

FINANCIAL INFORMATION

In 2008, we undertook a Reorganization as a result of which we completed the acquisition of Mega Smart on July 22, 2008. See "—Financial Impact of Our Reorganization". The following discussion and analysis of our financial condition and results of operations is based on and should be read in conjunction with our financial statements, including any notes thereto, as set forth in the Accountants' Report in Appendices IA and IB, consisting of (i) our financial statements on an actual historical basis as of and for each of the years ended December 31, 2006, 2007 and 2008 and as of and for the five months ended May 31, 2008 and 2009; and (ii) Mega Smart's financial statements on an actual historical basis as of and for each of the years ended December 31, 2006 and 2007 and as of and for the year-to-date period ended July 22, 2007 and 2008; and certain financial information of our Group on a Pro Forma basis as set forth in Appendix II, as if the Reorganization had been completed as of January 1, 2008. Our financial statements have been prepared in accordance with IFRS, which may differ in material respects from generally accepted accounting principles in other jurisdictions, including the United States. This discussion contains forward-looking statements. There may be future events that we are unable to accurately predict or control and that may cause our actual results to differ materially from the expectations we describe in our forward-looking statements.

OVERVIEW

We are a leading supplier of key heat transfer products designed to enhance energy efficiency. Historically, we have focused on the manufacture and supply of heat transfer products and solutions, including economisers, waste heat recovery products (including HRSG products), marine products and boiler components as well as related services and repairs. Recently, we have also begun efforts to diversify into other alternative energy areas, such as waste heat power generation and wind power equipment. 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 focus on supplying Steel-H economisers, our extended surface economisers which compared to typical plain steel economisers, are generally more compact and more cost-effective, but also require higher technical sophistication in the production process. Our Steel-H economisers use H-shaped finned tubes, and are particularly well-suited for dusty environments such as coal-fired power plants. We supply a variety of waste heat recovery products, including HRSG products and waste heat boilers, for process applications, many of which capitalize on our experience and capabilities in manufacturing of heat transfer extended surface tubes known as finned tubes, finned tubes, which are among the most critical components of a heat transfer system. In recent years, we have focused on supplying HRSG products for CCGT plants by working closely with our HRSGs customers, many of whom are well-recognized HRSG system designers.

We have established our manufacturing facilities in Shanghai and Jiangsu Province of the Yangtze River Delta in China to capitalize on China's competitive cost and productivity advantages. Our location in the Yangtze River Delta region provides us with access to a significant pool of engineering talent and places us in close proximity to major ports, which in turn facilitates the transportation and delivery of our products to our international customers. We also maintain a facility in Wakefield, England, which primarily engages in the engineering and sales of products for our international markets, and provides manufacturing and engineering support and training to China operations in order to meet customer specifications and international standards. Our U.K. operation also engages in services and repairs as well as the design and manufacture of finning machines used in our China operations.

In 2006, 2007 and 2008, our revenue totaled RMB 189.8 million, RMB 231.8 million and RMB 431.1 million, respectively, and our net profit totaled RMB 35.6 million, RMB 31.6 million and RMB 60.1 million, respectively. In the five-month periods ended May 31, 2008 and 2009, our revenue totaled RMB 102.1 million and RMB 269.4 million, respectively, and our net profit totaled RMB 18.1 million and RMB 37.1 million, respectively. Our financial results in 2008 and 2009 were affected by our Reorganization. See "—Financial Impact of Our Reorganization".

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FINANCIAL IMPACT OF OUR REORGANIZATION

Our financial results during the Relevant Period primarily reflect the financial results of SGTE. In 2008, we underwent a Reorganization which resulted in our acquisition from Mr. Ellis, our controlling shareholder, a number of businesses which were previously wholly owned by him. These businesses consisted of Greens UK, SGME and GPEL, and, as a result of the Reorganization, became our wholly owned subsidiaries held under Mega Smart. We completed the acquisition of these businesses on July 22, 2008. Accordingly, our financial statements consolidate the financial results of Mega Smart beginning on July 23, 2008.

During the Relevant Period, SGTE has entered into significant related party transactions with the Mega Smart businesses:

- *Greens UK.* As part of SGTE’s arrangement with Greens UK, Greens UK entered into sales contracts with customers located outside China. Greens UK then entered into manufacturing contracts with SGTE to purchase products manufactured by SGTE at a discount to the price under the international contracts. The discount rate may vary significantly from customer to customer. For 2006, 2007 and the year-to-date period ended July 22, 2008, related party sales to Greens UK by SGTE amounted to RMB 13.3 million, RMB 66.7 million and RMB 24.5 million, respectively. SGTE also purchased finning machines and raw materials from Greens UK during the Relevant Period, which amounted to RMB 4.9 million and RMB 5.9 million for the years ended December 31, 2006 and 2007, respectively. In addition, during the Relevant Period, Greens UK has permitted the use of the “Greens” trademark by SGTE free of charge.
- *SGME.* SGME, which primarily engages in marine boiler repairs and services, entered into sales contracts with SGTE to purchase marine boiler components used for SGME’s repairs and services. In 2006, SGTE supplied its products to SGME free of charge as the value of the products was not significant. In 2007, in anticipation of increased transaction volume, SGTE began to supply its products to SGME on a cost plus markup basis. The related party sales to SGME by SGTE amounted to RMB 2.2 million and RMB 1.6 million in 2007 and the year-to-date period ended July 22, 2008, respectively.
- *GPEL.* GPEL, which ramped up its operations in the first half of 2007, has entered into an economisers subcontracting arrangement with SGTE since March 2007. GPEL sold semi-finished economiser products to SGTE at cost plus a markup determined with reference to the markup rate SGTE generally paid to its third party suppliers. Revenue recognized by GPEL under such related party subcontracting arrangement amounted to RMB 108.7 million and RMB 28.5 million in 2007 and the year-to-date period ended July 22, 2008, respectively. In addition, prior to the completion of our Reorganization in 2008, SGTE sold certain steel components to GPEL at cost, and revenue generated from such arrangement amounted to RMB 14.2 million for the year-to-date period ended July 22, 2008. Upon our Reorganization, as part of our strategy to realign our manufacturing resources, and in an effort to reduce the effect of the unfavorable market conditions during the financial crisis, we increased focus on the manufacturing of waste heat recovery products, boiler components and marine products at GPEL, with SGTE focusing on economiser products.

The foregoing transactions, which we expect to continue in the future, are treated as intra-group transactions on our consolidated financial statements from July 23, 2008, and our operating results are reflected accordingly. We generally recognize our revenue on a stage-of-completion basis. Our related party transactions, including amounts shown above, are presented on a delivery basis. See “—Discussion of Our Statement of Financial Position Items—Related Party Transactions and Amounts Due from and Due to Related Companies”.

As a result of the significant related party transactions between SGTE and the Mega Smart businesses as well as our Reorganization in 2008, our financial results during the Relevant Period may not be comparable from period to period, and our historical financial results may not be comparable to our financial results in the future. To assist readers in evaluating the various businesses that formed our Group since the Reorganization, we are presenting a discussion of the historical financial results of the various businesses of Mega Smart on a stand-alone basis. See

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“—Results of Operations of Mega Smart”. We also present certain financial information of our Group on a Pro Forma basis, as if the Reorganization had been completed as of January 1, 2008. See “—Pro Forma Financial Information”.

The following table sets forth, for the periods indicated, selected financial data of our Group on an actual historical basis and on a Pro Forma basis as well as of Mega Smart on a stand-alone basis.

	<u>Revenue</u>	<u>Gross profit</u>	<u>Net profit</u>
	(in millions of RMB)		
Actual historical			
For the year ended December 31,			
2006	189.8	49.6	35.6
2007	231.8	49.6	31.6
2008	431.1	109.7	60.1
For the five months ended May 31,			
2008	102.1	25.8	18.1
2009	269.4	77.8	37.1
Mega Smart			
For the year ended December 31,			
2006	112.1	35.2	23.6
2007	331.9	84.5	58.2
For the year-to-date period ended July 22,			
2007	126.8	26.3	15.8
2008	202.3	42.6	27.8
Pro Forma			
For the year ended December 31, 2008	<u>564.4</u>	<u>152.3</u>	<u>72.5</u>

FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our Reorganization has had significant impact on our results of operations and will likely continue to affect our future results. See “—Financial Impact of Our Reorganization”. In addition, we believe the most significant factors that affect our business and results of operations include:

- Level of capital spending by power plants.* Demand for our products, particularly our economiser products and waste heat recovery products, depends significantly on the number of boilers being installed or replaced at power plants. The level of such installing or replacement activities depends on the level of capital spending by such 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 coal, oil and other types of fuel used by power plants. Fuel prices and electricity prices have fluctuated significantly in recent years. It is difficult to predict the effect of changes in fuel prices on our business. 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. However, a general increase in the cost of coal, oil or other types of fuel may also contribute to a more intensified government focus on the energy efficiency of power plants, which in turn may increase the demand for our products.
- Product mix.* During our Relevant Period, our revenue has been generated primarily through the supply of products such as economisers and waste heat recovery products. Our business segments have historically experienced different gross margins. As a result, changes in revenue derived from our business segments as a percentage of our overall revenue will affect our overall business performance. In addition, as we further diversify into other businesses, such as waste heat power generation and wind turbine towers manufacturing, the basis on which our overall business is to be evaluated may change accordingly.
- Market dynamics.* We began supply of our principal products, the Steel-H economisers, in China in 2003. As a reflection of our relatively early entry into the PRC market, which until then has been dominated by plain steel economisers, we were able to enjoy relatively high gross margins on our economiser products prior to 2006. As part of our efforts to expand our customer base, we offered favorable pricing terms to potential customers to encourage them to replace their existing plain steel economisers with our Steel-H economisers. The average selling prices to our end customers in China also declined as a result. These factors contributed to a decline in our gross margin from 2006 to 2007.

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Although the level of competition in China continues to intensify, our gross margin for economiser products has become more stable in subsequent periods.

- *Production capacity and efficiency.* The volume of products we supplied has increased in recent years. Our future growth depends on our ability to continue to expand our production capacity and to enhance production efficiency.
- *Regulatory environment.* Many of our products and services, such as the economisers, waste heat recovery products, waste heat power generation and wind turbine towers, are designed to improve energy efficiency or utilize waste heat or alternative energy. As a result, the demand for our products and services is significantly affected by governments’ continuing adoption of environmental laws and regulations designed to reduce energy consumption and enhance energy efficiency.
- *Raw material prices.* Steel and other raw material cost has been one of the largest components of our cost of sales. The principal raw material used in our products is steel and steel-based components. Accordingly, changes in the availability and price of steel and steel-based components have a significant impact on our cost of sales and financial results. We primarily purchase our steel and steel-based components in China, where the price of steel has historically fluctuated significantly.
- *New and growth businesses.* We have recently entered the waste heat power generation business and wind turbine towers manufacturing business. For instance, our waste heat power generation business in Xinjiang Project is structured based on the build-operate-transfer, or BOT model, and is affected by factors such as timing for our projects construction, electricity tariff, actual power output and actual operating period. Our wind turbine towers manufacturing business is affected by factors such as government policies on renewable energy and demand for wind power. These and other new businesses that we enter may require us to allocate significant capital expenditure and may ultimately prove unsuccessful due to lack of experience and other reasons, which in turn will adversely affect our operating results. See “Risk Factors—Risks Relating to Our Business and Industry—We are subject to risks in our expansion efforts into waste heat power generation and wind turbine towers manufacturing businesses.”
- *Procurement arrangement.* We generally purchase the steel and steel-based components (primarily consisting steel tubes, steel plates and fin strips) and other raw materials used in the manufacturing and supply of our products. However, a significant portion of the products we supplied have been made on a free-issue basis, where a portion of raw materials (generally high-grade steel tubes) are supplied by our customers for our manufacturing. Accordingly, we do not recognize any cost for the raw materials supplied by our customers. The procurement arrangement for our products supplied affects a number of our income statement items, including our revenue, average selling price, cost of sales and gross margin.

In addition to the foregoing, our results of operations are also affected by general factors, including exchange rate fluctuations, changes in the preferential tax treatments, and competition. For more information on these and other factors and developments that may affect us, see “Risk Factors” and “Industry Overview”.

BASIS OF PRESENTATION

As part of our Reorganization, we completed the acquisition of Mega Smart on July 22, 2008. On the same date, Greens Holdings Ltd became the holding company of our Group. See “Business—History and Reorganization”. For accounting purposes, the group resulting from our Reorganization is regarded as a continuing entity. Other than the acquisition of Mega Smart and its subsidiaries, which has been accounted for using the purchase method, our financial information has been prepared as if Greens Holdings Ltd had been the holding company of SGTE throughout the Relevant Period. Accordingly, other than the acquisition of Mega Smart and its subsidiaries, (i) the consolidated income statements, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for

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the Relevant Period have been prepared as if the current group structure had been in existence throughout the Relevant Period, or, in the case of a current Group company incorporated after January 1, 2006, the beginning of our Relevant Period, since its date of incorporation; and (ii) the consolidated statement of financial position of the Group as of December 31, 2006, 2007 and 2008 and May 31, 2009 has been prepared to present the assets and liabilities of the companies currently comprising the Group which were in existence at those dates.

DESCRIPTION OF OUR INCOME STATEMENT LINE ITEMS

The following tables set forth the revenue, cost of sales and gross margin of our business segments for the periods indicated.

	For the year ended December 31,						For the five months ended May 31,			
	2006		2007		2008		2008		2009	
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
	(in thousands, except for percentages)									
Revenue	189,817	100.0	231,750	100.0	431,073	100.0	102,109	100.0	269,393	100.0
Cost of sales/services	(140,229)	(73.9)	(182,158)	(78.6)	(321,397)	(74.6)	(76,288)	(74.7)	(191,598)	(71.1)
Gross profit	49,588	26.1	49,592	21.4	109,676	25.4	25,821	25.3	77,795	28.9
Selling and distribution expenses	(2,289)	(1.2)	(5,743)	(2.5)	(6,708)	(1.6)	(670)	(0.7)	(5,019)	(1.9)
Administrative expenses	(6,203)	(3.2)	(5,673)	(2.4)	(33,249)	(7.7)	(2,852)	(2.7)	(34,284)	(12.7)
Other income and other gains and losses	1,163	0.6	705	0.3	4,259	1.0	(257)	(0.3)	7,613	2.8
Finance costs	(1,092)	(0.6)	(2,289)	(1.0)	(1,939)	(0.4)	(891)	(0.9)	(773)	(0.3)
Profit before tax	41,167	21.7	36,592	15.8	72,039	16.7	21,151	20.7	45,332	16.8
Taxation	(5,570)	(2.9)	(5,003)	(2.2)	(11,984)	(2.8)	(3,061)	(3.0)	(8,265)	(3.0)
Profit for the year/period	35,597	18.8	31,589	13.6	60,055	13.9	18,090	17.7	37,067	13.8
Attributable to owners of the Company	35,597	18.8	31,589	13.6	60,055	13.9	18,090	17.7	37,067	13.8
Earnings per share—Basic (RMB)	0.053		0.047		0.078		0.027		0.041	

Revenue

We generally recognize our revenue on a stage-of-completion basis. The stage of completion of a contract as of a balance sheet date is generally measured by the proportion that contract costs incurred for work performed to date vis-à-vis the estimated total contract costs. Historically, we have had a portion of our contracts for which the total costs to complete the contracts and the stage of completion of these contracts cannot be estimated reliably. We recognize revenue on these contracts based on contract costs incurred as of the reporting date.

Revenue by Business Segment

The following table sets forth our revenue by business segment for the periods indicated.

	For the year ended December 31,						For the five months ended May 31,			
	2006		2007		2008		2008		2009	
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
	(in thousands, except for percentages)									
Economisers	159,620	84.1	184,104	79.4	180,212	41.8	77,709	76.2	74,957	27.8
Waste heat recovery products	24,761	13.0	34,548	14.9	106,409	24.7	10,558	10.3	75,814	28.1
Boiler components	4,837	2.6	10,646	4.6	39,188	9.1	13,600	13.3	54,626	20.3
Marine products	599	0.3	2,452	1.1	15,852	3.7	242	0.2	8,891	3.3
Power generation	—	—	—	—	80,674	18.7	—	—	38,234	14.2
Service and repairs	—	—	—	—	8,738	2.0	—	—	16,871	6.3
Total revenue	189,817	100.0	231,750	100.0	431,073	100.0	102,109	100.0	269,393	100.0

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Key characteristics of the revenue in our business segments include the following:

- *Economisers.* The economiser segment has been historically, and we expect continue to be, among our largest segments in terms of revenue, representing 84.1%, 79.4%, 41.8% and 27.8% of the revenue from this segment in 2006, 2007, 2008 and for the five-month period ended May 31, 2009.
- *Waste heat recovery products.* During the Relevant Period, revenue from waste heat recovery product segment primarily consisted of revenue from HRSG modules, waste heat boilers and related products. Contract values of HRSG products and waste heat boilers are generally large, and our revenue from these products has historically been generated through manufacturing and supply of a small number of units per year. Accordingly, the financial results of our waste heat recovery product segment may fluctuate significantly from period to period.
- *Boiler components.* We sell air pre-heaters, superheaters, and steel structure for power stations as boiler components to potentially large customers and expand our customer base. We also sell finned tubes as components to expand our customer base, though we generally sell our economiser and HRSG modules in complete units. The volume of boiler components we supplied may vary significantly based on customer demand.
- *Marine products.* This segment primarily consisted of revenue from (i) supply of marine boiler shells manufactured by GSz, and GPEL after it commenced operation in 2007; and (ii) other marine boiler components we sourced from third parties.
- *Services and repairs.* As a result of our Reorganization and the acquisition of Mega Smart businesses, we also engage in services and repairs through SGME in China and Greens UK for customers in the international market.
- *Power generation.* Our Xinjiang Project is a waste heat power generation project structured based on the build-operate-transfer, or BOT, model. As with other segments, we recognize construction revenue for this segment on a stage-of-completion basis. After the project commences commercial operation, we will recognize revenue based on any amount of electricity dispatched and sold. See “—Critical Accounting Policies—Revenue Recognition on Construction Contracts”.

Our revenue from construction contracts, which is recognized on a stage-of-completion basis, consists of revenue from our economisers segment, waste heat recovery products segment, boiler components segment and marine products segment. Revenue from construction under service concession arrangements represents revenue from the construction of our waste heat power generation projects under a BOT arrangement within our power generation segment. Revenue from our service and repairs segment is recognized when services were provided. Revenue from construction contracts, construction under service concession arrangements and provision of services represented 79.3%, 18.7% and 2.0% of our total revenue in 2008, and 79.5%, 14.2% and 6.3% of our total revenue in the five-month period ended May 31, 2009, respectively. See notes 4 and 8 to the Accountants’ Report in Appendices IA and IB to this document for more information. For more information on our Reorganization, see “Business—History and Reorganization” and “—Financial Impact of Our Reorganization”.

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Revenue by Geographical Market

The following table sets forth our revenue by geographical location of our customer for the periods indicated.

	For the year ended December 31,						For the five months ended May 31,			
	2006		2007		2008		2008		2009	
	RMB	%	RMB	%	RMB	%	RMB (unaudited)	%	RMB (audited)	%
(in thousands, except for percentages)										
China	176,495	93.0	165,090	71.2	288,936	67.0	87,322	85.5	186,180	69.1
Europe	13,322	7.0	66,660	28.8	73,729	17.1	14,787	14.5	56,073	20.8
Japan	—	—	—	—	7,984	1.9	—	—	5,348	2.0
North and South America	—	—	—	—	59,598	13.8	—	—	21,281	7.9
Rest of Asia	—	—	—	—	383	0.1	—	—	315	0.1
Others	—	—	—	—	443	0.1	—	—	196	0.1
Total revenue	189,817	100.0	231,750	100.0	431,073	100.0	102,109	100.0	269,393	100.0

Prior to July 22, 2008, the date our Reorganization was completed, the products we supplied to our international markets primarily represented those supplied to Greens UK, which became a part of our Group as a result of the Reorganization. See “—Financial Impact of Our Reorganization”. We began supply of our products internationally through Greens UK in 2006, and international revenue as a percentage of our total revenue increased significantly in 2007. For more information on our major international customers, see “Business—Customers”.

Cost of Sales/Services

Our cost of sales primarily consists of (i) steel and other raw materials (primarily consisting of steel plate, steel tubes and fin strips); (ii) cost relating to the purchase of semi-finished goods from GPEL; (iii) outsourced processing fees paid to third parties; (iv) direct labor costs; (v) depreciation of fixed assets; (vi) manufacturing overhead such as lease payment, utilities charges and construction costs; and (vii) cost of construction of our waste heat power plant for our Xinjiang Project.

Historically, costs for steel components and other raw materials have been one of the largest components of our cost of sales. In 2007, cost relating to the purchase of semi-finished goods from GPEL amounted to RMB 108.7 million, which contributed to the significant decrease in all other cost of sales items as percentages of our total cost of sales. We recognized RMB 75.1 million as costs relating to the construction of our Xinjiang Project in 2008, which was the first fiscal year in which we recognized such costs. In the five-month period ended May 31, 2009, costs recognized for this segment amounted to RMB 34.6 million.

Selling and distribution expenses

Our selling and distribution expenses generally consist of (i) transportation and other distribution costs, and (ii) salary and wages of our sales and marketing employees. In 2006, 2007, 2008 and for the five months ended May 31, 2009, our selling and distribution expenses represented 1.2%, 2.5%, 1.6% and 1.9% of our total revenue, respectively.

Administrative expenses

Our administrative expenses primarily consist of the employee salary and benefits, travel and promotion expenses, office lease payments, professional service fees and bad debt charges. In 2006, 2007, 2008 and for the five months ended May 31, 2009, our administrative expenses represented 3.2%, 2.4%, 7.7% and 12.7% of our total revenue, respectively.

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Other Income and other Gains and Losses

Our other income and other gains and losses from operation primarily consist of imputed interest income on retention money receivables, net foreign exchange losses, subsidy income and others.

Finance Costs

Our finance costs primarily consist of interest expenses on borrowings.

Income Tax Expense

The following table sets forth the income tax rates applicable to our operating subsidiaries incorporated in China and the U.K. during the period indicated.

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
SGTE	13.5%	13.5%	12.5%	25%
SGME	0	16.5%	12.5%	12.5%
GPEL	N/A	0	0	12.5%
Greens UK	30%	30%	28.5%	28%

CRITICAL ACCOUNTING POLICIES

The preparation of our consolidated financial statements and related notes requires us to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, net sales and expenses, and related disclosure of contingent assets and liabilities. We have based our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

An accounting policy is considered to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, and if different estimates that reasonably could have been used, or changes in the accounting estimates that are reasonably likely to occur periodically, could materially impact the consolidated financial statements. We believe that the following critical accounting policies are the most sensitive and are those that require the more significant estimates and assumptions used in the preparation of our consolidated financial statements. You should read the following descriptions of critical accounting policies, judgments and estimates in conjunction with our consolidated financial statements and other disclosures in this document.

Revenue Recognition on Construction Contracts

We generally recognize our revenue on a stage-of-completion basis. We use this method to account for our contract revenue from construction contracts where it is probable that contract costs are recoverable. Significant judgment is required in determining the stage of completion, the extent of the contract costs incurred, the estimated total contract revenue and contract cost and the recoverability of the contract costs. We make our judgment by relying on past experience and the work of the project management team. The stage of completion of each construction contract is assessed on a cumulative basis in each accounting period. Changes in estimate of contract revenue or contract costs, or changes in the estimated outcome of a contract could impact the amounts of revenue and expenses recognized in the income statement in the period in which the change is made and in subsequent periods. Such impact could potentially be significant.

Impairment of Intangible Assets

If there is any indication of impairment, determining the extent to which intangible assets are impaired requires an estimation of the value in use of the cash-generating units to which they have been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-

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generating unit and a suitable discount rate in order to calculate the present value. As of December 31, 2006, 2007 and 2008, we believe that there was no indication that the intangible assets had suffered an impairment loss. As of December 31, 2006, 2007, 2008 and May 31, 2009, the carrying amounts of the intangible assets of the Group were RMB 9.0 million, RMB 7.0 million, RMB 145.2 million and RMB 181.7 million, respectively.

Impairment of Trade Receivables

When there is objective evidence of impairment of trade receivables, we take into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As of December 31, 2006, 2007, 2008 and May 31, 2009, the carrying amounts of trade receivables were RMB 100.6 million, RMB 93.3 million, RMB 282.7 million and RMB 269.2 million, respectively.

OUR RESULTS OF OPERATIONS

The following tables set forth a summary of our consolidated statements of operations for the periods by amount and as a percentage of our total revenue. This information should be read together with our audited consolidated financial statements and related notes included elsewhere in this document. The operating results in any period are not necessarily indicative of the results that may be expected for any future period.

As part of our Reorganization, we completed the acquisition of the Mega Smart businesses on July 22, 2008, and the operating results of Mega Smart have been consolidated beginning on July 23, 2008. See “—Financial Impact of Our Reorganization”. As a result, the following period-to-period discussion may not be comparable, and should be read in conjunction with the discussion of Mega Smart’s stand-alone operating results as well as the Group’s Pro Forma financial information. See “—Results of Operations of Mega Smart” and “—Pro Forma Financial Information”.

	For the year ended December 31,						For the five months ended May 31,					
	2006		2007		2008		2008		2009			
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%		
	(in thousands, except for percentages)											
Segment revenue												
Economisers	159,620	84.1	184,104	79.4	180,212	41.8	77,709	76.2	74,957	27.8		
Waste heat recovery products	24,761	13.0	34,548	14.9	106,409	24.7	10,558	10.3	75,814	28.1		
Boiler components	4,837	2.6	10,646	4.6	39,188	9.1	13,600	13.3	54,626	20.3		
Marine products	599	0.3	2,452	1.1	15,852	3.7	242	0.2	8,891	3.3		
Power generation	—	—	—	—	80,674	18.7	—	—	38,234	14.2		
Services and repairs	—	—	—	—	8,738	2.0	—	—	16,871	6.3		
Total	189,817	100.0	231,750	100.0	431,073	100.0	102,109	100.0	269,393	100.0		

	For the year ended December 31,						For the five months ended May 31,			
	2006		2007		2008		2008		2009	
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
	(in thousands, except for percentages)									
Segment gross profit										
Economisers	55,102	111.1	43,809	88.3	48,071	43.8	23,623	91.5	22,864	29.4
Waste heat recovery products	(5,435)	(10.9)	3,211	6.5	39,478	36.0	2,626	10.1	30,878	39.7
Boiler components	1,156	2.3	2,192	4.4	6,815	6.2	(321)	(1.2)	17,358	22.3
Marine products	(1,235)	(2.5)	380	0.8	4,563	4.2	(107)	(0.4)	1,486	1.9
Power generation	—	—	—	—	5,606	5.1	—	—	3,595	4.6
Services and repairs	—	—	—	—	5,143	4.7	—	—	1,614	2.1
Total	<u>49,588</u>	<u>100.0</u>	<u>49,592</u>	<u>100.0</u>	<u>109,676</u>	<u>100.0</u>	<u>25,821</u>	<u>100.0</u>	<u>77,795</u>	<u>100.0</u>

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	For the year ended December 31,			For the five months ended May 31,	
	2006	2007	2008	2008	2009
	%	%	%	%	%
Segment gross margin					
Economisers	34.5	23.8	26.7	30.4	30.5
Waste heat recovery products	(21.9)	9.3	37.1	24.9	40.7
Boiler components	23.9	20.6	17.4	(2.4)	31.8
Marine products	(206.2)	15.5	28.8	(44.2)	16.7
Power generation	—	—	6.9	—	9.4
Services and repairs	—	—	58.9	—	9.6
Overall gross margin	<u>26.1</u>	<u>21.4</u>	<u>25.4</u>	<u>25.3</u>	<u>28.9</u>

Five Months Ended May 31, 2009 Compared to Five Months Ended May 31, 2008

Revenue

Our revenue increased from RMB 102.1 million for the five-month period ended May 31, 2008 to RMB 269.4 million for the five-month period ended May 31, 2009. The increase primarily reflected a combination of the increases in revenue from our waste heat recovery product segment and our boiler component segment and the revenue recognized for our Xinjiang Project in 2009.

Economisers. Revenue from our economiser segment decreased by 3.5% from RMB 77.7 million in the five-month period ended May 31, 2008 to RMB 75.0 million in the five-month period ended May 31, 2009, primarily reflecting a decrease in revenue from our PRC market, partially offset by an increase in revenue from our international market.

Revenue from supply of economisers in the PRC market decreased from RMB 65.1 million in the five-month period ended May 31, 2008 to RMB 61.5 million in the five-month period ended May 31, 2009, or a decrease of 5.5%, which primarily reflected a decrease in the average selling price of the products supplied to our end customers in the PRC market. We believe the decrease in the average selling price of our products to the PRC market primarily reflected a general decline in the prices of steel and steel components, coupled with an increase in pricing pressure from competitors as a result of the financial crisis.

Revenue from supply of economisers in our international market increased from RMB 12.6 million in the five-month period ended May 31, 2008 to RMB 13.5 million the five-month period ended May 31, 2009, or an increase of 7.1%. The increase primarily reflected the acquisition of the Mega Smart businesses, particularly Greens UK, as part of our Reorganization, which contributed to a higher sales volume of our products. The average selling price of our products supplied to the international market decreased, primarily reflecting an increase in revenue recognized from free issue contracts as a proportion of our total revenue recognized in the five-month period ended May 31, 2009 compared to the same period in 2008.

Waste heat recovery products. Revenue from our waste heat recovery product segment increased from RMB 10.6 million in the five-month period ended May 31, 2008 to RMB 75.8 million in the five-month period ended May 31, 2009. As part of our efforts to diversify our product portfolio, we have allocated more resources on the marketing and manufacturing of our waste heat recovery products, boiler components and marine products prior to our Reorganization in 2008. After GPEL obtained manufacturing licenses and certificates, it became the production center for these business segments. We completed the acquisition of Mega Smart businesses, particularly GPEL and Greens UK, as part of our Reorganization, on July 22, 2008. As a result, the revenue recognized in the five-month period ended May 31, 2008 primarily represented the products supplied by SGTE, whereas the revenue recognized in the five-month period ended May 31, 2009 primarily represented the products supplied by GPEL.

In the five-month period ended May 31, 2009, revenue from this segment consisted of: (i) RMB 33.9 million in HRSG modules supplied to a PRC based customer; (ii) RMB 10.3 million in HRSG modules supplied to a European based customer under two contracts; (iii) RMB 6.5 million in waste heat boilers supplied to a

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European based customer; and (iv) various other supply contracts. In the five-month period ended May 31, 2008, revenue from this segment consisted of RMB 6.8 million in HRSG modules supplied to a PRC based customer and various other supply contracts.

Boiler components. Revenue from our boiler component increased from RMB 13.6 million in the five-month period ended May 31, 2008 to RMB 54.6 million in the five-month period ended May 31, 2009. The significant increase primarily reflected our efforts to diversify our product portfolio and our acquisition of Mega Smart in 2008. As a result, the revenue recognized in the five-month period ended May 31, 2008 primarily represented the products supplied by SGTE, whereas the revenue recognized in the five-month period ended May 31, 2009 primarily represented the products supplied by GPEL and Greens UK. The revenue from this segment in the five-month period ended May 31, 2009 primarily consisted of: (i) RMB 28.7 million in waste heat boiler components supplied to a PRC customer; and (ii) RMB 10.7 million in various boiler related components supplied to a PRC customer; and (iii) RMB 10.6 million in re-heaters and other components to a U.S. based customer under various contracts. The revenue from this segment in the five-month period ended May 31, 2008 primarily consisted of RMB 13.5 million in plain steel tubes to GPEL.

Marine products. Revenue from our marine products segment increased from RMB 0.2 million in the five-month period ended May 31, 2008 to RMB 8.9 million in the five-month period ended May 31, 2009. The significant increase primarily reflected our efforts to diversify our product portfolio and our acquisition of Mega Smart in 2008. The revenue from this segment in the five-month period ended May 31, 2009 primarily consisted of revenue under contracts with shipbuilders and other customers based in China. The revenue from this segment in the five-month period ended May 31, 2008 represented parts and components supplied by SGTE.

Services and repairs. Revenue from this segment amounted to RMB 16.9 million in the five-month period ended May 31, 2009, which represented (i) RMB 4.8 million in revenue recognized under a contract to repair economisers and re-heaters for a European based customer; (ii) RMB 4.6 million in revenue recognized under a contract to refurbish three HRSG units for a U.K. based customer; and (iii) various other services and repairs contracts.

Power generation. We recognized a construction revenue of RMB 38.2 million for our Xinjiang Project in the five-month period ended May 31, 2009.

Cost of Sales/Services

Our cost of sales increased from RMB 76.3 million in the five-month period ended May 31, 2008 to RMB 191.6 million in the five-month period ended May 31, 2009, primarily reflecting an increase in our revenue. In particular, in the five months ended May 31, 2009, we recognized RMB 34.6 million in cost relating to our Xinjiang Project.

Gross Profit

As a result of the foregoing, gross profit increased from RMB 25.8 million in the five-month period ended May 31, 2008 to RMB 77.8 million in the five-month period ended May 31, 2009. Our gross margin increased from 25.3% in the five-month period ended May 31, 2008 to 28.9% in the five-month period ended May 31, 2009, primarily reflecting the increases in gross margin in our waste heat recovery product segment and our boiler component segment, partially offset by the lower gross margin yielded for our waste heat power generation segment and services and repairs segment.

Gross margin for our economiser segment increased from 30.4% in the five-month period ended May 31, 2008 to 30.5% in the five-month period ended May 31, 2009. Such increase primarily reflected our acquisition of Mega Smart, particularly Greens UK and GPEL, offset by the decrease in gross margin for our economiser sales to our PRC market in 2009. After the completion of our Reorganization on July 22, 2008, the transactions between Mega Smart and us, which primarily included our subcontracting arrangement with GPEL and our supply of economiser products to Greens UK, were treated as intra-group transactions. As a result, the

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gross profit of Greens UK and GPEL in the economiser segment has been reflected as part of our results of operations, contributing to an increase in our gross margin for this segment in the five-month period ended May 31, 2009 compared to the five-month period ended May 31, 2008. Gross margin for our economisers supplied to the PRC market decreased, primarily reflecting an increase in pricing pressure from competitors as a result of the financial crisis.

Gross margin for our waste heat recovery product segment increased from 24.9% in the five-month period ended May 31, 2008 to 40.7% in the five-month period ended May 31, 2009. We believe the increase in gross margin for waste heat recovery products primarily reflected the consolidation effect resulting from the acquisition of Mega Smart, coupled with an increase in the economy of scale at our GPEL manufacturing plant since it ramped up production in 2008.

Gross margin for our boiler component segment increased from negative 2.4% in the five-month period ended May 31, 2008 to 31.8% in the five-month period ended May 31, 2009. Our gross margin for the five-month period ended May 31, 2008 was significantly affected by the resales of steel components purchased by SGTE to GPEL. Our gross margin for the five-month period ended May 31, 2009 was affected by the consolidation effect resulting from the acquisition of Mega Smart.

Gross margin for our services and repairs segment in the five-month period ended May 31, 2009 was 9.6%. Gross margin for the segment during this period was affected by relatively low margins we experienced on our two largest contracts, based on revenue recognized, in the period.

Gross margin for our waste heat power generation segment in the five-month period ended May 31, 2009 was 9.4%.

Selling and Distribution Expenses

Selling and distribution expenses increased from RMB 0.7 million in the five-month period ended May 31, 2008 to RMB 5.0 million in the five-month period ended May 31, 2009, reflecting our acquisition of Mega Smart. In particular, salary and wages as well as transportation and shipping cost increased significantly in the five months ended May 31, 2009 compared to the same period in 2008.

Administrative Expenses

Our administrative expenses increased from RMB 2.9 million in the five-month period ended May 31, 2008 to RMB 34.3 million in the five-month period ended May 31, 2009. The increase primarily reflected the acquisition of Mega Smart businesses, particularly Greens UK, as part of our Reorganization. In particular, salary and wages, travel, depreciation and amortization as well as office lease payments increased significantly. In addition, we incurred RMB 6.2 million in professional fees in the five months ended May 31, 2009, compared to RMB 0.3 million in the same period in 2008.

Other Income and Other Gains and Losses

We had a loss of RMB 0.3 million in the five-month period ended May 31, 2008, compared to a gain of RMB 7.6 million in the five-month period ended May 31, 2009. In the five-month period in 2009, we recognized RMB 7.3 million in income (representing contract cancellation fee net of any cost of sales incurred) from cancellation of contracts for marine products. In the five-month period ended May 31, 2008, we recognized RMB 1.1 million of loss, primarily reflecting the depreciation of the U.S. dollar against the Renminbi, our reporting currency. The loss due to such foreign exchange rate fluctuation amounted to RMB 0.6 million in the five-month period in 2009.

Finance Costs

Our finance costs decreased from RMB 891 thousand in the five-month period ended May 31, 2008 to RMB 773 thousand in the five-month period ended May 31, 2009, or a decrease of 13.2%. This was primarily due to

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the increase in our borrowings in 2009 to fund our business expansion. Our finance costs in the five months ended May 31, 2009 was affected by RMB 3.4 million in capitalized interest, calculated based on a capitalization rate of 5.79% per annum on our loans relating to GPEL's Xieqiao plant and the Xinjiang Project.

Profit before Taxation

As a result of the foregoing, our profit before taxation increased from RMB 21.2 million in the five-month period ended May 31, 2008 to RMB 45.3 million in the five-month period ended May 31, 2009.

Income Tax Expense

Our income tax expenses were RMB 3.1 million in the five-month period ended May 31, 2008, compared to RMB 8.3 million in the five-month period ended May 31, 2009. Our effective tax rate was approximately 14.5% and 18.2% in the five-month period ended May 31, 2008 and May 31, 2009, respectively.

Profit for the Year

As a result of the foregoing, our net profit increased from RMB 18.1 million in the five-month period ended May 31, 2008 to RMB 37.1 million in the five-month period ended May 31, 2009.

Year Ended December 31, 2008 Compared to Year Ended December 31, 2007

Revenue

Our revenue increased by 86.0% from RMB 231.8 million in 2007 to RMB 431.1 million in 2008. The increase primarily reflected a combination of the revenue recognized for our Xinjiang Project and the increases in revenue from our waste heat recovery product segment and our boiler components segment.

Economisers. Revenue from our economiser segment decreased by 2.1% from RMB 184.1 million in 2007 to RMB 180.2 million in 2008, primarily reflecting a decrease in revenue from our PRC market, partially offset by an increase in revenue from our international market.

Revenue from supply of economisers in the PRC market decreased from RMB 144.0 million in 2007 to RMB 127.7 million in 2008, or a decrease of 11.3%, which primarily reflected a decrease in the volume of products supplied by us to our end customers in the PRC market. In 2008, compared to 2007, we experienced a significant decrease in the volume ordered by two of our largest customers, as well as a decrease in the average selling price of our products supplied to our PRC end customers on a non free-issue basis. We believe these declines reflected, among other things, a reduced level of spending by PRC boiler makers during the recent financial crisis, coupled with increasing competition in the market. To reduce the effect of these unfavorable market conditions, we, among other efforts, increasingly offered favorable pricing terms to our existing customers and focused more resources on our waste heat recovery product segment and waste heat power generation business. In 2008, we also generated revenue of RMB 14.2 million from provision of steel components to GPEL at cost.

Revenue from supply of economisers in our international market increased from RMB 40.1 million in 2007 to RMB 52.5 million in 2008, or an increase of 30.9%. The increase primarily reflected the acquisition of the Mega Smart businesses, particularly Greens UK, as part of our Reorganization. Our average selling price increased significantly in 2008 from 2007, primarily reflecting the higher average selling price for products supplied by Greens UK to our end customers in the international market compared to that for products supplied by SGTE to Greens UK. The volume of economiser products supplied to the international market, which may vary significantly from period-to-period based on the design requirements of our customers, decreased in 2008 from 2007.

Waste heat recovery products. Revenue from our waste heat recovery product segment increased from RMB 34.5 million in 2007 to RMB 106.4 million in 2008. This significant increase primarily reflected our

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strategic adjustment of our business strategy to diversify our product portfolio in 2008 and the acquisition of Mega Smart businesses, particularly GPEL and Greens UK, as part of our Reorganization. See "—Our Results of Operations—Five Months Ended May 31, 2009 Compared to Five Months Ended May 31, 2008—Revenue".

Individual contract values in this segment are generally large, and our revenue from this segment has been generated from a small number of contracts each year. In 2008, revenue from this segment primarily consisted of (i) RMB 55 million for HRSG modules supplied to a U.S. based customer; (ii) RMB 22 million for HRSG modules supplied to a European based customer; and (iii) RMB 24.7 million for five units of waste heat boilers supplied to a customer in China. In 2007, revenue from this segment primarily consisted of (i) RMB 17.5 million for HRSG modules and RMB 6.5 million for HRSG spiral finned tubes, both supplied by SGTE to Greens UK, which in turn supplied to a U.S. based customer; and (ii) RMB 8.6 million for the HRSG modules supplied by SGTE to a PRC customer.

Boiler components. Revenue from our boiler components segment increased from RMB 10.6 million in 2007 to RMB 39.2 million in 2008. This significant increase primarily reflected our efforts to diversify our product portfolio in 2008 and the acquisition of Mega Smart businesses, particularly GPEL and Greens UK, as part of our Reorganization. In 2008, a majority of the revenue for this segment consisted of the portion of the revenue from supply of products by GPEL to the customers in the PRC market and the international market through Greens UK, which were recognized after July 22, 2008, the date we completed our Reorganization. The revenue from this segment in 2008 primarily consisted of (i) RMB 18.8 million for the power station steel structure supplied to a PRC customer; (ii) RMB 8.5 million for incinerator superheaters supplied to a U.S. based customer and (iii) RMB 6.5 million for the superheaters supplied to Greens UK, which in turn supplied to a U.S. based customer. In 2007, revenue from this segment primarily consisted of (i) RMB 4.1 million for air pre-heaters SGTE supplied to a major PRC customer; and (ii) RMB 3.5 million for the finned tubes SGTE supplied to a PRC customer.

Marine products. Revenue from our marine products segment increased from RMB 2.5 million in 2007 to RMB 15.9 million in 2008. This significant increase primarily reflected our efforts to diversify our product portfolio in 2008 and the acquisition of Mega Smart businesses, particularly Greens UK, as part of our Reorganization. In 2008, revenue from this segment primarily consisted of revenue from supply of marine boilers by Greens UK. In 2007, revenue from this segment primarily consisted of marine boiler components, which SGTE supplied to SGME for its marine boiler services and repairs business.

Services and repairs. Revenue from our services and repairs segment increased from nil in 2007 to RMB 8.7 million in 2008. Revenue from this segment in 2008 was derived from boiler services and repairs by SGME (in the PRC market) and by Greens UK (in the international market), both of which we acquired as part of our Reorganization.

Power generation. We recognized revenue of RMB 80.7 million for our Xinjiang Project, based on the stage-of-completion we estimated for the project as of December 31, 2008.

Cost of Sales/Services

Our cost of sales increased by 76.4% from RMB 182.2 million in 2007 to RMB 321.4 million in 2008, primarily reflecting an increase in our revenue. As a result of our Reorganization and the acquisition of Mega Smart, cost of sales for Mega Smart group companies incurred from July 22, 2008 have been reflected as part of our cost of sales in 2008, which resulted in increases in all major components of our cost of sales, other than the significant decrease in cost of semi-finished goods purchased from GPEL.

Gross Profit and Gross Margin

As a result of the foregoing, gross profit increased from RMB 49.6 million in 2007 to RMB 109.7 million in 2008. Our gross margin increased from 21.4% in 2007 to 25.4% in 2008, primarily reflecting the increases in gross margin in our economiser segment and waste heat recovery product segment, partially offset by the decrease in gross margin for boiler component segment and the gross margin of 6.9% yielded for our power generation segment in 2008.

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Gross margin for our economiser segment increased from 23.8% in 2007 to 26.7% in 2008. The increase in the gross margin for the economiser segment primarily reflected the acquisition of Mega Smart, particularly GPEL and Greens UK, partially offset by the decrease in gross margin for our economiser international sales during the second half of 2008. After the completion of our Reorganization on July 22, 2008, the transactions between Mega Smart and us, which primarily included our subcontracting arrangement with GPEL and our supply of economiser products to Greens UK, were treated as intra-group transactions. As a result, the gross profit of Greens UK and GPEL in the economiser segment has been reflected as part of our results of operations, contributing to an increase in our gross margin for this segment. The decrease in gross margin for our economiser international sales primarily reflected the favorable sales terms we offered to a potentially large customer based in Europe during the second half of 2008.

Gross margin for waste heat recovery product segment increased from 9.3% in 2007 to 37.1% in 2008. The increase primarily reflected the acquisition of Mega Smart businesses, which contributed a significant majority of our revenue from this segment in 2008. In 2008, the experiences we gained in managing waste heat recovery projects more efficiently also contributed to the increase in our gross margin for this segment. In addition, a higher proportion of more technically sophisticated products supplied in 2008 compared to 2007 contributed to the higher gross margin yielded in the segment as well.

Gross margin for boiler component segment decreased from 20.6% in 2007 to 17.4% in 2008, primarily reflecting our effort to enter into the U.S. market. In 2008, we supplied more boiler component products to the U.S. based customers with more favorable terms compared to our general sales terms for this segment in order to expand our sales in the U.S. market.

Selling and Distribution Expenses

Selling and distribution expenses increased by 16.8% from RMB 5.7 million in 2007 to RMB 6.7 million in 2008, contributed by an increase in wages and salary of marketing employees from RMB 34 thousand in 2007 to RMB 2.0 million in 2008, primarily reflecting the acquisition of Mega Smart.

Administrative Expenses

Our administrative expenses increased significantly from RMB 5.7 million in 2007 to RMB 33.2 million in 2008. The increase primarily reflected the acquisition of Mega Smart businesses, particularly Greens UK, as part of our Reorganization. In particular, salary, wages, pension and other welfare paid to our employees increased from RMB 1.8 million in 2007 to RMB 12.4 million in 2008, and our travelling expenses and rental expenses increased from RMB 0.9 million and RMB 0.3 million in 2007 to RMB 3.2 million and RMB 2.5 million in 2008, respectively, primarily reflecting the consolidation of Greens UK's expenses since July 22, 2008. Professional fees increased from RMB 90 thousand in 2007 to RMB 7.1 million in 2008.

Other Income and other Gains and Losses

We had a gain of RMB 4.3 million in 2008, compared to RMB 0.7 million in 2007. We received a one-time subsidy of RMB 2.6 million from the local governmental authority in 2008 as a business incentive for operating at SGTE's current location. We had a net foreign exchange loss of RMB 2.2 million in 2008 compared to RMB 0.8 million in 2007, primarily reflecting the continued depreciation of our current assets denominated in foreign currencies, particularly U.S. dollars, Euros, and GBP, against the Renminbi, as well as an increase in our current assets in these foreign currencies. In addition, we recognized RMB 1.7 million in excess inventory and various miscellaneous types of income.

Finance Costs

Our finance costs decreased from RMB 2.3 million in 2007 to RMB 1.9 million in 2008, representing a decrease of 15.3%. Our interest on borrowing wholly repayable within five years increased to RMB 4.4 million in 2008, compared to RMB 2.3 million in 2007, primarily reflecting our increased borrowing to fund our

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business expansion. We had RMB 2.5 million of the interests capitalized by applying a capitalization rate of 6.45% per annum to expenditure on GPEL’s Xieqiao plant and Xinjiang Project.

Profit before Taxation

As a result of the foregoing, our profit before taxation increased from RMB 36.6 million in 2007 to RMB 72.0 million in 2008.

Income Tax Expenses

Our income tax expenses increased from RMB 5.0 million in 2007 to RMB 12.0 million in 2008, primarily reflecting consolidation of the income tax paid by Greens UK after completion of our Reorganization. Our effective tax rate was approximately 13.7% and 16.6% in 2007 and 2008, respectively.

Profit for the Year

As a result of the foregoing, our net profit increased from RMB 31.6 million in 2007 to RMB 60.1 million in 2008.

Year Ended December 31, 2007 Compared to Year Ended December 31, 2006

Revenue

Our revenue increased by 22.1% from RMB 189.8 million in 2006 to RMB 231.8 million in 2007. The increase was primarily due to increases in revenue from economiser segment and waste heat recovery product segment.

Economisers. Revenue from our economiser segment increased by 15.3% from RMB 159.6 million in 2006 to RMB 184.1 million in 2007, primarily reflecting an increase in revenue from our international market, partially offset by a decrease in revenue from our PRC market.

Revenue from supply of economisers in the international market increased from RMB 14.3 million in 2006 to RMB 40.1 million in 2007, reflecting increases in both the volume and average selling price of our products. The volume of economiser products supplied to Greens UK, which in turn supplied to the international market increased significantly, which we believe primarily reflected a combination of (i) increased brand recognition for our products in the international market; and (ii) an increase in our manufacturing capacity through our subcontracting arrangement with GPEL, which commenced operation in 2007. The average selling price for economisers supplied to Greens UK also increased, primarily reflecting the corresponding increase in the average selling price for products Greens UK on-sold to the international market due to the change in its customer base in 2007. See 2007-to-2006 comparison in “—Results of Operations of Mega Smart”.

Revenue from supply of economisers in the PRC market decreased from RMB 145.3 million in 2006 to RMB 144.0 million in 2007, or a decrease of 0.9%. The decrease primarily reflected a decrease in the average selling price for the economiser products supplied by us to our end customers in the PRC market. As a reflection of our relatively early entry into the PRC market, which until then has been dominated by plain steel economiser suppliers, we were able to enjoy relatively high average selling price on our economiser products prior to 2006. As competition increased in the PRC market, we experienced increasing pricing pressure from our large existing customers. As part of our effort to expand our customer base, we also offered favorable pricing terms to potential customers to encourage them to replace their existing plain steel economisers with our Steel-H economisers. Such effort also contributed to a lower average selling price in 2007 compared to 2006. The volume for products supplied to our end customers in the PRC market remained relatively stable.

Waste heat recovery products. Revenue from our waste heat recovery product segment increased significantly from RMB 24.8 million in 2006 to RMB 34.5 million in 2007, or an increase of 39.5%. The increase primarily reflected our efforts to expand into the international market for waste heat recovery products.

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In 2007, revenue from this segment primarily consisted of (i) RMB 17.5 million for HRSG modules and RMB 6.5 million for HRSG spiral finned tubes supplied to Greens UK, which in turn supplied to a U.S. based customer; and (ii) RMB 8.6 million for HRSG modules supplied to a shipbuilding customer in China. In 2006, revenue from this segment primarily consisted of (i) RMB 14.2 million for HRSG modules supplied to a major PRC customer; and (ii) RMB 9.3 million for HRSG modules we supplied to the PRC affiliate of a European customer.

Boiler components. Revenue from boiler components segment increased from RMB 4.8 million in 2006 to RMB 10.6 million in 2007, primarily reflecting our continued business expansion. In 2007, revenue from this segment primarily consisted of (i) RMB 4.1 million for air pre-heaters supplied to a major PRC customer; and (ii) RMB 3.5 million for the finned tubes we supplied to a PRC customer. In 2006, revenue for this segment primarily consisted of RMB 2.3 million for boiler parts supplied to GSz and RMB 1.5 million for the finned tubes supplied to a PRC customer.

Marine products. Revenue from our marine products segment increased from RMB 0.6 million in 2006 to RMB 2.5 million in 2007. We supplied certain marine boiler components to SGME free of charge in 2006 as the value of the products was not significant. Since 2007, in anticipation of increased transaction volume, we began to supply products to SGME on a cost plus markup basis. Accordingly, revenue in 2007 for the segment primarily represented marine boiler components supplied under such arrangement.

Cost of Sales/Services

Our cost of sales increased by 29.9% from RMB 140.2 million in 2006 to RMB 182.2 million in 2007, primarily reflecting an increase in our revenue. In 2007, we recognized purchase cost of RMB 108.7 million under the subcontracting arrangement with GPEL. GPEL commenced operation in 2007 and charged us its cost of sales associated with such processing arrangement plus a markup. Our costs of steel and other raw materials and direct labor costs decreased, as these costs were incurred by GPEL as part of our outsourced processing arrangement with GPEL.

Gross Profit and Gross Margin

Our gross profit was RMB 49.6 million in 2006 and in 2007. Our gross margin decreased from 26.1% in 2006 to 21.4% in 2007, reflecting, among other things, the decrease in gross margins for the economiser segment and boiler component segment, which was partially offset by an increase in gross margin in waste heat recovery product segment. Gross margin for our economiser segment decreased from 34.5% in 2006 to 23.8% in 2007, primarily reflecting (i) the cost associated with subcontracting arrangement with GPEL in 2007; (ii) continuing pricing pressure on our economiser products in the PRC market; and (iii) a decreased gross margin yielded for products supplied by SGTE to Greens UK. Gross margin for our boiler component segment decreased from 23.9% in 2006 to 20.6% in 2007, primarily reflecting lease payment made for a temporary manufacturing facility in 2007. In addition, our gross margin in 2006 was significantly affected by the HRSG modules supplied to a major PRC customer, on which we experienced a gross loss. These HRSG modules were the first high power output, i.e. greater than 50MW, HRSG modules manufactured and supplied by us, and as result, we faced significant challenges in managing the project efficiently in 2006.

Selling and Distribution Expenses

Selling and distribution expenses increased from RMB 2.3 million in 2006 to RMB 5.7 million in 2007, primarily reflecting an increase in our transportation expense as a result of an increase in international sales made on a cost, insurance and freight, or CIF, basis.

Administrative Expenses

Administrative expenses decreased by 8.5% from RMB 6.2 million in 2006 to RMB 5.7 million in 2007.

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Other Income and other Gains and Losses

We had a gain of RMB 0.7 million in 2007, compared to RMB 1.2 million in 2006, primarily due to increases in net foreign exchange loss and a write-off of certain expenses relating to a project ultimately terminated, partially offset by an increase in interest income on bank deposits and imputed interest income on retention money receivables. The increase in net foreign exchange loss primarily reflected the depreciation of our current assets denominated in foreign currencies, particularly U.S. dollars, against the Renminbi. The increase in interest income from bank deposit was primarily attributable to an increase in the bank deposit balance of cash generated from our operations.

Finance Costs

Our finance costs increased from RMB 1.1 million in 2006 to RMB 2.3 million in 2007, primarily reflecting an increase in the amount of our bank borrowings.

Profit before Taxation

As a result of the foregoing, our profit before taxation decreased by 11.1% from RMB 41.2 million in 2006 to RMB 36.6 million in 2007.

Income Tax Expenses

Our income tax expenses decreased by 10.2% from RMB 5.6 million in 2006 to RMB 5.0 million in 2007, primarily reflecting a decrease in our profit before taxation. Our effective tax rate was approximately 13.5% and 13.7% in 2006 and 2007, respectively.

Profit for the Year

As a result of the foregoing, our net profit decreased by 11.3%, from RMB 35.6 million in 2006 to RMB 31.6 million in 2007.

DISCUSSION OF OUR STATEMENT OF FINANCIAL POSITION ITEMS

Inventories and Contracts-in-Progress

We generally recognize revenue on a stage-of-completion basis. See “—Description of Our Income Statement Line Items—Revenue”. Accordingly, contracts-in-progress amounts are presented on our statement of financial position as amounts due to or from customers for contract work. At the end of each reporting period, the portion of the contract costs incurred plus recognized profits less recognized losses exceeding the progress billings is shown as amounts due from customers for contract work, and the portion of the progress billings exceeding the contract costs incurred plus recognized profits less recognized losses is shown as amounts due to customers for contract work. See note 4 in the Accountants’ Report in Appendix IA to this document. As a result, our inventory balance information must be read in light of our contracts-in-progress information. On a stand-alone basis, the inventory balance information, including the turnover days of inventory, may not be as meaningful as such information for companies primarily applying other revenue recognition policies.

The following table sets forth the components of our inventory balances as of the dates indicated as well as our turnover of average inventory for the periods indicated.

	As of December 31,			As of May 31,
	2006	2007	2008	2009
	(in thousands of RMB, except turnover days of inventory)			
Raw materials	13,626	6,926	49,590	60,220
Turnover days of inventory (in days) ⁽¹⁾	40	21	32	43

(1) Turnover days of inventory for a year equals average inventory divided by total cost of sales and then multiplied by 365.25 for each of years ended December 31, 2006, 2007 and 2008, and by 151 for the five months ended May 31, 2009. Average inventory equals inventory balance at the beginning of the period plus inventory balance at the end of the period, divided by two.

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Our inventories generally consist of raw materials for our manufacturing operation. The decreases in the inventory balance from December 31, 2006 to December 31, 2007 and the turnover days of inventory during this period were affected by the outsourced processing arrangement between us and GPEL in 2007, which had a depressing effect on inventory balance as of December 31, 2007. The increase in inventory balance from December 31, 2007 to December 31, 2008 and the turnover days of inventory during this period primarily reflected the acquisition of the Mega Smart businesses as part of our Reorganization and the resulting consolidation of their inventory balances and other operating results. The increase in inventory balance from December 31, 2008 to May 31, 2009 and the turnover days of inventory during this period primarily reflected an increase in our purchases of steel components in anticipation of higher steel prices in the market.

The trends in contracts-in-progress primarily reflect in our revenue trends recognized on a stage-of-completion basis. The following table sets forth the components of our contracts-in-progress as of the dates indicated.

	As of December 31,			As of May 31,
	2006	2007	2008	2009
	(in thousands of RMB)			
Contracts-in-progress at the balance sheet date				
Contract costs incurred plus recognized profits				
less recognized losses	189,817	231,750	341,661	214,288
Less: progress billings	(196,593)	(258,897)	(367,152)	(215,828)
	(6,776)	(27,147)	(25,491)	(1,540)
Analyzed for reporting purpose as:				
Amounts due from contract customers	8,637	7,167	29,293	32,284
Amounts due to contract customers	(15,413)	(34,314)	(54,784)	(33,824)
Total	(6,776)	(27,147)	(25,491)	(1,540)

Trade and Other Receivables

The following table sets forth the components of our trade and other receivables outstanding as of the dates indicated.

	As of December 31,			As of May 31,
	2006	2007	2008	2009
	(in thousands of RMB)			
Trade receivables	100,580	93,348	284,405	272,922
Less: Allowance for doubtful debts	—	—	1,748	3,694
	100,580	93,348	282,657	269,228
Other receivables	4,396	1,867	10,198	9,939
Deposits	804	416	4,598	6,754
Prepaid expenses	—	—	2,734	5,963
Advance to suppliers	771	14,928	8,436	8,031
Total	106,551	110,559	308,623	299,915

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Trade Receivables

Our trade receivables represent receivables from the sales or supply of our products and provision of our services to customers other than our related parties. The following table sets forth the balance and turnover days of our trade receivables less allowance for doubtful debts as of the dates indicated.

	As of December 31,			As of May 31,
	2006	2007	2008	2009
	(in thousands of RMB, except turnover days)			
Trade receivables	100,580	93,348	284,405	272,922
Less: Allowance for doubtful debts	—	—	1,748	3,694
Total	100,580	93,348	282,657	269,228
Turnover days of trade receivables ⁽¹⁾	102	105	131	132

(1) Turnover days of trade receivables for a year equals average trade receivables divided by revenue and then multiplied by 365.25 for each of years ended December 31, 2006, 2007 and 2008, and by 151 for the five months ended May 31, 2009. Average trade receivables equal balance of trade receivables less retention money receivables and allowance for doubtful debts at the beginning of the period plus balance at the end of the period, divided by two. These amounts of turnover days of trade receivables are calculated based on our total revenue amounts, which include revenue generated from related parties. 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.

The increase in our accounts receivable outstanding and the increase in turnover days of trade receivables from December 31, 2007 to December 31, 2008 was primarily attributable to our Reorganization and the consolidation of Mega Smart's results. The increase in turnover days of trade receivables during this period also reflected the credit period extensions granted to some of our customers that were affected by the ongoing financial crisis. We believe the decrease in our accounts receivable outstanding from December 31, 2008 to May 31, 2009 reflected, in significant part, our increasing collection efforts during this period.

Our turnover days for trade receivables are primarily affected by the balance of our normal trade receivables and the retention money receivables. We generally allow an average credit period ranged from 30 to 90 days to our trade customers. For some of our major customers with relatively strong credit history, we may agree to the longer credit period determined on a case-by-case basis. Moreover, we generally allow our trade customers to withhold payment of about 5% to 10% of the total purchase price as the retention money, which will be released one to three years after delivery or acceptance of our products by our customers or after the installation of our products by our customers.

From May 31, 2009 to September 30, 2009, which is the latest practicable date for purpose of indebtedness, we collected RMB 98.7 million in trade receivables which were outstanding as of May 31, 2009.

The following table sets forth an aging analysis of our normal trade receivables, i.e. excluding retention money receivables and allowance for doubtful debts, as of the dates indicated.

	As of December 31,			As of May 31,
	2006	2007	2008	2009
	(in thousands of RMB)			
0 to 90 days	41,815	55,690	148,676	144,602
91 to 180 days	13,220	2,349	49,283	41,944
181 days to 1 year	11,826	751	48,737	29,340
1 to 2 years	5,063	2,153	1,584	5,366
Total	71,924	60,943	248,280	221,252

The amount of our normal trade receivables outstanding for more than 180 days as of December 31, 2006 was significantly attributable to trade receivables from Harbin Boiler. As we were in the initial stages of our business expansion, and Harbin Boiler has traditionally been our largest customer and has a relatively strong credit history, we allowed Harbin Boiler an extended credit period. As we continued to diversify our customer base in 2007 and became less reliant to any particular customer, we strengthened our efforts to collect our

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account receivables. The results of such efforts were reflected in our normal trade receivables outstanding as of December 31, 2007. The aging trend of our normal trade receivables from December 31, 2007 to December 31, 2008 primarily reflected a combination of (i) our Reorganization and the consolidation of Mega Smart's results; and (ii) the credit period extensions granted to some of our customers that were affected by the ongoing financial crisis. The aging trend of our normal trade receivables from December 31, 2008 to May 31, 2009 primarily reflected an increasing collection efforts during this period.

From May 31, 2009 to September 30, 2009, we collected RMB 83.6 million in normal trade receivables which were outstanding as of May 31, 2009.

The following table sets forth an aging analysis of our retention money receivables, net of allowance for doubtful debt, as of the dates indicated.

	As of December 31,			As of May 31,
	2006	2007	2008	2009
	(in thousands of RMB)			
0 to 180 days	7,662	7,081	2,505	15,442
181 days to 1 year	7,438	7,785	10,589	3,567
1 to 2 years	11,196	12,759	12,738	15,010
2 to 3 years	2,360	4,780	4,125	7,637
Over 3 years	—	—	4,420	6,320
Total	28,656	32,405	34,377	47,976

Our warranty period is generally between one to three years from delivery or installation depending on the terms of the contract. The increase in our total outstanding retention money receivables from December 31, 2006 to December 31, 2007 primarily reflected the increase in our revenue as we continue to expand our business. The increase during this period and the aging trend from December 31, 2006 to May 31, 2009 was also attributable to the schedule delays in the commencement of operations of certain power plants in the PRC that installed products supplied by us, which delayed the commencement of warranty period for these products. The increase in our total outstanding retention money receivables from December 31, 2008 to May 31, 2009 was also attributable to an increase in deliveries made during this period. Our acquisition of Mega Smart did not have a significant effect on our total retention money outstanding as of December 31, 2008 and May 31, 2009 as Greens UK generally enters into warranty guarantees without retention money.

From May 31, 2009 to September 30, 2009, we collected RMB 15.1 million in outstanding retention money receivables which were outstanding as of May 31, 2009.

Others

Other types of receivables primarily consist of advance to suppliers and other receivables. Advance to suppliers primarily consist of those prepayments to the raw material suppliers. Advance to suppliers increased from RMB 0.8 million on December 31, 2006 to RMB 14.9 million on December 31, 2007, primarily reflecting the increase in raw materials purchase in anticipation of higher steel prices. Other receivables primarily consist of our payment of operational expenses on behalf of TEIL's Shanghai representative office and transportation fees paid on behalf of our customers. Our "other receivables" increased from RMB 1.9 million on December 31, 2007 to RMB 10.2 million on December 31, 2008, reflecting, among others, an increase in advances and prepayment for business development. From December 31, 2008 to May 31, 2009, our prepaid expenses increased from RMB 2.7 million to RMB 6.0 million. During the same period, our deposits increased from RMB 4.6 million to RMB 6.8 million.

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Related Party Transactions and Amounts Due from and Due to Related Companies

Historically, we have entered into significant related party transactions with Greens UK, GPEL and other businesses owned by Mr. Ellis prior to our Reorganization. See “—Financial Impact of Our Reorganization”. The following table sets forth related party transactions during the periods indicated.

	For the year ended December 31,			For the five months ended May 31,	
	2006	2007	2008	2008	2009
	(in thousands of RMB)				
Purchase of property, plant and equipment from:					
—Greens UK	4,308	3,053	—	—	—
Purchase of semi-finished products from:					
—GPEL	—	108,667	28,471	18,604	—
Purchase of materials from:					
—Greens UK	599	2,889	231	—	—
Supply of products and construction service to:					
—Greens UK	13,322	66,660	24,540	14,787	—
—SGME	—	2,178	1,570	—	—
—GPEL	—	—	14,165	7,341	—

Amounts due from related companies

The following table sets forth the amounts due from our related companies as of the dates indicated.

	As of December 31,			As of May 31,	
	2006	2007	2008	2008	2009
	(in thousands of RMB)				
Trading in nature					
SGME	—	2,547	—	—	—
Greens UK	5,216	24,440	—	—	—
Subtotal	5,216	26,987	—	—	—
Non trading in nature					
SGME	890	462	—	—	—
Shanghai Changmao ⁽¹⁾	10,159	5,008	—	—	—
GPEL	—	26,904	—	—	—
Greens UK	1,108	1,387	—	—	—
Subtotal	12,157	33,761	—	—	—
Total	17,373	60,748	—	—	—

(1) Shanghai Changmao was controlled by Ms. Chen until it was disposed in March 2008.

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Amounts due to related companies

The following table sets forth the amounts due to our related companies as of the dates indicated.

	As of December 31,			As of May 31,
	2006	2007	2008	2009
	(in thousands of RMB)			
Trading in nature				
GPEL	—	47,998	—	—
Greens UK	2,506	4,152	—	—
Subtotal	2,506	52,150	—	—
Non trading in nature				
Greens UK	15,300	4,959	—	—
GTE	14,700	—	—	—
Subtotal	30,000	4,959	—	—
Total	32,506	57,109	—	—

Trade and other Payables

The following table sets forth the components of our trade and other payables outstanding as of the dates indicated.

	As of December 31,			As of May 31,
	2006	2007	2008	2009
	(in thousands of RMB)			
Trade payables	38,220	14,411	121,263	153,454
Bills payable	2,685	10,000	6,950	20,000
Other tax payables	6,213	7,727	4,677	4,263
Other payables for acquisition of property, plant and equipment	—	—	10,196	9,781
Other payables for construction of service concession arrangement	—	—	29,196	5,508
Salary and bonus payables	451	481	2,367	1,701
Accrued expenses	7,479	8,727	4,262	6,298
Social welfare and pensions payable	965	965	965	965
Others	367	32	3,040	6,128
Total	56,380	42,343	182,916	208,098

Trade and bills payables

Our trade and bills payables represent amounts payable in connection with the purchase of raw materials and components from suppliers other than related parties. The following table sets out an aging analysis of our trade and bills payables and the turnover days of trade and bills payables as of the dates indicated.

	As of December 31,			As of May 31,
	2006	2007	2008	2009
	(in thousands of RMB)			
Within 90 days	12,545	2,074	76,932	120,557
91 to 180 days	6,985	13,738	14,010	20,806
181 days to 1 year	20,164	7,862	33,020	21,222
Over 1 year	1,211	737	4,251	10,869
Total	40,905	24,411	128,213	173,454
Turnover days of trade and bills payables ⁽¹⁾	88	65	87	119

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- (1) Turnover days of trade and bills payables for a year equals average trade and bills payables divided by total cost of sales and then multiplied by 365.25 for each of years ended December 31, 2005, 2006 and 2007, and by 151 for the five months ended May 31, 2009. Average trade and bills payables equals balance of trade and bills payables at the beginning of the period plus balance of trade and bills payables at the end of the period, divided by two. These amounts of turnover days of trade and bills payables are calculated based on our total costs of sales amounts, which include costs incurred to related parties.

The decrease in our trade and bills payables balance from December 31, 2006 to December 31, 2007 and the turnover days of trade and bills payables were affected by the subcontracting arrangement with GPEL that began in 2007 as the amounts due to GPEL was classified as amounts due to related parties, hence excluded from the calculation of turnover days of trade and bills payables. However, such calculation included the cost relating to GPEL and bills subcontracting arrangement as part of our total cost of sales during this period. The increase in balances of trade payables from December 31, 2007 to December 31, 2008 was primarily the result of our Reorganization and the consolidation of Mega Smart’s results. The increase in the turnover days of trade and bills payables during this period as well as the period from December 31, 2008 to May 31, 2009 was affected by the ongoing financial crisis. The increase in our trade and bills payables balance from December 31, 2008 to May 31, 2009 was also affected by an increase in our purchases of steel components in anticipation of higher steel prices in the market.

Others

Other types of payables primarily consist of tax payables other than income tax, accrued expenses, and other payables. Tax payables other than income tax represent primarily the value added tax payables, and the increase from December 31, 2006 to December 31, 2007 was primarily due to our increased revenue. Accrued expenses increased from December 31, 2006 to December 31, 2007 primarily due to the increase in lease payables and utility charge payables. The increase in other payables and salary and bonus payable was primarily the result of our Reorganization. Our other payables for construction of service concession arrangement decreased from RMB 29.2 million as of December 31, 2008 to RMB 5.5 million as of May 31, 2009, primarily reflecting our payment of payables to the suppliers in the Xinjiang Project.

RESULTS OF OPERATIONS OF MEGA SMART

We completed the acquisition of Mega Smart businesses on July 22, 2008. Accordingly, our financial statements reflect the consolidated financial results of Mega Smart beginning on July 23, 2008. In addition, Greens UK sold its 49% equity interest in GSz for RMB 5 million to its joint venture partner, Hailu, as part of the Reorganization. For further information, see “—Financial Impact of Our Reorganization”.

To assist readers in evaluating Mega Smart, the entity we acquired as part of the Reorganization, we are presenting a summary discussion of the historical financial results of Mega Smart on a stand-alone basis. This information should be read together with the period-to-period discussion of the Group on an actual historical basis in “—Results of Operations” and Mega Smart’s audited consolidated financial statements and related notes included elsewhere in this document. Mega Smart primarily recognized its revenue on a stage-of-completion basis. For a discussion of such revenue recognition policy, see “—Description of Our Income Statement Line Items—Revenue”.

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The following table sets forth a summary of the consolidated statements of operations of Mega Smart for the periods by amount and as a percentage of the total revenue.

	For the year ended December 31,				For the year-to-date period ended July 22,			
	2006		2007		2007		2008	
	RMB	%	RMB	%	RMB	%	RMB	%
	(in thousands, except percentages)							
Revenue	112,132	100.0	331,899	100.0	126,847	100.0	202,298	100.0
Cost of sales/services	(76,961)	(68.6)	(247,375)	(74.5)	(100,566)	(79.3)	(159,661)	(78.9)
Gross profit	35,171	31.4	84,524	25.5	26,281	20.7	42,637	21.1
Selling and distribution expenses	(4,238)	(3.8)	(4,956)	(1.5)	(2,766)	(2.2)	(4,158)	(2.1)
Administrative expenses	(24,254)	(21.6)	(33,934)	(10.2)	(18,095)	(14.3)	(25,858)	(12.8)
Other income and other gains and losses ...	844	0.7	449	0.1	709	0.6	14,312	7.0
Finance costs	(198)	(0.2)	(498)	(0.2)	(260)	(0.2)	(246)	(0.1)
Share of profit of a jointly controlled entity	18,154	16.2	16,110	4.9	10,248	8.1	14,531	7.2
Profit before tax	25,479	22.7	61,695	18.6	16,117	12.7	41,218	20.3
Taxation	(1,852)	(1.6)	(3,457)	(1.1)	(314)	(0.2)	(13,466)	(6.6)
Profit for the year/period	23,627	21.1	58,238	17.5	15,803	12.5	27,752	13.7

The following table sets forth Mega Smart's revenue by business segment for the periods indicated.

	For the year ended December 31,		Period from January 1 to July 22,	
	2006	2007	2007	2008
	(in thousands of RMB)			
Economisers	19,416	184,169	68,327	52,270
Waste heat recovery products	34,879	37,654	16,542	15,650
Boiler components	—	4,399	—	63,563
Marine products	18,200	54,068	23,559	19,743
Services and repairs	39,637	51,609	18,419	46,522
Power generation	—	—	—	4,550
	112,132	331,899	126,847	202,298

The following table sets forth Mega Smart's revenue by geographical location of its customers for the periods indicated.

	For the year ended December 31,				For the period ended July 22,			
	2006		2007		2007		2008	
	RMB	%	RMB	%	RMB	%	RMB	%
	(in thousands, except percentages)							
China	27,014	24.1	159,676	48.1	55,729	43.9	90,846	44.9
Europe	29,844	26.6	87,472	26.4	23,875	18.8	64,277	31.8
North and South America ...	38,726	34.6	48,331	14.6	18,849	14.9	27,041	13.4
Japan	13,444	12.0	34,491	10.3	27,013	21.3	12,642	6.2
Rest of Asia	2,284	2.0	1,372	0.4	958	0.8	7,414	3.7
Others	820	0.7	557	0.2	423	0.3	78	0.0
Total	<u>112,132</u>	<u>100.0</u>	<u>331,899</u>	<u>100.0</u>	<u>126,847</u>	<u>100.0</u>	<u>202,298</u>	<u>100.0</u>

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Year-to-date Period Ended July 22, 2008 Compared to Year-to-date Period Ended July 22, 2007

Revenue

Mega Smart's revenue increased by 59.5% from RMB 126.8 million in the year-to-date period ended July 22, 2007 to RMB 202.3 million in the same period in 2008. The increase primarily reflected increases in revenue from the boiler components segment and the services and repairs segment, partially offset by a decrease in revenue from the economiser segment.

Economisers. Revenue from the economiser segment decreased by 23.5% from RMB 68.3 million in the year-to-date period ended July 22, 2007 to RMB 52.3 million in the same period in 2008, primarily reflecting a decrease in revenue for supply of economiser products to both international customers and sales to SGTE.

Revenue for economiser products supplied to the customers in the international market decreased by 15.6% from RMB 32.1 million in the year-to-date period ended July 22, 2007 to RMB 27.1 million in the same period in 2008. The decrease in economiser revenue from the international market was primarily due to a decrease in supply volume, as a greater proportion of economiser products have been completed in the same period than in the same period in 2008. The average selling price for economiser products supplied to the international market by Mega Smart increased during the period, primarily reflecting a general increase in steel prices in 2008.

Revenue for Mega Smart's economiser products supplied to the PRC market primarily represented the products supplied by GPEL to SGTE. Revenue from such subcontracting arrangement between GPEL and SGTE decreased by 30.4% from RMB 36.2 million in the year-to-date period ended July 22, 2007 to RMB 25.2 million in the same period in 2008, primarily reflecting GPEL's increased production of boiler components in 2008 as part of its shifting focus from providing semi-finished economiser products to SGTE to manufacturing other heat transfer products.

Waste heat recovery products. Revenue from Mega Smart's waste heat recovery product segment decreased from RMB 16.5 million in the year-to-date period ended July 22, 2007 to RMB 15.7 million in the same period in 2008. Contract values of this segment are generally large, and Mega Smart's revenue from this segment has been generated based on a small number of contracts each year. Historically, Greens UK sold waste heat recovery products which were manufactured and delivered by SGTE. In the year-to-date period ended July 22, 2007, revenue from the segment primarily consisted of RMB 12.4 million for the spiral finned tubes for HRSGs manufactured by SGTE for a U.S. based customer. Shortly prior to the completion of our Reorganization in 2008, GPEL began manufacturing waste heat recovery products. As a result, revenue from this segment in the same period in 2008 consisted of RMB 1.9 million for the HRSG modules manufactured for a U.S. based customer and RMB 11.7 million for the HRSG modules manufactured for a European based customer.

Boiler components. Revenue from the boiler components segment was RMB 63.6 million for the year-to-date period ended July 22, 2008, which primarily consisted of (i) RMB 16.9 million for the superheaters supplied to a U.S. based customer; (ii) RMB 4.4 million for incinerator superheaters supplied to Pressure Parts Inc.; and (iii) RMB 37.0 million for the power station steel structure supplied to a PRC customer. GPEL did not engage in manufacturing of boiler components during the year-to-date period ended July 22, 2007 and began manufacturing of boiler components after July 22, 2007.

Marine products. Revenue from Mega Smart's marine products segment decreased from RMB 23.6 million in the year-to-date period ended July 22, 2007 to RMB 19.7 million in the same period in 2008. Revenue from this segment primarily consisted of Greens UK's supply of marine boiler shells sourced from GSz and GPEL after its commencement of operations in 2007 and other marine boiler components, such as control panels, burners, mountings and pumps, sourced from third parties. Mega Smart's revenue from this segment has been generated based on a small number of contracts each year. In the year-to-date period ended July 22, 2008, revenue from this segment primarily consisted of (i) RMB 12.9 million for the marine products supplied to various shipyards in China; and (ii) RMB 5.1 million for marine products supplied to a Singapore based customer. In the same period in 2007, revenue from this segment primarily consisted of (i) RMB 13.3 million for the marine products supplied to a PRC subsidiary of a U.K. customer; (ii) RMB 7.5 million for marine products

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to various shipyards in China; and (iii) RMB 3.1 million for the marine products supplied to a European based customer.

Services and repairs. Revenue from services and repairs increased from RMB 18.4 million in the year-to-date period ended July 22, 2007 to RMB 46.5 million in the same period in 2008, primarily reflecting an expansion of Mega Smart's international customer base. In the year-to-date period ended July 22, 2008, Greens UK generated RMB 26.6 million in revenue under its contract to refurbish three HRSG units for a U.K. based customer. The components used for the refurbishing contract were sourced from third parties locally due to the remote location of the worksite, which made it logistically challenging to source components from production centers in China. Revenue from services and repairs by SGME increased by 14.5% from RMB 6.2 million in the year-to-date period ended July 22, 2007 to RMB 7.1 million in the same period in 2008.

Power generation. RMB 4.6 million of revenue was recognized on stage-of-completion basis for the Xinjiang Project, which commenced construction in July 2008.

Cost of Sales/Services

Cost of sales of Mega Smart primarily consist of steel and other raw materials, outsourced processing fee paid to third parties, direct labor costs and manufacturing overhead. Cost of sales of Mega Smart increased by 58.8% from RMB 100.6 million in the year to date period ended July 22, 2007 to RMB 159.7 million in the same period in 2008. Mega Smart commenced operation in June 2007 and focused on providing semi-finished economiser products to SGTE in 2007. In 2008, Mega Smart began to focus more on manufacturing of waste heat recovery products, boiler components products and marine products, which resulted in an increase in the outsourced processing fee paid to third parties, steel and steel-based components costs and direct labor costs. Xinjiang Project commenced construction in July 2008, and Mega Smart recognized costs of RMB 4.6 million on stage-of-completion basis for the year to end period ended July 22, 2008.

Gross Profit and Gross Margin

Gross profit increased by 62.2% from RMB 26.3 million in the year-to-date period ended July 22, 2007 to RMB 42.6 million in the same period in 2008. Mega Smart's gross margin increased from 20.7% in the year-to-date period ended July 22, 2007 to 21.1% in the same period in 2008, primarily reflecting an increase in gross margin for economiser segment and boiler components segment, partially offset by decrease in gross margin for services and repairs segment.

Gross margin for economiser segment increased from 17.5% in the year-to-date period ended July 22, 2007 to 21.1% in the same period in 2008, primarily reflecting an increase in gross margin for GPEL's economisers products provided to SGTE, partially offset by a decrease in gross margin for Greens UK's economiser sales. Like SGTE, GPEL recognizes revenue for semi-finished economiser products provided to SGTE on a stage-of-completion basis. A greater proportion of the semi-finished economiser products provided by GPEL have been completed in the same period than the same period in 2007, which resulted in a significantly lower gross margin for GPEL in the year-to-date period ended July 22, 2007. In the year-to-date period ended July 22, 2008, Greens UK's gross margin decreased, reflecting a combination of (i) a change in customer base, and (ii) an increase in the average selling price for economiser products supplied by SGTE. In the year-to-date period ended July 22, 2007, Greens UK supplied a significant volume of economiser products to its Japanese customers, from which Greens UK has historically realized higher gross margins.

Gross margin for boiler components segment was 31.9% in the year-to-date period ended July 22, 2008. Mega Smart had no revenue from boiler components segment in the year-to-date period ended July 22, 2007.

Gross margin for services and repairs segment decreased from 53.8% in the year-to-date period ended July 22, 2007 to 20.1% in the same period in 2008. In the year-to-date period ended July 22, 2008, gross margin for the services and repairs provided to a U.K. based customer under the HRSG refurbishing contract was significantly lower than Mega Smart's remaining services and repairs contract. Due to the remote location of the worksite, Greens UK sourced components for the refurbishing service from third parties locally, rather than from

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the production facilities in China. Gross margin for the segment in the PRC market also decreased significantly, reflecting the impact of ongoing financial crisis on the marine services and repairs industry generally, coupled with an increase in steel prices in the year-to-date period ended July 22, 2008.

Mega Smart's waste heat recovery product segment experienced a gross loss in the year-to-date period ended July 22, 2008, primarily reflecting Mega Smart's effort to enter into the U.S. market coupled with the additional cost incurred to provide assembling services on the HRSG products we supplied to a U.S. based customer.

Selling and Distribution Expenses

Mega Smart's selling and distribution expenses generally consist of (i) transportation and other distribution costs, and (ii) salary and wages of its sales and marketing employees. Selling and distribution expenses increased by 50.3% from RMB 2.8 million in the year-to-date period ended July 22, 2007 to RMB 4.2 million in the same period in 2008, primarily reflecting an increase in salary and wages of employees, which in turn reflected an increase in the number of employees at Greens UK and GPEL as Mega Smart's business continued to expand.

Administrative Expenses

Administrative expenses increased by 42.9% from RMB 18.1 million in the year-to-date period ended July 22, 2007 to RMB 25.9 million in the same period in 2008, primarily reflecting (i) an increase in salary and wages of employees as the number of employees increased; (ii) an increase in lease payments for new office space in Wakefield, UK and Shanghai, China; and (iii) an increase in professional fee.

Other Income and Other Gains and Losses

Mega Smart's other income and other gains and losses increased from RMB 0.7 million in the year-to-date period ended July 22, 2007 to RMB 14.3 million in the same period in 2008, which was primarily due to a subsidy income in 2008, partially offset by the loss on disposal of GSz. In the year-to-date period ended July 22, 2008, Mega Smart received a subsidy of RMB 15.3 million from the local governmental authority as a business incentive to operate at GPEL Gushan plant's current location. Greens UK recognized a loss of RMB 1.9 million relating to its disposal of GSz in 2008.

Finance Costs

Mega Smart's finance costs decreased by 5.4% from RMB 260 thousand in the year-to-date period ended July 22, 2007 to RMB 246 thousand in the same period in 2008, which was primarily due to the decrease in its bank borrowing.

Share of Profit of a Jointly Controlled Entity

For accounting purposes, share of profit of a jointly controlled entity represent Greens UK's equity interest in SGTE. Mega Smart's share of profit of a jointly controlled entity increased from RMB 10.2 million in the year-to-date period ended July 22, 2007 to RMB 14.5 million in the same period in 2008, reflecting an increase in profit attributable to equity holders of SGTE.

Income Tax Expenses

Mega Smart's tax expense was RMB 0.3 million and RMB 13.5 million for the year-to-date period ended July 22, 2007 and 2008, respectively. The increase in Mega Smart's tax expense was primarily due to a non-recurring PRC withholding capital gains tax of RMB 12.5 million accrued in relation to the Reorganization.

Profit for the Year

As the result of foregoing, Mega Smart's profit for the year increased by 75.9% from RMB 15.8 million for the year-to-date period ended July 22, 2007 to RMB 27.8 million for the same period in 2008.

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Year Ended December 31, 2007 Compared to Year Ended December 31, 2006

Revenue

Revenue of Mega Smart increased from RMB 112.1 million in 2006 to RMB 331.9 million in 2007. The increase primarily reflected revenue increases in the economiser segment and the marine products segment.

Economisers. Revenue from Mega Smart's economiser segment increased from RMB 19.4 million in 2006 to RMB 184.2 million in 2007, primarily reflecting a combination of GPEL's commencement of operation in 2007, coupled with an increase in revenue for supply of economiser products to international customers in 2007.

GPEL commenced operation in 2007 and primarily focused on providing semi-finished economiser products to SGTE to meet the increasing demand for our economiser products. Revenue recognized for such arrangement amounted to RMB 108.7 million in 2007, which contributed significantly to the revenue increase in the economiser segment in 2007 compared with 2006. In 2006, Mega Smart recognized no revenue for economiser products supplied to the PRC market.

Revenue from supply of economisers in the international market increased significantly from RMB 19.4 million in 2006 to RMB 75.2 million in 2007, primarily reflecting an increase in supply volume. The volume of economiser products supplied to the international market increased significantly, which we believe reflected increasing brand recognition for Mega Smart's products in the international market, coupled with an increase in manufacturing capacity at SGTE resulting from the commencement of operation at GPEL. The average selling price for economisers supplied to the international customers on a free-issue basis increased, primarily reflecting an increase in economiser products supplied to Japanese customers, from which Greens UK has historically realized higher gross margins.

Waste heat recovery products. Revenue from Mega Smart's waste heat recovery product segment increased by 8.0% from RMB 34.9 million in 2006 to RMB 37.7 million in 2007. In 2007, revenue from the segment primarily consisted of (i) RMB 22.7 million for the HRSG modules contracted by Greens UK and manufactured by SGTE for a U.S. based customer; and (ii) RMB 12.4 million for HRSG spiral finned tubes contracted by Greens UK and manufactured by SGTE for a U.S. based customer. In 2006, revenue for this segment primarily consisted of (i) RMB 19.5 million for the waste heat boilers outsourced and provided to a U.S. based customer and contracted by Greens UK and delivered for its South American Subsidiary; and (ii) RMB 16.3 million for the waste heat boilers outsourced and provided to a Canadian customer and contracted by Greens UK.

Boiler components. Revenue from Mega Smart's boiler components segment increased from nil in 2006 to RMB 4.4 million in 2007. Revenue from boiler components segment in 2007 primarily consisted of (i) RMB 3.2 million for the power station steel structure manufactured for a PRC customer; and (ii) RMB 0.9 million for the superheaters manufactured for a U.S. based customer.

Marine products. Revenue from marine products segment increased from RMB 18.2 million in 2006 to RMB 54.1 million in 2007. In 2007, revenue from this segment primarily consisted of (i) RMB 19.3 million for the marine products supplied to the PRC affiliate of a U.K. based customer; (ii) RMB 26.5 million for marine products to various shipyards in China; and (iii) RMB 3.1 million for the marine products supplied to a European customer. In 2006, revenue for this segment represented marine products to various shipyards in China.

Services and repairs. Revenue from services and repairs increased from RMB 39.6 million in 2006 to RMB 51.6 million in 2007, or an increase of 30.2%. The increase reflected increases in revenue from both domestic and international markets for the segment. Revenue from services and repairs by SGME increased by 59.6% from RMB 9.4 million in 2006 to RMB 15.0 million in 2007, which primarily reflected a continuing expansion of its customer base. Revenue from the international market for this segment also increased by 20.9% from RMB 30.2 million in 2006 to RMB 36.5 million in 2007, which primarily reflected the recognition of revenue under a refurbishment contract for a U.K. based customer which began in September 2007. This segment also includes finning machines supplied by Greens UK to SGTE and third parties which amounted to RMB 2.7 million and RMB 3.9 million in 2006 and 2007 respectively.

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Cost of Sales Services

The cost of sales for Mega Smart increased from RMB 77.0 million in 2006 to RMB 247.4 million in 2007, reflecting GPEL's commencement of operation in 2007. In 2007, GPEL focused on producing semi-finished economiser products for SGTE, which contributed to the significant increase in steel and other raw materials, direct labor costs and manufacturing overhead.

Gross Profit and Gross Margin

Gross profit increased from RMB 35.2 million in 2006 to RMB 84.5 million in 2007. The gross margin for Mega Smart decreased from 31.4% in 2006 to 25.5% in 2007, which primarily reflected a decrease in gross margin for the waste heat recovery product segment and the services and repairs segment, partially offset by an increase in gross margin for the economiser segment during the period.

Gross margin for the waste heat recovery product segment decreased from 30.3% in 2006 to 16.9% in 2007, which primarily reflected, among other things, a change in the product mix supplied by Mega Smart. In 2006, Mega Smart primarily supplied small-scale waste heat boilers, from which Mega Smart has historically yielded higher gross margins. In 2007, Mega Smart began to supply spiral finned tubes for HRSGs, which yielded lower gross margins due to less technical sophistication required for these products compared to HRSG modules or waste heat boilers.

Gross margin for the services and repairs segment decreased from 44.2% in 2006 to 36.3% in 2007, primarily reflecting a combination of (i) SGTE's supply of components to SGME for free in 2006; and (ii) the lower gross margin yielded from HRSG refurbishing work for a U.K. based customer that began in 2007. Due to the remote location of the worksite, Greens UK sourced the components for the refurbishing service from third parties locally, rather than from the production facilities in China.

Gross margin for economiser segment increased from 28.7% in 2006 to 30.1% in 2007, primarily reflecting (i) the increase in gross margin for GPEL's economisers processing products provided to SGTE, which yielded a gross margin of 27% for GPEL for 2007; and (ii) the increase in gross margin from the international market due to the change in the customer base. In 2007, Greens UK supplied a significant volume of economiser products to its Japanese customers, from which Greens UK has historically realized higher gross margins.

Selling and Distribution Expenses

Selling and distribution expenses increased by 16.9% from RMB 4.2 million 2006 to RMB 5.0 million in 2007.

Administrative Expenses

Administrative expenses increased by 39.9% from RMB 24.3 million in 2006 to RMB 33.9 million in 2007, primarily reflecting an increase in salary and wages as GPEL and Greens UK hired new employees as part of Mega Smart's continued business expansion, as well as increases in various other administrative expenses.

Other Income and other Gains and Losses

Mega Smart's other income and other gains and losses decreased from RMB 0.8 million in 2006 to RMB 0.4 million in 2007. In 2006, Mega Smart recognized RMB 0.8 million as a gain relating to the settlement of loans.

Finance Costs

Finance costs increased from RMB 0.2 million in 2006 to RMB 0.5 million in 2007, which was primarily due to the increase in the bank borrowings.

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Share of Profit of a Jointly Controlled Entity

Mega Smart's share of profit of a jointly controlled entity decreased by 11.3% from RMB 18.2 million in 2006 to RMB 16.1 million in 2007, which primarily reflected a decrease in profit attributable to the equity holders of SGTE.

Income Tax Expenses

Mega Smart's tax expense increased by 86.7% from RMB 1.9 million in 2006 to RMB 3.5 million in 2007, as a result of an increase in the profit before tax. The effective tax rate of Mega Smart during the same periods was 7.3% and 5.6% respectively. The decrease in effective tax rate was primarily due to GPEL's exemption from PRC enterprise income tax.

Profit for the year

As the result of above, Mega Smart's profit for the year increased from RMB 23.6 million in 2006 to RMB 58.2 million in 2007.

DISCUSSION OF MEGA SMART'S STATEMENT OF FINANCIAL POSITION ITEMS

Inventories and Contracts-in-Progress

Mega Smart's inventory balance information should be read in light of the contracts-in-progress information. See "—Discussion of Our Statement of Financial Position Items—Inventories and Contracts-in-Progress". The following table sets forth the components of Mega Smart's inventory balances, as of the dates indicated, as well as its turnover of average inventory for the periods indicated.

	As of December 31,		As of July 22,
	2006	2007	2008
	(in thousands of RMB, except turnover days of inventory)		
Raw materials	4,157	23,353	46,551
Turnover days of inventory (in days) ⁽¹⁾	23	20	45

(1) Turnover days of inventory for a year equals average inventory divided by total cost of sales and then multiplied by 365.25 for each of years ended December 31, 2006 and 2007, and by 204 for the year-to-date period ended July 22, 2008. Average inventory equals inventory balance at the beginning of the period plus inventory balance at the end of the period, divided by two.

Mega Smart's inventories generally consist of raw materials. The increase in raw materials balance from December 31, 2006 to December 31, 2008 and the turnover days of inventory during this period primarily reflected the increase in raw materials procured by Greens UK for its international customers requiring raw materials sourced from international market for the products they ordered, coupled with the buildup of raw materials by GPEL for manufacturing as part of its ramp up of operations in 2007.

The following table sets forth the components of contracts-in-progress as of the dates indicated for Mega Smart.

	As of December 31,		As of July 22
	2006	2007	2008
	(in thousands of RMB)		
Contracts-in-progress at the balance sheet date			
Contract costs incurred plus recognized profits less recognized losses	72,495	280,290	151,226
Less: progress billings	(74,092)	(282,462)	(142,261)
	(1,597)	(2,172)	8,965
Analyzed for reporting purpose as:			
Amounts due from contract customers	750	10,663	28,524
Amounts due to contract customers	(2,347)	(12,835)	(19,559)
Total	(1,597)	(2,172)	8,965

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Trade and Other Receivables

The following table sets forth the components of trade and other receivables outstanding as of the dates indicated for Mega Smart.

	As of December 31,		As of July 22,
	2006	2007	2008
	(in thousands of RMB)		
Trade receivables	26,932	75,804	67,315
Other receivables	792	351	2,810
Deposits	138	128	1,520
VAT refundable	36	250	2,095
VAT recoverable	—	3,593	3,122
Prepaid expenses	1,949	2,125	668
Advance to suppliers	263	633	4,887
Total	30,110	82,884	82,417

Mega Smart's Trade Receivables

The following table sets forth the balance and turnover days of Mega Smart's trade receivables less allowance for doubtful debts as of the dates indicated.

	As of December 31,		As of July 22,
	2006	2007	2008
	(in thousands of RMB, except turnover days)		
Trade receivables	26,932	75,804	67,315
Turnover days of trade receivables ⁽¹⁾	58	57	72

(1) Turnover days of trade receivables for a year equals average trade receivables divided by revenue and then multiplied by 365.25 for each of years ended December 31, 2006 and 2007, and by 204 for the year-to-date period ended July 22, 2008. Average trade receivables equal balance of trade receivables less retention money receivables and allowance for doubtful debts at the beginning of the period plus balance at the end of the period, divided by two. These amounts of turnover days of trade receivables are calculated based on Mega Smart's total revenue amounts, which include revenue generated from related parties. If calculated solely based on revenue excluding revenue from related parties, which totaled RMB 107.2 million, 217.3 million and RMB 173.6 million in 2006, 2007 and the year-to-date period ended July 22, 2008, respectively, Mega Smart's turnover days of trade receivables would have been 60 days, 86 days and 84 days, for the respective period.

The balance of accounts receivable for Mega Smart increased significantly from December 31, 2006 to December 31, 2007, primarily reflecting an increase of sales by Greens UK. Mega Smart generally allows an average credit period ranged from 30 to 90 days to its customers. For products supplied to the international customers, Mega Smart generally obtains warranty guarantees by commercial banks and credit insurance companies, and as a result, Mega Smart had insignificant retention money outstanding during the Relevant Period.

The following table sets forth an aging analysis of Mega Smart's trade receivables, excluding allowance for doubtful debts, as of the dates indicated.

	As of December 31,		As of July 22,
	2006	2007	2008
	(in thousands of RMB)		
0 to 90 days	25,596	66,922	55,565
91 to 180 days	2	7,140	5,057
181 days to 1 year	1,314	1,610	1,974
1 to 2 years	20	132	4,719
Total	26,932	75,804	67,315

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A significant majority of Mega Smart's trade receivables balance less allowance for doubtful debts during the period has been outstanding for less than 90 days, which was within Mega Smart's general credit period. The balance of the trade receivables outstanding for more than one year increased significantly from December 31, 2007 to December 31, 2008, primarily reflecting impact of the ongoing financial crisis.

Others

Other types of receivables primarily consist of advances to suppliers, VAT refundable, VAT recoverable, prepaid expenses and other receivables. Advance to suppliers primarily consist of those prepayments to the raw material suppliers. Advance to suppliers increased from RMB 0.6 million on December 31, 2007 to RMB 4.9 million on July 22, 2008, primarily reflecting the increase in raw materials purchase in anticipation of higher steel prices. VAT recoverable increased from nil on December 31, 2006 to RMB 3.6 million on December 31, 2007. VAT recoverable represents the excess amount of VAT paid in connection with Mega Smart's purchases from suppliers over VAT received in connection with its sales to customers.

Trade and other Payables

The following table sets forth the components of Mega Smart's trade and other payables outstanding as of the dates indicated.

	<u>As of December 31,</u>		<u>As of July 22,</u>
	<u>2006</u>	<u>2007</u>	<u>2008</u>
	(in thousands of RMB)		
Trade payables	12,741	36,715	68,198
Other tax payables	1,092	2,247	2,341
Accrued cost for subcontracting work	750	728	8,616
Other payables for acquisition of property, plant and equipment	—	3,487	9,732
Salary and bonus payables	78	761	1,253
Accrued expenses	65	2,292	1,770
Social welfare and pensions payable	589	1,231	—
Others	2,351	464	865
Total	<u>17,666</u>	<u>47,925</u>	<u>92,775</u>

Mega Smart's Trade Payables

Mega Smart's trade payables represent amounts payable in connection with the purchase of raw materials and components from suppliers other than related parties. The following table sets out an aging analysis of Mega Smart's trade payables and the turnover days of trade payables as of the dates indicated.

	<u>As of December 31,</u>		<u>As of July 22</u>
	<u>2006</u>	<u>2007</u>	<u>2008</u>
	(in thousands of RMB)		
Within 90 days	12,497	30,987	41,195
91 to 180 days	209	4,380	12,624
181 days to 1 year	4	1,203	13,917
Over 1 year	31	145	462
Total	<u>12,741</u>	<u>36,715</u>	<u>68,198</u>
Turnover days of trade payables ⁽¹⁾	<u>45</u>	<u>37</u>	<u>67</u>

(1) Turnover days of trade payables for a year equals average trade payables divided by total cost of sales and then multiplied by 365.25 for each of years ended December 31, 2006 and 2007, and by 204 for the year-to-date period ended July 22, 2008. Average trade payables equals balance of trade payables at the beginning of the period plus balance of trade payables at the end of the period, divided by two. These amounts of turnover days of trade payables are calculated based on Mega Smart's total cost of sales amounts, which include costs incurred to related parties.

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The increase in Mega Smart's trade payables balance from December 31, 2006 to December 31, 2007 primarily reflected the commencement of operation of GPEL in 2007. The continued increase in balances of trade payable and turnover days of trade payables from December 31, 2007 to December 31, 2008 primarily reflected the continued expansion of Mega Smart's business. The increase in the turnover days of trade payables from December 31, 2007 to December 31, 2008 primarily reflected a combination of (i) the relatively low beginning balance as of December 31, 2006 as Mega Smart was at initial stages of its business expansion; and (ii) a relatively high cost of sales in 2007 due to GPEL commenced its operations in 2007.

Others

Other types of payables primarily consist of other payables for acquisition of property, plant and equipment, other tax payables and accrued expenses. The other payables for acquisition of property, plant and equipment of RMB 3.5 million increased from December 31, 2007 to RMB 9.7 million on July 22, 2008, primarily due to payables to the suppliers of equipment at Gushan Xieqiao Plant.

PRO FORMA FINANCIAL INFORMATION

The following table sets forth summary combined income statement and summary combined statement of cash flows of our Group on a Pro Forma basis, as if the acquisition of Mega Smart and other aspects of the Reorganization had been completed as of January 1, 2008. These results may not reflect the actual results we would have achieved had the Reorganization been completed on January 1, 2008, and may not be predictive of our future results of operations. We have derived the following financial information from Appendix II to this document.

Summary Pro Forma Combined Income Statement

	The Group	Mega Smart Group	Subtotal	Pro forma adjustments	Pro forma combined Group
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Consolidated Income Statement					
Revenue	431,073	202,298	633,371	(68,977)	564,394
Cost of Sales/services	(321,397)	(159,661)	(481,058)	68,977	(412,081)
Gross profit	109,676	42,637	152,313	—	152,313
Selling and distribution expenses	(6,708)	(4,158)	(10,866)	—	(10,866)
Administrative expenses	(33,249)	(25,858)	(59,107)	(1,773)	(60,880)
Other income and other gains and losses	4,259	14,312	18,571	—	18,571
Finance costs	(1,939)	(246)	(2,185)	—	(2,185)
Share of profit of a jointly controlled entity	—	14,531	14,531	(14,531)	—
Profit before tax	72,039	41,218	113,257	(16,304)	96,953
Taxation	(11,984)	(13,466)	(25,450)	1,021	(24,429)
Profit for the year	60,055	27,752	87,807	(15,283)	72,524
Attributable to owners of the Company	60,055	27,752	87,807	(15,283)	72,524

Summary Pro Forma Combined Statements of Cash Flows

	The Group	Mega Smart Group	Subtotal	Pro forma adjustments	Pro forma combined Group
(in thousands of RMB)					
Net cash used in operating activities	(9,616)	(1,153)	(10,769)	—	(10,769)
Net cash used in investing activities	(160,998)	(81,282)	(242,280)	78,413	(163,867)
Net cash from financing activities	218,038	114,090	332,128	(110,728)	221,400
Net increase in cash and cash equivalent	47,424	31,655	79,079	(32,315)	46,764
Cash and cash equivalents at the beginning of the year	39,508	6,689	46,197	(6,689)	39,508
Effect of Foreign Exchange Rate changes	(7,442)	660	(6,782)	—	(6,782)
Cash and cash equivalents as of July 22, 2008	N/A	39,004	39,004	(39,004)	—
Cash and cash equivalents at the end of the year	79,490	N/A	79,490	—	79,490
Net increase in cash and cash equivalents	47,424	31,655	79,079	(32,315)	46,764

See "Unaudited Pro Forma Financial Information" in Appendix II to this document.

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LIQUIDITY AND CAPITAL RESOURCES

Cash Flows and Working Capital

To date, our operations have been primarily financed by cash generated from operating activities. In addition, we received RMB 196.7 million in proceeds from the sale of our Shares to China Fund Limited. See "Business—History and Reorganization—Private Placement". Our cash expenditures primarily consist of our purchase of raw materials and components from our suppliers, acquisition of property, plant and equipments, payments on manufacturing overheads, expenses on wages and salaries and payments for construction of our waste heat power generation project. As of May 31, 2009, we had RMB 83.8 million in cash and cash equivalents, compared to RMB 79.5 million as of December 31, 2008, RMB 39.5 million as of December 31, 2007, and RMB 7.4 million as of December 31, 2006.

The increases in our cash and cash equivalents in 2006, 2007 and the five-month period ended May 31, 2009 were primarily due to an increase in our net cash provided by operating activities. The increase in our cash and cash equivalents in 2008 was primarily due to an increase in our net cash provided by financing activities. Except as disclosed in this document, as of the Latest Practicable Date, we were not aware of any material changes with respect to our cash flows.

Our working capital as of December 31, 2006, 2007, 2008 and May 31, 2009 was RMB 37.9 million, RMB 62.8 million, RMB 135.6 million and RMB 73.5 million, respectively.

The following table sets forth a summary of our cash flows for the periods indicated.

	For the year ended December 31,			For the five months ended May 31,	
	2006	2007	2008	2008	2009
	(in thousands of RMB)				
Net cash from (used in) operating activities	21,905	68,864	(9,616)	(10,139)	68,573
Net cash used in investing activities	(11,909)	(24,431)	(160,998)	(82,398)	(124,610)
Net cash (used in) from financing activities	(11,119)	(12,330)	218,038	99,565	58,011
Net (decrease) increase in cash and cash equivalents	(1,123)	32,103	47,424	7,028	1,974
Cash and cash equivalents at beginning of year/period	8,528	7,405	39,508	39,508	79,490
Effect of exchange rate changes	—	—	(7,442)	—	2,334
Cash and cash equivalents at end of year/period, represented by					
Cash and bank balances	7,405	39,508	80,279	46,536	83,798
Bank overdrafts	—	—	(789)	—	—
	<u>7,405</u>	<u>39,508</u>	<u>79,490</u>	<u>46,536</u>	<u>83,798</u>

Operating Activities

Net cash provided by operating activities in the five-month period ended May 31, 2009 was RMB 68.6 million, which was primarily attributable to (i) profit before tax of RMB 45.3 million, (ii) the increase in trade and other payables of RMB 49.3 million, and (iii) the decrease in trade and other receivables of RMB 7.3 million; partially offset by (i) the increase in inventory of RMB 10.6 million, and (ii) the decrease in amounts due to customers for contract work of RMB 21.0 million.

Net cash used by operating activities in 2008 was RMB 9.6 million, which was primarily attributable to (i) an adjustment for profit on construction under service concession arrangements of RMB 5.6 million, (ii) an increase in trade and other receivables of RMB 116.0 million, (iii) an increase in amounts due from related companies of RMB 10.3 million, and (iv) a payment of income tax of RMB 9.2 million; partially offset by (i) profit before tax of RMB 72.0 million, (ii) an increase in trade and other payables of RMB 17.0 million, and (iii) an increase in amounts due to related companies of RMB 31.4 million.

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Net cash provided by operating activities in 2007 was RMB 68.9 million, which was primarily attributable to (i) profit before tax of RMB 36.6 million, (ii) a decrease in inventories of RMB 6.7 million, (iii) an increase in amounts due to related companies of RMB 46.6 million, and (iv) an increase in amounts due to customers for contract work of RMB 18.9 million; partially offset by (i) an increase in amounts due from related companies of RMB 21.8 million, (ii) a decrease in trade and other payables of RMB 14.0 million, and (iii) a payment of income tax of RMB 5.7 million.

Net cash provided by operating activities in 2006 was RMB 21.9 million, which was primarily attributable to the profit before tax of RMB 41.2 million and an increase in trade and other payables of RMB 21.9 million; partially offset by an increase in trade and other receivables of RMB 43.3 million and a payment of income tax of RMB 3.1 million.

Investing Activities

Net cash used in investing activities in the five-month period ended May 31, 2009 was RMB 124.6 million, which was primarily attributable to (i) payments for acquisition of property, plant and equipment of RMB 61.4 million, (ii) payment for construction of infrastructure in service concession arrangement at our Xinjiang Project of RMB 43.2 million and (iii) increase in pledged bank deposits of RMB 20.1 million.

Net cash used in investing activities in 2008 was RMB 161.0 million, which was primarily attributable to (i) payments for acquisition of property, plant and equipment of RMB 27.9 million, (ii) payments for construction of infrastructure in service concession arrangement of RMB 47.8 million, and (iii) advance to related companies of RMB 107.2 million; partially offset by the net cash from acquisition of Mega Smart of RMB 30.1 million.

Net cash used in investing activities in 2007 was RMB 24.4 million, which was primarily attributable to the advance to related parties of RMB 21.6 million and an increase in pledged bank deposits of RMB 2.3 million.

Net cash used in investing activities in 2006 was RMB 11.9 million, which was primarily attributable to the payments for acquisition of property, plant and equipment of RMB 6.6 million and the advance to related companies of RMB 9.1 million; partially offset by a decrease in pledged bank deposits of RMB 3.5 million.

Financing Activities

Net cash from financing activities in the five-month period ended May 31, 2009 was RMB 58.0 million, which was primarily attributable to the new bank borrowings raised of RMB 140.0 million, partially offset by (i) repayment of bank borrowings of RMB 57.0 million, and (ii) dividends paid in RMB 20.8 million.

Net cash from financing activities in 2008 was RMB 218.0 million, which was primarily attributable to the cash received for new bank borrowings of RMB 82.0 million and the proceeds from issuance of shares to China Fund Limited of RMB 196.7 million; partially offset by repayment of bank borrowing of RMB 70.0 million.

Net cash used in financing activities in 2007 was RMB 12.3 million, which was primarily attributable to the dividend payment of RMB 35.0 million and repayment of bank borrowing of RMB 40.0 million; partially offset by new bank borrowing of RMB 60.0 million.

Net cash used in financing activities in 2006 was RMB 11.1 million, which was primarily attributable to the dividend payment of RMB 10.0 million and repayment of bank borrowing of RMB 20.0 million; partially offset by new bank borrowing of RMB 20.0 million.

CAPITAL EXPENDITURE

Our capital expenditures were RMB 6.6 million, RMB 1.1 million, RMB 75.7 million and RMB 104.5 million in 2006, 2007, 2008 and the five months ended May 31, 2009, respectively. Our capital

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expenditures in 2006 were primarily attributable to purchase of finning machines from Greens UK. Our capital expenditures in 2008 and the five-month period ended May 31, 2009 were primarily related to the construction of Xinjiang Project and GPEL's Xieqiao plant and acquisition of other property, plant and equipment.

INDEBTEDNESS

The following table sets forth components of our indebtedness as of the dates indicated.

	As of December 31,			As of May 31,
	2006	2007	2008	2009
	(in thousands of RMB)			
Secured bank borrowings	—	—	30,000	—
Unsecured bank borrowings	10,000	30,000	42,000	155,000
	<u>10,000</u>	<u>30,000</u>	<u>72,000</u>	<u>155,000</u>
Unsecured bank overdrafts	—	—	789	—
	<u>10,000</u>	<u>30,000</u>	<u>72,789</u>	<u>155,000</u>
Carrying amount repayable on demand or within 1 year	<u>10,000</u>	<u>30,000</u>	<u>72,789</u>	<u>155,000</u>

As of September 30, 2009, we had an outstanding unsecured borrowings of RMB 410 million.

CONTRACTUAL OBLIGATIONS AND CONTINGENT AND OTHER LIABILITIES

During the Relevant Period, our contractual obligations consisted of our operating leases, which represented leases on our manufacturing facilities and offices. In 2006, 2007, 2008 and for the five months ended May 31, 2009, minimum lease payments paid under our operating leases totaled RMB 5.7 million, RMB 4.9 million, RMB 6.6 million and RMB 4.2 million, respectively. The following table sets forth the schedule of our commitments for future minimum operating lease payments as of the dates indicated.

	As of December 31,			As of May 31,
	2006	2007	2008	2009
	(in thousands of RMB)			
Within one year	3,800	5,128	8,011	9,236
In the second to fifth years inclusive	277	2,271	7,454	4,571
Over five years	—	—	454	—
Total	<u>4,077</u>	<u>7,399</u>	<u>15,919</u>	<u>13,807</u>

As of September 30, 2009, which is the latest practicable date for the purpose of this contingent liability statement, we did not have any material contingent liabilities or guarantees.

Except as disclosed in this document, as of September 30, 2009, and other than intra-group liabilities, we did not have any outstanding loan capital, bank overdrafts, liabilities under acceptances or other similar indebtedness, debentures, mortgages, charges or acceptance credits or hire purchase commitments, or guarantees or other material contingent liabilities.

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CAPITAL COMMITMENTS

The following table sets forth the aggregate amounts of capital commitments as of the dates indicated.

	As of December 31,			As of May 31,
	2006	2007	2008	2009
	(in thousands of RMB)			
Capital expenditure in respect of the acquisition or property, plant and equipment contracted for but not provided in the consolidated financial statements	604	—	32,456	4,483
Capital expenditure in respect of the acquisition of land use right	16,375	16,375	13,375	13,375

Our capital commitments as of December 31, 2006 and 2007 primarily related to the purchases of machinery and spare parts. Our capital commitments as of December 31, 2008 and May 31, 2009 primarily related to the construction of Xinjiang Project and GPEL's Xieqiao plant.

OFF-BALANCE SHEET AGREEMENT

As part of our ongoing business, we do not participate in transactions that generate relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which are often established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Inflation

During the Relevant Period, inflation has not materially impacted our results of operations. According to the National Bureau of Statistics of China, the change of consumer price index in China was 1.5%, 4.8%, 5.9% and -0.9% in 2006, 2007, 2008 and for the five months ended May 31, 2009, respectively. The rate of inflation in the U.K. was 2.3%, 2.3%, 3.6% and 2.2%, respectively during the same periods, according to the Bank of England.

Interest Rate Risk

Our fair value interest rate risk relates primarily to our bank loans and deposits. We currently have not entered into interest rate swaps to hedge against our exposure to changes in fair values or cash flow of the borrowings. Currently, we do not have a specific policy to manage our interest rate risk, but seek to closely monitor our interest rate exposure.

Foreign Exchange Risk

Our foreign exchange risk exposure primarily relates to our accounts receivable, which are denominated in Renminbi as well as, for sales to our international market, various foreign currencies, including the U.S. dollar and the GBP. 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.

Most of our sales and purchases are denominated in RMB and GBP, and a variety of other currencies which include without limitation Euro, U.S. dollar and Yen. According to our current hedging policy, we primarily

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enter into (i) deliverable forward contracts denominated in the GBP to hedge our foreign exchange risks exposure associated with the sales by Greens UK to our international customers, and (ii) non-deliverable forward contracts denominated in RMB to hedge our foreign exchange risk exposure associated with non-US dollar sales from our subsidiaries in the PRC to Greens UK. The terms of the forward contracts shall be determined with reference to the estimated volume and timing of cash flow of RMB against GBP for the forthcoming twelve months or cash flow of other foreign currencies against GBP on a contract-by-contract basis. We do not expect to undertake additional hedging transactions in the near future for the US dollar sales by our subsidiaries in the PRC, which have been primarily intra-group sales to Greens UK, since our Directors consider that the current exchange rate between the U.S. dollar and RMB is relatively stable. The following table sets forth our outstanding foreign exchange forward contracts as of May 31, 2009:

Notional amount	Maturity date	Exchange rates
Sell US\$868,965.52	February 1, 2010	US\$1:RMB 7.2500
Sell US\$976,616.23	March 31, 2010	US\$1:RMB 7.2700
Sell US\$2,186,588.92	July 15, 2009	US\$1:RMB 6.8600
Sell US\$2,184,041.93	September 15, 2009	US\$1:RMB 6.8680
Sell US\$2,170,767.00	February 16, 2010	US\$1:RMB 6.9100
Sell EUR1,350,000.00	September 30, 2009	EUR1:RMB 8.7580
Sell EUR150,000.00	August 4, 2009	EUR1:US\$1.3624
Sell EUR100,000.00	July 7, 2009	EUR1:US\$1.3369
Sell EUR125,000.00	June 18, 2009	EUR1:US\$1.3647
Sell GBP332,603.38	June 9, 2009	GBP1:US\$1.5033
Sell US\$500,000.00	June 9, 2009	US\$1:GBP0.6867

RECENT ACCOUNTING PRONOUNCEMENTS

At the date of this document, the International Accounting Standards Board has issued the following new and revised standards, amendments and interpretations which are not yet effective:

IFRSs (Amendments)	Improvements to IFRSs April 2009 ⁽¹⁾
IAS 27 (Revised)	Consolidated and Separate Financial Statements ⁽²⁾
IAS 32 (Amendment)	Classification of Rights Issues ⁽³⁾
IAS 39 (Amendment)	Eligible Hedged Items ⁽²⁾
IFRS 1 (Amendment)	Additional Exemptions for First-time Adopters ⁽⁴⁾
IFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transaction ⁽⁴⁾
IFRS 3 (Revised)	Business Combinations ⁽²⁾
IFRS 5 (Amendments)	Amendments resulting from Improvements to IFRSs May 2008 ⁽²⁾
IFRIC 17	Distributions of Non-cash Assets to Owners ⁽²⁾
IFRIC 18	Transfers of Assets from Customers ⁽⁵⁾

(1) Effective for annual periods beginning on or after July 1, 2009 and January 1, 2010, as appropriate

(2) Effective for annual periods beginning on or after July 1, 2009

(3) Effective for annual periods beginning on or after February 1, 2010

(4) Effective for annual periods beginning on or after January 1, 2010

(5) Effective for transfers on or after July 1, 2009

We have not early adopted these new and revised standards, amendments and interpretations in the preparation of the financial information in this document. The adoption of IFRS 3 (Revised) may affect our accounting for business combination for which the acquisition date is on or after January 1, 2009. IAS 27 (revised) will affect the accounting treatment for changes in our interest in a subsidiary. Our directors anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on our results and financial position.

For further information, see note 3 to the Accountants' Report in Appendix IA to this document.

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FORECAST FOR THE YEAR ENDING DECEMBER 31, 2009

We forecast that, in the absence of unforeseen circumstances, and on the basis of our consolidated results for the period ended May 31, 2009 and a forecast of our consolidated results for the remaining seven months ending December 31, 2009, our profit attributable to owners of our Company for the year ending December 31, 2009 will not be less than RMB 95 million (approximately HK\$108 million)⁽¹⁾. Based on the profit forecast set out above, our forecast earnings per Share information is set forth below:

Pro forma forecast earnings per Share ⁽²⁾	approximately RMB 0.08 (approximately HK\$0.09)
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(1) The bases and assumptions on which the profit forecast has been prepared are set out in Appendix III to this document.

(2) The calculation of forecast earnings per Share on a pro forma basis is based on the forecast profit attributable to our equity holders for the year ending December 31, 2009 and assumes that we had a total of 1,200,000,000 Shares in issue since January 1, 2009 and throughout the entire year.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that there has been no material adverse change in our financial or trading position or prospects since May 31, 2009. Our Directors confirm that they had performed sufficient due diligence on us to ensure that, at the date of this document, there has been no material adverse change in our financial position or prospects since May 31, 2009 and there is no event since May 31, 2009 which would materially affect the information shown in the Accountants' Report set out in Appendix IA to this document.