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### OVERVIEW

We are a leading diversified clean energy company in China, primarily engaging in the development, management and operation of hydropower projects and coal-fired power plants in Fujian province and wind power and other clean energy projects throughout China. We also hold minority interests in a large-scale distributed energy project in Guangdong province and a nuclear power plant in Fujian province, which is under construction. According to Frost & Sullivan, as of December 31, 2011, we were the largest hydropower company in Fujian province and in East China (including Fujian province) in terms of consolidated installed hydropower capacity and the fifth largest wind power company in China in terms of consolidated installed wind power capacity.

As a result of our strategy to expand our portfolio of clean energy projects, the segment assets and consolidated installed capacity of our hydropower, wind power and other clean energy businesses accounted for approximately 76.4% and 68.6% of our total segment assets and consolidated installed capacity as of December 31, 2011, respectively, while the aggregate adjusted segment operating profit of these business segments accounted for 63.1% of our total adjusted segment operating profit in 2011. Although the segment revenue of our coal-fired power business represented a majority of our total revenue each year during the Track Record Period, our coal-fired power business only accounted for approximately 23.6% and 31.4% of our total segment assets and consolidated installed capacity as of December 31, 2011, respectively, and accounted for 36.9% of our total adjusted segment operating profit in 2011.

Our diversified portfolio of power generating assets has not only enabled us to broaden our growth prospects and benefit from various favorable government policies that encourage the development of different types of clean energy projects, but has also created synergies among different power generating assets and allowed us to diversify project-specific risks while maximizing profit. Our hydropower and coal-fired power businesses have in the past generated significant revenue and cash flow to support our development of diversified power generating projects. On the other hand, our wind power and other clean energy businesses have benefited, and we expect will continue to benefit, from the regulatory support of the PRC government.

As of December 31, 2009, 2010 and 2011, the consolidated installed capacity of our power generating assets was 5,424.5 MW, 6,350.6 MW and 6,524.1 MW, respectively. We deliver and sell the electricity generated by our projects to local grid companies and derive substantially all of our revenue from the sale of electricity. For the years ended December 31, 2009, 2010 and 2011, our total revenue was RMB7,349.2 million, RMB8,397.6 million and RMB7,147.5 million, respectively, of which sales of electricity accounted for 99.4%, 97.2% and 97.8%, respectively. During the same periods, our profit was RMB441.9 million, RMB798.1 million and RMB638.5 million, respectively.

We engage in the following four business segments: hydropower, wind power, coal-fired power and other clean energy business.

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### **Hydropower Business**

As of December 31, 2011, we owned 36 hydropower projects in operation, with a consolidated installed capacity of 2,223.4 MW, representing 34.1% of our total consolidated installed capacity. Meanwhile, we also had one hydropower expansion project under construction in Fujian province with a capacity under construction of 80.0 MW and a proposed expansion project under development with a prospective capacity of 110.0 MW.

As of December 31, 2011, we also owned seven large reservoirs that can store water for varying periods, from a dry season to one year or even longer. Of our 36 hydropower projects, 31 are cascade hydropower projects that are strategically located along the same rivers as our large reservoirs, representing 94.5% of our consolidated hydropower installed capacity as of December 31, 2011. The combination of large reservoirs and cascade hydropower projects could increase our ability to regulate water flow and enable us to maximize hydropower generation.

During the Track Record Period, we managed to grow our attributable installed hydropower capacity by 343.7 MW through nine acquisitions of mid- to small-sized hydropower projects and six equity interest increments in our existing hydropower subsidiaries or associates, representing 21.1% of our attributable installed hydropower capacity as of December 31, 2011. Leveraging our over 50 years of operating history and leading position in the hydropower sector in East China, we plan to further expand our hydropower business through acquisitions and internal expansions. Our hydropower business has provided a significant source of revenue and cash flow to support our development of wind power and other clean energy projects.

### **Wind Power Business**

During the Track Record Period, our consolidated installed wind power capacity grew rapidly, increasing from 471.0 MW as of December 31, 2009, to 1,333.8 MW as of December 31, 2010, and further increased to 2,171.3 MW as of December 31, 2011, representing a CAGR of 114.7%. Our wind power business has been and will continue to be our focus in the foreseeable future.

As of December 31, 2011, we owned 36 wind power projects in operation, with a consolidated installed capacity of 2,171.3 MW, representing 33.3% of our total consolidated installed capacity. Meanwhile, we also had 16 wind power projects under construction totaling 941.0 MW.

We also have a strong project pipeline for future development, which we believe will provide us with a solid foundation for future growth. As of December 31, 2011, through entering into development agreements with local governments, we have secured rights to develop wind power projects in 21 provinces in China, with approximately 40,000 MW of prospective capacity, including 667.5 MW of advanced pipeline projects, for which we have obtained construction approval, but construction has not yet begun; 1,367.0 MW of

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intermediate pipeline projects for which we have obtained preliminary government approval, but have not yet received construction approval; and approximately 38,000 MW of early pipeline projects for which we have entered into development agreements with local governments and started wind resource assessment. By leveraging our abundant wind resource reserves, we expect to increase our consolidated installed wind power capacity to approximately 3,200 MW by the end of 2012.

As of December 31, 2011, all of our operating wind power projects were connected to local power grids. However, from time to time, we have to temporarily suspend some of our wind power projects located in certain areas in China, particularly Inner Mongolia and Gansu province, to accommodate the insufficient transmission capacity of the local power grids. Based on our management's estimate, our gross wind power generation would have increased by approximately 6.9%, 5.8% and 6.7% in 2009, 2010 and 2011, respectively, without the adverse effect of the transmission limitations on the local power grids. Depending on the progress of construction and upgrades to the grid infrastructure in Inner Mongolia and Gansu province, we expect that some of our wind power projects in certain areas may continue to experience transmission limitations in the near future. Please see "Risk Factors – Risks Relating to Our Wind Power Business – We rely on local grid companies for grid connection and electricity transmission."

### **Coal-fired Power Business**

As part of our operating history, we also own and manage four coal-fired power plants in Fujian province. Historically, our coal-fired power plants in Fujian province have created synergies with our hydropower projects in the same region. For example, our Kemen Power Plant could generally increase coal-fired power generation when local hydrological conditions become less favorable. Our coal-fired power business has also provided a significant source of revenue and cash flow to support our clean energy development.

As of December 31, 2011, our four coal-fired power plants in operation had a consolidated installed capacity of 2,050.0 MW, representing 31.4% of our total consolidated installed capacity. Our Kemen, Yong'an and Zhangping Power Plants are equipped with clean coal technologies, which are designed to reduce air pollution and increase coal utilization efficiency. Meanwhile, we also had two coal-fired generating units under construction, totaling 600.0 MW. After the completion of the two remaining generating units, which we expect to occur in late 2012, we do not intend to develop and construct additional coal-fired generating units in the near future.

### **Other Clean Energy Business**

We develop or hold interests in other types of clean energy projects, including distributed energy, nuclear power, solar power and biomass energy projects. We believe that the operation of these other clean energy projects will generate a more diverse source of revenue and bring new growth prospects to our business. We started our other clean energy business in 2009. As of December 31, 2011, we:

- held a 43.0% equity interest in the 156.0 MW Guangzhou University Town Distributed Energy Project, which was developed by us. Meanwhile, we have secured a strong project pipeline of distributed energy projects for future development. As of December 31, 2011, we have entered into development agreements with local governments to develop distributed energy projects in 15 provinces in China with approximately 6,500 MW of prospective capacity;
- held a 39.0% equity interest in the Fuqing Nuclear Power Plant located in Fujian province, with four 1,000.0 MW nuclear generating units under construction. We expect that the Fuqing Nuclear Power Plant will commission one generating unit each year from 2013 to 2016;
- owned eight operating solar power projects, totaling 79.4 MW; and
- owned two biomass energy projects under construction, totaling 25.3 MW, which we expect to commence operations in the second half of 2012.

By leveraging our first-mover advantage, we plan to further increase our distributed energy projects. We will also closely follow industry developments, market trends and regulatory policies towards nuclear, solar and biomass energy projects and selectively pursue opportunities to expand our other clean energy business.

### **Carbon Credit Transactions**

In addition to selling electricity, we derive income from the sale of CERs to improve the economic viability of our clean energy projects. For the years ended December 31, 2009 and 2010 and 2011, our net income from CDM projects was RMB30.6 million, RMB75.2 million and RMB153.4 million, respectively, representing 2.1%, 4.0% and 8.0%, respectively, of our operating profit during the same years.

We believe that the United Nations Climate Change Conference held in Durban in December 2011, which agreed to extend the Kyoto Protocol by five years from 2013 to 2017, could result in additional growth potential for our clean energy projects beyond the first commitment period of the Kyoto Protocol, which will end in December 2012.

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### KEY OPERATING AND FINANCIAL INFORMATION

The following table sets forth our key operating information as of the dates or for the periods indicated:

	As of or for the year ended December 31,		
	2009	2010	2011
<b>Consolidated installed capacity<sup>(1)</sup> (MW)</b>			
Hydropower . . . . .	2,146.1	2,199.4	2,223.4
Wind power . . . . .	471.0	1,333.8	2,171.3
Coal-fired power . . . . .	2,650.0	2,650.0	2,050.0 <sup>(2)</sup>
Other clean energy . . . . .	157.4	167.4	79.4 <sup>(3)</sup>
<b>Total . . . . .</b>	<b>5,424.5</b>	<b>6,350.6</b>	<b>6,524.1</b>
<b>Attributable installed capacity<sup>(4)</sup> (MW)</b>			
Hydropower . . . . .	1,468.5	1,612.8	1,627.2
Wind power . . . . .	471.0	1,227.8	1,955.3
Coal-fired power . . . . .	2,690.4	2,690.4	2,090.4
Other clean energy . . . . .	476.5	485.5	527.2
<b>Total . . . . .</b>	<b>5,106.4</b>	<b>6,016.5</b>	<b>6,200.1</b>
<b>Average installed capacity<sup>(5)</sup> (MW)</b>			
Hydropower . . . . .	2,096.8	2,180.0	2,219.4
Wind power . . . . .	287.5	596.9	1,498.2
Coal-fired power . . . . .	2,650.0	2,650.0	1,600.0
<b>Gross generation<sup>(6)</sup> (MWh)</b>			
Hydropower . . . . .	4,988,735.2	8,752,561.7	5,733,170.5
Wind power . . . . .	783,768.3	1,332,182.6	3,104,354.5
Coal-fired power <sup>(7)</sup> . . . . .	12,223,212.1	10,964,419.5	8,042,908.3
Other clean energy . . . . .	168,119.5	692,960.1	446,512.8
<b>Total . . . . .</b>	<b>18,163,835.1</b>	<b>21,742,123.9</b>	<b>17,326,946.1</b>
<b>Net generation<sup>(8)</sup> (MWh)</b>			
Hydropower . . . . .	4,903,329.7	8,622,963.3	5,647,097.5
Wind power <sup>(9)</sup> . . . . .	558,300.0	1,204,624.9	2,514,431.0
Coal-fired power <sup>(10)</sup> . . . . .	15,902,516.3	14,045,451.6	11,119,728.9
– Self-generation . . . . .	11,481,728.7	10,326,702.6	7,586,978.9
– Substituted generation . . . . .	4,420,787.6	3,718,749.0	3,532,750.0
Other clean energy . . . . .	165,381.8	680,827.0	438,417.9
<b>Total . . . . .</b>	<b>21,529,527.8</b>	<b>24,553,866.8</b>	<b>19,719,675.3</b>
<b>Average utilization hours<sup>(11)</sup></b>			
Hydropower . . . . .	2,379.3	4,015.0	2,583.2
Wind power . . . . .	2,726.2	2,232.0	2,072.0
Coal-fired power <sup>(12)</sup> . . . . .	4,942.5	4,466.5	6,045.2

(1) Consolidated installed capacity refers to the aggregate amount of installed capacity of our operating power generating projects that we fully consolidate in our consolidated financial statements. For wind power projects, consolidated installed capacity refers to the aggregate amount of installed capacity of our grid-connected wind power projects.

(2) In January 2011, we divested Kemen II of two coal-fired generating units totaling 1,200 MW of installed capacity, and, therefore, the total installed and attributable installed capacity of our coal-fired power business decreased.

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- (3) We disposed of 12.0% of our equity interest in the Guangzhou University Town Distributed Energy Project to our Controlling Shareholder in August 2011, upon which we ceased to own a controlling interest in this project.
- (4) Attributable installed capacity refers to the amount of installed capacity calculated by multiplying our equity interest (whether or not such interest is a controlling interest) in the power generating projects by their installed capacity.
- (5) Average installed capacity refers to the aggregate amount of consolidated installed capacity for more than half a month in each month in a specified period divided by the number of months in such period.
- (6) Gross generation refers to the total amount of electricity produced by a power generating project during a specified period.
- (7) Gross generation of our coal-fired power business refers to the self-generation of our coal-fired power plants, which did not include the substituted generation purchased by our coal-fired plants under the substituted generation arrangements. Please see “– Pricing and Sales – Coal-fired Power Business” for a discussion about the difference between self-generation and substituted generation.
- (8) For our hydropower, wind power and other clean energy projects, net generation refers to the amount of electricity sold to local grid companies and equals gross generation less electricity consumed by a power generating project in the course of power generation and transmission.
- (9) The difference between our gross wind power generation and net wind power generation also includes the electricity generated during the construction and testing of a wind power project and such difference, as measured by magnitude, is comparable to that of other wind power producers in China.
- (10) A coal-fired power plant’s net generation also includes the substituted generation it purchased from other coal-fired power plants under the substituted generation arrangements.
- (11) Average utilization hours primarily reflect the total average generating hours of our power generating assets and are calculated by dividing the gross generation in a period by the average consolidated installed capacity in the same period.
- (12) The average utilization hours of our coal-fired power business during the Track Record Period include only the average utilization hours of our Kemen Power Plant because (i) as a back-up power plant in Fujian province, our Shaowu Power Plant only generates electricity when the regional grid system is overburdened and this plant purchased most of its electricity for sale from other coal-fired power plants under the substituted generation arrangements during the Track Record Period; and (ii) our Yong’an and Zhangping Power Plants only commenced operations at the end of December 2011.

**COMPETITIVE STRENGTHS**

We believe that our leading market position and strong performance are largely attributable to the following principal competitive strengths:

**The largest hydropower company in East China and the largest power generation company in Fujian province**

According to Frost & Sullivan, as of December 31, 2011, we were the largest hydropower company in Fujian province and in East China in terms of consolidated installed hydropower capacity, which represented approximately 19.8% and 9.6%, respectively, of the total installed hydropower capacity in Fujian province and East China. Our hydropower business has the following key advantages:

- *Well-positioned to expand in Fujian province:* With our dominant presence on the major rivers in Fujian province and more than 50 years of experience in developing, operating and managing hydropower projects, we managed to grow our attributable installed hydropower capacity by 343.7 MW through nine acquisitions of mid- to small-sized hydropower projects and six equity interest increments in our existing hydropower subsidiaries or associates during the Track Record Period, representing 21.1% of our attributable installed hydropower capacity as of December 31, 2011. We believe we are well-positioned to further expand our hydropower business by acquisitions and internal expansions.
- *High potential for on-grid tariff increments:* Although the average on-grid tariff for hydropower in Fujian province has been raised several times in the past, it is still 35.4% and 36.7% lower than that in the neighboring Zhejiang province and Guangdong province, respectively, and 22.5% lower than the average on-grid tariff for hydropower in East China (excluding Fujian province) in 2011. As such, we believe there is high potential for further tariff increments.
- *Abundant local water resources:* Our hydropower projects are concentrated in the mountainous areas of Fujian province that are characterized by rich and diverse water resources, including the existence of multiple major rivers with ample average rainfall, especially during the wet seasons between April and October of each year.
- *Sound water-flow regulating capabilities:* As of December 31, 2011, we owned seven large reservoirs that can store water for varying periods, from a dry season to one year or even longer. Of our 36 hydropower projects, 31 are cascade hydropower projects that are strategically located along the same rivers as our large reservoirs, representing 94.5% of our consolidated hydropower installed capacity as of December 31, 2011. The combination of large reservoirs and cascade hydropower projects could increase our ability to regulate water flow and enable us to maximize hydropower generation.

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According to Frost & Sullivan, as of December 31, 2011, we were the largest power generation company, in terms of consolidated installed capacity, in Fujian, a province in East China that is characterized by developed economies and an affluent population. Our business has historically benefited from the fast economic growth and increased electricity consumption in Fujian province. As of December 31, 2011, approximately 66.0% of our power generating assets, based on consolidated installed capacity, were constructed in Fujian province. The nominal GDP of Fujian province increased from approximately RMB1,223.7 billion in 2009 to RMB1,750.0 billion in 2011, representing a CAGR of 19.6%. In addition, the electricity consumption in Fujian province increased from approximately 113.5 TWh in 2009 to 151.3 TWh in 2011, representing a CAGR of 15.5%. The power generation and transmission sectors in Fujian province have benefited from such growth. From 2006 to 2010, local governments in Fujian province spent approximately RMB50.8 billion on power grid infrastructure and constructed a 500 kV intra-province power grid network to facilitate more efficient electricity transmission. Moreover, Fujian province is the closest province in China to Taiwan, sitting at the west bank of the Taiwan Strait. According to a government opinion issued by the State Council in May 2009, the PRC government encourages Fujian province to play a key role in the development of the “Western Taiwan Straits Economic Zone” by taking advantage of its geographical, cultural and commercial proximity to Taiwan. By leveraging our leading market position in Fujian province, we believe we are well-positioned to capture the benefits from the future growth of this region to increase our power generation and sales of electricity.

### **Fast growth in the wind power business**

During the Track Record Period, our consolidated installed wind power capacity grew rapidly, increasing from 471.0 MW as of December 31, 2009 to 1,333.8 MW as of December 31, 2010, and further to 2,171.3 MW as of December 31, 2011, representing a CAGR of 114.7%.

We believe that the fast growth of our wind power business is attributable to the high quality wind resources we secured and our expertise in selecting suitable projects for development. Most of our wind power projects in operation are located in regions with abundant wind resources. As of December 31, 2011, 74.4% of our wind power projects in operation, measured by installed capacity, were strategically located in the “Eight Wind Power Bases” in China as planned by the PRC government, where we have benefited from favorable wind resources, optimal economic returns, and improved grid infrastructure.

Most of our wind turbines are newly developed and have adopted the latest industry technologies, such as “large-capacity” wind turbine and “variable pitch blades and variable speed” technology. As of December 31, 2011, approximately 87.8% of our wind power projects were constructed after 2009, and, therefore, our wind power business has benefited from the following advantages that distinguish us from our competitors:

- *“Large-capacity” wind turbines:* We widely use “large-capacity” wind turbines to increase the generating capacity of each project and achieve higher operating efficiency. As of December 31, 2011, approximately 84.9% of our wind turbines have a unit capacity of 1.5 MW or more, and our average unit capacity reached 1.4 MW among all wind power projects.



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- *Advanced turbine technologies:* We widely use wind turbines with “variable pitch blades and variable speed” technologies to increase our operating efficiency. As of December 31, 2011, approximately 85.9% of our wind turbines had installed these technologies. Meanwhile, approximately 70.3% of our wind power projects are equipped with “grid-friendly” features, such as “low voltage ride through” and “active and reactive power control” systems that are designed to improve a wind power project’s ability to deliver more controlled and predictable power transmission and remain connected to the grid during system faults or other disturbances.
- *Efficient operation and maintenance:* Our wind power business has benefited from economies of scale and cost savings associated with our ability to develop projects by phases. With the effective application of our supervisory control and data acquisition and online detection systems, we have achieved higher operating efficiency and lower operation and maintenance costs in our wind power business.

In addition, we have a strong project pipeline for future development. As of December 31, 2011, by entering into development agreements with local governments, we have secured rights to develop wind power projects in 21 provinces in China with approximately 40,000 MW of prospective capacity. We believe that our fast growth and our abundant wind resources could contribute significantly to the further expansion of our wind power business.

### **A pioneer in the PRC distributed energy business**

According to Frost & Sullivan, we are a pioneer in the PRC distributed energy industry. We developed the 156.0 MW Guangzhou University Town Distributed Energy Project, which was (as of December 31, 2011, and according to Frost & Sullivan):

- the first large-scale distributed energy project in China;
- the largest distributed energy project in China;
- the only distributed energy project in China connected to the power grid; and
- the first distributed energy project in China that was successfully registered with the CDM EB.

The Guangzhou University Town Distributed Energy Project is capable of generating electricity, heating and cooling for the neighboring universities and residents, and servicing a population of over 200,000. After we disposed of 12.0% of our equity interest to our Controlling Shareholder in August 2011, we held a 43.0% equity interest in this distributed energy project as of December 31, 2011.

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Leveraging our experience in developing and managing distributed energy projects in China, we have secured a strong project pipeline for future development. As of December 31, 2011, we have entered into development agreements with local governments to develop distributed energy projects in 15 provinces in China with approximately 6,500 MW of prospective capacity. As a pioneer in the distributed energy business, we believe we are well-positioned to benefit from the significant growth potential of the PRC distributed energy sector.

### **A diversified portfolio of power generating assets**

We develop, operate and manage hydropower, wind power, coal-fired power and other clean energy projects, which accounted for 34.1%, 33.3%, 31.4% and 1.2%, respectively, of our aggregate consolidated installed capacity as of December 31, 2011.

Our diversified portfolio of power generating assets has created synergies among different power generating projects and allowed us to diversify project-specific risks while maximizing profit, for example:

- our hydropower and coal-fired power businesses have in the past provided significant revenue and cash flow to support the development of our wind power and other clean energy projects;
- compared to our coal-fired power business, our wind power and hydropower businesses do not involve a large amount of raw material costs, such as fuel costs, and are, therefore, largely unaffected by changes in commodity prices;
- most of our hydropower projects were constructed and financed before 2005 and have lower debt-servicing obligations and depreciation expenses, and the operations of our hydropower projects involve low maintenance costs;
- all of our coal-fired power plants and hydropower projects are located in Fujian province and subject to the centralized allocation of, and dispatch by, the local power grid. When the local hydrological conditions in Fujian province become less favorable, we have the flexibility to increase our coal-fired power generation to maximize revenue and balance returns; and
- compared to wind power and hydropower generation, coal-fired power generation is less prone to seasonal variations and generally not subject to transmission limitations.

Our diversified portfolio of power generating assets has also enabled us to broaden our growth prospects and benefit from various favorable government policies that encourage the development of different types of clean energy projects. The PRC government is currently committed to the diversified and clean development of energy, in particular, hydropower, nuclear power, wind power, solar energy and biomass energy. According to the 12th Five-year Plan, the PRC government aims to increase the installed capacity for hydropower, wind power, nuclear and solar power projects in China by approximately 120 GW, 70 GW, 40 GW and 5 GW, respectively, during the five years from 2011 to 2015. Our wind power and other clean energy businesses have benefited, and will continue to benefit, from mandatory grid connection, priority dispatch and the guaranteed purchase of all electricity generation (subject to periodic transmission limitations in certain areas in China), generally higher on-grid tariffs, PRC government subsidies, as well as certain tax incentives. In addition, we believe that the United Nations Climate Change Conference held in Durban in December 2011, which agreed to extend the Kyoto Protocol by five years from 2013 to 2017, may result in additional growth potential for our clean energy projects beyond the first commitment period of the Kyoto Protocol, which will end in December 2012.

### **Experienced and professional senior management team supported by highly skilled employees**

We have a senior management team comprising a group of highly experienced professionals in the power and energy industries. Most of our Directors and the members of the senior management team have over 20 years of work experience in the power or clean energy industry. We believe that our senior management team possesses in-depth knowledge critical to success in the power and clean energy industries and is capable of seizing market opportunities, formulating sound business strategies, assessing and managing risks, implementing management and production schemes and increasing our overall profit to maximize our shareholder value.

In recognition of our professional expertise in the clean energy industry. Our engineers have been invited by the Wind Power Standardization Technology Committee in China for participating in the drafting of industry standards: “Guide for Wind Farm Operation Index and Evaluation” (風電場運行指標與評價導則) and “Adjustment and Testing Rules in Wind Farm” (風力發電廠調試規程) in 2009. Our solar power experts also participated in the drafting of national standards: “Code for Construction Organization Planning of PV Power Station” (光伏發電工程施工組織設計規範) in 2010.

Our industry experts and professional technicians in the clean energy industry have received professional and academic qualifications and have extensive industry experience. We have established training centers in Fujian province, Inner Mongolia and the Guangdong province to provide our employees with professional training in the hydropower, wind power and distributed energy projects, respectively, so as to ensure that our technicians continue to stay abreast of the latest technological development.

### OUR STRATEGIES

We plan to further expand the scale of our portfolio of power generating assets with a primary focus on the wind power and hydropower businesses. We aim to strengthen our position as a leading diversified clean energy company in China with global prominence through the following strategies:

#### **Capture market opportunities to expand our wind power business**

Due to strong PRC government support for wind power development, we will continue to focus on our wind power business. We expect to increase our consolidated installed wind power capacity from 2,171.3 MW as of December 31, 2011, to approximately 3,200 MW by the end of 2012. To maximize our returns on wind power assets, we will continue to construct new wind power projects in the “Eight Wind Power Bases” where favorable wind resources are found and select projects with closer proximity to electricity end-users, higher on-grid tariff and lower frequency of transmission limitations.

We also plan to improve the efficiency and reliability of our wind power projects by installing real-time monitoring and diagnosis systems and adopting “low voltage ride through” system on our remaining 18.4% of operating wind turbines (with installed capacity over 1.0 MW) that lacked such system (Based on a notice issued by the State Grid Corporation of China in July 2011, operating wind turbine with installed capacity less than 1.0 MW are exempt from installing the “low voltage ride through” system). In addition, we plan to strengthen our research and development efforts and enhance our cooperation with major universities, such as Tsinghua University and other reputable research institutes in China, with a view to providing creative solutions to improve production efficiency and stability in wind power generation and keeping up with the latest technological changes in the industry. For example, to mitigate the risks of transmission limitation in winter and to increase the utilization rate of our wind power projects, we plan to launch a pilot wind power project in Inner Mongolia to provide heating for local residents with wind power instead of coal-fired power. Furthermore, to gain experience in developing inter-tidal and offshore wind power projects, we have established preparatory offices and installed offshore meteorological towers in Jiangsu, Zhejiang and Fujian provinces to engage in feasibility studies and site prospecting for these innovative projects.

#### **Explore acquisition opportunities to expand our hydropower business**

In addition to completing our hydropower projects under construction and in our development pipeline, we intend to explore acquisition opportunities in Fujian province to acquire mid- to small-sized hydropower projects with good prospects and potential for high economic returns. In addition, we plan to expand and upgrade our existing hydropower projects based on government plans and further increase the utilization hours of our hydropower projects by managing water flows at central level and installing advanced hydrological forecasting systems.

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According to Frost & Sullivan, there were approximately 6,630 small-sized hydropower projects in Fujian province, with a total installed capacity of approximately 6,893 MW as of December 31, 2011, which accounted for approximately 61.3% of the total installed hydropower capacity in the same province. We believe that our dominant presence on the major rivers in Fujian province and more than 50 years of experience in developing, operating and managing hydropower projects give us a competitive advantage to capture acquisition opportunities in Fujian province. We favor the acquisition of operating hydropower projects that can provide immediate contributions to our earnings and cash flow. In particular, we seek acquisition targets that have (i) solid operational and financial track records; (ii) synergy with our existing large reservoirs and cascade hydropower projects; (iii) a high likelihood of on-grid tariff increases; (iv) a long history of reliable hydrology; (v) potential to increase existing installed capacity through expansion; and (vi) potential for operational and technical improvements. As of the Latest Practicable Date, we did not reach any definitive agreements to acquire hydropower projects from third parties.

### **Capitalize on our first-mover advantage in the distributed energy business**

We plan to capitalize on our first-mover advantage in the distributed energy business by completing our pipeline distributed energy projects, and deepening our business relationship with our major natural gas suppliers. We may consider to reacquire the 12.0% equity interest in the Guangzhou University Town Distributed Energy Project, which we disposed of in 2011, from our Controlling Shareholder, and we expect to increase our installed distributed energy capacity to approximately 410 MW by the end of 2013.

We plan to construct our distributed energy projects along the network of “West-to-East Gas Pipeline,” a PRC government project for transporting natural gas from Xinjiang province to the Yangtze River Delta area, where we can gain convenient access to natural gas. In January 2011, we entered into a strategic framework agreement with Kunlun Natural Gas, a subsidiary of PetroChina, whereby Kunlun Natural Gas agreed to supply a sufficient amount of natural gas to our future distributed energy projects on a priority basis. We plan to strengthen our long-term cooperation with Kunlun Natural Gas for securing sufficient and uninterrupted supply of natural gas at a reasonable cost.

### **Continue to invest in the nuclear power business**

We intend to make approximately RMB800.0 million of financial investments each year from 2012 to 2014 to fund the construction of the Fuqing Nuclear Power Plant, in which we currently hold a 39.0% equity interest. As of December 31, 2011, the Fuqing Nuclear Power Plant had four 1,000.0 MW nuclear generating units under construction, and we expect that this nuclear power plant will commission one generating unit each year from 2013 to 2016.

We have dispatched a team of staff to the Fuqing Nuclear Power Plant to gain necessary experience and skills. We intend to increase our equity interest in the follow-up projects of the Fuqing Nuclear Power Plant in order to obtain controlling rights after we receive the government permit for operating a nuclear power plant. The timing for us to receive such permit depends on the PRC government’s nuclear power policy and the relevant approval procedures.

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In addition, we will closely follow industry developments, market trends and regulatory policies towards these clean energy projects and selectively pursue opportunities to build and operate demonstrative solar and biomass projects.

### **Continue to control costs and improve profitability**

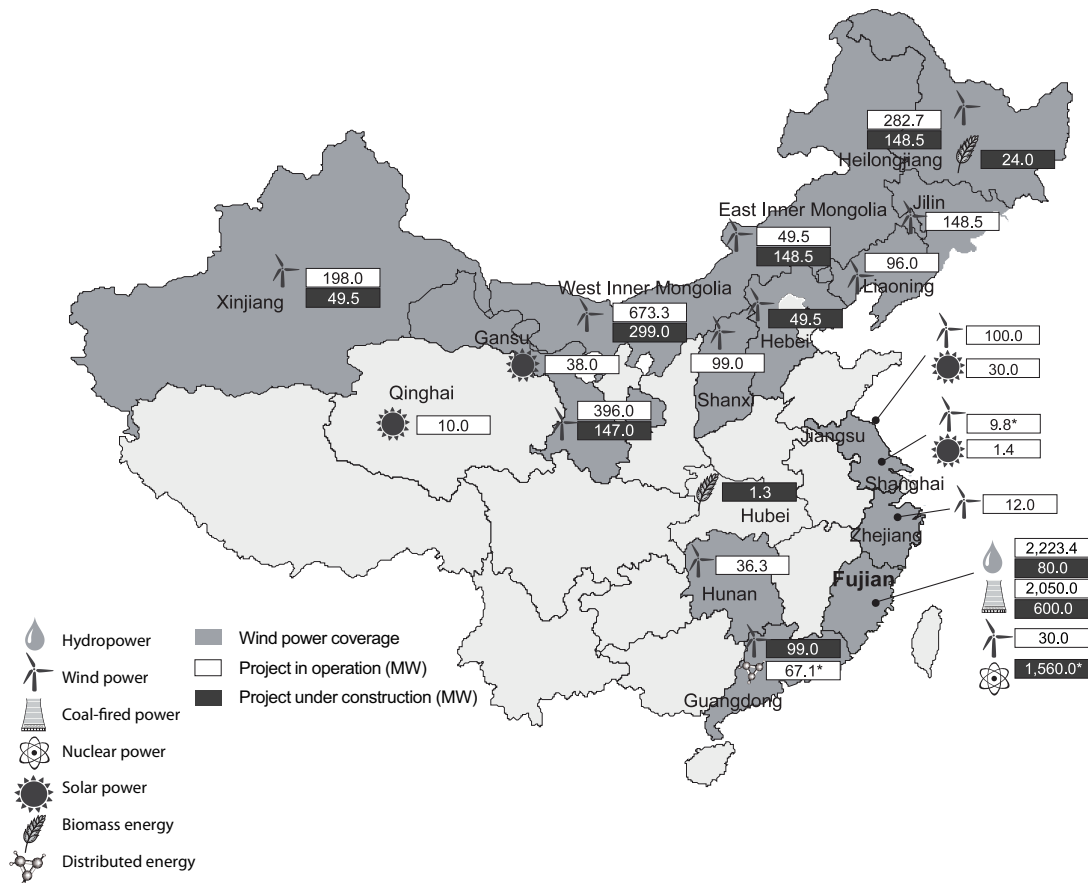
We intend to continue to control costs and improve profitability by implementing the following measures:

- *Optimizing capital structure and reducing finance expenses.* We intend to closely monitor our gearing ratio and maintain an optimal capital structure. We will continue to exploit a variety of financing options to diversify our sources of funding, such as through accessing the capital markets and finance leases and enhancing our relationship with our principal borrowing banks in China.
- *Reducing coal costs.* We intend to mitigate the impact of coal price increases and reduce our procurement costs of coal by: (i) entering into key supply agreements, through third-party coal distributors, with major coal suppliers in the PRC to ensure sufficient and uninterrupted coal supplies at reasonable costs; (ii) sourcing coal supplies from PRC and foreign vendors by taking advantage of different coal prices between the PRC and international markets; and (iii) enhancing coal consumption efficiency through technological improvements and equipment upgrades.
- *Reducing equipment procurement costs.* To further reduce our procurement costs for key equipment, such as wind turbines, we will continue to use competitive bidding for equipment purchase and construction contracts.
- *Centralized maintenance and spare parts management.* After the warranty period on our key equipment expires, we intend our in-house team to conduct most of the maintenance and repair activities rather than relying on outside contractors, to further reduce our maintenance costs. We also strive to improve our spare parts management systems for different power generating assets to reduce costs and lead time.

With these measures, we believe that we will be able to further improve operating efficiency, reduce our costs and increase profitability, which in turn will increase our shareholder returns.

OUR POWER GENERATING ASSETS

The following map sets forth the geographic coverage of our hydropower, wind power, coal-fired power and other clean energy projects as of December 31, 2011:



\* Refers to attributable installed capacity as we own a minority interest in these projects.

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### OUR HYDROPOWER BUSINESS

As of December 31, 2011, we owned 36 hydropower projects with a consolidated installed capacity of 2,223.4 MW, representing 34.1% of our total consolidated installed capacity. Meanwhile, in Fujian province, we also had one expansion hydropower project under construction with a capacity under construction of 80.0 MW and a proposed expansion project under development with a prospective capacity of 110.0 MW.

The following table sets forth the key operating data of our hydropower business as of the dates or for the periods indicated:

	As of or for the year ended December 31,		
	2009	2010	2011
Consolidated installed capacity (MW) . . . . .	2,146.1	2,199.4	2,223.4
Attributable installed capacity (MW) . . . . .	1,468.5	1,612.8	1,627.2
Average utilization hours. . . . .	2,379.3	4,015.0	2,583.2

### Our hydropower business activities

Our hydropower business activities currently include (i) operating and managing our existing hydropower projects, (ii) expanding our existing hydropower projects, and (iii) acquiring mid- to small-sized hydropower projects from third parties.

#### *Operations*

Our management teams play a crucial role in the operation of our hydropower projects, which involves the following major steps:

- *Hydrological analysis:* We monitor and analyze changes in climate and hydrological conditions at our project sites on a real-time basis and predict upcoming water flow and power generation output.
- *Production planning:* According to forecasts based on our hydrological analysis, we propose a daily production plan to grid companies in the early morning for the following day and we receive approvals and instructions from grid companies by noon.
- *Power generation:* We start power generation in accordance with instructions received from grid companies.



### *Expansions*

We have established a close cooperative relationship with the local government authorities and grid companies in order to help us secure high-quality development rights. Our average development period for expanding a hydropower project is approximately three years, although the actual development period may differ significantly based on the project size. Our standard project expansion process generally involves the following key phases:

- *Feasibility assessment:* We engage third-party design institutes to conduct feasibility studies on-site and prepare a detailed report to help us assess the potential risks and returns in expanding an existing hydropower project. During the Track Record Period, we engaged Fujian Provincial Investigation, Design and Research Institute of Water Conservancy and Hydropower, a professional design institute in China with which we have over 20 years of collaboration, to conduct feasibility studies for an expansion hydropower project.
- *Approval and permission:* Once we complete the feasibility assessment, we begin the approval and permission process, including obtaining internal approvals and government approvals.
- *Project design and construction:* Prior to construction, we generally engage the same third-party design institute to conduct geographical prospecting, pinpoint exact locations of major production facilities and determine the type of equipment we will use in our projects. We outsource substantially all of our construction work to outside contractors that provide all necessary labor, materials and tools required to complete the construction of our hydropower projects. A hydropower project typically involves one third-party design institute and one major external contractor during the design and construction stage. In order to control costs and ensure construction quality, we usually adopt construction biddings for selecting outside contractors to perform various construction work and engage independent construction supervisors to perform supervisory function throughout the entire construction.
- *Entering into interconnection agreements and PPAs:* We enter into interconnection agreements and PPAs with the local grid companies and sell electricity to these companies based on the terms of the PPAs.

### *Acquisitions*

We also acquire mid- to small-sized hydropower projects with good prospects and potential for high economic returns. During the Track Record Period, we managed to grow our attributable installed hydropower capacity by 343.7 MW through nine acquisitions of mid- to small-sized hydropower projects and six equity interest increments in our existing hydropower subsidiaries or associates, representing 21.1% of our attributable installed hydropower capacity as of December 31, 2011.

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The following table sets forth an overview of the nine mid- to small-sized hydropower projects we acquired from third parties during the Track Record Period:

Project name	Ownership	Year of acquisition	Consolidated installed capacity	Attributable installed capacity	Acquisition costs
	(%)		(MW)	(MW)	(RMB in millions)
Gutianxi II (古田溪二級) . . . . .	100.0	2009	130.0	130.0	131.0
Fujian Gutian Shuangkoudu (福建古田雙口渡) . . . . .	100.0	2009	32.0	32.0	262.3
Zhouning Houlongxi (周寧縣後壟溪) . . . . .	70.0	2009	40.0	28.0	221.8
Yong'an Fenghai (永安豐海) . . . . .	95.0	2010	30.0	28.5	194.7
Hua'an Huashun (華安華順) . . . . .	100.0	2010	1.3	1.3	3.6
Nanjing Hengying (南靖恒盈) . . . . .	100.0	2010	2.0	2.0	5.3
Yong'an Yinhe (永安銀河) . . . . .	100.0	2010	12.0	12.0	34.9
Jinxi (金溪) . . . . .	100.0	2010	8.0	8.0	20.5
Nanpanshi (南盤石) . . . . .	60.0	2011	24.0	14.4	249.4
<b>Total</b> . . . . .			<b>279.3</b>	<b>256.2</b>	<b>1,123.5</b>

The following table sets forth our hydropower acquisition activities by way of increasing equity interest in existing subsidiaries or associates during the Track Record Period:

Name of subsidiary	Ownership before acquisition	Ownership after acquisition	Year of acquisition	Consolidated installed capacity	Attributable installed capacity	Investment costs
	(%)	(%)		(MW)	(MW)	(RMB in millions)
Fujian Minxing Hydropower Company Limited (福建閩興水電有限公司) . . . . .	59.0	69.0	2009	103.8	10.4	25.5
Fujian Minxing Hydropower Company Limited (福建閩興水電有限公司) . . . . .	69.0	100.0	2010	103.8	32.2	75.3
Fujian Gaosha Hydropower Company Limited (福建省高砂水電有限公司) . . . . .	36.0	62.0	2010	50.0	13.0	54.2
Fujian Longyan Wan'anxi Hydropower Company Limited (福建省龍岩萬安溪水力發電有限責任公司) . . . . .	26.3	41.3	2010	45.0	6.7	24.7
Fujian Jinhu Power Generation Company Limited (福建省金湖電力有限責任公司) . . . . .	37.7	50.0	2010	188.3	23.3	79.7
Fujian Yong'an Gongchuan Hydropower Company Limited (福建省永安貢川水電站有限公司) . . . . .	56.2	60.6	2010	43.0	1.9	7.6
<b>Total</b> . . . . .				<b>533.9</b>	<b>87.5</b>	<b>267.0</b>

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As part of our business strategy, we plan to further expand our hydropower business by acquiring more mid- to small-sized hydropower projects in Fujian province. We favor the acquisition of operating hydropower projects that can provide immediate contributions to our earnings and cash flow. In particular, we seek acquisition targets that have:

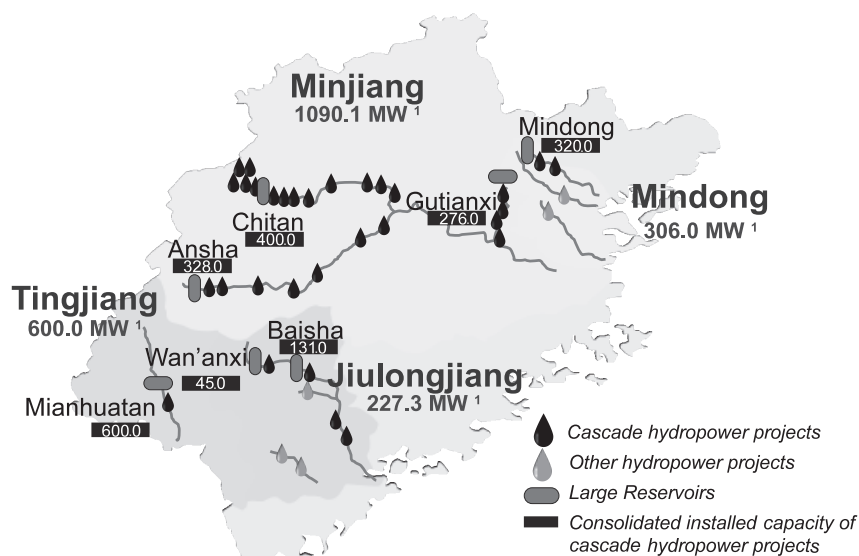
- solid operational and financial track records;
- synergy with our existing large reservoirs and cascade hydropower projects;
- high likelihood of on-grid tariff increases;
- long history of reliable hydrological conditions;
- potential to increase existing installed capacity through upgrades; and
- potential for operational and technical improvements.

After we identify a potential hydropower project for acquisition, we submit a proposal to the relevant parties that own the project. We then negotiate the terms of our purchase of the hydropower project and enter into a sales and purchase agreement. We typically purchase more than 50.0% of the equity interest in a targeted hydropower project. After purchasing a hydropower project, we usually dispatch a management team including our hydropower experts and staff to encourage the existing management team to take advantage of our strengths in managing and operating a hydropower project.

**Our hydropower project portfolio**

*Projects in operation*

As of December 31, 2011, we owned 36 hydropower projects in operation, all located in Fujian province, with a consolidated installed capacity of 2,223.4 MW. As of December 31, 2011, we also owned seven large reservoirs that can store water for varying periods, from a dry season to one year or even longer. Of our 36 hydropower projects, 31 are cascade hydropower projects that are strategically located along the same rivers as our large reservoirs, representing 94.5% of our consolidated hydropower installed capacity as of December 31, 2011. The combination of large reservoirs and cascade hydropower projects could increase our ability to regulate water flow and enable us to maximize hydropower generation. The following map and table set forth an overview of our seven large reservoirs and 36 operating hydropower projects as of December 31, 2011.



(1) Total consolidated installed capacity in each river basin.

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Name of reservoir/ hydropower project	Consolidated installed capacity	Attributable installed capacity	Ownership	On-grid tariff as of March 31, 2012 (excluding VAT)	Commencement date of operation
	(MW)	(MW)	(%)	(RMB/kWh)	
<b>Mianhuatan reservoir</b>					
– Mianhuatan (棉花灘) . . . . .	600.0	360.0	60.0	0.326	April 2001
<b>Mindong reservoir</b>					
– Zhouning (周寧) . . . . .	250.0	127.5	51.0	0.321	April 2005
– Qinshan (芹山) . . . . .	70.0	35.7	51.0	0.321	March 2000
<b>Gutianxi reservoir</b>					
– Gutianxi II (古田溪二級) <sup>(1)</sup> . . . . .	130.0	130.0	100.0	0.190	March 1969
– Gutianxi I (古田溪一級) . . . . .	66.0	66.0	100.0	0.209	March 1956
– Gutianxi III (古田溪三級) . . . . .	42.0	42.0	100.0	0.209	March 1965
– Gutianxi IV (古田溪四級) . . . . .	38.0	38.0	100.0	0.209	May 1971
<b>Ansha reservoir</b>					
– Ansha (安砂) . . . . .	115.0	115.0	100.0	0.205	November 1975
– Fujian Gaosha (福建省高砂) . . . . .	50.0	31.0	62.0	0.326	July 1995
– Shaxian Chengguan (沙縣城關) . . . . .	48.0	19.2	40.0 <sup>(2)</sup>	0.309	December 1999
– Yong'an Gongchuan (永安貢川) . . . . .	43.0	26.2	61.0	0.309	March 2001
– Huatou Ximen (華投西門) . . . . .	30.0	30.0	100.0	0.309	June 2005
– Yong'an Fenghai (永安豐海) <sup>(1)</sup> . . . . .	30.0	28.5	95.0	0.303	June 2005
– Yong'an Yinhe (永安銀河) <sup>(1)</sup> . . . . .	12.0	12.0	100.0	0.303	September 1999
<b>Chitan reservoir</b>					
– Chitan (池潭) . . . . .	100.0	100.0	100.0	0.205	October 1980
– Gaotang (高唐) . . . . .	42.0	21.0	50.0 <sup>(2)</sup>	0.326	July 2007
– Kongtou (孔頭) . . . . .	40.5	20.3	50.0 <sup>(2)</sup>	0.317	October 1998
– Fancuo (範厝) . . . . .	36.0	18.0	50.0 <sup>(2)</sup>	0.240	December 1988
– Dayan (大言) . . . . .	32.0	16.0	50.0 <sup>(2)</sup>	0.292	December 2004
– Liangqian (良淺) . . . . .	30.0	15.0	50.0 <sup>(2)</sup>	0.240	October 1991
– Jinxi (金溪) <sup>(1)</sup> . . . . .	8.0	8.0	100.0	0.265	December 1995
– Beixi I (北溪一級) . . . . .	2.5	1.3	50.0 <sup>(2)</sup>	0.226	August 1979
– Beixi II (北溪二級) . . . . .	2.9	1.4	50.0 <sup>(2)</sup>	0.226	July 1985
– Beixi III (北溪三級) . . . . .	0.9	0.5	50.0 <sup>(2)</sup>	0.226	March 1971
– Beixi IV (北溪四級) . . . . .	1.5	0.8	50.0 <sup>(2)</sup>	0.226	November 1969
– Nanping Zhaokou (南平照口) . . . . .	60.0	60.0	100.0	0.283	December 2005
– Nanping Xiayang (南平峽陽) . . . . .	43.8	43.8	100.0	0.309	December 2001
<b>Baisha reservoir</b>					
– Baisha (白沙) . . . . .	70.0	42.0	60.0	0.342	November 2006
– Fujian Hua'an (福建華安) . . . . .	60.0	60.0	100.0	0.205	October 1979
– Hua'an Huashun (華安華順) <sup>(1)</sup> . . . . .	1.3	1.3	100.0	0.265	December 1995
<b>Wan'anxi reservoir</b>					
– Fujian Longyan Wan'anxi (福建龍岩萬安溪) . . . . .	45.0	18.5	41.0 <sup>(2)</sup>	0.321	October 1994
<b>Other hydropower projects</b>					
– Zhouning Houlongxi (周寧縣後壟溪) <sup>(1)</sup> . . . . .	40.0	28.0	70.0	0.283	January 2006
– Fujian Gutian Shuangkoudu (福建古田雙口渡) <sup>(1)</sup> . . . . .	32.0	32.0	100.0	0.283	July 2005
– Fujian Nanjing (福建南靖) . . . . .	25.0	25.0	100.0	0.244	October 1969
– Nanpanshi (南盤石) <sup>(1)</sup> . . . . .	24.0	14.4	60.0	0.294	May 2005
– Nanjing Hengying (南靖恒盈) <sup>(1)</sup> . . . . .	2.0	2.0	100.0	0.265	December 1996
<b>Total</b> . . . . .	<b>2,223.4</b>	<b>1,590.2</b>			

(1) Hydropower projects acquired by us.

(2) We entered into concert party arrangements with other shareholders of these projects whereby these shareholders agreed to act in concert with us, and, therefore, we deem that these hydropower projects are owned, controlled and operated by us.

*Mianhuatan Reservoir:* A seasonal regulating reservoir with a water storage capacity of 2,035.0 million m<sup>3</sup>, located on the main stream of Tingjiang river. As of December 31, 2011, the cascade hydropower project located downstream of this upstream reservoir had a consolidated installed capacity of 600.0 MW.

*Mindong Reservoir:* A multi-year regulating reservoir with a water storage capacity of 265.0 million m<sup>3</sup>, located on the upper reaches of Muyangxi stream, a tributary of Jiaoxi river. As of December 31, 2011, the two cascade hydropower projects located downstream of this upstream reservoir had a consolidated installed capacity of 320.0 MW.

*Gutianxi Reservoir:* A seasonal regulating reservoir with a water storage capacity of 640.0 million m<sup>3</sup>, located on Gutianxi stream, a tributary of Minjiang river. As of December 31, 2011, the four cascade hydropower projects located downstream of this upstream reservoir had a consolidated installed capacity of 276.0 MW.

*Ansha Reservoir:* A seasonal regulating reservoir with a water storage capacity of 740.0 million m<sup>3</sup>, located on the upper reaches of Shaxi stream, a tributary of Minjiang river. As of December 31, 2011, the seven cascade hydropower projects located downstream of this upstream reservoir had a consolidated installed capacity of 328.0 MW.

*Chitan Reservoir:* A seasonal regulating reservoir with a water storage capacity of 870.0 million m<sup>3</sup>, located on the upper reaches of Jinxi stream, the secondary tributary of Minjiang river. As of December 31, 2011, the 13 cascade hydropower projects located downstream of this upstream reservoir had a consolidated installed capacity of 400.0 MW.

*Baisha Reservoir:* A seasonal regulating reservoir with a water storage capacity of 199.0 million m<sup>3</sup>, located on the Wan'anxi stream, a secondary tributary of the north stream of Jiulongjiang river. As of December 31, 2011, the three cascade hydropower projects located downstream of this upstream reservoir had a consolidated installed capacity of 131.3 MW.

*Wan'anxi Reservoir:* A multi-year regulating reservoir with a water storage capacity of 228.9 million m<sup>3</sup>, located on the upper reaches of the north stream of Jiulongjiang river. As of December 31, 2011, the cascade hydropower project located downstream of this upstream reservoir had a consolidated installed capacity of 45.0 MW.

### ***Projects under construction or development***

As of December 31, 2011, we had one hydropower expansion project under construction in Fujian province, with a capacity under construction of 80.0 MW, which we expect to commence operations by the end of 2013. Meanwhile, we also started the preliminary development of a proposed hydropower expansion project in Fujian province, with a prospective capacity of 110.0 MW, which we will start construction once we receive the construction approval. We expect the total costs for the development and construction of these two hydropower projects to be approximately RMB1.1 billion.

### *Recent disputes involving the Mianhuatan Hydropower Project*

The construction of our Mianhuatan Hydropower Project began in 1998 and required the relocation and resettlement of local residents, which were substantially completed by 2006. The State Planning Commission, the predecessor of the NDRC, had initially approved the amount of the resettlement compensation associated with this project in 1997. However, the PRC government revised the compensation standards for flooded land during the construction of our Mianhuatan Hydropower Project in 1999. This hydropower project began operations in 2001. The State Planning Commission and the NDRC approved two requests to increase this hydropower project's resettlement compensation in 2001 and 2004, respectively. As a result, we paid an aggregate amount of approximately RMB1,400 million as resettlement compensation by 2009.

Although the relocation and resettlement of local residents near the Mianhuatan Hydropower Project were completed substantially by 2006, the local relocation and resettlement authority disputed the amount of resettlement compensation required in 2009 and requested us to further increase our compensation due to increased costs associated with, among others, the relocation and resettlement of additional residents, the construction of roads and bridges, environmental protection and the preservation of historical relics. In response to this request, Mianhuatan Hydropower, our subsidiary for managing the Mianhuatan Hydropower Project, engaged the Shanghai Institute, the original third-party design institute for this hydropower project, to further assess the need to pay any additional resettlement compensation in 2010. The Shanghai Institute is a qualified design and research institute in China for the design of hydropower projects, environmental impact assessment, construction supervision and engineering consultation, and we agreed to pay approximately RMB10.0 million of total service fees to the Shanghai Institute in connection with this additional assessment based on the pricing guideline issued by the relevant government authorities in China, of which approximately RMB7.0 million has been paid by May 2012. We prepaid to the local government additional compensation of RMB15.0 million, RMB15.0 million, and RMB360.0 million in 2009, 2010 and 2011, respectively, totaling RMB390.0 million in advance payments, pending the final determination by Fujian DRC and the NDRC.

In April 2012, the Shanghai Institute issued a draft assessment report for discussion purposes after Fujian DRC had organized a meeting to facilitate the resolution of disputes involving the Mianhuatan Hydropower Project. In this draft assessment report, the Shanghai Institute estimated that the additional compensation for which we will be responsible could range from approximately RMB479.2 million to approximately RMB889.5 million. Fujian DRC received a copy of this draft assessment report in May 2012 and we expect the Shanghai Institute to amend its draft report subsequent to Fujian DRC's review. The NDRC will review the amended assessment report after Fujian DRC's review and ultimately determine the adjusted resettlement compensation for which we will be responsible. Depending on the outcome of the government review and approval process, we may be required to pay additional compensation if the approved adjustment is higher than the RMB390.0 million we have prepaid from 2009 to 2011, or we may receive a refund if the approved adjustment is less than such amount. Given the relocation and resettlement of local residents in connection with

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Mianhuatan Hydropower Project were completed, we believe such determination is final and will not be subject to future disputes or claims by the local relocation and resettlement authority. Our PRC legal advisers confirmed that there is no legal basis upon which any potential legal proceedings may be brought by the local residents directly in connection with the relocation and resettlement activities of the Mianhuatan Hydropower Project. We anticipate such review and approval process to be completed by the end of 2013.

Our Mianhuatan Hydropower Project has not received a completion certificate, which is the only outstanding approval required for this project. The granting of such certificate depends on the satisfactory completion of the relocation and resettlement of local residents as certified by the NDRC. As advised by our PRC legal advisers, the business operations of our Mianhuatan Hydropower Project is legal under PRC law.

We have made a provision of RMB40.0 million in connection with this dispute on our consolidated balance sheets as of December 31, 2011. Both the RMB390.0 million that we prepaid to the local government from 2009 to 2011 and the RMB40.0 million provision have been treated as capitalized expenses on our financial statements in accordance with our accounting policies and such capitalized expenses are amortized over 55 years.

If and to the extent that the additional compensation the NDRC requires us to pay were to exceed the RMB430.0 million that we have prepaid and provisioned, Huadian undertakes, without any time limit, to indemnify us against such losses, claims, charges and expenses directly or indirectly incurred by us arising from the relocation and resettlement of local residents in relation to our Mianhuatan Hydropower Project. Our PRC legal advisers have confirmed that this undertaking given by Huadian is legally valid and enforceable under PRC law. Based on the undertaking from Huadian, our Directors estimate that our maximum financial exposure arising from this dispute is RMB40.0 million (in addition to the RMB390.0 million prepaid from 2009 to 2011), which will be paid from our working capital. As of the Latest Practicable Date, our Directors confirm that we have sufficient working capital to cover such estimated maximum financial exposure. If the amount of resettlement compensation as determined by the NDRC were to exceed the RMB40.0 million that we have previously provisioned, such additional amount will be treated as capitalized expenses on our financial statements at the time it is incurred, which will not result in any material adverse effect on our financial position; and if Huadian undertakes to cover the additional amount of resettlement compensation, such additional amount will be treated as capital reserves on our financial statements.

Based on the above, our Directors believe that the recent disputes involving the Mianhuatan Hydropower Project will not materially and adversely affect our business, financial position or results of operations.

### **OUR WIND POWER BUSINESS**

As of December 31, 2011, we owned 36 wind power projects in operation with a consolidated installed capacity of 2,171.3 MW, representing 33.3% of our total consolidated installed capacity. Meanwhile, we also owned 16 wind power projects under construction totaling 941.0 MW.



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We also have a strong project pipeline for future development. As of December 31, 2011, we have secured rights through entering into development agreements with local governments to develop wind power projects in 21 provinces in China with approximately 40,000 MW of prospective capacity, including 667.5 MW of advanced pipeline projects, 1,367.0 MW of intermediate pipeline projects and approximately 38,000 MW of early pipeline projects, respectively.

The following table sets forth the key operating data of our wind power business as of the dates and for the periods indicated:

	As of or for the year ended December 31,		
	2009	2010	2011
Consolidated installed capacity (MW) . . . . .	471.0	1,333.8	2,171.3
Attributable installed capacity (MW) . . . . .	471.0	1,227.8	1,955.3
Average utilization hours . . . . .	2,726.2	2,232.0	2,072.0

### **Our Wind Power Business Activities**

The primary focus of our wind power business has been and will continue to be the development of Greenfield projects. Our average development period for a Greenfield wind power project is approximately two to three years, although the actual development period may differ across different regions in China and depending on the specific project size. Our standard wind power project development process generally involves the following key phases:

- *Wind prospecting and site selection:* We conduct wind prospecting and site selection activities at the earliest stage of project development to identify potential sites that we believe will be suitable for development.
- *Wind resource assessment:* As adequate wind resource is a prerequisite for the development of a wind power project, we usually commence a wind resource assessment shortly after we enter into the relevant development agreements. We prepare a comprehensive plan for wind resource assessment with the help of qualified third-party design institutes and conduct an on-site inspection to determine the scope of development and the location of our meteorological towers. Once such plan is approved by the local government, we install meteorological towers to collect site-specific wind data. We typically require a minimum of 12 months' wind data to assess the feasibility of a wind power project, and submit such wind data to the local planning authorities and weather bureau. After a thorough assessment of wind data and feasibility studies on-site, the third-party design institutes we engage prepare a detailed feasibility study report that we file with the NDRC or the relevant provincial DRC during the approval and permission process. During the Track Record Period, principal third-party design institutes for our wind power projects include, among others, China Power Construction Engineering Consulting Corporation, HydroChina Xibei Engineering Corporation and Inner Mongolia Electric Power Survey & Design Institute, which are professional design institutes in China with which we have over five years of collaboration.

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- *Approval and permission:* Once we have completed our wind resource assessment, we begin the approval and permission process, including obtaining internal approvals and government approvals.
- *Project design and construction:* Prior to construction, we generally engage the same third-party design institute to pinpoint the exact location of our major production facilities and determine the type of wind turbines we will use in our projects. We outsource substantially all of our construction work to outside contractors that provide all necessary labor, materials and tools required to complete the construction of our wind power projects. A wind power project typically involves one third-party design institute and several external contractors during the design and construction stage. In order to control costs and ensure construction quality, we usually adopt construction biddings for selecting external contractors to perform various construction work and engage independent construction supervisors to perform supervisory function throughout the entire construction.
- *Entering into interconnection agreements and PPAs:* We enter into interconnection agreements and PPAs with local grid companies, which typically include on-grid tariff, payment, settlement and monthly scheduled electricity output, and we sell electricity to these companies based on the terms of the PPAs.
- *Commissioning, operations and maintenance:* After a wind turbine is successfully assembled, we are required to commission it by conducting standard tests and a 240-hour non-stop trial run. After commissioning, our wind turbines will commence commercial production and the turbine supplier typically provides maintenance services under a two- or five-year warranty period.

### **Our wind power project portfolio**

We classify our wind power projects into the following three categories based on their respective stage of development:

- in operation;
- under construction; and
- pipeline (including advanced, intermediate and early stages).

We have established these categories to enhance the visibility of our annual power production, and for internal planning purposes such as projecting our future needs for capital, wind turbines and human resources. We believe our project classification methodology reflects an objective approach and provides indication regarding the maturity of our pipeline projects, which in turn helps us pursue our growth targets. We periodically reassess our pipeline wind power projects to determine the proper timing for development so that our management can decide whether to invest resources into feasible pipeline projects. Through such assessments, we may also decide not to proceed with a pipeline project that we deem unsuitable for development.

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### *Projects in operation*

As of December 31, 2011, we owned 36 wind power projects in operation with a consolidated installed capacity of 2,171.3 MW. The following table sets forth a breakdown of our wind power projects in operation by geographic regions as of December 31, 2011:

Region/Project name	Consolidated installed capacity	Attributable installed capacity	Ownership	On-grid tariff (excluding VAT)	Commencement date of operation
	(MW)	(MW)	(%)	(RMB/kWh)	
<b>Eight Wind Power Bases</b>					
<b>Xinjiang</b>					
Xiaocaohu I (小草湖一期) . . . . .	49.5	49.5	100.0	0.436	December 2007
Xiaocaohu II (小草湖二期) . . . . .	49.5	49.5	100.0	0.496	December 2008
Xiaocaohu III (小草湖三期) . . . . .	49.5	49.5	100.0	0.496	December 2009
Bu'erjin I (布爾津一期) . . . . .	49.5	49.5	100.0	0.496	March 2010
<b>Gansu</b>					
Guazhou I (瓜州一期) . . . . .	201.0	201.0	100.0	0.445	December 2010
Baiyin Machangshan I (白銀馬昌山一期) . . . . .	49.5	49.5	100.0	0.496	December 2011
Akesai I (阿克塞一期) . . . . .	49.5	49.5	100.0	0.521	December 2011
Yumen Heiyazi I (玉門黑崖子一期) . . . . .	48.0	48.0	100.0	0.462	December 2010
Yumen Heiyazi II (玉門黑崖子二期) . . . . .	48.0	48.0	100.0	0.462	December 2010
<b>Western Inner Mongolia</b>					
Kulun Expansion (庫倫擴建) . . . . .	202.5	202.5	100.0	0.436	September 2011
Kulun I (庫倫一期) . . . . .	201.0	201.0	100.0	0.436	August 2009
Huiteng Xile (輝騰錫勒) . . . . .	100.0	100.0	100.0	0.382	December 2006
Guyang Hongnijing I (固陽紅泥井一期) . . . . .	49.5	49.5	100.0	0.436	November 2010
Huade Sansheng I (化德三勝一期) . . . . .	49.5	44.6	90.0	0.436	October 2011
Meiguiying I (玫瑰營一期) . . . . .	49.3	37.0	75.0	0.436	December 2010
Huiteng Xile Expansion (輝騰錫勒擴建) . . . . .	21.5	21.5	100.0	0.436	December 2006
<b>Eastern Inner Mongolia</b>					
Xiaojieji I (小街基一期) . . . . .	49.5	49.5	100.0	0.462	March 2011
<b>Jilin</b>					
Da'an I (大安一期) . . . . .	49.5	49.5	100.0	0.521	August 2011
Da'an II (大安二期) . . . . .	49.5	49.5	100.0	0.496	November 2011
Namusi I (那木斯一期) . . . . .	49.5	47.0	95.0	0.521	December 2011
<b>Hebei</b>					
Shangyi I (尚義一期) . . . . .	50.0	35.0	70.0	0.462	November 2011
<b>Jiangsu</b>					
Lianyungang (連雲港) . . . . .	100.0	51.1	51.0	0.521	December 2010
<b>Shandong</b> . . . . .	-	-	-	-	-

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Region/Project name	Consolidated installed capacity	Attributable installed capacity	Ownership	On-grid tariff (excluding VAT)	Commencement date of operation
	(MW)	(MW)	(%)	(RMB/kWh)	
<b>Other regions</b>					
Huafu Yilan I (華富依蘭一期) . . . . .	49.5	31.7	64.0	0.521	September 2009
Huafu Dongning I (華富東寧一期) . . . . .	49.5	31.7	64.0	0.521	December 2009
Huafu Yilan II (華富依蘭二期) . . . . .	49.5	31.7	64.0	0.521	December 2011
Guangling I (廣靈一期) . . . . .	49.5	32.2	65.0	0.521	August 2011
Guangling II (廣靈二期) . . . . .	49.5	32.2	65.0	0.521	December 2011
Tieling I (鐵嶺一期) . . . . .	48.0	48.0	100.0	0.521	October 2010
Tieling II (鐵嶺二期) . . . . .	48.0	48.0	100.0	0.521	December 2011
Huafu Muling II (華富穆稜二期) . . . . .	45.0	21.9	49.0 <sup>(1)</sup>	0.521	March 2010
Hulin I (虎林一期) . . . . .	45.0	36.9	82.0	0.521	October 2010
Huafu Mulan (華富木蘭) . . . . .	12.0	5.7	47.0 <sup>(1)</sup>	0.667	December 2003
Chenzhou I (郴州一期) . . . . .	36.3	36.3	100.0	0.713	June 2010
Huafu Muling I (華富穆稜一期) . . . . .	32.2	15.7	49.0 <sup>(1)</sup>	0.615	January 2006
Shapu I (沙埔一期) <sup>(2)</sup> . . . . .	30.0	30.0	100.0	0.521	April 2011
Zhoushan Changbai (舟山長白) . . . . .	12.0	12.0	100.0	0.607	October 2011
<b>Total . . . . .</b>	<b>2,171.3</b>	<b>1,945.5</b>			

(1) Our effective ownership interest in these wind power projects is below 50.0% as we only hold a 80.0% equity interest in the subsidiary, which controls these projects.

(2) This is a concession wind power project.

Among our 36 wind power projects in operation, we have one concession wind power project, Fujian Shapu I Wind Power Project, which we won in 2009 through competitive bidding. Our Fujian Shapu I Wind Power Project commenced operations in 2011 with a consolidated installed capacity of 30.0 MW. The approved on-grid tariff for this concession wind power project is RMB0.521 per kWh (excluding VAT), which is the same as the fixed on-grid tariff for wind power in Fujian province.

According to the service concession agreement we entered into with the local government, we have the exclusive rights to develop and operate this concession wind power project for a period of 25 years, and after the expiry of such period, we will be required to dismantle this project or apply for an extension with the local government. As a result, our concession right related to this project is expected to expire in 2034, unless we successfully obtain a renewal from the local government before such concession right expires. We are also responsible for the design, construction, commissioning, operation and maintenance of this concession project during the entire concession period. This service concession agreement may be terminated due to various reasons, such as our failure to construct or operate this wind power project, bankruptcy of our project company, or material breach by us or the local government.

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### *Projects under construction*

As of December 31, 2011, we owned 16 wind power projects under construction totaling 941.0 MW, of which we expect to complete the construction of 14 wind power projects totaling 842.0 MW by the end of 2012.

The following table sets forth a breakdown of our wind power projects under construction by geographic regions as of December 31, 2011:

<u>Region/Project name</u>	<u>Capacity under construction</u>	<u>Ownership</u>	<u>Estimated commencement date of operation</u>
	(MW)	(%)	
<b>Eight Wind Power Bases</b>			
<b>Xinjiang</b>			
Dabancheng I (達阪城一期) . . . . .	49.5	100.0	July 2012
<b>Gansu</b>			
Baiyin Machangshan II (白銀馬昌山二期) . . . . .	49.5	100.0	June 2012
Huanxian I (環縣一期) . . . . .	49.5	100.0	August 2012
Yumen Heiyazi III (玉門黑崖子三期) . . . . .	48.0	100.0	December 2012
<b>Western Inner Mongolia</b>			
Meiguiping II (玫瑰營二期) . . . . .	200.0	75.0	August 2012
Xinghe Daxipo I (興和大西坡一期) . . . . .	49.5	80.0	June 2012
Guyang Hongnijing II (固陽紅泥井二期) . . . . .	49.5	100.0	June 2012
<b>Eastern Inner Mongolia</b>			
Xiaojieji II (小街基二期) . . . . .	49.5	100.0	July 2012
Tongliao Naimanqi I (通遼奈曼旗一期) . . . . .	49.5	90.0	June 2012
Wutaohai I (烏套海一期) . . . . .	49.5	100.0	June 2012
<b>Hebei</b>			
Wangyueliang I (王悅梁一期) . . . . .	49.5	70.0	June 2012
<b>Other regions</b>			
Qiligashan (七裡嘎山) . . . . .	49.5	60.0	March 2013
Qianfeng (前鋒) . . . . .	49.5	60.0	March 2013
Tangyuan I (湯原一期) . . . . .	49.5	100.0	June 2012
Xuwen I (徐聞一期) . . . . .	49.5	100.0	September 2012
Maoming I (茂名一期) . . . . .	49.5	100.0	September 2012
<b>Total</b> . . . . .	<b>941.0</b>		

### *Pipeline projects*

We refer to our wind power projects reserved for future development as “pipeline projects.” We have acquired the rights to develop these pipeline projects pursuant to the development agreements we entered into with local governments. We further divide our pipeline projects into “advanced,” “intermediate” or “early” stages based on the progress made and milestones achieved by each project in respect of each of the key phases in the project development prior to construction and commissioning. Please see “Risk Factors – Risks Relating to Our Wind Power Business – The growth of our wind power business depends upon our ability to convert our pipeline projects into operating projects.”

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### *Advanced*

Advanced pipeline projects are those for which we have obtained the construction approval, but construction has not yet begun. As of December 31, 2011, we had 14 advanced pipeline wind power projects with a total prospective capacity of 667.5 MW, of which we expect to complete 193.5 MW in 2012. The following table sets forth a breakdown of our advanced pipeline wind power projects by geographic region as of December 31, 2011:

<b>Region</b>	<b>Numbers of projects</b>	<b>Prospective capacity</b>	<b>Estimated consolidated installed capacity by the end of 2012</b>
		(MW)	(MW)
<b>Eight Wind Power Bases</b>			
– Xinjiang . . . . .	1	49.5	49.5
– Western Inner Mongolia . . . . .	3	148.5	–
– Eastern Inner Mongolia . . . . .	–	–	–
– Jilin . . . . .	–	–	–
– Shandong . . . . .	1	48.0	48.0
<b>Other regions . . . . .</b>	<b>9</b>	<b>421.5</b>	<b>96.0</b>
<b>Total . . . . .</b>	<b>14</b>	<b>667.5</b>	<b>193.5</b>

### *Intermediate*

Intermediate pipeline projects are those for which we have obtained the preliminary government approval, but have not yet received the construction approval. As of December 31, 2011, we had 15 intermediate pipeline projects with a total prospective capacity of 1,367.0 MW. The following table sets forth a breakdown of our intermediate pipeline wind power projects by geographic region as of December 31, 2011:

<b>Region</b>	<b>Numbers of projects</b>	<b>Prospective capacity</b>
		(MW)
<b>Eight Wind Power Bases</b>		
– Gansu . . . . .	5	598.0
– Western Inner Mongolia . . . . .	2	249.5
– Eastern Inner Mongolia . . . . .	1	200.0
– Jilin . . . . .	1	48.0
– Shandong . . . . .	1	48.0
<b>Other regions . . . . .</b>	<b>5</b>	<b>223.5</b>
<b>Total . . . . .</b>	<b>15</b>	<b>1,367.0</b>

### *Early*

Early pipeline projects are those in their earliest stage of development and for which we have entered into development agreements with local governments and commenced wind resource assessment. As of December 31, 2011, our early pipeline wind power projects had a prospective capacity of approximately 38,000 MW. The planned locations of these early pipeline projects are primarily located in the “Eight Wind Power Bases” in China. The actual timing and the future capital requirements for the development and construction of these early pipeline projects may vary, depending on various factors, including, among other things, the timing of government approvals, the prevailing market price for wind turbines, transmission capacity of local power grids and applicable on-grid tariffs.

### **Transmission limitations**

According to the Renewable Energy Law, the PRC government authorities determine the proportion of electricity generated by clean energy sources as compared to the total electricity generation in accordance with national energy policies, and implement a guaranteed system for the grid companies to purchase, and dispatch on a priority basis, the entire amount of electricity generated from renewable energy projects within the coverage of their grids.

Some of our wind power projects are located in certain areas in China, particularly Inner Mongolia and Gansu province, where the local power grids may have insufficient transmission capacity to deliver all the potential electricity that our wind farms could generate when operating under full load, especially during peak seasons, such as winter. Various transmission limitations, primarily due to the underdevelopment of the local power grids, may curtail our electricity generation, impairing our ability to fully capitalize on a particular wind power project’s potential. We may temporarily suspend some of our operating wind turbines to accommodate the transmission limitations from time to time. Such events could adversely affect our ability to produce and sell electricity. Based on our management’s estimate, our gross wind power generation would have increased by approximately 6.9%, 5.8% and 6.7% in 2009, 2010 and 2011, respectively, without the adverse effect of the transmission limitations on the local power grids. Please see “Risk Factors – Risks Relating to Our Wind Power Business – We rely on local grid companies for grid connection and electricity transmission.”

The 12th Five-Year Plan of China has outlined government investment plans to construct and improve the ultra high voltage transmission lines across Inner Mongolia, Gansu and other provinces in North and East China and further integrate existing and new transmission lines to ease the transmission limitations in Inner Mongolia and North China by 2015. In April 2011 the State Grid of China announced a White Paper on wind power development, which aimed at expanding and upgrading the electric grid system in China that can accommodate over 90 GW of wind power generation by 2015 and over 150 GW by 2020. In light of the PRC government’s increasing investments and commitments to improve the national power grid infrastructure and our diverse portfolio of power generating assets, our Directors expect that the risk of transmission limitations is temporary and will not negatively affect our overall business operations.

**Wind turbine procurement**

We have established over five years of relationships with leading turbine suppliers, such as Sinovel, Goldwind and Gamesa. As of December 31, 2011, our turbine purchase from these suppliers represented approximately 50.1% of our total installed wind power capacity, including 35.6% from Sinovel, 8.7% from Goldwind and 5.8% from Gamesa. According to China Wind Energy Association and BTM Consult ApS as measured by annual market share in 2010, Sinovel is the largest China-based turbine manufacturer and the second largest in the world, Goldwind is the second largest China-based turbine manufacturer and the fourth largest in the world, and Gamesa, headquartered in Spain, is the eighth largest turbine manufacturer in the world.

Our purchase agreements with turbine suppliers generally include quantity, pricing, payment, damages and termination, as well as warranty terms. The purchase prices in our purchase agreements include the price of turbines and the costs of service that our suppliers agree to perform such as transportation and installation of turbines. Generally, we make a 10% to 20% up-front payment upon execution of a turbine purchase agreement and additional progress payments in advance of turbine delivery. We are also entitled to liquidated damages, our exclusive remedy under the purchase agreements, for the suppliers' non-performance or late performance of their obligations, such as the failure or delay in delivery. Upon a default by a party, such as the failure to deliver turbines or make payments, the non-defaulting party has a right to terminate the purchase agreements.

Warranties give us certain protections against costs associated with turbine non-performance, typically for two or five years after a turbine successfully completes a non-stop trial run. These warranties typically include a "power curve" warranty, which requires the manufacturer to pay liquidated damages if turbine output falls below a specified level at certain wind speeds, and an "availability warranty," which ensures the reliability of the turbines for electrical production. For more information regarding risks relating to our turbine suppliers, see "Risk Factors – Risks Relating to Our Wind Power Business – Our electricity generation and results of operations are dependent on the operating performance of our wind turbines."

We generally select our turbine suppliers through a bidding process based on factors such as product quality, price, suitability, technology and after-sales support. In recent years, the PRC government's increasing support for the wind power industry has caused the turbine manufacturing industry to expand rapidly and turbine prices to decrease significantly in China. We believe that our turbine procurement strategy, together with the sufficiency of turbine supply in China, provide us a competitive advantage in turbine procurement and in negotiating favorable terms with suppliers.



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### OUR COAL-FIRED POWER BUSINESS

As of December 31, 2011, we had four coal-fired power plants in operation with a consolidated installed capacity of 2,050.0 MW, representing 31.4% of our total consolidated installed capacity. Meanwhile, we also had two coal-fired generating units under construction, totaling 600.0 MW. After the completion of these two generating units, which we expect to occur in late 2012, we do not intend to develop and construct additional coal-fired power plants or generating units in the foreseeable future.

As compared to wind power and hydropower generation, coal-fired power generation is less prone to seasonal fluctuation, climate and other natural effects, and its utilization hours are more predictable. As a result, our coal-fired power business has provided significant revenue and cash flow to support our development of wind power and other clean energy projects.

The following table sets forth the key operating data of our coal-fired power business:

	As of or for the year ended December 31,		
	2009	2010	2011
Consolidated installed capacity (MW) . . . . .	2,650.0	2,650.0	2,050.0
Attributable installed capacity (MW) . . . . .	2,690.4	2,690.4	2,090.4
Average utilization hours <sup>(1)</sup> . . . . .	4,942.5	4,466.5	6,045.2

(1) The average utilization hours of our coal-fired power business during the Track Record Period only include the average utilization hours of our Kemen Power Plant because (i) as a back-up power plant in Fujian province, our Shaowu Power Plant only generates electricity when the regional grid system is overburdened and this plant purchased most of its electricity generation for sale from other coal-fired power plants under the substituted generation arrangements during the Track Record Period; and (ii) our Yong'an and Zhangping Power Plants only commenced operations by the end of December 2011.

### Our coal-fired power plant portfolio

#### *Kemen Power Plant*

Kemen Power Plant is located in Fuzhou, Fujian province, and was previously operated by two wholly owned subsidiaries, Kemen and Kemen II. As of December 31, 2010, Kemen Power Plant had four coal-fired generating units with a consolidated installed capacity of 2,400.0 MW. In January 2011, we divested Kemen II with two coal-fired generating units totaling 1,200.0 MW of installed capacity, and as a result, the consolidated installed capacity of our Kemen Power Plant decreased to 1,200.0 MW.

Kemen Power Plant commenced operations in October 2006 and is currently entitled to an on-grid tariff of RMB0.380/kWh (excluding VAT). Our Kemen Power Plant is equipped with two supercritical coal-fired power generators and constructed with air pollution control measures, such as desulfurization and dedusting systems, in order to achieve the clean utilization of coal. By applying the latest technologies to reduce emission, the pollution emission and average standard coal consumption rate of our Kemen Power Plant are lower than the average industry standards in China.

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The following table sets forth the key operating data of our Kemen Power Plant as of the dates or for the periods indicated:

	As of or for the year ended December 31,		
	2009	2010	2011
Consolidated installed capacity (MW) . . . . .	2,400.0	2,400.0	1,200.0
Attributable installed capacity (MW) . . . . .	2,400.0	2,400.0	1,200.0
Average utilization hours. . . . .	4,942.5	4,466.5	6,045.2
Average standard coal unit cost (RMB/ton) . . . . .	689.2	803.4	740.3
Average standard coal consumption rate (kg/MWh) . . . . .	307.8	305.3	304.1

### ***Shaowu Power Plant***

Shaowu Power Plant is located in Shaowu, Fujian province, and operated by a joint venture company, Fujian Huadian Shaowu Power Generation Co., Ltd. (福建華電邵武發電有限公司) in which we own a 60.0% equity interest. As of August 31, 2011, Shaowu Power Plant had two coal-fired generating units with a consolidated installed capacity of 250.0 MW. Shaowu Power Plant commenced operations in 1998 and is currently entitled to an on-grid tariff of RMB0.410/kWh (excluding VAT). Due to its strategic location at the north-western end of Fujian power grid, Shaowu Power Plant was designated by the local government as a back-up power plant in 2008, which only generates electricity when the grid system is overburdened to safeguard the grid. To maintain the sustainable operations of our Shaowu Power Plant, the local government allowed our Shaowu Power Plant to participate in the substituted generation arrangement and purchase electricity from other coal-fired power plants for resale. For a discussion of the substituted generation arrangement between our Shaowu Power Plant and Kemen II, please see “Connected Transactions – Non-Exempt Continuing Connected Transactions.” For a detailed discussion of the substituted generation arrangement, please see “– Pricing and Sales – Coal-fired Power Business.”

### ***Yong’an Power Plant and Zhangping Power Plant***

Yong’an Power Plant is located in Yong’an, Fujian province, and operated by our wholly owned subsidiary, Fujian Huadian Yong’an Generation Company Limited (福建華電永安發電有限公司). As of December 31, 2011, Yong’an Power Plant had one coal-fired generating unit of 300.0 MW in operation and another unit of 300.0 MW under construction. Yong’an Power Plant is currently entitled to an on-grid tariff of RMB0.393/kWh (excluding VAT).

Zhangping Power Plant is located in Zhangping, Fujian province, and operated by our wholly owned subsidiary, Fujian Huadian Zhangping Coal-fired Power Company Limited (福建華電漳平火電有限公司). As of December 31, 2011, Zhangping Power Plant had one generating unit of 300.0 MW in operation and another unit of 300.0 MW under construction. Zhangping Power Plant is currently entitled to an on-grid tariff of RMB0.393/kWh (excluding VAT).

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As required by the PRC government regulation to shut down small and obsolete coal-fired power plants in China to reduce emissions and enhance operational efficiency, we have decommissioned all of the generating units at our Yong'an and Zhangping Power Plants in 2007 and 2008. We intend to sell the decommissioned units as scrap equipment and the buyer will bear the costs associated with the demolition of these units. In 2009, the local government approved our plans to construct two 300.0 MW generating units for each power plant near their original locations, which would apply the clean coal technology to reduce pollution and increase operating efficiency. In 2010, we received a one-off government grant of RMB135.0 million as a compensation for our decommissioning of obsolete coal-fired power plants, which we used principally to compensate dismissed coal-fired power plant workers.

During the reconstruction period of our Yong'an and Zhangping Power Plants from 2009 to 2012, the local government allowed these two power plants to participate in the substituted generation arrangement and purchase electricity from other coal-fired power plants for sale in order to maintain sustainable operations. For a detailed discussion of the substituted generation arrangement, please see "– Pricing and Sales – Coal-fired Power Business." We began the construction of one 300.0 MW generating unit at each of our Yong'an and Zhangping Power Plants in 2009 and completed construction at the end of 2011. As of the Latest Practicable Date, we expect to complete the construction of another 300.0 MW generating unit at each of our Yong'an and Zhangping Power Plants by the end of 2012. After the completion of the remaining two generating units, we do not intend to develop and construct additional coal-fired generating units in the near future.

### **Coal procurement**

Our coal-fired power plants are fueled by coal. For the years ended December 31, 2009, 2010 and 2011, our costs of coal amounted to RMB2,466.0 million, RMB2,560.4 million, RMB1,743.7 million, respectively, which represented 70.1%, 69.2% and 73.1%, respectively, of the operating expenses (excluding costs of substituted electricity) in our coal-fired power business.

For the years ended December 31, 2009, 2010 and 2011, we purchased approximately 82.1%, 94.1% and 33.4%, respectively, of our coal supplies, as measured by purchase value, from our connected persons, including Huadian Coal and its subsidiaries. Since January 1, 2012, we have ceased our connected transactions with them. As part of our business strategy, we intend to purchase a substantial portion of our coal supplies, through third-party coal distributors, from major coal suppliers in China, pursuant to key supply agreements, and the remainder in the open market. For example, in June 2011 we entered into a six-month supply agreement with a third-party coal distributor, Shanxi Xishan Coal and Electricity Power Trading Co., Ltd, with whom we have no prior dealings, whereby this distributor agreed to resell one million tons of coal it purchased from Shenhua Group and ChinaCoal with different grades to our Kemen Power Plant at a price based on the actual grade of each supply (for example RMB574.7 per ton for a heat grade of approximately 5,500 kcal/kg) and we agreed to make full payment for each supply upon shipment. This key supply agreement further provides that in the event of any failure by the coal distributor to comply with our quantity or quality

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requirements, we are entitled to the right to sue it for damages. Our key supply agreement with Shanxi Xishan Coal and Electricity Power Trading Co., Ltd was renewed in January 2012 for one year with a quantity requirement of two million tons.

We negotiate coal prices with coal distributors, and such prices are subject to factors including market conditions, applicable VAT, government pricing policies and the cost of transportation. For the years ended December 31, 2009, 2010 and 2011, the average price of standard coal (7,000 kcal/kg) per ton we purchased was RMB673.3, RMB757.3 and RMB728.0, respectively.

Our Kemen Power Plant owns two deep-water ports in close proximity, through which we can transfer coal supplies directly from the piers to our thermal plant through conveyor belts in order to further reduce our transportation costs. In addition, in December 2011, the NDRC announced a price cap of RMB800 per ton (including VAT) on the market price of thermal coal (5,500 kcal/kg) in China. As a result, we believe the price of coal we purchase in the open market would not rise significantly in the near future. However, we cannot assure you that the market price of coal will not increase further. Please see “Risk Factors – Risks Relating to Our Coal-fired Power Business – An increase in coal price and a disruption in coal supply or its transportation could materially adversely affect our coal-fired power business.”

Although the market price of coal could affect our results of operations and profitability, we intend to implement the following measures to mitigate the impact of such price increases:

- continuing to enter into key supply agreements, through coal distributors, with major coal suppliers in the PRC to ensure sufficient and uninterrupted coal supplies at reasonable costs;
- sourcing coal supplies from foreign vendors by taking advantage of different coal prices between the PRC and international markets; and
- enhancing coal consumption efficiency through technology improvements and equipment upgrades.

### **OTHER CLEAN ENERGY BUSINESS**

We also develop or hold interests in other types of clean energy projects, including distributed energy, nuclear power, solar power and biomass energy projects. We believe that the operation of these other clean energy power projects will generate a more diverse mix of revenue and bring new growth prospects to our business. We started our other clean energy business in 2009. For the years ended December 31, 2009, 2010 and 2011, revenue from this business segment amounted to RMB110.6 million, RMB457.5 million and RMB322.1 million, respectively. Going forward, we plan to expand our portfolio of distributed energy projects, increase our investment in the Fuqing Nuclear Power Plant and selectively develop solar power or biomass energy projects.

### **Distributed energy projects**

Distributed energy business in China is still at its early stage of development and we believe this business has significant growth potential. According to the 12th Five-Year Plan and a guidance letter issued by the NDRC in October 2011, the PRC government is committed to support the wider development of distributed energy projects and expects more than 1,000 distributed energy projects to be constructed in China by the end of 2015 with the total installed distributed energy capacity reaching approximately 50,000 MW by 2020.

We are a pioneer in the PRC distributed energy industry. We developed the 156.0 MW Guangzhou University Town Distributed Energy Project, which was (as of December 31, 2011 and according to Frost & Sullivan):

- the first large-scale distributed energy project in China;
- the largest distributed energy project in China;
- the only distributed energy project in China connected to the power grid; and
- the first distributed energy project in China to be successfully registered with the CDM EB.

We held a 43.0% equity interest in the Guangzhou University Town Distributed Energy Project as of December 31, 2011, after we disposed of 12.0% of our equity interest to our Controlling Shareholder in August 2011 at a consideration of RMB37.8 million (based on an independent asset valuation), which we used to supplement our working capital. Our Directors decided to reduce our shareholding in this distributed energy project because the changes in project design during the construction stage required us to obtain an additional government approval and the timing of such approval was uncertain, which our Directors believe may potentially delay this Global Offering. With a view towards reserving an option to regain a controlling interest after this project meets our certain requirements, such as obtaining all necessary permits and approvals and being valued at a reasonable price, we did not dispose of all of our equity interest in this distributed energy project in August 2011. In January 2012, the Guangzhou University Town Distributed Energy Project obtained the remaining government approval. Given that the acquisition process is complex and time-consuming, which could potentially delay this Global Offering, we may consider to reacquire the 12.0% equity interest from our Controlling Shareholder within two years after the completion of this Global Offering. Should we seek to reacquire the 12.0% equity interest, we expect to negotiate with our Controlling Shareholder the amount of consideration based on an independent asset valuation. As of the Latest Practicable Date, we have not commenced any negotiation in relation to such reacquisition nor have we entered into any agreement, letter of intent or memorandum of understanding of any form with our Controlling Shareholder in connection with this contemplated reacquisition.

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Guangzhou University Town Energy Development Co., Ltd., which is an independent third party primarily engaged in the provision of electricity, heating and cooling, as well as related management services to the residents in the Guangzhou University Town, held the remaining 45.0% equity interest in the Guangzhou University Town Distributed Energy Project. After our disposal of the 12.0% equity interest in this distributed energy project, we agreed with other shareholders to reduce our management presence on its five-person board from three to two members to reflect our reduced shareholding in this project, and have been involved in its daily operations with other members of its board. For the years ended December 31, 2009, 2010 and 2011, the profit of the Guangzhou University Town Distributed Energy Project was RMB7.3 million, RMB38.2 million and RMB45.4 million, respectively.

Leveraging our experience in developing and managing distributed energy projects in China, we have secured a strong project pipeline for future development. As of December 31, 2011, we have entered into development agreements with local governments to develop distributed energy projects in 15 provinces in China with approximately 6,500 MW of prospective capacity.

We plan to construct our distributed energy projects along the network of “West-to-East Gas Pipeline,” a PRC government project for transporting natural gas from Xinjiang province to the Yangtze River Delta area, where we can gain convenient access to natural gas. In January 2011 we entered into a strategic five-year framework agreement with Kunlun Natural Gas, a subsidiary of PetroChina, whereby Kunlun Natural Gas agreed to supply a sufficient amount of natural gas to our future distributed energy projects on a priority basis. The actual quantity and pricing terms will be agreed upon by both parties when we place our order for natural gas supply, after our distributed energy projects complete construction. This agreement also provides that both parties agree to cooperate on the development of natural gas distributed energy projects that will be constructed along PetroChina’s pipeline network in China, near LNG terminals or in developed regions, and that Kunlun Natural Gas has the option to make equity investments in our distributed energy projects.

### *Advanced*

Advanced pipeline projects are those for which we have obtained the construction approval, but construction has not yet begun. As of December 31, 2011, we had five advanced pipeline distributed energy projects with a total prospective capacity of 602.0 MW, which we expect to commence operation in 2013 or 2014. The following table sets forth a brief overview of our advanced pipeline distributed energy projects as of December 31, 2011:

<u>Location</u>	<u>Prospective capacity</u>	<u>Estimated year of commencement of operations</u>
	(MW)	
Guangxi . . . . .	180.0	2013
Hebei . . . . .	120.0	2014
Tianjin . . . . .	120.0	2014
Shaanxi . . . . .	104.0	2014
Jiangxi . . . . .	78.0	2013
<b>Total . . . . .</b>	<b>602.0</b>	

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### *Intermediate*

Intermediate pipeline projects are those for which we have obtained the preliminary government approval, but have not yet received the construction approval. As of December 31, 2011, we had ten intermediate pipeline distributed energy projects totaling 1,008.4 MW, which we expect to commence construction after we receive the construction approval. The following table sets forth a brief overview of our intermediate pipeline distributed energy projects as of December 31, 2011:

<b>Location</b>	<b>Prospective capacity</b>
	<b>(MW)</b>
Guangxi . . . . .	270.0
Tianjin . . . . .	200.0
Jiangxi . . . . .	176.0
Shanghai . . . . .	155.0
Jiangsu . . . . .	154.0
Fujian . . . . .	33.2
Hubei . . . . .	20.2
<b>Total</b> . . . . .	<b>1,008.4</b>

### *Early*

Early pipeline projects are those in their earliest stage of development and for which we have entered into framework agreements with local governments and commenced preliminary assessment. As of December 31, 2011, our early pipeline distributed energy projects had a prospective capacity of approximately 4,900 MW. The actual timing and the future capital requirements for the development and construction of these early pipeline projects may vary, which our management determines based on various factors, including, among others, the timing of government approvals.

### **Nuclear power projects**

As of December 31, 2011, we held a 39.0% equity interest in the Fuqing Nuclear Power Plant, while the remaining equity interest of 51.0% and 10.0% was respectively held by China Nuclear Power Engineering Co., Ltd and Fujian Investment and Development Holdings Corporation, both of which are independent third parties. The Fuqing Nuclear Power Plant is located in Fujian province and has four 1,000.0 MW nuclear generating units under construction, totaling 4,000.0 MW. As of December 31, 2011, we had made an aggregate amount of financial investments of approximately RMB1,439.1 million to fund the development and construction of the Fuqing Nuclear Power Plant. We intend to further make approximately RMB800 million of investments each year from 2012 to 2014 in the Fuqing Nuclear Power Plant. We expect that this plant will commission one generating unit each year from 2013 to 2016.

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We intend to increase our equity interest in the follow-up projects of Fuqing Nuclear Power Plant in order to obtain controlling rights after we receive the government permit for operating a nuclear power plant. The timing for us to receive such permit depends on the PRC government's nuclear power policy and the relevant approval procedures.

According to our agreement with other shareholders, we have appointed three members to the 11-person board of the Fuqing Nuclear Power Plant to jointly oversee its activities with other members of the board. China Nuclear Power Engineering Co., Ltd. is primarily engaged in the development, investment, construction, operation and management of nuclear power projects, and Fujian Investment and Development Holdings Corporation is primarily engaged in the production and supply of electricity, gas and water, as well as investment and development of industry projects.

### Solar power projects

As of December 31, 2011, we owned and managed eight operating solar power projects, with a consolidated installed capacity of 79.4 MW. The following table sets forth a summary of our solar power projects in operation as of December 31, 2011:

Project name	Consolidated installed capacity	Attributable installed capacity	Ownership	On-grid tariff (excluding VAT)	Commencement date of operation
	(MW)	(MW)	(%)	(RMB/kWh)	
Dongtai II (東台二期) . . . . .	20.0	18.0	90.0	1.197	December 2011
Jiayuguan I (嘉峪關一期) . . . . .	10.0	8.0	80.0	0.983	May 2011
Yancheng Dongtai (鹽城東台) . . . . .	10.0	9.0	90.0	1.453	December 2010
Ge'ermu (格爾木) . . . . .	10.0	10.0	100.0	0.983	December 2011
Minqin (民勤) . . . . .	10.0	10.0	100.0	0.983	December 2011
Jiayuguan II (嘉峪關二期) . . . . .	9.0	7.2	80.0	0.983	December 2011
Jiayuguan III (嘉峪關三期) . . . . .	9.0	7.2	80.0	0.983	December 2011
Shanghai Huadian (上海華電) . . . . .	1.4	0.7	51.0	3.419	December 2009
<b>Total</b> . . . . .	<b>79.4</b>	<b>70.1</b>			

### Biomass energy projects

As of December 31, 2011, we had two biomass energy projects under construction, with a total capacity under construction of 25.3 MW. The following table sets forth a summary of the two projects under construction as of December 31, 2011:

Project name	Capacity under construction	Ownership	Commencement date of operation
	(MW)	(%)	
Huachuan (樺川生物質) . . . . .	24.0	100.0	June 2012
Hubei Longganhu (湖北華龍龍感湖) . . . . .	1.3	80.0	August 2012
<b>Total</b> . . . . .	<b>25.3</b>		



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### INVESTMENT IN ASSOCIATES AND JOINTLY CONTROLLED ENTITY

From time to time, we acquire interest and make investment in our associates and jointly controlled entity. We typically seek presence on the board of directors of each of our associates and jointly controlled entity to jointly oversee the corporate activities of these entities with other board members. The following table sets forth an overview of the power generating projects in operation managed by our associates and jointly controlled entity as of December 31, 2011:

Project name	Total installed capacity	Attributable installed capacity	Ownership	Commencement date of operation
	(MW)	(MW)	(%)	
<b>Hydropower</b>				
– Pingnan Houlongxi (屏南縣後壟溪) . . . . .	48.0	21.6	45.0	June 2006
– Yong’an Yamutan (永安鴨姆潭) . . . . .	27.8	6.4	23.0	December 2006
– Sanming Taijiang (三明台江) . . . . .	30.0	9.0	30.0	February 2008
Sub-total . . . . .	<u>105.8</u>	<u>37.0</u>	–	–
<b>Wind power</b>				
– Huagang I (華港一期) . . . . .	19.5	9.8	50.0	June 2011
<b>Coal-fired power</b>				
– Longyan Kengkou (龍岩坑口) . . . . .	540.0	140.4	26.0	September 2006
<b>Other clean energy</b>				
– Guangzhou University Town Distributed Energy (廣州大學城分 佈式能源) . . . . .	156.0	67.1	43.0	October 2009
– Putian Natural Gas (莆田燃氣) . . . . .	1,560.0	390.0	25.0	September 2009
Sub-total . . . . .	<u>1,716.0</u>	<u>457.1</u>	–	–
<b>Total . . . . .</b>	<b><u>2,381.3</u></b>	<b><u>644.3</u></b>		

On March 28, 2012, we sold all of our 28.0% equity interest in an associate, Fujian Kemen Port Logistics Co., Ltd., with a carrying amount of RMB124.2 million as of December 31, 2011, to an independent third party, for a cash consideration of RMB256.0 million, which was determined between us and the buyer on normal commercial terms with reference to an independent asset valuation report. This disposal resulted in a net investment gain of approximately RMB131.8 million, which was treated as other net income on our financial statements in March 2012. We have fully received the total consideration of this disposal as of April 2012.

**PRICING AND SALES**

In general, the on-grid tariffs of our power generating projects are approved or fixed by the relevant pricing authorities in China based on various factors. As such, our business is dependent on the PRC pricing policy for different energy sources. We set forth below a brief summary of the pricing policies applicable to our hydropower, wind power and coal-fired power businesses, as well as their respective electricity sales during the Track Record Period.

**Hydropower business**

The current tariff-setting mechanism for hydropower projects is designed to enable a project to recover all operating and debt servicing costs and to earn a reasonable rate of return on the net fixed assets. The determination of average costs of a hydropower project usually takes into consideration the following factors:

- construction costs (including resettlement and relocation compensation costs);
- operating and administrative expenses;
- maintenance and repair costs; and
- finance expenses on outstanding debts.

Based on the factors listed above, our hydropower projects receive lower tariffs in comparison to coal-fired power plants because hydropower projects have (i) minimal fuel costs and (ii) lower operating and maintenance costs compared to coal-fired power plants.

For a hydropower project over 50.0 MW of installed capacity, the NDRC reviews and adjusts its on-grid tariffs based on the following:

- the increase in our operating and maintenance costs, such as those due to increased CPI;
- prevailing pricing policy in China, such as the NDRC's efforts to equalize on-grid tariff for hydropower and increase those tariffs that are below the regional average; and
- the increase in our construction costs, such as those due to increased resettlement compensation. Please see "Risk Factors – Risks Relating to Our Hydropower Business – The resettlement of relocated residents may cause significant cost increases and/or construction delays of our hydropower projects."

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For a hydropower project with less than 50 MW of installed capacity, the provincial or municipal pricing bureau reviews and adjusts its on-grid tariffs based on similar considerations, such as changes in CPI, pricing policy in China and construction costs. However, the review and adjustment process for small-sized hydropower projects is less time-consuming compared to larger projects, which requires NDRC approvals. Of our 36 operating hydropower projects as of December 31, 2011, 29 projects require tariff reviews and approvals by the provincial or municipal pricing bureau and the remaining seven projects require tariff reviews and approvals by the NDRC.

In recent years, the NDRC and local pricing bureaus have implemented measures to improve the profitability of hydropower projects in China and announced a series of on-grid tariff increments for hydropower, in light of the newly imposed water resource fees, rising resettlement and relocation compensation costs, increasing cost of construction materials and services, and higher interest rates.

The following table sets forth the historical on-grid tariff increments (including VAT) for our hydropower plants as of March 31, 2012.

<b>Year</b>	<b>Tariff increments</b>
2009	The NDRC announced a tariff increment of RMB0.03/kWh for three of our hydropower projects.
2009	The local pricing bureau in Fujian province announced a tariff increment of RMB0.03/kWh for one of our hydropower projects.
2009	The local pricing bureau in Fujian province increased the benchmark on-grid tariff for small-sized hydropower projects from RMB0.301-0.345/kWh to RMB0.323-0.367/kWh.
2011	The NDRC announced a tariff increment of RMB0.04/kWh for four of our hydropower projects.
2012	The local pricing bureau in Fujian province announced a tariff increment of RMB0.021/kWh for 24 of our hydropower projects.

Each of our hydropower projects has entered into a PPA with the local grid company to which it is connected and is required to sell electricity to that grid company. Since all of our hydropower projects in operation are located in Fujian province, these projects sell electricity to Fujian Electric Power Company. Our hydropower projects generally enjoy preferential treatments in selling electricity, such as priority dispatch over coal-fired power and guaranteed full acceptance of electricity generation. Our PPAs generally have a term of one to three years and can be renewed upon expiry, which generally include annual electricity supply, pricing, metering, settlement and payments, liabilities for breach of contract, damages and termination.

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The following table sets forth the pricing and sales information in our hydropower business for the periods indicated:

	Year ended December 31,		
	2009	2010	2011
Net generation (MWh) . . . . .	4,903,329.7	8,622,963.3	5,647,097.5
Weighted average on-grid tariff (excluding VAT) (RMB/kWh) . . . . .	0.251	0.254	0.253
Sales of electricity (RMB in million) . . . . .	1,228.6	2,187.1	1,427.7

### Wind power business

Effective August 1, 2009, the NDRC replaced the previous government-guided pricing with government-fixed pricing, and the on-grid tariff for wind power projects is based on the actual location of such projects. The NDRC divided China into four wind resource zones, applying the same on-grid tariff to all wind power projects in each zone. Specifically, wind power projects in the first, second, third and fourth wind resource zones are entitled to a benchmark on-grid tariff (including VAT) of RMB0.51/kWh, RMB0.54/kWh, RMB0.58/kWh and RMB0.61/kWh, respectively. In addition to the benchmark on-grid tariff fixed by the NDRC, some of our wind power projects are entitled to tariff subsidies to compensate us for the costs of constructing transmission lines to connect our wind power projects to the power grids.

As the average on-grid tariffs of wind power are generally higher than that of coal-fired power, the PRC regulatory framework for renewable energy adopted a cost-sharing system by which the additional cost of developing renewable energy projects will be shared across the whole electricity system. Specifically, electricity end users in China are required to pay a surcharge on their electricity price to cover (i) the premium of the on-grid tariff for clean energy paid by grid companies over the benchmark on-grid tariff for coal-fired power, and (ii) the cost of connecting renewable energy projects to the grid. Local power grid companies collect these renewable energy surcharges and then distribute them among the provincial grid companies, subject to the allocation of the relevant government authorities. As such, like other wind power producers in China, we are normally entitled to two payments from the local grid companies on our sales of wind power. The first payment reflects the benchmark on-grid tariff for coal power, which is settled in the same way as our coal-fired power generation and generally within 15 to 30 days after sales. The second payment is settled within two to 18 months after sales because it reflects the tariff premium on our wind power, which is subject to nationwide government allocations. Please see “Financial Information – Certain Items in the Consolidated Balance Sheets – Trade Debtors and Bills Receivable” for a discussion of our collection period of electricity sales.

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Each of our wind power projects is required to sell electricity to the local power grid. Our wind power business enjoys preferential treatments in selling electricity, such as priority dispatch over hydro and coal-fired power and guaranteed full acceptance of electricity generation. Each of our wind power projects in operation has entered into a PPA with the grid company to which it is connected, which typically includes terms such as on-grid tariff, metering and settlement. Our PPAs generally have a term of one year, and can be renewed upon expiry. However, such PPAs have not specifically provided for any compensation from the respective local grid companies for any financial losses caused by transmission limitations and we did not receive such compensation from grid companies during the Track Record Period.

The following table sets forth the pricing and sales information in our wind power business for the periods indicated:

	Year ended December 31,		
	2009	2010	2011
Net generation (MWh) . . . . .	558,300.0	1,204,624.9	2,514,413.0
Weighted average on-grid tariff (excluding VAT) (RMB/kWh) . . . . .	0.418	0.454	0.481
Sales of electricity (RMB in million) . . . . .	233.1	546.6	1,209.9

### Coal-fired Power Business

The current tariff-setting mechanism for coal-fired power plants is based on the operating terms of power plants, as well as the average costs of comparable power plants. The NDRC approves the on-grid tariff for our coal-fired power plants and adjusts such tariff for material changes, such as a substantial increase in the coal price, from time to time. In December 2011, the NDRC announced an increase to the benchmark on-grid tariff for coal-fired power plants in Fujian province by RMB0.0274/kWh.

Each of our coal-fired power plants is required to sell its electricity to the grid company to which it is connected pursuant to a PPA. Accordingly, both Kemen Power Plant and Shaowu Power Plant sell electricity to Fujian Electric Power Company. Generally, our PPA has a term of one year and provides that the annual utilization hours of our coal-fired power plant will be determined with reference to the average annual utilization hours of the similar generating units connected to the same grid within the same province.

Historically, net generation of our coal-fired power plants consisted of the following:

- *Self-generation:* Net generation produced by our own coal-fired power plants.
- *Substituted generation:* Net generation we purchased under the substituted generation arrangement for sale, which allows a coal-fired power plant to purchase electricity generated by other coal-fired power plants and resell such electricity to local grid companies based on the buyer's approved on-grid tariff.

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The following table sets forth the pricing and sales information in our coal-fired power business for the years indicated:

	Year ended December 31,		
	2009	2010	2011
Net generation (MWh) . . . . .	15,902,516.3	14,045,451.6	11,119,728.9
– Self-generation . . . . .	11,481,728.7	10,326,702.6	7,586,978.9
– Substituted generation . . . . .	4,420,787.6	3,718,749.0	3,532,750.0
Weighted average on-grid tariff (excluding VAT) (RMB/kWh) . . . . .	0.360	0.354	0.364
Sales of electricity (RMB in millions). . . . .	5,730.4	4,973.7	4,044.0
– Revenue from self-generation . . . . .	4,063.7	3,592.9	2,706.1
– Revenue from substituted generation . . . . .	1,666.7	1,380.8	1,337.9

Due to its strategic location at the north-western end of Fujian power grid, Shaowu Power Plant was designated by the local government as a back-up power plant in 2008, which is only allowed to generate electricity when the grid system is overburdened to safeguard the grid and is not in operation during any other time. In 2010, Shaowu Power Plant was exempt from the requirement of installing desulphurization equipment by the local environmental authority in 2010 on the basis that Shaowu Power Plant continues to operate as a back-up power plant. From 2008 to 2010, Shaowu Power Plant’s SO<sub>2</sub> emission levels were in compliance with the emission requirements imposed by the relevant government authorities. Since January 2011, Shaowu Power Plant has not been subject to any inspection under the relevant laws and regulations in China.

To maintain the sustainable operations of our Shaowu Power Plant, the local government allowed Shaowu Power Plant to participate in the substituted generation arrangement and to purchase up to approximately 1.1 million MWh of electricity each year from other coal-fired power plants for resale from 2008 to 2012. The local government will further determine the amount of substituted generation that Shaowu Power Plant is entitled to purchase for the period from 2013 to 2018. If Shaowu Power Plant is unable to fully purchase 1.1 million MWh of electricity under the substituted generation arrangement each year, it can carry forward any shortfall to the next year. The relevant local government instructs our Kemen Power Plant to sell a portion of its electricity generation to Shaowu Power Plant at a price not more than the comparable price for other substituted generation arrangements in Fujian province during the same period. Our Shaowu Power Plant generally purchased the substituted generation at a price lower than its approved on-grid tariff because the sellers under this arrangement, usually large-scale power plants, such as our Kemen Power Plant, could produce more electricity than had been previously planned by the local government in order to generate more revenue. Shaowu Power Plant enters into substituted generation agreements with the sellers, which typically include the total amount of substituted generation to be supplied by the seller and purchased by Shaowu Power Plant during a period, and a fixed price for the substituted generation, as well as payment and settlement terms. During the Track Record Period, our Shaowu Power Plant complied with its obligations as a back-up power plant and purchased approximately 33.6% of substituted generation from the Kemen Power Plant and the remainder from other third-party power plants.

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During the reconstruction period of our Yong'an and Zhangping Power Plants from 2009 to 2011, local government allowed these two power plants to participate in the substituted generation arrangement and purchase electricity from other coal-fired power plants for sale in order to maintain sustainable operations. The purchase price under their substituted generation arrangements is generally lower than the approved on-grid tariff of these two power plants. The substituted generation agreements that Yong'an and Zhangping Power Plants entered into typically include the total amount of substituted generation to be supplied by the seller and purchased by our power plants during a period, and a fixed price for the substituted generation, as well as payment and settlement terms. For the years ended December 31, 2009, 2010 and 2011, our Yong'an and Zhangping Power Plants purchased a total amount of substituted generation of approximately 3.4 million MWh, 3.1 million MWh and 2.7 million MWh, respectively, in accordance with local government plans.

### REPAIR AND MAINTENANCE

We strive to improve our O&M capabilities, in particular by increasing the operating efficiency, performing repair and maintenance with our in-house resources and enhancing our equipment monitoring and diagnosis systems. Each of our power generating projects has timetables for routine maintenance, inspections and repairs. With our extensive operational experience and technical know-how, we have developed a self-sufficient in-house O&M center to serve as a central facility for routine inspection, maintenance, repair and spare parts delivery for our projects. As of December 31, 2011, our in-house O&M team for the hydropower, wind power and coal-fired power business consists of approximately 800 employees, 450 employees and 530 employees, respectively. For mid-level and major overhaul on our hydropower projects and coal-fired power plants, we typically engage third-party O&M specialists from reputable institutes in China.

We generally conduct a major overhaul on our hydropower turbines every five to eight years. Our repair and maintenance is generally scheduled in dry seasons, such as the winter and spring. In addition, to minimize the downtime of our hydropower projects during repair, we normally allow our upstream reservoirs to increase water storage while we temporarily shut down cascade hydropower projects for maintenance.

We aim to achieve and maintain high levels of availability factor for our wind turbines, principally by utilizing a systematic approach to monitor the different drivers for wind farm and wind turbine availability, conducting subsequent reviews of periods of non-availability and implementing corrective initiatives to mitigate systemic failures. Due to its smaller size, a wind power project, which consists of multiple wind towers typically has no major overhaul period compared to a hydropower project or a coal-fired power plant and its maintenance and repair work requires relatively less time and, therefore, does not materially interrupt wind power production. As a result, we have deployed an O&M team, usually with eight to ten engineers, to each wind power project site to perform routine maintenance and repair functions. We aim to continue to increase our control of key O&M activities rather than outsourcing O&M services to third-party contractors. This enables us to reduce our overall O&M costs and improve the efficiency of our wind power projects.

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We generally conduct a major overhaul on our coal-fired generating units every three to five years. As a major overhaul requires the entire generating unit to be shut down for one to three months, our maintenance timetable for coal-fired power plants is carefully scheduled and coordinated to ensure the stable and safe power generation while minimizing downtime. We generally schedule the overhaul of our coal-fired power plants during periods with a higher level of rainfall so that our hydropower projects could increase production in the meantime to minimize the potential loss of revenue from our suspended coal-fired power plants. It usually takes our coal-fired power plants approximately 10 hours to resume full operation after they have been shut down for a major overhaul. In 2010, we performed major overhauls on two generating units of our Kemen Power Plant when the hydropower conditions near our hydropower projects were considered favorable for power generation.

Our total repair and maintenance expenses for the years ended December 31, 2009, 2010 and 2011, were RMB147.5 million, RMB226.0 million and RMB163.6 million, respectively, representing approximately 2.5%, 3.4% and 3.0%, respectively, of our operating expenses for those periods.

### **CARBON CREDIT TRANSACTIONS**

In addition to selling electricity generated from our power generating projects, we also derive proceeds from the sales of CERs in relation to our CDM projects to improve the economic viability of these projects.

### **Regulatory Framework**

CDM is an arrangement under the Kyoto Protocol to the UNFCCC. Each of the countries listed in Annex I to the UNFCCC (“Annex I Countries”), which include certain developed countries, is assigned an emission reduction target. Non-Annex I Countries, which include certain developing countries, have no emission reduction targets, but are encouraged to adopt environmentally friendly technologies to reduce greenhouse gas emissions.

The CDM arrangement allows Annex I Countries to invest in emission reduction projects in non-Annex I Countries in order to earn CERs. CERs can be used by investors from Annex I Countries to satisfy domestic emission reduction targets, or can be sold to other interested parties, and, therefore, it provides an alternative to emission reductions in their own countries, which can be more expensive than investing in emission reduction projects in developing countries. The PRC government ratified the Kyoto Protocol in 2002, as a non-Annex I Country. The first commitment period of the Kyoto Protocol is the five years from 2008 to 2012.



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On December 11, 2011, the United Nations Climate Change Conference in Durban have concluded with an agreement to extend the Kyoto Protocol by five years, from 2013 to 2017, the second commitment period. According to this conference, the details of the extended Kyoto Protocol will be negotiated among the participating countries in 2012. We believe that the European Union will continue to accept CERs from CDM projects registered before the end of 2012 under the Clean Development Mechanism of the Kyoto Protocol, from 2013 to 2017, and the extension of the Kyoto Protocol could result in the ability for our clean energy projects to register under CDM beyond 2012. Please see “Risk Factors – Risks Relating to the Clean Energy Industry – Our sales of CERs depend on the CDM arrangements under the Kyoto Protocol and the registration process with the CDM EB.”

For a clean energy project to be recognized as a qualified project, it must satisfy certain requirements, including establishing that reductions in emissions are additional to any that would occur in the absence of the project activity, a concept known as “additionality.” Moreover, a project can only qualify through a rigorous and public registration process designed to ensure real, measurable and verifiable emission reductions. The mechanism is overseen by the CDM EB. In order to be considered for registration, a project must be approved by the Designated National Authorities (the “DNA”) and validated by a third-party agency, known as a DOE. The CDM EB then decides whether to register the project and issues CER credits based on the monitored emission reductions verified by the DOE. A CDM project activity cycle typically includes the following:

- *Identification of a CDM project and potential project.* CDM project participants shall decide the type of CDM project and secure a potential buyer of the CERs from the Annex I Countries.
- *CDM project design.* CDM project participants shall design their proposed CDM project using the project design documents (“CDM-PDD”) developed by the CDM EB. Once completed, the participants shall submit the CDM-PDD to the DOE.
- *Use of an approved methodology or proposal of a new methodology.* CDM project participants can either use a methodology previously approved and made publicly available by the CDM EB or proposed a new baseline methodology. If the participant chooses to propose a new methodology, such new methodology, together with the draft CDM-PDD, shall be submitted by the DOE to the CDM EB for review and approval.
- *DNA approval.* CDM project participants shall submit the CDM application and CDM-PDD to relevant national CDM authorities for approval. Both the CDM project participant and the potential buyer shall obtain a letter of approval from their respective DNA.

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- *DOE validation.* Prior to registration of a project, DOE conducts an independent evaluation of the proposed project against the relevant requirements based on the CDM-PDD, a process known as “validation.” If a DOE determines the proposed project to be valid, it shall submit a CDM Project Activity Registration Form, together with the CDM-PDD and the written approval issued by the DNA of the host country, to the CDM EB.
- *Registration of the CDM project.* Registration is the formal acceptance by the CDM EB of a validated project as a CDM project activity, a prerequisite for the verification, certification and issuance of CERs. If a proposed project is rejected, it may be reconsidered for validation and subsequent registration after appropriate revisions.
- *Certification and verification of the CDM project.* Verification is the periodic independent review and ex-post determination by the DOE of the monitored reductions in greenhouse gases emission that have occurred as a result of a registered CDM project activity during the verification period. Certification is the written assurance by the DOE that, during a specified period, a project activity achieved the reductions in greenhouse gas emissions as verified. Both the monitoring report and the certification report shall be made publicly available by the DOE.
- *Issuance and transfer.* Upon successful completion of all of the above procedures, the CDM EB issues CER credits to the CDM participants’ account, after deducting a 2.0% share of proceeds. The CERs are then transferred by the CDM participants to the buyer from Annex I countries at prices specified in the CER sales agreements.

According to the Measures for Operation and Management of Clean Development Mechanism Projects (《清潔發展機制項目運行管理辦法》) jointly issued by the NDRC and other ministries, only companies wholly owned or controlled by PRC parties may carry out CDM projects in the PRC. All of our clean energy project companies meet this requirement. In addition, for wind power and other clean energy projects that are registered as CDM projects, 2.0% of the proceeds from sale of CERs shall be paid to the PRC government.

### **CDM projects and sales of CERs**

All of our wind power, hydropower and other clean energy projects were developed with a view to be registered as CDM projects, and thus have the potential to be registered with the CDM EB.

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The following table sets forth the number of our clean energy projects that were registered with the CDM EB during the Track Record Period:

	Registered			
	Hydropower	Wind power	Solar power	Total
2009 . . . . .	1	4	–	5
2010 . . . . .	–	5	–	5
2011 . . . . .	–	13	1	14
<b>Total</b> . . . . .	<b>1</b>	<b>22</b>	<b>1</b>	<b>24</b>

As of December 31, 2011, we owned 22 wind power projects, one hydropower project and one solar project that were successfully registered with the CDM EB as CDM projects. In February 2010, CDM EB rejected the applications for two wind power projects owned by Heilongjiang Huafu Power Investment Company Limited, a subsidiary which we acquired in December 2010, on the grounds of lacking “additionality” due to their perceived high level of on-grid tariff. As of the Latest Practicable Date, we have submitted the revised applications for these two wind power projects to the CDM EB.

We generally engage third-party agents to assist in our CDM business. All buyers in relation to our CDM projects are reputable energy companies, funds or trading companies active in the international CER market, including those from the U.K., Sweden, Luxembourg, Italy and other European countries. Pursuant to the CER sales agreements we entered into with these buyers, they agreed to purchase all of our CERs issued by the CDM EB until December 31, 2012, at a unit price ranging from EUR8.5 to EUR12.5 per ton. Our international buyers are required to make payments to us within 30 days upon receipt of the invoice after the transfer of the CERs. We derived net income from the sales of CERs of RMB30.6 million, RMB75.2 million and RMB153.4 million for the years ended December 31, 2009, 2010 and 2011, respectively.

To centralize the management of our carbon credit transactions, we have established a carbon asset management team to manage the application and registration of our CDM projects and the sale of CERs, including finding and negotiating with potential CER buyers and coordinating government approvals and the registration, verification, issuance and delivery of CERs. As of December 31, 2011, our carbon asset management team had seven staffs, with four to 22 years of experience in the energy, research and management or the CDM industry, and we have provided CDM-related services to 101 projects owned by us and 75 projects owned by Huadian Group. These 101 projects represent all of our projects that have been registered with the CDM EB or are in the process of applying for CDM registration, primarily including wind power projects, distributed energy projects, solar power projects and hydropower projects at various stages of operation or development. Our Directors confirm that all of the CER sales contracts that we entered into with our CER buyers are binding and enforceable.

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### TOP FIVE CUSTOMERS AND SUPPLIERS

During the Track Record Period, we derived substantially all of our revenue from sales of electricity generated by our power generating projects. All of our sales of electricity are made to the local grid companies that are directly or indirectly controlled by the PRC government. For the years ended December 31, 2009, 2010 and 2011, sales to our five largest customers in the aggregate represented 98.6%, 97.3% and 89.9%, respectively, of our total revenue (excluding service concession construction revenue) for the same periods. During the same periods, sales to our largest customer, Fujian Electric Power Company Limited, represented 92.2%, 84.2% and 74.5%, respectively, of our total revenue (excluding service concession construction revenue).

For the years ended December 31, 2009, 2010 and 2011, our purchases from our five largest suppliers (excluding purchases reflecting capital expenditures) represented 72.5%, 71.8% and 55.9%, respectively, of our total purchases from our suppliers (excluding purchases reflecting capital expenditures). During the same periods, our purchases from our single largest supplier, Huadian Coal, represented 32.4%, 43.5% and 20.5%, respectively, of our total purchase. Huadian Coal is a connected person of our Company, and we primarily relied on the coal supplies from Huadian Coal and its subsidiaries during the Track Record Period. Going forward, we intend to enter into key supply agreements, through third-party distributors, with major coal suppliers in China. Please see “Risk Factors – Risks Relating to Our Coal-fired Power Business – An increase in coal price and a disruption in coal supply or its transportation could materially adversely affect our coal-fired power business.” In 2009 and 2010, China Huadian Coal Transportation and Sales Co., Ltd, a connected person of our Company, was one of our five largest suppliers. Both Huadian Coal and China Huadian Coal Transportation and Sales Co., Ltd are subsidiaries of our Controlling Shareholder.

In addition to coal supplies, our purchase of equipment, principally wind turbines, and project contracting services also represented a substantial portion of our total procurement expenditure. For the years ended December 31, 2009, 2010 and 2011, our purchases from our five largest suppliers of equipment and project contracting services represented 25.1%, 29.6% and 25.6%, respectively, of our capital expenditures in 2009, 2010 and 2011, respectively. During the same periods, our purchases from our single largest supplier of equipment and project contracting services represented 9.5%, 9.9% and 7.9% of our capital expenditures in 2009, 2010 and 2011, respectively. In 2009, Huadian Engineering, a connected person of our Company, was one of our five largest suppliers of equipment and project contracting services. In 2010 and 2011, Huadian Heavy Industries Co., Ltd, a connected person of our Company, was one of our five largest suppliers of equipment and project contracting services.

Save as disclosed above, to the knowledge of our Directors, none of our Directors or Supervisors, their respective associates or any of our shareholders holding more than 5% of our issued capital, held any interest in any of the above five largest customers or suppliers as of the Latest Practicable Date.

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### COMPETITION

We compete with other clean energy companies in China, primarily for development rights, suitable construction location, acquisition opportunities, equipment supplies and access to bank borrowings. A few major power generation groups dominate the clean energy power industry in China, and we face competition mainly from top players, such as China Longyuan Power Group Corporation Limited, China Datang Corporation Renewable Power Co., Limited and Huaneng Renewables Corporation Limited. We believe that competition in the PRC clean energy industry is becoming increasingly intense as other PRC power generation companies strive to capture greater market share in response to the favorable government policies promoting the development of clean energy, especially wind power. Our failure to maintain a competitive position to compete successfully against our competitors may materially and adversely affect our business, financial position, results of operations and prospects.

Our hydropower business currently does not face substantial competition in its operations in Fujian province since we hold a dominant position in the local market.

Our coal-fired power business currently does not face substantial competition since the PRC government authorities determine and review its on-grid tariff and planned generation.

### EMPLOYEES

As of December 31, 2011, we had 7,531 full-time employees. The following table sets forth a breakdown of our employees by business segment as of December 31, 2011:

<b>Business segment</b>	<b>Numbers</b>
Hydropower . . . . .	3,529
Wind power . . . . .	1,150
Coal-fired power . . . . .	1,890
Others clean energy . . . . .	806
Headquarters . . . . .	156
<b>Total . . . . .</b>	<b>7,531</b>

We have not experienced any strikes or other material labor disturbances that have interfered with our operations to date, and we believe our management, the labor union and employees have maintained good relationships with each other.

### ENVIRONMENTAL REGULATION

We are committed to conducting our operations in compliance with applicable environmental laws and regulations, and endeavor to mitigate the adverse effect of our operations on the environment. Our operations are subject to environmental laws and regulations relating to noise control, air and water emissions, water and ground protection and waste management in the construction and operation of renewable energy projects and coal-fired power plants. We operate under a number of licenses and authorizations that are related to environmental regulations. As advised by our PRC legal advisers, we are subject to applicable environmental law and regulation in China and the construction and operation of our power generating projects must be approved by the relevant department of environmental protection administration.

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We believe we are in compliance with the applicable environmental laws and regulations. Our PRC legal advisers confirmed that we were in material compliance with all relevant environmental laws and regulations in the PRC, and were not subject to any material environmental claims, lawsuits, administrative penalties due to violations of such environmental laws and regulations in relation to our operation of hydropower, wind power, coal-fired power and other clean energy businesses during the Track Record Period and up to the Latest Practicable Date.

However, the PRC government is moving towards more rigorous enforcement of applicable environmental laws and regulations and the adoption of more stringent environmental standards. The future imposition of stricter environmental legislation could have a material adverse effect on our financial conditions and results of operations. Please see “Risk Factors – Risks Relating to Our Business Operations – We may fail to comply with laws and regulations in the PRC relating to the development, construction and operation of power projects.”

For the years ended December 31, 2009, 2010 and 2011, our cost of compliance with applicable environmental laws and regulations was RMB12.3 million, RMB7.3 million and RMB6.2 million, respectively. The cost of compliance with applicable environmental laws and regulations depends on the capacity of our power generating projects.

### HEALTH AND SAFETY COMPLIANCE

Our business operations involve risks and hazards that are inherent in such activities. These risks and hazards could result in damage to, or destruction of, property or production facilities, personal injury, business interruption and possible legal liability. All of our power generating projects have adopted various internal policies and taken protective measures to prevent health and safety risks and hazards. As of the Latest Practicable Date, our power generating projects had not encountered any material unplanned outages due to health and safety issues.

As of the Latest Practicable Date, we were in compliance with the applicable PRC laws and regulations on health and safety, including Safe Production Law of the PRC, Supervision Measures on Safe Power Generation issued by the SERC, Measures on Supervision and Administration of Safe Production of Electric Power Industry (電力安全生產監督管理辦法), and implementation rules on safe production issued by various local governments. As of the Latest Practicable Date, we have not been subject to any fines or administrative actions involving noncompliance with any relevant regulations, nor are we required to take any specific compliance measures. Our Directors also confirmed that we did not experience any serious accident in our power plants during the Track Record Period.

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### INTELLECTUAL PROPERTY

Our intellectual property consists primarily of industry know-how and trade secrets. We do not have any registered patents or trademarks in the PRC. We have entered into a trademark licensing agreement with our Controlling Shareholder regarding our use of its trademarks. Please see “Connected Transactions – Exempt Connected Transactions – (A) Trademark Licensing Agreement.”

We have not been involved in any litigation or legal proceedings for violation of intellectual property rights of third parties, nor have we suffered from any infringement of our intellectual property. Please see “Appendix IX – Statutory and General Information.”

### INSURANCE

We maintain all property and construction risk insurance, machinery breakdown insurance, and customary worker’s compensation and automobile insurance with reputable insurance companies in the PRC on terms as generally carried by companies engaged in similar businesses and owning similar properties. We review our insurance policies annually. We do not carry any third-party liability insurance to cover claims in respect of personal injury, property or environmental damages arising from accidents on our property or relating to our operations, nor do we carry any business interruption insurance. We believe that the insurance coverage of our power generating projects is adequate and customary for the power and clean energy industries in China.

### LEGAL PROCEEDINGS

As of the Latest Practicable Date, there were no pending or threatened litigation, arbitration, or administrative penalties, and we were not involved in litigation or other proceedings, which would materially and adversely affect our business, financial condition or results of operations as of the Latest Practicable Date. Our PRC legal advisers confirmed that we complied with applicable PRC laws and regulations in all material aspects, and had obtained permits, licenses, qualifications, authorizations and approvals material to our business operations during the Track Record Period and up to the Latest Practicable Date.

We are involved in disputes with the relevant local government authority regarding the amount of resettlement compensation that our Mianhuatan Hydropower Project is required to pay. For more details, please refer to “Risk Factors – Risks Relating to Our Hydropower Business – The resettlement of relocated residents may cause significant cost increases and/or construction delays of our hydropower projects” and “Business – Our Hydropower Business – Recent disputes involving the Mianhuatan Hydropower Project” in this prospectus.

**PROPERTY****Land*****Land for Operating Projects***

As of December 31, 2011, we owned, held or occupied 1,585 parcels of land, with a total site area of 15,020,478.4 m<sup>2</sup> for operating projects. We have proper land use rights to all such land, except for three parcels of land, with a total site area of 24,582.0 m<sup>2</sup>. These title defects relate to our two wind power projects that became operational in 2011 and our application for land use right certificates to these three parcels of land is being reviewed and processed by the relevant government authorities.

Our Directors believe that our use of the three parcels of land without land use right certificates will not materially adversely affect our business operations due to the following:

- the site areas underlying the three parcels of land only accounted for approximately 0.2% of our total site areas for operating projects as of December 31, 2011;
- our PRC legal advisers have confirmed that there is no material legal impediment for us to obtain the land use rights to these three parcels of land once our applications are approved by the relevant government authorities, and we expect to receive these land use right certificates in 2012; and
- our Controlling Shareholder, Huadian, has undertaken in the Reorganization Agreement that it will indemnify us against any losses, claims, charges or expenses arising from our failure to obtain the outstanding land use right certificates. Our PRC legal advisers have confirmed that the above undertaking given by Huadian is legally binding and enforceable.

***Land for Projects under Construction***

As of December 31, 2011, we owned, held or occupied 20 parcels of land, with a total site area of 1,480,861.8 m<sup>2</sup> for projects under construction, among which we had not obtained land use rights to 18 parcels of land, with a total site area of 1,455,242.8 m<sup>2</sup>.

These title defects were primarily caused by the complex administrative approval procedures, usually with a long waiting period, and the special characteristics of the wind power project construction. Our Directors believe that the title defects in our land for projects under construction will not materially and adversely affect our operations due to the following:

- we have obtained the preliminary government approvals necessary for obtaining the land use right certificates and are in the process of obtaining the relevant land use right certificates for the 18 parcels of land;



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- our PRC legal advisers have also confirmed that there is no material legal impediment for us to obtain the land use right certificates for these parcels of land if the necessary procedural requirements are satisfied. We expect that we will be able to obtain the relevant land use right certificates by the time these projects complete construction; and
- our Controlling Shareholder, Huadian, has undertaken in the Reorganization Agreement that it will indemnify us against any losses, claims, charges or expenses arising from our failure to obtain the outstanding land use right certificates. Our PRC legal advisers have confirmed that the above undertaking given by Huadian is legally binding and enforceable.

### *Leased Land*

As of December 31, 2011, we leased one parcel of land with a site area of 262,068.0 m<sup>2</sup>, the owner of which had not obtained the land use right certificate.

Our Directors believe that this title defect will not materially and adversely affect our operations due to the following:

- the site area underlying this leased land only accounted for approximately 1.8% of our total site areas for operating projects as of December 31, 2011; and
- our Controlling Shareholder, Huadian, has undertaken in the Reorganization Agreement that it will indemnify us against any losses, claims, charges or expenses arising from the title defect on our leased land. Our PRC legal advisers have confirmed that the above undertaking given by Huadian is legally binding and enforceable.

### **Buildings**

#### *Owned Buildings*

As of December 31, 2011, we owned, held or occupied 789 buildings, with a total gross floor area of 733,032.6 m<sup>2</sup>. We have proper building ownership certificates to all such buildings, except for 43 buildings, with a total gross floor area of 69,620.9 m<sup>2</sup>.

Among our 43 buildings without ownership certificates:

- we are in the process of applying for the certificates to 38 buildings, with a total gross floor area of 67,020.5 m<sup>2</sup>;
- we did not apply for the ownership certificate to one building, which we use as office and dormitory, with a gross floor area of 733.4 m<sup>2</sup>, due to its noncompliance with the relevant construction standards in China; and

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- we may not be able to obtain the ownership certificates to four buildings, totaling 1,867.0 m<sup>2</sup>, which were constructed on leased land without land use rights certificate.

Our PRC legal advisers have advised that the potential legal risks for not having proper building ownership certificates may include suspension of construction, fines, demolition or confiscation of the structure. Our Directors believe that our use of these 43 buildings with title defects will not materially adversely affect our business operations due to the following:

- our PRC legal advisers have confirmed that there is no material legal impediment for us to obtain the ownership certificates for 38 buildings once our applications is approved by the relevant government authorities;
- our PRC legal advisers have also confirmed that there is no material legal impediment for us to obtain the ownership certificates for the building that did not satisfy the relevant construction standards in China after we properly adjust the structure of this building and our application is approved by the relevant government authorities;
- our Controlling Shareholder, Huadian, has undertaken in the Reorganization Agreement that it will assist us in obtaining building ownership certificates; and
- the four buildings, to which we may not obtain their building ownership certificates, are not material to our operations, and the estimated fines we may face for not having ownership certificates to these four buildings were up to approximately RMB92,000.

### *Leased Buildings*

As of December 31, 2011, we leased 45 buildings, with a total gross floor area of 14,725.1 m<sup>2</sup>, among which, the owners of 12 buildings totaling 3,613.3 m<sup>2</sup> of gross floor area had not obtained building ownership certificates.

Our PRC legal advisers have advised us that the PRC law may not fully protect our rights under the leases of these buildings. As a result, third parties may challenge our rights to use these buildings and we may have to vacate the relevant premises should any challenge succeed. Our Directors believe that our use of these 12 leased buildings with title defects will not materially adversely affect our business operations due to the following:

- these 12 leased buildings with title defects are primarily used for office and residential purposes;
- our PRC legal advisers have advised us that the effectiveness of the lease agreements shall not be affected without proper filing procedures pursuant to PRC laws, and the lease agreements for these 12 buildings are enforceable and legally binding; and

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- our Controlling Shareholder, Huadian, has undertaken in the Reorganization Agreement that it will indemnify us during the terms of our relevant leases against our actual losses, claims, charges and expenses arising from our landlords' failure to obtain the outstanding building ownership certificates and our relevant leases being deemed void. Our PRC legal advisers have confirmed that the above undertaking given by Huadian is legally binding and enforceable.

If Huadian undertakes to indemnify us against any losses, claims, charges or expenses arising from (i) our failure to obtain the outstanding land use right certificates; (ii) the title defect on our leased land; or (iii) our landlords' failure to obtain the outstanding building ownership certificates and our relevant leases being deemed void, such indemnities will be treated as capital reserves on our financial statements.

For further details and risks in our title defects, please see "Appendix IV – Property Valuation Report," and "Risk Factors – Risks Relating to Our Business Operations – We do not possess the title certificates or construction permits in respect of certain land and buildings we own and occupy."