

COMPANY OVERVIEW

We are the only foreign-owned gas-fired power plant operator under the Zhejiang provincial grid. During the Track Record Period, we were principally engaged in the development, operation and management of power plants fuelled by natural gas. Building upon our operational and management experience in the gas-fired power generation industry, we plan to further expand our share in the PRC energy supply market by originating and investing in new projects or making acquisitions in areas such as gas-fired power generation and cogeneration projects. Our vision is to become a leading gas-fired power provider in Zhejiang province and a leading environmentally friendly energy enterprise in China in the longer term.

We are an environmentally friendly energy enterprise. Our Power Plants are fuelled by natural gas and emit almost no fine particles and sulphur dioxide, and only produce a small amount of nitrogen oxide as compared to coal-fired power plants. Our Power Plants also generate less noise and lower carbon dioxide emissions compared to coal-fired power plants. For the same amount of heat, burning natural gas produces about 50% less carbon dioxide than burning coal. Furthermore, compared to traditional coal-fired power plants, Our Power Plants can be started up and increase electricity generation within a relatively short period of time. Our Power Plants mainly generate electricity during the periods when demand for electricity is high in contrast with traditional coal-fired power plants which generally keep running both day and night no matter demand for electricity is high or low. In addition, unlike traditional coal-fired power plants, our ability to start up and increase electricity generation quickly enables us to supply peak power, i.e. power supplied at the periods when there is most demand for electricity from the power grid, and to capture additional power sales when there is sudden increase in demand for electricity. Our Power Plants are foreign-owned enterprises investing into the gas-fired power generation industry, being one of the business sectors which is entitled to certain government grants as incentives from the local governments where Our Power Plants operate. Throughout the Track Record Period, we were entitled to government grants as a financial incentive to develop environmentally-friendly gas-fired power plants in Zhejiang province.

Our Power Plants are combined cycle gas-turbine plants, under which the burning of natural gas drives a gas turbine to generate electricity. Residual heat created during the gas burning process is used to heat up the residual heat boiler to generate steam which drives the steam turbine which in turn drives the second generator to generate more electricity output. Higher level of power efficiency can be achieved by combining gas turbine with a steam turbine under the combined cycle combustion process. For the same level of installed capacity, the thermal efficiency ratio of combined cycle gas-fired plants is on average approximately 8% to 10% higher than that of traditional coal-fired plants.

As of the Latest Practicable Date, we owned 100% equity interest in each of Our Power Plants, namely De-Neng Power Plant, Blue Sky Power Plant and Jing-Xing Power Plant. Our Power Plants commenced commercial operation between December 2005 and December 2006. Our Group comprises the Company and its subsidiaries, including Our Power Plants. As at 31 December 2006, 2007 and 2008, our Group had a total attributable installed capacity of approximately 197.8 MW, 215.7 MW and 246.4 MW, respectively. As of the Latest Practicable Date, Our Power Plants had a total installed capacity and total attributable installed capacity of approximately 299 MW.

BUSINESS

The table below sets out the details of Our Power Plants as at the Latest Practicable Date:

<u>Power Plants</u>	<u>Fuel</u>	<u>Our interest in Our Power Plants as at the Latest Practicable Date</u>	<u>Commencement date of operation</u>	<u>Installed capacity and attributable installed capacity</u> (MW)
De-Neng Power Plant	natural gas	100%	December 2005	112
Blue Sky Power Plant	natural gas	100%	March 2006	112
Jing-Xing Power Plant	natural gas	100%	December 2006	75
Total				299

Our turnover is derived from the sale of power generated by Our Power Plants, which is primarily determined by power output and on-grid tariff. Each year, the relevant department of the provincial government issues guidelines on the power sales activities between power plants and power grid companies and provides the planned utilization hours to each power plant expressed in utilization hours based on the expected power supply and demand in the market and the classification of each power plant. During the Track Record Period, each of Our Power Plants operated under a planned annual utilization hours of 3,500 (that is the equivalent number of hours of power generation under full installed capacity) as suggested to us by Economic & Trade Commission of Zhejiang Province. In practice, so long as there is sufficient supply of natural gas and power demand in the market, each of Our Power Plants could sell electricity generated at full capacity for a minimum of 3,500 hours each year. During the year ended 31 December 2007, the first full year in which all of Our Power Plants were in full operation, the average actual utilization hours of Our Power Plants was 4,011. During the year ended 31 December 2008, the average actual utilization hours of Our Power Plants was 2,479, which was lower than planned primarily due to, to the Directors' best knowledge and belief, reduction in supply of natural gas in the period from April to September 2008 as a result of certain exceptional incidents in the PRC in 2008, namely the 2008 Beijing Olympic Games and earthquake in Sichuan where energy source including the natural gas in the PRC was reserved in priority for the affected areas. For the period from April to September 2008, the power sales volume of the Group decreased by about 61.3% compared to the same period in 2007. The Directors also believe that the decrease in actual utilization hours in 2008 was also, to a lesser extent, due to the supply of natural gas not fully resumed to normal level during the fourth quarter in 2008 after the aforesaid incidents and the slow down in growth of PRC and Zhejiang economy arising from the global economic turmoil during the second half of 2008 which in turn led to the slow down in growth of electricity demand in Zhejiang. For the period from October to December 2008, the power sales volume of the Group decreased by about 35.9% compared to the same period in 2007. The planned annual utilization hours provided by the Zhejiang provincial government to Our Power Plants are authoritative guidelines determined each year after considering NDRC's estimates of power demand for the country in that year. The planned utilization hours are non-binding to Our Power Plants and therefore deviations from such guidelines would not result in any penalty or adverse consequences to the Group.

Based on the dispatch agreements entered into with Zhejiang Electric Power Corporation and Huzhou Electric Power Bureau, the actual daily power to be sold by Our Power Plants will be determined according to the daily power dispatch plan as agreed with Zhejiang Electric Power Corporation and Huzhou Electric Power Bureau. In 2008, Our Power Plants generated power based on the daily power dispatch plan which fell significantly over a certain period during 2008 primarily because there was an interruption of the supply of natural gas to Our Power Plants, which led to the actual total power output of Our Power Plants falling below the planned utilization hours.

BUSINESS

The agreed daily power dispatch plan depends on gas supply situation and the overall power supply and demand situation. The actual daily power supply throughout a year varies and the aggregate annual power dispatch also fluctuates above or below the planned 3,500 utilization hours. As Our Power Plants followed the daily dispatch plan issued by Zhejiang Electric Power Corporation and Huzhou Electric Power Bureau throughout 2008, Our Power Plants would not be subject to any penalty or adverse consequences. The decrease in the Group's turnover for the year ended 31 December 2008, to the Directors' best knowledge and belief, was primarily due to reduction in supply of natural gas in the period from April to September 2008 as a result of certain exceptional incidents in the PRC in 2008, namely the 2008 Beijing Olympic Games and earthquake in Sichuan where energy source including the natural gas in the PRC was reserved in priority for the affected areas. The supply of natural gas to the Group has gradually resumed to normal level from October 2008. For the period from April to September 2008, the power sales volume of the Group decreased by about 61.3% compared to the same period in 2007. The Directors also believed that the decrease in the Group's turnover in 2008 was also to a less extent due to the supply of natural gas not fully resumed to normal level during the fourth quarter in 2008 after the aforesaid incidents and the slow down in growth of PRC and Zhejiang economy arising from the global economic turmoil during the second half of 2008 which in turn led to the slow down in growth of electricity demand in Zhejiang. For the period from October to December 2008, the power sales volume of the Group decreased by about 35.9% compared to the same period in 2007.

On-grid tariffs applicable to power generation companies are determined by provincial price bureaus based on various consideration factors, including the economic life of the facilities, fuel type, cost structure and applicable tax rates, to ensure that power generation companies are able to achieve reasonable profitability and investment return. As a result, on-grid tariffs of power generation companies using different fuel types are different. Our Power Plants, which utilize natural gas instead of coal, are entitled to higher on-grid tariff as compared to coal-fired power plants in Zhejiang province, particularly after taking into consideration different cost structure between using natural gas and coal as fuels and in line with the PRC government policies that encourage the use of fuel with less pollution. The table below sets forth the volume of power sales of Our Power Plants for each of the three years ended 31 December 2006, 2007 and 2008, and the approved on-grid tariffs (inclusive of VAT) as at 31 December 2006, 2007 and 2008.

<u>Power Plants</u>	2006	2006	2007	2007	2008	2008
	Sales Volume	Approved On-Grid Tariff	Sales Volume	Approved On-Grid Tariff	Sales Volume	Approved On-Grid Tariff
	(MWh)	(RMB/ MWh)	(MWh)	(RMB/ MWh)	(MWh)	(RMB/ MWh)
De-Neng Power Plant	400,004	600	428,725	650	224,340	705
Blue Sky Power Plant	381,008	600	465,923	650	315,161	705
Jing-Xing Power Plant	27,461	650	266,317	650	178,715	705

Each of Our Power Plants has entered into long-term supply contracts with a term of 20 years from their respective commencement date with Zhejiang Gas Company (浙江省天然氣開發有限公司) who is responsible for the sale and distribution of natural gas transported into Zhejiang province through the West-East Gas Pipeline (Phase I). Our Power Plants are directly connected to the gas offtake stations operated by Zhejiang Gas Company, and as a result, natural gas is supplied to us in gaseous form directly through pipelines. The construction of the Sichuan-East Gas Pipeline, which is expected to run from Sichuan to Shanghai through a number of provinces including Zhejiang, is expected to reach and supply natural gas to Zhejiang in late 2009. In addition, the construction of other sections such as West-East Gas Pipeline (Phase II), which is expected to run through 13 provinces including Zhejiang,

is in progress and is expected to reach and supply natural gas to Zhejiang in 2010. The Directors believe that the Group will benefit from the expected increase in supply of natural gas to Zhejiang province after the completion of such nationwide natural gas supply infrastructure.

The price of gas is prescribed, reviewed and approved by Zhejiang Provincial Price Bureau. Based on the notice issued by Zhejiang Provincial Price Bureau in January 2006, the purchase price of natural gas applicable to Our Power Plants was RMB1.62 (including VAT) per m³, while from 1 February 2006 to 31 December 2007, from 1 January 2008 to 31 March 2009 and from 1 April 2009 up to the Latest Practicable Date, the purchase price of natural gas was RMB1.71 (including VAT) per m³, RMB1.85 (including VAT) per m³ and RMB1.94 (including VAT) per m³, respectively.

We are in the process of obtaining approvals and permits to develop a new gas-fired cogeneration power plant to be located in Anji county in Zhejiang province, namely the Anji Power Plant. Anji county is located in the northeastern part of Zhejiang province with a population of approximately 450,000. The first phase of Anji Power Plant is expected to comprise approximately 58.5 MW of power capacity and 50 ton/hour of steam capacity. We have submitted a project proposal for the Anji Power Plant to the Zhejiang Provincial Development and Reform Commission for review, which has accepted our project proposal. We can therefore further proceed with the application process of the development of Anji Power Plant. In June 2009, the relevant government authorities have assigned a site for the Anji Power Plant. We are currently conducting further feasibility studies, initial preparation and marketing work for this project. Based on the assigned location, Anji Power Plant is expected to source natural gas from Zhejiang Gas Company and sell electricity to Huzhou Electric Power Bureau. After receiving the necessary approvals, we plan to enter into natural gas supply agreement and power sales agreement with Zhejiang Gas Company and Huzhou Electric Power Bureau respectively. Different from Our Power Plants, Anji Power Plant as a cogeneration plant, is expected to sell steam in addition to electricity. We have so far entered into letter of intents with over 30 industrial companies in Zhejiang province for the purpose of selling steam directly to them when Anji Power Plant becomes operational. Subject to receiving the necessary approvals and permits from the relevant government authorities, the completion of construction and securing gas supply, the Anji Power Plant is currently expected to commence commercial operation in 2011.

Due to the operating model of gas-fired power plants and the highly regulated environment for power generation industry in the PRC, (i) the Group's business relies exclusively on natural gas as fuel source; (ii) the Group had only two customers throughout the Track Record Period as it was required to sell power to the provincial grid companies; (iii) the on-grid tariffs of Our Power Plants were determined by the PRC government; (iv) the cost of gas represented a significant proportion of the Group's cost of sales; and (v) the Group had only one supplier of natural gas and the purchase price applicable to Our Power Plants was set by the PRC government. Thus, there are certain additional risks which are attributable to the above features of our business model. For details, please refer to the paragraph headed "Risks relating to the Group" in the section headed "Risk Factors" in this prospectus.

PRINCIPAL STRENGTHS

Our business is in line with the PRC government's initiatives in promoting the use of energy with less pollution as compared to coal-fired power plants

Coal has been the most widely used type of fuel for the generation of electricity in China because of the abundant supply of coal domestically and the lower fuel cost compared to other fuel

types. However, burning coal brings long-term damages to the environment through the emission of pollutants such as sulphur dioxide and carbon dioxide. For the same amount of heat, burning natural gas produces about 50% less carbon dioxide than burning coal. To reduce China's reliance on coal-fired power generation and to help reduce long-term environmental damages, the PRC government has introduced a number of initiatives to promote other sources of energy with less pollution as compared to coal-fired power plants. Our Power Plants, fuelled by natural gas, are environmentally friendly and are encouraged by the PRC government, as indicated in the Eleventh Five Year Plan. According to the Eleventh Five Year Plan, the NDRC has set the target to increase the proportion of consumption of natural gas to total fuel consumption by 2.5% to 5.3 % in year 2010 as compared to year 2005, while to decrease the proportion of consumption of coal to total fuel consumption by 3.0% to 66.1% in year 2010 as compared to year 2005. Furthermore, compared to traditional coal-fired power plants, Our Power Plants can be started up within a relatively shorter period of time, therefore are best placed to provide peak power support, making them an integral part of a steady power supply system.

In line with the PRC government's policy in promoting the use of energy with less pollution, in January 2007, NDRC issued the Notice Regarding the Prompt Closure of Small Coal-fired Power Plants (關於加快關停小火電機組的若干意見), pursuant to which all aged and inefficient small-sized coal-fired power plants should be shut down by 2010. According to the annual work report of China Government, a total of approximately 21,570 MW and 16,690 MW of small coal-fired power plants in the whole nation were shut down in 2007 and 2008, respectively. We believe that Our Power Plants, which are fuelled by natural gas, will benefit from the PRC government's policies in promoting power supply with less pollution.

Our Power Plants are more fuel-efficient as compared to coal-fired power plants

Our Power Plants adopt the combined cycle combustion process where natural gas is firstly burnt to generate electricity and residual heat from the first combustion process is used to produce steam which in turn drives another generator to produce additional electricity. Compared to conventional coal-fired power plants with the same level of installed capacity, Our Power Plants have higher thermal efficiency in using the same amount of fuel. In other words, to produce the same amount of electricity, Our Power Plants use less fuel.

Our Power Plants are strategically located in Zhejiang province, one of the fastest developing regions in China with strong demand for electricity

Zhejiang province, located in the Golden Triangle of the Yangtze River near Shanghai, is one of the largest and fastest growing provinces on the East coast of China. Zhejiang province had a population of over 50 million and ranked fourth in terms of both Gross Regional Product and Gross Regional Product per capita among all provinces, autonomous regions and municipalities in 2007. Zhejiang province's Gross Regional Product growth rate had consistently been higher than the national average between 2000 and 2007. Except for 2004, and electricity consumption growth in Zhejiang had consistently been higher than the national average between 2000 and 2007. All of Our Power Plants are located in proximity with highly populated areas within Zhejiang province.

We benefit from the development of natural gas supply infrastructure and the expected increase in supply of natural gas

Each of Our Power Plants has entered into long-term gas supply contracts with a term of 20 years with Zhejiang Gas Company, who distributes the natural gas transported into Zhejiang province through the West-East Gas Pipeline. Our Power Plants are connected by pipes with the gas off-take stations of Zhejiang Gas Company, through which natural gas is supplied to Our Power Plants in gaseous form directly.

The West-East Gas Pipeline (Phase I) now transports up to 17 billion m³ of natural gas per year, passing through a number of provinces including Zhejiang province. The construction of the West-East Gas Pipeline (Phase II), which is expected to run through 13 provinces including Zhejiang province with annual transport capacity of 30 billion m³, is in progress and is expected to reach and supply natural gas to Zhejiang in 2010. Furthermore, the Sichuan-East Gas Pipeline, which runs through Zhejiang province and has a designed capacity of 12 billion m³ per year, is expected to reach and supply natural gas to Zhejiang in late 2009. Upon completion of these natural gas supply infrastructures, we expect that the increase in the supply of natural gas to Zhejiang province will be beneficial to us.

We have an experienced and professional management team with extensive experience in the power industry in China

Our management team has extensive knowledge in power generation technologies and experience in the development, operation and management of power plants in the PRC. The majority of our senior management team has been with us since the commencement of our business. With our industry expertise and our good understanding of industry dynamics and regulatory regimes in the PRC in less than three years, our management team completed the construction of and commercially launched three power plants. The key members of our management team have remained unchanged since our inception. In addition, most of our mid-level managers have relevant technical qualifications or industry experience. We adopt a simple and efficient organization and reporting structure, and have in place a reward system which encourages staff of all levels to perform and to save costs.

We can supply peaking power whenever there is a sudden increase in power demand as Our Power Plants can start up quickly

As gas-fired power plants which can be started up much quicker than coal-fired power plants, Our Power Plants generate power during day time and can supply peaking power when there is a sudden jump in power demand. As a result, we are best placed to capture the relatively higher demand during day time and when there is sudden increase in demand.

BUSINESS STRATEGIES

We will continue to develop our core business, that is, power generation using natural gas as a primary source of energy. Leveraging on our operational and management experience in the power industry, we may in future engage ourselves in cogeneration and trigeneration or CCHP power generation plants fuelled by natural gas, depending on market demand, global trends and initiatives of the PRC government. Our specific business strategies are:

Continue to manage Our Power Plants effectively and efficiently

Whilst the day-to-day operation of Our Power Plants is reasonably stable and our reporting system is well-established, we will continue to leverage our operational, managerial and technological abilities to maintain and strengthen our procedures and measures over the operational efficiency of Our Power Plants. Our primary focus is on reducing the fuel costs at our operational level by way of increasing the energy efficiency. We will closely monitor our operating costs through stringent cost control measures. We plan to improve technological and operational processes and resources management to increase productivity, where possible, and to achieve savings in fuel costs through such improvements in productivity.

Expand or upgrade Our Power Plants

The capacity of Our Power Plants can be expanded without material interruption to their existing operations. We are currently conducting a preliminary investment analysis and preparing the project proposal of installing an additional 184.7 MW of capacity to the Jing-Xing Power Plant. Should the Company determine to proceed with such expansion project in future, commencement of commercial operation will be subject to, among others, the granting of approvals and permits by the relevant government authorities.

All of Our Power Plants can be converted into cogeneration power plants with additional investment. At this stage, having considered the demand characteristics of the areas which we are servicing, we believe that it is more appropriate and economically viable for Our Power Plants to be producing and selling electricity only. Notwithstanding the aforesaid, we will continue to monitor the market situation and if we anticipate strong demand for steam in the areas which we service, we may decide to convert some or all of Our Power Plants into cogeneration plants in the future. Upon such conversion, we will produce and sell electricity and steam.

Engage in more sophisticated gas-based power provision businesses such as cogeneration and trigeneration or CCHP power generation which are efficient and environmentally-friendly

Leveraging on our experience in developing, operating and managing gas-fired power generation businesses, we may in future engage ourselves in more sophisticated and technologically-advanced, at the same time efficient and environmentally-friendly, power provision businesses, such as cogeneration and trigeneration or CCHP power plants. Our Power Plants generate electricity whereas cogeneration plants generate usable heat and power simultaneously and CCHP power plants conduct simultaneous production of combined cooling, heating and power. As cogeneration and CCHP power plants provide other forms of energy simultaneously in addition to electricity, the thermal efficiency of these power plants are generally higher and thus more fuel efficient as compared to power plants which generate only electricity. We are in the process of obtaining approvals and permits to develop a new gas-fired cogeneration power plant to be located in Anji county in Zhejiang province, namely the Anji

Power Plant. Anji county is located in the northeastern part of Zhejiang province with a population of approximately 450,000. The first phase of Anji Power Plant is expected to comprise approximately 58.5 MW of power capacity and 50 ton/hour of steam capacity. We have submitted a project proposal for the Anji Power Plant to the Zhejiang Provincial Development and Reform Commission for review, which has accepted our project proposal. We can therefore further proceed with the application process of the development for Anji Power Plant. In June 2009, the relevant government authorities have assigned a site for the Anji Power Plant. We are currently conducting further feasibility studies, initial preparation and marketing work for this project. Based on the assigned location, Anji Power Plant is expected to source natural gas from Zhejiang Gas Company and sell electricity to Huzhou Electric Power Bureau. After receiving the necessary approvals, we plan to enter into natural gas supply agreement and power sales agreement with Zhejiang Gas Company and Huzhou Electric Power Bureau respectively. Different from Our Power Plants, Anji Power Plant as a cogeneration plant, is expected to sell steam in addition to electricity. We have so far entered into letter of intents with over 30 industrial companies in Zhejiang province for the purpose of selling steam directly to them when Anji Power Plant becomes operational. Subject to receiving the necessary approvals and permits from the relevant government authorities, the completion of construction and securing gas supply, the Anji Power Plant is currently expected to commence commercial operation in 2011. According to the No. 1268 Regulation jointly issued by the State Development and Planning Commission (replaced by NDRC since March 2003), SETC, Ministry of Construction, and State Environmental Protection Bureau on 25 August 2000, cogeneration plants are encouraged by the PRC Government due to their environmental and economic benefits. According to the Natural Gas Utilization Policy issued by NDRC on 30 August 2007, distributed cogeneration plants are given priority in utilization of natural gas.

Increase our market share through investing in new projects and making acquisitions

We monitor the power generation market, especially in Zhejiang province, and maintain regular contact with relevant government officials in order to anticipate upcoming new projects and to evaluate the feasibility of these projects. If some of the projects or locations proved to be economically viable and attractive, we will pursue those opportunities actively.

Likewise, through our extensive network in Zhejiang province and in the power industry in China, we will continue to seek for opportunities to acquire power businesses which fit into our long-term business vision and strategy. We will consider the costs and benefits of the Company and the Shareholders as a whole before making any acquisition.

PROCEDURES OF DEVELOPMENT OF POWER PLANTS PRIOR TO COMMENCING COMMERCIAL OPERATIONS

The procedures for the development of power plants prior to commencing commercial operations involve identifying potential sites for new power plants, obtaining government approvals, completing construction and commencing commercial operations. This is a lengthy process and involves the following steps.

Investment Analysis and Feasibility Study

When we have an opportunity to build a new power plant, we start by conducting a preliminary evaluation to determine if such an opportunity is in line with our overall business strategy. We may also consider undertaking the opportunity with a joint venture partner if doing so would result in more

efficient use of our capital resources or would facilitate the development of the project. Following the preliminary analysis, we proceed with the due diligence work, the project assessment and discussion in the Group's general managers' meetings. Once the proposal has been agreed in the general managers' meeting, it will be submitted to the board of directors for approval to commence further analysis feasibility study of the project. After Listing, such proposal from general managers' meeting will be submitted to the Board for approval. The Board will assess all power plants development proposals submitted to it from the managers' meeting and make decisions accordingly and where necessary or required by the Articles of Association, Listing Rules or relevant laws, rules and regulations, submit the proposals to the Shareholders for approval. After the relevant authority of the PRC approves the feasibility study, we will set up a project company and apply for all required approvals and commence construction.

Project Approval Process

Pursuant to resolutions passed by the Tenth National People's Congress in March 2003, NDRC was formed to replace the former State Development and Planning Commission and assumed its authority over the review and approval of major new power plants and to set on-grid tariffs in accordance with applicable laws.

Pursuant to the "Decision of the State Council on the Reform of Investment System" (國務院關於投資體制改革的決定) which came into effect on 16 July 2004, significant changes have been made to the government approval regime for major investment projects in the PRC. The State Council abolished the requirements of government examination and approval for investment projects not utilizing government funds, and replaced such requirements with a verification and filing system. With respect to non-government-funded projects, verification would only be required for major or restricted projects (including the development of new power plants), while other projects, irrespective of size, are only subject to filing requirement.

Under the Industry Guiding Catalog for Foreign Investment (外商投資產業指導目錄) ("Catalog") issued by NDRC from time to time, business sectors are broadly classified into three categories, namely Encouraged, Restricted and Prohibited, and the rest of the sectors which are not listed in the Catalog are generally recognized as permitted category, providing indication of the PRC government's general level of acceptance to foreign participation and investment in various business sectors in China. Under the latest version of the Catalog (2007 updated version), the construction and operation of natural gas power generation facilities is classified neither under the Encouraged category nor the Restricted or Prohibited category, which means that the PRC government generally welcomes foreign investment and participation in this sector.

The Ministry of Commerce or relevant local authorities are responsible for approving the relevant joint venture contracts and articles of association of the foreign invested enterprises and other substantial changes to the foreign invested enterprises, such as changes in capital, equity transfer and consolidation. We have obtained all the necessary government approvals for Our Power Plants.

Permits

In developing a new power plant, we need to obtain the requisite permits before commencing construction of the project, such as business licenses, approvals related to the plant site, land use rights, and the construction and environmental impact evaluations. In addition, certain permits are

pre-requisites for a new plant to commence operation, including power business permit, approval of the on-grid tariff by the provincial price bureau, boiler using permit, water collection permit, pollutant discharge permit, dispatch agreement and power sale agreement. We have obtained all the necessary permits to operate Our Power Plants.

Power Plant Construction, Start-up and Operation

Our Power Plants outsourced their equipment procurement, installation, site preparation and civil works to domestic contractors through competitive bidding. After the installation of power generation unit, comprising generator and boiler, is completed, the contractor will test and fine tune the system. Following these tests, the contractor will conduct a 72-hour plus 24-hour trial run at full load. After a unit successfully passes the continuous trial run, the contractor delivers the unit to us before the power generation units commence operations.

Each of Our Power Plants has entered into dispatch agreement and power sale agreement with the respective power grid companies. Dispatch agreements primarily provide the detailed technical requirements for power generation and dispatch.

OUR POWER PLANTS

The following map shows the location of Our Power Plants.



De-Neng Power Plant

De-Neng Power Plant is located in Deqing county economic development zone in Huzhou city in Zhejiang province which commenced operation in December 2005. De-Neng Power Plant has an installed capacity of approximately 112 MW in a combined cycle gas-steam turbine generation system which consists of two gas turbine generator units, two residual heat boilers and two steam turbines.

De-Neng Power Plant sells its electricity to Zhejiang Electric Power Corporation and its power is transmitted to the Zhejiang provincial grid. The applicable on-grid tariff for the year ended 31 December 2006 was RMB600/MWh (including VAT). Zhejiang Provincial Price Bureau had adjusted upward the on-grid tariff applicable to De-Neng Power Plant from RMB600/MWh (including

VAT) to RMB650/MWh (including VAT) effective from 1 January 2007, and to RMB680/MWh (including VAT) effective from 1 January 2008, and subsequently to RMB705/MWh (including VAT) effective from 20 August 2008.

Under the long-term supply contract with a term of 20 years between Zhejiang Gas Company and De-Neng Power Plant, Zhejiang Gas Company will supply to De-Neng Power Plant natural gas at a minimum of 60 million m³ up to a maximum of 150 million m³ per year until December 2025. During the year ended 31 December 2008, Zhejiang Gas Company supplied about 55.3 million m³ of natural gas to De-Neng Power Plant, which was below the minimum amount stipulated in the supply contract. There were certain exceptional incidents in the PRC in 2008, namely the 2008 Beijing Olympics and the earthquake in Sichuan where energy source including natural gas in the PRC was reserved in priority for the affected areas. Whilst the Group was entitled to seek compensation, which was estimated to be about RMB1.2 million, from Zhejiang Gas Company for any reduction in the amount of natural gas agreed to be supplied, the Directors appreciated that such initiatives were directed by the State and were beyond the control of Zhejiang Gas Company. The Directors therefore exercised the discretion to sanction the supply of natural gas below the minimum volume as stipulated in the supply agreement during 2008. As a result, De-Neng Power Plant will not receive any compensation from Zhejiang Gas Company for such exceptional incidents.

Before the end of each year, De-Neng Power Plant will submit the expected demand of natural gas for the coming year to Zhejiang Gas Company for review. The contract purchase price of natural gas is determined according to the price of natural gas at delivery point implemented by Zhejiang Provincial Price Bureau from time to time. In January 2006, the purchase price of natural gas was RMB1.62 per m³ (including VAT). Effective from 1 February 2006, the purchase price of natural gas was adjusted to RMB1.71 per m³ (including VAT). Then, effective from 1 January 2008, such purchase price was adjusted to RMB1.85 per m³ (including VAT), and effective from 1 April 2009, such purchase price was further adjusted to RMB1.94 per m³ (including VAT) which will remain the same during the remaining term of the contract unless the Zhejiang Provincial Price Bureau initiates a change in the price.

Set out below are the material terms of the abovementioned long-term contract:

Date:	12 November 2004
Term:	20 years commencing from the day following completion of the trial operation period (being the period from 1 June 2005 to 15 June 2005) or an earlier date as may be agreed by the parties. The parties may by agreement extend the term of the contract any time within 2 years prior to the expiry date.
Volume of natural gas supply:	Minimum 30 million m ³ / maximum 90 million m ³ (year 2005) Minimum 60 million m ³ / maximum 160 million m ³ (year 2006) Minimum 60 million m ³ / maximum 150 million m ³ (year 2007)

BUSINESS

Minimum 60 million m³ / maximum 150 million m³ (year 2008 and onward)

Subject to the supply of natural gas and the transmission capability of Zhejiang Gas Company, Zhejiang Gas Company shall use its reasonable efforts to supply such annual volume of natural gas as stipulated in the contract. Zhejiang Gas Company shall use its reasonable efforts to, but not obliged to, supply additional volume of natural gas as required by De-Neng Power Plant. However, Zhejiang Gas Company shall guarantee the supply of such additional volume of natural gas once it has confirmed the supply with De-Neng Power Plant.

If Zhejiang Gas Company fails to supply sufficient agreed volume of natural gas in accordance with the terms and conditions of the contract or any additional volume having been confirmed by it, it shall pay a compensation to De-Neng Power Plant for the shortfall in supply calculated at 14% of the price for the shortfall volume (based on the calculation set out in the contract) with reference to the then applicable natural gas price at delivery point.

On the other hand, if De-Neng Power Plant fails to take delivery of the agreed volume of natural gas in accordance with the terms and conditions of the contract or the additional volume of natural gas as confirmed with Zhejiang Gas Company, De-Neng Power Plant shall pay a compensation to Zhejiang Gas Company for the volume not taken up calculated at 14% of the price for the volume not taken up (based on the calculation set out in the agreement) with reference to the then applicable natural gas price at delivery point.

Minimum heat value of natural gas supply:

31.4 megajoules (MJ) per m³, according to the relevant specifications stipulated in the latest publication of China National Standards* (中國國家標準) issued by State Bureau of Quality and Technical Supervision (國家質量技術監督局).

Price:

According to the price of natural gas at delivery point implemented by Zhejiang Provincial Price Bureau.

An additional 10% (based on the price of natural gas ex-factory) will be added to the price of natural gas supplied in excess of the contract volume.

Reduction of supply:

After taking into account the supply of natural gas in the whole province, Zhejiang Gas Company may decide not to supply all or part of the natural gas required if (i) the supply of natural gas to Zhejiang Gas Company decreases due to a

force majeure event; (ii) the supply of natural gas from Zhejiang Gas Company to De-Neng Power Plant decreases due to a force majeure event; and (iii) an important event occurs, such as an event where the continuation of supply of natural gas will endanger human lives or cause economic loss.

Termination of contract:

If any of the following events occurs to one party, the other party to the contract may terminate the contract by written notice:

- (i) Material breach of contract by any party breaching any of its obligations, representations, warranties or undertakings under the contract and failure of such breaching party to remedy the breach within 30 days of the receipt of the written notice of breach or such longer period the two parties may agree;
- (ii) if either party becomes bankrupt or unable to pay its debt, or ceases to carry on business, or is dissolved, or is the subject of proceedings for liquidation, has appointed an administrator, liquidator, liquidation committee or any person or committee of similar responsibilities, or is wound up or enters into settlement agreement with any of its creditors;
- (iii) if Zhejiang Gas Company fails to supply the required natural gas according to the terms of the contract in more than 30 consecutive days or in 60 days in any contractual year;
- (iv) if an event of force majeure occurs which results in either party becoming no longer responsible to perform its obligations under the contract for more than 24 consecutive months;
- (v) if any party transfers or charges any or all of its rights, interests or obligations under the contract or creates any third party interests in violation of the provisions of the contract;
- (vi) if any party fails to hold any necessary government approval required for the performance of the contract; and
- (vii) if the supply contract between Zhejiang Gas Company and its supplier terminates.

BUSINESS

The following table shows certain operating statistics for De-Neng Power Plant for each of the three years ended 31 December 2008.

Indicators	Year ended 31 December		
	2006	2007	2008
Installed capacity (MW)	112	112	112
Planned utilization hours (hours)	3,500	3,500	3,500
Actual utilization hours (hours)	3,696	3,969	2,076
Gross generation (MWh)	413,932	444,564	232,486
Power sales (MWh) <i>(Note)</i>	400,004	428,725	224,340
Applicable on-grid tariff at year end (RMB/MWh)	600	650	705
Actual volume of natural gas processed (thousand m ³)	101,326	106,175	55,347

Note: The difference between gross generation and power sales mainly represents the internal consumption of electricity by the power plant.

The utilization hours of De-Neng Power Plant increased from 3,696 hours in 2006 to 3,969 hours in 2007 and volume of power sales increased by approximately 7.18% from 400,004 MWh in 2006 to 428,725 MWh in 2007. In 2008, utilization hours and volume of power sales dropped to 2,076 hours and 232,486 MWh respectively primarily due to the significantly lower supply of natural gas to the Group in the period from April to September 2008 than that in the respective period in prior years, as a result of certain exceptional incidents in the PRC in 2008, namely the 2008 Beijing Olympic Games and earthquake in Sichuan where energy source including the natural gas in the PRC was reserved in priority for the affected areas. For the period from April to September 2008, the power sales volume of the Group decreased by about 61.3% compared to the same period in 2007. The Directors also believed that the decrease in actual utilization hours in 2008 was also to a less extent due to the supply of natural gas not fully resumed to normal level during the fourth quarter in 2008 after the aforesaid incidents and the slow down in growth of PRC and Zhejiang economy arising from the global economic turmoil during the second half of 2008 which in turn led to the slow down in growth of electricity demand in Zhejiang. For the period from October to December 2008, the power sales volume of the Group decreased by about 35.9% compared to the same period in 2007.

De-Neng Power Plant had 72 full time employees as at the Latest Practicable Date.

Blue Sky Power Plant

Blue Sky Power Plant is located in Chongxian town, Southeast of Yuhang district in Hangzhou. The total installed capacity is 112 MW in a combined cycle gas-steam turbine generation system which consists of two gas turbine generator units, two residual heat boilers and two steam turbines. Founded in December 2004 and commenced construction in early 2005, Blue Sky Power Plant was a key project of Zhejiang province and commercial operation commenced in March 2006.

Blue Sky Power Plant sells its electricity to Zhejiang Electric Power Corporation and its power is transmitted to the Zhejiang provincial grid. The applicable on-grid tariff for the year ended 31 December 2006 was RMB600/MWh (including VAT). Zhejiang Provincial Price Bureau had adjusted upward the on-grid tariff applicable to Blue Sky Power Plant from RMB600/MWh (including VAT) to RMB650/MWh (including VAT) effective from 1 January 2007, and to RMB680/MWh (including VAT) effective from 1 January 2008, and subsequently to RMB705/MWh (including VAT) effective from 20 August 2008.

BUSINESS

Under the long-term supply contract with a term of 20 years between Zhejiang Gas Company and Blue Sky Power Plant, Zhejiang Gas Company will supply to Blue Sky Power Plant natural gas at a minimum of 30 million m³ up to a maximum of 120 million m³ per year until January 2026. During the Track Record Period, quantity of natural gas supplied to Blue Sky Power Plant complied with the terms of the long-term supply contract. Before the end of each year, Blue Sky Power Plant will submit the expected demand of natural gas for the coming year to Zhejiang Gas Company for review. The contract purchase price of natural gas is determined according to the price of natural gas at delivery point implemented by the Zhejiang Provincial Price Bureau from time to time. The purchase price of natural gas for Blue Sky Power Plant during 2006 and 2007 was RMB1.71 per m³ (including VAT). Effective from 1 January 2008, it is adjusted to RMB1.85 per m³ (including VAT), and effective from 1 April 2009, such purchase price was further adjusted to RMB1.94 per m³ (including VAT) which will remain the same during the remaining term of the contract unless the Zhejiang Provincial Price Bureau initiates a change in the price.

Set out below are the material terms of the abovementioned long-term contract:

Date:	28 December 2004
Term:	20 years commencing from the day following completion of the trial operation period (being the period from 10 June 2005 to 1 November 2005) or an earlier date as may be agreed by the parties. The parties may by agreement extend the term of the contract any time within 2 years prior to the expiry date.
Volume of natural gas supply:	Minimum 10 million m ³ / maximum 70 million m ³ (year 2005) Minimum 30 million m ³ / maximum 120 million m ³ (year 2006) Minimum 30 million m ³ / maximum 120 million m ³ (year 2007) Minimum 30 million m ³ / maximum 120 million m ³ (year 2008 and onward)
Minimum heat value of natural gas supply:	31.4 megajoules (MJ) per m ³ , according to the relevant specifications stipulated in the latest publication of China National Standards* (中國國家標準) issued by State Bureau of Quality and Technical Supervision (國家質量技術監督局).
Other material terms:	Same as the material terms of the long-term supply contract entered into between Zhejiang Gas Company and De-Neng Power Plant as discussed above.

BUSINESS

The following table shows certain operating statistics for Blue Sky Power Plant for each of the three years ended 31 December 2008.

Indicators	Year ended 31 December		
	2006	2007	2008
Installed capacity (MW)	112	112	112
Planned utilization hours (hours)	3,500	3,500	3,500
Actual utilization hours (hours)	3,521	4,301	2,907
Gross generation (MWh)	394,339	481,764	325,635
Power sales (MWh) <i>(Note)</i>	381,008	465,923	315,161
Applicable on-grid tariff at year end (RMB/MWh)	600	650	705
Actual volume of natural gas processed (thousand m ³)	94,008	114,109	77,980

Note: The difference between gross generation and power sales mainly represents the internal consumption of electricity by the power plant.

During the two years ended 31 December 2007, the utilization hours of Blue Sky Power Plant increased from 3,521 hours in 2006 to 4,301 hours in 2007 and volume of power sales increased by approximately 22.3% from 381,008 MWh in 2006 to 465,923 MWh in 2007. In 2008, utilization hours and volume of power sales dropped to 2,907 hours and 315,161 MWh respectively primarily due to the significantly lower supply of natural gas to the Group in the period from April to September 2008 than that in the respective period in prior years, as a result of certain exceptional incidents in the PRC in 2008, namely the 2008 Beijing Olympic Games and earthquake in Sichuan where energy source including the natural gas in the PRC was reserved in priority for the affected areas. For the period from April to September 2008, the power sales volume of the Group decreased by about 61.3% compared to the same period in 2007. The Directors also believed that the decrease in actual utilization hours in 2008 was also to a less extent due to the supply of natural gas not fully resumed to normal level during the fourth quarter in 2008 after the aforesaid incidents and the slow down in growth of PRC and Zhejiang economy arising from the global economic turmoil during the second half of 2008 which in turn led to the slow down in growth of electricity demand in Zhejiang. For the period from October to December 2008, the power sales volume of the Group decreased by about 35.9% compared to the same period in 2007.

Blue Sky Power Plant had 80 full time employees as at the Latest Practicable Date.

Jing-Xing Power Plant

Jing-Xing Power Plant is located in Zhicheng town Changxing county in Huzhou city. The total installed capacity is 75MW in a combined cycle gas-steam turbine generation system which consists of one gas turbine generator unit imported from Pratt & Whitney USA, with installed capacity of 55MW, one residual heat boiler and one steam turbine with 20MW output. Jing-Xing Power Plant was founded in January 2005 and commenced construction in December 2005. Jing-Xing Power Plant commenced commercial operation in December 2006.

Jing-Xing Power Plant sells its electricity to Huzhou Electric Power Bureau and its power is transmitted to the Huzhou city grid. The applicable on-grid tariff for the two years ended 31 December 2006 and 2007 was RMB650/MWh (including VAT). During the Track Record Period, in light of the upward adjustment of price of natural gas, the Zhejiang Provincial Price Bureau had adjusted upward the on-grid tariff applicable to Jing-Xing Power Plant to RMB680/MWh (including VAT) effective from 1 January 2008, and further to RMB705/MWh (including VAT) effective from 20 August 2008.

BUSINESS

Under the long-term supply contract with a term of 20 years between Zhejiang Gas Company and Jing-Xing Power Plant, Zhejiang Gas Company will supply to Jing-Xing Power Plant natural gas at a minimum of 20 million m³ up to a maximum of 70 million m³ in 2008, and at a minimum of 30 million m³ and up to a maximum of 100 million m³ in 2009 and thereafter per year until October 2026. During the Track Record Period, quantity of natural gas supplied to Jing-Xing Power Plant complied with the terms of the long-term supply contract. Before the end of each year, Jing-Xing Power Plant will submit the expected demand of natural gas for the coming year to Zhejiang Gas Company for review. The contract purchase price of natural gas is determined according to price of natural gas at delivery point implemented by the Zhejiang Provincial Price Bureau from time to time. The purchase price of natural gas for Jing-Xing Power Plant during 2006 and 2007 was RMB1.71 per m³ and beginning from 1 January 2008, purchase price of natural gas is RMB1.85 per m³, while effective from 1 April 2009, such purchase price was further adjusted to RMB1.94 per m³ (including VAT), which will remain the same during the remaining term of the contract unless the Zhejiang Provincial Price Bureau requires a change in the price.

Set out below are the material terms of the abovementioned long-term contract:

Date:	8 December 2006
Term:	20 years commencing from the day following completion of the trial operation period (being the period from 7 November 2006 to 7 December 2006) or an earlier date as may be agreed by the parties. The parties may by agreement extend the term of the contract any time within 2 years prior to the expiry date.
Volume of natural gas supply:	Minimum 10 million m ³ / maximum 70 million m ³ (year 2007) Minimum 20 million m ³ / maximum 70 million m ³ (year 2008) Minimum 30 million m ³ / maximum 100 million m ³ (year 2009 and onward)
Minimum heat value of natural gas supply:	31.4 megajoules (MJ) per m ³ , according to the relevant specifications stipulated in the latest publication of China National Standards* (中國國家標準) issued by State Bureau of Quality and Technical Supervision (國家質量技術監督局).
Other material terms:	Same as the material terms of the long-term supply contract entered into between Zhejiang Gas Company and De-Neng Power Plant as discussed above.

BUSINESS

The following table shows certain operating statistics for Jing-Xing Power Plant for each of the three years ended 31 December 2008.

Indicators	Year ended 31 December		
	2006	2007	2008
Installed capacity (MW)	75	75	75
Planned utilization hours (hours)	N/A	3,500	3,500
Actual utilization hours (hours)	375	3,640	2,443
Gross generation (MWh)	28,140	272,990	183,203
Power sales (MWh)	27,461	266,317	178,715
Applicable on-grid tariff as at year end (RMB/MWh)	650	650	705
Actual volume of natural gas processed (thousand m ³)	6,450	61,124	41,053

Note: The difference between gross generation and power sales mainly represents the internal consumption of electricity by the power plant.

Actual utilization hours dropped from 3,640 hours in 2007 to 2,443 hours in 2008 and volume of power sales dropped from 266,317 MWh in 2007 to 178,715 MWh in 2008 primarily due to the significantly lower supply of natural gas to the Group in the period from April to September 2008 than that in the respective period in prior years, as a result of certain exceptional incidents in the PRC in 2008, namely the 2008 Beijing Olympic Games and earthquake in Sichuan where energy source including the natural gas in the PRC was reserved in priority for the affected areas. For the period from April to September 2008, the power sales volume of the Group decreased by about 61.3% compared to the same period in 2007. The Directors also believed that the decrease in actual utilization hours in 2008 was also to a less extent due to the supply of natural gas not fully resumed to normal level during the fourth quarter in 2008 after the aforesaid incidents and the slow down in growth of PRC and Zhejiang economy arising from the global economic turmoil during the second half of 2008 which in turn led to the slow down in growth of electricity demand in Zhejiang. For the period from October to December 2008, the power sales volume of the Group decreased by about 35.9% compared to the same period in 2007.

Jing-Xing Power Plant had 60 full time employees as at the Latest Practicable Date.

POWER SALES

Our turnover is derived from the sale of power generated by Our Power Plants. According to the Electric Power Law, a power plant is required to sell its power to the provincial power grid company to which it is connected pursuant to power sale agreements. A power plant's sole customer is its respective provincial power grid. As for De-Neng Power Plant and Blue Sky Power Plant, both are connected to the Zhejiang provincial grid. They sell all the power generated to Zhejiang Electric Power Corporation, which is a wholly-owned subsidiary of State Grid Corporation of China (國家電網公司). As for Jing-Xing Power Plant, it is connected to the Huzhou city grid. It sells all the power generated to Huzhou Electric Power Bureau, which is also a wholly-owned subsidiary of Zhejiang Electric Power Corporation. Our power sales to the power grid companies are calculated and settled on a monthly basis according to our total actual output. Turnover generated from Our Power Plants is primarily determined by two factors, namely total output and on-grid tariff.

Each year, the relevant department of the provincial government issues guidelines on power sales activities between power plants and power grid companies and provides planned utilization hours to each power plant expressed in utilization hours based on the expected power supply and demand in

the market and the classification of each power plant. Pursuant to such guidelines, each of Our Power Plants are given notices on the expected amount of the total planned utilization hours for the year.

On-grid tariff is the price paid by power grid companies to power generation companies for each unit of electricity sold. According to the Interim Measures for the Administration of On-Grid Tariff (上網電價管理暫行辦法) issued by NDRC in 2005, on-grid tariffs applicable to power generation companies are determined by provincial price bureaus based on various consideration factors, including the economic life of the facilities, fuel type, cost structure and applicable tax rates, to ensure that power generation companies are able to achieve reasonable profitability and investment return. As a result, on-grid tariffs of power generation companies using different fuel types are different. On-grid tariffs may also be different for power plants using the same fuel type operating in the same province. Our Power Plants, which utilize natural gas instead of coal, are entitled to higher on-grid tariff as compared to coal-fired power plants in Zhejiang province, particularly after taking into consideration different cost structure between using natural gas and coal as fuels and in line with the PRC government policies that encourage the use of fuel with less pollution.

Our Power Plants are connected and sell power to either the Zhejiang Electric Power Corporation or the Huzhou Electric Power Bureau. The percentage contribution to the total power sales of the Group by the Zhejiang Electric Power Corporation was approximately 96.3%, 77.0% and 75.0% for each of the three years ended 31 December 2008, respectively, while the percentage contribution by the Huzhou Electric Power Bureau was approximately 3.7%, 23.0% and 25.0% respectively for the same periods. The credit period granted to each of the Zhejiang Electric Power Corporation and the Huzhou Electric Power Bureau is normally 30 days from the invoice date.

Our Power Plants are required to sell its power to the respective power grid companies to which it is connected. According to the relevant laws, rules and regulations on electricity business in the PRC, Our Power Plants are not allowed to sell its power to entities other than the respective power grid companies without the permission from the relevant authorities. When the construction of a new power plant is approved by NDRC and SERC, the power grid the new power plant is connected to (or the power plant's customer) is already decided primarily based on the geographical location of the power plant. As such, the customers of Our Power Plants were decided by the relevant governmental authorities when the power plants were first approved. The Group is required to sell its power to the power grid companies in accordance with the PRC Electric Power Law.

Each of De-Neng Power Plant and Blue Sky Power Plant has entered into a dispatch agreement* (併網調度協定) and a power sale agreement* (購售電合同) with Zhejiang Electric Power Corporation for a term of one year, subject to automatic renewal upon mutual consent by both parties. The relevant agreements continue to be in force since their respective agreement dates. In the event that a party breaches the relevant agreements, the non-defaulting party has the right to claim the defaulting party for any economic losses suffered as a result thereof. The Directors confirmed that during the Track Record Period, there were no claims against De-Neng Power Plant and Blue Sky Power Plant by Zhejiang Electric Power Corporation due to the breach of any provisions in the relevant agreements.

Under the dispatch agreements and power sale agreements, De-Neng Power Plant and Blue Sky Power Plant submit daily power dispatch plan based on gas supply situation and generation capability at the time to Zhejiang Electric Power Corporation, who then determines/confirms the final volume of power to be dispatched that day primarily based on the estimated supply and demand situation, the actual versus planned utilization hours of our plants versus other plants. De-Neng Power Plant and

BUSINESS

Blue Sky Power Plant then generate power accordingly. There were no required minimum volume of power to be sold by De-Neng Power Plant and Blue Sky Power Plant to Zhejiang Electric Power Corporation stipulated in the relevant agreements.

Jing-Xing Power Plant entered into the dispatch agreement* (併網調度協定) and the on-grid economic agreement* (併網經濟協議) with Huzhou Electric Power Bureau for a two-year and three-year term, respectively, subject to automatic renewal upon mutual consent by both parties. The relevant agreements continue to be in force since their respective agreement dates. In the event that a party breaches the relevant agreements, the non-defaulting party has the right to claim the defaulting party for any economic losses as a result thereof. The Directors confirmed that during the Track Record Period, there were no claims against Jing-Xing Power Plant by Huzhou Electric Power Bureau due to the breach of any provisions in the relevant agreements.

Pursuant to the on-grid economic agreement, Huzhou Electric Power Bureau and Jing-Xing Power Plant have to enter into separate power sale agreements* (電量購銷合同) which specify the volume of power to be supplied by Jing-Xing Power Plant, determined with reference to the monthly dispatch plan and the guidelines on annual planned output issued by the relevant government department.

While the power sale agreements typically have various standard terms, the on-grid tariffs are reviewed and confirmed by the provincial price bureaus, which differ according to the fuel type, cost structure and operating profit of each of Our Power Plants. In the event that there are material changes in the operational environment, such as dramatic fluctuation in natural gas prices, the provincial price bureaus will, on a case-by-case basis, assess whether to adjust the approved on-grid tariff.

The table below sets forth the volume of power sales of Our Power Plants for each of the three years ended 31 December 2006, 2007 and 2008, and the on-grid tariffs (inclusive of VAT) as at 31 December 2006, 2007 and 2008.

<u>Power Plants</u>	2006	2006	2007	2007	2008	2008
	Sales Volume	Approved On-Grid Tariff	Sales Volume	Approved On-Grid Tariff	Sales Volume	Approved On-Grid Tariff
	(MWh)	(RMB/ MWh)	(MWh)	(RMB/ MWh)	(MWh)	(RMB/ MWh)
De-Neng Power Plant	400,004	600	428,725	650	224,340	705
Blue Sky Power Plant	381,008	600	465,923	650	315,161	705
Jing-Xing Power Plant	27,461	650	266,317	650	178,715	705

None of our Directors, their respective associates or, to the best knowledge of our Directors, person(s) who will be interested in more than 5% of our issued share capital of the Company immediately following completion of the Share Offer and the Capitalization Issue had any interest in our customers, Zhejiang Electric Power Corporation and Huzhou Electric Power Bureau, during the three years ended 31 December 2008. Save for being the customers and supplier of Our Power Plants, the Directors confirmed that the Group has no further relationship and contractual arrangements with Zhejiang Electric Power Corporation, Huzhou Electric Power Bureau and Zhejiang Gas Company.

UTILIZATION HOURS

The utilization hours of a power plant refer to the number of hours it operates at full installed capacity to generate electricity in a specified period. Theoretically, the maximum utilization hours of a power plant are 8,760 hours per year. During the year ended 31 December 2007, the first full year in

BUSINESS

which all of Our Power Plants were in full operation, the average utilization hours of Our Power Plants were 4,011 hours, higher than the planned utilization of 3,500 hours given to each of Our Power Plants and other gas-fired power plants in Zhejiang province by the Zhejiang provincial government. For the year ended 31 December 2008, the average utilization hours of the Group were 2,479 hours, lower than the planned utilization hours of 3,500 hours primarily due to the significantly lower supply of natural gas to the Group in the period from April to September 2008 than that in the respective period in prior years, as a result of certain exceptional incidents in the PRC in 2008, namely the 2008 Beijing Olympic Games and earthquake in Sichuan where energy source including the natural gas in the PRC was reserved in priority for the affected areas. For the period from April to September 2008, the power sales volume of the Group decreased by about 61.3% compared to the same period in 2007. The Directors also believed that the decrease in actual utilization hours in 2008 was also to a less extent due to the supply of natural gas not fully resumed to normal level during the fourth quarter in 2008 after the aforesaid incidents and the slow down in growth of PRC and Zhejiang economy arising from the global economic turmoil during the second half of 2008 which in turn led to the slow down in growth of electricity demand in Zhejiang. For the period from October to December 2008, the power sales volume of the Group decreased by about 35.9% compared to the same period in 2007. The following table shows the utilization hours of Our Power Plants during the Track Record Period.

<u>Power Plants</u>	<u>Actual Utilization Hours Year ended 31 December</u>		
	<u>2006</u>	<u>2007</u>	<u>2008</u>
De-Neng Power Plant	3,696	3,969	2,076
Blue Sky Power Plant	3,521	4,301	2,907
Jing-Xing Power Plant	375	3,640	2,443

NATURAL GAS SUPPLY

Each of Our Power Plants has entered into long-term supply contracts with a term of 20 years with Zhejiang Gas Company who is responsible for the sale and distribution of natural gas transported into Zhejiang province through the West-East Gas Pipeline. Our Power Plants are directly connected to the gas off-take stations operated by Zhejiang Gas Company, and as a result, natural gas is supplied to us in gaseous form directly through pipelines natural gas. Zhejiang Gas Company is a company exclusively approved by the relevant Zhejiang provincial authorities to distribute the natural gas in Zhejiang province. Accordingly, before the existence of another natural gas supplier being approved to provide natural gas in Zhejiang Province, Our Power Plants could only purchase natural gas from Zhejiang Gas Company.

The West-East Gas Pipeline is only part of a nationwide natural gas supply infrastructure network as stated in the Eleventh Five Year Plan. The construction of the Sichuan-East Gas Pipeline is expected to reach and supply natural gas to Zhejiang in 2010. This pipeline, which has a designed capacity of 12 billion m³ per year, is expected to run from Sichuan to Shanghai through a number of provinces including Zhejiang province.

In addition, the construction of other sections such as West-East Gas Pipeline (Phase II), which is expected to run through 13 provinces including Zhejiang province with annual transport capacity of 30 billion m³, is in progress and is expected to reach and supply natural gas to Zhejiang in late 2009. According to Natural Gas Pipe Network Plan in Zhejiang province 2015-2020, the natural gas fields connecting to the West-East Gas Pipeline have a total proven reserve of approximately 1.7 trillion m³. In light of the above, the Directors believe that the Group will benefit from the expected increase in

supply of natural gas to Zhejiang province after completion of such nationwide natural gas supply infrastructure.

The price of gas is prescribed, reviewed and approved by Zhejiang Provincial Price Bureau. Please refer to the description of each plant above regarding further details of long-term contracts entered into between Zhejiang Gas Company and the respective power plant. Natural gas supplied by Zhejiang Gas Company represented 100% of our purchase of natural gas during the three years ended 31 December 2008.

None of our Directors, their respective associates or, to the best knowledge of our Directors, persons who will be interested in more than 5% of our issued share capital of the Company immediately following completion of the Share Offer and the Capitalization Issue had any interest in Zhejiang Gas Company.

REPAIR AND MAINTENANCE

According to the “Power Enterprises Equipment Maintenance Guide” 《發電企業設備檢修導則》 issued by SETC, Our Power Plants are subject to inspective overhaul after the first anniversary of operation and to major overhaul (generally requires approximately 15 days to 20 days to complete) every three to four years. Our Power Plants had completed the inspective overhaul after their first anniversary of operation according to the relevant requirements.

In addition, each of Our Power Plants adopts a timetable for routine maintenance, regular inspections and repairs. Such timetables and procedures for repair and maintenance are established by each plant based on industry practice and standards. Under our procedures, routine repair and maintenance are generally conducted during night time. The total maintenance expenses of Our Power Plants for the three years ended 31 December 2006, 2007 and 2008 were approximately RMB1.9 million, RMB2.6 million and RMB2.2 million, respectively, representing approximately 0.5%, 0.4% and 0.5% of our total turnover, respectively.

ACQUISITION OF MINORITY INTERESTS IN DE-NENG POWER PLANT PRIOR TO LISTING

Before completion of the Corporate Reorganization, the Group held 53% equity interest in De-Neng Power Plant. In order to increase the total attributable installed capacity and thus revenue and profit of the Group, on 23 May 2009, Blue Sky Power Plant entered into an equity transfer agreement with each of Ningbo Beilun and Ningbo Hong-Ji to acquire their 40% and 7% equity interests respectively in De-Neng Power Plant for cash consideration of RMB81,331,300 and RMB14,233,000 respectively with reference to the carrying amount of net asset value of De-Neng Power Plant as at 31 December 2008 and certain appreciation in value of its land and equipment. For the three years ended 31 December 2006, 2007 and 2008, De-Neng Power Plant recorded net profit of approximately RMB2.2 million, RMB33.3 million and RMB10.9 million respectively, and net asset value of approximately RMB146.9 million, RMB183.3 million and RMB194.2 million respectively based on its management accounts. As at the Latest Practicable Date, the relevant transfer procedures have been completed and De-Neng Power Plant has become a wholly-owned subsidiary of the Group and as stipulated in the abovementioned equity transfer agreements, the Group, as the transferee will be fully entitled to the profit or liable for the loss of De-Neng Power Plant commencing 1 January 2009. The cash consideration of RMB65,564,300 has been settled with internal resources and the remaining

balance of RMB30 million (approximately HK\$34 million) will be financed by proceeds from the Share Offer.

NEW PROJECT PROPOSED TO BE DEVELOPED AFTER LISTING

We are in the process of obtaining approvals and permits to develop a new gas-fired cogeneration power plant to be located in Anji county in Zhejiang province, namely the Anji Power Plant. Anji county is located in the northeastern part of Zhejiang province with a population of approximately 450,000. The first phase of Anji Power Plant is expected to comprise approximately 58.5 MW of power capacity and 50 ton/hour of steam capacity. We have submitted a project proposal for the Anji Power Plant to the Zhejiang Provincial Development and Reform Commission for review, which has accepted our project proposal. We can therefore further proceed with the application process of the development of Anji Power Plant. In June 2009, the relevant government authorities have assigned a site for the Anji Power Plant. We are currently conducting further feasibility studies, initial preparation and marketing work for this project. Based on the assigned location, Anji Power Plant is expected to source natural gas from Zhejiang Gas Company and sell electricity to Huzhou Electric Power Bureau. After receiving the necessary approvals, we plan to enter into natural gas supply agreement and power sales agreement with Zhejiang Gas Company and Huzhou Electric Power Bureau respectively. Different from Our Power Plants, Anji Power Plant, as a cogeneration plant, is expected to sell steam in addition to electricity. We have so far entered into letters of intent with over 30 industrial companies in Zhejiang province for the purpose of selling steam directly to them when Anji Power Plant commences operation. Subject to receiving the necessary approvals and permits from the relevant government authorities, the completion of construction and securing gas supply, the Anji Power Plant is currently expected to commence commercial operation in 2011.

The Group has entered into an agreement with Zhejiang Anji Economic Development Zone Committee (the “Anji Committee”, 浙江省安吉經濟開發區管委會) for the development of Anji Power Plant. The Anji Committee agrees that the respective land premium payable by the Group amounts to about RMB12.9 million. The Group has already paid RMB1.2 million as deposit at the Latest Practicable Date and the outstanding land premium is expected to be financed from internal resources of the Group. No formal land grant agreement was entered into by the Group.

The estimated investment amount for the development of the first phase of Anji Power Plant is RMB299 million, amongst which approximately 18.9% (i.e. approximately HK\$64.0 million assuming an Offer Price of HK\$1.46 per Share, being the mid-point of the indicative Offer Price) will be financed by the proceeds from the Share Offer and the remaining amount by internal resources of the Group.

COMPETITIVE LANDSCAPE

China’s power market is relatively concentrated. According to China Electric Power Yearbook 2007, China had a total power installed capacity of approximately 713 GW by the end of 2007, and the five largest power providers had a total of installed capacity of approximately 299 GW, representing approximately 41.9% share of the whole market.

As of the end of 2007, there were 45,180 MW of power installed capacity in Zhejiang province, including a total of 3,366 MW of gas-fired installed capacity under the Zhejiang provincial grid. We believe the key barriers to entry into the gas-fired power industry include (i) industry operational and

management experience, (ii) the ability to identify and obtain power projects and the relevant regulatory approvals, (iii) financial capability, and (iv) the ability to secure steady supply of fuel, such as natural gas. Overall, the competitive environment of the power industry, including the gas-fired power supply industry in Zhejiang province, is largely influenced by the industry regulatory framework.

The power grids within Zhejiang province are all subsidiaries of the State Grid Corporation of China or Zhejiang Electric Power Corporation. For example, our customers, Zhejiang Electric Power Corporation and Huzhou Electric Power Bureau is the wholly-owned subsidiary of the State Grid Corporation of China and Zhejiang Electric Power Corporation respectively. While the former is the provincial power grid company of Zhejiang province, the latter is the local power grid company of Huzhou city within Zhejiang province. We supply electricity to these two power grid companies within Zhejiang province primarily because of the locations of Our Power Plants. There are other local city power grid companies within Zhejiang province who are not our customers because of the locations of Our Power Plants. Besides us, other power providers, including coal-fired, gas-fired, cogeneration and others, may also supply electricity to our customers, Zhejiang Electric Power Corporation and Huzhou Electric Power Bureau. In view of the above, we consider that there is no direct competition for despatch allocation between gas-fired power providers in Zhejiang province.

Within Zhejiang province, all gas-fired power plants purchase natural gas from Zhejiang Gas Company, which is a state-owned enterprise with the exclusive right to sell and distribute natural gas transported into Zhejiang province through the West-East Gas Pipeline owned and operated by PetroChina. Zhejiang Gas Company allocates natural gas to gas-fired plants based on planning of the PRC government and according to the Natural Gas Utilization Policy issued by NDRC. In view of the above, we consider that there is no direct competition for the supply of natural gas between gas-fired power providers in Zhejiang province.

Competition exists when there is an opportunity to develop a new gas-fired power plant or to make acquisitions in gas-fired power plant in Zhejiang province. However, we consider that the level of competition we face is low since gas-fired power generation is relatively new in Zhejiang province as compared to coal-fired power generation and there is a small number of potential competitors who have expertise and experience in gas-fired power generation in Zhejiang province. We have demonstrated, during the Track Record Period, that given our industry experience, financial capability and operational efficiencies, we have been able to compete successfully on a recurring basis for opportunities to develop and acquire new power projects in Zhejiang province.

ENVIRONMENTAL PROTECTION

The main PRC environmental protection laws and regulations applicable to Our Power Plants' operation include the Environmental Protection Law of the People's Republic of China (中華人民共和國環境保護法), the Administrative regulations on Environmental Protection for Construction Project (建設項目環境保護管理條例), the Law of the People's Republic of China on the Prevention and Control of the Air Pollution (中華人民共和國大氣污染防治法), the Law on Prevention of Water Pollution of the PRC (中華人民共和國水污染防治法) and the Administrative Regulation on the Levy and Use Discharge Fees (排污費徵收使用管理條例). Each of Our Power Plants has installed a monitoring system to monitor the emission volume of sulphur dioxide and nitrogen oxides on a real-time basis. The sewage will be inspected regularly to determine whether the relevant standard is satisfied before discharging.

During the power generation process, conventional coal-fired power plant discharges waste water and emits air pollutants, such as sulphur dioxide, nitrogen oxides and fine particles. Our Power Plants are fuelled with natural gas which is a cleaner fossil fuel. Unlike conventional coal-fired power plants, Our Power Plants emit significantly less amount of nitrogen oxides, almost no sulphur dioxide and fine particles. For the same amount of heat generated, burning natural gas produces about 50% less carbon dioxide than burning coal. Our Power Plants have obtained all the necessary approvals from local governments and have not been subject to any penalties involving non-compliance with the emission requirements set by local governments.

We believe that the environmental protection systems and facilities of Our Power Plants are adequate to comply with applicable PRC national and local environmental protection regulations. The Company's PRC legal adviser has confirmed that, during the Track Record Period and up to the Latest Practicable Date, the Company had not breached any environmental laws or regulations applicable to us in all material aspects.

HEALTH AND SAFETY COMPLIANCE

Our Power Plants have adopted various internal policies and are taking protective measures to prevent health and safety hazards. We had not encountered any material unplanned outage in Our Power Plants during the Track Record Period.

Up to the Latest Practicable Date, we had complied with the PRC laws and regulations on environment protection and workplace safety that were applicable to our operations, including Safety Production Law of the People's Republic of China (中華人民共和國安全生產法), Safety Production Rules of Zhejiang province (浙江省安全生產條例), Supervision Measures on Safety Power Generation (電力安全生產監管辦法) by SERC and Rules on Safety Production (安全生產工作規定) by State Power Corporation. We have not been subject to any fines or administrative action involving non-compliance with any relevant regulations.

PRC REGULATORY APPROVAL

Our Power Plants have obtained relevant permits from competent environmental authorities before their establishment and at the time of their construction, and have also passed the check and examination by the environmental authorities after the completion of the construction. Based on the Certifications issued by the relevant authorities, Our Power Plants had complied with all relevant environmental protection standards since they commenced operation.

In relation to the Corporate Reorganization and Share Offer, the PRC legal adviser of the Company confirmed that the Company has obtained all necessary approvals and consents and has complied with all applicable rules, regulations and registration requirements imposed by the relevant PRC authorities, including but not limited to the SAFE Notice and Regulations on Merger and Acquisition of Domestic Enterprises by Foreign Investors ("Regulations on Merger and Acquisition"). Based on their understanding of the current PRC laws, regulations and rules as well as the fact that CSRC currently has not issued any definitive rule or interpretation concerning whether offerings such as ours will be subject to the Regulations on Merger and Acquisition, and given that all of our PRC subsidiaries are established as foreign-owned enterprises before 8 September 2006, the effective date of such regulations, the PRC legal adviser of the Company advised that the listing of the Company does not require the approval from CSRC.

INTELLECTUAL PROPERTY

We have registered several trademarks in Hong Kong and Blue Sky Power Plant has entered into a trademarks transfer agreement with Shanghai Pu-Xing on 21 April 2009 for the transfer and assignment of several trademarks registered in the PRC. Details of our intellectual property are set out in Appendix VI to this prospectus.

INSURANCE

Our Power Plants currently maintain with PICC Property and Casualty Company Limited in aggregate of approximately RMB950 million of insurance coverage over our property, plant, equipment and other types of insurance such as public liability. We believe that the insurance coverage of Our Power Plants is adequate. See “Risk Factors — Our operations are subject to hazards customary to the power generation industry and we may not have adequate insurance to cover all of these hazards” in this prospectus.

LEGAL COMPLIANCE AND PROCEEDINGS

As at the Latest Practicable Date, we had obtained all licenses, permits and certificates necessary to conduct our operations from the relevant governmental bodies in the PRC and had not encountered significant difficulties in obtaining requisite permits.

Pursuant to the Regulations on the Administration of Power Business Permit 《電力業務許可證管理規定》, all power plants in the PRC are required to obtain the power business permit as the pre-requisite for the commencement of the operation. Before obtaining the respective power business permit, Our Power Plants have commenced commercial operation to generate electricity to the power grid companies. The reasons for not obtaining power business permits of Our Power Plants before the commencement of their respective business operation were: (1) since the implementation of the power business permit system on 1 December 2005 in the PRC, there is a huge number of power plants which need to apply for the permits, thus the SERC decides to issue the permits in different periods and batches after the promulgation of the “Regulation on Power Business Permit”; (2) time is needed for SERC to examine and approve the voluminous applications of such power plants already in existence prior to the promulgation of the “Regulation on Power Business Permit”; and (3) time is needed for Our Power Plants to clarify with SERC the detailed requirements and procedures for the applications of the power business permit. Nevertheless, all Our Power Plants commenced their business operation after receiving the documentary notifications which are written permissions made of the relevant power grid companies on commencement of business operation of Our Power Plants.

The Company’s PRC legal adviser advised that according to the Regulations on the Administration of Power Business Permit 《電力業務許可證管理規定》, enterprises which have not obtained power business permit but conducted power generation business, the relevant income would be forfeited and the enterprises could be penalized for an amount up to five times of the relevant income. According to the Company’s representation and the Company’s PRC legal adviser’s physical meeting with Hangzhou office of the SERC which is the responsible authority for the relevant approvals, Regulations on Power Business Permit 《電力業務許可證管理規定》 was approved on 28 September 2005 and effective from 1 December 2005 and extensive and substantial procedures were required for SERC to review application documents and complete the approval process since then. The official of the Hangzhou office of the SERC has confirmed in such physical meeting that the relevant power plants of the Group have duly submitted all the required documents for approval

according to their instructions, and has further advised that enterprises which have duly completed filing of application documents according to their requests would not be penalized for their past acts. In addition, we have obtained a written confirmation from the Hangzhou office of the SERC that the authority has rectified and confirmed that Our Power Plants' act of power generation before obtaining the power business permit will not be penalised and the relevant income was considered legal. The Hangzhou office of the SERC is duly authorized by SERC to regulate the power industry in Zhejiang province. It is the supervisory authority of the power industry in Zhejiang province. Our Power Plants are all under its administration and supervision. There is no Zhejiang provincial office of SERC.

In light of the above and according to the PRC legal opinion, Our Power Plants have fulfilled the relevant legal obligations under the Regulations on the Administration of Power Business Permit 《電力業務許可證管理規定》 and accordingly the PRC legal advisers are of the understanding that the SERC of Hangzhou will not penalize Our Power Plants for generation of power before obtaining the power business permit.

In accordance with the Notice on Printing and Distributing the Policies for the Electricity System Reform 《國務院關於印發電力體制改革方案的通知》 promulgated by the State Council on 10 February 2002, the SERC is authorized by the State to perform its responsibility of electricity regulation, and the Hangzhou office of SERC is authorized by the SERC to regulate electricity business within the Zhejiang province, which shall be regarded in our case as representing SERC to exercise its authority provincially.

According to the relevant licenses, permits and certificates issued by the governmental authorities in relation to the operations of Our Power Plants, the PRC legal advisor of the Company, considers that the Company has complied with PRC laws and regulations in all material aspects and will not be penalized for any material misconduct.

To ensure our compliance with applicable laws and regulations, we will establish an internal audit department upon Listing which will be responsible for supervising the operations of all power plants within our Group. The internal audit department will comprise two members, including the internal audit department head and an assistant. The internal audit department head has the relevant internal audit experience for five years or above. The internal audit department will establish various internal policies, review material contracts and major capital expenditure and conduct periodic evaluations and inspections of each of our power plants. In addition, the internal audit department will update the management with any newly promulgated rules and regulations applicable to the Group. In the event that any non-compliance is identified, the internal audit department will request immediate rectification of such non-compliance. The Directors believe that through our internal audit and supervision, our Group could ensure due compliance with the applicable laws and regulations in the future.

We are not currently a defendant in any material litigation, claim, administrative action or arbitration, and we confirm, by making due inquiries, that there is no pending or threatened proceeding which we believe would have a material adverse effect on our operation or financial condition.

We were not subject to any material claims or losses from any serious machine breakdown, failure or substandard performance of equipment, improper installation or operation of equipment, labor disturbance, natural disaster, environmental hazard and industrial accident during the Track Record Period.

PROPERTIES

We own and lease real estate properties where our offices, dormitories and Our Power Plants are located in Hong Kong and the PRC.

Land Use Rights and Building Ownership Certificate

As of the Latest Practicable Date, we had obtained all relevant land use rights certificates for Our Power Plants. In addition, we have obtained all of the building ownership certificates of Our Power Plants.

For further details of the property interests owned and/or leased by our Group, please refer to “Appendix IV — Property Valuation” of this prospectus.