
RELATIONSHIP WITH THE GUODIAN GROUP

OVERVIEW

In preparation for the Global Offering, on May 16, 2011, we converted into a joint stock company with limited liability under the PRC Company Law. The Guodian Group and GD Power were our promoters and owned 51% and 49%, respectively, of our registered share capital upon such conversion. See the section headed “Our History, Reorganization and Corporate Structure” of this prospectus. Immediately after completion of the Global Offering, the Guodian Group will own, directly and indirectly, an aggregate of approximately 68.61% of our share capital, assuming that the Over-allotment Option is not exercised (or 65.66% of our share capital, assuming that the Over-allotment Option is exercised in full). The Guodian Group will continue to be our Controlling Shareholder.

DELINEATION OF BUSINESS AND COMPETITION

Our parent company, the Guodian Group, is one of the five largest power producers in the PRC. As of the end of 2010, the Guodian Group and its subsidiaries were ranked as the third largest coal-fired power producer in the PRC and the largest wind farm operator in Asia, as well as the second largest wind farm operator globally, on the basis of total installed capacity.

We are the Guodian Group’s flagship platform for environmental protection and energy conservation solutions and renewable energy equipment manufacturing and services (the “**Main Businesses**”). The Guodian Group and its subsidiaries have historically been our largest customer, accounting for approximately 46.3%, 56.5%, 53.4% and 59.1% of our total revenues for 2008, 2009 and 2010 and the six months ended June 30, 2011, respectively.

In connection with the Global Offering, GDKH, our predecessor entity, was converted into our Company, and the Main Businesses were transferred to us. However, certain businesses that are similar to the businesses we conduct have remained at certain subsidiaries of the Guodian Group and GD Power, our Controlling Shareholders, primarily due to certain share transfer restrictions and rights of refusal that would have applied to transfers of these interests to our Group. The following business operations which are similar to our businesses are conducted by subsidiaries of the Guodian Group and GD Power (the “**Retained Businesses**”):

- by the Guodian Group, approximately 70% of the issued equity of Guodian Northeast Environmental Protection Industry Group Corporation Limited (國電東北環保產業集團有限公司) (the “**Northeast Environmental Protection Company**”). Other shareholders in the Northeast Environmental Protection Company are China Cinda Asset Management Co., Ltd and Shenyang Water Group Company Limited, which hold the remaining 18.99% and 11.01% of the issued equity of the company. China Cinda Asset Management Co., Ltd. is wholly-owned by the PRC Ministry of Finance, and Shenyang Water Group Company Limited is wholly-owned by the State-owned Asset Management Bureau of Shenyang City; and
- by GD Power, its interests in a joint venture (the “**GD Power JV**”) to be conducted by its subsidiary, Guodian Chaoyang Thermal Power Co., Ltd. (國電電力朝陽熱電有限公司) (“**GD Chaoyang Thermal**”). It is expected that GD Chaoyang Thermal will set up the

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GD Power JV with Chaoyang Jingyuan Sewage Water Treatment Plant, which is wholly-owned by the Chaoyang Municipal Government of Liaoning Province, to engage in the provision of municipal sewage water treatment and supply of industrial grade water in Chaoyang City of Liaoning Province. It is expected that GD Chaoyang Thermal will hold a 51% equity interest in the joint venture.

Summary of the Retained Businesses

Northeast Environmental Protection Company

The Northeast Environmental Protection Company is principally engaged in sewage disposal, resurgent water, water supply, water recycling and hazardous waste disposal activities in Shenyang. The following sets forth certain financial information of the Northeast Environmental Protection Company for Track Record Period:

For the year ended December 31, 2008, the turnover and net loss of the Northeast Environmental Protection Company were approximately RMB172.2 million and RMB41.8 million respectively. For the year ended December 31, 2009, the turnover and net loss of the Northeast Environmental Protection Company were approximately RMB172.8 million and RMB50.8 million, respectively. For the year ended December 31, 2010, the turnover and net profit of the Northeast Environmental Protection Company were approximately RMB361.7 million and RMB110.9 million, respectively. For the six months ended June 30, 2011, the turnover and net profit of the Northeast Environmental Protection Company were approximately RMB196.4 million, and RMB41.5 million, respectively.

The Northeast Environmental Protection Company currently operates nine water treatment plants, all located in Shenyang, and are expected to operate principally in Heilongjiang, Liaoning and Jiling, all located in the northeast region of the PRC.

The GD Power JV

The GD Power JV, when operational, is expected to engage in municipal sewage water treatment and supply of industrial grade water in Chaoyang City, Liaoning Province. The business territory of the GD Power JV is limited to Chaoyang City. The GD Power JV is not currently operational.

Overlap between the Retained Businesses and the Main Businesses

The potential overlap between the Retained Businesses and the Main Businesses relate principally to the water treatment business, but we believe that the potential overlap is not significant for the following reasons.

The water treatment business comprises a relatively small proportion of the Main Businesses.

For years 2008, 2009 and 2010 and the six months ended June 30, 2011, our revenues from the water treatment business accounted for approximately 6.9%, 6.2%, 5.7% and 1.8%, respectively, of our total revenues. Going forward, we do not expect that we will substantially increase the scale of our operations in the water treatment business.

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Our water treatment business principally derives revenues from EPC projects.

Our water treatment business derives substantially all of its revenues from EPC projects, with a relatively small portion from turnkey projects and BOT projects. The following table sets forth a breakdown of our revenues in terms of percentages from the water treatment business for the Track Record Period:

	Year ended December 31,			Six months ended June 30,
	2008	2009	2010	2011
			(%)	
EPC and turnkey projects	86.04	87.23	86.81	75.28
BOT projects	2.12	2.13	2.94	10.63
Others ⁽¹⁾	11.84	10.64	10.25	14.09
Total	100	100	100	100

Note:

(1) "Others" refers to our sales of certain water treatment equipment to some of our customers, at their request.

Conversely, the Retained Businesses are expected to derive substantially all of their revenues from their BOT operations.

There is limited customer and supplier overlap.

There is limited overlap between our customers and suppliers in our water treatment business and the customers and suppliers of the Retained Businesses. Our main customers are providers of water treatment services which appoint us under EPC arrangements to manage the development and construction of water treatment facilities which are then transferred and operated by them. Our main suppliers provide construction materials and sub-contracted services for the design and construction of such projects. Conversely, the customers and suppliers of the Retained Businesses are entities which use water treatment services and provide supplies for water treatment operations.

There is limited geographical overlap between the Retained Businesses and our water treatment operations.

The Retained Businesses are principally joint ventures between the Guodian Group and GD Power with provincial governments for the provision of water treatment services within their jurisdictions. Accordingly, we do not expect the Retained Businesses to expand their operations outside of Shenyang (in the case of the Northeast Environmental Protection Company) and Chaoyang (in the case of the GD Power JV). In addition, we have entered into Non-competition Agreements with each of the Guodian Group and GD Power, under which they have undertaken not to compete, directly or indirectly, with our Group in the provision of the Main Businesses, and have granted us rights of first refusal over new business opportunities in areas which would directly or indirectly compete with the Main Businesses. See "—Non-competition Agreements and Undertakings."

Historically, a significant proportion of our revenues from the water treatment business has been derived from EPC projects. Through Lucency, which is our subsidiary engaged in the water treatment business, we have acquired certain wastewater businesses operating in Liaoning and Shanxi provinces (in Taiyuan and Datong cities), and we are actively exploring

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other business opportunities, including through the acquisition of equity interests in wastewater operations or through additional BOT projects. More recently, we acquired small water treatment facility operations in Dalian. See “—Financial Information—Recent Developments.” We expect that any foreseeable expansion of our water treatment operations will be located in Shandong, Henan or Hebei provinces. However, we are not precluded from conducting wastewater business operations in the areas in which the Northeast Environmental Protection Company and the GD Power JV have a business presence.

In addition, in order to provide water treatment services, licenses must be obtained from the various local governments in the intended areas of operation. Local governments therefore have control over the number of water treatment operators in any given area, and take into consideration the number of existing operators within an area as well as the expected demand for such services within such area when deciding whether to approve license applications. Accordingly, although the Guodian Group and GD Power have subsidiaries operating water treatment plants in the northeast area of China, we do not expect that any of our BOT water treatment operations or other acquired investments in water treatment service providers will compete with the operations of the Guodian Group and GD Power.

Characteristics of water treatment BOT operations

Water treatment BOT operations typically provide services within a certain coverage area, which is generally limited by licensing restrictions as well as physical plant constraints. Accordingly, water treatment operations have the characteristics of a natural monopoly, including limited competition within the coverage area. Licenses granted by local governments to water treatment BOT operators are exclusive within specific coverage areas in which the particular BOT plants are located, and set out restrictions as to locations where such businesses are licensed to operate. The customers of a water treatment facility are typically entities which operate within the coverage area. Accordingly, there are very few instances in which the customers of the Retained Businesses are also customers of the water treatment BOT operations of our Company, except where such customers have operations or subsidiaries operating in various geographical locations. However, in such cases, there is no competition since such customers do not have the option of choosing between services provided by the Retained Businesses and the BOT operations of our water treatment business because the coverage areas are different and do not overlap.

Within Liaoning, our wastewater treatment plant facilities are located approximately 300 kilometers away from the operations of the nearest facilities of the Northeast Environmental Protection Company. The geographical distances between the cities in which we have wastewater operations are as follows:

	<u>Approximate Distance (in kilometers)</u>	
	<u>Shenyang</u>	<u>Chaoyang</u>
Shenyang	N/A ⁽¹⁾	240
Taiyuan	1,020	790
Datong	870	620
Dalian	350	310

Note:

(1) Shenyang is the capital city of Liaoning Province.

* Based on publicly available information.

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Our Water Treatment Business Strategy

For our water treatment business, we intend to focus on our core competence, which is our EPC business, and intend to expand our scope and become a market leader in this line of business. For our BOT operations, we intend to focus on the Shandong, Henan and Hebei Province markets, and aim to reach a processing capacity of 1 million tons of water per day.

NON-COMPETITION AGREEMENTS AND UNDERTAKINGS

We entered into Non-competition Agreements with the Guodian Group and with GD Power on November 23, 2011 (together, the “**Non-competition Agreements**”), under which the Guodian Group (or GD Power, as the case may be) agreed not to, and agreed to procure its subsidiaries and associates (with respect to Guodian Group only, but other than those listed on the Shanghai Stock Exchange, Shenzhen Stock Exchange or Hong Kong Stock Exchange, being GD Power, Guodian Changyuan Electric Power Co., Ltd (國電長源電力股份有限公司), Inner Mongolia Pingzhuang Energy Co., Ltd. (內蒙古平莊能源股份有限公司), Ningxia Younglight Chemicals Co., Ltd. (寧夏英力特化工股份有限公司) and Longyuan Power (including their respective subsidiary) (“**Exempted Companies**”) not to, engage in the Main Businesses, whether directly or indirectly through third parties or the provision of support to such third parties. This restriction extends to the operation of and participation in any businesses that compete, or are likely to compete with the Main Businesses, and has effect for the term of the Non-competition Agreements.

In addition, under the Non-competition Agreements, the Guodian Group and GD Power granted us the option to acquire new business opportunities that may compete, directly or indirectly, with the Main Businesses and rights of first refusal over the Retained Businesses. In addition, we have entered into certain framework agreements with the Guodian Group under which the Guodian Group agreed, subject to our ability to match bona fide third party competing bids in terms of quality, price and level of services, that the Guodian Group shall give priority to bids submitted by our Company in sourcing their product and service requirements. See “Connected Transactions—Non-Exempt Continuing Connected Transactions.”

Options for New Business Opportunities

Each of the Guodian Group and GD Power have undertaken in the Non-competition Agreements that:

- (i) if it becomes aware of a business opportunity offered to it which directly or indirectly competes, or may compete, with our Main Businesses, it will notify us in writing immediately upon becoming aware of such business opportunity and provide to us all information which is reasonably necessary for us to consider whether or not to engage in such business opportunity (“**Offer Notice**”). It is also obliged to use its best efforts to procure that such opportunity is first offered to us on terms that are fair and reasonable, and no less favorable than those terms first offered to it. We are entitled to decide whether or not to take up such business opportunity within 20 working days from receiving the Offer Notice, which may be extended by an additional period of 30 days at our request. Should we decide to take up such business opportunity, it is obliged to transfer the business

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opportunity to us upon terms that are fair and reasonable. The terms will be determined after arm's length negotiations between it, us and the other relevant party(ies). In addition, pursuant to applicable PRC regulations, an asset valuation report must be prepared by an independent valuation firm, where the subject matter of the transaction involves a state-owned asset; and

- (ii) shall procure that its subsidiaries and associates (with respect to the Guodian Group, only but other than the Exempted Companies) first offer to us any business opportunity offered to it which competes, or may compete with our Main Businesses on the same terms to which it is subject, subject to the same procedures described in Item (1) above.

Our independent non-executive Directors will be responsible for reviewing and considering whether or not to take up each new business opportunity referred to us by the Guodian Group or GD Power, as the case may be, and such decision will be made by our independent non-executive Directors. When the Guodian Group or GD Power delivers to us an Offer Notice, we will notify our independent non-executive Directors within one week of receipt for their consideration before reverting to the Guodian Group or GD Power, as the case may be, within the specified time period.

We will make an announcement in due course on, and disclose in our annual report, our decision to pursue or decline any new business opportunity and the basis for our decision.

Options for Acquisition

In relation to:

- (i) the Retained Businesses; and
- (ii) any new business opportunity the Guodian Group or GD Power, as the case may be, may obtain which competes, or may compete, directly or indirectly with our Main Businesses,

Each of the Guodian Group or GD Power, as the case may be, has granted us the option, pursuant to applicable laws and regulations, to purchase any equity interest, assets or other interests which form part of the Retained Businesses or new businesses as described above. The acquisition of the Retained Businesses and certain future new businesses by us and the consideration paid therefor will be determined after arm's length negotiation between the Guodian Group or GD Power and us, as the case may be. In addition, the transfer of the Retained Businesses shall be in compliance with requirements applicable to state-owned assets, such as appraisal, filing and state-owned equity trading procedures, as the case may be.

Our independent non-executive Directors will be responsible for reviewing and considering whether or not to exercise the options for acquisition and such decision will be made by our independent non-executive Directors. So far, we have no intention to purchase any of the Retained Businesses. The independent non-executive Directors will review the operation of our business regularly. If and when they find there is a need to exercise the

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option to acquire the Retained Business, or upon request of the management of our Company, the independent non-executive Directors will bring the topic to the attention of, and for consideration by, the Board of Directors. The decision whether to exercise the option will be subject to annual review.

We will make an announcement in due course on, and disclose in our annual report, any decision to exercise such option and the basis for such decision.

Pre-emptive Rights

Each of the Guodian Group and GD Power have undertaken that if it, its subsidiaries or associates (with respect to Guodian Group only, other than the Exempted Companies) intends to transfer, sell, lease or license any of the following interests to a third party:

- (i) its Retained Businesses; and/or
- (ii) any new business opportunity referred to in the Non-competition Agreements, which has been offered to, but has not been taken up by, us and has been retained by it or any of its subsidiaries, or associates (with respect to Guodian Group only, other than the Exempted Companies) which competes, or may lead to competition, directly or indirectly with our Main Businesses,

then we shall have a pre-emptive right of first refusal which can be exercised by us at any time for so long as the Non-competition Agreements remain effective and that it shall notify us by written notice (“**Selling Notice**”) in advance of any such transaction. The Selling Notice shall attach the terms of the transfer, sale, lease or license and any information which may be reasonably required by us to make a decision. We shall reply to the Guodian Group (or GD Power, as the case may be) within 20 working days after receiving the Selling Notice from the Guodian Group (or GD Power, as the case may be), which may be extended by an additional period of 30 days at our request. Each of the Guodian Group (or GD Power, as the case may be) has undertaken that until it receives such reply, it shall not notify any third party of the intention to transfer, sell, lease or license the business. If we decide not to exercise our pre-emptive rights or if we do not reply within the agreed time period, Guodian Group (or GD Power, as the case may be) is entitled to proceed with the transfer, sale, leasing or licensing of the business to the third party on the terms set forth in the Selling Notice. If we intend to exercise the right, the terms will be determined after arm’s length negotiation between the Guodian Group (or GD Power, as the case may be) and us. In addition, pursuant to applicable PRC regulations, an asset valuation report shall be prepared by an independent valuation firm, if the subject matter of the transaction is a state-owned asset.

Our independent non-executive Directors will be responsible for reviewing and deciding whether to exercise the pre-emptive rights described above. We will notify our independent non-executive Directors within one week of receipt of a Selling Notice and provide such Notice for their consideration before reverting to the Guodian Group (or GD Power, as the case may be) within the stipulated period.

Any exercise of such options and pre-emptive rights described above would constitute connected transactions as defined under the Listing Rules and would be subject to the approval of independent Shareholders, as well as the applicable disclosure requirements

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under the Listing Rules. Under the Non-competition Agreements, each of the Guodian Group and GD Power have undertaken that:

- (i) subject to the request of a committee formed by our independent non-executive Directors, it will provide all information necessary for our independent non-executive Directors to review its compliance with and enforcement of the Non-competition Agreements;
- (ii) it will provide us all information in respect of its compliance with and enforcement of the Non-competition Agreements necessary for us to disclose the decision made by the above-mentioned committee in our annual report, or by way of announcement; and
- (iii) it will provide a confirmation to us and our independent non-executive Directors relating to its compliance with the Non-competition Agreements in our annual report, including that it has given notice and priority to us in any new opportunity related to the Main Businesses.

We will make an announcement in due course on, and disclose in our annual report, any decision to exercise or waive applicable pre-emptive rights and the basis for such decision.

In order to monitor ongoing compliance with the Non-competition Agreements, we intend to adopt the following policies:

- (i) provision to our independent non-executive Directors of any Offer Notice or Selling Notice received, within one week of such receipt;
- (ii) disclosure in our annual reports of the findings and decisions of our independent non-executive Directors on each Offer Notice or Selling Notice received, and the basis for their decisions; and
- (iii) disclosure in our annual reports of the confirmation by each of the Guodian Group and GD Power of their respective compliance with the Non-competition Agreements, including that all relevant notices and pre-emptive offers have been given to us for the relevant business opportunities.

Our Directors are of the opinion that our independent non-executive Directors have sufficient experience for the purposes of assessing such new business opportunities and pre-emption rights. In addition, our independent non-executive Directors may appoint financial advisors or other professional experts to advise them in connection with their consideration matters relating to the exercise of rights under the Non-competition Agreements.

Each Non-competition Agreement will terminate upon the earlier of:

- (i) the Guodian Group (or GD Power, as the case may be) and its subsidiaries and associates, directly or indirectly, holding in the aggregate less than 30% of our total share capital; or

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- (ii) our H Shares no longer being listed on the Hong Kong Stock Exchange or other internationally recognized stock exchanges.

Our PRC legal counsel is of the view that the Non-competition Agreements and the Guodian Group and GD Power's undertakings pursuant to the Non-competition Agreements are valid and binding obligations of the Guodian Group and GD Power under PRC law and may be enforced by us in the courts of the PRC.

Based on (a) the legally binding obligations of the Guodian Group and GD Power as set out in the Non-competition Agreements and the related grant of options for new business opportunities and acquisitions and pre-emptive rights, and (b) the information-sharing and other mechanisms in place, as described above, to monitor compliance by the Guodian Group and GD Power, our Directors are of the view that we have taken all appropriate and practicable steps to ensure compliance by the Guodian Group and GD Power with their obligations under the Non-competition Agreements.

DIRECTORS' COMPETING INTERESTS

Other than certain directorships and/or positions held by some of our Directors in the Guodian Group or GD Power which are further discussed below, the Directors have confirmed that they do not have any interests in any business which directly or indirectly competes, or is likely to compete, with our business as at the Latest Practicable Date.

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INDEPENDENCE FROM THE GUODIAN GROUP

Having considered the following factors, we are satisfied that we can conduct our business independently from the Guodian Group after the Global Offering.

Independence of Board and Management

Our Board of Directors consists of nine directors, six of whom are not associated with the Guodian Group. Of these nine Directors, three are independent non-executive Directors and three are non-executive Directors. Set out below is a table summarizing the positions held by our Directors, and their positions with the Guodian Group and GD Power, if any:

<u>Name of Director</u>	<u>Position with the Company</u>	<u>Position with the Guodian Group as at the Latest Practicable Date</u>	<u>Position with GD Power as at the Latest Practicable Date</u>
ZHU Yongpeng	Chairman of the Board of Directors Non-executive Director	General Manager	Chairman
YE Weifang	Deputy Chairman of the Board of Directors, Executive Director	None	None
YANG Guang	Non-executive Director	Head of Scientific Technology and Comprehensive Business Department	None
FENG Shuchen	Non-executive Director	None	General Manager
LI Hongyuan	Executive Director, General Manager	None	None
WANG Hongyan	Executive Director, Chief Accountant	None	None
LU Yanchang	Independent Non-executive Director	None	None
ZHAI Ligong	Independent Non-executive Director	None	None
FAN Ren Da Anthony . . .	Independent Non-executive Director	None	None

Mr. Zhu Yongpeng, Mr. Yang Guang and Mr. Feng Shuchen are non-executive Directors of our Company.

Our chairman of the Board of Directors, Mr. Zhu Yongpeng, also serves as general manager of the Guodian Group and chairman of the board of directors of GD Power. Acting as the general manager, Mr. Zhu is principally responsible for formulating the overall development, corporate and business strategies at a strategic level but is not involved in the day-to-day management and operations of the Guodian Group. Regulations on management of state-owned assets issued by the PRC government require that the Guodian Group bears all responsibility for, and takes all due care over, the assets it owns on behalf of the state to protect and enhance their value. The person in charge of the Guodian Group bears personal responsibility, administrative and legal, for any loss in state-owned assets due to improper

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exercise of power or gross negligence. The appointment of Mr. Zhu, as chairman of the board of the Guodian Group, and to serve as chairman of our Company, is an essential step in discharging those responsibilities. Doing so is also consistent with the practice of most, if not all, other state-owned publicly-listed companies. The appointment of Mr. Zhu as chairman of our Company has been filed with and approved by SASAC.

Mr. Zhu, whilst not expected to be involved in the day-to-day management of our Company, will bring to our Company profound understanding of industry trends and in-depth knowledge of on-going transformations in the operator business model, enabling him to provide invaluable guidance on strategic issues and to bolster our continued improvement and development to better cater to the needs of our Company's clients. His prestige and well-established connections are also expected to be an important asset for our Company in consolidating and expanding its client base.

Our Director, Mr. Yang Guang, also serves as head of the scientific technology and comprehensive business department of the Guodian Group.

Our Director, Mr. Feng Shuchen, also serves as general manager of GD Power.

Apart from the above, each of the Company, the Guodian Group and GD Power is managed by different management personnel; and none of our Directors or senior management holds any position or has any responsibility in the Guodian Group or GD Power or their respective associates (other than the Group).

We believe that our Directors and senior management are able to perform their roles in the Company independently and that the Company is capable of managing its business independently of the Guodian Group after the Listing for the following reasons:

- the decision-making mechanism of the Board set out in our Articles of Association includes provisions that Directors who hold directorships with the Guodian Group or GD Power are considered to be in conflict and are required to abstain from voting in certain circumstances. The Articles have stipulated circumstances under which the Directors would be considered to be in conflict, namely for any contracts, transactions or arrangements where a Director or an associate of a Director is substantially interested, in which case the Director is required to abstain from voting and not be counted in the quorum. For these purposes, the Directors who hold positions in the Guodian Group or GD Power are considered to be in conflict in respect of any contracts, transactions or arrangements with the Guodian Group or GD Power. Further, when considering relevant connected transactions, the independent non-executive Directors will review the relevant transactions;
- the three directors who hold positions in the Guodian Group or GD Power are our non-executive Directors. As our non-executive Directors, they are not involved in running the day-to-day business, but rather are primarily responsible for strategy and planning matters; the day-to-day operation of our Company is managed by our senior management who are all independent of the Guodian Group or GD Power and are our full-time employees. Our three executive Directors are also independent of the Guodian Group or GD Power and are prepared to devote most of their time and attention to the management of the Group. With respect to the

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Retained Business of the Guodian Group which may compete with our Main Businesses, we believe such Retained Business is not material to us, since as set out above (i) the scale of our water treatment business is relatively small; and (ii) the water treatment business in the PRC is highly localized and controlled by the local governments in the PRC. In addition, with the mechanisms described above and in the Non-competition Agreements to safeguard conflicts between the Guodian Group and us, we believe the three non-executive Directors who hold positions in the Guodian Group or GD Power do not create material conflicts of interest;

- none of the Directors or the senior management has any shareholding interest in the Guodian Group; and
- we have appointed three independent non-executive Directors, comprising one-third of our Board, to provide a balance of the number of interested and independent Directors and with a view to promoting the interests of the Company and our Shareholders as a whole.

Based on the above, the Company has its own management teams at both the executive and operational levels, and is satisfied that it is capable of maintaining independence from the Guodian Group.

Independence of Business Operations

All of the property, plant and equipment, human resources and intellectual property rights which are used in our operations are owned by us, except for various trademarks which are owned by the Guodian Group. These trademarks have been licensed to us under the Trademark License Agreement, and will expire ten years from May 16, 2011. See “Connected Transactions.”

We have conducted our business on an independent basis, and therefore all of the administrative and general functions (including finance and treasury) required for the operation of our businesses are in place and are independent of the administrative and general functions of the Guodian Group. We have sufficient capital, human resources and assets to operate our business independently from the Guodian Group.

We have our own organizational structure with independent departments and business and administrative units, each with specific areas of responsibility.

Our operational independence is further demonstrated in the following aspects:

- *Adaptability of our business models.* Our business models can be easily adapted to accommodate business dealings with customers outside of the Guodian Group. Given our R&D teams, accumulated know-how and intellectual property rights, production centers, customer service teams, operational history, service reputation and product quality, we have built our own brand name and market status in the industries in which we conduct our businesses. Our sales and marketing teams and distribution channels have long been in place, and have sourced, and are capable of sourcing, independent clients. Some of these independent clients are

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overseas clients, and some are outside of the traditional power industries that we have been servicing.

- *Concentration of customers.* Although, our largest customer, the Guodian Group, contributed approximately 46.3%, 56.5%, 53.4% and 59.1% of our consolidated revenues for 2008, 2009 and 2010 and for the six-month period ended June 30, 2011, respectively, our reliance on our largest customer, even on a historical basis, is not as significant as the aggregated numbers might suggest. This is partly because of the following reasons:
 - Independent legal status: the Guodian Group in reality is not one customer to our Group; it has more than a few dozen independent legal entities under the “Guodian Group” umbrella. We supply products and services to multiple customer companies although all such sales are consolidated and attributed to the Guodian Group. For example, in our environmental protection business, the Guodian Group’s companies initiate bidding processes for EPC service providers and we win bids from those companies or power plants on an individual basis. In our WTG business, taken as another example, multiple subsidiaries of the Guodian Group select their own suppliers independently and through their own internal evaluation and bidding processes. The aggregated revenues derived from the Guodian Group, therefore, do not necessarily reflect the commercial reality.
 - Top five clients on a legal person basis: Our consolidated financial statements aggregate all legal persons under the Guodian Group as one customer; sales to our five largest customers (with all entities under the Guodian Group consolidated as a single customer) for years 2008, 2009 and 2010 and for the six months ended June 30, 2011 in aggregate accounted for 56.9%, 67.3%, 71.8% and 73.4% of our total revenue, respectively. On a legal entity basis, however, our revenues derived from our five largest customer contributed to less than 30% during our Track Record Period.
- *Industry landscape.* In China, the coal-fired power industry is highly concentrated, with the top five power companies—the Big Five—contributing to more than 50% of the total market share in terms of accumulated installed capacity. Among the Big Five, the Guodian Group is the third largest company with more than 10% of the total market share in terms of cumulative installed capacity. Similarly, in the wind power industry, the Guodian Group and its subsidiaries are the largest wind power operator in Asia and the second largest wind power operator in the world in terms of cumulative installed capacity as of the end of 2010, according to Garrad Hassan. In sum, given the market and industry positions of the various companies under the Guodian Group umbrella, they are naturally an important customer independence of their affiliation with us.
- *Large customers.* Under the Guodian Group umbrella, we have at least three large, blue-chip clients: Guodian Group, GD Power and Longyuan Power. Guodian Group is one of the five largest power companies, in terms of cumulative installed capacity, in China. In addition, the Guodian Group’s subsidiary, Longyuan

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Power, is listed on the Hong Kong Stock Exchange and is a leading wind power operator in terms of cumulative installed capacity on a global basis. Further, the Guodian Group's subsidiary, GD Power, is listed on the Shanghai Stock Exchange and has multiple subsidiaries.

- *Diversification of our businesses.* Customers under the Guodian Group umbrella are in different industries that do not bear the same industry-based risks. For example, GD Power focuses on coal-fired power plants, while Longyuan deals with wind power farms. Coal-fired power plants typically have different systematic risks from wind power farms; and the correlation between the risks of these two industries is not linear. Further, we conduct our businesses according to various business models, including EPC, BOT, EMC and concession operations, among others. We, therefore, have a lower customer concentration risk than the connected transactions figures may suggest.
- *Mutual and complementary relationships.* Our relationships with our blue chip clients are mutual and complementary. On the one hand, these, blue chip clients offer a variety of business opportunities to us and allow us to build our critical mass in our assets, human resources, financial capability, execution expertise, R&D team, sales channels, production scale and market brand, which contribute to our growth and ability to run the businesses and to land new customers independently. On the other hand, our services and products are highly valuable to our blue chip clientele. With many lines of services and products in their dominant or leading market positions—for example, our desulfurization EPC services, SCR denitrification services, EMC services, plasma ignition and combustion stabilization services and WTG products, among others, we are a quality and preferred provider of services and products to our blue chip clientele. These relationships cannot be characterized as anything but mutual and complementary basis.
- *Decreasing proportion of our revenue trend. Contributed by our largest customer.* Although our relationship with companies under the Guodian Group umbrella has historically been significant, and has been mutual and complementary, as part of our business plan, we have undertaken, and expect to continue to undertake, measures to reduce our proportion of revenues attributable to the Guodian Group and its subsidiaries.
- *Contract protections.* In support of the Listing, the Guodian Group has entered into two types of agreements in favor of the Group: (i) non-competition agreements and (ii) a master agreement in connection with our provision of products and services to the Guodian Group and its subsidiaries. GD Power also has entered into a non-competition agreement with us. See sections headed “—Non-competition Agreements and Undertakings” and “Connected Transactions”.
- *Corporate governance.* We have established an internal control process to oversee connected transactions. For example, we have adopted an internal set of “Rules in Relation to Connected Transactions Management.” Based on these Rules, we must observe certain principles of fair dealings, transparency and enter

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into transactions on an arm's length basis. Connected transactions must also go through a process, and various departments, including the Board of Directors office, Planning Department, Finance and Ownership Department and the Office of the General Managers, must oversee matters relating to connected transactions. Further, our Board of Directors, particularly the independent Directors, are charged with the responsibility of overseeing matters related to connected transactions, an added corporate governance protection.

Provision of Products and Services between the Guodian Group and the Group

We have historically supported the Guodian Group's energy generation activities, providing environmental protection and energy conservation services to the coal-powered generation facilities owned or operated by the Guodian Group and its subsidiaries, as well as manufacturing WTG and solar products used in the Guodian Group's renewable energy platform. Our provision of environmental protection and energy conservation services to the Guodian Group and its subsidiaries span the entire product and service offering of our Group, and the decision to use any particular product or service depends on the specific situational requirements of the relevant power project.

During the Track Record Period, the services provided to us by the Guodian Group and its subsidiaries and the services provided to the Guodian Group and its subsidiaries by us included 'among others' material and equipment supply and the provision of financial guarantees on a group-wide basis.

Our purchases of products and services from the Guodian Group and its subsidiaries were principally comprised of assets used in our SO₂ emissions reduction business, as well as water, electricity and gas supplies for our operations which are situated on Guodian Group or its subsidiaries project facility sites. We purchase these products and services from the Guodian Group because the operation of the SO₂ emission reduction business is conducted at facility sites of companies under Guodian Group. For our other businesses, we typically use water, gas and electricity provided by municipal governments.

During the Track Record Period, our transactions with the Guodian Group were conducted in the ordinary and usual course of our business, on an arm's length basis and on commercially reasonable terms. We believe that these transactions were fair and reasonable and in the interest of our Company and Shareholders, and that we did not unduly or excessively rely on the Guodian Group for the following reasons:

- the Guodian Group is an established group of companies, with an extensive track record for quality, and has historically been both a reliable purchaser of our products and services, as well as a supplier of the products and services required for our operations. Although it would be possible to seek independent suppliers to replace the Guodian Group as our supplier, it is commercially sensible for us to continue to purchase products and services from the Guodian Group, given our established relationship and experience with the quality of their services. In addition, the Guodian Group is one of the PRC's leading energy producers, and we do not believe that it would be commercially sensible to cease supplying our products and services to the Guodian Group and its subsidiaries. We believe that

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the relationship between our Company and the Guodian Group and its subsidiaries is a mutually beneficial arrangement;

- these transactions were conducted, and will continue to be conducted, on commercially reasonable terms and on a non-exclusive basis, and our Company has discretion in deciding whether to supply the Guodian Group and its subsidiaries or to procure our supply requirements from them. Our sales and procurement teams are independent from those of the Guodian Group, and the decision-making process is entirely separate and subject to the discretion of our Company;
- we are able to obtain supplies of the goods and services currently provided to us by the Guodian Group and its subsidiaries from third party independent suppliers on a similar basis, and goods and services supplied by us to the Guodian Group and its subsidiaries may be supplied by us to third parties on a similar basis. For example, we currently have more than 1,000 independent suppliers who supply our operational business requirements. We are not required to supply or receive supplies from Guodian Group on an exclusive basis;
- PRC governmental policies support the business models adopted by our Company. Please refer to the sections headed “Business” and “Regulations” in this prospectus; and
- in addition to the listing requirements of the Hong Kong Stock Exchange governing connected transactions, we have entered into the Non-competition Agreements and adopted related internal procedures to provide safeguards against any potential conflicts of interest arising from our relationship with between the Guodian Group and our Company, and to protect minority shareholders’ rights after the Global Offering.

Although our relationship with the Guodian Group has historically been of significant benefit to us, and has been mutual and complementary, as part of our business strategy, we have undertaken, and expect to undertake, measures to reduce the proportion of our revenues attributable to the Guodian Group and its subsidiaries, by developing and expanding our international operations, diversifying our domestic PRC operations by acquiring additional customers which are not connected to the Guodian Group and continuing to develop businesses in additional markets in which the Guodian Group may not be involved. For example, in our international expansion efforts, we have established overseas sales channels, executed agreements to develop projects in Sri Lanka, Cambodia and the Philippines, and have been appointed on one project located in the Hong Kong SAR. We also have more than 300 independent domestic customers and 8 independent international customers as at the Latest Practicable Date.

We believe that our ongoing disclosure requirements under the Listing Rules, as well as the review by our independent Directors of all connected transactions, will be sufficient to provide the appropriate safeguards for potential conflicts of interest arising from our relationship with and the Guodian Group. In addition, we will adopt certain internal procedures and processes to manage connected transactions and strengthen internal reporting processes for such transactions, including the adoption of a maximum aggregate value threshold for connected transactions.

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Independence of Staff

Our staff are independent from the Guodian Group and GD Power, and none of our staff is on the payroll of either of those entities. In addition to maintaining a set of comprehensive internal control procedures to facilitate the effective operation of our business, we have protective measures to avoid conflicts or potential conflicts of interest and to safeguard the interests of our Shareholders as a whole. We have also adopted protective measures to ensure the enforceability of the Non-competition Agreements between the Company and each of the Guodian Group and GD Power. For further details about the enforceability of such protective measures, see “Relationship with the Guodian Group—Non-competition Agreements and Undertakings.” The Company has also adopted a set of corporate governance manuals, such as “Rules of the Board Meeting” and “Rules on the Conduct of Connected Transactions”, which are based on applicable PRC laws and regulations.

Based on the above, the Directors are of the view that the Company operates independently from the Guodian Group.

Financial Independence

During the Track Record Period, we entered into certain transactions with Guodian Finance, including establishing and maintaining deposits and securing loans from Guodian Finance. Guodian Finance is a subsidiary of the Guodian Group, and is a non-banking financial institution established in December 2004 with the approval of the China Banking Regulatory Commission. Guodian Finance provides deposit, lending, finance leasing and financial consulting services to the Guodian Group, its affiliates and its associates, including transaction clearing and settlement services, approved insurance agency services and the provision of entrusted loan services and entrusted investment services.

As we were historically part of the Guodian Group, it was cost-efficient for us to use the services of Guodian Finance for our transactions with the Guodian Group, in particular, given that the deposit and loan interest rates offered to us by Guodian Finance were better or comparable to those provided by banks or other financial institutions. The following table sets forth the loan interest rates provided by Guodian Finance and our banks to us for the Track Record Period:

	Interest Rates			
	2008	2009	2010	1H2011
<u>Long-term indebtedness:</u>				
Bank loans	5.76% to 7.83%	4.86% to 5.94%	4.86% to 5.94%	4.86% to 6.80%
Loans from Guodian Finance	6.80%	4.86% to 5.13%	4.86% to 5.32%	5.27% to 5.81%
<u>Short-term indebtedness:</u>				
Bank loans	5.02% to 7.24%	1.88% to 5.84%	4.78% to 5.84%	4.78% to 7.26%
Loans from Guodian Finance	6.72%	4.37% to 4.78%	4.37% to 5.00%	5.68% to 6.31%

Our deposit rates obtained from Guodian Finance were similar to the prevailing PBOC benchmark interest rates for time deposits during the Track Record Period, being 0.72% until November 27, 2008, 0.36% for the period between November 27, 2008 to February 8, 2011, 0.40% for the period between February 2, 2011 to April 5, 2011, and 0.50% thereafter.

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All outstanding loans currently provided by Guodian Finance to our Group will be settled or released prior to the Listing, and it is expected that our Group will not place deposits, seek loans or other guarantees from Guodian Finance after the Listing. All cash currently on deposit with Guodian Finance will be withdrawn and placed with other financial institutions before the Listing.

We believe that we can operate independently of the Guodian Group and GD Power on a financial basis. See “Financial Information—Liquidity and Capital Resources” for a description of the financial resources available to our Group.

Further, our accounting, finance and treasury functions are fully independent of the accounting, finance and treasury functions of the Guodian Group and GD Power. Our finance department is responsible for discharging all treasury management, accounting, reporting, group credit and internal controls on an independent basis.

Although we obtained loans and placed deposits with Guodian Finance during the Track Record Period and were provided with loans and guarantees from the Guodian Group and its affiliates during the Track Record Period, we believe that these activities were consistent with our predecessor business operating as part of the Guodian Group. As at December 31, 2009, we had an outstanding balance of a guarantee provided by Guodian Environmental Protection Institute in the amount of RMB9.9 million. On December 31, 2008, we had outstanding balances of guarantees provided by Longyuan Power and Guodian Environmental Protection Institute in the amounts of RMB63.0 million and RMB40.0 million, respectively. As at December 31, 2008, 2009 and 2010, and June 30, 2011, we had advances from the Guodian Group and its affiliates the aggregate amounts of RMB214.5 million, RMB920.9 million, RMB1,864.1 million and RMB175.3 million, respectively. All outstanding loans and advances with the Guodian Group and its affiliates will be settled and discharged, and all deposits with Guodian Finance will be withdrawn by our Company, before the Listing. As of the Latest Practicable Date, there were no outstanding guarantees between our Company and the Guodian Group and its affiliates (including Guodian Finance).

We have established long-term relationships with PRC financial institutions from which we are able to obtain banking facilities on competitive terms to fund our business operations and expansions. As of September 30, 2011, we had unutilized banking facilities (other than facilities provided by the Guodian Group) of RMB9.6 billion, and had received commitment letters from various PRC banks under which such banks agreed in principle to grant new project financings for various new projects to be undertaken by our Group. We also entered into non-binding strategic cooperative framework agreements and commitment letters with the Bank of Beijing and the Agricultural Bank of China to establish co-operative relationships and to secure financing and other financial services. Under the terms of these framework commitments and commitment letters, the aforementioned banks agreed to provide us with credit lines of up to an aggregate of RMB18 billion.

Based on the foregoing, our Directors are of the opinion that after the Global Offering our Group can operate independently of, and without undue or excessive reliance on, our Controlling Shareholders.