RISKS RELATING TO OUR BUSINESS AND INDUSTRY

Decline in the level of capital spending by power plants may adversely affect our profitability.

We are primarily a supplier of key heat transfer products designed to enhance energy efficiency. Demand for a number of our products, such as economiser products and waste heat recovery products (which collectively represented 97.1%, 94.3%, 66.5% and 55.9% of our revenue in 2006, 2007, 2008 and the five months ended May 31, 2009, respectively) depends significantly on the number of boilers being installed or replaced at power plants, particularly coal-fired power plants. Capital spending levels at power plants are affected by their current and expected profitability, which in turn are affected by a combination of electricity prices and prices of commodity products such as coal and oil as well as other types of fuel used by power plants. Both electricity prices and commodity fuel prices have been subject to significant volatility in recent years, affected by factors such as changes in the supply and demand, market uncertainty and regulatory control. In addition, trends in adoption and utilization of alternative fuel types that do not generate power through traditional power plants, such as wind energy, nuclear energy and solar energy, also affect electricity prices and commodity fuel prices. To the extent that increases in fuel cost at power plants are not passed on to their customers in the form of electricity price increases, profitability and capital spending levels at power plants may be reduced. A decrease in the capital spending levels by power plants may result in lower demand for our products and adversely affect our results of operations and financial condition.

It is difficult to evaluate our results of operations and future prospects due to our limited operating history in China.

Our manufacturing facilities are primarily located in China, and revenue from the PRC market accounted for 93.0%, 71.2%, 67.0% and 69.1% of our revenue in 2006, 2007, 2008 and the five months ended May 31, 2009, respectively. On a Pro Forma basis, our revenue from the PRC market accounted for 59.4% of our revenue for 2008. We began manufacture and supply of our products in China in 2003. Accordingly, we have a limited operating history in China from which you can evaluate our business and future prospects. Our revenue from the PRC market experienced significant growth in a relatively short period of time, increasing from RMB 176.5 million in 2006 to RMB 288.9 million in 2008, and RMB 186.2 million in the five months ended May 31, 2009. We may not be able to continue our growth at similar rates, if at all, because, among other reasons, we may not be able to expand our production capacity in future periods and our business model at higher volumes is unproven. As a result, our historical operating results may not provide a meaningful basis for evaluating our business, results of operations and financial condition. Accordingly, you should not rely on our results of operations for any prior periods as an indication of our future performance.

We depend on a limited number of customers.

Our customers primarily consist of major PRC and international boiler makers and system designers, as well as, for our marine products, shipyards. Aggregate revenue attributable to our five largest customers (including the Mega Smart businesses) represented approximately 95%, 94%, 54% and 61% of our revenue for 2006, 2007, 2008 and the five months ended May 31, 2009, respectively. Revenue attributable to Harbin Boiler, our largest customer during the Relevant Period, represented 69%, 43%, 22% and 25% of our revenue for the same period respectively. We cannot assure you that we will be able to maintain or improve our relationships with these customers, or that we will be able to continue to supply products to these customers at current levels or at all. In addition, any decline in our major customers' businesses could lead to a decline in purchase orders from these customers. If any of our key customers were to substantially reduce the size or amount of the orders they place with us or were to terminate their business relationship with us entirely, we cannot assure you that we would be able to obtain orders from other customers to replace any such lost sales on comparable terms or at all. If any of these relationships were to be so altered or terminated and we were unable to obtain sufficient replacement orders on comparable terms, our business, results of operations and financial condition would be materially and adversely affected.

We do not have long-term purchase contracts from our customers.

We do not have long-term purchase contracts from our customers, and generally only enter into sales or supply contracts on a order-by-order basis with them. Accordingly, the volume of our customers' purchases and our product mix may vary significantly from period to period, and it is difficult for us to forecast future order quantities. We cannot assure you that any of our customers will continue to place orders with us in the future at the same level as in the current or prior periods, or at all. Furthermore, the actual volume of our customers' purchases may prove to be inconsistent with our expectations at the time we plan our expenditures. As a result, our results of operations may vary from period to period and may fluctuate significantly in the future.

The global financial markets have experienced significant deterioration and volatility recently, which may adversely affect our business operations.

Certain recent adverse developments in the global financial markets have impacted the global economy. These developments include, among others, general slow-down of economic growth in China, the U.S. and elsewhere globally, substantial volatility and tightening of liquidity in financial and commodity markets. These developments have adversely affected our business and operating results in a number of respects. For example, the financial crisis has significantly affected the global shipping industry, which in turn affected the shipbuilding industry, which we depend on for our marine products business. Furthermore, the recent financial crisis has adversely affected a number of our and Mega Smart's operating results in 2008, including the average selling prices of our products, our gross margins, turnover days of trade receivables and turnover days of trade payables. See "Financial Information". It is difficult to predict how long the financial crisis will continue and which of our markets and businesses may be affected. However, if the crisis continues for an extended period of time, our business and operating results may be further adversely impacted. We may also experience an increase in interest expenses on our bank borrowings, or reduction of the amount of banking facilities currently available to us.

Fluctuations in steel prices may adversely affect our business.

Steel and steel-based components are the principal raw material for our products. We currently purchase a significant portion of steel and steel-based components in the PRC. The price of steel in the PRC has historically fluctuated significantly and may continue to fluctuate based on a variety of factors. The year-end levels of the China Steel Price Index rose from 94.2 in 2005 to 105.5 in 2006, 125.4 in 2007, continued to rise at the beginning of 2008 but ended the year with a decline to 103.3, according to China Steel Industrial Association. Although we generally seek to pass price increases in our raw materials to our customers, we cannot be successful in all cases. To the extent prices increases are not passed on, our cost of sales and profit margins will be adversely affected. If we are unable to manage our purchases of steel and steel-based components at prices acceptable to us, or if the prices of steel and steel-based components increase significantly and we are not able to pass on all or part of any such price increases to our customers, our profit margins may decrease and our results of operations would be materially and adversely affected.

We depend on a limited number of suppliers to meet our requirements.

Our operations depend on our ability to obtain adequate and quality supplies of steel-based component, which is our principal raw material. Because our products are subject to a variety of qualification standards, the quality requirements of our steel and steel-based components are high. We have sourced raw materials from a limited number of suppliers which are primarily distributors sourcing from qualified steel manufacturers. In 2006, 2007, 2008 and for the five months ended May 31, 2009, purchases from our largest five suppliers accounted for 70%, 84%, 72% and 33%, respectively, of our total raw material purchases on an actual historical basis. During the same period, our largest supplier accounted for approximately 28%, 69% (which was GPEL), 20% and 13%, respectively, of our total raw material purchases. If any of these suppliers fails to meet our quality standards or our quantity demands, our production, sales volume and results of operations may be adversely affected. Furthermore, we do not have any long-term arrangement with these suppliers that could provide us with a reliable supply of steel we need at pre-determined prices. If there is any supply shortage, we may not be able to deliver our products in a timely manner to our customers in the required quantities or at commercially acceptable prices, which in turn could result in order cancellations, decreased revenue and loss of market share.

Prolonged electricity shortages could adversely affect our business.

Substantially all of our manufacturing assets and operations are located in China. We have, from time to time, experienced power outages at our manufacturing facilities, some of which resulted in temporary disruptions of our operations. If we experience prolonged power outages or are required by the government to ration power for an extended period of time, our production volume may decrease and our results of operations may be adversely affected. If there is insufficient electricity supply to satisfy our requirements and accommodate our planned growth, we may be required to limit or delay our production or expansion plans. In addition, other than the business interruption insurance for our U.K. operations which covers increased costs of continuing operations, we do not have insurance coverage for business interruptions, including loss of profits from such interruptions. Any losses that may occur as a result of these types of events could adversely affect our financial condition and results of operations.

Our historical outstanding trade receivables and the turnover days of our trade receivables have been relatively high.

Historically, our outstanding trade receivables and the turnover days of our trade receivables have been relatively high. As of December 31, 2006, 2007, 2008 and May 31, 2009, our outstanding trade receivables less allowance for doubtful debts were RMB 100.6 million, RMB 93.3 million, RMB 282.7 million and RMB 269.2 million, respectively, and the turnover days of our trade receivables were 102 days, 105 days, 131 days and 132 days in 2006, 2007, 2008 and five months ended May 31, 2009, respectively. If calculated solely based on total revenue excluding revenue from related parties, which totaled RMB 176.5 million, RMB 162.9 million and RMB 390.8 million in 2006, 2007 and 2008, respectively, our turnover days of trade receivables would have been 110 days, 149 days and 145 days, for the respective period. Most of the sales or supply contracts with our customers require the customers to make payments to us in stages. For our sales to PRC customers, the last portion of generally 5% to 10% of the purchase price is generally withheld by the customers as retention money to be released after expiration of our warranty period, generally within one to three years after delivery and acceptance by our customers or one to three years after our products being installed by our customers. As of December 31, 2006, 2007, 2008 and May 31, 2009, retention money totaled RMB 28.7 million, RMB 32.4 million, RMB 34.4 million and RMB 48.0 million, respectively, or 28.5%, 34.7%, 12.2% and 17.8%, respectively, of the totaled outstanding trade receivables less allowance for doubtful debts as of those dates. Our allowance for doubtful debts provided amounted to nil, nil, RMB 1.7 million and RMB 3.7 million as of December 31, 2006, 2007, 2008 and May 31, 2009, respectively. See "Financial Information—Discussion of Our Statement of Financial Position Items—Trade and Other Receivables" for more information.

Delays in receiving payments from or non-payment by our customers may adversely affect our cash flow position and our ability to meet our working capital requirements. In addition, defaults in making payments to us on sales or supply contracts for which we have already incurred significant costs and expenditures can materially and adversely affect our results of operations and reduce our financial resources that would otherwise be available for other purchase orders. We historically have had a relatively a high customer concentration. As a result, any extended delay in payment by any major customer would have a material and adverse effect on the aging schedule and turnover days of our trade receivables. Our major customers' ability to pay may be impaired by a number of factors including, but not limited to, unfavorable market conditions for power generation industry, delayed commencement of operation of power plants by the plant operators due to various reasons including unfavorable economic conditions, operational hazards or natural disasters, and budget constraints resulting in delayed payments by power plants to our customers. The occurrence of any of the foregoing could affect our customers' ability to make timely payments. Inability to collect our trade receivables on a timely basis could materially and adversely affect our financial condition, liquidity and results of operations. We cannot assure you that our customers will make payment in full to us on a timely basis or that we will be able to efficiently manage the level of bad debt arising from receipt of payments in stages.

Our backlog may not be indicative of our future results of operations.

In this document, we have provided the contract backlog amounts, which represent that portion of the contract value as of a specified date whose associated revenue has not been recognized. However, these amounts are based on the assumption that the relevant contracts will be performed in full in accordance with their terms.

Under some of our contracts, our customers have the right to terminate or cancel the contracts without cause, and to compensate us for value calculated based on our costs or in accordance with pre-defined schedule. In some cases, we are entitled to reasonable profit associated with the incurred costs, but not exceeding the value of the contracts. In addition, some of our customers have the right to modify, terminate or cancel the contracts for any default committed by us. In 2007 and 2008, some of our customers for marine products were affected by the recent financial crisis and the downturn in the shipbuilding and shipping industries. Some of our contracts with these customers were cancelled as a result. Other than the foregoing, we have not experienced material modifications, terminations or cancellations of our contracts by our customers. However, we cannot assure you that we will not be subject to any material modifications, terminations or cancellations of our contracts by our customers which would have a material and adverse effect on our businesses and results of operations. There also can be no assurance that our raw material procurement, products engineering and manufacture or delivery process will be completed without any delay or defect due to reasons beyond our control. Additionally, we cannot guarantee that the amount estimated in our backlog will be realized in a timely fashion, or at all, or that, even if they are realized, will result in profits. As a result, readers are cautioned not to rely on our backlog information presented in this document as an indicator of our future earnings.

Loss of or failure to renew our material manufacturing license and certificates could materially and adversely affect our business.

We have been granted various manufacturing licenses or certificates regarding our products by certain governmental authorities or accreditation agencies, which permit us to manufacture or supply certain products in certain jurisdictions, or certify the satisfaction of the relevant quality standard by our products. See “Business—Manufacturing and Quality Assurance—Quality Certifications”. We consider these licenses and certificates critical to our operations. Many of these licenses and certificates must be renewed periodically. During the examination process for the application and renewal of such licenses or certificates, the examination or accreditation agencies may send their technical staff to audit our manufacturing facilities and our production management. In the event that we do not obtain or renew any such licenses or certificates, our ability to market our products may be adversely affected, and our sales or supply volume may be reduced. As a result, our business, financial condition and results of operations may be materially and adversely affected.

We cannot assure you that our products will pass the qualification process of potential customers.

Most of our major customers require us to first pass a qualification process before we can become a supplier of our products to that customer. We cannot assure you that we will be able to pass such qualification process for new products from our existing customers or necessary approvals for our products from any new customers. Even if we can ultimately pass such qualification process we cannot assure you that such approvals can be obtained in a timely manner. Furthermore, a number of our major customers perform audit periodically on our Company, during which they review our systems and procedures for the various stages of our manufacture process. We cannot assure you that we will be able to continue to pass such audits without incurrence of material expenses to implement corrective measures, or in a timely manner, or at all. In addition, even if we become an approved supplier of a company, it does not necessarily mean that we will receive purchase orders from that company. If we fail to become an approved supplier of our potential customers, or if we are unable to obtain or maintain such approval in a timely manner or without incurrence of material expenses to implement corrective measures, we may not be able to execute our expansion plans and our business prospects and results of operations may be materially and adversely affected.

Failure to maintain a safety performance standard that is acceptable to our customers could result in the loss of future business.

A number of our customers set safety performance standards for their suppliers that are more stringent than the minimum required by applicable laws. A number of our customers require us to maintain safety performance records for our manufacturing facilities, products and service offerings. Some of our customers have set safety performance criteria that potential suppliers must meet in order to become and remain one of their suppliers. If we fail to meet a customer’s safety performance requirements, we may be required to incur additional expenses to implement corrective measures, or even be removed from that customer's supplier list and precluded from providing products or services to that customer.

We cannot assure you that we will be able to effectively manage our planned expansion in production capacity.

Further expansion of production capacity is a key aspect of our growth strategy. Our planned expansion requires us to identify suitable locations that are in close proximity to raw material sources or transportation networks. Even if we successfully identify suitable locations, we may be unable to expand our business if we cannot compete effectively in the market. In addition, we may not have the necessary management or financial resources to oversee the successful and timely construction of new production facilities or expansion of existing facilities. Our expansion plans could also be affected by construction delays, cost overruns, failures or delays in obtaining government approvals of necessary permits and our inability to secure the necessary production equipment. Furthermore, to effectively manage our planned expansion, we must improve our operational and financial systems and procedures and system of internal control.

We cannot assure you that we will be able to effectively manage our planned expansion or achieve our expansion plans in production capacity at all. If we are unable to do so, we may not be able to take advantage of market opportunities, execute our business strategies or respond to competitive pressures, any of which could materially and adversely affect our business, results of operations and financial condition.

We cannot assure you that we will be able to obtain adequate financing to fund our capital requirements.

We expect that over the next several years, a substantial portion of our cash flow will be used to finance the expansion of our production capacities, the construction of a number of waste heat power generation projects, and our wind turbine towers manufacturing businesses. We may need to incur additional financing in order to fund our capital expenditures. We cannot assure you that we will be successful in obtaining such financing at a reasonable cost or at all. Our inability to finance our planned capital expenditures could adversely affect our business, financial condition, results of operations or liquidity position.

We face certain risks associated with the geographical expansion of our sales.

As part of our strategy, we intend to enhance our international sales network, including in India, Singapore, the United States and Brazil. We face certain risks in our efforts to expand and maintain our business in international markets, including:

- cultural differences and other difficulties in staffing and managing international operations;
- inherent difficulties and delays in contract enforcement and collection of receivables through the use of foreign legal systems;
- volatility in currency exchange rates;
- the risk that foreign countries may impose withholding taxes (or otherwise tax our foreign income or place restrictions on repatriation of profit);
- the risk of barriers, such as anti-dumping and other tariffs or other restrictions being imposed on foreign trade;
- changes in the political, regulatory, or economic conditions in a foreign country or region; and
- the burden of complying with foreign laws and regulations.

If we are unable to manage these risks effectively, our ability to expand our international business would be impaired, which may in turn materially and adversely affect our business, financial condition, results of operations and prospects.

If we are unable to attract and retain members of our senior management team and other skilled personnel, our operations could be disrupted and the growth of our business could be delayed or restricted.

Our success depends on the continued service of our key executive officers, particularly Mr. Ellis, Mr. Xie and Ms. Chen. We do not carry key person insurance on any of our personnel. Although we have implemented succession plans in case we lose the services of some of our key executive officers, we cannot assure you that we will appoint or integrate adequate replacement personnel into our operations in a timely manner, the failure of which may in turn disrupt our operations and the growth of our business.

Our success also depends upon our ability to recruit and retain technical personnel with the ability to design, manufacture, sell and enhance our products. We have invested significant resources in training our technical personnel, and we expect to increase our outlays to expand our business. Currently, the demand for skilled workers in China is high, and supply is limited. As a result, there is significant upward pressure on labor wages in China. Significant increases in wages paid by competing employers could result in a reduction of our skilled labor force, and increases in the wage rates that we must pay. If any such events were to occur, our cost structure may increase and our growth potential may be impaired which in turn could have a material adverse effect on our business, financial condition and results of operations.

We may be unable to prevent possible resale or transfer of our products to countries, governments, entities, or persons targeted by United States economic sanctions.

OFAC and the Bureau of Industry and Security, or BIS, of the U.S. Department of Commerce administer certain laws and regulations, or U.S. Economic Sanctions Laws, that impose restrictions upon U.S. persons and, in some instances, foreign entities owned or controlled by U.S. persons, with respect to activities or transactions with certain countries, governments, entities and individuals that are the subject of U.S. Economic Sanctions Laws, or Sanctions Targets. U.S. persons are also generally prohibited from facilitating such activities or transactions.

Historically, we have sold products to Cuba, a Sanctions Target. As of June 9, 2009, our outstanding obligations on sales to Cuba consisted of RMB 3.9 million in accounts receivable and outstanding warranty obligations which we expect to terminate prior to March 2011. As of September 30, 2009, our accounts receivable on sales to Cuba was nil. See “Business—Sales and Marketing—Activities Subject to U.S. Economic Sanctions Laws”. In the future, we will seek to prevent sales of our products, directly and indirectly through distributors, to Sanctions Targets, including Cuba. However, we cannot assure you that our measures will be effective in preventing all sales of our products to Sanctions Targets in the future.

Failure to protect our intellectual property rights may materially and adversely affect our competitive position and operations and we may be exposed to infringement or misappropriation claims by third parties.

Our success is in part attributable to the intellectual properties that we have developed or acquired. See “Business—Intellectual Properties”. We rely on a combination of trademarks and contractual rights to protect our intellectual property rights. There can be no assurance that the steps we have taken to protect our intellectual property rights are adequate to prevent or deter infringement or other misappropriation of our intellectual property. Any significant infringement of our proprietary technologies and processes could weaken our competitive position and have an adverse effect on our operations. To protect our intellectual property rights, we may have to commence legal proceedings against any misappropriation or infringement. However, there can be no assurance that we will prevail in such proceedings. In addition, certain intellectual properties used by us, including those acquired as a part of our Reorganization, cannot be registered. As such, while we have taken reasonable precautions to ensure that we have acquired valid title to intellectual property necessary for our business, we cannot assure you that such precautions are effective and we could be subject to third party challenges in relation to such intellectual properties as a result. We may be subject to litigation or other proceedings involving the violations of intellectual property rights of third parties. The defense of such litigation or other proceedings can be both costly and time-consuming. An adverse determination in any such litigation or proceedings to which we may become a party could materially and adversely affect our business, financial condition or results of operations.

We face certain risks relating to the real properties that we own, use or lease.

We have a number of title defects relating to the real properties that we own, use or lease. We have not obtained the approvals from relevant PRC governmental authorities to commence construction on a portion of the construction project at our GPEL Xieqiao plant and the construction project at our Xinjiang Project. We commenced operation at certain properties of our GPEL Xieqiao plant after construction was completed but prior to the relevant properties being inspected and accepted by relevant governmental authorities. In addition, we lease from a third party a parcel of land, and the lessor did not hold the title certificate for the granted land use right for the leased land. We also leased from third parties certain properties on which the lessors did not hold building ownership certificates. We also have not registered certain lease agreements with relevant PRC governmental authorities. See "Business—Manufacturing Facilities and Real Properties—Real Properties".

As a result of these defects with respect to the properties we own, use or lease, we face number of title related risks. We cannot assure you that we will not be subject to any challenges, lawsuits or other actions taken against us with respect to the properties owned, used or leased by us with which we or relevant lessors do not hold valid titles certificates or construction commencement permits. If any of the properties we owned or leased were successfully challenged, or any lease is expired without renewal, we may be forced to relocate the affected operations. If we fail to find suitable replacement sites on terms acceptable to us for a significant number of the affected operations, or if we are subject to any material liability resulting from third parties' challenges for our ownership usage or lease of properties with which we or our lessors do not hold valid titles or construction commencement permits, our business, financial condition and results of operations could be materially and adversely affected by any lawsuits or actions unfavorably decided or resolved against us.

Our products may contain undetected flaws or defects. Our business and reputation may be affected by product liability claims, litigation, complaints or adverse publicity in relation to our products.

Our products may contain latent defects or flaws. Although we test our products prior to delivery, our products may contain flaws that are not detected prior to delivery to our customers. Some flaws in our products may only be discovered after a product has been installed and used by customers. Any flaws or defects discovered in our products could result in delay in payment collection, increase in service or warranty cost, loss of revenue or loss of customers, any of which could adversely affect our business, operating results and financial condition. If our products do not meet the specifications and requirements agreed with or requested by our customers, or if any of our products are defective, or result in our customer's financial losses or personal injuries, we may be subject to product liability claims and other claims for compensation. Although we maintain product liability insurance that we consider customary for our industry and our operations, we may still be subject to losses resulted from the risks that are not covered by the insurance we currently carry on. We may be subject to product liability claims and litigation and may incur significant legal costs regardless of the outcome of any claim of alleged defect. Products failure or defects, and any complaints or negative publicity resulting therefrom, could result in decreased sales or supply of these or other products. As a result, if we face any product liability claims or litigations, our business, financial condition and results of operations may be materially and adversely affected.

The manufacturing processes for our products involve risks and occupational hazards.

Our business operations, particularly our manufacturing and power generation activities, involve risks and occupational hazards that are inherent to the industry and which may not be completely eliminated through the implementation of preventive measures. These risks could result in personal injury, damage to or destruction of properties or production facilities, environmental damage, business interruption, legal liability, damage to our business reputation and corporate image, and fatalities. Although we maintain insurance coverage to the extent we believe is customary in our industry, our business, financial condition and results of operations may be materially and adversely affected if we incur any loss which is not covered by our insurance policies or if the amount of such loss exceeds the aggregate amount of our insurance coverage.

If disruptions in our transportation network occur or our transportation costs substantially increase, we may be unable to deliver our products in a timely manner and our costs of revenues could increase.

We are highly dependent upon the transportation systems we use to ship our products, including train, truck and ocean shipping. The transportation network is potentially exposed to disruption from a variety of causes, including labor disputes or port strikes, acts of war or terrorism and natural disasters. If our delivery times increase unexpectedly for these or any other reasons, our ability to deliver products on time could be materially and adversely affected and result in delayed or lost revenue.

The industry in which we operate is highly competitive, and a further increase in competition or productivity by our competitors may affect our market share and profit margins.

Our industry is highly competitive, with a number of international and PRC competitors. See “Industry Overview”, “Business—Competition” and “Appendix V—Independent Industry Report on the Global Boiler Industry” for further information on our competitors. Some of our potential competitors have longer operating histories than ours, stronger relationships with their customers, greater brand recognition, or greater financial, technical, marketing and public relations resources than we have, and, as a result, they may be able to acquire some of our customers. Our market share could be reduced if our competitors develop any new technology or new products, or offer products that are comparable or superior to ours at a lower price. Increased competition in the future could result in price reductions, reduced margins, or other strains on our operations. If our competitors offer better quality products, services, or better pricing, then our revenue, market share, and results of operations could be materially and adversely affected.

The modification or elimination of government initiatives promoting environmental protection in China and elsewhere could cause demand for our products and services and our revenues to decline.

We primarily supply heat transfer products and solutions designed to enhance energy efficiency. Recently, we have begun efforts to diversify into other alternative energy areas, such as waste heat power generation and wind power equipment. Accordingly, we have benefited significantly from government policies and initiatives in China and around the world intended to promote environmental protection. If these government policies and initiatives are modified or eliminated in our key markets such as China, the demand for our products and services may decrease and our revenue may also decline as a result.

We are required to comply with various environmental, safety and health laws and regulations which are extensive and the compliance of which may be onerous or expensive.

As part of our business operation, we are required to comply with various and extensive environmental as well as health and safety laws and regulations promulgated by the PRC and the U.K. governments and governments of other overseas jurisdictions in which we operate. If we fail to comply with these laws and regulations, we could be exposed to penalties, fines, suspension or revocation of our licenses or permits to conduct business, administrative proceedings and litigation. In light of the magnitude and complexity of these laws and regulations, compliance with them or the establishment of effective monitoring systems may be onerous or require a significant amount of financial and other resources. As these laws and regulations continue to evolve, there can be no assurance that the PRC and the U.K. governments or the governments of other overseas jurisdictions in which we have operations will not impose additional or more onerous laws or regulations, compliance with which may cause us to incur significantly increased costs, which we may not be able to pass on to our customers.

We may not maintain sufficient insurance coverage for the risks associated with our business operations.

Risks associated with our businesses and operations include but not limited to damage to production facilities, environmental pollution, transportation damages and delays, business interruption due to power shortage, industrial damages, product liabilities, losses of key personnel and risks posed by natural disasters, any or all of which may result in significant losses to us. Currently, we have maintained insurance coverage we consider necessary and sufficient for our operations and customary for the industry in which we operate. We cannot assure you that our insurance coverage is sufficient to cover any losses to be sustained by us, or that we can successfully claim our losses under our existing insurance policy on a timely basis or at all. If we incur any loss which is not covered by our insurance policies, or the compensated amount is significantly less than our actual loss, our financial condition and results of operations could be materially and adversely affected.

We are subject to risks in our expansion efforts into waste heat power generation and wind turbine tower manufacturing businesses.

We have recently diversified into waste heat power generation and wind turbine towers manufacturing businesses. Our waste heat power plant, the Xinjiang Project, began generating power in July 2009, and our joint venture to manufacture wind turbine towers, Tongliao Greens, is expected to commence operation by the end of 2009. We intend to continue to explore strategic alliance with respect to the waste heat power generation business, and acquisition opportunities in these businesses. We have no prior experience in managing power plants, and as a result, our expansion into this area exposes us to a number of risks. In particular, we cannot assure you that our power plants will generate sufficient electricity for the power plants to be profitable, or that our power plants will receive sufficient waste heat from our partners to generate electricity. In addition, we cannot assure you that the current pricing policies on the electricity generated by our power plants will continue and that the electricity price will not decline. Our relative inexperience in manufacturing and selling wind turbine towers subjects us to the risk that we will not be profitable in this business due to, among other reasons, our inability to meet the product demands of our customers and our failure in managing our cost structure. Furthermore, our business model of entering into joint venture partnerships or using build-operate-transfer, or BOT model, is unproven. If the relationship with our partners deteriorates as a result of our disagreement with our partners or other reasons, our operations in these areas may be disrupted, which in turn would adversely affect our operating results.

The construction of waste heat power plants are subject to risks which could give rise to delays or cost overruns.

The construction of waste heat power plants requires significant capital expenditure. The schedule and cost of construction may be adversely affected by factors commonly associated with the construction of infrastructure projects, many of which are beyond our control, including:

- shortages of equipment, materials or labor;
- work stoppages and labor disputes;
- weather conditions, natural disasters and accidents;
- unforeseen engineering, design, environmental or geological problems;
- delays in receiving requisite approvals, licenses or permits; and
- unanticipated cost increases.

Any of the above factors could give rise to delays or cost overruns. We cannot assure you that the planned capital expenditures would be sufficient for the construction of the plants, or that we would be able to allocate sufficient further capital resources for any increase in construction costs to meet our requirements. Any failure to complete the construction or the occurrence of the construction delay for our power plants would result in loss or delayed receipt of revenues, increase in financing costs, or failure to meet profit and earnings projections, which would in turn materially and adversely affect our results of operation.

An occurrence of a widespread health epidemics and other outbreaks could have a material adverse effect on our results of operations.

Our business could be adversely affected by the effects of Influenza A virus subtype H1N1 (or A(H1N1)), Severe Acute Respiratory Syndrome, avian influenza or other epidemic or outbreak on the economic and business climate. Most recently, more than 15,000 cases of detected human cases of A(H1N1) were reported in China and 65 other countries in the world as of June 1, 2009. A prolonged outbreak of A(H1N1), or any recurrence of SARS, avian influenza or other adverse public health developments in China or else in the world could have a material adverse effect on our business operations. These could include our ability to travel or ship our products outside of China, as well as temporary closure of our operating facilities. Such closures or travel or shipment restrictions would severely disrupt our business operations and adversely affect our results of operations. Our business operations could be disrupted if one of our employees is suspected of having SARS, avian influenza or A(H1N1), since it could require us to quarantine some or all of our employees and/or disinfect our facilities. In addition, our results of operations could be adversely affected to the extent that SARS, avian influenza, A(H1N1) or other outbreak harms the global economy in general.

RISKS RELATING TO THE PRC

Adverse changes in China's economic, political, and social conditions, as well as governmental policies could have a material adverse effect on China's overall economic growth, which in turn, could materially and adversely affect our business, financial condition and results of operations.

The Chinese economy differs from the economies of most developed countries in many respects, including: (i) structure; (ii) level of governmental involvement; (iii) level of development; (iv) growth rate; (v) control of foreign exchange and capital flows; and (vi) allocation of resources. The Chinese economy is in transition from a planned economy to a market economy. For the past three decades, the PRC government has implemented economic reform measures, emphasizing the utilization of market forces in the development of the Chinese economy. The PRC economy has grown significantly in recent years. However, we cannot assure you that such growth will continue. In response to the global economic slow-down and market volatility, as described in "Risks Relating to Our Business and Industry—The global financial markets have experienced significant deterioration and volatility recently, which have had negative impact on the global economy and, as a result, may adversely affect our business operations", the PRC government has lowered interest rates and announced large fiscal stimulus packages to boost the domestic economy, which include RMB 4.0 trillion investments in, among other things, airports, highways, railways, power grids and other infrastructure developments, the effects of which cannot yet be fully determined. Any adverse change in China's economic, political and social conditions, as well as governmental policies could have a material adverse effect on China's overall economic growth, which in turn could materially and adversely affect our business, financial condition and results of operations.

Restrictions on foreign exchange may adversely affect our ability to remit dividends and our results of operations and financial condition.

Recent foreign exchange regulations have significantly reduced the PRC Government's foreign exchange controls on routine transactions under the current account, including trade-and service-related foreign exchange transactions and payment of dividends. Under the existing foreign exchange regulations in the PRC, each of our subsidiaries incorporated in the PRC is able to pay dividends in foreign currencies, without prior approval from SAFE, by complying with certain procedural requirements. There can be no assurance that these foreign exchange regulations regarding payment of dividends in foreign currencies will continue in the future. In addition, foreign exchange transactions by our PRC subsidiaries under most capital accounts continue to be subject to significant foreign exchange controls and require the approval of, or registration with, PRC governmental authorities. In particular, if our PRC subsidiaries borrow foreign currency loans from us or other foreign lenders, these loans must be registered with the SAFE, and if we finance it by means of additional capital contributions, these capital contributions must be approved or registered by certain government authorities including the SAFE, the MOFCOM or their local counterparts. These limitations could affect the ability of our PRC subsidiaries to obtain foreign exchange in China, and could affect our business and financial condition.

Fluctuations in exchange rate may have a material adverse effect on our business.

We manufacture our products primarily in the PRC and incur costs mainly in Renminbi. After our Reorganization, we also include significant costs denominated in GBP. Renminbi is the functional currency and presentation currency for our financial statements. However, a significant portion of our revenue is derived from overseas markets, which are denominated in foreign currencies, including U.S. dollars, GBP, and the Euro. In 2006, 2007 and 2008, and the five months ended May 31, 2009, revenue denominated in foreign currencies accounted for approximately 7.0%, 28.8%, 33.0% and 30.9% of our revenue, respectively. Our receivables and payables are also primarily denominated in these currencies. As a result, we are exposed to foreign exchange fluctuations between the Renminbi and these other currencies as well as among the non-Renminbi currencies. The conversion of Renminbi into foreign currencies, including the U.S. dollar, has been based on rates set by the People’s Bank of China. On July 21, 2005, the PRC government changed its decade-old policy of pegging the value of the Renminbi to the U.S. dollar. Under this policy, the Renminbi is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. This change in policy has resulted in an approximately 21.1% appreciation of the Renminbi against the U.S. dollar and 31.1% against the GBP from July 21, 2005 to May 31, 2009. There remains significant international pressure on the PRC government to adopt an even more flexible currency policy, which could result in a further and more significant appreciation of the Renminbi against these currencies. Further appreciation of the Renminbi may cause our exported products to be relatively more expensive than those of our competitors, which could have an adverse impact on our overseas sales and may cause imported products, which compete with our products, to be relatively less expensive for Chinese customers. This could have a material adverse effect on our business, financial condition, and results of operations. Conversely, any depreciation of the Renminbi would adversely affect the value of any dividends payable on the Shares by us in foreign currency terms.

There are only limited hedging transactions available in the PRC to reduce our exposure to exchange rate fluctuations. To reduce our foreign exchange risk exposure to the Renminbi, we recently entered into a series of forward transactions on, among other currencies, the Renminbi, U.S. dollar and Euro. The availability and effectiveness of these transactions may be limited and we may not be able to successfully hedge our exposure at all. In addition, our foreign currency exchange losses may be magnified by PRC exchange control regulations that restrict our ability to convert Renminbi into foreign currencies because the regulations would limit our ability to hedge our exposure to foreign currency exchange losses.

Failure to comply with the SAFE regulations relating to registration of interests by our PRC resident beneficial owners may adversely affect our business operations.

On October 21, 2005, SAFE issued the “State Administration of Foreign Exchange’s Notice on Relevant Issues Concerning Foreign Exchange Administration for PRC Residents to Engage in Financing and Round-trip Investment via Special Purpose Offshore Companies” (Hui Fa [2005] No. 75) (《關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知》 (匯發[2005]75號)), or Notice No.75, a public notice which became effective on November 1, 2005. The Notice No.75 requires PRC residents to register with the local SAFE branch before directly establishing or indirectly controlling any company, referred to in the notice as a “special purpose offshore company”, outside of the PRC for the purpose of capital financing with assets or equity interest in an onshore enterprise in the PRC, and to go through the modification registration procedures after completing an investment in or acquisition of any operating subsidiaries in the PRC via the special purpose offshore company, which we refer to herein as a “round-trip investment”. In addition, any change of shareholding or any other material capital alternation in such special purpose offshore company not involving a round-trip investment, such as a change in share capital or merger and acquisition, must be filed or registered within 30 days from the date of change. The relevant SAFE’s regulations apply retrospectively to registration of direct or indirect investments made by PRC residents in special purpose offshore companies before the Notice No.75 came into effect.

On May 29, 2007, the SAFE promulgated the “Operational Rules for the State Administration of Foreign Exchange’s Notice on Relevant Issues Concerning Foreign Exchange Administration for PRC Residents to Engage in Financing and Round-trip Investment via Special Purpose Offshore Companies” (Hui Zong Fa [2007] No. 106) (《國家外匯管理局綜合司關於印發<國家外匯管理局關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知>操作規程的通知》 (匯綜發[2007]106號)), or the Notice No. 106, which further clarifies the implementation and application of the Notice No. 75 and specifies the procedures of the SAFE registrations as required. In accordance with the Notice No. 106, the provisions in the Notice No. 75 on the SAFE registration of direct establishment of the special purpose offshore companies also applies to the round-trip investment by the PRC residents who hold the minority equity interest without controlling the special purpose offshore companies.

In the event that a PRC resident with a direct or indirect stake in a special purpose offshore company fails to make the required SAFE registration, the PRC subsidiaries of such special purpose offshore company may be prohibited from distributing their profits to their offshore parent and from paying the offshore parent proceeds from any reduction in capital, share transfer or liquidation in respect of the PRC subsidiaries, and the offshore parent's ability to contribute additional capital or provide loans, would be impaired. In addition, failure to comply with SAFE registration requirements as described above may also result in liability under PRC laws for evasion of applicable foreign exchange restrictions.

These regulations apply to the beneficial owners of our Company who are PRC residents. We have notified our beneficial owners whom we know are PRC residents to register with the local SAFE branch and update their registrations from time to time as required under the SAFE regulations described above. We are aware that our beneficial owners whom we know as PRC residents have registered with the relevant local SAFE branch. We, however, cannot provide any assurances that any or all of our beneficial owners who are PRC residents will continue to comply with relevant SAFE regulations. Any failure or inability of our PRC resident beneficial owners to comply with the registration procedures may subject such PRC resident beneficial owners to certain fines and legal sanctions, may restrict our cross-border investment activities, or limit our PRC subsidiaries' ability to distribute dividends or obtain foreign exchange-dominated loans to our company.

The payment of dividends by our operating subsidiaries in China is subject to restrictions under PRC law.

We are a holding company established in the Cayman Islands and we operate our core business through our subsidiaries in China and U.K. PRC laws require that dividends be paid only out of net profit, calculated according to PRC accounting principles, which differ in many aspects from generally accepted accounting principles in other jurisdictions, including IFRS and U.S. GAAP. PRC laws require foreign invested enterprises, including all of our subsidiaries in China, to set aside part of their net profit as statutory reserves. These statutory reserves are not available for distribution as cash dividends. Since the availability of funds to pay dividends to our shareholders and to service our indebtedness depends upon dividends received from these subsidiaries, any restrictions on the availability and usage of our major source of funding may impact our ability to pay dividends to our shareholders and to service our indebtedness.

Any change in the preferential tax treatment we currently enjoy in the PRC may have an adverse impact on our results of operations.

On March 16, 2007, the National People's Congress passed a new Enterprise Income Tax Law. The Enterprise Income Tax Law, or EIT Law, which became effective on January 1, 2008 replaced the previous two separate tax legal regimes for foreign-invested enterprises and Chinese domestic companies and imposes a single uniform income tax rate of 25% for all enterprises, including foreign-invested enterprises, unless they qualify under certain exceptions. Although the EIT Law revokes many of the previous tax exemption, reduction and preferential treatments which were applicable to foreign-invested enterprises, it contemplates various transition periods and measures for previous preferential tax policies. Enterprises which were established before the promulgation of the EIT Law and were previously entitled to a lower income tax rate will be entitled to a grace period of 5 years, and enterprises which were entitled to the fixed-term preferential tax exemption or reduction will continue to enjoy such preferential treatment until the expiration of the specified terms, except that the relevant exemption or reduction shall start from January 2008 if the first profitable year for the relevant enterprise is later than January 1, 2008. Some of our subsidiaries in China, SGME, GPEL and SGTE, are foreign-invested companies incorporated prior to March 16, 2007. SGME was exempted from the income tax from 2005 to 2006, was entitled to a preferential income tax rate of 16.5% in 2007, and is subject to a reduced income tax rate of 12.5% from 2008 to 2009. GPEL was exempted from the income tax from 2007 to 2008, and are entitled to a preferential income tax rate of 12.5% from 2009 to 2011. SGTE was exempted from the income tax from 2004 to 2005, was subject to a preferential income tax rate of 13.5% from 2006 to 2007, and was entitled to a preferential income tax rate of 12.5% for 2008. We expect that our tax payment will increase in 2009 and will further increase following the expiry of the above preferential tax treatment in 2012.

Moreover, the EIT Law provides a withholding tax rate of 20% which will be applicable to dividends payable by foreign-invested enterprise to its foreign investors that are "non-PRC resident enterprise" without any establishment or place within China or if the dividends payable have no connection with the establishment or place of the foreign investors in the PRC unless the jurisdiction of such foreign investors has a tax treaty with China that provides a different withholding arrangement. The Implementation Rules of the Enterprise Income Tax Law, which was promulgated on December 6, 2007, subsequently reduced this withholding income tax rate from 20% to 10%. The State Administration of Taxation and Minister of Finance jointly issued the Notice on Several EIT Preferential Treatments on February 22, 2008, which further clarifies that dividends distributed to foreign investors out of the profits of a foreign-invested company generated before January 1, 2008 are still exempt from withholding tax even if they are paid after January 1, 2008.

Under the EIT Law, if any enterprise incorporated outside the PRC has its "actual management organization" located within the PRC, such enterprise may be recognized as a PRC tax resident enterprise and be subject to the unified enterprise income tax rate of 25% on their global income. The Implementation Rules of the Enterprise Income Tax Law defined the "actual management organization" as an organization actually managing and controlling an enterprise's production, operation, personnel, finance and assets. If the PRC tax authorities determine that our overseas holding companies are "PRC resident enterprises" for PRC enterprise income tax purposes, a number of unfavorable PRC tax consequences could follow. Firstly, we may be subject to enterprise income tax at a rate of 25% on our global taxable income as well as PRC enterprise income tax reporting obligations. Secondly, although under the EIT Law and its Implementing Rules, dividends income between qualified PRC resident enterprises is tax-exempted, it is not clear how the qualified PRC resident enterprise is defined under the EIT Law. Finally, if dividends we pay to our non-PRC shareholders and gains derived by our non-PRC shareholders from transferring our shares are treated by the PRC taxation authorities as income derived from sources within the PRC, such dividends and gains may be subject to a 10% withholding tax unless the jurisdiction of such non-PRC shareholders has a tax treaty with China that provides a different withholding arrangement, provided that the non-PRC shareholders are "non PRC resident enterprises" without any establishment or place within China or that such dividends or gains have no connection with the establishment or place of the non-PRC shareholders in the PRC.

A slow-down of the PRC economy could adversely affect our business, results of operations and growth prospects.

Our revenue from the PRC market accounted for 93.0%, 71.2%, 67.0% and 69.1% of our revenues in 2006, 2007, 2008 and five months ended May 31, 2009, respectively. The success of our business depends, in significant part, on the growth of the PRC economy and the resultant demand for our products. A slow-down of the PRC economy could adversely affect our businesses, results of operations and growth prospects. In recent periods, the growth of the PRC economy has slowed down significantly, affected by the ongoing global financial crisis. According to China's National Bureau of Statistics, China's GDP grew at an annual rate of 11.1%, 13.0%, 9.0% and 6.1% in 2006, 2007, 2008, and for the first quarter of 2009, respectively. The slow-down in China's economic growth may reduce demand for our products, which could have a material and adverse effect on our financial condition and results of operations.

There are uncertainties regarding the interpretation and enforcement of PRC laws and regulations.

The PRC legal system is based on written statutes. Unlike common law systems, it is a system in which decided legal cases have little value as precedents in subsequent legal proceedings. In 1979, the PRC government began to promulgate a comprehensive system of laws and regulations governing economic matters in general, and forms of foreign investment (including wholly foreign-owned enterprises and joint ventures) in particular. These laws, regulations and legal requirements are relatively new and are often changing, and their interpretation and enforcement involve significant uncertainties that could limit the reliability of the legal protections available to us. We cannot predict the effects of future developments in the PRC legal system. We may be required in the future to procure additional permits, authorizations and approvals for our existing and future operations, which may not be obtainable in a timely fashion or at all. An inability to obtain such permits or authorizations may have a material adverse affect on our business, financial condition and results of operations.

It may be difficult to serve process within the PRC or to enforce any judgments obtained from non-PRC courts against us or our Directors.

Most of our operating subsidiaries are incorporated in the PRC, two of our Executive Directors currently reside within the PRC, and a substantial portion of our assets are located within the PRC. The PRC does not currently have treaties providing for the reciprocal recognition or enforcement of judgments of courts located in the United States, the United Kingdom, Singapore, Japan and most other western countries. An Arrangement between China and Hong Kong Special Administrative Region on Reciprocal Recognition and Enforcement of Judgments of Civil and Commercial Cases under the Jurisdictions as Agreed to by the Parties Concerned was executed on July 14, 2006. However, there are many restrictions on such arrangement. As a result, it may not be possible to effect service of process upon our subsidiaries or our Directors pursuant to the authority of non-PRC courts. Further, the recognition and enforcement in the PRC of judgments of courts outside the PRC might be difficult or impossible.

The implementation of the PRC Labor Contract Law and the Implementation Regulation for the PRC Labor Contract Law may increase our operating expenses and may adversely affect our business and results of operations.

On June 29, 2007, the PRC National People's Congress enacted the PRC Labor Contract Law, or the Labor Contract Law, which became effective on January 1, 2008. The Implementation Regulation for the PRC Labor Contract Law, or the Implementation Regulation, was promulgated by the State Council and took effect on September 18, 2008. The Labor Contract Law formalizes, among others, worker's rights concerning overtime hours, pensions and layoffs, the execution, performance, modification and termination of the labor contracts, the clauses of the labor contract and the role of trade unions herein. In particular, it provides for specific standard and procedures for entering into non-fixed-term labor contracts as some of our employees do. Either the employer or the employee is entitled to terminate the labor contract in circumstances as prescribed in the Labor Contract Law or if certain precondition is fulfilled, and in certain cases, the employer is required to pay a statutory severance upon the termination of the labor contract pursuant to the standards provided by the Labor Contract Law.

As the Labor Contract Law and its Implementation Regulation have been enforced for only a very short period by now, substantial uncertainty remains as to its potential impact on our business and results of operations. The implementation of the Labor Contract Law and the Implementation Regulation may increase our operating expenses, in particular our costs of human resources and our administrative expenses. In the event that we decide to significantly modify our employment or labor policy or practice, or reduce the number of our employees or otherwise, the Labor Contract Law may also limit our ability to effectuate the modifications or changes in the manner that we believe to be most cost-efficient or otherwise desirable, which could materially and adversely affect our business and results of operations.