OVERVIEW

As of the Latest Practicable Date, the Company was directly held as to, among others, approximately (i) 39.07% by Sifang Electric, (ii) 0.77% by Dr. Yang Qixun, and (iii) 0.52% by Dr. Wang Xuzhao.

As of the Latest Practicable Date, Sifang Electric was directly held as to, among others, approximately (i) 3.66% by Dr. Yang Qixun, (ii) 4.70% by Dr. Wang Xuzhao, and (iii) 18.59% by Panxin Management, a shareholding platform of Sifang Electric. The rest of the equity interests in Sifang Electric were held by a total of 89 shareholders, with none of whom holding more than 10% in Sifang Electric.

Dr. Yang Qixun served as the general partner of Panxin Management as of the Latest Practicable Date. Dr. Yang Qixun and Dr. Wang Xuzhao entered into the Acting-in-Concert Agreement on October 16, 2008, pursuant to which they agreed to act in concert in respect of, among other things, the requisition of board meetings and general meetings of Sifang Electric, proposals at such meetings and voting thereon. In addition, as of the Latest Practicable Date, 17 shareholders of Sifang Electric, holding approximately 4.00% of the total issued share capital of Sifang Electric in aggregate, have entrusted the exercise of their voting rights at the general meetings of Sifang Electric to Dr. Yang Qixun, and 15 shareholders of Sifang Electric, holding approximately 1.19% of the total issued share capital of Sifang Electric in aggregate, have entrusted the exercise of their voting rights at the general meetings of Sifang Electric to Dr. Wang Xuzhao. Accordingly, Dr. Yang Qixun and Dr. Wang Xuzhao, collectively, were able to control approximately 32.14% of the voting rights at the general meetings of Sifang Electric.

For a simplified corporate structure chart of the Group before the [**REDACTED**], see "History and Development."

Immediately following the completion of the [**REDACTED**] (assuming the [**REDACTED**] is not exercised), Dr. Yang Qixun, Dr. Wang Xuzhao, Panxin Management and Sifang Electric, collectively, will control an aggregate of approximately [**REDACTED**]% of the total issued share capital of the Company. As such, Dr. Yang Qixun, Dr. Wang Xuzhao, Panxin Management and Sifang Electric will together constitute a group of the Controlling Shareholders upon [**REDACTED**].

INTEREST IN COMPETING BUSINESS

Sifang Electric is primarily an investment holding company with no substantial business operations of its own. Each of Dr. Yang Qixun and Dr. Wang Xuzhao is a professor and an expert in electric engineering. As of the Latest Practicable Date, Dr. Yang Qixun and Dr. Wang Xuzhao only served as the directors of Sifang Electric. Each of the Controlling Shareholders confirms that, as of the Latest Practicable Date, he/it did not have any interest in a business, apart from the business of the Group, which competes or is likely to compete, directly or indirectly, with the Group's principal business that would require disclosure under Rule 8.10 of the Listing Rules.

NON-COMPETITION UNDERTAKING

Each of Dr. Yang Qixun, Dr. Wang Xuzhao and Sifang Electric has provided a non-competition undertaking in favor of the Group on February 23, 2009 (the "**Non-competition Undertaking**"), pursuant to which each of Dr. Yang Qixun, Dr. Wang Xuzhao and Sifang Electric has undertaken that, among other things:

(i) each of Dr. Yang Qixun, Dr. Wang Xuzhao and Sifang Electric, their respective close relatives (if applicable) and the respective enterprises controlled by them and their close relatives (if applicable) (collectively, the "**Related Parties**") had not been engaged in any business that directly or indirectly competes, or is likely to compete, with the business of the Group;

(ii) for so long as each of Dr. Yang Qixun, Dr. Wang Xuzhao and Sifang Electric remains as the actual controller of the Company, he/it shall not, nor shall he/it procure his/its Related Parties to directly or indirectly own, invest in, participate in, or operate any business that directly or indirectly competes with the business of the Group or any other business that the Group plans to develop (the "**Relevant Business**"), or provide any third party with consultations or services that compete with the Relevant Business;

(iii) if any of Dr. Yang Qixun, Dr. Wang Xuzhao and Sifang Electric or his/its Related Parties has the opportunity to invest in, participate in, develop, operate or engage in a business that competes with the business of the Group, he/it shall promptly inform the Group in writing and shall use his/its best efforts to procure that the Group retains the priority to invest in, participate in, develop, operate or engage in such business, on terms no less favorable than those offered to himself/itself. Unless the Group has, following discussion and approval by the Board or general meeting, decided not to participate in such business and has notified him/it to that effect, he/it and/or his/its Related Parties shall not develop or engage in such business;

(iv) each of Dr. Yang Qixun, Dr. Wang Xuzhao and Sifang Electric shall not, nor shall he/it procure his/its Related Parties to solicit or induce any customer of the Group to cease business dealings or transactions with the Group;

(v) each of Dr. Yang Qixun, Dr. Wang Xuzhao and Sifang Electric shall not, nor shall he/it procure his/its Related Parties to solicit or induce any employee of the Group to leave the Group, or employ any such person in any manner; and

(vi) each of Dr. Yang Qixun, Dr. Wang Xuzhao and Sifang Electric has agreed to compensate the Group for all direct and indirect losses caused by his/its breach of the Non-competition Undertaking.

INDEPENDENCE FROM THE CONTROLLING SHAREHOLDERS

Having considered the following factors, the Directors are satisfied that the Group is capable of carrying on its business independently from the Controlling Shareholders and their respective close associates after the [**REDACTED**].

Management Independence

The Group's business is managed and conducted by the Board and the senior management. Upon [**REDACTED**], the Board will consist of nine Directors, comprising five executive Directors and four independent non-executive Directors. See "Directors and Senior Management." The following table sets forth the positions held by the Directors and senior management of the Company in Sifang Electric. As Sifang Electric is primarily an investment holding company with no substantial business operations of its own, none of the following positions in Sifang Electric as listed below are executive in nature.

Name	Position(s) in the Company	Position(s) in Sifang Electric
Ms. Gao Xiuhuan . . .	Executive Director and chairperson of the Board	Director, chairperson of the board of directors and general manager
Mr. Liu Zhichao	Executive Director and president	Director
Mr. Zhu Zhaohui . . .	Executive Director	Director
Mr. Zhao Zhiyong . .	Executive Director	Director
Mr. Xi Shuyang	Executive Director	Supervisor
Ms. Qin Hongxia . . .	Vice president	Supervisor and chairperson of the board of supervisors

The Directors consider that the Board and the senior management are capable of functioning independently of the Controlling Shareholders for the following reasons:

(i) save as disclosed above, none of the Directors or members of senior management of the Company holds any directorship or executive positions in the Controlling Shareholders or any of their close associates;

(ii) the daily management and operations of the Group are carried out by a senior management team, all of whom have substantial experience in the industry in which the Company is engaged, and will therefore be able to make business decisions that are in the best interest of the Group;

(iii) each Director is aware of her/his fiduciary duties as a director which require, among other things, that she/he must act for the benefit and in the interest of the Company and the Shareholders as a whole, and not allow any conflict between her/his duties as a Director and her/his personal interests;

(iv) the Group will have four independent non-executive Directors and the independent non-executive Directors individually and collectively possess the requisite knowledge and experience. They collectively combine experience as independent directors of listed companies, industry insights in electric sectors and financial expertise, and will be able to provide professional and experienced advice to the Company. In conclusion, the Directors believe that the independent non-executive Directors are able to bring impartial and sound judgment to the decision-making process of the Board and protect the interest of the Company and the Shareholders as a whole;

(v) as an A-share listed company, the Group has formulated and adopted a comprehensive internal control and management system in compliance with the relevant requirements of the rules of the Shanghai Stock Exchange. The Directors shall not vote in any Board resolution approving any contract or arrangement or any other proposal in which she/he or any of her/his close associates have a material interest and shall not be counted in the quorum present at the particular Board meeting; and

(vi) the Company has adopted a series of corporate governance measures to manage conflicts of interest, if any, between the Group and the Controlling Shareholders which would support the Group's independent management. See "— Corporate Governance Measures" in this section.

Based on the above, the Directors are satisfied that they are able to perform their managerial roles in the Company independently, and the Directors are of the view that the Group is capable of managing its business independently from the Controlling Shareholders after the [**REDACTED**].

Operational Independence

The Group has full rights to make business decisions and to carry out its business independently from the Controlling Shareholders. On the basis of the following reasons, the Directors consider that the Company will continue to be operationally independent from the Controlling Shareholders and their respective close associates after the [**REDACTED**]:

(i) the Group has sufficient capital, facilities, equipment and employees to operate our business independently from the Controlling Shareholders;

(ii) the Group has independent access to its customers and suppliers;

(iii) the Group has its own administrative and corporate governance infrastructure, including its independent accounting, legal and human resources departments; and

(iv) none of the Controlling Shareholders or their respective close associates have any interests in any business which competes or is likely to compete with the business of the Group.

Based on the above, the Directors believe that the Group is able to operate independently from the Controlling Shareholders.

Financial Independence

The Group has independent internal control and accounting systems. The Group also has an independent finance department responsible for discharging the financial management, accounting, reporting, funding and treasury function of the Group.

The Group is capable of obtaining financing from third parties, if necessary, without reliance on the Controlling Shareholders and their respective close associates. As of the Latest Practicable Date, the Group did not have any outstanding loans granted or guaranteed by any of the Controlling Shareholders or their respective close associates.

Based on the above, the Directors are of the view that the Group is capable of carrying on its business independently from, and do not place undue reliance on, the Controlling Shareholders and their respective close associates after the [**REDACTED**].

CORPORATE GOVERNANCE MEASURES

The Directors recognize the importance of protecting the rights and interests of all Shareholders, including the rights and interests of the minority Shareholders.

The Group have adopted, among other things, the following measures to ensure good corporate governance standards and to avoid potential conflicts of interest between the Group and the Controlling Shareholders:

(i) as part of the preparation for the [**REDACTED**], the Company has amended the Articles of Association to comply with the Listing Rules which will become effective upon the [**REDACTED**]. In particular, the Articles of Association will provide that, a Director shall abstain from voting on any resolution approving any contract, transaction or arrangement in which such Director or any of her/his close associates has a material interest nor shall such Director be counted in the quorum present at the Board meeting;

(ii) the Company has established internal control mechanisms to identify connected transactions and related party transactions. Upon the [**REDACTED**], if the Company enters into connected transactions or related party transactions with the Controlling Shareholders or any of their respective close associates, the Company will comply with the applicable laws and regulations, including the Listing Rules;

(iii) the Company is committed that the Board shall include a balanced composition of executive Directors and non-executive Directors (including independent non-executive Directors). The Company has appointed four independent non-executive Directors, and believes that the independent non-executive Directors (a) possess sufficient experiences, (b) are free of any business or other relationship which could interfere in any material manner with the exercise of their independent judgment, and (c) will be able to provide an impartial and external opinion to protect the interests of the Shareholders as a whole;

(iv) the independent non-executive Directors will review, on an annual basis, whether there are any conflicts of interest between the Group and the Controlling Shareholders. The Controlling Shareholders will provide all information necessary for the independent non-executive Directors' annual review;

(v) the Company will disclose decisions on matters reviewed by the independent non-executive Directors either in its annual reports or by way of announcements as required by the Listing Rules;

(vi) where the Directors reasonably request the advice of independent professionals, such as financial advisors, the appointment of such independent professionals will be made at the Company's expense; and

(vii) the Company has appointed Somerley Capital Limited as the Compliance Advisor to provide advice and guidance to the Company in respect of compliance with the applicable laws and regulations, as well as the Listing Rules, including various requirements relating to corporate governance.

Based on the above, the Directors are satisfied that sufficient corporate governance measures have been put in place to manage conflicts of interest that may arise between the Group and the Controlling Shareholders, and to protect the minority Shareholders' interests after the [**REDACTED**].