You should read the following discussion and analysis in conjunction with our financial information as of and for the years ended December 31, 2007, 2008 and 2009 and the three months ended March 31, 2010 included in the Accountants' Report in Appendix I to this prospectus, together with the accompanying notes. We have prepared the financial information included in the Accountants' Report (the "Consolidated Financial Information") in accordance with IFRSs.

This discussion contains forward-looking statements that reflect the current views of management and involve risks and uncertainties. Our actual results may differ materially from these forward-looking statements as a result of many factors, including but not limited to those described under "Risk Factors" and elsewhere in this prospectus.

OVERVIEW

We are one of the leading clean energy companies in Northern China. We operate in two reportable segments: natural gas and wind power.

We engage in the sale of piped natural gas to wholesale and retail customers through our long-distance transmission pipeline, branch pipelines, city gas pipeline networks and natural gas distribution stations, as well as the sale of CNG through our central CNG refueling station in Shijiazhuang City, Hebei Province. In addition, we provide transportation services to a number of limited customers located within our distribution network and charge fees to transport natural gas through our long-distance transmission pipeline. Finally, we charge fees for constructing and connecting natural gas pipelines to industrial, commercial and residential customers.

As of the Latest Practicable Date, we owned and operated a long-distance transmission pipeline, four branch pipelines, four city gas pipeline networks, nine natural gas distribution stations and a central CNG refueling station in Hebei Province. As of the Latest Practicable Date, we also owned a minority stake in a city gas pipeline network controlled by our business partner in the Baoding Development Zone. In 2009 and the three months ended March 31, 2010, we sold an aggregate of 730.2 million m^3 and 249.2 million m^3, respectively, of natural gas through our distribution facilities.

In our wind power business, we plan, develop, manage and operate wind farms, and sell electricity generated by our wind farms to local grid companies. As of the Latest Practicable Date, we operated ten wind power projects with consolidated installed capacity of 606.2 MW, and were constructing five wind power projects with a consolidated capacity under construction of 347.8 MW. As of the Latest Practicable Date, we owned a minority stake in four operating projects with an aggregate of 94.1 MW of attributable installed capacity and one project under construction with 22.3 MW of attributable installed capacity. We expect the consolidated installed capacity of our wind power business to reach approximately 900 MW by the end of 2010.

In addition to selling electricity generated from our wind farms, we generate other net income from sales of CERs and VERs for emission reductions attributable to the electricity output of certain of our wind farms. As of the Latest Practicable Date, we had applied for the registration of 15 CDM projects, six of which had successfully registered with the CDM EB and another five of which had obtained NDRC approval.

BASIS OF PRESENTATION

We established our Company on February 9, 2010 as a joint stock company under PRC law. Prior to the establishment of our Company, HECIC, through its subsidiaries, Hebei Natural Gas and HECIC New-energy, operated our natural gas and wind power businesses. Pursuant to the Reorganization Agreement, we obtained, among other things, substantially all of the assets, liabilities and equity interests with respect to HECIC's natural gas transmission and distribution business and wind power business. See "History, Reorganization and Corporate Structure — Establishment and Reorganization of the Company."

Because our Controlling Shareholder did not change prior to and following the Reorganization, we have prepared our Consolidated Financial Information as a reorganization of our business under common control. We have recognized the relevant assets and liabilities of the Company at historical cost.

The Consolidated Financial Information includes the results of operations of Hebei Natural Gas, HECIC New-energy and their respective subsidiaries that comprise the Group for the Track Record Period (or in respect of any companies established after January 1, 2007, for the period from the date of the relevant company's establishment to March 31, 2010), as if the group structure had been in existence throughout the Track Record Period. The consolidated statements of financial position as of December 31, 2007, 2008 and 2009 and March 31, 2010 in Section I(B) of Appendix I to this prospectus present the financial condition of the Group for the corresponding periods.

Our Directors prepared the Consolidated Financial Information based on our audited financial statements after making any necessary adjustments to conform with (i) our accounting policies in section II(3.2) of Appendix I to this prospectus, (ii) IFRSs and (iii) the disclosure requirements of the Hong Kong Companies Ordinance and other applicable listing rules. We have eliminated all material intra-group transactions and balances in our Consolidated Financial Information.

SIGNIFICANT FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION

During the Track Record Period, the following factors have significantly affected our results of operations and financial condition:

Segment and business mix

The relative size and performance of our natural gas and wind power segments materially affect our results of operations and financial condition. For the years ended December 31, 2007, 2008 and 2009 and the three months ended March 31, 2009 and 2010, our wind power segment experienced gross margins of 46.2%, 56.7%, 55.2%, 60.1% and 65.6%, and operating margins of 50.9%, 53.4%, 64.7%, 61.2% and 68.1%. During the same periods, our natural gas segment experienced gross margins of 14.3%, 21.7%, 22.4%, 23.2% and 21.9%, and operating margins of 9.9%, 18.0%, 18.9%, 19.8% and 21.7%, respectively.

In recent years, our wind power business has grown significantly and has made up an increasing portion of our overall business. Our wind power business accounted for 6.0%, 8.5%, 17.4%, 16.2% and 23.9% of our total revenue for the years ended December 31, 2007, 2008 and 2009 and the three months ended March 31, 2009 and 2010, respectively. Our margins and profitability have improved with the growth of our wind power business. For the years ended December 31, 2007, 2008 and 2009 and the three months ended March 31, 2009 and 2010, our gross margin was 16.2%, 24.6%, 28.1%, 29.2% and 32.3%, respectively, and our operating margin was 12.3%, 21.0%, 26.9%, 26.5% and 32.6%, respectively. We expect our gross margin and operating margin to improve as our wind power business constitutes an increasing share of our overall business.

PRC Tax Incentives

We enjoy certain tax incentives, including the following:

Enterprise Income Tax

Prior to January 1, 2008, under the old EIT Law, Chinese entities generally paid a 33% enterprise income tax. However, a number of our projects and subsidiaries received preferential tax treatment. In 2007, two of our wind power projects, Kangbao Wind Farm Phase I and Guyuan Wind Farm Phase I, received preferential income tax treatment and were fully exempt from the EIT due to their locations in impoverished areas of China. In addition, Hebei Natural Gas, a foreign invested manufacturing enterprise and a majority-owned subsidiary of our natural gas business, was exempt from EIT during its first profit making year and the following year, and was allowed a 50% reduction in its EIT for the subsequent three years. Furthermore, as a qualified foreign invested enterprise, Hebei Natural Gas was permitted to use 40% of the purchase costs of domestically manufactured equipment to offset the amount by which its income tax in the year of purchase exceeded the income tax paid in the previous year. Hebei Natural Gas was allowed to carry forward such tax credits for four years. Other subsidiaries that did not enjoy any preferential tax treatment were generally subject to the statutory EIT rate of 33% under the old EIT Law.

On January 1, 2008, the New EIT Law began imposing a 25% income tax rate on all Chinese enterprises, including foreign invested enterprises. The New EIT law eliminated or modified many of the tax exemptions, discounts and preferential tax treatment under the old EIT law. However, the New EIT Law retained certain tax incentives and tax holidays. Under Circular 39, which took effect on January 1, 2008, enterprises that had enjoyed preferential tax treatment continued to enjoy such treatment until the original expiration or initiate the tax holiday from 2008, no matter whether it is the first profit-making year or not. For example, Hebei Natural Gas is still entitled to preferential tax treatment for a period from 2008 to 2012.

In addition, in accordance with the Circular on the Issues Relating to the Implementation of the Catalogue of Public Infrastructure Projects Entitled to Preferential Tax Treatment (《關於執行公共基礎設施項目企業所得税優惠目錄有關問題的通知》), our wind power projects that obtain government approvals on or after January 1, 2008 are fully exempt from the New EIT for three years starting the year in which the project generates operating income from the sale of electricity, and receive a 50% exemption from the New EIT for the subsequent three years.

Any modification or termination of the foregoing tax incentives applicable to us and our subsidiaries will affect our financial condition and results of operations. See "Regulatory Environment — Taxation."

VAT

Prior to January 1, 2009, one of our subsidiaries, Hebei Natural Gas, as a foreign invested enterprise, enjoyed full VAT refunds with respect to its purchases of domestically manufactured equipment. On January 1, 2009, the Notice on the Abolishment of the Tax Refund Policy for the Purchase of Domestically Manufactured Equipment by Foreign Invested Enterprises (關於停止外商投資企業購買國產設備退税政策的通知) terminated the 100% VAT refund policy. However, foreign invested enterprises that purchased domestically manufactured equipment and received a VAT invoice dated prior to June 30, 2009 could receive VAT refunds if the enterprises had reported such refunds to the tax authorities before June 30, 2009.

Starting January 1, 2009, general VAT payers have been allowed to deduct the "input VAT," which they must pay when purchasing equipment, from the "output VAT," which is imposed on their sales.

Our subsidiaries that operate wind farms are entitled to a 50% refund of the VAT levied on electricity generated from their wind farms.

Factors affecting our natural gas business

Purchase prices of natural gas as a raw material

The purchase price of natural gas significantly affects our results of operations and financial condition. Natural gas constitutes the most important raw material for our natural gas business. Through the Latest Practicable Date, we had purchased all of our natural gas from PetroChina through the Shaanxi-Beijing gas pipelines. The NDRC sets the price of natural gas, taking into account production costs and an appropriate margin for producers. For the years ended December 31, 2007, 2008 and 2009 and the three months ended March 31, 2009 and 2010, our natural gas costs amounted to RMB447.4 million, RMB660.1 million, RMB891.0 million, RMB224.6 million and RMB311.0 million, respectively, representing 84.9%, 86.0%, 81.7%, 85.8% and 83.8%, respectively, of our cost of sales. Our weighted average costs (excluding VAT) per m^3 of natural gas purchases for the years ended December 31, 2007, 2008 and 2009 and the three months ended March 31, 2009 and 2010 were as follows:

	For the Year Ended December 31,			For the Three Months Ended March 31,	
	2007	2008	2009	2009	2010
	RMB per m^3				
Weighted average purchase cost of natural gas sold (excluding VAT) . . .	1.14	1.18	1.23	1.18	1.25

On May 31, 2010, the NDRC issued the NDRC Price Increase Notice, which raised the benchmark ex-plant prices by RMB230 per thousand m^3, starting from June 1, 2010 for various gas fields and pipelines, including Shaanxi-Beijing Gas Pipeline No. 1 and Shaanxi-Beijing Gas Pipeline No. 2. The NDRC Price Increase Notice also permits natural gas purchasers and sellers to contractually agree on a selling price not exceeding 110% of the New Benchmark Price. On June 12, 2010, we received a notice from PetroChina that it would adjust the selling price of natural gas pursuant to the NDRC Price Increase Notice. In response to the NDRC Price Increase Notice and the Hebei DRC Price Increase Notice, on August 5, 2010, the Hebei Provincial Price Control Bureau issued a notice setting a deadline (i) for the relevant price adjustments for natural gas sold to wholesale and CNG customers and (ii) for the completion of the relevant hearing processes in relation to the price adjustment for retail residential customers. PetroChina has already implemented the Price Increase, which took effect retroactively from June 1, 2010. We in turn applied the relevant price adjustments to our wholesale, retail and CNG customers, except for retail residential customers, retroactively from June 1, 2010.

Sales prices for natural gas

Our revenue correlates directly with the price of natural gas we sell to wholesale, retail and CNG customers. The weighted average selling prices (excluding VAT) per m^3 of natural gas for the years ended December 31, 2007, 2008 and 2009 and the three months ended March 31, 2009 and 2010 were as follows:

	For the Year Ended December 31,			For the Three Months Ended March 31,	
	2007	2008	2009	2009	2010
	RMB per m^3				
Weighted average selling price (excluding VAT)	1.46	1.61	1.63	1.58	1.63
Wholesale	1.40	1.51	1.53	1.51	1.53
Retail	1.53	1.82	1.85	1.75	1.85
CNG	1.72	1.75	1.85	1.73	1.92

The Hebei Provincial DRC and the Hebei Provincial Price Control Bureau determine the pipeline transportation tariff of our piped natural gas available for wholesale customers based on a price schedule released by the NDRC. We are required to obtain approval from the relevant local pricing authorities for the retail price of the piped natural gas sold in a particular region, as well as any adjustment to the retail price. For natural gas for residential use, the relevant local pricing authorities determine the end-user price and any price adjustments, subject to a hearing process involving the affected residence. Local pricing authorities also determine the price of CNG in China.

We maintain our relationships with the NDRC and local authorities to ensure they receive adequate feedback with respect to the sales prices of natural gas. Our ability to maintain or increase the sales prices of natural gas remains a crucial factor in our revenue and margins.

On May 31, 2010, the NDRC issued the NDRC Price Increase Notice, which, effective from June 1, 2010, increased all benchmark ex-plant prices of our natural gas supply, including for commercial, industrial and residential uses, by RMB230 per thousand m^3. The NDRC Price Increase Notice also permits natural gas purchasers and sellers to contractually agree on a selling price not exceeding 110% of the New Benchmark Price. On June 2, 2010, the Hebei Provincial DRC issued the Hebei DRC Price Increase Notice, which permitted natural gas distributors in Hebei Province to adjust their natural gas sales price to downstream wholesale customers in Hebei Province in accordance with their costs of purchase, effective retroactively from June 1, 2010. In response to the NDRC Price Increase Notice and the Hebei DRC Price Increase Notice, on August 5, 2010, the Hebei Provincial Price Control Bureau issued a notice setting a deadline (i) for the relevant price adjustments for natural gas sold to wholesale and CNG customers and (ii) for the completion of the relevant hearing processes in relation to the price adjustment for retail residential customers.

PetroChina has implemented the new pricing scheme, which took effect retroactively from June 1, 2010. We in turn applied the relevant price adjustments retroactively from June 1, 2010 to our wholesale, retail and CNG customers, except for retail residential customers. With respect to our retail residential customers, we are awaiting the relevant local authorities to commence the relevant hearing process in respect of the full amount of the sales price adjustment on them. As soon as such hearing process is complete and we obtain confirmation from the relevant local pricing authorities endorsing the final price adjustment accepted at the relevant hearing, we will apply the final price adjustment to our retail residential customers. In 2009, sales volume to retail residential customers accounted for 0.3% of our total natural gas sales volume.

As we have passed on the Price Increase to all our wholesale, retail and CNG customers (except for retail residential customers) on a retroactive basis and sales to retail residential customers do not account for a material portion of our total natural gas sales volume, our Directors believe the Price Increase will not materially adversely affect the profitability of our business.

On August 20, 2010 , the Hebei Provincial Price Control Bureau issued the Trial Measures. The Trial Measures stated that future natural gas prices for natural gas operators in Hebei Province will be determined with reference to industry average costs (including production, selling, administration and financial costs), industry average return on equity (which shall for the purpose of their calculation not exceed 8%) and tax. Following our consultation with the Hebei Provincial Price Control Bureau, we understand that the Trial Measures are primarily targeted at and applicable to city gas pipeline network operators. Our natural gas business is primarily focused on long-distance natural gas transmission. On September 4, 2010, the Hebei Provincial Price Control Bureau issued a letter to us confirming that the existing prices on long-distance transmission of natural gas remained unchanged.

Our ability to maintain our supply of natural gas

Our ability to maintain an adequate supply of natural gas significantly affects our results of operations and financial performance. On November 11, 2001, we entered into a master purchase agreement with PetroChina for a 20 year term for the supply of natural gas through the Shaanxi-Beijing gas pipelines. We usually sign a gas volume confirmation letter with PetroChina by April of each year to set the monthly volume of natural gas we will purchase for the following 12 months. The letter also sets additional volumes for certain months of the year, which PetroChina supplies at its discretion, subject to availability. Our ability to maintain our supply of natural gas remains critical to satisfy the needs of our customers and maintain our financial performance. We set out below the total volume of natural gas we purchased for the periods indicated:

	For the Year Ended December 31,			For the Three Months Ended March 31,	
	2007	2008	2009	2009	2010
	Million m^3				
Total volume of natural gas purchased	390.5	558.9	724.0	190.1	249.5

Our ability to increase our natural gas sales volume

Our natural gas sales volume significantly affects our results of operations and financial condition. We have historically sought to promote the use of natural gas in an area that we supply. We also aim to expand into new markets where we have not yet established a presence. To increase our customer base in our wholesale, retail and CNG markets, we promote the benefits of natural gas, in terms of price, convenience, safety, cleanliness and environmental friendliness. Our promotional activities include broadcasting advertisements through media and distributing brochures and posters, among other activities. However, we face competition due to the increasing number of end-users that utilize other sources of energy, including coal and oil. Our ability to maintain and increase our customer penetration rate in existing and new markets remains crucial to our financial performance and condition.

Our annual natural gas purchase volumes differed slightly from our annual natural gas sales volumes during the Track Record Period due primarily to (i) minor measurement variations and (ii) changes in the volume of base gas stored in our pipeline network. We set out below the total volume of natural gas we sold for the periods indicated:

	For the Year Ended December 31,						For the Three Months Ended March 31,			
	2007		2008		2009		2009		2010	
	(Million m^3)	(%)	(Million m^3)	(%)	(Million m^3)	(%)	(Million m^3)	(%)	(Million m^3)	(%)
Total volume of natural gas sold										
Wholesale . . .	266.6	67.7	379.5	67.4	491.0	67.2	136.0	71.5	172.7	69.3
Retail	92.2	23.4	139.9	24.9	193.2	26.5	41.8	22.0	63.2	25.4
CNG.	34.8	8.9	43.3	7.7	46.0	6.3	12.3	6.5	13.3	5.3
Total	393.6	100.0	562.7	100.0	730.2	100.0	190.1	100.0	249.2	100.0

Factors affecting our wind power business

Expansion of our wind power business

Our wind power business, and, in turn, our results of operations and financial condition, depend significantly on the growth of our wind power project portfolio, including projects in operation, projects under construction and pipeline projects. The increased scale and size of our wind power project portfolio provide economies of scale and reduce our risks of relying on any project.

We have significantly increased our installed wind power capacity and net power delivered to grid in recent years by developing more wind power projects. As of December 31, 2007, 2008 and 2009 and March 31, 2010, our consolidated installed capacity was 60.6 MW, 233.6 MW, 406.7 MW and 406.7 MW, respectively. As of March 31, 2010, we owned a minority stake in each of the four operating wind power projects controlled by our business partners, which accounted for an aggregate of 94.1 MW of attributable installed capacity. As of March 31, 2010, we were constructing six wind power projects with a consolidated capacity 547.3 MW. For the three financial years ended December 31, 2007, 2008 and 2009 and the three months ended March 31, 2009 and 2010, net power delivered to grid from our wind power business totaled 75,752.5 MW hours, 166,638.8 MW hours, 554,840.7 MW hours, 124,557.2 MW hours and 277,384.2 MW hours, respectively. The revenue from our wind power business accounted for 6.0%, 8.5%, 17.4%, 16.2% and 23.9% of our total revenue, during those periods, respectively.

We expect to increase our installed wind power capacity and net power delivered to grid by completing our wind power projects under construction and developing more pipeline projects. As of June 30, 2010, we had a portfolio of wind power pipeline projects suitable for future development with an estimated consolidated installed capacity of approximately 8,563.0 MW. We expect the consolidated installed capacity of our wind power business to increase by approximately 500 MW in 2010, contributing to an estimated consolidated installed capacity of approximately 900 MW by the end of 2010. We expect to incur additional capital expenditures to develop our pipeline wind projects and expand our consolidated installed capacity. The timing for the developments of these projects will depend on various factors, including grid availability, financing, government approvals and ability to execute our business plan.

Changes in on-grid tariffs

Since we derive our revenue in the wind power business primarily from selling electricity generated by our wind farms to local grid companies, our results of operation and financial condition significantly depend on changes to on-grid tariffs. We base our sales prices for electricity on on-grid tariffs for electricity approved by PRC pricing authorities.

Prior to August 1, 2009, PRC pricing authorities determined on-grid tariffs on a case-by-case basis. When determining on-grid tariffs for individual wind projects, PRC pricing authorities considered various factors, including wind resources, the size of the proposed projects, construction costs and previously approved prices for other wind power projects in the same or neighboring areas. As a result, average on-grid tariffs for wind power projects varied significantly among different provinces or regions.

In July 2009, the NDRC issued the On-grid Pricing Policy, which became effective on August 1, 2009 and applies to all onshore wind power projects approved after such date. In accordance with this circular, the NDRC changed the on-grid tariff setting mechanism from government guided price to a geographically unified tariff, a form of "government fixed price." The NDRC divided China into four zones, applying the same standard on-grid tariff to all wind power projects in the same zone. The PRC government subsidizes the new on-grid tariff, with renewable power projects generally entitled to on-grid tariff premiums.

We believe that our wind power business will benefit from new on-grid tariffs, as fixed prices can reduce uncertainties in pricing and allow us to better evaluate potential projects. However, PRC government authorities can modify the regulatory regime of on-grid tariffs at their discretion, impacting our results of operation and financial condition. The table below sets forth our weighted average on-grid tariff for electricity from our wind power projects for the periods indicated:

	For the Year ended December 31,			For the Three Months Ended March 31,	
	2007	2008	2009	2009	2010
	RMB per kWh				
Weighted average on-grid tariff					
Excluding VAT	0.502	0.492	0.477	0.481	0.472
Including VAT(1)	0.587	0.576	0.558	0.563	0.552

Note:

(1) Calculated by multiplying the weighted average on-grid tariff for a specific period by 1.17, representing the 17% VAT applicable to sales of electricity that our wind farms generate.

The weighted average on-grid tariff for our wind power projects decreased during the Track Record Period because some of our projects approved prior to the end of 2006 were entitled to charge higher on-grid tariffs due to the higher construction costs at the time of construction. The downward trend of our weighted average on-grid tariff during the Track Record Period remains consistent with the PRC wind power sector, as many of our new projects approved after August 1, 2009 are located in regions with lower fixed prices than previously approved tariffs. Despite the decrease in the weighted average on-grid tariff of our wind power projects during the Track Record Period, the operating margin of our wind power business increased from 50.9% in 2007 to 64.7% in 2009 to 68.1% for the three months ended March 31, 2010. The increase was primarily due to increased economies of scale as our wind power business expanded and improved operational efficiency, as demonstrated by the increase in average utilization hours.

Average utilization hours

Average utilization hours equal the consolidated gross power generation divided by the average consolidated installed capacity in a particular period. The average utilization hours of our wind farms affect our consolidated gross power generation and in turn, the revenue derived from our wind power business.

The average utilization hours of our wind farms primarily depend on various conditions at the relevant sites, including (i) climatic and wind conditions at each wind farm site, in particular, wind speed (and its daily, seasonal and other fluctuations), wind direction, air density, extreme weather conditions and wake effect; (ii) repairs and maintenance; (iii) performance of wind turbines; and (iv) various grid constraints and dispatch restrictions.

For the years ended December 31, 2007, 2008 and 2009, the average utilization hours of our wind farms with a full-year operating record amounted to 2,044.8, 2,129.5 and 2,276.4, respectively, whereas the average utilization hours of the wind farms in China amounted to 2,000, 1,800 and 1,800 for the corresponding years, according to BTM. The average utilization hours of our wind farms for the three months ended March 31, 2009 and 2010 were 636.6 and 700.5, respectively. Due to the seasonal change in wind conditions, the average utilization hours of our wind farms in a given period may not indicate the average utilization hours in a full year. We aim to increase our average utilization hours as we build new projects using the latest technology.

Price of wind turbines

The prices we pay for wind turbines significantly affect our results of operations. Wind turbines constitute the primary operating equipment in our wind power business. On average, the cost of wind turbines represents approximately 60% to 70% of the overall cost of building an onshore wind farm. The contract prices of our wind turbines had generally increased slightly from the commencement of our wind power business to the end of 2008. However, due to the oversupply of wind turbines globally, falling raw materials costs and the global economic downturn, the contract prices of our wind turbines declined in 2009. Due to our existing supply agreements with wind turbine manufacturers, we expect our wind turbine costs to remain relatively stable for the foreseeable future. However, we may be exposed to changes in market prices upon expiration of these existing agreements, as we negotiate new agreements.

Financing arrangements

Our strategy is to finance the development and construction of our wind farms and other capital expenditures primarily through bank borrowings, cash flows from operations and capital injections. As of March 31, 2010, our outstanding short-term and long-term borrowings amounted to RMB1,162 million and RMB2,485.7 million, respectively. We do not expect any material difficulties in rolling over our short-term borrowings or replacing them with long-term debt. For the years ended December 31, 2007, 2008 and 2009 and the three months ended March 31, 2009 and 2010, our finance expenses (including capitalized interest) amounted to RMB35.3 million, RMB111.8 million, RMB148.2 million, RMB35.3 million and RMB48.3 million, respectively, reflecting our increased borrowings in each period. We also increased our short term borrowings to take advantage of lower short term interest rates in 2008 and 2009. Please see the subsection headed “Indebtedness — Borrowings” below.

We also utilize utilizing alternative sources of financing to fund our expansion needs, such as insurance loan products and short-term financial bonds. The balance of our borrowings and the total amount raised through other financing methods, as well as any interest rate fluctuations and other borrowing costs, will materially affect our finance costs, results of operations and financial condition.

Sales of CERs and VERs

Since 2007, we have sold two categories of carbon credits, CERs and VERs, for the emission reductions attributable to the electricity generated from our qualified wind power projects. For the years ended December 31, 2007, 2008 and 2009 and the three months ended March 31, 2009 and 2010, our aggregate sales of CERs generated other net income of RMB5.4 million, RMB10.7 million, RMB34.8 million, RMB4.8 million and RMB11.4 million, respectively, accounting for 7.0%, 5.0%, 8.5%, 4.9% and 6.4% of our operating profit in each respective period. We also recorded RMB0.5 million for sales of VERs in 2007. As of the Latest Practicable Date, we had applied to register 15 CDM projects, six of which had been successfully registered with the CDM EB and another five of which had obtained NDRC approval.

Our sales of CERs generated from our CDM projects depend on our ability to procure buyers for such carbon credits, which in turn depend on the CDM arrangement under the Kyoto Protocol. If the Kyoto Protocol is not renewed upon its expiration on December 31, 2012, we may be unable to derive other income from sales of CERs. Although sales of VERs do not directly depend on the CDM arrangement, in our experience, the price of CERs from CDM projects is generally higher than the price of VERs. The prices of CERs and VERs also depend on general economic conditions. See "Risk Factors — Risks Relating to Our Wind Power Business — Sales of CERs depends on the CDM arrangements under the Kyoto Protocol, and any change or expiration of these CDM arrangements could materially adversely affect our financial condition and results of operation."

CRITICAL ACCOUNTING POLICIES

We have identified certain accounting policies significant to the preparation of our Consolidated Financial Information in accordance with IFRSs. The Accountants' Report in Appendix I to this prospectus sets forth these significant accounting policies, which are important for an understanding of our financial condition and results of operations. Some of our accounting policies involve subjective assumptions, estimates and judgments related to assets, liabilities, income, expenses and other accounting items. We base our estimates on historical experience and other assumptions that we believe to be reasonable under the circumstances. Results may differ under different assumptions and conditions. Our management has identified below the accounting policies, estimates and judgments that are most critical to the preparation of our Consolidated Financial Information.

Revenue recognition

We recognize revenue when it is probable that the economic benefits will flow to the Group and when we can measure revenue reliably, on the following bases:

Sale of natural gas and gas appliances

We recognize revenue from the sale of natural gas and gas appliances when we have delivered the relevant goods, passed title and transferred the significant risks and rewards of ownership to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold.

Sale of electricity

We recognize revenue upon the transmission of electric power to power grid companies, based on the volume of electric power transmitted and the applicable fixed tariff rates agreed upon with electric power grid companies.

Connection and construction of natural gas pipelines

We recognize revenue from the connection and construction of natural gas pipelines based on the percentage of completion method, measured by the value of work carried out during the year. When we cannot reliably estimate the outcome of a gas connection and the construction of gas pipeline contract, we recognize revenue only to the extent that we can recover expenses.

CERs income

We recognize income in relation to sales of CERs when we are reasonably assured that we will receive a grant and will comply with the conditions attached to the grant, as further explained in the accounting policy for "government grants" below.

VERs income

We sell VERs attributable to electricity generated from CDM projects before we register those projects with the CDM EB. Accordingly, revenue in relation to VERs income does not fall within the scope of government grants according to IAS 20 "Accounting for Government Grants." As such, the accounting policy for sales of VERs is disclosed under "revenue recognition" instead of "government grants." We recognize income with respect to sales of VERs when the applicable counterparty has committed to purchase VERs, we have agreed on a sales price and we have generated the relevant amount of electricity.

Interest income

We recognize interest income on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts for the expected life of the financial instrument to the net carrying amount of the financial asset.

Dividend income

We recognize revenue when we have established the Shareholder(s)' right to receive payment.

Property, plant and equipment and depreciation

We record property, plant and equipment, other than construction in progress, at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment consists of its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. We typically charge to our income statement expenditures incurred after putting into operation property, plant and equipment (such as repairs and maintenance) in the period in which we incur such expenses. In situations where we satisfy recognition criteria, we capitalize expenditures for a major inspection at the carrying amount of the asset as a replacement. Where we must replace significant parts of property, plant and equipment, we recognize such parts as individual assets with specific useful lives and depreciation.

We calculate depreciation on a straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	2.38% to 4.75%
Wind turbines and related equipment	4.75%
Natural gas pipelines	4.75%
Other machinery and equipment	5.28% to 19.00%
Motor vehicles	11.88% to 19.00%
Office equipment and others	9.50% to 19.00%
Leasehold improvement	12.50% to 20.00%

Where parts of an item of property, plant and equipment have different useful lives, we allocate the cost of that item on a reasonable basis among the parts and depreciate each part separately.

We review and adjust appropriate residual values, useful lives and the depreciation method, at a minimum at each financial year end.

We derecognize an item of property, plant and equipment and any significant part that we initially recognized, upon disposal, or when we expect no future economic benefits from its use or disposal. Any gain or loss on disposal or retirement recognized in the income statement in the year we derecognize the asset equals the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents property, plant and equipment under construction, which we record at cost less any impairment losses, and we do not depreciate this item. Costs consist of the direct costs of construction and capitalized borrowing costs on related borrowed funds during construction. We reclassify construction in progress to the appropriate category of property, plant and equipment when construction is complete and ready for use.

Intangible assets (other than goodwill)

We measure intangible assets acquired separately at cost on initial recognition. The cost of intangible assets acquired in a business combination equals the fair value as of the date of acquisition. We assess the useful lives of intangible assets to be either finite or indefinite. We subsequently amortize intangible assets with finite lives over their useful economic lives and assess those assets for impairment whenever the intangible asset becomes impaired. We review the amortization period and the amortization method for an intangible asset with a finite useful life at a minimum at each financial year end.

Inventories

We record inventories, mainly including natural gas and spare parts, at the lower of cost and net realizable value. We calculate costs that comprise all costs of purchase and, where applicable, costs of conversion and other costs incurred in bringing the inventories to their present locations and conditions, using the first-in, first-out method. We base net realizable value on estimated selling prices less any estimated costs to be incurred until completion and disposal.

Income tax

Income tax consists of current and deferred tax. We recognize income tax relating to items recognized outside profit or loss, either in other comprehensive income or directly in equity.

We measure current tax assets and liabilities for current and prior periods at the amount we expect to recover from, or pay to, taxation authorities, based on tax rates and tax laws enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices in the countries in which the Group operates.

We record deferred tax, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

We recognize deferred tax liabilities for all taxable temporary differences, except:

- where the deferred tax liability (i) arises from the initial recognition of an asset or liability in a transaction that is not a business combination and (ii) at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- with respect to taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where we can control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

We recognize deferred tax assets for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which we can utilize the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses, except:

- where the deferred tax asset relating to the deductible temporary differences (i) arises from the initial recognition of an asset or liability in a transaction that is not a business combination and (ii) at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- with respect to deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, we recognize deferred tax assets to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which we can utilize the temporary differences.

We review the carrying amount of deferred tax assets at the end of each reporting period and reduce this amount to the extent that it is no longer probable that sufficient taxable profit will be available to utilize all or part of the deferred tax asset. We reassess unrecognized deferred tax assets at the end of each reporting period and recognize such assets to the extent that it has become probable that sufficient taxable profit will be available to recover all or part of the deferred tax assets.

We measure deferred tax assets and liabilities at tax rates that we expect will apply in the period in which the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

We offset deferred tax assets and deferred tax liabilities if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

We recognize government grants at their fair values when we have reasonable assurance the relevant entity will comply with the conditions attaching to the grant and that we will receive the grant. When the grant relates to an expense, we recognize the grant as income over the periods necessary to match the grant on a systematic basis with the related costs that the grant purports to compensate. Where the grant relates to an asset, we credit the asset to a deferred income account and state the asset on the income statement over the expected useful life of the relevant asset in equal annual installments.

We earn carbon credits known as CERs, generated from the wind farms and other renewable energy facilities that have been registered as the CDM projects with the CDM EB of the United Nations under the Kyoto Protocol.

CER income consists of government grants that are recognized when we are reasonably assured that we will comply with the conditions attached to them and will receive such grants. We recognize CER income when we realize the actual emissions reduction and when we are reasonably assured that the relevant independent authority will confirm these reductions during the verification and certification process. When uncertainty exists regarding verification and certification, such that we are not reasonably assured that the CERs will be granted, we only recognize CER income upon completion of this process.

We recognize and record CER income in trade receivables for the volume verified by the independent authority and in other receivables for the remaining volume.

DESCRIPTION OF KEY INCOME STATEMENT LINE ITEMS

The following table sets forth selected items in our consolidated statements of comprehensive income and each of these items as a percentage of our total revenue for the periods indicated:

	Year Ended December 31,						Three Months Ended March 31,			
	2007		2008		2009		2009		2010	
	(RMB in thousands)	(%)	(RMB in thousands)	(%)	(RMB in thousands)	(%)	(RMB in thousands) (Unaudited)	(%)	(RMB in thousands)	(%)
Revenue	628,789	100.0	1,018,733	100.0	1,517,261	100.0	369,695	100.0	548,817	100.0
Cost of sales	(526,800)	(83.8)	(767,786)	(75.4)	(1,090,969)	(71.9)	(261,808)	(70.8)	(371,276)	(67.7)
Gross profit	101,989	16.2	250,947	24.6	426,292	28.1	107,887	29.2	177,541	32.3
Other income and gains, net	10,267	1.6	19,454	1.9	51,350	3.4	6,440	1.7	20,258	3.7
Selling and distribution costs	(881)	(0.1)	(1,106)	(0.1)	(408)	(0.0)	(3)	(0.0)	(63)	(0.0)
Administrative expenses	(33,811)	(5.4)	(53,470)	(5.2)	(69,131)	(4.6)	(15,917)	(4.3)	(16,509)	(3.0)
Other expenses	(8)	(0.0)	(2,235)	(0.2)	(5)	(0.0)	(279)	(0.1)	(2,126)	(0.4)
Profit from operations	77,556	12.3	213,590	21.0	408,098	26.9	98,128	26.5	179,101	32.6
Finance costs	(31,237)	(5.0)	(52,428)	(5.1)	(103,951)	(6.9)	(26,260)	(7.1)	(35,504)	(6.5)
Share of profits and losses of associates	(606)	(0.1)	—	—	1,692	0.1	—	—	10,052	1.8
Profit before tax	45,713	7.3	161,162	15.8	305,839	20.2	71,868	19.4	153,649	28.0
Income tax expense	(8,252)	(1.3)	(9,936)	(1.0)	(18,735)	(1.2)	(3,546)	(1.0)	(17,903)	(3.3)
Profit for the year/period	37,461	6.0	151,226	14.8	287,104	18.9	68,322	18.5	135,746	24.7
Profit attributable to non-controlling interests	11,986	—	64,376	—	120,782	—	27,937	—	49,787	—
Profit attributable to the owners of the Company	25,475	—	86,850	—	166,322	—	40,385	—	85,959	—

Revenue

The following table sets forth our segment revenue from our two reportable operating segments and each item as a percentage of our total revenue for the periods indicated:

	Year Ended December 31,						Three Months Ended March 31,			
	2007		2008		2009		2009		2010	
	(RMB in thousands)	(%)	(RMB in thousands)	(%)	(RMB in thousands)	(%)	(RMB in thousands) (Unaudited)	(%)	(RMB in thousands)	(%)
Natural Gas	590,758	94.0	932,229	91.5	1,252,685	82.6	309,733	83.8	417,771	76.1
Sales of natural gas	574,578	91.4	905,433	88.9	1,192,084	78.6	300,540	81.3	406,294	74.0
Construction and connection of natural gas pipelines	16,042	2.6	22,326	2.2	26,476	1.8	897	0.3	1,228	0.2
Natural gas transportation	—	—	4,207	0.4	33,871	2.2	8,276	2.2	10,189	1.9
Others	138	0.0	263	0.0	254	0.0	20	0.0	60	0.0
Wind Power	38,031	6.0	86,504	8.5	264,576	17.4	59,962	16.2	131,046	23.9
Sales of electricity	38,031	6.0	82,004	8.0	264,576	17.4	59,962	16.2	131,046	23.9
Others	—	—	4,500	0.5	—	—	—	—	—	—
	628,789	100.0	1,018,733	100.0	1,517,261	100.00	369,695	100.0	548,817	100.0

We generate revenue in our natural gas business primarily from the sale of piped natural gas to wholesale customers (including local gas companies) and retail customers (including industrial, commercial and residential customers). We also generate revenue by providing CNG to vehicular, industrial, commercial and residential end-users. In addition, we generate revenue by providing pipeline construction and connection services to retail customers who connect to our natural gas pipeline network. We also generate revenue by providing transportation services to a limited number of customers by charging fees to transport natural gas to our customers' facilities through our distribution network. Our natural gas business accounted for 94.0%, 91.5%, 82.6%, 83.8% and 76.1% of our total revenue for the years ended December 31, 2007, 2008 and 2009 and the three months ended March 31, 2009 and 2010, respectively.

We generate revenue in our wind power business primarily from the sale of electricity generated from our wind farms to local grid companies. We also generate other revenue from our wind power business amounting to RMB4.5 million in 2008 related to the provision of testing and technology services. Our wind power business accounted for 6.0%, 8.5%, 17.4%, 16.2% and 23.9% of our total revenue for the years ended December 31, 2007, 2008 and 2009 and the three months ended March 31, 2009 and 2010, respectively. We expect our wind power business to contribute a larger portion of our revenue as we expand our wind farm portfolio.

Cost of Sales

Our cost of sales primarily consists of two components, raw material expenses and depreciation. The following table shows the cost of sales in our natural gas and wind power businesses and each item as a percentage of our total cost of sales for the years ended December 31, 2007, 2008 and 2009 and the three months ended March 31, 2009 and 2010:

	For The Year Ended December 31,						For The Three Months Ended March 31,			
	2007		2008		2009		2009		2010	
	(RMB in thousands)	(%)	(RMB in thousands)	(%)	(RMB in thousands)	(%)	(RMB in thousands) (Unaudited)	(%)	(RMB in thousands)	(%)
Natural Gas	506,349	96.1	730,298	95.1	972,374	89.1	237,879	90.9	326,247	87.9
Wind Power	20,451	3.9	37,488	4.9	118,595	10.9	23,929	9.1	45,029	12.1
	526,800	100.0	767,786	100.0	1,090,969	100.0	261,808	100.0	371,276	100.0

Our raw material expenses accounted for 85.0%, 86.0%, 81.7%, 85.8% and 83.8% of our cost of sales for the years ended December 31, 2007, 2008 and 2009 and the three months ended March 31, 2009 and 2010, respectively. The purchase of natural gas constitutes a significant proportion of our raw materials expenses.

Depreciation expense accounted for 9.8%, 8.7%, 13.2%, 11.9% and 13.8% of our cost of sales sold for the years ended December 31, 2007, 2008 and 2009 and the three months ended March 31, 2009 and 2010, respectively. Our depreciation expense consists primarily of the depreciation of our wind turbines, natural gas pipelines and other facilities. We expect our depreciation expense to increase significantly as more of our wind farms become operational.

Other Income and Gains, Net

Other income and gains, net, consist primarily of government grants mainly from sales of CERs and tax refunds on the VAT levied on electricity generation from our wind farms. Other income and gains, net, also include bank interest income earned on our deposits of cash and cash equivalents. The following table includes a breakdown of our other income and gains, net, for the periods indicated:

	For the Year Ended December 31,						For the Three Months Ended March 31,			
	2007		2008		2009		2009		2010	
	(RMB in thousands)	(%)	(RMB in thousands)	(%)	(RMB in thousands)	(%)	(RMB in thousands) (Unaudited)	(%)	(RMB in thousands)	(%)
Government grants:										
CER income, net	5,389	52.5	10,733	55.2	34,762	67.7	4,791	74.4	11,432	56.4
Value-added tax refunds	2,888	28.1	6,699	34.4	13,595	26.5	1,060	16.5	624	3.1
Bank interest income	1,409	13.7	1,462	7.5	2,172	4.2	589	9.1	1,035	5.1
Others[1]	581	5.7	560	2.9	821	1.6	—	—	7,167	35.4
Other income and gains, net	10,267	100.0	19,454	100.0	51,350	100.0	6,440	100.0	20,258	100.0

Note:

(1) Including RMB 0.5 million of VER income for the year ended December 31, 2007.

For the years ended December 31, 2007, 2008 and 2009 and the three months ended March 31, 2009 and 2010, CER income, net, constituted 52.5%, 55.2%, 67.7%, 74.4% and 56.4%, respectively, of our other income and gains, net. We expect this percentage to increase as our wind power business grows and more of our wind farms become eligible for CDM registration. We also received value-added tax refunds for the electricity generated by our wind power projects, to which we are entitled under the Notice on Value Added Tax Policy Regarding Comprehensive Utilization of Part of the Resources and Other Products (關於部分資源綜合利用及其他產品增值稅政策問題的通知) and the Notice on Value Added Tax Policy Regarding Comprehensive Utilization of Resources and Other Products (關於資源綜合利用及其他產品增值稅政策的通知). For the years ended December 31, 2007, 2008 and 2009 and the three months ended March 31, 2009 and 2010, value-added tax refunds accounted for 28.1%, 34.4%, 26.5%, 16.5% and 3.1%, respectively, of our other income and gains, net.

During the Track Record Period, we received bank interest income on our available cash deposited at banks. Our bank interest income amounted to 13.7%, 7.5%, 4.2%, 9.1% and 5.1% for years ended December 31, 2007, 2008 and 2009 and the three months ended March 31, 2009 and 2010, respectively, of our other income and gains, net. We recorded RMB7.1 million revenue for relocating certain of our natural gas pipelines as requested by certain customers in the three months ended March 31, 2010.

Selling and Distribution Costs

Selling and distribution costs consist primarily of business promotion expenses, advertising expenses and conference expenses, in connection with operating our natural gas business. We incur all of our selling and distribution costs from our natural gas business. Our wind power business does not incur selling and distribution costs because grid companies are required to purchase all the electricity generated from wind power projects located in areas covered by grids.

For the years ended December 31, 2007, 2008 and 2009 and the three months ended March 31, 2009 and 2010, our total selling and distribution costs amounted to RMB0.9 million, RMB1.1 million, RMB0.4 million, RMB0.0 million and RMB 0.1 million, respectively. Advertising expenses amounted to 50.4%, 44.2%, 44.9%, 100.0% and 15.9%, respectively, of our total selling and distribution expenses. We also recorded business promotion expenses representing 35.9%, 42.4%, 51.2%, 0.0% and 84.1%, respectively, of our total selling and distribution expenses. The increase in selling and distribution costs in 2008, and subsequent decrease in such costs in 2009, primarily reflects higher advertising campaigns and conferences in 2008.

Administrative Expenses

Administrative expenses consist primarily of salary expenses and employee benefits, certain office expenses, depreciation, certain tax expenses, amortization of intangibles, professional expenses and certain other expenses. The following table includes a breakdown of our administrative expenses between our natural gas business and wind power business for the periods indicated:

	For the Year Ended December 31,						For the Three Months Ended March 31,			
	2007		2008		2009		2009		2010	
	(RMB in thousands)	(%)	(RMB in thousands)	(%)	(RMB in thousands)	(%)	(RMB in thousands) (Unaudited)	(%)	(RMB in thousands)	(%)
Natural gas	25,632	75.8	33,666	63.0	44,937	65.0	10,595	66.6	8,297	50.3
Wind power	8,179	24.2	19,804	37.0	24,194	35.0	5,322	33.4	7,055	42.7
Corporate(1)	—	—	—	—	—	—	—	—	1,157	7.0
	33,811	100.0	53,470	100.0	69,131	100.0	15,917	100.0	16,509	100.0

Note:

(1) Represents corporate and other unallocated expenses of our head office.

Other Expenses

Other expenses consist primarily of losses on the disposal of long-term assets and foreign exchange losses.

Profit from Operations and Operating Margin

Profit from operations includes revenue of each segment and other net income attributable to that segment after deducting operating expenses of this segment. The following table shows our profit from operations and operating margin in our natural gas and wind power businesses for the years ended December 31, 2007, 2008 and 2009 and the three months ended March 31, 2009 and 2010:

	For the Year Ended December 31,						For the Three Months Ended March 31,			
	2007		2008		2009		2009		2010	
	(RMB in thousands)	(%)	(RMB in thousands)	(%)	(RMB in thousands)	(%)	(RMB in thousands) (Unaudited)	(%)	(RMB in thousands)	(%)
Operating profit										
Natural gas	58,205	75.0	167,426	78.4	236,823	58.0	61,423	62.6	90,699	50.6
Wind power	19,351	25.0	46,164	21.6	171,275	42.0	36,705	37.4	89,306	49.9
Corporate(1)	—	—	—	—	—	—	—	—	(904)	(0.5)
	77,556	100.0	213,590	100.0	408,098	100.0	98,128	100.0	179,101	100.0
Operating margin										
Natural gas		9.9		18.0		18.9		19.8		21.7
Wind power		50.9		53.4		64.7		61.2		68.1

Note:

(1) Represents unallocated operating profit (loss) of our head office.

Finance Costs

Finance costs consist primarily of interest expense on bank loans, less interest capitalized to property, plant and equipment during construction. The proportion of the finance costs from our wind power business increased significantly during the Track Record Period, as a result of our large capital expenditures on wind farms. The following table shows the finance costs incurred by our natural gas and wind power businesses for the periods indicated:

	For the Year Ended December 31,						For the Three Months Ended March 31,			
	2007		2008		2009		2009		2010	
	(RMB in thousands)	(%)	(RMB in thousands)	(%)	(RMB in thousands)	(%)	(RMB in thousands) (Unaudited)	(%)	(RMB in thousands)	(%)
Natural Gas	23,184	74.2	22,604	43.1	14,879	14.3	4,500	17.1	2,082	5.9
Wind Power	8,053	25.8	29,824	56.9	89,072	85.7	21,760	82.9	33,422	94.1
	31,237	100.0	52,428	100.0	103,951	100.0	26,260	100.0	35,504	100.0

Share of Profit and Losses of Associates

Share of profit and losses of associates includes our share of the results of investments in associates.

Income Tax Expense

Our income tax expense consists of current and deferred taxation. Our income tax in the PRC primarily includes provisions made for the PRC enterprise income tax. For details about the PRC tax incentives enjoyed by our PRC subsidiaries and the effect of the New EIT Law, see "— Significant factors affecting our results of operations and financial condition — PRC tax incentives — Enterprise income tax."

The following table shows the income tax expense and effective tax rate of our natural gas and wind power businesses as a percentage of our total income tax expense, for the periods indicated:

	For the Year Ended December 31,									For the Three Months Ended March 31,					
	2007			2008			2009			2009			2010		
	Income Tax		Effective Tax Rate	Income Tax		Effective Tax Rate	Income Tax		Effective Tax Rate	Income Tax		Effective Tax Rate	Income Tax		Effective Tax Rate
	(RMB in thousands)	(%)	(%)	(RMB in thousands)	(%)	(%)	(RMB in thousands)	(%)	(%)	(RMB in thousands) (Unaudited)	(%)	(%)	(RMB in thousands)	(%)	(%)
Natural Gas	8,364	101.4	23.9	3,325	33.5	2.3	1,401	7.5	0.6	88	2.5	0.2	10,978	61.3	12.4
Wind Power . . .	(112)	(1.4)	(1.1)	6,611	66.5	40.5	17,334	92.5	20.7	3,458	97.5	23.1	6,925	38.7	10.5
	8,252	100.0	18.1	9,936	100.0	6.2	18,735	100.0	6.1	3,546	100.0	4.9	17,903	100.0	11.7

The effective tax rate for our natural gas business decreased from 23.9% in 2007 to 0.6% in 2009, primarily because one of our principal natural gas subsidiaries was fully exempt from income tax in 2008 and 2009 as a result of certain PRC tax incentives. This subsidiary was not entitled to such income tax exemption in 2007 because we had not yet utilized certain tax losses as of December 31, 2007.

The effective tax rate of our natural gas business was 0.2% in the three months ended March 31, 2009, primarily because Hebei Natural Gas was fully exempt from income tax due to preferential tax treatment under PRC law. The effective rate of our natural gas business increased to 12.4% in the three months ended March 31, 2010, because Hebei Natural Gas received a 50% exemption from EIT due to preferential tax treatment under PRC law. See "Significant Factors Affecting Our Results of Operations and Financial Condition-PRC Tax Incentives."

Our wind power business received a tax benefit of RMB0.1 million in 2007, principally because two of our wind power project companies located in impoverished areas in the PRC were fully exempt from income tax in that year. After the New EIT law became effective on January 1, 2008, the two wind power project companies were no longer fully exempt from income tax and became subject to a 25% income tax rate. In addition, we did not recognize certain tax losses and incurred certain non-deductible expenses in 2008. As a result, the overall effective income tax rate of wind power business increased to 40.5% in 2008.

The effective income tax rate of wind power business decreased to 20.7% in 2009 from 40.5% in 2008, primarily because two wind power project companies commenced operations in that year. Since we established these wind power project companies after the New EIT law took effect, they were entitled to full income tax exemption in 2009 due to their status as public infrastructure projects.

The effective tax rate of our wind power business decreased from 23.1% in the three months ended March 31, 2009 to 10.5% in the three months ended March 31, 2010, primarily because two of our wind power project companies became eligible for preferential tax treatment in the first quarter of 2010.

SEGMENT INFORMATION

The following table sets forth certain items from our consolidated statement of comprehensive income and related margins for our natural gas and wind power segments for the periods indicated:

	Year Ended December 31,						Three Months Ended March 31,			
	2007		2008		2009		2009		2010	
	(RMB in thousands)	(%)	(RMB in thousands)	(%)	(RMB in thousands)	(%)	(RMB in thousands) (Unaudited)	(%)	(RMB in thousands)	(%)
Revenue										
Natural gas	590,758	94.0	932,229	91.5	1,252,685	82.6	309,733	83.8	417,771	76.1
Wind power	38,031	6.0	86,504	8.5	264,576	17.4	59,962	16.2	131,046	23.9
	628,789	100.0	1,018,733	100.0	1,517,261	100.0	369,695	100.0	548,817	100.0
Cost of sales										
Natural gas	(506,349)	96.1	(730,298)	95.1	(972,374)	89.1	(237,879)	90.9	(326,247)	87.9
Wind power	(20,451)	3.9	(37,488)	4.9	(118,595)	10.9	(23,929)	9.1	(45,029)	12.1
	(526,800)	100.0	(767,786)	100.0	(1,090,969)	100.0	(261,808)	100.0	(371,276)	100.0
Gross profit										
Natural gas	84,409	82.8	201,931	80.5	280,311	65.8	71,854	66.6	91,524	51.6
Wind power	17,580	17.2	49,016	19.5	145,981	34.2	36,033	33.4	86,017	48.4
	101,989	100.0	250,947	100.0	426,292	100.0	107,887	100.0	177,541	100.0
Gross margin										
Natural gas		14.3		21.7		22.4		23.2		21.9
Wind power		46.2		56.7		55.2		60.1		65.6
Operating profit										
Natural gas	58,205	75.0	167,426	78.4	236,823	58.0	61,423	62.6	90,699	50.6
Wind power	19,351	25.0	46,164	21.6	171,275	42.0	36,705	37.4	89,306	49.9
Corporate[1]	—	—	—	—	—	—	—	—	(904)	(0.5)
	77,556	100.0	213,590	100.0	408,098	100.0	98,128	100.0	179,101	100.0
Operating margin										
Natural gas		9.9		18.0		18.9		19.8		21.7
Wind power		50.9		53.4		64.7		61.2		68.1

	Year Ended December 31,						Three Months Ended March 31,			
	2007		2008		2009		2009		2010	
	(RMB in thousands)	(%)	(RMB in thousands)	(%)	(RMB in thousands)	(%)	(RMB in thousands) (Unaudited)	(%)	(RMB in thousands)	(%)
Profit for the year/period										
Natural gas	26,657	71.2	141,497	93.6	220,543	76.8	56,835	83.2	77,639	57.2
Wind power	10,804	28.8	9,729	6.4	66,561	23.2	11,487	16.8	59,011	43.5
Corporate[(1)]	—	—	—	—	—	—	—	—	(904)	(0.7)
	37,461	100.0	151,226	100.0	287,104	100.0	68,322	100.0	135,746	100.0
Net profit margin										
Natural gas		4.5		15.2		17.6		18.3		18.6
Wind power		28.4		11.2		25.2		19.2		45.0
Profit and total comprehensive income for the year/period attributable to the owners of the Company										
Natural gas	14,671	57.6	77,780	89.6	121,525	73.1	31,339	77.6	42,680	49.7
Wind power	10,804	42.4	9,070	10.4	44,797	26.9	9,046	22.4	44,183	51.4
Corporate[(1)]	—	—	—	—	—	—	—	—	(904)	(1.1)
	25,475	100.0	86,850	100.0	166,322	100.0	40,385	100.0	85,959	100.0
Net profit margin attributable to the owners of the Company										
Natural gas		2.5		8.3		9.7		10.1		10.2
Wind power		28.4		10.5		16.9		15.1		33.7

Note:

(1) Represents unallocated data of our head office.

RESULTS OF OPERATIONS

Three Months Ended March 31, 2010 Compared to the Three Months Ended March 31, 2009

Revenue

Revenue increased RMB179.1 million, or 48.4%, from RMB369.7 million in the three months ended March 31, 2009 to RMB548.8 million in the three months ended March 31, 2010, due primarily to significant increases in revenue from our natural gas and wind power businesses.

Revenue from our natural gas business increased RMB108.1 million, or 34.9%, from RMB309.7 million in the three months ended March 31, 2009 to RMB417.8 million in the three months ended March 31, 2010, primarily as a result of an RMB105.8 million increase in revenue from sales of natural gas in the three months ended March 31, 2010 compared to the three months ended March 31, 2009. This increase was due to (i) the rapid expansion of the businesses of a number of our major wholesale customers, resulting in a significant increase in their consumption of natural gas, (ii) sales to a new retail customer that consumed a significant volume of natural gas during the period and (iii) an increase in the weighted average selling price of our natural gas.

Revenue from our wind power business increased RMB71.0 million, or 118.3%, from RMB60.0 million in the three months ended March 31, 2009 to RMB131.0 million in the three months ended March 31, 2010, due primarily to increases in net power delivered to grid in the three months ended March 31, 2010. The increase in our net power delivered to grid was attributable to a 74.1% increase in consolidated installed capacity from 233.6 MW as of March 31, 2009 to 406.7 MW as of March 31, 2010, as three of our wind farms commenced operations after

March 31, 2009. Sales of electricity from our wind power business as a percentage of our total revenue increased from 16.2% in the three months ended March 31, 2009 to 23.9% in the three months ended March 31, 2010. We expect sales of electricity to account for an increasing proportion of our total revenue in upcoming periods as we expand our wind power project portfolio.

Cost of Sales

Cost of sales increased RMB109.5 million, or 41.8%, from RMB261.8 million in the three months ended March 31, 2009 to RMB371.3 million in the three months ended March 31, 2010, primarily due to higher costs of sales for both of our natural gas and wind power businesses.

Cost of sales for our natural gas business increased RMB88.3 million, or 37.1%, from RMB237.9 million in the three months ended March 31, 2009 to RMB326.2 million in the three months ended March 31, 2010, driven primarily by an RMB86.4 million, or 38.5%, increase in our cost of raw materials. The increase in raw materials costs reflected (i) significantly higher natural gas sales volumes in the three months ended March 31, 2010 compared to the three months ended March 31, 2009 and (ii) an increase in the weighted average cost of our natural gas purchases.

Cost of sales for our wind power business increased RMB21.1 million, or 88.3%, from RMB23.9 million in the three months ended March 31, 2009 to RMB45.0 million in the three months ended March 31, 2010, driven primarily by an RMB19.6 million, or 89.4%, increase in depreciation expense. The increased depreciation expense resulted from higher fixed assets due to the expansion of our wind farms in operation in recent years.

Gross Profit

Gross profit increased RMB69.6 million, or 64.5%, from RMB107.9 million in the three months ended March 31, 2009 to RMB177.5 million in the three months ended March 31, 2010, due primarily to the growth in revenue over the same period. Our gross margin increased from 29.2% in the three months ended March 31, 2009 to 32.3% in the three months ended March 31, 2010, reflecting the growth of our wind power business, which generates higher gross margins than our natural gas business.

The gross margin of our natural gas business decreased from 23.2% in the three months ended March 31, 2009 to 21.9% in the three months ended March 31, 2010, primarily because we experienced an increase in the cost of our natural gas supply as our natural gas supplier, PetroChina, increased the sales price for residential natural gas usage in May 2009. For detailed description of the price adjustment in May 2009, please see "Business — Our Natural Gas Business — Selling Price of Natural Gas — Price Adjustment Dated May 1, 2009."

The gross margin of our wind power business increased from 60.1% in the three months ended March 31, 2009 to 65.6% in the three months ended March 31, 2010, due primarily to (i) improved economies of scale resulting from the expansion of our wind power business and (ii) an increase in our average utilization hours from 636.6 for the three months ended March 31, 2009 to 700.5 for the three months ended March 31, 2010, as a result of improved technology in our new wind power projects and generally higher wind speeds in the three months ended March 31, 2010 compared to the three months ended March 31, 2009.

Other Income and Gains, Net

Other income and gains, net, increased RMB13.9 million, or 217.2%, from RMB6.4 million in the three months ended March 31, 2009 to RMB20.3 million in the three months ended March 31, 2010, due primarily to (i) an RMB6.6 million increase in CER income as a result of one additional approved CDM project, and (ii) a revenue of RMB7.1 million for relocating certain of our natural gas pipelines as requested by certain customers in the three months ended March 31, 2010.

Selling and Distribution Costs

Selling and distribution costs increased RMB60,000, or 2,000.0%, from RMB3,000 in the three months ended March 31, 2009 to RMB63,000 in the three months ended March 31, 2010, due primarily to an RMB37,000 increase in business promotion expenses in the three months ended March 31, 2010.

Administrative Expenses

Administrative expenses increased RMB0.6 million, or 3.8%, from RMB15.9 million in the three months ended March 31, 2009 to RMB16.5 million in the three months ended March 31, 2010, due primarily to (i) the expansion of our business and (ii) stamp duties paid in connection with the incorporation of our Company in the three months ended March 31, 2010.

Profit from Operations and Operating Margin

As a result of the foregoing factors, profit from operations increased RMB81.0 million, or 82.6%, from RMB98.1 million in the three months ended March 31, 2009 to RMB179.1 million in the three months ended March 31, 2010. Our operating margin increased from 26.5% in the three months ended March 31, 2009 to 32.6% in the three months ended March 31, 2010.

The operating margin for our natural gas segment increased from 19.8% in the three months ended March 31, 2009 to 21.7% in the three months ended March 31, 2010, due primarily to (i) revenue for relocating certain of our natural gas pipelines as requested by certain customers and (ii) improved economies of scale resulting from the expansion of our natural gas business.

The operating margin for our wind power segment increased from 61.2% in the three months ended March 31, 2009 to 68.1% in the three months ended March 31, 2010, due primarily to (i) economies of scale, (ii) an increase in our average utilization hours from 636.6 for the three months ended March 31, 2009 to 700.5 for the three months ended March 31, 2010, as a result of improved technology in our new wind power projects and higher wind speeds and (iii) improved operating efficiencies in our wind power business.

Finance Costs

Finance costs increased RMB9.2 million, or 35.0%, from RMB26.3 million in the three months ended March 31, 2009 to RMB35.5 million in the three months ended March 31, 2010, due primarily to an RMB1,284.7 million increase in total borrowings to finance the expansion of our business. We had average outstanding borrowings of RMB3,336.3 million, bearing a weighted average interest rate of 5.4% in the three months ended March 31, 2010, compared to average outstanding borrowings of RMB2,284.5 million, bearing a weighted average interest rate of 6.0% in the three months ended March 31, 2009.

Share of Profit of Associates

We had a share in the profit of associates of RMB10.1 million in the three months ended March 31, 2010. This profit was attributable to our 50% ownership in Hebei Weichang Longyuan Wind Power and 45% ownership in Longyuan Jiantou (Chengde) Wind Power and Longyuan Jiantou (Chengde Weichang) Wind Energy.

Profit before Tax

As a result of the foregoing, profit before tax increased RMB81.7 million, or 113.6%, from RMB71.9 million in the three months ended March 31, 2009 to RMB153.6 million in the three months ended March 31, 2010. As a percentage of our total revenue, profit before tax increased from 19.4% in the three months ended March 31, 2009 to 28.0% in the three months ended March 31, 2010.

Income Tax Expense

Our income tax expense increased RMB14.4 million, or 411.4%, from RMB3.5 million in the three months ended March 31, 2009 to RMB17.9 million in the three months ended March 31, 2010. The increase in income tax expense was mainly due to higher amounts of taxable income in the three months ended March 31, 2010.

Our income tax expense for our natural gas business increased RMB10.9 million, or 10,900.0%, from RMB0.1 million in the three months ended March 31, 2009 to RMB11.0 million in the three months ended March 31, 2010. Our income tax expense for our wind power business increased RMB3.4 million, or 97.1%, from RMB3.5 million in the three months ended March 31, 2009 to RMB6.9 million in the three months ended March 31, 2010.

Our effective tax rate increased from 4.9% in the three months ended March 31, 2009 to 11.7% in the three months ended March 31, 2010. The effective tax rate for our natural gas business increased from 0.2% in the three months ended March 31, 2009 to 12.4% in the three months ended March 31, 2010, while the effective tax rate for our wind power business decreased from 23.1% in the three months ended March 31, 2009 to 10.5% in the three months ended March 31, 2010. See "Description of Key Income Statement Items — Income Tax Expense."

Net Profit after Tax (including profit attributable to non-controlling interests)

As a result of the foregoing, our net profit after tax, including profit attributable to non-controlling interests, increased RMB67.4 million, or 98.7%, from RMB68.3 million in the three months ended March 31, 2009 to RMB135.7 million in the three months ended March 31, 2010.

Profit Attributable to Non-controlling Interests

Profit attributable to non-controlling interests increased RMB21.9 million, or 78.5%, from RMB27.9 million in the three months ended March 31, 2009 to RMB49.8 million in the three months ended March 31, 2010, primarily due to higher profit from our natural gas and wind power businesses in the three months ended March 31, 2010.

Profit Attributable to the Owners of the Company

As a result of the foregoing, profit attributable to the owners of the Company increased RMB45.6 million, or 112.9%, from RMB40.4 million in the three months ended March 31, 2009 to RMB86.0 million in the three months ended March 31, 2010.

Year Ended December 31, 2008 Compared to the Year Ended December 31, 2009

Revenue

Revenue increased RMB498.6 million, or 48.9%, from RMB1,018.7 million in 2008 to RMB1,517.3 million in 2009, due primarily to significant increases in revenue from our natural gas and wind power businesses.

Revenue from our natural gas business increased RMB320.5 million, or 34.4%, from RMB932.2 million in 2008 to RMB1,252.7 million in 2009, primarily as a result of an RMB286.7 million increase in revenue from sales of natural gas, due to the increase in our natural gas sales volume in 2009 from (i) the rapid expansion of the businesses of a number of our major wholesale customers, resulting in a significant increase in their consumption of natural gas; (ii) sales to a new retail customer that consumed a significant volume of natural gas during the year and (iii) an increase in the weighted average selling price of our natural gas. Increased revenues in our natural gas business also resulted from an RMB33.8 million increase in other revenue from our natural gas business, including revenue generated from fees for the transportation of natural gas, due primarily to significantly higher volumes of natural gas transported in 2009 compared to 2008.

Revenue from our wind power business increased RMB178.1 million, or 205.9%, from RMB86.5 million in 2008 to RMB264.6 million in 2009, due primarily to increases in net power delivered to grid in 2009, partially offset by a decrease in our weighted average on-grid tariff. The increase in our net power delivered to grid was primarily due to a 74.1% increase in consolidated installed capacity from 233.6 MW to 406.7 MW over the same period. Sales of electricity from our wind power business as a percentage of our total revenue increased from 8.5% in 2008 to 17.4% in 2009.

Cost of Sales

Cost of sales increased RMB323.2 million, or 42.1%, from RMB767.8 million in 2008 to RMB1,091.0 million in 2009, primarily due to higher costs of sales for both of our natural gas and wind power businesses.

Cost of sales for our natural gas business increased RMB242.1 million, or 33.2%, from RMB730.3 million in 2008 to RMB972.4 million in 2009, driven primarily by an RMB230.9 million, or 35.0%, increase in our cost of raw materials. The increase in raw materials costs reflected (i) significantly higher natural gas sales volumes in 2009 compared to 2008 and (ii) an increase in the weighted average cost of natural gas purchases.

Cost of sales for our wind power business increased RMB81.1 million, or 216.3%, from RMB37.5 million in 2008 to RMB118.6 million in 2009, driven primarily by an RMB73.7 million, or 229.4%, increase in depreciation expense. The increased depreciation expense resulted from higher fixed assets due to the expansion of our wind farms in operation in recent years. Higher cost of sales for our wind power business also reflected significantly higher operating costs associated with increased installed capacity and production levels in our wind power business in 2009 compared to 2008.

Gross Profit

Gross profit increased RMB175.4 million, or 69.9%, from RMB250.9 million in 2008 to RMB426.3 million in 2009, due primarily to the growth in revenue over the same period. Our gross margin increased from 24.6% in 2008 to 28.1% in 2009, reflecting the growth of our wind power business, which generates higher gross margins than our natural gas business. Our improved gross margins were also attributable to increased natural gas consumption by retail industrial customers in our natural gas business, which typically contribute higher margins than our residential customers. The gross margin of our natural gas business increased from 21.7% in 2008 to 22.4% in 2009, while the gross margin of our wind power business dropped slightly from 56.7% in 2008 to 55.2% in 2009.

Other Income and Gains, Net

Other income and gains, net, increased RMB31.9 million, or 163.6%, from RMB19.5 million in 2008 to RMB51.4 million in 2009, due primarily to (i) an RMB24.1 million increase in CER income as a result of additional approved CDM projects during the period, (ii) an RMB0.7 million increase in bank interest income and (iii) an

RMB6.9 million increase in VAT refunds because two of our wind power projects that had received VAT refunds in 2008 and 2009 started operations in the second half of 2008 and therefore had their first full year of operation in 2009. In addition, we commissioned a new wind power project in 2009 that also received VAT refunds in 2009.

Selling and Distribution Costs

Selling and distribution costs decreased RMB0.7 million, or 63.6%, from RMB1.1 million in 2008 to RMB0.4 million in 2009, due primarily to an RMB0.3 million decrease in advertising expenses, an RMB0.3 million decrease in business promotion expenses and an RMB0.1 million decrease in conference expenses.

Administrative Expenses

Administrative expenses increased RMB15.6 million, or 29.2%, from RMB53.5 million in 2008 to RMB69.1 million in 2009, due primarily to an RMB8.1 million increase in office expenses, an RMB5.7 million increase in salary expenses and employee benefits and an RMB2.3 million increase in depreciation of fixed assets.

Profit from Operations and Operating Margin

As a result of the foregoing factors, profit from operations increased RMB194.5 million, or 91.1%, from RMB213.6 million in 2008 to RMB408.1 million in 2009. The margin for profit from operations increased from 21.0% in 2008 to 26.9% in 2009. The operating margin for our natural gas segment increased from 18.0% in 2008 to 18.9% in 2009, while the operating margin for our wind power segment increased from 53.4% in 2008 to 64.7% in 2009.

Finance Costs

Finance costs increased RMB51.6 million, or 98.5%, from RMB52.4 million in 2008 to RMB104.0 million in 2009, due primarily to an RMB818.8 million increase in total borrowings to finance capital expenditures for the construction of our wind farms. We had average outstanding borrowings of RMB2,615.4 million, bearing a weighted average interest rate of 5.2% in 2009, compared to average outstanding borrowings of RMB1,550.0 million, bearing a weighted average interest rate of 6.8% in 2008.

Share of Profit of Associates

We had a share in the profit of associates of RMB1.7 million in 2009. This profit was attributable to our 50% ownership in Hebei Weichang Longyuan Wind Power.

Profit before Tax

As a result of the foregoing, profit before tax increased RMB144.6 million, or 89.7%, from RMB161.2 million in 2008 to RMB305.8 million in 2009. As a percentage of our total revenue, profit before tax increased from 15.8% in 2008 to 20.2% in 2009.

Income Tax Expense

Our income tax expense increased RMB8.8 million, or 88.9%, from RMB9.9 million in 2008 to RMB18.7 million in 2009. The increase in income tax expense was mainly due to higher amounts of taxable income in 2009. Our income tax expense for our natural gas business decreased RMB1.9 million, or 57.6%, from RMB3.3 million in 2008 to RMB1.4 million in 2009. Our income tax expense for our wind power business increased RMB10.7 million, or 162.1%, from RMB6.6 million in 2008 to RMB17.3 million in 2009. Our effective tax rate decreased from 6.2% in 2008 to 6.1% in 2009. The effective tax rate for our natural gas business decreased from 2.3% in 2008 to 0.6% in 2009, while the effective tax rate for our wind power business decreased from 40.5% in 2008 to 20.7% in 2009 due to increased tax incentives for our wind power business in 2009.

Net Profit after Tax (including profit attributable to non-controlling interests)

As a result of the foregoing, our net profit after tax, including profit attributable to non-controlling interests, increased RMB135.9 million, or 89.9%, from RMB151.2 million in 2008 to RMB287.1 million in 2009.

Profit Attributable to Non-controlling Interests

Profit attributable to non-controlling interests increased RMB56.4 million, or 87.6%, from RMB64.4 million in 2008 to RMB120.8 million in 2009, primarily due to higher profit from our natural gas and wind power businesses in 2009.

Profit Attributable to the Owners of the Company

As a result of the foregoing, profit attributable to the owners of the Company increased RMB79.4 million, or 91.4%, from RMB86.9 million in 2008 to RMB166.3 million in 2009.

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

Revenue

Revenue increased RMB389.9 million, or 62.0%, from RMB628.8 million in 2007 to RMB1,018.7 million in 2008, primarily due to significant increases in revenue from our natural gas and wind power businesses.

Revenue from our natural gas business increased RMB341.4 million, or 57.8%, from RMB590.8 million in 2007 to RMB932.2 million in 2008, primarily as a result of (i) an RMB330.9 million increase in revenue from sale of natural gas, due to the increase in our natural gas sales volume in 2008 from (a) the rapid expansion of the businesses of a number of our major wholesale customers, resulting in a significant increase in their consumption of natural gas, (b) sales to a new retail customer that consumed a significant volume of natural gas during the year, (c) an increase in the number of new wholesale customers and (d) an increase in the weighted average selling price of our natural gas, (ii) an RMB6.3 million increase in revenue from the construction and connection of natural gas pipelines and (iii) an RMB4.3 million increase in other revenue from our natural gas business, including revenue generated from fees for the transportation of natural gas.

Revenue from our wind power business increased RMB48.5 million, or 127.6%, from RMB38.0 million in 2007 to RMB86.5 million in 2008, due to increases in net power delivered to grid in 2008. The increase in our net power delivered to grid was primarily due to a 285.5% increase in the consolidated installed capacity of our wind farms from 60.6MW to 233.6MW over the same period. Sales of electricity from our wind power business as a percentage of our total revenue increased from 6.0% in 2007 to 8.5% in 2008. Our weighted average on-grid tariff (excluding VAT) decreased from RMB0.502 per kWh in 2007 to RMB0.492 per kWh in 2008, because many of our projects approved in 2008 were located in regions with lower fixed price than previously approved tariffs. See “Business — Sale of Electricity — On-grid Tariffs.”

Cost of Sales

Cost of sales increased RMB241.0 million, or 45.7%, from RMB526.8 million in 2007 to RMB767.8 million in 2008, due primarily to higher costs of sales for both of our natural gas and wind power businesses.

Cost of sales for our natural gas business increased RMB224.0 million, or 44.2%, from RMB506.3 million in 2007 to RMB730.3 million in 2008, driven primarily by an RMB212.7 million, or 47.6%, increase in our cost of raw materials. The increase in raw materials costs reflected (i) significantly higher natural gas sales volumes in 2008 compared to 2007 and (ii) an increase in the weighted average cost of our natural gas purchases.

Cost of sales for our wind power business increased RMB17.0 million, or 82.9%, from RMB20.5 million in 2007 to RMB37.5 million in 2008, driven primarily by an RMB13.9 million, or 76.1%, increase in depreciation expense. The increased depreciation expense resulted from higher fixed assets from the expansion of our wind farms in operation in recent years. Higher cost of sales for our wind power business also reflected significantly higher revenue from our wind power business in 2008 compared to 2007.

Gross Profit

Gross profit increased RMB148.9 million, or 146.0%, from RMB102.0 million in 2007 to RMB250.9 million in 2008, due primarily to the growth in revenue over the same period. Our gross margin increased from 16.2% in 2007 to 24.6% in 2008, reflecting the growth of our wind power business, which generates higher gross margins than our natural gas business. Our improved gross margins were also attributable to the increased natural gas consumption volume by retail industrial customers in our natural gas business, which contribute higher margins than our residential customers.

The gross margin of our natural gas business increased from 14.3% in 2007 to 21.7% in 2008, due primarily to (i) the increase in the revenue contribution of our retail industrial customers and (ii) improved economies of scale as we expanded our natural gas business.

The gross margin of our wind power business increased from 46.2% in 2007 to 56.7% in 2008, due primarily to (i) the commencement of operations in 2008 of Haixing Wind Farm, which had a high on-grid tariff relative to our other wind farms, (ii) the commencement of operations in late 2008 of Chongli Wind Farm Phase I, which experienced high wind speeds in the fourth quarter of 2008, (iii) improved operating efficiencies in our wind power business and (iv) an increase in our average utilization hours from 2,044.8 in 2007 to 2,129.5 in 2008, as a result of improved technology in our new wind power projects and generally higher wind speeds in 2008 compared to 2007.

Other Income and Gains, Net

Other income and gains, net, increased RMB9.2 million, or 89.3%, from RMB10.3 million in 2007 to RMB19.5 million in 2008, due primarily to (i) an RMB5.3 million increase in CER income as a result of additional approved CDM projects during the year and (ii) an RMB3.8 million increase in VAT refunds as a result of increased revenue from our wind power business.

Selling and Distribution Costs

Selling and distribution costs increased RMB0.2 million, or 22.2%, from RMB0.9 million in 2007 to RMB1.1 million in 2008, due primarily to an RMB0.2 million increase in business promotion expenses.

Administrative Expenses

Administrative expenses increased RMB19.7 million, or 58.3%, from RMB33.8 million in 2007 to RMB53.5 million in 2008, due primarily to an RMB10.6 million increase in salary expenses and employee benefits and an RMB3.2 million increase in depreciation of fixed assets.

Profit from Operations

As a result of the foregoing factors, profit from operations increased RMB136.0 million, or 175.3%, from RMB77.6 million in 2007 to RMB213.6 million in 2008. The margin for profit from operations increased from 12.3% in 2007 to 21.0% in 2008. The operating margin for our natural gas segment increased from 9.9% in 2007 to 18.0% in 2008, and the operating margin for our wind power segment increased from 50.9% in 2007 to 53.4% in 2008.

Finance Costs

Finance costs increased RMB21.2 million, or 67.9%, from RMB31.2 million in 2007 to RMB52.4 million in 2008, due primarily to an RMB1,312.0 million increase in interest-bearing bank and other borrowings to finance capital expenditures for the construction of our wind farms. We had average outstanding borrowings of RMB1,550.0 million, bearing a weighted average interest rate of 6.8% in 2008, compared to average outstanding borrowings of RMB687.0 million, bearing a weighted average interest rate of 5.2% in 2007.

Share of Losses of Associates

We had a share in the losses of associates of RMB0.6 million in 2007. This loss was attributable to our 50% equity ownership in Hebei Weichang Longyuan Wind Power.

Profit before Tax

As a result of the foregoing, profit before tax increased RMB115.5 million, or 252.7%, from RMB45.7 million in 2007 to RMB161.2 million in 2008. As a percentage of our total revenue, profit before tax increased from 7.3% in 2007 to 15.8% in 2008.

Income Tax Expense

Our income tax expense increased RMB1.6 million, or 19.3%, from RMB8.3 million in 2007 to RMB9.9 million in 2008. The increase in income tax expense was mainly due to higher amounts of taxable income in 2008. Our income tax expense for our natural gas business decreased RMB5.1 million, or 60.7%, from RMB8.4 million in 2007 to RMB3.3 million in 2008. Income tax expense for our wind power business significantly increased RMB6.7 million, or 6,700%, from an income tax credit of RMB0.1 million in 2007 to an income tax expense of RMB6.6 million in 2008. In 2007, our wind power business benefitted from a tax holiday and related tax benefits. See "Significant Factors Affecting Our Results of Operations and Financial Condition — PRC Tax Incentives" above.

Our effective tax rate decreased from 18.1% in 2007 to 6.2% in 2008, due primarily to the commencement of a tax holiday for one of our subsidiaries in 2008, as well as lower tax expense in 2008 due to the lower statutory tax rate under the New EIT Law, which took effect on January 1, 2008. The effective tax rate for our natural gas business decreased from 23.9% in 2007 to 2.3% in 2008, while our wind power business received a tax benefit of RMB0.1 million in 2007 and had an effective tax rate of 40.5% in 2008.

Net Profit after Tax (including profit attributable to non-controlling interests)

As a result of the foregoing, our net profit after tax, including profit attributable to non-controlling interests, increased RMB113.7 million, or 303.2%, from RMB37.5 million in 2007 to RMB151.2 million in 2008.

Profit Attributable to Non-controlling Interests

Profit attributable to non-controlling interests increased RMB52.4 million, or 436.7%, from RMB12.0 million in 2007 to RMB64.4 million in 2008, due primarily to higher profit in 2008.

Profit Attributable to the Owners of the Company

As a result of the foregoing, profit attributable to the owners of the Company increased RMB61.4 million, or 240.8%, from RMB25.5 million in 2007 to RMB86.9 million in 2008.

LIQUIDITY AND CAPITAL RESOURCES

Overview

Our principal sources of liquidity have been cash from operations and debt financing from banks. Our principal uses of cash have been, and are expected to be, operational costs and the expansion of our wind farms and natural gas pipelines in the PRC.

We manage our liquidity, working capital and funding of capital expenditures by (i) preparing an annual budget for the next fiscal year before October each year with respect to loan repayments and capital expenditures, (ii) maintaining sufficient credit facilities to fund our budgeted capital expenditures, (iii) securing bank borrowings prior to commencing construction of any new project, (iv) closely monitoring our cash position to support our operations through various measures including (a) having our finance department managers make financing arrangements based on weekly inspection of our bank deposit balances and the planned expenditures for the following week and (b) requiring board approval for any material expenditures outside the original budget, (v) effectively utilizing financial products to lower our finance costs, including financing projects using lower-interest short-term borrowings and converting such borrowings into long-term borrowings when due and (vi) maintaining good relationships with domestic financial institutions. We typically fund 70% to 80% of the expenditures of a project using bank borrowings and the remaining 20% to 30% with cash from our operating activities or capital injections by the shareholders of the relevant companies.

Net Current Liabilities

The following table sets forth our current assets and current liabilities as of the dates indicated:

	As of December 31,			As of March 31,	As of July 31,
	2007	2008	2009	2010	2010
	(RMB in thousands)				(Unaudited)
Current Assets					
Prepaid land lease payments	474	1,186	2,093	2,168	2,231
Inventories	7,353	18,955	21,548	22,272	16,521
Trade receivables	27,170	42,409	84,776	116,604	88,957
Prepayments, deposits and other receivables	41,174	184,824	88,717	95,502	138,513
Held-to-maturity investments	—	—	—	—	99,842
Pledged deposits	—	—	14,733	3,733	63
Cash and cash equivalents	81,830	233,078	330,158	854,271	753,403
Total current assets	158,001	480,452	542,025	1,094,550	1,099,530
Current Liabilities					
Trade and bills payables	21,280	36,051	439,669	348,489	184,307
Other payables and accruals	213,304	368,884	395,863	352,272	548,658
Interest-bearing bank and other borrowings	304,000	377,000	879,000	1,162,000	1,345,655
Tax payable	200	6,587	13,758	25,235	2,768
Total current liabilities	538,784	788,522	1,728,290	1,887,996	2,081,388
Net current liabilities	(380,783)	(308,070)	(1,186,265)	(793,446)	(981,858)

We had net current liabilities of RMB380.8 million, RMB308.1 million, RMB1,186.3 million, RMB793.4 million and RMB981.9 million as of December 31, 2007, 2008 and 2009, March 31, 2010 and July 31, 2010, respectively. Our net current liability position during the Track Record Period mainly reflected high levels of short-term bank notes to finance the purchase of wind turbines and to take advantage of lower financing costs compared to long-term borrowings in 2008 and 2009. We expect that we will continue to record net current liabilities in the future. See the subsection headed "Indebtedness — Borrowings" below for more details.

Despite our net current liability position in recent years, we have not experienced material financial difficulties with respect to our cash flow in such years for the following reasons:

- We have maintained long-term relationships with domestic financial institutions from whom we are able to obtain banking facilities on competitive terms to fund our expansion. As of July 31, 2010, we had unutilized banking facilities of approximately RMB8,678.0 million. Before seeking approvals from the NDRC or relevant Provincial DRC for a new wind power project, we typically obtain loan commitment letters from PRC banks that agree in principle to finance the project once approved.

- Since we obtained most of our banking facilities from reputable PRC commercial banks familiar with our credit history and reputation, the recent economic crisis has not materially adversely affected our access to credit markets. During the Track Record Period, we did not experience material difficulties in refinancing our short-term loans from our principal banks upon maturity of existing term loans. We believe that we will be able to refinance our existing short-term loans upon their maturity, if necessary, based on our past repayment and credit history.

- In April 2010, HECIC New Energy, our wholly-owned subsidiary, received a credit rating of AA from China Cheng Xin International Credit Rating Co. Ltd., one of the most reputable credit rating agencies in China and an Independent Third Party.
- Our existing cash resources improved during the Track Record Period. Our cash and cash equivalents increased from RMB81.8 million as of December 31, 2007 to RMB854.3 million as of March 31, 2010 (and to RMB753.4 million as of July 31, 2010) due to increases in net income and cash flows from our business.

To mitigate the risk that our cash flow from operations may be insufficient to cover our debts as they become due, we (i) prepare an annual budget with respect to loan repayments and capital expenditures on a regular basis, (ii) closely monitor our business performance and liabilities to ensure cash flow from operations is sufficient to cover our debts as they become due, (iii) maintain certain levels of cash on hand and (iv) maintain sufficient banking facilities and related financial products in the event of financial emergency.

Taking into account the banking facilities available to us, our existing cash resources and the amount of funds we expect to raise from the Global Offering, our Directors believe that we have sufficient working capital for the twelve months following the date of this prospectus.

CASH FLOW

The following table sets forth a summary of our net cash flow for the periods indicated:

Selected Cash Flow Statement Data

	Year Ended December 31,			Three Months Ended March 31,	
	2007	2008	2009	2009	2010
				(Unaudited)	
	(RMB in millions)				
Net cash flows from operating activities	99.6	311.1	501.8	66.1	149.7
Net cash used in investing activities	758.0	1,868.1	1,352.7	226.5	730.6
Net cash flows from financing activities	490.4	1,688.3	967.9	253.1	1,105.0
Net (decrease)/increase in cash and cash equivalents	(168.0)	131.3	117.0	92.7	524.1
Cash and cash equivalents at the end of year/period	81.8	213.1	330.2	305.2	854.3

Net Cash Flows from Operating Activities

Net cash flows from operating activities for the three months ended March 31, 2010 were RMB149.7 million, primarily attributable to (i) our profit after tax of RMB135.7 million and (ii) an RMB35.5 million adjustment for financing costs as a result of financing costs reflected on our income statement, partially offset by (a) an RMB31.8 million increase in trade receivables as a result of higher sales of natural gas to retail industrial customers in our natural gas business during the quarter and (b) an RMB30.6 million decrease in other payables and accruals as a result of decreases in advances from customers in our natural gas business during the quarter.

Net cash flows from operating activities for the three months ended March 31, 2009 were RMB66.1 million, primarily attributable to (i) our profit after tax of RMB68.3 million and (ii) an RMB26.3 million adjustment for financing costs as a result of financing costs reflected on our income statement, partially offset by (a) an RMB 19.1 million increase in trade receivables as a result of higher sales of natural gas to retail industrial customers in our natural gas business during the quarter and (b) an RMB19.0 million decrease in other payables and accruals as a result of decreases in advances from customers in our natural gas business during the quarter.

Net cash flows from operating activities for 2009 were RMB501.8 million, primarily attributable to (i) our profit after tax of RMB287.1 million, (ii) an RMB104.0 million adjustment for finance costs reflecting financing costs reflected on our income statement, (iii) an RMB39.8 million increase in other payables and accruals, resulting from higher amounts of advances from our natural gas customers, as well as increased payables and accruals for salaries, benefits, taxes, interest charges and other expenses, and (iv) an RMB23.7 million increase in trade payables, resulting from our increased construction and purchase of spare and replacement parts in connection with the expansion of our natural gas pipelines business, which experienced significantly higher demand in 2009. These amounts were partially offset by (a) an RMB61.9 million increase in prepayments, deposits and other receivables, reflecting increased prepayments in connection with the expansion of our wind farms and (b) an RMB42.4 million increase in trade receivables as a result of higher sales of electricity generated from our wind farms and CERs during the year.

Net cash flows from operating activities for 2008 were RMB311.1 million, due primarily to (i) our profit after tax of RMB151.2 million, (ii) an RMB52.4 million adjustment for financing costs as a result of reflecting financing costs reflected on our income statement and (iii) an RMB21.2 million increase in trade payables and an RMB38.1 million increase in other payables and accruals, as a result of the increased use of trade payables in purchasing natural gas and wind turbines during the year. Net cash flows from operating activities for 2008 were partially offset by (a) an RMB15.2 million increase in trade receivables due to higher sales of electricity generated from our wind farms during the year and (b) an RMB11.6 million increase in inventories, due primarily to our increased purchases of spare parts related to the expansion of our wind power business.

Net cash flows from operating activities in 2007 were RMB99.6 million, due primarily to (i) net profit after tax of RMB37.5 million, and (ii) an RMB31.2 million adjustment for finance charges reflecting financing costs reflected our income statement, partially offset by (a) an RMB17.2 million increase in trade receivables as a result of higher sales of electricity generated from our wind farms during the year and (b) an RMB5.5 million decrease in trade and bills payables as a result of increased payment to the contractors of the central CNG refueling station upon its completion in 2007.

Net Cash Flows Used in Investing Activities

Net cash flows used in investing activities in the three months ended March 31, 2010 were RMB730.6 million, attributable primarily to (i) our purchase of property, plant and equipment of RMB727.9 million and (ii) RMB14.6 million in capital contributions to associates to fund our 50% equity investment in Hebei Weichang Longyuan Wind Power, partially offset by an RMB11.0 million decrease in pledged bank balances.

Net cash flows used in investing activities in the three months ended March 31, 2009 were RMB226.5 million, attributable primarily to (i) our purchase of property, plant and equipment of RMB336.3 million and (ii) an RMB18.4 million increase in pledged bank balances, partially offset by (a) an RMB107.9 million decrease in net amounts due from HECIC and (b) RMB20.0 million decrease in non-pledged time deposits.

Net cash flows used in investing activities in 2009 were RMB1,352.7 million, attributable primarily to (i) our purchase of property, plant and equipment of RMB1,346.1 million and (ii) RMB127.8 million in capital contributions to associates to fund our 50% equity investment in Hebei Weichang Longyuan Wind Power, partially offset by RMB164.9 million decrease in net amounts due from HECIC.

Net cash flows used in investing activities were RMB1,868.1 million in 2008, attributable primarily to (i) our RMB1,610.3 million purchase of property, plant and equipment, (ii) an RMB139.8 million increase in net amounts due from HECIC and (iii) RMB79.8 million in capital contributions to associates to fund our 50% equity investment in Hebei Weichang Longyuan Wind Power.

Net cash flows used in investing activities were RMB758.0 million in 2007, attributable primarily to (i) our RMB730.3 million purchase of property, plant and equipment, (ii) RMB13.5 million in capital contributions to associates to fund our 50% equity investment in Hebei Weichang Longyuan Wind Power and (iii) an RMB12.9 million increase in net amounts due from HECIC.

Net Cash Flows From Financing Activities

Net cash flows from financing activities in the three months ended March 31, 2010 were RMB 1,105.0 million, due primarily to (i) new bank and other borrowings of RMB 902.9 million to fund the expansion of our wind farms and (ii) RMB 610.2 million in capital contributions by HECIC. These amounts were partially offset by (a) RMB280.0 million in repayments of bank and other borrowings, (b) RMB79.6 million in Pre-Establishment Distributions to HECIC and (c) RMB48.5 million in interest paid on bank borrowings from commercial banks and other borrowings.

Net cash flows from financing activities in the three months ended March 31, 2009 were RMB 253.1 million, due primarily to (i) new bank and other borrowings of RMB 352.0 million to fund the expansion of our wind farms, (ii) RMB 200.0 million in capital contributions by HECIC and (iii) RMB15.0 million in capital contributions by non-controlling Shareholders. These amounts were partially offset by (a) RMB195.0 million in repayments of bank and other borrowings, (b) RMB83.5 million in distributions to HECIC and (c) RMB35.5 million in interest paid on bank borrowings from commercial banks and other borrowings.

Net cash flows from financing activities in 2009 were RMB 967.9 million, due primarily to (i) new bank and other borrowings of RMB 1,567.8 million to fund the expansion of our wind farms, and (ii) RMB 352.4 million in capital contributions by HECIC and (iii) RMB 83.2 million in capital contributions by non-controlling Shareholders. These amounts were partially offset by (a) RMB749.0 million in repayments of bank and other borrowings, (b) RMB 148.0 million in interest paid on bank borrowings from commercial banks and other borrowings, (c) RMB83.5 million in distributions to HECIC and (d) RMB55.0 million in dividends paid to non-controlling Shareholders.

Net cash flows from financing activities in 2008 were RMB1,688.3 million, due primarily to (i) new bank and other borrowings of RMB2,258.0 million to fund the expansion of our wind farms, (ii) RMB360.0 million in capital contributions by HECIC and (iii) RMB128.2 million in capital contributions by non-controlling Shareholders. These amounts were partially offset by (a) RMB946.0 million in repayments of bank and other borrowings and (b) RMB111.9 million in interest paid on bank borrowings.

Net cash flows from financing activities in 2007 were RMB490.4 million, due primarily to (i) new bank and other borrowings of RMB703.0 million to fund the expansion of our wind farms, and (ii) RMB111.6 million in capital contributions by non-controlling Shareholders. These amounts were partially offset by (a) RMB289.0 million in repayments of bank and other borrowings and (b) RMB35.2 million in interest paid on bank borrowings.

WORKING CAPITAL

Taking into account our internal resources, our cash flow from operations, available banking facilities and the estimated net proceeds from the Global Offering, the Directors confirm that the working capital available to our Company and our subsidiaries is sufficient for at least the next 12 months from the date of this prospectus.

INDEBTEDNESS

Borrowings

All our borrowings are denominated in RMB. The table below sets forth our borrowings as of the dates indicated:

	Effective interest rate	Maturity	As of December 31, 2007	As of December 31, 2008	As of December 31, 2009	As of March 31, 2010	As of July 31, 2010
	(%)		(RMB in millions)				(Unaudited)
Current							
Short-term bank loans:							
Unsecured	4.8-7.1	2008-2011	50.0	130.0	—	300.0	520.0
Secured	4.9-6.7	2008-2010	10.0	—	—	180.0	—
			60.0	130.0	—	480.0	520.0
Short-term other borrowings:							
Unsecured	3.2-6.8	2008-2011	234.0	151.0	631.0	421.0	698.0
Secured			—	—	—	—	—
			234.0	151.0	631.0	421.0	698.0
Current portion of long-term bank loans:							
Unsecured	5.4-6.3	2009-2011	—	20.0	15.0	15.0	39.0
Secured	4.9-7.1	2008-2010	10.0	76.0	228.0	241.0	88.7
			10.0	96.0	243.0	256.0	127.7
Current portion of long-term other borrowings:							
Unsecured	4.9	2010	—	—	5.0	5.0	—
Secured			—	—	—	—	—
Total current portion			304.0	377.0	879.0	1,162.0	1,345.7
Non-current							
Long-term bank loans:							
Unsecured	5.2-7.1	2009-2022	215.0	195.0	533.0	918.9	817.4
Secured	5.4-7.1	2009-2025	275.0	1,534.0	1,552.8	1,506.8	1,604.1
			490.0	1,729.0	2,085.8	2,425.7	2,421.5
Long-term other borrowings:							
Unsecured	5.4-7.1	2010-2014	100.0	100.0	60.0	60.0	—
Secured	5.3	2017	—	—	—	—	1,292.0
Total non-current portion			590.0	1,829.0	2,145.8	2,485.7	3,713.5
Total borrowings			894.0	2,206.0	3,024.8	3,647.7	5,059.2

Due to the rapid expansion of our wind power business during the Track Record Period, we have relied on short-term and long-term borrowings to fund a portion of our capital requirements. Our short-term bank loans and other borrowings (including current portions of long-term borrowings) totaled RMB304.0 million, RMB377.0 million, RMB879.0 million, RMB1,162.0 million and RMB1,345.7 million as of December 31, 2007, 2008 and 2009, March 31, 2010 and July 31, 2010, respectively. We used our short-term bank loans and other borrowings primarily to finance the purchase of the wind turbines and to take advantage of lower financing costs compared to long-term borrowings in 2008 and 2009. Our long-term borrowings were RMB590.0 million, RMB1,829.0 million, RMB2,145.8 million, RMB2,485.7 million and RMB3,713.5 million as of December 31, 2007, 2008 and 2009, March 31, 2010 and July 31, 2010, respectively. We used our long-term borrowings primarily to fund our business expansion and capital expenditures in our natural gas and wind power businesses.

As of July 31, 2010, our total long-term and short-term borrowings were RMB5,059.2 million. As of July 31, 2010, we had approximately RMB8,678.0 million of unutilized banking facilities. On March 31, 2010, HECIC New-energy entered into the Insurance Loan Investment Agreement for a RMB1.3 billion seven-year insurance loan product syndicated by Pacific Asset Management. The Company has used a substantial portion of the proceeds of such insurance loan product for the development of Dongxingying Wind Farm and Weichang Yudaokou Muchang Wind Farm. Under the Insurance Investment Products Guidelines, all such insurance loan products are required to be supported by a guarantee from a qualified guarantor, and within Hebei Province, HECIC is one of the few qualified guarantors. HECIC has provided such guarantee free-of-charge and without supporting security. The Directors believe that the terms of such insurance loan product are favorable to the Group. Pursuant to the Insurance Loan Investment Agreement, the interest rate applicable to this loan is at an interest rate of 87% of the prevailing five-year benchmark interest rate set by the PBOC for RMB loans. On June 18, 2010, HECIC New-energy drew down the RMB1.3 billion syndicated loan in full from the Insurance Lender. On July 7, 2010, HECIC New-energy, a wholly-owned subsidiary of the Company, received an approval from the NAFMII, which allows HECIC New-energy to register short-term financial bonds of up to RMB500 million to be issued in the following two years. Accordingly, on July 22, 2010, HECIC New-energy issued short-term financial bonds in an amount of RMB500 million, repayable on July 23, 2011. The financial bonds are not subject to any security and the applicable interest rate is 3.2% per annum. Upon repayment of the financial bonds, subject to approval from NAFMII, HECIC New-energy may issue additional short-term financial bonds in an aggregate amount up to RMB500 million.

We are using the proceeds from the financial bonds for the development of our wind power projects, repayment of loans and general working capital. To date, our cash flow from operations has provided sufficient liquidity to pay our debts as they become due. In addition, we have sufficient bank lines of credit to mitigate the risks that we cannot repay our debts as they become due.

We entered into a strategic cooperative framework agreement with China Construction Bank in August 2010, under which China Construction Bank agreed to provide us a credit line of no less than RMB20 billion to finance our capital expenditures on clean energy projects. In September 2010, we signed a similar agreement with Bank of China, which agreed to provide us a credit line of up to RMB20 billion for short-term working capital or financing for our projects and future acquisitions. Nonetheless, as we typically fund 70% to 80% of the expenditures of a project with bank borrowings, we may raise additional external debt financing to develop new projects.

Gearing

As of December 31, 2007, 2008 and 2009, and March 31, 2010, our gearing ratio (which equals (i) Net Debt divided by (ii) Total Equity plus Net Debt) was 59%, 64%, 65% and 58%, respectively. Net Debt includes trade and bills payable, other payables and accruals, short-term and long-term interest-bearing bank and other borrowings, less cash and cash equivalents and pledged deposits. Total Equity includes the equity attributable to owners of the Company and non-controlling interests.

The following table sets forth the components of our gearing ratios at the end of each of the Track Record Period:

	As of December 31,			As of March 31,
	2007	2008	2009	2010
	(RMB in thousands)			
Trade and bills payables	21,280	36,051	439,669	348,489
Other payables and accruals	249,232	425,713	427,453	374,306
Interest-bearing bank and other borrowings	894,000	2,206,000	3,024,808	3,647,719
Less: Cash and cash equivalents	(81,830)	(233,078)	(330,158)	(854,271)
Less: Pledged deposits	—	—	(14,733)	(3,733)
Net debt	1,082,682	2,434,686	3,547,039	3,512,510
Total equity	752,100	1,391,500	1,877,801	2,539,363
Capital and net debt	1,834,782	3,826,186	5,424,840	6,051,873
Gearing ratio	59%	64%	65%	58%

Our relatively higher gearing ratio as of December 31, 2008 and 2009 was primarily due to a significant increase in interest-bearing bank and other borrowings as of December 31, 2008 and 2009 compared to the corresponding date in each respective previous year. Such increase was primarily caused by our increased purchases of wind power equipment in 2008 and 2009 related to the increased number of our wind farms under construction. The decrease in our gearing ratio from December 31, 2009 to March 31, 2010 was due primarily to an RMB661.6 million, or 35.2%, increase in our total equity, despite an RMB622.9 million or 20.6%, increase in total borrowings. Our increase in total equity as of March 31, 2010 was attributable primarily to RMB610.2 million in cash contributions from HECIC and HECIC Water pursuant to the Reorganization. We believe that our debt structure is consistent with industry norms.

Our strategy is to maintain gearing ratios at a healthy capital level in order to support our businesses. Our principal strategies include, but are not limited to, reviewing future cash flow requirements and the ability to meet debt repayment schedules when they become due, maintaining a reasonable level of available banking facilities and adjusting investment plans and financing plans, if necessary, to ensure that we have a reasonable level of capital to support our business.

Maturity Analysis

The table below sets forth the maturity analysis of our interest bearing bank loans and other borrowings as of the dates indicated:

	As of December 31,			As of March 31,	As of July 31,
	2007	2008	2009	2010	2010
					(Unaudited)
	(RMB in millions)				
Within 1 year or on demand	304.0	377.0	879.0	1,162.0	1,345.7
More than 1 year, but within 2 years	30.0	308.0	340.8	252.7	297.1
More than 2 years, but within 5 years	335.0	688.0	708.8	708.7	796.3
More than 5 years	225.0	833.0	1,096.2	1,524.3	2,620.1
	894.0	2,206.0	3,024.8	3,647.7	5,059.2

As of December 31, 2007, 2008 and 2009, March 31, 2010 and July 31, 2010, RMB295.0 million, RMB1,610.0 million, RMB1,780.8 million, RMB1,732.8 million and RMB1,692.8 million, respectively, of our interest-bearing bank borrowings were secured by the right of future electricity fees collection. As of December 31, 2009, March 31, 2010 and July 31, 2010, an independent non-controlling shareholder of a subsidiary of ours guaranteed RMB5.0 million of our interest-bearing bank borrowings. We do not expect that such shareholder will release the guarantees prior to Listing.

Except as disclosed in "— Indebtedness — Borrowings" and except for intra-group liabilities and normal trade payables, as of July 31, 2010, we did not have any outstanding loan capital issued or agreed to be issued, bank overdrafts, loans, debt securities, borrowings or other similar indebtedness, liabilities under acceptance or acceptance credits, debentures, mortgages, charges, finance leases, hire purchase commitments, guarantees or other material contingent liabilities.

CAPITAL EXPENDITURES

Capital expenditures principally consist of expenditures for the construction of new wind power projects, natural gas pipelines and purchases of property, plant and equipment. We have financed our capital expenditures primarily through bank borrowings, cash provided by operations and capital injections. For the years ended December 31, 2007, 2008 and 2009 and the three months ended March 31, 2009 and 2010, we made the following capital expenditures:

	Year ended December 31,			Three Months Ended March 31,	
	2007	2008	2009	2009	2010
				(Unaudited)	
	(RMB in thousands)				
Natural gas	25,334	47,172	94,242	1,927	17,949
Wind power	927,734	1,776,195	1,386,215	207,858	623,367
Total	953,068	1,823,367	1,480,457	209,785	641,316

CERTAIN BALANCE SHEET ITEMS

Inventories

The table below summarizes our inventories as of the dates indicated and average natural gas inventory turnover days for the dates indicated:

	As of December 31,			As of March 31,
	2007	2008	2009	2010
	(RMB in thousands)			
Natural Gas	3,632	4,372	3,708	5,128
Spare parts and others	3,609	14,406	17,740	17,047
Low-Value consumables	112	177	100	97
	7,353	18,955	21,548	22,272

	As of December 31,			As of March 31,	
	2007	2008	2009	2009	2010
				(Unaudited)	
Average Natural Gas Inventory Turnover Days[(1)]	2.69	2.04	1.54	1.63	1.22

Note:

(1) Average natural gas inventory turnover days is calculated in the following manner: natural gas inventory at the beginning of a given year/period plus natural gas inventory at the end of a given year/period, divided by two, then divided by natural gas selling cost, and then multiplied by 365 or the numbers of days for the given period.

The increases in inventories from December 31, 2007 to December 31, 2008 was primarily due to our increased purchases of spare parts related to the expansion of our wind power business. A greater number of wind farms commenced operations in 2008 compared to 2007, requiring additional spare parts to support the daily servicing and maintenance needs of our wind farms. During the three months ended June 30, 2010, we sold or used RMB8.0 million of inventories on our balance sheet as of March 31, 2010.

We make provisions for inventories when we identify obsolete inventories. We also assess inventory provisions on major inventory items and makes specific provisions when necessary. We made no provision for inventories during the Track Record Period.

Trade receivables

The table below sets forth a summary of our trade receivables as of the dates indicated:

	As of December 31,			As of March 31,
	2007	2008	2009	2010
	(RMB in thousands)			
Trade receivables	27,170	42,409	84,776	116,604
Impairments	—	—	—	—
	27,170	42,409	84,776	116,604

These increases in our trade receivables were primarily attributable to increased sales of electricity and gas during 2008, 2009 and the three months ended March 31, 2010. During the three months ended June 30, 2010, we settled RMB111.9 million of trade receivables on our balance sheet as of March 31, 2010.

Our management seeks to maintain strict control over our outstanding receivables and to minimize credit risk, and regularly reviews overdue balances. Trade receivables are non-interest-bearing. The credit period offered to our customers generally ranges from one month to two months.

The following table sets forth an aging analysis of trade receivables as of the dates indicated:

	As of December 31,			As of March 31,
	2007	2008	2009	2010
	(RMB in thousands)			
Within 3 months	26,739	42,409	84,554	104,966
3 months to 6 months	—	—	—	11,638
6 months to 1 year	—	—	—	—
1 to 2 years	431	—	222	—
	27,170	42,409	84,776	116,604

An aged analysis of the trade receivables, that are neither individually nor collectively considered to be impaired, is as follows:

	As of December 31,			As of March 31,
	2007	2008	2009	2010
	(RMB in thousands)			
Neither past due nor impaired	26,739	42,409	84,554	116,604
1 to 2 years past due	431	—	222	—
	27,170	42,409	84,776	116,604

Receivables that were neither past due nor impaired primarily relate to either those long-term customers or various local power grid companies with no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with us. Based on past experience, the Directors believe that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. We do not hold any collateral or other credit enhancements over these balances.

The amounts due from the fellow subsidiaries included in the trade receivables are as follows:

	As of December 31,			As of March 31,
	2007	2008	2009	2010
	(RMB in thousands)			
Fellow subsidiaries	3	—	1,293	—

The above amounts are unsecured, non-interest bearing and repayable on similar credit terms to those offered by our major customers. The increase in amounts due from the fellow subsidiaries from 2008 through 2009 was primarily due to the increased receivables in natural gas connection and construction charges. We settled these amounts in full during the three months ended March 31, 2010.

The following table shows our total revenue, trade receivables and trade receivables turnover days during the periods indicated:

	As of December 31,			As of March 31,	
	2007	2008	2009	2009	2010
				(Unaudited)	
	(RMB in thousands except turnover days)				
Total revenue for the year/period	628,789	1,018,733	1,517,261	369,695	548,817
Trade receivables (excluding CER receivables)	27,170	42,409	71,688	61,460	113,618
Trade receivables turnover days[1][2]	10.78	12.46	13.72	12.64	15.19

Notes:

(1) Trade receivables turnover days are calculated in the following manner: the total net balance of a trade receivable (excluding CER receivables) at the beginning of a given year/period plus the total net balance of a trade receivable (excluding CER receivables) at the end of a given year/period, divided by two, then divided by total revenue and then multiplied by 365 or the numbers of days for the given period.

(2) As CER income is recorded as part of other income and gains rather than as part of revenue in our income statement, CER receivables are excluded from the calculation of trade receivables turnover days.

The increase in trade receivables turnover days from 2007 through the first quarter of 2010 was primarily due to increases in revenue from our wind power business, which typically has a longer collection period than our natural gas business.

Prepayments, deposits and other receivables

The table below sets forth a breakdown of our prepayments, deposits and other receivables as of the dates indicated:

	As of December 31,			As of March 31,
	2007	2008	2009	2010
	(RMB in thousands)			
Prepayments to suppliers	221,218	225,623	399,830	868,996
Deductible VAT[1]	560	396	232,146	223,640
CERs receivable	4,268	5,367	30,779	40,720
Deposits and other receivables	32,589	171,476	6,711	4,968
Other payments	126	1,103	1,163	1,716
	258,761	403,965	670,629	1,140,040
Portion classified as non-current assets[2]	(217,587)	(219,141)	(581,912)	(1,044,538)
Current portion	41,174	184,824	88,717	95,502

Notes:

(1) Deductible VAT mainly represents the input VAT relating to acquisition of equipment, which has been deductible from output VAT since January 1, 2009. Prior to January 1, 2009, we recorded such input VAT as part of the costs of related assets.

(2) The non-current portion of prepayments, deposits and other receivables primarily consists of prepayments to suppliers and deductible VAT relating to acquisition of equipment since January 1, 2009 for the purchase of wind turbines.

As of March 31, 2010, we did not have any prepayments, deposits and other receivables that were past due, individually or collectively considered to be impaired. The increase in prepayments, deposits and other receivables from RMB258.8 million as of December 31, 2007 to RMB1,140.0 million as of March 31, 2010 was primarily due to (i) an increase in our purchase of wind turbines, (ii) an increase in deductible VAT from the purchase of wind turbines and (iii) an increase in CER receivables that relevant authorities were in the process of verifying.

Deposits and other receivables increased RMB138.9 million, from RMB32.6 million as of December 31, 2007 to RMB171.5 million as of December 31, 2008, due primarily to higher amounts due from HECIC. Deposits and other receivables decreased RMB164.8 million to RMB6.7 million as of December 31, 2009, as amounts due from HECIC as of December 31, 2008 were settled in full during 2009.

The amounts due from HECIC and fellow subsidiaries included in the prepayments, deposits and other receivables are as follows:

	As of December 31,			As of March 31,
	2007	2008	2009	2010
	(RMB in thousands)			
HECIC	25,105	164,894	—	—
Fellow subsidiaries	2,835	2,961	601	759
	27,940	167,855	601	759

The amounts of our prepayments, deposit and other receivables are unsecured, non-interest-bearing and have no fixed terms of repayment, except for the amounts due from HECIC and fellow subsidiaries, which bear interest at 1.44% per annum. The amounts due from fellow subsidiaries as of March 31, 2010 were settled in full prior to the date of this prospectus.

Trade and bills payable

An analysis of our trade and bills payables are as follows. Trade and bills payables are non-interest bearing and are normally settled within six months. Accordingly, we classified all trade and bills payable during the Track Record Period as current liabilities.

	As of December 31,			As of March 31,
	2007	2008	2009	2010
	(RMB in thousands)			
Bills payable	6,438	—	379,911	297,884
Trade payables	14,842	36,051	59,758	50,605
Total	21,280	36,051	439,669	348,489

Our bills payable relate to our wind power business, while our trade payables mainly relate to our natural gas business. The table below summarizes our trade payables turnover days for our natural gas business as of the dates indicated:

	As of December 31,			As of March 31,
	2007	2008	2009	2010
	(RMB in thousands except turnover days)			
Trade payables balance	14,842	29,505	59,758	50,605
Average trade payables balance	17,604	22,174	44,632	55,182
Cost of sales for the year/period	506,349	730,298	972,374	326,247
Turnover days	12.69	11.08	16.75	15.22

We incurred most of our trade payables to finance the purchase of spare and replacement parts and other trade payables relating to purchases for our natural gas business. Trade payables in connection with the purchase of spare and replacement parts typically have a maturity of one to three months. Trade payables related to the construction and connection of our natural gas pipelines have longer maturities. We usually pay 95% of the payables related to the construction and connection of our natural gas pipelines based on the status of the construction and keep a retainer of 5% of the total contract price, which we pay contractors within one year after completion of construction. Because our trade payables relate to our natural gas business, when calculating turnover days, we used cost of sales arising from the sale of natural gas, as opposed to cost of sales for the Group.

Turnover days remained relatively stable at the end of 2007 and 2008. The increase in turnover days as of December 31, 2009 resulted from an increase in trade payables to finance the purchase of spare and replacement parts, which have longer maturities than other trade payables relating to our natural gas business. Turnover days decreased from 16.75 days as of December 31, 2009 to 15.22 days as of March 31, 2010, as we paid down trade payables during the three months ended March 31, 2010.

The significant increase in trade and bills payables between 2008 and 2009 was primarily due to our increased use of bills payables in the purchase of wind turbines in order to take advantage of lower short-term interest rates.

An aged analysis of our trade and bills payables, based on the invoice date, as at the respective reporting dates is as follows:

	As of December 31,			As of March 31,
	2007	2008	2009	2010
	(RMB in thousands)			
Within 6 months	18,394	19,734	432,293	342,689
6 months to 1 year	101	12,839	1,859	2,001
1 to 2 years	1,821	2,430	4,442	1,588
2 to 3 years	491	896	707	1,368
More than 3 years	473	152	368	843
	21,280	36,051	439,669	348,489

The carrying amounts of the current trade and bills payables approximate their values.

Other payables and accruals

The table below sets forth a breakdown of our other payables and accruals as of the dates indicated:

	As of December 31,			As of March 31,
	2007	2008	2009	2010
	(RMB in thousands)			
Retention money payables	58,575	110,915	95,011	90,686
Distribution payable to HECIC under Reorganization	—	—	85,502	44,372[(1)]
Dividends payable to a non-controlling Shareholder	—	—	—	45,867
Wind turbine and related equipment payables	154,904	221,332	104,684	95,925
Advances from customers	15,201	40,397	66,312	38,103
Construction payables	7,521	21,678	13,651	13,604
Accrued salaries, wages and benefits	5,189	11,183	16,287	10,769
Other taxes payable	4,751	6,910	8,167	8,666
Others	3,091	13,298	37,839	26,314
	249,232	425,713	427,453	374,306
Portion classified as current liabilities	(213,304)	(368,884)	(395,863)	(352,272)
Non-current portion	35,928	56,829	31,590	22,034

Note:

(1) Fully settled as of the Latest Practicable Date.

For retention money payables in respect of warranties granted by the suppliers, the due dates usually range from one to three years after the completion of the construction work or the preliminary acceptance of equipment. Except for retention money payables which have fixed repayment terms, the above amounts are unsecured, non-interest-bearing and have no fixed terms of repayment.

The amounts due to HECIC included in other payables and accruals were as follows:

	As of December 31,			As of March 31,
	2007	2008	2009	2010
	(RMB in thousands)			
HECIC				
Distribution payable pursuant to the Reorganisation	—	—	85,502	44,372
Others	211	272	150	136
	211	272	85,652	44,508

The above amounts are unsecured, non-interest-bearing and had no fixed terms of repayment.

The weighted average effective interest rate on non-current other payables was as follows:

	As of December 31,			As of March 31,
	2007	2008	2009	2010
Effective interest rate	6.9%	7.3%	5.4%	5.4%

The weighted average effective interest rate is determined by reference to the prevailing commercial bank borrowing interest rates for unsecured bank loans with similar maturity.

The carrying amounts of the current portion of other payables and accruals are approximately equal to their fair values. In addition, as the non-current portion of other payables and accruals has been discounted based on the effective interest rate, the carrying amounts of the non-current other payables are approximately equal to their fair values.

OPERATING LEASE COMMITMENTS AND CAPITAL COMMITMENTS

We had the following total future minimum lease payments under non-cancellable operating leases in respect of land:

	As of December 31,			As of March 31,
	2007	2008	2009	2010
	(RMB in thousands)			
Within 1 year	1,109	1,169	1,213	1,702
More than 1 year, but within 5 years	3,879	3,843	2,943	2,878
More than 5 years	1,107	171	158	149
	6,095	5,183	4,314	4,729

In addition to the operating lease commitments detailed above, we had the following capital commitments:

	As of December 31,			As of March 31,
	2007	2008	2009	2010
	(RMB in thousands)			
Contracted, but not provided for:				
Property, plant and equipment	2,063,158	3,121,314	2,475,602	2,696,561
Capital contributions payable to associates	28,000	28,000	26,000	58,383
	2,091,158	3,149,314	2,501,602	2,754,944
Authorized, but not contracted for:				
Property, plant and equipment	23,781	1,374,444	1,962,889	2,695,502
Capital contributions payable to associates	—	—	94,970	—
	23,781	1,374,444	2,057,859	2,695,502

The capital commitments listed above relate to the purchase of property, plant and equipment in connection with the expansion of our wind power projects. We plan to fund these commitments through the proceeds from the Global Offering, cash flows from operations, bank borrowings and other financing channels, such as insurance loans.

PROPERTY INTEREST AND PROPERTY VALUATION

Appendix IV to this prospectus includes a property valuation report describing our property interests. Jones Lang LaSalle Sallmanns Limited has valued our property interests as of June 30, 2010. Appendix IV to this prospectus contains a summary of values and valuation certificates issued by Jones Lang LaSalle Sallmanns Limited.

The table below sets forth the reconciliation of aggregate amounts of property interests in the consolidated statement of financial position as of March 31, 2010 contained in the Accountants' Report in Appendix I to this prospectus to the unaudited net book value of our property interests in the property valuation report in Appendix IV to this prospectus as of June 30, 2010:

	RMB in millions
Buildings included in property, plant and equipment[(1)]	107.8
Prepaid land lease payments[(1)]	57.8
Net book value as of March 31, 2010	165.6
Add: Additions during the period	3.3
Less: Depreciation and amortization during the period	(2.3)
Net book value as of June 30, 2010	166.6
Valuation surplus	21.9
Valuation as of June 30, 2010	188.5

Note:

(1) For the purpose of this reconciliation, only properties with proper title certificates are included.

QUALITATIVE AND QUANTITATIVE DISCLOSURE ABOUT MARKET RISK

We are exposed to credit, interest rate and currency risks in the ordinary course of business. We describe below our exposure to these risks, and the financial risk management policies and practices we use to manage these risks.

Credit risk

Our credit risk is primarily attributable to trade debtors and prepayments, deposits and other receivables. We deposit substantially all of our cash and cash equivalents in state owned/controlled PRC banks.

The receivables from sales of electricity mainly represent receivables from provincial power grid companies. We have no significant credit risk with any of these power grid companies as we maintain long-term and stable business relationships with them. The receivables from provincial power grid companies accounted for 49.2%, 77.1%, 65.7% and 57.9% of total trade debtor and bills receivable as of December 31, 2007, 2008 and 2009 and March 31, 2010, respectively. For other trade and other receivables, we perform an ongoing individual credit evaluation of our customers' and counterparties' financial condition. The maximum exposure to credit risk is represented by the carrying amount of each financial asset on our balance sheet after deducting any impairment allowance.

Interest rate risk

Our interest rate risk arises primarily from long-term borrowings. Borrowings issued at variable rates expose us to interest rate risk. As of December 31, 2007, 2008 and 2009, March 31, 2009 and March 31, 2010, we estimate that a general increase/decrease of 100 basis points in interest rates of net floating borrowings, with all other variables held constant, would have decreased/increased our profit before tax by approximately RMB5.1 million, RMB19.1 million, RMB23.2 million, RMB18.7 million and RMB26.8 million for the years ended December 1, 2007, 2008 and 2009 and the three months ended March 31, 2009 and 2010, respectively.

Currency risk

We are exposed to currency risk primarily through sales and purchases that give rise to receivables and cash balances that are denominated in a foreign currency, primarily Euros and U.S. dollars. We transact all of our revenue-generating operations in RMB, except for CERs and VERs sales, which are mainly denominated in Euros and U.S. dollars. As such, the currencies giving rise to this risk are primarily Euros and U.S. dollars. A 5% strengthening/weakening of the RMB against the Euro and U.S. dollar as of December 31, 2007, 2008 and 2009, March 31, 2009 and 2010 would have increased/decreased our profit before tax by RMB0.2 million, RMB0.8 million, RMB1.9 million, RMB1.3 million and RMB2.2 million for the years ended December 31, 2007, 2008 and 2009 and the three months ended March 31, 2009 and 2010, respectively.

Our directors believe that our exposure to foreign currency risk is not material. However, RMB is not a freely convertible currency, and the PRC government may at its discretion restrict access to foreign currencies for current account transactions. Therefore, changes in the foreign exchange control system may prevent us from satisfying sufficient foreign currency demands, and we may be unable to pay dividends in foreign currencies to our Shareholders.

RELATED PARTY TRANSACTIONS

With respect to related party transactions described in Note 34 of Section II in the Accountants' Report attached as Appendix I to this prospectus, our Directors have confirmed that the transactions were conducted on normal commercial terms and entered into in the ordinary course of business.

OFF-BALANCE SHEET ARRANGEMENTS

We had no off-balance sheet arrangements as of March 31, 2010.

DIVIDEND POLICY

We may distribute dividends in cash or by other means that we consider appropriate. Our Board will determine proposed distributions of dividends. A decision to declare or to pay any dividends, and the amount of any dividends, will depend on a number of factors, including our results of operations, cash flows, financial condition, payments by our subsidiaries of cash dividends to us, future prospects and other factors that our Directors consider important.

According to PRC law and our Articles of Association, we will pay dividends out of our after-tax profit only after we have made the following allocations:

- recovery of accumulated losses, if any;
- allocations to the statutory common reserve fund equivalent to 10% of our after-tax profit, as determined under PRC GAAP; and
- allocations, if any, to a discretionary common reserve fund that are approved by the Shareholders in a Shareholders' meeting.

The minimum allocations to the statutory funds are 10% of our after-tax profit, as determined under the Company Law. When the statutory common reserve fund reaches and is maintained at or above 50% of our registered capital, no further allocations to this statutory fund will be required.

In accordance with the Articles of Association of our Company, after completion of the Global Offering, we may only pay dividends out of distributable profit as determined under PRC GAAP or IFRSs, whichever is a lower amount. We will retain any distributable profit that we do not distribute in any given year, and this distributable profit will become available for distribution in subsequent years. We expect to distribute no less than 15% of our distributable earnings from the Listing to December 31, 2010 and no less than 15% of our annual distributable earnings in every subsequent year as dividends.

However, we cannot assure you that we will be able to declare dividends in any amount each year or in any year. In addition, legal restrictions and/or financing agreements that we may enter into in the future may restrict our ability to declare or pay dividends.

Under current PRC tax laws and regulations, dividends paid by our Company to a Non-PRC Resident Enterprise Shareholder are subject to a 10% withholding tax while dividends paid to an individual holder of H Shares outside the PRC are currently exempted from PRC income tax.

We declared cash distributions of nil, nil, RMB169.0 million, RMB83.5 million and RMB38.5 million in the years ended December 31, 2007, 2008 and 2009 and the three months ended March 31, 2009 and 2010, respectively.

PRE-ESTABLISHMENT DISTRIBUTION AND SPECIAL DIVIDENDS

According to the Interim Provisions on the Management and Financial Treatment of State Owned Capital in Enterprise Corporate Restructuring (企業公司制改建有關國有資本管理與財務處理的暫行規定) (Cai Qi [2002] No. 313) issued by the MOF and effective on August 27, 2002, our Group is required to declare and pay the Pre-Establishment Distribution to HECIC in an amount equal to the profit of the Group attributable to the owner of the Company from June 30, 2009, the date on which our state-owned assets were valued, to February 9, 2010, the day of our incorporation.

Pursuant to an ordinary resolution passed by our Shareholders on February 9, 2010, we declared the Pre-Establishment Distribution payable to HECIC. Such Pre-Establishment Distribution, in the amount of RMB124.0 million, was based on the sum of: (1) the difference in the profit of the Group attributable to the owner of the Company as stated in the audited consolidated financial statements of the Company for the six-month period ended June 30, 2009 and the profit of the Group attributable to the owner of the Company as stated in the audited consolidated financial statements of the Company for the year ended December 31, 2009, and (2) the profit of the Group attributable to the owner of the Company from January 1, 2010 to February 9, 2010. The profit of the Group attributable to the owner of the Company from January 1, 2010 to February 9, 2010 equals the profit of the Group attributable to the owners of the Company prorated according to the actual number of days in the period from January 1, 2010 to February 9, 2010, based on the profit of the Group attributable to the owners of the Company as stated in the audited consolidated financial statements of the Company for the three-month period ended March 31, 2010. We paid the Pre-Establishment Distribution to HECIC in full from our available cash and cash equivalents on hand by the end of July 2010.

In addition, pursuant to an ordinary resolution passed by our Shareholders on February 9, 2010, our Shareholders approved that we will pay and distribute the First Special Dividends to our Promoters, HECIC and HECIC Water, according to their respective shareholdings. Based on the audited consolidated financial statements of the Company for the three months ended March 31, 2010, our Board of Directors declared the First Special Dividends to HECIC and HECIC Water on September 19, 2010 in an aggregate amount of approximately RMB42.7 million based on (i) the profit of the Group attributable to the owners of the Company, as stated in the audited consolidated financial statements of the Company for the three-month period ended March 31, 2010 minus (ii) the profit of the Group attributable to the owner of the Company from January 1, 2010 to February 9, 2010, prorated according to the actual number of days in the period from January 1, 2010 to February 9, 2010, based on the profit of the Group attributable to the owners of the Company, as stated in the audited consolidated financial statements of the Company for the three-month period ended March 31, 2010. We paid the First Special Dividends from our available cash and cash equivalents prior to our Listing.

In addition, pursuant to an ordinary resolution passed by our Shareholders on February 9, 2010, our Shareholders also approved that we will pay and distribute the Second Special Dividends to our Promoters for the net profit of the Group attributable to the owners of the Company earned from April 1, 2010 up to the day immediately prior to Listing. We estimate the total amount of the Second Special Dividends will be RMB107.9 million, calculated on a pro rata projected basis based on the number of days from April 1, 2010 to the day immediately prior to Listing, and a per day calculation of the profit based on the profit estimate of the Group attributable to the owners of the Company for the six months ended June 30, 2010 minus the audited profit of the Group attributable to the owners of the Company for the three months ended March 31, 2010. Such amount is only an estimate and the approval for the distribution of the Second Special Dividends is subject to, among other things, the completion of a special audit as described below, which determine our actual distributable profit for the period between April 1, 2010 up to the day immediately prior to Listing.

We will determine the actual amount of the Second Special Dividends based on (1) the profit of the Group attributable to the owners of the Company as stated in the audited consolidated financial statements of the Company for the seven-month period ending October 31, 2010, minus (2) the profit of the Group attributable to the owners of the Company for the period from the day of Listing to October 31, 2010. The profit of the Group attributable to the owners of the Company for the period from the date of Listing to October 31, 2010 equals the profit of the Group attributable to the owners of the Company on a pro-rata basis based on the profit of the Group attributable to the owners of the Company, as stated in the audited consolidated financial statements of the Group for the seven-month period ending October 31, 2010. We will engage Ernst & Young to perform a special audit of our consolidated financial statements of the Group for the seven-month period ending October 31, 2010, expected to be completed and announced by March 31, 2011. We will finance the Second Special Dividends to HECIC and HECIC Water from our then available cash and cash equivalents on hand. As of July 31, 2010, the Company had a cash balance in excess of RMB700 million. The Company expects to have a positive cash flow from operating activities thereafter until June 2011. The Company does not expect to incur any significant one-off capital commitment, revenue or expenses outside the ordinary course of business (including listing expenses) in the second and third quarters of 2010 and expects to have sufficient cash or cash equivalent generated internally to settle the Second Special Dividends. Payment of the Second Special Dividends will take place after the Global Offering and after we complete the special audit of our consolidated financial statements of the Group for the seven-month period ending October 31, 2010, which is expected to be before June 30, 2011. The Company will take all necessary steps and also fulfill all necessary legal and regulatory requirements prior to settlement of the Second Special Dividends.

The Pre-establishment Distribution was determined based on audited consolidated financial statements of the Company prepared in accordance with PRC GAAP. The First Special Dividends and the Second Special Dividends were and will be determined based on audited consolidated financial statements of the Group prepared in accordance with PRC GAAP and IFRSs, whichever is lower, after deducting any appropriation made by the Company to the statutory and discretionary reserve funds. The final declaration and payment of the Second Special Dividends are subject to the respective approvals of our Board of Directors. Investors in the Global Offering are not entitled to Pre-establishment Distribution, the First Special Dividends and the Second Special Dividends. The Pre-establishment Distribution, the First Special Dividends and the Second Special Dividends are not indicative of the dividends that our Company may declare or distribute in the future. We will publish an announcement of the final amount of the Second Special Dividends and the outcome of the special audit prior to the payment of the Second Special Dividends to HECIC and HECIC Water.

DISTRIBUTABLE RESERVES

As of March 31, 2010, our Company did not have any reserves available for distribution to its Shareholders as it had accumulated losses of RMB654,000 as of March 31, 2010.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma statement of our adjusted net tangible assets prepared in accordance with Rule 4.29 of the Listing Rules is for illustration purposes only, and is set forth here to illustrate the effect of the Global Offering on our net tangible assets as of March 31, 2010 as if it had taken place on March 31, 2010.

We have prepared the unaudited pro forma statement of adjusted net tangible assets for illustrative purposes only and because of its hypothetical nature, this statement may not give a true picture of our consolidated net tangible assets as of March 31, 2010 or any future date following the Global Offering. We prepared the statement based on our consolidated net assets as of March 31, 2010 as derived from our consolidated financial information set forth in the Accountants' Report in Appendix I to this prospectus, and adjusted as described below. The unaudited pro forma statement of net tangible assets does not form part of the Accountants' Report as set forth in Appendix I to this prospectus.

	Adjusted consolidation net tangible assets attributable to owners of the Company as of March 31, 2010(1)	Add: estimated net proceeds from the Global Offering(2)	Unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the Company(3)(4)	Unaudited pro forma adjusted consolidated net tangible assets per share(5)(6)(7)	
	RMB in millions	RMB in millions	RMB in millions	RMB	HK$
Based on an offer price of HK$2.06 per Share	1,999.5	1,774.1	3,773.6	1.23	1.42
Based on an offer price of HK$2.66 per Share	1,999.5	2,312.1	4,311.6	1.40	1.62

Notes:

(1) We have calculated the adjusted consolidated net tangible assets attributable to owners of the Company as of March 31, 2010 based on the audited consolidated net asset attributable to the equity owners of the Company of RMB2,001.4 million after deducting our intangible assets of RMB3.2 million and adjusting the share of this intangible asset attributable to non-controlling interests of RMB1.3 million as of March 31, 2010. Our intangible assets consisted of office software, amounting to RMB3.2 million as of March 31, 2010.

(2) The estimated net proceeds from the Global Offering are based on indicative Offer Prices of HK$2.06 and HK$2.66 per H Share, respectively, after deducting underwriting fees and other related expenses payable by the Company. Estimated net offering proceeds do not take into account any H Shares that we may issue upon the exercise of the Over-allotment Option. The estimated net proceeds from the Global Offering are converted at the PBOC Rate from Hong Kong dollars into Renminbi at an exchange rate of HK$1.00 to RMB0.8629 prevailing on the Latest Practicable Date.

(3) The unaudited pro forma adjusted consolidated net tangible assets attributable to our owners do not take into account the First Special Dividends and the Second Special Dividends, details of which are disclosed in the section headed "Financial Information — Pre-establishment distribution and special dividends" in this prospectus. If the declarations of the First Special Dividends and the Second Special Dividends had been included in the above calculation, the unaudited pro forma adjusted consolidated net tangible assets attributable to our owners as of March 31, 2010 would have decreased.

(4) No adjustment has been made to the unaudited pro forma adjusted consolidated net tangible assets attributable to our owners to reflect any trading results or other transactions of the Group that were entered into subsequent to March 31, 2010.

(5) We calculated the unaudited pro forma adjusted consolidated net tangible assets per Share after the adjustments referred to in the preceding paragraphs and on the basis that 3,076,900,000 Shares are in issue assuming that the Global Offering had been completed on March 31, 2010. Unaudited pro form adjusted consolidated net tangible assets do not take into account any H Shares that we may issue upon the exercise of the Over-allotment Option. If the Over-allotment Option is exercised in full, the adjusted net tangible assets per Share will increase.

(6) Jones Lang LaSalle Sallmanns Limited, an independent property valuer, has valued our property interests as of June 30, 2010, in the property valuation report in Appendix IV to this prospectus. The revaluation surplus or deficit of properties included in building held for own use, assets under construction and land use rights will not be incorporated in our Company's financial statements for the year ending December 31, 2010. If such revaluation surplus were incorporated in our Company's financial statements for the year ending December 31, 2010, the annual depreciation charges would increase by approximately RMB0.9 million.

(7) The translation of Renminbi into Hong Kong dollars has been made at the rate of RMB0.8629 to HK$1.00, the PBOC Rate prevailing on the Latest Practicable Date. No representation is made that the Hong Kong dollar amounts have been, could have been or could be converted to Renminbi, or vice versa, at that rate or at any other rates or at all.

PROFIT ESTIMATE FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2010

The following unaudited pro forma estimated earnings per Share for the six-month period ended June 30, 2010 have been prepared in accordance with Rule 4.29 of the Listing Rules on the basis set out in the notes below for the purpose of illustrating the effect of the Global Offering, as if it had taken place on January 1, 2010. The unaudited pro forma estimated earnings per Share has been prepared for illustrative purposes only and, because of its nature, it may not give a true picture of the financial results of the Group following the Global Offering.

Estimated consolidated profit attributable to equity holders of our Company(1)	not less than RMB144 million (approximately HK$167 million)(3)
Unaudited pro forma estimated earnings per Share(2)	not less than RMB4.68 cents (approximately HK$5.42 cents)(3)

Notes:

(1) We describe the bases on which we prepared the above profit estimate in Appendix III to this prospectus.

(2) We based the calculation of the unaudited pro forma estimated earnings per Share for the six months ended June 30, 2010 on the above estimated consolidated profit attributable to our equity holders for the six months ended June 30, 2010, assuming that a total of 3,076,900,000 Shares were in issue during the entire six-month period ended June 30, 2010, without taking into account any H Shares issued upon exercise of the Over-allotment Option.

(3) The unaudited pro forma estimated earnings per Share for the six-month period ended June 30, 2010 has been converted at the PBOC Rate from Renminbi into Hong Kong dollars at an exchange rate of RMB0.8629 to HK$1.00 prevailing on the Latest Practicable Date.

INTERIM REPORT

As the profit estimate appearing in this prospectus covers a period which ends at a half year-end of the Company on June 30, 2010, our Company's interim report for the six months ended June 30, 2010 will be audited pursuant to Rule 11.18 of the Listing Rules if the Shares are listed on the Stock Exchange. Our interim report for the six months ended June 30, 2010 will be dispatched to the Shareholders within seven Business Days of the Listing Date.

NO ADDITIONAL DISCLOSURE REQUIRED UNDER THE LISTING RULES

We confirm that, as of the Latest Practicable Date, we were not aware of any circumstances that would give rise to a disclosure requirement under Rules 13.13 to Rules 13.19 of the Listing Rules.

DIRECTORS' CONFIRMATION OF NO MATERIAL ADVERSE CHANGE

As of the date of this prospectus, the Directors confirm that there has been no material adverse change in the financial or trading positions or prospects of the Company since March 31, 2010, the date of the latest audited financial statements of the Company.

Our Directors confirm that they have performed sufficient due diligence on our Company to ensure that, until the date of this prospectus, there has been no material adverse change in our financial or trading position or prospects since March 31, 2010, and there is no event since March 31, 2010 that would materially affect the information shown in the Accountants' Report in Appendix I to this prospectus.