies to have 3% of non-hydro renewable energy in the total power generation mix by 2010 and 8% by 2020.

§ Priority dispatch and mandatory purchase: Grid operators must give priority to electricity generated from renewable energy projects in their grid areas and must provide grid-connection services and related technical support. The law also requires grid operators to purchase power from qualified wind farms and institute clear and transparent pricing policies for wind-produced electricity that are intended to provide wind farm operators with a more predictable rate of return.

§ Favorable taxation: Wind farms are exempt from income tax for three years from their first income-generating year and receive a 50% reduction in such tax for three years thereafter. In addition, electricity generated from wind power is subject to a VAT rate of 8.5%, and wind power equipment, such as wind towers, is subject to a VAT rate of 17%. The corporate income tax rate is reduced to 15% from 25% for wind companies, if they are categorized as advanced and new technology enterprises supported by the PRC government.

§ Abolishment of the 70% local content requirement: The 70% local content requirement first introduced in 2004 when most wind turbines in China were imported was abolished in 2009. This has increased competitiveness and helped China become the world's largest wind market.

At the end of 2009, China made a commitment to the international community at the Copenhagen Conference on climate change that non-fossil energy would satisfy 15% of the country's energy demand by 2020. This "Carbon Intensity Goal" has become a binding target for short-term and medium-term national social and economic planning, together with a subsequently formulated target to reduce carbon dioxide emissions. This goal will require significant increases in the scale and pace of future renewable energy development, including continued support for wind power

development.

China Market for Bellows Expansion Joints and Pressure Vessels

The growing demand for energy has increased alongside China's developing economy, created in part by fiscal stimulus policies to foster industrialization, infrastructure projects and manufacturing in China. China is the world's largest steel producer, producing 626.7 million tons in 2010, an increase of 9.3% over 2009, according to China's National Bureau of Statistics. According to the Zenith 2009 Wind Analysis, the steel industry contributes 15% of the total carbon emissions in China. According to the U.S. Department of Energy, the largest single environmental issue with steel production is the carburizing of coal into coke for use in iron production. As a result of concerns about pollution and energy recycling, especially in the electric utility, iron and steel industries, China is taking steps to implement more modern production processes designed to improve safety, reduce emissions and conserve energy. In addition, in 2010, China's Ministry of Industry and Information Technology, or MIIT, announced a mandate for China's steel industry to promote energy efficiency and emission reductions.

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The NDRC has encouraged the iron and steel industries to utilize a widely adopted energy saving process used in the production of iron, called Coke Dry Quenching, or CDQ, to promote energy conservation, reduce pollution and expand steel industry production. The CDQ process cools coke in an enclosed heat exchange system, which reduces harmful emissions and wastewater runoff while reclaiming energy for hot water or electricity generation, versus the conventional process using water to drench the coke. In addition, China's MIIT mandated a consolidation of the iron and steel industries in order to reduce the number of small, inefficient iron and steel mills that do not have the resources to adapt to the new policies encouraging efficiency and pollution reduction. Bellows expansion joints are key components in the CDQ process, a prevalent technology used by the steel industries in Japan, Taiwan, Germany, Brazil and Finland. The primary markets for CDQ high temperature bellows expansion joints are new iron and steel mills in the PRC domestic market, the modernization of existing mills and regular replacement of CDQ high temperature bellows expansion joints, which we estimate have useful life expectancies of approximately two years. Connecting bend pipes, another type of expansion joint, are used in piping systems to carry gas away from coke ovens used in iron and steel mills. Connecting bend pipes are safer than rigid expansion joints and are also easier to install and replace than rigid metal pipe expansion joints, thereby reducing the cost of maintaining systems, which need replacement approximately every two years. The primary market for connecting bend pipes are iron and steel mills in the process of being modernized and upgraded for safety.

China is also in the process of upgrading its electricity grid to ultra-high-voltage transmission systems, which allow for a more efficient transportation of electricity and a reduction in energy lost during transmission over long distances. The upgrading of the grid is tied directly to the growth in renewables, especially wind power, in order to deliver electricity more efficiently from distant generation locations to population load centers. Disk spring sleeve bellows expansion joints are used in ultra-high-voltage Gas Insulated Switchgear, or GIS, to reduce safety issues caused by conventional bellows used in GIS by better accommodating the unique gas pressure movements within the switchgear. GIS are key safety devices in these ultra-high-voltage transmission systems. GIS work as a circuit breaker to isolate electrical equipment and balance electrical loads. The primary market for disk spring sleeve bellows expansion joints is provincial and municipal power companies that are upgrading their transmission systems.

A pressure vessel is a container designed to hold liquid or gas at significantly higher or lower pressures than at normal sea level. Pressure vessels are used for many industrial manufacturing purposes, including as storage tanks, compressed gas receivers and separators, in the petrochemical, electrical, steel, aerospace and metallurgical industries. Pressure vessels must be carefully designed, manufactured and operated properly in order to avoid explosions. The engineering specifications for pressure vessels are heavily regulated and vary from country to country. Pressure vessels may be made of steel or carbon composite materials. Spherical pressure vessels require forged parts constructed from high quality steel and welded together using highly sophisticated welding techniques.

According to the Zero Power Intelligence Co. "China Bellows Industry Investment Analyst and Research Report 2010," the aggregate market for bellows expansion joints in China was approximately $3.0 billion in 2009 with an expected annual growth rate of approximately 10%. The market for pressure vessels was approximately $6.6 billion in 2009 with an expected annual growth rate of approximately 25% over the next 5 years, according to the Zero Power Intelligence Co. "China Metal Pressure Vessel Investment Analyst and Research Report 2010."

Products

Each of our product lines – wind towers, bellows expansion joints and pressure vessels – are highly engineered metal components purchased by major electrical utilities and large-scale industrial companies. The manufacturing process for each of our products consists principally of the rolling and welding of raw steel materials into finished components, and makes use of the same pool of production workers and engineering talent for design, fabrication, assembly and testing. Our products are characterized and marketed by their ability to withstand temperature, pressure, structural load and other environmental factors critical to their performance in the wind power, steel and coke

production, petrochemical, high voltage electricity transmission and thermoelectric industries. Our sales force sells our products directly to our customers, which are responsible for installing and integrating our component products into their finished products. We perform all manufacturing at our facilities in Tieling, Liaoning Province, China.

Wind Towers

We design and manufacture structural towers for wind turbines. A typical wind turbine installation consists of a tower; the nacelle, which houses the generator, gearbox and control systems; and the blade and rotor system. A freestanding, utility-scale wind tower is composed of rolled steel sections that we design and fabricate for sale to our customers, which, in turn, assemble and install the tower at wind farm sites.

Wind turbine installation	Subsection of wind tower in production

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We produce our wind towers in multiple subsections, which we then weld and bolt together into four main sections and the tower base for transport to the customer's project site. After inspecting and treating the steel raw materials, we produce each tower subsection by rolling steel and then welding the rolled form together along its vertical axis to produce the final cylindrical piece. Each tower is manufactured to customer specifications and tolerances based on tower height, wind turbine size and unique installation site requirements. The height of the wind tower affects the ultimate yield of the turbine, as taller towers generally provide access to stronger winds and greater wind flow. This leads to greater power output and also helps to enable the use of higher-powered turbines. Increasing the height of the tower generally requires increasing its base diameter and wall thickness, thereby increasing the amount of raw material needed for production. We construct our towers using quality materials capable of enduring high-cycle fatigue stress, and they are designed to exceed the expected life of the wind turbine, typically 20 years.

We currently produce towers for 1, 1.5 and 3MW on-land wind turbines, with the expertise and manufacturing capacity to provide wind towers for higher-powered on-land and off-shore wind turbines. The following table illustrates the general dimensions of wind towers for on-land and off-shore installations by turbine MW.

	Wind Tower Sizes					
	On-land Wind Turbines				Off-shore Wind Turbines	
Turbine Capacity	1MW	1.5MW	3MW	5MW	3MW	5MW