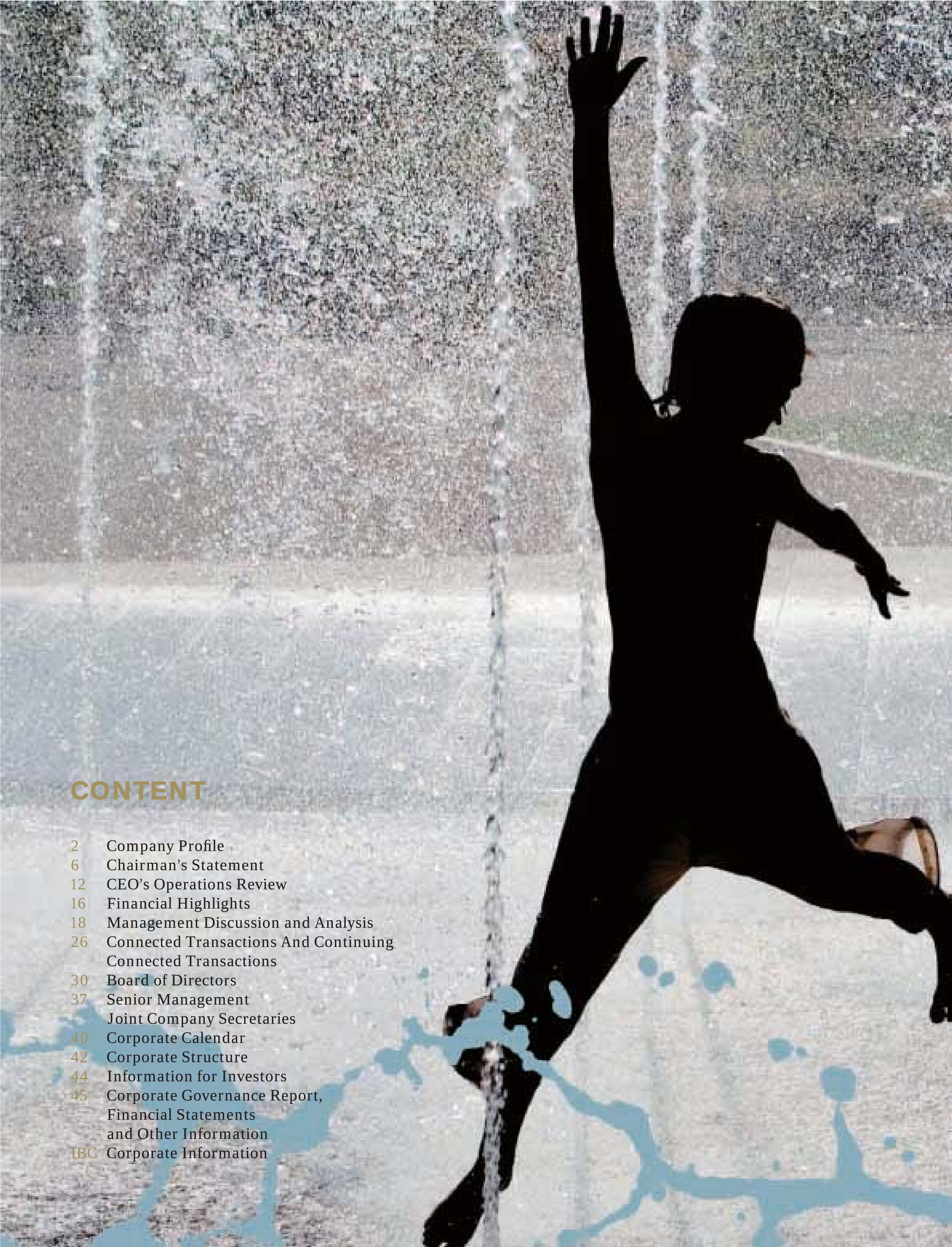
MAKING A SPLASH

桑德國際
sound global

SOUND GLOBAL LTD.

Stock Code: E6E.SI(SGX) 00967(SEHK)

Annual Report 2010



CONTENT

MAKING A SPLASH

The sound of the splash — a thunderous base, followed by a more hollow tail of echoes — resonated across the Asia Pacific. From the Great Wall of China, to the skyscrapers of Taipei, the harbour of Hong Kong SAR, the gardens of Singapore and the bay of the Middle East, the great sound whistled past.

The signs of the splash — an enormous water ball that opened up into a huge downpour. People looked up into the sky in amazement and children dance in the streets in merriment. After the downpour, stains of the splash still linger — dried coloured blots everywhere — to remind us of its effect.

Sound and signs that we have arrived.

COMPANY PROFILE

Sound Global Ltd. (formerly known as Epure International Ltd.) is one of China's leading turnkey water & wastewater treatment solutions providers. Backed by extensive R&D and technical expertise, it has successfully completed many award-winning projects.

The Group develops proprietary technologies and customises them into effective turnkey solutions for industrial and municipal projects. It has a strong marketing network in China, where it is much sought after for its strong design and engineering project management capabilities.

In 2006, Sound Global diversified into the management of water treatment plants. It has also invested in Build, Operate and Transfer (BOT) projects to diversify its project portfolio. The Group acquired Beijing Hi-Standard Water Treatment Equipment Co., Ltd, progressing towards its aspiration of becoming a fully integrated services provider.

MAKING AN IMPACT

Everybody remembers the moment of impact: the sounding of the gong, the applause, the praises, when the signature is inked, the glory, the fame.... But what happens after that? Relief, emptiness, rest, then back to the drawing board: all over again.

It is this exhausting cycle of doing things over again, but doing things differently and better that bring us the adrenaline; adrenaline to scale another peak, adrenaline to build up the crescendo. And we strive to keep the sound going, to never let the crescendo fade.

To us, that is impact.

CHAIRMAN'S STATEMENT

Dear shareholders,

First of all, I would like to express my heartfelt gratitude to all shareholders for your care and support for Sound Global throughout the years.

Review

Having gone through more than 30 years of development, the environmental protection industry in China has achieved significant progress, developing from an industry that focused on the disposal of waste gas, waste water and waste residues, to an integrated industrial system covering environmental-friendly products, environmental infrastructure construction, environmental services, and recycling resources.

In 2010, with more efforts put into environmental protection in China and continual improvements to environmental protection policies, the industry experienced rapid development and continuous expansion. This led to the gradual optimization and advancement of the industry's structure, techniques and product structures, as well as accelerated the development of the industry's operating service sector.

It is estimated that the total revenue of the environmental protection industry in China amounts to nearly RMB 1,000 billion. The environmental protection industry has made great contributions to the protection and improvement of the environment and the reduction of pollution.

Over the past few years, the capital market for China's water industry has developed swiftly due to improvements in the industry's investment and financing landscape. This will inevitably affect water enterprises, regardless of them expanding horizontally or vertically, unless they are backed by massive funds. As such, the capital market has already become the main channel for water enterprises to acquire funding.

Sound Global, which was already listed in Singapore in 2006, not only enjoys good reputation in both China and Singapore, but also has operations across the world having delivered numerous excellent performances in the global arena after its successful expansion into the international market in 2009. Sound Global possesses advanced technologies and commands outstanding performances in the waste water treatment for coal, chemical and coking industries. It is also the leader in capital investment, design and consultancy, equipment manufacturing, procurement/installation, project management, as well as operation and maintenance in the industries it operates in. Furthermore, Sound Global was successfully listed on The Stock Exchange of Hong Kong Limited at the end of September 2010. Being the first water enterprise in China that broke into the international market, the growth of the capital market will play a key role in its business consolidation and growth.

Prospects

The 21st Century is billed as the "Era of Water". The gravity and significance of water problems have increasingly become a social consensus heavily regarded by the Chinese government. Hence, the water industry has slowly turned into one of the most rapidly developing industries in China.

Currently, the Chinese government attaches great importance to the environmental protection industry. On October 10, 2010, the State Council issued the Decision on Speeding Up the Cultivation and Development of Strategic Emerging Industries (《國務院關於加快培育和發展戰略性新興產業的決定》), which provides that the environmental protection industry will be cultivated and developed as one of the strategic emerging industries. During the "12th Five-Year Plan" period, China will make more investments in the environmental protection industry, which will inevitably bring tremendous demand to the industry. During this period, the funds invested in municipal water supply and the waste water treatment industry are expected to be RMB 220 billion and RMB 700 billion respectively.

Meanwhile, the environmental protection industry is expected to continue developing at a rapid rate of over 15%. The latest annual report, Analysis on the Policies and the Market of the Water Industry in China (《中國水業政策與市場分析》) issued on www.h2o-china.com, forecasted that, driven by favorable policies, investments in the municipal water industry would reach RMB 1,000 billion during the "12th Five-Year Plan" period.

The next few years hold crucial strategic opportunities for the development of the environmental protection industry in China. As a competitive enterprise in the water market in China, Sound Global expects an extremely promising future. With its service offering across the entire value chain, advanced technologies in the water industry and continuous excellent performances in the international market, I believe shareholders can have boundless confidence in the future developments of Sound Global.

Appreciation

On behalf of the Board, I would like to express my gratitude to the management team and all our staff for their efforts in 2010 as well as my heartfelt thanks to the shareholders for your continuous support.

Wen Yibo
Executive Chairman

主席致詞

尊敬的列位股東：

首先，本人謹代表桑德國際向列位股東對本公司長期以來的關心和支持表示衷心的感謝。

回顧

中國環保產業經過30多年的發展，取得了長足的進步，已經從初期的以「三廢治理」為主，發展成為包括環保產品、環境基礎設施建設、環境服務、資源循環利用等領域的門類比較齊全的產業體系。2010年，隨著國家環境保護力度的不斷加大和環保產業政策的日趨完善，環保產業快速發展，產業領域不斷拓展，產業結構、技術和產品結構逐步優化升級，運營服務業發展加快。據測算，中國環保產業的收入總額近人民幣10,000億元。中國環保產業為環境保護、治理以及污染物減排做出巨大的貢獻。

過去幾年，隨著水務企業投融資政策環境的逐漸改善，中國水務企業發展及其迅速，已經由單純的市場運作方式轉為市場以及資本相結合的運作方式。水務企業無論是橫向業務拓展，還是縱向業務延伸，如果沒有大量的資金支撐，都將受到不同程度的影響，因此，登陸資本市場已經成為水務企業集資的主要手段。

早在2006年就已在新加坡上市的桑德國際，不僅在國內及新加坡市場上享有盛譽，繼2009年成功打開國門，走向國際市場後，其在國際市場表現活躍，屢見戰績，現已成為一家全球性經營的企業。桑德國際在煤化工、焦化等行業廢水處理領域擁有領先的技術和市場戰績，在資本投資、設計和諮詢、設備製造、採購／安裝、項目管理、營運和維護能力等方面具市場引領地位。桑德國際於2010年9月底在香港聯合交易所有限公司成功上市，對於首家進入國際市場的中國水務企業而言，資金募集渠道的拓寬為業務沉澱以及成長性的培養將起到關鍵性的作用。

展望

二十一世紀被稱為「水的世紀」。水問題的嚴重性和重要性已日益成為社會各界的共識，中國政府把水問題提到重要位置，水務行業已逐漸成為中國未來發展最快的產業之一。

當前，中國政府高度重視環保產業。2010年10月10日，國務院發佈了《關於加快培育和發展戰略性新興產業的決定》，將環保產業作為戰略性新興產業之一加以培育和發展。「十二五」期間，中國將進一步加大環境保護投資力度，這必然催生出巨大的環保市場需求，預計「十二五」期間，我國城市供水行業的投資需求為人民幣2,200億元，污水處理行業的投資需求為人民幣7,000億元，環保產業將繼續保持高於15%的發展速度，中國水網發佈的一份最新年度報告《中國水業政策與市場分析》預測，受政策利好所趨，「十二五」期間，城市水務領域的投資將達到人民幣10,000萬億元。

今後一段時期，是中國環保產業發展的重要戰略機遇期，桑德國際作為中國水務市場上頗具競爭力的企業，未來發展前景極為可觀，鑒於2010年以來，桑德國際在水務行業擁有全產業鏈和領先技術的優勢逐漸顯現，以及在國際水務市場上捷報頻傳，相信桑德國際會讓股東對其發展前景充滿信心。

致謝

本人謹代表董事局，向各管理層及員工於2010年所付出的努力致意，亦感謝各股東的不斷支持。

文一波
執行主席

MAKING A PRECEDENT

It started with a dream, a vision. Then it became a few words on a piece of paper. Slowly an action plan is tabled. Meetings, then more meetings followed. Things started to get exciting and momentum started to build. Meetings, then more meetings.

But suddenly a road block. Pessimism shadows the team.

Suddenly again, an inspiration struck, followed by apprehension, then hope. Meetings, then more meetings. Optimism and things fall together. Finally a precedent is made.

We have dreamt from Beijing to Singapore, to the Middle East, Hong Kong SAR, and now Taiwan. What's our next dream?

CEO'S OPERATIONS REVIEW

Dear shareholders,

I am sincerely thankful to all the staff and shareholders of Sound Global for your great support and care in the past year. At the very beginning of the year 2011, I am honored to present to you the results we have achieved in the past year and our development plan for the coming year.

Operation Condition

By adhering to the long-term development strategy and the annual operation objectives, the Company sped up its expansion and formulated the strategic layout for the water market, expanded its financing channels, and was successfully listed on The Stock Exchange of Hong Kong Limited in 2010. These developments have all brought the full implementation of its globalized development strategy where professionalism, consistency and scale of operation are emphasized.

Technological R & D

Sound Global is a technology-intensive environmental protection enterprise, and its capabilities in technological research and development have been outperforming its peers. The project of constructing the urban drainage network system under the national special topic of "11th Five-Year" Planning Project, and the project of "Special Filling Materials for the Construction of Upgraded Urban Sewage Treatment Plants" jointly undertaken by the international R & D center of Sound Global and Tsinghua University were successfully admitted to the national special topics under "12th Five-Year" Planning Project. With regards to intellectual properties, Sound Global obtained 8 more patents in 2010 in addition to its existing 31 patents. Among the additional 8 patents, 3 were for invention patents and 5 for utility model patents. Moreover, its modified oxidation channel sewage treatment technology was cited as the national key practical technology for environmental protection in 2010. In 2010, the international inspection center of Sound Global successfully passed the CNAS certification of China National Accreditation Service for Conformity Assessment. The research center was cited as the enterprise technology center in Beijing City, and is expected to be upgraded to a national enterprise technology center in 2011.

Marketing

In view of market development trends in the water industry, the Company is exploring regional and cross-regional development models for both the international and domestic markets in the fields of project investment, cash investment, operation and equipment supply and manufacture. Our new projects were undertaken under the formats of Build, Operate and Transfer (BOT), Engineering Procurement and Construction (EPC), and Build and Transfer (BT), and the facilities of the existing projects were undertaken under the formats of Transfer, Operate and Transfer (TOT) and Operation and Management (OM). In 2010, the Company completed a number of wastewater treatment projects, including the sewage treatment plant project in Deshan District, Changde City, Hunan Province, the sewage treatment project for 蒙維科技有限公司 and the sewage treatment in the Longmen Coking Plant in Shaanxi Province.

Operational Management

In 2010, to carry out its international development strategy, Sound Global achieved marked results in the continuous improvement of its operation management. In pursuit of excellence, Sound Global values excellent human resources and has always attached great importance to the development and nurture of talents. The Company aims to strengthen the quality of manpower by cultivating capability in self-innovation and integrating the approaches in production, studies and research. In 2010, we recruited senior experts that have thorough understanding of international markets and practices; with the persistent development of the overseas markets, a number of young talents who were educated abroad or who had overseas work experience have joined Sound Global, and have taken up positions in project management, technological development and engineering design departments. These new recruits will become the main force for the overseas projects.

In 2011, Sound Global will continue to focus on the continuous improvement of its business operation, and speed up the pace of internationalization; actively satisfy the requirements of the market and its clients, and accelerate the speed of commercialization of its research findings. It will also continue to optimize its capacities in the entire industrial chain, increase investment in BOT, expend further effort to develop the wastewater treatment markets in rural areas and townships in China and raise the standard of the integrated service. In addition, Sound Global will also endeavor to enhance the capital operation and seek breakthrough developments while actively undertake social responsibilities, and create higher returns for the shareholders.

Appreciation

I hereby would like to express my gratitude to all the colleagues working in various parts of China and abroad for the development of the Company. It is your efforts and support that has helped Sound Global achieve the excellent results today and to take a great leap forward. Last but not least, I wish all the shareholders and staff every success in your work and a happy family in 2011.

Wang Kai
Chief Executive Officer

首席執行官運營回顧

尊敬的股東們：

非常感謝桑德國際全體員工及諸位股東在過去的一年裡給予的大力支持和關懷！藉此辭舊迎新之際，我很榮幸向諸位介紹過去一年中我們所取得的成績，並展現未來一年公司的發展規劃。

經營狀況

2010年，公司圍繞長期發展戰略和年度經營目標，加快水務市場擴展和戰略佈局，擴充融資渠道，成功在香港聯合交易所有限公司掛牌上市，為全面實施專業化、持續化、規模化、國際化的發展戰略再上新台階。

技術研發

桑德國際是技術密集型環保企業，技術研究和開發在行業內一直處於引領地位。2010年桑德國際研發中心與清華大學合作建設國家專項課題「十一五」規劃項目 — 城市排水管網系統，而「城鎮污水處理廠提標建設專用填料」等兩課題也已成功入圍國家專項課題「十二五」規劃項目。在知識產權方面，桑德國際在擁有31項專利的基礎上，2010年又獲得8項專利，其中3項發明專利，5項實用新型專利；《改良型氧化溝污水處理技術》被評為2010年國家重點環境保護實用技術。2010年桑德國際檢測中心順利通過國家認可委員會頒發的CNAS認證。研發中心被評為北京市企業技術中心，預計2011年將升級為國家級企業技術中心。

市場營銷

公司順應水務行業市場化發展的需求，探索區域化、流域化的開發模式，在水務投資、現資、經營、設備四個領域，兼顧國際和國內兩個市場，新建項目以建設、運營及移交 (BOT)、工程、採購及建造 (EPC)、建設及移交 (BT) 等方式進行合作，已建項目設施以移交、運營及移交 (TOT)、運營及管理 (OM)等方式合作。2010年公司完成了湖南省常德市德山區污水處理項目、蒙維科技有限公司廢水處理項目、陝西省龍門焦化廢水處理等多個水務項目。

經營管理

2010年，為實現國際化的發展戰略，桑德國際在不斷改善經營管理工作方面取得很大的成效。做為追求卓越的桑德國際，將擁有優秀的人力資源作為工作重點，桑德國際歷來十分重視人才開發與培養，並通過自我創新能力培養、產學研合作等方式，提高人力資源優勢。2010年我們引入了對國際市場和規則了解的資深專家；隨著海外市場的不斷發展，一批有海外學習工作經歷的年輕才俊加盟桑德國際並加入項目管理、技術開發、工程設計等多個崗位，成為海外項目的主力軍。

2011年，桑德國際將繼續致力於不斷優化經營業務流程，加快推進國際化進程；加大BOT投資力度，加大中國鄉鎮污水市場拓展力度積極滿足市場和客户需求，加快科技成果的轉化；繼續優化全產業鏈的能力，提高一體化服務水準；努力加強資本運作，力爭實現跨越式發展；積極承擔社會責任，為股東創造更大的價值。

致謝

在此，感謝一年來為公司的發展奮戰在全國各地及海外的所有同仁，正是由於你們的努力和支持，桑德國際取得了今天驕人的成績，實現了歷史性的飛躍。最後，真誠祝願各位股東、各位員工2011年工作順利，闔家歡樂！

王凱
首席執行官

FINANCIAL HIGHLIGHTS

Revenue (RMB ’000)

2006	2007	2008	2009	2010
505,620	697,341	1,024,808	1,293,476	1,765,672

Gross Profit (RMB ’000)

2006	2007	2008	2009	2010
161,231	223,084	333,588	375,513	536,145

Profit Before Income Tax (RMB ’000)

2006	2007	2008	2009	2010
137,804	191,081	232,013	292,989	349,067

Profit Attributable to Owners of the Company (RMB ’000)

2006	2007	2008	2009	2010
110,549	161,173	203,686	281,869	289,104

CONSOLIDATED RESULTS

	For the year ended December 31,				
	2010	2009	2008	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		(restated)	(restated)	(restated)	
Revenue	1,765,672	1,293,476	1,024,808	697,341	505,620
Profit before income tax	349,067	292,989	232,013	191,081	137,804
Income tax expense	(59,877)	(10,236)	(28,313)	(28,680)	(21,527)
Profit for the year	289,190	282,753	203,700	162,401	116,277
Attributable to					
Owners of the Company	289,104	281,869	203,686	161,173	110,549
Non-controlling interests	86	884	14	1,228	5,728
	289,190	282,753	203,700	162,401	116,277

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	December 31,				
	2010	2009	2008	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		(restated)	(restated)	(restated)	
Total assets	4,350,298	2,582,783	2,343,707	1,804,379	1,263,927
Total liabilities	2,414,043	990,839	987,147	652,683	565,057
Net assets	1,936,255	1,591,944	1,356,560	1,151,696	698,870

MANAGEMENT DISCUSSION AND ANALYSIS

SIGNIFICANT TRENDS, CONDITIONS AND EVENTS

On September 30, 2010, Sound Global was successfully listed on The Stock Exchange of Hong Kong Limited by way of introduction, in addition to its Mainboard listing on the Stock Exchange of Singapore. This dual listing on two major stock exchanges will enhance the Group's stature and visibility in China and internationally.

Turnkey — Engineering, Procurement and Construction ("EPC")

While the Group expects competition to be keen, we believe that our established track record, proprietary technologies and extensive sales and marketing network will put the Group in a strong position to bid for new contracts and build our orderbook.

Build, Operate and Transfer Projects ("BOT")

The Group intends to participate in investments in BOT projects whenever opportunities arise, in order to build up its recurrent income stream. About 60% of the net proceeds from the issuance of the convertible bonds is for the investment and acquisition of BOT projects.

Equipment Fabrication

With the continued demand for the upgrading of water treatment plants, demand for customised equipment is expected to remain stable.

Operational Management

The Group expects the outlook for the water sector in China to remain positive and the demand for water and wastewater treatment to remain robust.

The Group will also continue to seek expansion opportunities outside China and speed up the pace of internationalization.

REVIEW OF GROUP'S FINANCIAL PERFORMANCE

For the year ended December 31, 2010, there were no material differences between the consolidated financial statements of the Group prepared under Singapore Financial Reporting Standards (SFRSs) and International Financial Reporting Standards (IFRSs). Hence, the following review applies to both financial statements.

Revenue

The Group's revenue increased by approximately RMB472.2 million or 36.5% from approximately RMB1,293.5 million in 2009 to approximately RMB1,765.7 million in 2010.

The increase was attributed to: (1) contribution from the Saudi Arabia project of approximately RMB167.9 million; (2) increased contribution by Hi-Standard of approximately RMB124.4 million which arose from the sale of customised environmental equipment; (3) the contribution from the operation and maintenance segment of approximately RMB30.6 million; and (4) contributions from the turnkey projects and services amounting to approximately RMB1,442.8 million in 2010.

Gross Profit and Gross Profit Margin

Gross profit increased by approximately RMB160.6 million or 42.8% from approximately RMB375.5 million in 2009 to approximately RMB536.1 million in 2010. This increase was in line with the higher revenue and the stable gross profit margin.

The gross profit margin increased by approximately 1.4 percentage point from approximately 29.0% for 2009 to approximately 30.4% for 2010. Given the nature of the turnkey projects, where revenue is recognised based on the percentage of completion, the gross profit margin for engineering works would fluctuate from quarter to quarter depending on the amount of revenue recognised for the relevant projects during the quarters in review. On a year-to-year basis, the gross profit margin remained relatively stable at around 30%.

Other Operating Income

Other operating income increased by approximately RMB9.5 million or 68.8% from approximately RMB13.9 million in 2009 to approximately RMB23.4 million in 2010. This increase was due mainly to the deemed interest income arising from service concession receivables as a result of the increased investments in BOT projects.

MANAGEMENT DISCUSSION AND ANALYSIS (cont'd)

Other Expenses

Other expenses increased by approximately RMB48.2 million or 168.6% from approximately RMB28.6 million in 2009 to approximately RMB76.8 million in 2010. The increase was mainly due to the expenses related to the listing on The Stock Exchange of Hong Kong Limited (global offering and by way of introduction) and net foreign exchange loss recorded in 2010.

Distribution Expenses

Distribution expenses increased by approximately RMB1.9 million or 17.7% from approximately RMB10.9 million in 2009 to approximately RMB12.8 million in 2010. This is due mainly to the increase in shipping and after sales expenses, which is in line with the increase in business operations.

Research and Development Expenses

Research and development expenses remained relatively consistent and minimal at approximately RMB5.3 million in 2009 and approximately RMB4.9 million in 2010.

Administrative Expenses

Administrative expenses increased by approximately RMB41.1 million or 108.2% from approximately RMB38.1 million in 2009 to approximately RMB79.2 million in 2010. This increase was due mainly to the increase in business operations and expenses relating to share based payment.

Finance Costs

Finance costs increased by approximately RMB23.2 million or 170.1% from approximately RMB13.6 million in 2009 to approximately RMB36.8 million in 2010 due mainly from the interest expenses on convertible loan notes.

Share of Net Loss of Associate

This pertained to 20% owned Shanghai Chenghuan Water Operation Co., Ltd for which the Group's share of loss was approximately RMB14,000 for 2010.

Income Tax Expense

Income tax expenses increased by approximately RMB49.7 million or 485.0% from approximately RMB10.2 million in 2009 to approximately RMB59.9 million in 2010.

The lower income tax expenses in 2009 arose from the reversal of income tax expenses provided for in year 2008 following the confirmation of tax incentive for a subsidiary. For the period from 2010 to 2012, the applicable tax rate for Beijing Epure International Water Co., Ltd is adjusted upwards from nil to 7.5% under its tax incentive scheme. As it is one of the principal subsidiaries in terms of revenue and earnings, the increase in its applicable tax rate contributed to the increase in income tax expenses in 2010.

Profit Attributable to Owners of the Company

Profit attributable to owners of the Company increased by approximately RMB7.2 million or 2.6% from approximately RMB281.9 million in 2009 to approximately RMB289.1 million in 2010.

Gearing

	31/12/2010 RMB'000	31/12/2009 RMB'000
Borrowings (current)	**430,200**	178,700
Borrowings (non-current)	**241,096**	48,300
Convertible loan notes	**784,878**	-
Net debt	**1,456,174**	227,000
Shareholders' equity	**1,936,255**	1,591,944
Debt to equity ratio	**0.75**	0.14

Debt to equity ratio increased due mainly to the convertible loan notes issued on September 15, 2010 and borrowings obtained to finance the Group's BOT projects.

Loans

Aggregate Amount Of Group's Borrowings And Debt Securities:

Amount repayable in one year or less, or on demand:

As at 31/12/2010		As at 31/12/2009	
Secured RMB'000	Unsecured RMB'000	Secured RMB'000	Unsecured RMB'000
306,000	124,200	149,500	29,200

Amount repayable after one year:

As at 31/12/2010		As at 31/12/2009	
Secured RMB'000	Unsecured RMB'000	Secured RMB'000	Unsecured RMB'000
241,096	784,878	48,300	Nil

Details of any collateral:
The borrowings are secured by charges over the certain assets and corporate guarantee.

REVIEW OF GROUP'S FINANCIAL POSITION

Current Assets

The Group's current assets comprised of cash and bank balances, restricted bank balances, trade and other receivables, amount due from contract customers, inventories and land use rights (due within one year).

Trade receivables, stated at net of allowance for doubtful debts, amounted to approximately RMB653.5 million. The cumulative allowance for doubtful debts was approximately RMB48.0 million.

Other receivables were made up mainly of performance and tender deposits placed when we bid for projects and bills receivables of approximately RMB71.2 million, advance payments to suppliers and subcontractors of approximately RMB45.4 million as well as other receivables of approximately RMB38.7 million.

Amount due from contract customers refers to costs incurred on the projects that have not been billed to customers.

Inventories refer to equipment components and parts. As at December 31, 2010, the overall increase in inventories was attributable mainly to Hi-Standard. Inventories from turnkey business are not expected to be material as most of the civil engineering works are subcontracted to third parties.

The increase in current assets arose mainly from the increase in cash and bank balances that resulted from issuance of convertible bonds and increase in trade receivables as business operations increases.

Non-Current Assets

The Group's non-current assets consisted of property, plant and equipment, land use rights, service concession receivables, deferred tax assets, and investments in associate and subsidiaries as well as intangible assets and goodwill arising from the consolidation of Hi-Standard.

Property, plant and equipment comprised mainly of building, plant and machinery, transportation vehicles, and fixtures and equipments. We depreciate our property, plant and equipment using the straight-line method over their estimated useful lives, at rates ranging between 3% and 18% per annum. The decrease in property, plant and equipment was due mainly to depreciation.

MANAGEMENT DISCUSSION AND ANALYSIS (cont'd)

Non-Current Assets (Cont'd)

Land use rights are amortised on a straight-line basis over the period of the lease. The decrease in land use rights was due to amortisation.

Investment in an associate pertained to the 20% stake in Shanghai Chenghuan Water Operation Co., Ltd.

Intangible assets pertained to patents that arose from the acquisition of Hi-Standard. The decrease was due to amortisation.

Service concession receivables arose from BOT projects carried out by subsidiaries.

Deferred tax assets arose mainly from the allowance for doubtful debts.

The increase in non-current assets arose mainly from the increased investment in BOT projects.

Current Liabilities

The Group's current liabilities were made up mainly of borrowings, trade and other payables, amounts due to contract customers and income tax payable.

Borrowings were obtained to fund our working capital and investment in BOT projects.

Trade and other payables were made up of amounts outstanding for trade purchases of approximately RMB581.2 million, other taxes payable (including value added tax and sales tax) of approximately RMB152.5 million, performance and tender deposits received from sub-contractors and bills payables of approximately RMB24.9 million, advances received from customer of approximately RMB77.4 million as well as accruals and other payables of approximately RMB50.4 million.

Amount due to contract customers refer to progress billings made to contract customers based on contracts in excess of actual costs incurred on the projects.

Income tax payable increased as the business operations increased.

The increase in current liabilities was due mainly to the increase borrowings and trade payables as business operations increases.

Non-Current Liabilities

Long term borrowings were obtained to fund our BOT projects.

Convertible bonds represent the debt component of the bonds issued on September 15, 2010.

Deferred tax liabilities arose mainly from unremitted overseas dividends and upward fair value adjustments for assets upon the acquisition of Hi-Standard.

Capital and Reserves

Equity attributable to owners of the Company increased by approximately RMB355.7 million or 22.6% from approximately RMB1,573.0 million as at December 31, 2009 to approximately RMB1,928.7 million as at December 31, 2010. This increase was due mainly to the share option reserve of approximately RMB12.5 million, equity component of convertible loan notes of approximately RMB79.7 million, retained profits of approximately RMB289.1 million, and offset by a deemed distribution to the ultimate holding company of RMB27.0 million on the acquisition of Anyang Mingbo.

The non-controlling interest of approximately RMB18.0 million at December 31, 2009 relates to a 40% minority interest in Anyang Mingbo. Anyang Mingbo became a wholly owned subsidiary in 1Q2010.

The non-controlling interest of approximately RMB7.6 million as at December 31, 2010 relates to a 20% minority interest in Yantai Bihai Water Co., Ltd, one of the subsidiaries operating a BOT project.

Cash Flow Statement

Net cash used in operating activities was approximately RMB228.6 million in 2010. The negative cash flow in operation is resultant from the increased other expenses and higher trade and other receivables as driven by the increased business operations. Cash outflow in service concession receivables was due to Group's increased investment in BOT projects.

Net cash used in investing activities was approximately RMB240.1 million in 2010. These amounts were due mainly to an increase in pledged deposits as certain bank borrowings were secured over the bank deposits.

Net cash generated from financing activities was approximately RMB1,262.0 million in 2010. These amounts were due mainly to the proceeds from the issuance of convertible bonds and receipt of new borrowings.

As at December 31, 2010, the Group's cash position remained strong and stood at approximately RMB2,027.4 million.

EMPLOYEES AND REMUNERATION POLICY

As at December 31, 2010, there were 699 (2009: 578) employees in the Group. Staff remuneration packages are determined in consideration of market conditions and the performance of the individuals concerned, and are subject to review from time to time. The Group also provides other staff benefits including medical and life insurance, and grants discretionary incentive bonuses and share options to eligible staff based on their performance and contributions to the Group.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

Details of the connected transactions and continuing connected transactions entered into by the Group during the year are as follows:

(A) Continuing connected transactions which are exempt from the reporting, announcement and independent shareholders' approval requirements

Trademark licenses

Since 2002, our Group (being registered owner of certain trademarks) uses its trademarks for its water and wastewater treatment business. These trademarks were also used by the Beijing Sound Environment Group Co., Ltd, ("BJ Sound Enviro"), a subsidiary of the controlling shareholder, for its investment in environmental protection and by its subsidiary, Beijing Sound Water Technology Co., Ltd for the processing of purified drinking water at no consideration before March 2006.

In March 2006, our Group agreed to transfer the trademarks at no cost to BJ Sound Enviro pursuant to a trademarks transfer agreement dated March 23, 2006. BJ Sound Enviro in return granted Beijing Sound Environmental Engineering Co., Ltd ("Beijing Sound") a license to use the trademarks for a period of 50 years at nil consideration.

(B) Connected transaction entered into before our listing on The Stock Exchange of Hong Kong Limited

The Group has entered into an agreement dated May 25, 2010 with Tianmen Huangjin Wastewater Treatment Co., Ltd ("Tianmen Huangjin"), by which the Group agreed to provide EPC services for contract amount of approximately RMB34.7 million. Tianmen Huangjin is 24% owned by BJ Sound Enviro, thus a connected person of us. For the contract was entered into before our listing on The Stock Exchange of Hong Kong Limited and it is a one-off transaction, the information herein is for reference only.

(C) Continuing connected transactions which are subject to the reporting and annual review requirements

EPC Framework Agreement

The Group has entered into the EPC Framework Agreement ("EPC Framework Agreement") on June 18, 2010 with BJ Sound Enviro, by which the Group agreed to provide EPC services and sale of goods to BJ Sound Enviro and its subsidiaries ("BJ Sound Enviro Group"). BJ Sound Enviro Group is a connected person of us.

The maximum aggregate annual amounts of new contracts entered into in relation to the provision of EPC services and sales of goods under the EPC Framework Agreement for each of the three years in the period ending December 31, 2012 must not exceed RMB100 million. For the year ended December 31, 2010, the contract amounts of the new EPC service contract entered into under the EPC Framework Agreement was RMB3.0 million.

(D) Confirmation from Independent Non-Executive Directors

The independent non-executive Directors of the Company reviewed the continuing connected transactions above and in their opinion:

(1) the transactions were conducted in the ordinary and usual course of its business;

(2) the transactions were carried out either on normal commercial terms or, where there are no sufficiently comparable transactions, on terms no less favourable than the terms the Company could have obtained from an independent third party; and

(3) in accordance with the relevant agreements governing such transactions on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

(E) Confirmation from external auditor in respect of the continuing connected transaction

The Board has received a letter from the auditors which has confirmed the matters required under Rule 14A.38 of the Listing Rules.

MAKING A COMMITMENT

We believe. And that's why we can persevere, taking the more arduous path but constantly not losing sight and sound of our vision.

We believe. And that's why we share, that our vision for a better tomorrow includes our partners, customers and shareholders.

We believe. We persevere. We share. We commit.

BOARD OF DIRECTORS

Wen Yibo **Executive Director And Chairman**

Mr. Wen Yibo, aged 45, is an executive Director and chairman of our Company and a founder of our Group. He was appointed to our Board on November 7, 2005 and is responsible for charting our Group's strategic direction.

Mr. Wen graduated with a bachelor of environmental engineering from the Lanzhou Railway College (currently known as Lanzhou Jiaotong University) in July 1986. In December 1989, he graduated from Tsinghua University with a master's degree in environmental engineering. Mr. Wen has accumulated more than 16 years of experience in the environmental protection industry. Between 1989 and 1990, Mr. Wen worked as a lecturer in the environmental engineering department of Tsinghua University. From 1990 to 1993, he was a senior engineer at the engineering division of the Planning and Design Institute of the Ministry of Chemical Engineering. In November 1993, Wen Yibo and his wife, Zhang Huiming, co-founded Beijing Sound Environmental Technology Development Company and Mr. Wen has served as its chairman since then.

In recognition of the contributions made by Wen Yibo to the development of the environmental protection industry in the PRC, he was awarded the "China Environmental Protection Industry (Enterprises) Development Contribution Award" by the China Environmental Protection Industry Association in 2005. He is currently the legal representative of Beijing Sound Environmental Engineering Co., Ltd and is also a director and legal representative of several companies including Beijing Sound Environment Group Co., Ltd and Sound Environmental Resources Co., Ltd.

Mr. Wen was accorded a senior engineer in September 1998 by the Beijing Senior Specialized Technique Qualification Evaluation Committee and was accorded the professor engineer in September 2003. Mr. Wen is also retained as a part-time professor in Tongji University and Lanzhou Jiaotong University. Mr. Wen is also the director of Sound Water (BVI) Limited, a substantial shareholder of the Company.

Wang Kai **Executive Director and Chief Executive Officer**

Mr. Wang Kai, aged 48, is an executive Director and chief executive officer of our Company. Mr. Wang was appointed to our Board on December 24, 2010 and he was appointed as the chief executive officer on February 2, 2011.

Mr. Wang graduated with a bachelor and masters degree in 1984 and 1990 respectively from the School of Environmental Science and Engineering of Tsinghua University. From 1984 to 1987, Mr. Wang was the assistant engineer of Ji'an Room, First Institute of the First Academy of Ministry of Nuclear Industry. From 1990 to 1998, Mr. Wang acted as the engineer of the Chengdu Institute of Methane Science of the Ministry of Agriculture, Second Design Institute. Mr. Wang joined Beijing Sound Environment Group Co., Ltd. in 1998 as the chief engineer. Since August 2010, Mr. Wang has been appointed as the deputy general manager of Beijing Sound Environmental Engineering Co., Ltd.

Mr. Wang is an expert in the environmental field in China. He possesses comprehensive knowledge, skills and extensive experience in environmental engineering. Mr. Wang graduated with a masters degree in Environmental Science and Engineering from Tsinghua University. He was the Chief Technology Officer of Beijing Sound Environment Group Co., Ltd, primarily in charge of technical development. Mr. Wang has extensive experience in environmental protection engineering applied technology research and has more than 20 years of research and practical experience. Mr. Wang is also proficient in technical economy evaluation and operations plan management. Upon the appointment as deputy general manager, Mr. Wang took charge of corporate development, encompassing the areas of new business development, mergers and its related feasibility study, operations plan management, engineering economic, quality control and management etc.

BOARD OF DIRECTORS (cont'd)

Zhang Baolin **Executive Director**

Mr. Zhang Baolin, aged 48, is an executive Director and was appointed to our Board on March 12, 2010. He is the dean of the design department of Beijing Sound and is responsible for the design proposals of our projects, value-added technology (standardization of design and optimization of design) and design innovation.

Mr. Zhang graduated with a bachelor degree in water treatment and drainage from Lanzhou Railway College (currently known as Lanzhou Jiaotong University) in July 1993. Between 1983 and 1987, he was an assistant engineer of Lanzhou Xining Railway Bureau. From 1988 to 2000, he worked at Lanzhou Coal Mining Design Institute as an engineer. Since August 2000, he has worked as the dean of the design department of Beijing Sound. Mr. Zhang was accorded a senior engineer in April 1998 by the Gansu Bureau of Personnel. He was also recognized as a registered supervisory engineer in 1999 jointly by the Ministry of Personnel and the Ministry of Construction of the PRC and passed the examination of registered public utilities engineer jointly held by the Ministry of Construction and the Ministry of Personnel of the PRC in 2005 and passed the examination of registered environmental engineer jointly held by the Ministry of Environmental Protection and the Ministry of Personnel of the PRC in 2008.

Luo Liyang Executive Director

Mr. Luo Liyang, aged 37, is an executive Director and was appointed to our Board on February 2, 2011. Mr. Luo has been the deputy general manager (marketing) of our Company since March 12, 2010 and the deputy general manager and manager of the marketing department in Beijing Sound since he joined our Group in May 2000. He is responsible for market planning and channel exploitation, construction and management of product platform and establishment of our sales network. Mr. Luo graduated with a bachelor degree in environmental monitoring from Henan Normal University in July 1997.

From July 1997 to March 1998, he was the vice manager of the environmental protection department of Henan Xuchang Biochemical Co., Ltd. From March 1998 to May 2000, he was the vice manager of the business department of Henan Luohe Huanhaiqing Environmental Protection Co., Ltd. Mr. Luo was accorded an engineer in December 1998 by the Henan Science and Technology Committee.

BOARD OF DIRECTORS (cont'd)

Wong See Meng Lead Independent Non-Executive Director

Mr. Wong See Meng, aged 62, is an independent non-executive Director and was appointed to our Board on May 18, 2009.

Mr. Wong graduated from the University of Singapore (now known as the National University of Singapore) in business administration with honors in 1971 and was admitted as Associate of the Chartered Institute of Management Accountants (U.K.) in 1983. He also holds the membership of the Singapore Institute of Directors and the Singapore Institute of Management. Between 1971 and 1972, he worked in ESSO ("EXXON") Singapore Pte. Ltd.. He joined ESSO ("EXXON") Singapore Pte. Ltd. as a finance trainee in 1971 and was appointed refinery accountant and head of the refinery accounting department in 1972.

Between 1972 and 1973, he worked as a project analyst in Singapore Petroleum Co., Pte. Ltd.. He worked as assistant manager in Orient Leasing Singapore Ltd. from 1973 and worked as manager from 1976 to 1978. He joined GATX Leasing (Pacific) Ltd. as personal assistant to the general manager in 1978 and became assistant vice president and general manager in 1980.

From 1978 to 1981, he worked in GATX Leasing (Pacific) Ltd.. He joined Forward Overseas Credit Ltd. as the general manager in 1981 and became the chief general manager in 1983 until 1987. From 1987 to 2001, he worked in Development Bank of Singapore Ltd.. He joined the Development Bank of Singapore Ltd. as the General Manager in 1987 and became the senior vice president in 1993 and the managing director in 1997. He was the general manager of Raffles Medical Group (Hong Kong) between 2001 and 2002 and the business development manager of Sino Land Group (Hong Kong) between 2002 and 2003. From 2003 to 2007, he was the managing director of ORIX Leasing Singapore Ltd.. Currently Mr. Wong provides training on banking and finance for senior management staff from various Chinese banks.

Seow Han Chiang Winston **Independent Non-Executive Director**

Mr. Seow Han Chiang Winston, aged 42, is an independent non-executive Director and was appointed to our Board on August 24, 2006.

He holds a bachelor of law (honors) degree from the National University of Singapore. He was admitted as an Advocate and Solicitor of the Supreme Court of Singapore in 1995.

From 1995 to 2006, he was a corporate partner of Madhavan Partnership, a Singapore law firm. Seow Han Chiang Winston joined Madhavan Partnership as an associate in May 1995 and became a partner in the corporate department in January 1998. From 2006 to 2007, he was a corporate partner of KS Chia Gurdeep & Param, a Singapore law firm. He is currently a corporate partner of KhatterWong, a Singapore law firm.

BOARD OF DIRECTORS (cont'd)

Fu Tao **Independent Non-Executive Director**

Mr. Fu Tao, aged 43, is an independent non-executive Director and was appointed to our Board on August 24, 2006. Mr. Fu graduated from the Peking University in 1990 with a bachelor of science in applied chemistry. He obtained a master degree in environmental engineering from Tsinghua University in 1993 and also obtained a doctorate in civil engineering from the Harbin University of Civil Engineering and Architecture (currently known as Harbin Institute of Technology) in 1999.

Between 1994 and 1999, Mr. Fu worked in the department of science and technology at the Ministry of Construction ("MOC") as a project officer in charge of urban construction projects. From 1999 to 2001, he was the director of the information division at the Center of Promoting Housing Industrialization of the MOC. Between 2001 and 2002, Mr. Fu was the chief secretary of the China Housing Industry Association. He is a senior engineer and has held the position of director of the water policy research center at Tsinghua University since 2003.

Over the years, Mr. Fu has been involved in many government research projects and study programs relating to the PRC water industry. These include, amongst others, the pilot study on a benchmarking system for urban water treatment conducted by the MOC and the North China Water Quality Study program conducted jointly by the World Bank and the MOC.

SENIOR MANAGEMENT

Zhou Hao Deputy General Manager

Mr. Zhou Hao, aged 39, has been the deputy general manager (operations) of our Company since March 12, 2010 and the deputy general manager of Beijing Sound since he joined our Group in March 1998. He is responsible for the management of our EPC business, project management and engineering debug and delivery. Mr. Zhou obtained a bachelor degree of water treatment and drainage from the environmental engineering department of Xi'an Metallurgy and Architecture College (currently known as Xi'an University of Architecture and Technology) in July 1993. From August 1993 to March 1998, he worked as an assistant director of the design office of the mechanical power department of Ningxia Hengli Steel Group.

JOINT COMPANY SECRETARIES

Tan Wei Shyan Joint Company Secretaries

Mr. Tan Wei Shyan, aged 33, has been one of our joint company secretaries since April 2007. Mr. Tan graduated with a bachelor degree of laws (honors) from the University of Exeter in 2001. He was admitted as an Advocate and Solicitor of the Supreme Court of Singapore in 2003. Mr. Tan was engaged in general corporate work, and has experience in commercial transactions including joint ventures, commercial leases and listed companies work. Since 2005, Mr. Tan has been practicing at Shook Lin & Bok LLP in Singapore where he is currently a partner in the corporate and corporate finance department.

Wong Tak Yee Joint Company Secretaries

Ms. Wong Tak Yee, aged 54, has been one of our joint company secretaries since June 2010. Ms. Wong graduated with a bachelor degree of arts in language and translation from The Open University of Hong Kong in 2006 and also obtained her master degree of arts in English for the professions from The Hong Kong Polytechnic University in 2009. Ms. Wong was admitted as a Chartered Secretary of The Institute of Chartered Secretaries and Administrators in United Kingdom in 1986 and The Hong Kong Institute of Chartered Secretaries in 1994. From 1997 to 2000, Ms. Wong worked at Deloitte Touche Tohmatsu in Hong Kong as a senior manager of the company secretarial services department. Since 2000, Ms. Wong has been working at Tricor Group and is currently a director of the corporate services division of Tricor Services Limited. Ms. Wong has over 25 years of experience in providing corporate secretarial services and has been providing professional services to Hong Kong listed companies for over 10 years.

MAKING A DIFFERENCE

The sound of a better tomorrow: birds chirping at sunrise, a dragonfly buzzing, water splashing on rock, children laughing.

The sights of a better tomorrow: a family of ducks paddling at sunset, a squirrel drinking from a pond, clear river water under our feet, a senior couple dipping their feet in a lake.

The sound and sights that we have made a difference.

CORPORATE CALENDAR

2010 JAN

Proposed dual primary listing on the Main Board of The Stock Exchange of Hong Kong Limited

Sound Global proposed to seek a dual primary listing of its ordinary shares on the Main Board of The Stock Exchange of Hong Kong limited and undertake a global offering of new ordinary shares in the capital of the Company.

FEB

Secured BOT project in Yantai City

On 4 Feb, Sound Global secured a BOT project in Yantai City, Shandong Province. The project is expected to have a treatment capacity of up to 50,000 tonnes of wastewater per day. The total investment is estimated to be about RMB120 million. The concession period is 25 years.

Establishment of joint venture company for a BOT project in Yantai City

A joint venture company was incorporated in Yantai City, Shandong Province, by Shandong Rendeya Environmental Engineering Co., Ltd (20%) and Sound Global (80%).

MAR

Establishment of branch in the Republic of China

On 31 March, Sound Global Ltd's wholly-owned subsidiary, Epure International Engineering Pte. Ltd., established a branch in Taiwan named "Epure International Engineering Pte. Ltd., Taiwan Branch" with wastewater treatment as its principal activity.

APR

Signing of Strategic Development Memorandum

On 7 April, Sound Global Ltd entered into a strategic development memorandum with Sound Environmental Resources Co., Ltd and Beijing Sound Environment Group Co., Ltd in relation to the parties' business and strategy in solid waste treatment and water and wastewater treatment.

Establishment of a wholly-owned subsidiary in the People's Republic Of China

On 18 April, Sound Global Ltd's wholly-owned subsidiary, Beijing Epure International Water Co., Ltd incorporated a wholly-owned subsidiary, Daye Honglian water Co., Ltd in Hubei Province, Daye City. Its principal activity involves municipal wastewater treatment and utilisation with registered capital of RMB3 million. The subsidiary is to undertake a Build and Transfer project.

FY2009 Annual General Meeting & Extraordinary General Meeting

FY 2009 Annual General Meeting and Extraordinary General Meeting was held on April 30, 2010 and all resolutions relating to the matters set out in Notices of AGM and EGM were duly passed.

MAY

First Quarter Results Announcement

1QFY2010 results was announced on 15 May.

Proposed dual primary listing on the main board of SEHK considered by Listing Committee

On 24 May, Sound Global's proposed Dual Primary Listing of its ordinary shares and Global offering of new ordinary shares in the capital of the company on the main board of the SEHK and proposal was considered by the Listing Committee of SEHK.

Sound global secured US$34m loan from International Finance Corporation

On 29 May, Sound Global secured a loan of US$34m from International Finance Corporation and intend to utilise this loan to finance a portion of the group's capital requirements for water and wastewater treatment BOT projects in China. This loan from IFC demonstrated its confidence in Sound Global's ability to execute their expansion plans.

JUN

Proposed dual primary listing on the main board of SEHK approved by Listing Committee

On 21 June, the Listing Committee of SEHK granted an approval in principle for the Proposed HK listing. Maximum Offer Price was determined at HK$5.60 (Equivalent to approx. S$1).

Secured BOT project in Xi'an City

Sound Global signed a Build, Operate and Transfer (BOT) project in Xi'an City, Shaanxi Province on June 28, 2010. The project has an expected treatment capacity of up to 25,000 tonnes of wastewater per day and a concession period of 27 years, excluding the construction period. This BOT project will bring the total number of waste and wastewater treatment BOT projects under Sound Global belt to 11, with a total treatment capacity of up to 660,000 tonnes per day.

JUL

Secured BOT project in Luohe City

On 12 July, Sound Global entered into a framework agreement to undertake a build, transfer and operate (BTO) project in Luohe City in Henan Province in China. The company will build and operate a wastewater treatment plant with an expected treatment capacity of up to 40,000 tonnes of wastewater per day and a water supply plant with the capacity to supply up to 50,000 tonnes of recycled water per day.

Grant of options under the Sound Global Share Option Scheme

Sound Global announced the grant of options to participants under the Sound Global Share Option Scheme. Exercise price of options granted will be S$0.745/share and a total of 64,500,000 options will be granted.

AUG

Second quarter results announcement
2QFY2010 results was announced on 10 Aug.

Signed investment agreement to undertake BOT project in Lianyungang City
On 12 Aug, Sound Global entered into an investment agreement for a Build, Operate and Transfer (BOT) project in Lianyungang City, Jiangsu Province. Upon signing the official contract, the company will build and operate a wastewater treatment plant with an expected treatment capacity of up to 300,000 tonnes of wastewater per day and a water supply plant with the capacity to supply up to 300,000 tonnes of water per day. The total investment was estimated to be about RMB1.38 billion with a concession period of 30 years.

Proposed issue of up to RMB885 million USD-settled 6% Convertible Bonds due 2015
On 20 Aug, Sound Global proposed to issue an aggregate principal amount of RMB680m USD-settled 6% Convertible Bonds due 2015 convertible into fully paid-up new ordinary shares of the company. The issue of Convertible Bonds contained an upsize option of up to RMB205m in principal amount of the Convertible Bonds. The proceeds from the issue of CB will be used primarily for expansion of production capacity, working capital and general corporate purposes.

SEP

USD-settled 6% Convertible Bonds due 2015 upsized to RMB885 million principal amount
On 7 Sep, Sound Global lead manager Morgan Stanley exercised the "Upsize Option" as stated in the announcement dated 20 Aug 2010, bringing the total size of issue of the Convertible Bonds to RMB885m.

Successful issue of USD-settled 6% Convertible Bonds due 2015
The issue of the Bonds was successfully closed on 15 Sep.

Successful listing on the Main Board of SEHK
Sound Global was successfully listed on the Main Board of SEHK on 30 Sep.

OCT

NOV

Secured BOT project in Hongze County
On 1 Nov, Sound Global won the bidding and signed an agreement for the stream sewage treatment plant project in Hongze County, Jiangsu province, PRC. The project would be constructed and operated using the BOT method with a designed scale of 60,000 tons per day. This project would be primarily used for the treatment of industrial and domestic sewage covering an area of approximately 18sq km and a concession period of 28 years.

NOV (cont'd)

Received approval for the listing and quotation of Convertible Bonds
On 9 Nov, Sound Global received the approval in-principle of the SGX-ST for the listing and quotation of RMB885,000,000 in principal amount of Convertible Bonds and up to 193,500,000 conversion shares to be issued upon conversion of the convertible bonds.

Third quarter results announcement
3QFY2010 results was announced on 14 Nov.

Secured BOT project in Fushun City
On 30 Nov, Sound Global signed another contract with respect to a wastewater recycling project in Haicheng, Fushun City, Liaoning Province, PRC. The project will have a design treatment capacity of 80,000 tonnes of wastewater per day. The investment will be undertaken under the BOT format with a concession period of 30 years. The estimated total investment for the project will be approximately RMB88m. This project will provide services such as power generation plants in Fushun and will create a clean environment through optimizing the use of water.

DEC

Establishment of a wholly-owned subsidiary in the People's Republic Of China
Sound Global incorporated a wholly-owned subsidiary, Hongze Zeqing Water Co., Ltd in Jiangsu province, Hongze City. The subsidiary's registered capital is US$12m and its principal activity consists of municipal wastewater treatment and utilisation.

2011 JAN

Secured BOT project in Yang County
On 14 Jan, Sound Global signed a contract with respect to a municipal wastewater project in Yang County, Shaanxi Province, PRC. Total investment of the project is RMB119.6m. The wastewater treatment will be taken under the Build, Operate and Transfer (BOT) format with a concession period of 30 years.

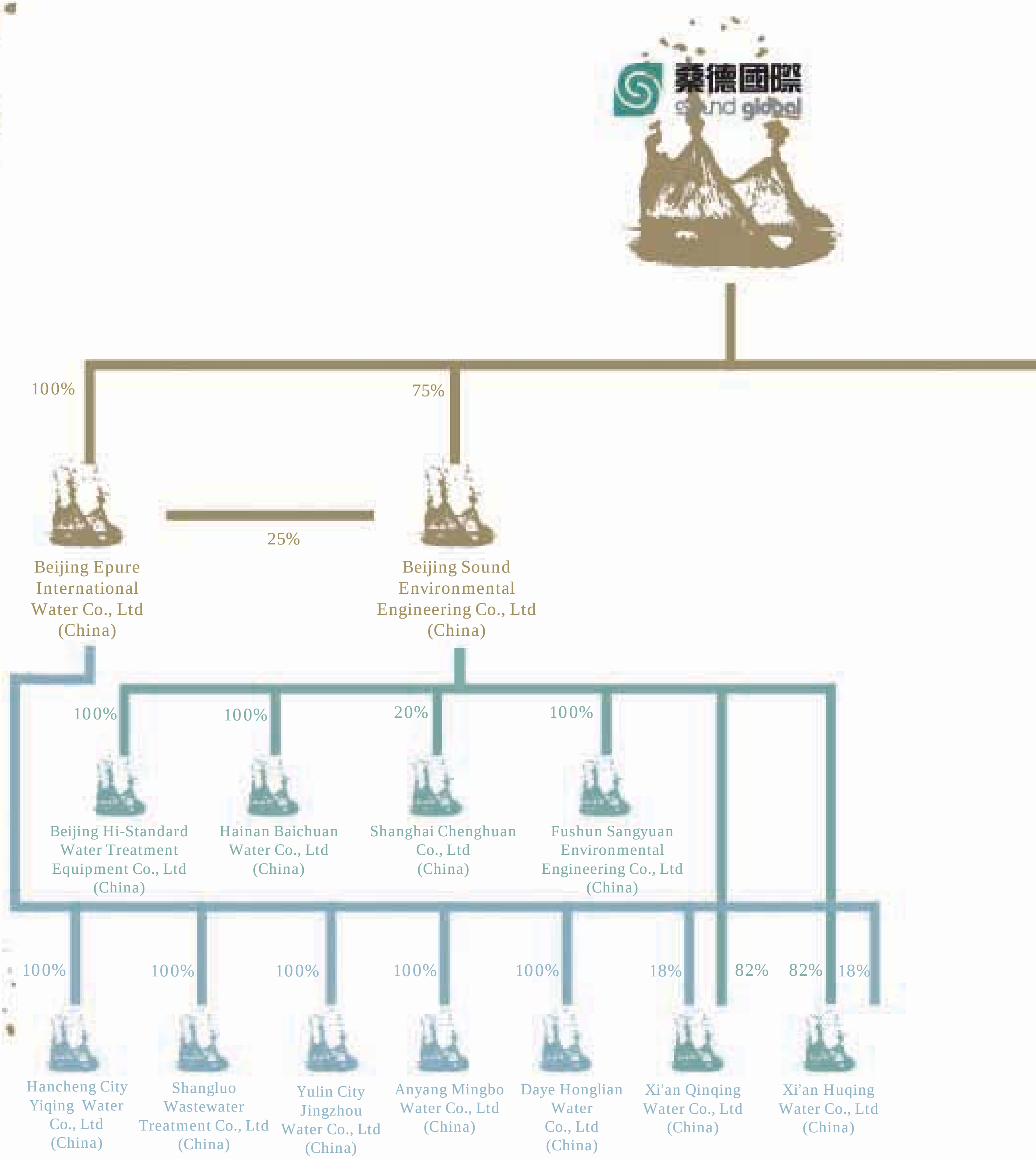
Secured 18 urban-rural waste water treatment projects in Changsha County
On 28 Jan, Sound Global won the bids for 18 projects from a group of urban-rural wastewater treatment plants in Changsha County, Hunan Province in China. The project includes the investment, build, operation and transfer (BOT) of 16 urban-rural waste water treatment plants (total capacity of 29,400 tons per day) as well as operation and maintenance (OM) of 2 completed waste water treatment plants (total of 5000 tons/day). The concession period of the project is 30 years with a total investment of RMB275 million. The project is expected to commence operation by late December 2011.

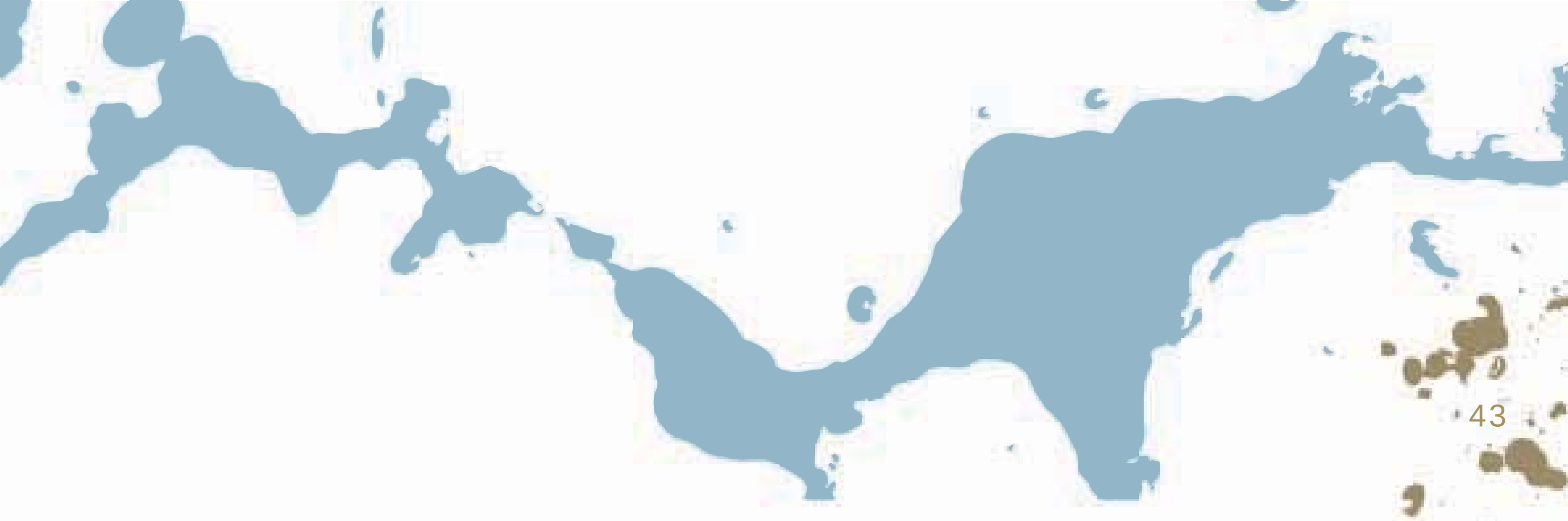
FEB

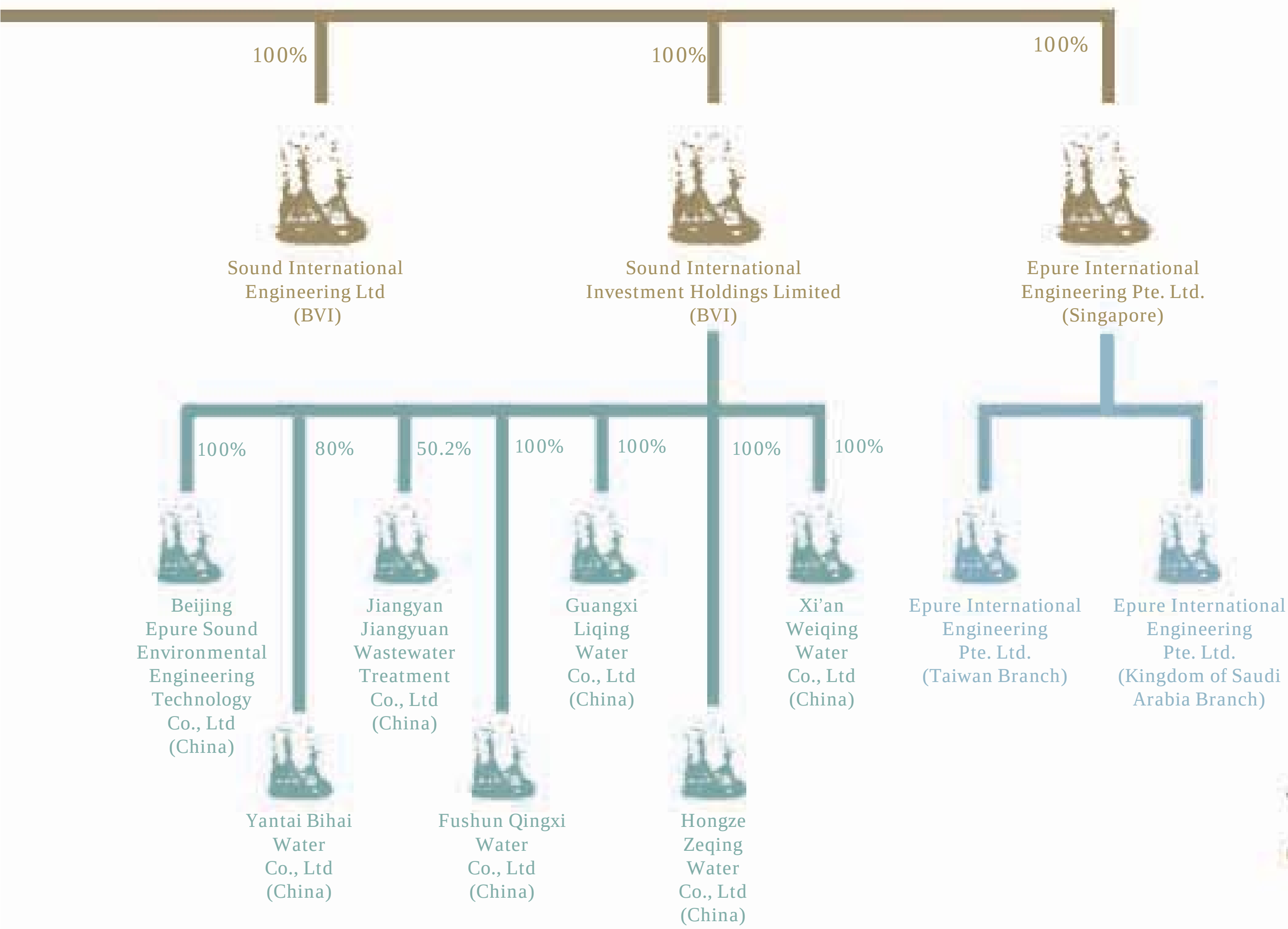
Full-year results announcement
FY2010 results was announced on 28 Feb 2011

CORPORATE STRUCTURE

As at March 3, 2011



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Water
Co., Ltd
(China)
Guangxi
Liqing
Water
Co., Ltd
(China)
Hongze
Zeqing
Water
Co., Ltd
(China)
Xi'an
Weiqing
Water
Co., Ltd
(China)
Epure International
Engineering
Pte. Ltd.
(Taiwan Branch)
Epure International
Engineering
Pte. Ltd.
(Kingdom of Saudi
Arabia Branch)

INFORMATION FOR INVESTORS

ANNUAL RESULTS ANNOUNCEMENT
February 28, 2011

ANNUAL GENERAL MEETING
April 30, 2011

BOOK CLOSURE DATE
May 13, 2011

DIVIDEND PAYOUT DATE
May 27, 2011

PRINCIPAL SHARE REGISTRAR IN SINGAPORE
Boardroom Corporate & Advisory Services Pte. Ltd.
50 Raffles Place #32-01
Singapore Land Tower
Singapore 048623

BRANCH SHARE REGISTRAR IN HONG KONG
Tricor Investor Services Limited
26/F., Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

STOCK CODES
Singapore Stock Exchange: E6E.SI
Hong Kong Stock Exchange: 00967

INVESTOR RELATIONS
Wonderful Sky Financial Group Limited
Unit 3102–3105 31/F., Office Tower, Convention Plaza
1 Harbour Road Wanchai
Hong Kong
Telephone: +852 2851 1038
Facsimile: +852 2815 1352

CORPORATE GOVERNANCE REPORT, FINANCIAL STATEMENTS AND OTHER INFORMATION

CORPORATE GOVERNANCE REPORT

The Board of Directors (the "Board") of Sound Global Ltd. (the "Company" or "Sound Global") and its subsidiaries (collectively referred to as the "Group") has reviewed its corporate governance practices and ensured that they are in compliance with all the applicable code provisions of the Code of Corporate Governance 2005 (the "Singapore CG Code") issued by the Council Corporate Disclosure and Governance, Singapore for the year under review and the Code on Corporate Governance Practices (the "HK CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "SEHK") (collectively the "Codes") from the date on which the shares of the Company were listed on the SEHK. In so doing the Company endeavours to set the stage for greater transparency and protection of the shareholders' interests.

This report describes Sound Global's main corporate governance practices that were in place with reference to the Codes. Sound Global believes that it is in compliance with the principles of the Codes.

BOARD MATTERS

Principle 1: Board's Conduct of its Affairs
Principle 2: Board Composition and Balance

1.1 Role of Board of Directors

The Board has the responsibility for the overall management of the Group. The Board's principal roles include guiding and establishing strategic mission and business objectives. Executives of the Board are tasked to execute these by setting direction and goals for management and staff and ensuring that the business of the Group is effectively managed and properly conducted day to day towards these ends. The Board has the overall responsibility for corporate governance of the Group.

1.2 The Board of Directors

The Board comprises 7 Directors: 1 executive Director and Chairman, 3 executive Directors and 3 independent non-executive Directors. As at the date of this Report, the Board comprises the following members:

Name of Director	Age	Date of first appointment	Date of last re-election	Position	Current Occupation
Wen Yibo	45	November 7, 2005	April 25, 2008	Executive Director and Chairman	Executive Director and Chairman
Wang Kai	48	December 24, 2010	NA	Executive Director and CEO	Executive Director and CEO
Luo Liyang	37	February 2, 2011	NA	Executive Director	Executive Director
Zhang Baolin	48	March 12, 2010	April 30, 2010	Executive Director	Executive Director

Name of Director	Age	Date of first appointment	Date of last re-election	Position	Current Occupation
Wong See Meng	62	May 18, 2009	April 30, 2010	Independent Non-Executive Director	Lecturer
Fu Tao	43	August 24, 2006	April 30, 2010	Independent Non-Executive Director	Director of the Water Policy Research Center, Tsinghua University
Seow Han Chiang Winston	42	August 24, 2006	April 30, 2010	Independent Non-Executive Director	Corporate Partner, Khattar Wong

The Nomination Committee has reviewed the size and composition of the Board. Taking into account the mix of expertise and experience possessed by the Board members, the Nomination Committee is of the opinion that the current Board's size is adequate and comprises members who as a group provide the necessary core competencies for the proper stewardship of the Group.

For the year ended December 31, 2010, the Board has complied with the minimum requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors. The Board also complied with the requirement that at least one such independent non-executive Director should possess the appropriate professional qualifications of accounting or related financial management expertise under Rule 3.10 of the Listing Rules. Furthermore, the Company has received from each of its independent non-executive director an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and the Company considers the independent non-executive Directors to be independent. There is no relationship among members of the Board.

1.3 Board Processes

To assist in the execution of its responsibilities as a listed company, the Board has established an Audit Committee ("AC"), a Remuneration Committee ("RC") and a Nomination Committee ("NC"). These Committees function within clearly defined terms of references and operating procedures, which are reviewed on a regular basis. The effectiveness of each Committee is also constantly reviewed by the Board.

The Board meets on a regular basis and as and when necessary to address any specific significant matters that may arise. The Company's Articles of Association allow a Board meeting to be conducted by way of teleconference or video conference. Advice and guidance are also given through the use of teleconferencing, emails and faxes as and when required. Board approval for less critical matters may be obtained via written resolutions by circulation.

The Board meets at least quarterly, to coincide with the announcements of the Group's quarterly results and whenever warranted by circumstances. The number of Board and Board Committee meetings held for the financial year ended December 31, 2010 and the attendance of each Director where relevant is as follows:

	Board	Audit Committee	Nomination Committee	Remuneration Committee
Number of meetings held	7	4	1	1
Wen Yibo	5*	2^*	1*	1^*
Wang Kai (Appointed on December 24, 2010)	NA	NA	NA	NA
Li Li (Resigned on February 2, 2011)	1*	NA	NA	NA
Luo Liyang (Appointed on February 2, 2011)	NA	NA	NA	NA
Yan Xiaolei (Resigned on December 24, 2010)	7*	4^*	NA	1^*
Zhang Baolin (Appointed on March 12, 2010)	1*	NA	NA	NA
Wong See Meng	7	4	1	1
Fu Tao	2*	1*	NA	1*
Seow Han Chiang Winston	6	4	1	1

^: by invitation
*: via conference call

1.4 Training

The Board recognises the importance of appropriate training for its Directors. Newly appointed Directors will be given an orientation program which includes presentations by senior management staff and briefings by the Chairman and CEO. On-site visits to overseas plants may also be conducted to facilitate a better understanding of the Group's operations. Directors and key executives are encouraged to undergo relevant training to enhance their skills and knowledge, particularly on new laws and regulations affecting the Group's business and governance practices.

1.5 Independent Non-Executive Directors

The Board has three Directors who are independent members. The NC reviews the independence of each Director on an annual basis based on the Codes' and the Listing Rules' definition of what constitutes an independent non-executive Director. The NC considers an "independent" Director as one who has no relationship with the Company, its related companies or its officers that could interfere, or be reasonably perceived to interfere, with the exercise of the Directors' independent judgment of the Group's affairs. The NC is satisfied that a majority of its members are independent non-executive Directors.

Certain functions have been delegated to the various Board Committees. These Committees are made up of predominantly independent non-executive Directors and are each chaired by an independent non-executive Director. The details of the membership in the Committees are set out as follows:

	AC	RC	NC
Wen Yibo			Member
Wong See Meng	Chairman	Member	Chairman
Fu Tao	Member	Member	
Seow Han Chiang Winston	Member	Chairman	Member

1.6 Matters Requiring Board Approval

The Board has identified a number of areas for which the Board has direct responsibility for decision-making. Interested Person Transactions and the Group's internal control procedures are also reviewed by the AC and reported to the Board. The Board also evaluates and approves major investments and funding decisions.

The Board is also responsible for the following corporate matters:

- Approving quarterly, half-year and year-end financial results announcements;
- Reviewing the interim reports, annual reports and statutory accounts;
- Reviewing the broad policies, strategic and financial objectives;
- Overseeing the business conduct and affairs;
- Convening of shareholders' meetings;
- Reviewing material acquisitions and disposal of assets;

- Reviewing a framework for proper internal controls and risk management; and

- Ensuring the Group's compliance to laws, regulations, policies, guidelines and internal code of conduct.

Board members are encouraged to request for information, reports or briefings on any aspect of the Company's operations or business from the management. Necessary arrangements will be made to meet as and when required by any Director.

Principle 3: Chairman and Chief Executive Officer ("CEO")

1.7 Chairman and CEO

Mr. Wen Yibo ("Mr. Wen") is the executive Chairman and Mr. Wang Kai ("Mr. Wang") is the CEO of the Group. Mr. Wen is responsible for chartering the Group's strategic directions. Mr. Wen is not involved in the day-to-day running of the Group's business and has delegated the day-to-day operations and management to Mr. Wang. Mr. Wang is responsible for directing our Group's overall strategy and growth. Mr. Wen and Mr. Wang are not related to each other.

The Board is of the view that there are sufficient safeguards and checks to ensure that the process of decision making by the Board is independent and based on collective decisions without any individuals exercising any considerable concentration of power or influence. All major decisions made by the Company will be subject to review by the Board. The three Board committees, namely the AC, NC and RC, are each chaired by an independent non-executive Director. The AC and RC are made up entirely of independent non-executive Directors, while the NC has a majority of independent non-executive Directors.

Principle 6: Access to Information

1.8 Access to Information

The Board has separate and independent access to the CFO, the company secretaries and the external and internal auditors. Board's request for information is promptly dealt with by management and is given Board papers prior to the meetings. Management also consults with Board members periodically. Analysts' reports have been forwarded to the Directors as and when received by the Company.

The company secretaries attend all Board meetings. The company secretaries administer, attend and prepare minutes of Board meetings, and assist the Chairman in ensuring that Board procedures are followed and the laws and regulations applicable to the Company are complied with. The Board is involved for the appointment and removal of company secretaries. The Board in fulfilling its responsibilities may direct the Company to appoint professional advisers to render professional advice when necessary.

2. Board Committees

Principle 4: Board Membership
Principle 5: Board Performance

2.1 Nomination Committee

The NC was formed in October 2006.

As at the date of this Report, the NC comprises the following members:

Wong See Meng	(Chairman and Independent Non-Executive Director)
Wen Yibo	(Executive Chairman)
Seow Han Chiang Winston	(Independent Non-Executive Director)

The primary function of the NC is to determine the criteria for identifying candidates and to review nominations for the appointment of Directors to the Board and subsequent re-nominations, to consider how the Board's performance may be evaluated and to propose objective performance criteria for the Board's approval. Its duties and functions are outlined as follows:

a. to make recommendations to the Board on all board appointments and re-nomination having regard to the Director's contribution and performance (e.g. attendance, preparedness, participation, candour, and any other salient factors);

b. to ensure that all Directors would be required to submit themselves for re-nomination and re-election at regular intervals and at least once in every three years, as required by the Articles of Association of the Company;

c. to determine annually whether a Director is independent, in accordance with the independence guidelines contained in the Codes and the Listing Rules;

d. to review and recommend on the Board structure, size, composition and core competencies, taking into account the balance between executive and non-executive Directors and between independent and non-independent Directors, and having regard at all times to the principles of corporate governance;

e. to review whether a Director is able to and has adequately carried out his duties as a Director of the Company in particular where the Director concerned has multiple board representations; and

f. to consider how the Board's performance may be evaluated and to propose objective performance criteria.

CORPORATE GOVERNANCE REPORT

The Board and NC have strived to ensure that members possess the background, experience, knowledge and skills necessary to promote the Company's business and governance process, so as to enable the Board to make balanced and well-considered decisions.

The NC has established an appraisal process to access the performance and effectiveness of the Board as a whole. The Board is of the opinion that the level of commitment and efforts of the Directors to the Group is adequate.

The following depicts the present and past directorships of our Directors in other listed companies, group and related companies and major appointments in other companies.

Name of Director	Present Directorships	Past Directorships for the past 3 years
Wen Yibo	Beijing Sound Environmental Engineering Co., Ltd Beijing Lümeng Investment Co., Ltd Beijing Sanghua Environmental Technology Development Co., Ltd Beijing Xiaojiahe Wastewater Treatment Co., Ltd Beijing Sound Environment Group Co., Ltd. Sound Environmental Resources Co., Ltd Green Capital Holdings Limited Sound Water (BVI) Limited Sound Water (Hong Kong) Limited Beijing Sound Water Technology Co., Ltd Beijing Epure International Water Co., Ltd Beijing Epure Sound Environmental Engineering Technology Co., Ltd Sound International Investment Holdings Limited Sound International Engineering Ltd.	NIL

Name of Director	Present Directorships	Past Directorships for the past 3 years
Wang Kai	NIL	NIL
Luo Liyang	NIL	NIL
Zhang Baolin	NIL	NIL
Wong See Meng	NIL	Lion Asiapac Ltd Orient Leasing Singapore Pte Ltd
Fu Tao	Beijing Jincheng Property and Technology Development Co. Ltd Beijing Capital Co., Ltd Interchina Holdings Company Limited	NIL
Seow Han Chiang Winston	Eucon Holding Limited Link Hi Holdings Limited Dragon Palace International Limited Boulder Group Pte Ltd Cosmo Aviation (S) Pte Ltd D&W Corporate & Consultancy Services Pte Ltd GMT Alpha Pte Ltd Intellectual Product Protection Pte Ltd Nanjya Monjya Wisma Pte Ltd Oceanexplor Logistics Pte Ltd Offshoreworks (Singapore) Pte Ltd Oils Overseas (Asia Pacific) Pte Ltd Petchem International Pte Ltd Petchem International Trading & Shipping Pte Ltd Sanwa F&B Pte Ltd Sanwa Group Pte Ltd Sigma-Two Pte Ltd Superiorcoat Pte Ltd	Oculus Limited @Source Investments Pte Ltd Aircentral Asia Pte Ltd DMS Video Game Technologies Pte Ltd Frexon Engrg. Pte Ltd Genesys Telecommunications Laboratories Asia Pte Ltd MP Corporate Secretarial Services Pte Ltd Primary Enterprises (S) Pte Ltd

In the selection and nomination for new Directors, the NC identifies the key attributes that an incoming Director should have, based on attributes of the existing Board and the requirements of the Group. After endorsement by the Board of the key attributes, the NC taps on the resources of the Directors' personal contacts for recommendations of potential candidates. Executive recruitment agencies may also be appointed to assist in the search process where necessary. The potential candidates will go through a shortlisting process. Interviews are then set up with the shortlisted candidates for the NC to assess them before a decision is made. New Directors are appointed by way of a board resolution, after the NC has approved their nominations.

Pursuant to the Company's Articles of Association, all Directors shall submit themselves for re-election at least once every three years. Under the Company's Articles of Association, any new Director so appointed by the Board shall hold office only until the next following Annual General Meeting ("AGM") of the Company and shall be then eligible for re-election at the meeting. Mr. Wen Yibo, Mr. Wang Kai, Mr. Luo Liyang and Mr. Fu Tao will retire at the forthcoming AGM. The Nomination Committee recommended that they be nominated for re-appointment at the forthcoming AGM.

Each member of the NC had abstained from the deliberation in respect of his re-nomination as a Director. During the year under review, the NC recommended the appointment of new directors and also the re-appointment of the directors standing for re-election at the AGM.

Principle 7: Procedures for Developing Remuneration Policies
Principle 8: Level and Mix of Remuneration
Principle 9: Disclosure on Remuneration

2.2 Remuneration Committee

Our RC was formed in October 2006.

The RC has three members, all non-executive, are independent of management and free from any business relationships with the Group. The RC is chaired by an independent non-executive Director. The RC will have access to expert advice inside and/or outside the Company.

As at the date of this Report, the RC members are:

Seow Han Chiang Winston	(Chairman and Independent Non-Executive Director)
Wong See Meng	(Independent Non-Executive Director)
Fu Tao	(Independent Non-Executive Director)

The RC's role is primarily to advise the Board on compensation issues. The RC meets whenever required. The review will cover all aspects of remuneration including but not limited to Directors' fees, salaries, allowances, bonus, share options (if any) and benefits in kind. In structuring a compensation framework for executive Directors and key management executives, the Committee takes into account pay and employment conditions within the same industry and in comparable companies. The remuneration policy takes into consideration the Company's performance, responsibility and performance of each individual key management executive. Such performance is measured by goals and objectives set for each key management executive in congruence with the Company's overall goals and objectives.

Remuneration Matters

An appropriate and attractive level of remuneration has been set to attract, retain and motivate Directors and staff. The remuneration package is made up of both fixed and variable components. The variable component is determined based on the performance of the individual employee as well as the Group's performance. Annual increments and adjustments to remuneration are reviewed and approved taking into account the results of the annual review made by the executive Directors and the various heads of department.

All the executive Directors have service agreements with the Company. The service agreements are for a term of three years. The service agreements set out the salary, bonus and other benefits that the executive Directors are entitled to. The independent non-executive Directors receive Directors' fees, which is determined after taking into account factors such as time and effort spent, responsibilities of the Directors, and the need to pay competitive fees to attract and retain the Directors. Directors' fees are subject to shareholders' approval at the AGM.

The details of the remuneration of Directors and top five key executives of the Group disclosed in bands for services rendered during the financial year ended December 31, 2010 are as follows:

	Number of Directors		Top Five Key Executives	
	2010	2009	2010	2009
S$500,000 to below S$750,000	—	—	1	—
Below $250,000	9	8	4	5
Total	9	8	5	5

CORPORATE GOVERNANCE REPORT

The summary table for compensation paid/payable to the Directors of the Group for the financial year ended December 31, 2010 is set out below:

Name	Salary %	Benefits In Kind %	Directors' Fees %	Total Compensation %
Executive Directors				
Below S$250,000				
Wen Yibo	65	35	—	100
Wang Kai	62	38	—	100
Li Li	68	32	—	100
Luo Liyang	62	38	—	100
Yan Xiaolei	60	40	—	100
Zhang Baolin	61	39	—	100
Independent Non-Executive Directors				
Below S$250,000				
Wong See Meng	—	—	100	100
Fu Tao	—	—	100	100
Seow Han Chiang Winston	—	—	100	100

The names of the top five executives who are also not Directors have not been disclosed to maintain confidentiality of staff remuneration matters.

Immediate Family Member of Directors/Substantial Shareholders

The Group does not have any employee who is an immediate family member of a Director, CEO and/or substantial shareholder whose remuneration exceeded S$150,000 during the financial year ended December 31, 2010.

Principle 11: Audit Committee
Principle 12: Internal Controls
Principle 13: Internal Audit

2.3 Audit Committee

Our AC was formed in October 2006.

The AC comprises three independent non-executive Directors. At the date of this Report, the AC comprises the following members:

Wong See Meng	(Chairman and Independent Non-Executive Director)
Seow Han Chiang Winston	(Independent Non-Executive Director)
Fu Tao	(Independent Non-Executive Director)

The AC is scheduled to meet at least four times a year. It also holds informal meetings and discussions with management from time to time. The AC also meets with the external auditors without the presence of management at least once a year, and holds discussions as and when necessary.

The functions of the AC are as follows:

a. review with the external auditors the audit plan, their evaluation of the system of internal accounting controls, their audit report, their management letter and the management's response;

b. review the quarterly, half-year and annual financial statements, and announcements before submission to the Board for approval;

c. review internal control and procedures, including review of the internal auditor's internal audit plan and internal audit findings;

d. to ensure that the internal audit function is adequately resourced;

e. review the co-ordination between the external auditors and the management, the assistance given by management to the auditors and addressing any issues arising from the audits, and any matters raised by the auditors, including meeting with the auditors in the absence of management;

f. consider and make recommendation on the appointment or re-appointment of the external auditors, the audit fee, and matters relating to the resignation or dismissal of the auditors; and

g. review Interested Person Transactions.

The AC had full access to and co-operation of the management and external auditors, Deloitte and Touche LLP ("DT"). To facilitate discussions, the AC can invite any Director and key executive of the Group to attend its meetings.

The AC has put in place a whistle-blowing framework for employees of the Group to raise concerns about the possible improprieties in matters of financial reporting or other mattes in confidence.

CORPORATE GOVERNANCE REPORT

During the year under review, the AC reviewed the quarterly, half-year and annual financial statements and announcements, the financial reporting and compliance procedures, the report of the Internal Auditor on the Company's internal control and risk management systems and processes, and the re-appointment of the external auditors.

The AC has reviewed the independence of DT including the volume of non-audit services supplied by DT and is satisfied of DT's position as an independent external auditor. There is no disagreement between the Board and AC regarding the selection, appointment, resignation or dismissal of external auditors. During the year under review, the Group has paid an aggregate of approximately RMB2,800,000 to the external auditor for its audit services, and has paid approximately RMB3,100,000 to the external auditors for its listing application in Hong Kong and other professional services. The nature and extent of such services will not prejudice the independence and objectivity of the external auditors. The Board has accepted the AC's recommendation to nominate DT for re-appointment as external auditors at the forthcoming AGM of the Company.

The Company, all its subsidiaries and significant associates are audited by DT. Accordingly, Rule 716 of the Listing Manual of the Singapore Exchange Securities Trading Limited is not applicable.

Internal Audit and Internal Controls

The AC is fully aware of the need to put in place a system of internal controls within the Group to safeguard shareholders' interests and the Group's assets, and to manage risks. The system is intended to provide reasonable but not absolute assurance against material misstatements or loss, and to safeguard assets and ensure maintenance of proper accounting records, reliability of financial information, compliance with appropriate legislation, regulation and best practice, and the identification and containment of business risks. The Board understands that all internal control systems contain inherent limitations and no system of internal controls could provide absolute assurance against occurrence of material errors, poor judgment in decision making, human error losses, fraud or other irregularities. Without any evidence to the contrary, in the opinion of the Board, the system of internal controls maintained by the Company was in place.

The external auditors, DT, have during the course of their audit, carried out a limited review of the Company's system of internal controls. Any internal control weaknesses identified by the auditors, together with their recommendations to address such weaknesses, were reported to and reviewed by the AC.

The Company has outsourced the functions of the internal audit since June 2007 to Baker Tilly Consultancy (S) Pte Ltd. The internal audit is conducted yearly thereafter and meets the standards set by recognized professional bodies. The objective of the internal audit is to determine whether the Group's risk management and control procedures, as designed by the Company, were adequate and functioning properly. The AC will review and approve the internal audit plans together with the internal auditors. Any material non-compliance for improvements are reported to the CEO and the AC.

Use of Proceeds from Placement and Convertible Bonds

Placement Proceeds

Approximately RMB208.0 million (approximately S$43.9 million) of the net placement proceeds of approximately S$63.6 million was utilised for acquisition.

Periodic announcements about the utilisation of the balance of the placement proceeds (approximately S$19.7 million) will be made as and when such proceeds are materially deployed.

Convertible Bonds Proceeds

The net convertible bonds proceeds of approximately USD126.6 million have been deployed in the following manner:

Use of Convertible Bonds Proceeds (USD'000)	Amount Allocated	Amount Deployed as at December 31, 2010
Investment and acquisition of BOT projects	75,944	22,023
For R&D	6,329	0
To repay certain existing indebtedness	12,657	0
General working capital and other general corporate purposes	31,644	26,508
Total	126,574	48,531

The Company will continue to make periodic announcements as and when such proceeds are materially deployed.

Principle 10: Accountability and Audit Accountability
Principle 14: Communication with Shareholders
Principle 15: Greater Shareholder Participation

CORPORATE GOVERNANCE REPORT

The Company recognizes the importance of providing the Board with relevant information on an accurate and timely basis so that it can discharge its duties effectively. The Company also believes in timely, fair and adequate disclosure of relevant information to shareholders and investors so that they will be appraised of developments that may have a material impact on the Company's securities.

The directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended December 31, 2010. The directors are responsible for overseeing the preparation of financial statements of the Company with a view to ensuring that such financial statements give a true and fair view of the state of affairs of the Group and that relevant statutory and regulatory requirements and applicable accounting standards are complied with.

Information is disseminated to the shareholders via the SGXNET and SEHK announcements and news releases. Annual report is prepared and issued to all the shareholders. The Company is open to meetings with investors and analysts, and in conducting such meetings, the Company is mindful of the need to ensure fair disclosure. Shareholders and investors can also access information about the Group on its website at http://www.soundglobal.com.sg.

The AGM is the principal forum for dialogue with shareholders. At the AGM, there is an open question and answer session where shareholders may raise questions or share their views on the proposed resolutions and the Company's business and affairs with the Board. Resolutions requiring shareholder approval are tabled separately for adoption at the AGM. The Chairman of the Board and the Chairpersons of the AC, RC and NC will normally be present at the AGM to answer any questions relating to the work of these Committees. The external auditors are also present at the AGM to assist the Directors in answering questions from shareholders.

Notice of the meeting will be advertised in newspapers in Singapore and announced via SGXNET and SEHK. Shareholders can vote in person or by proxy.

Dealings in Securities

The Company has adopted a code of conduct rules regarding securities transactions by the Directors on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (the "Model Code"). In addition, specific enquiry has been made to all Directors in relation to whether the Directors have complied with the required standard set out in the Model Code and its code of conduct regarding Directors' securities transactions. The Company was not aware of any information that reasonably suggested that the Directors had not complied with the requirements as stipulated in the Model Code during the period from the date the Shares of the Company were listed on the SEHK to December 31, 2010.

Specifically, the Group has procedures on no less than exacting terms than the Model Code (the "Written Guidelines") in place prohibiting dealings in the Company's shares by its officers while in possession of price sensitive information and during the period commencing 30 days preceding the publication date of the Company's quarterly and half-year results and 60 days preceding the publication date of the Company's annual results, or, if shorter, the period from the end of the relevant financial year/period and ending on the date of the announcement of the relevant results. Internal memorandums are sent to remind Directors and officers on the period where dealings are prohibited. Directors and officers are also expected to observe insider-trading laws at all times, even when dealing in securities within the permitted trading period. An officer should not deal in the Company's shares on short-term considerations. No incident of non-compliance of the Written Guidelines by the officers was noted by the Company.

Interested Person Transactions

The Group has established procedures to ensure that all transactions with interested persons are conducted on an arm's length basis and are not prejudicial to the interests of the shareholders.

On August 15, 2007, shareholders approved a general mandate for the Group to provide EPC and management services to BJ Sound Enviro, its subsidiaries and associated companies. This general mandate was renewed on April 30, 2010 and will be renewed at the forthcoming AGM.

The following table summarises the Interested Person Transactions entered into for the year ended December 31, 2010:

Name of Interested Person	Aggregate value of all Interested Person Transactions during the financial period under review (excluding transactions less than S$100,000 and transactions conducted under Shareholders' Mandate pursuant to Rule 920) RMB'000	Aggregate value of all Interested Person Transactions conducted under Shareholders' Mandate pursuant to Rule 920 (excluding transactions less than S$100,000) RMB'000
Tianmen Huangjin Wastewater Treatment Co., Ltd	NIL	34,685
Baotou Lucheng Water Co., Ltd	NIL	3,000
Total	NIL	37,685

CORPORATE GOVERNANCE REPORT

The Board has engaged Baker Tilly Consultancy (S) Pte Ltd as the Company's internal auditor to monitor Interested Person Transactions on an on-going basis. Any deviation from the guidelines and procedures listed in the general mandate will be reported to the AC.

Risk Management

The Group is subject to business and operational risks, which include, amongst other things, competition from other water and wastewater treatment companies, increases in operating costs, changes in government regulations, adverse local and international economic and market conditions and management of foreign exchange exposure. The Group transacts mainly in Chinese Renminbi, with some transactions in Singapore Dollars, Saudi Riyals and United States Dollars. Any significant adverse movement in exchange rates may have an impact on the Group's performance. The Group seeks to minimize this risk by taking advantage of natural hedging opportunities. The Group also reviews significant control policies and procedures and highlights significant matters to the Board when necessary.

Material Contracts

Apart from those transactions disclosed under the Interested Person Transactions, if any, there were no material contracts entered into by the Company or any of its subsidiaries involving the interest of the CEO, any Director or controlling shareholder during the financial year under review.

REPORT OF THE DIRECTORS

The directors present their report together with the audited consolidated financial statements of the Group and the statement of financial position and statement of changes in equity of the Company for the financial year ended December 31, 2010.

1. PRINCIPAL ACTIVITIES

The Group is principally engaged in turnkey water & wastewater treatment.

2. RESULTS AND DIVIDENDS

The Group's profit for the year ended December 31, 2010 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 77 to 164 and pages 168 to 245 of this annual report.

The final dividend for the year ended December 31, 2010 proposed by the directors is set out in Note 29 and Note 15 to the financial statements prepared in accordance with SFRSs and IFRSs respectively.

3. RESERVES

Movements in reserves of the Group and the Company during the year are set out in the Statement of Changes in Equity and Consolidated Statement of Changes in Equity to the financial statements prepared in accordance with SFRSs and IFRSs respectively.

4. PROPERTY, PLANTS AND EQUIPMENT

Details of significant changes in the property, plant and equipment of the Group during the year are set out in Note 11 and Note 16 to the financial statements prepared in accordance with SFRSs and IFRSs respectively.

5. SHARE CAPITAL

Movements in share capital of the Group and the Company during the year are set out in Note 21 and Note 29 to the financial statements prepared in accordance with SFRSs and IFRSs respectively.

6. PURCHASE, SALE AND REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the year ended December 31, 2010.

REPORT OF THE DIRECTORS

7. MAJOR SUPPLIERS AND CUSTOMERS

The purchase from the largest supplier of the Group for 2010 was approximately RMB116,781,000, which accounted for 9.9% of the total purchase of the Group for the year and the total purchase from the five largest suppliers was approximately RMB354,588,000, which accounted for 30.2% of the total purchases of the Group for the year. None of the Directors and their associates, or, so far as the Directors were aware, shareholders who owned more than 5% of the Company's issued share capital had any interest in any of the five largest suppliers of the Group.

The sales to the largest customer of the Group for 2010 was approximately RMB117,000,000, which accounted for 6.6% of the total sales of the Group for the year and the total sales from the five largest customers was approximately RMB657,793,000, which accounted for 37.3% of the total sales of the Group for the year. None of the Directors and their associates, or, so far as the Directors were aware, shareholders who owned more than 5% of the Company's issued share capital had any interest in any of the five largest customers of the Group.

8. DIRECTORS

The directors of the Company in office during the year and up to the date of this report are:

Executive Directors	
Wen Yibo	(Executive Chairman)
Wang Kai	(Appointed on December 24, 2010)
Luo Liyang	(Appointed on February 2, 2011)
Zhang Baolin	
Yan Xiaolei	(Resigned on December 24, 2010)
Li Li	(Resigned on February 2, 2011)

Independent Non-Executive Directors
Wong See Meng
Seow Han Chiang Winston
Fu Tao

In accordance with Articles 88 and 89 of the Articles of Association of the Company, Mr. Wen Yibo, Mr. Wang Kai, Mr. Luo Liyang and Mr. Fu Tao retire as Directors at the forthcoming annual general meeting, and being eligible, offer themselves for re-election.

No Directors proposed for re-election at the forthcoming annual general meeting has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within the year without payment of compensation (other than statutory compensation).

The Company has received annual confirmations of independence from each of the Independent Non-Executive Directors pursuant to Rule 3.13 of the Listing Rules and considers all of the Independent Non-Executive Directors to be independent.

9. ARRANGEMENTS TO ENABLE DIRECTORS TO ACQUIRE BENEFITS BY MEANS OF THE ACQUISITION OF SHARES AND DEBENTURES

Neither at the end of the financial year nor at any time during the financial year did there subsist any arrangement whose object is to enable the directors of the Company to acquire benefits by means of the acquisition of shares or debentures in the Company or any other body corporate except for the options mentioned in paragraph 12 of the Report of the Directors.

10. DIRECTORS' INTERESTS IN SHARES AND DEBENTURES

(a) Disclosure under Singapore Law

The directors of the Company holding office at the end of the financial year had no interests in the share capital and debentures of the Company and related corporations as recorded in the register of directors' shareholdings kept by the Company under Section 164 of the Singapore Companies Act except as follows:

Name of directors and companies in which interest are held	Shareholdings registered in name of director		Shareholdings in which directors are deemed to have an interest	
	At January 1, 2010	At December 31, 2010	At January 1, 2010	At December 31, 2010
	Number of ordinary shares			
Sound Water (BVI) Limited — Ordinary shares of US$1.00 each				
Wen Yibo	631,605,600	**515,505,600**	70,178,400	**57,278,400**
The Company				
Wen Yibo	—	—	713,289,000	**584,289,000**

By virtue of Section 7 of the Singapore Companies Act, Wen Yibo is deemed to have an interest in all the related corporations of the Company.

The directors' interests in the shares and options of the Company at January 21, 2011 were the same as those as at December 31, 2010.

(b) Disclosure under Hong Kong law

Directors' and Chief Executives' Interests and Short Positions in the Shares and Underlying Shares of the Company

As at December 31, 2010, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which (a) were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), to be entered in the register referred to therein; or (b) were required, pursuant to Section 352 of the SFO, to be recorded in the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

Long Position in the Ordinary Shares ("Shares") of the Company and Associated Corporation

(A) Company

	Number of shares held, capacity and nature of interest				Percentage to the issued share capital of the Company
Name	Directly beneficially owned	Through spouse or minor children	Through controlled corporation	Total	
Wen Yibo	—	—	701,784,000 *(Note 1)*	701,784,000	54.4
Wang Kai*	3,075,000 *(Note 2)*	—	—	3,075,000	0.24
Zhang Baolin	3,080,000 *(Note 3)*	—	—	3,080,000	0.24
Li Li#	3,650,000 *(Note 4)*	—	—	3,650,000	0.28

* Appointed on December 24, 2010

Resigned on February 2, 2011

Notes:

1. These shares were held by Sound Water (BVI) Limited, a company which was owned by Mr. Wen Yibo and his wife, Ms. Zhang Huiming as to 90% and 10% respectively.

2. Mr. Wang Kai was granted share options to subscribe for 3,075,000 Shares of the Company under the Epure Share Option Scheme of the Company.

3. Mr. Zhang Baolin was granted share options to subscribe for 3,080,000 Shares of the Company under the Epure Share Option Scheme of the Company.

4. Mr. Li Li was granted share options to subscribe for 3,650,000 Shares of the Company under the Epure Option Scheme of the Company.

(B) Associated Corporation — Sound Water (BVI) Limited

Name	Number of shares held, capacity and nature of interest				Percentage to the issued share capital of the Associated Corporation
	Directly beneficially owned	Through spouse or minor children	Through controlled corporation	Total	
Wen Yibo	9 *(Note 1)*	1 *(Note 1)*	—	10	100%

Note:

1. These shares were held in Sound Water (BVI) Limited, a company which was owned by Mr. Wen Yibo and his wife, Ms. Zhang Huiming as to 90% and 10% respectively.

Save as disclosed above, at December 31, 2010, none of the Directors or chief executive of the Company had any interest or short position in the Shares, underlying Shares or debentures of the Company or any of its associated corporation (within the meaning of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests and short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules, to be notified to the Company and the Stock Exchange.

11. DIRECTORS' RECEIPT AND ENTITLEMENT TO CONTRACTUAL BENEFITS

Since the beginning of the financial year, no director has received or become entitled to receive a benefit which is required to be disclosed under Section 201(8) of the Singapore Companies Act, by reason of a contract made by the Company or a related corporation with the director or with a firm of which he is a member, or with a company in which he has a substantial financial interest except for salaries, bonuses and other benefits as disclosed in the financial statements and no contract of significance to which the Company, its holding Company, any of its subsidiaries was a party, and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year. Certain directors received remuneration from related corporations in their capacity as directors and/or executives of those related corporations.

12. SHARE OPTIONS

(a) Sound Global Share Option Scheme ("the Scheme")

The Scheme is administered by the Remuneration Committee (the "Committee") comprising:

Seow Han Chiang Winston (Chairman)
Wong See Meng
Fu Tao

Under the Scheme, an option entitles the option holder to subscribe for a specific number of new ordinary shares in the Company.

The exercise price for the Shares under the Scheme shall be the price determined by the Committee and notified to the option holder which shall not be less than the higher of:

(i) the average closing price of the Shares as stated in the SEHK's daily quotation sheets and the average closing prices of the shares on the SGX-ST for the five market days immediately preceding the date of grant of option; and

(ii) the closing price of the Shares as stated on the SEHK's daily quotations sheet or the closing price of the Shares on the SGX-ST, whichever is higher, on the date of grant of the option.

The consideration for the grant of an option is S$1.00. Options granted with the exercise price shall only be exercised after the first anniversary but before the fifth anniversary of the date of grant of that option.

The shares under option may be exercised in whole or in part on the payment of the relevant exercise price (provided that an option may be exercised in part only in respect of 1,000 shares or any multiple thereof). Options granted will lapse when the option holder ceases to be a full-time employee of the Company or any company of the Group subject to certain exceptions at the discretion of the Remuneration Committee.

The Scheme was adopted pursuant to a resolution passed on April 30, 2010, for the primary purpose of providing an opportunity for employees and directors (including non-executive and independent directors) of the Group to participate in the equity of the Company so as to motivate them to greater dedication and higher standards of performance, and to give recognition to past contribution and services.

Under the Scheme, the Committee may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Persons who are controlling shareholders (being persons who directly or indirectly have an interest of 15% of the Company's issued share capital) or their associates shall not participate in the Scheme unless their participation and the actual number of shares to be issued to them and the terms of any options to be granted to them, have been approved by independent shareholders of the Company in general meeting by way of a separate resolution for each such person.

During the financial year, no options to take up unissued shares of the Company or any subsidiary were granted under the Scheme.

(b) Epure Share Option Scheme ("the Epure Scheme")

The Group adopted the Epure Scheme on August 15, 2007 and the Epure Scheme was terminated upon listing on SEHK.

As at December 31, 2010, the number of shares in respect of which options had been granted under the Epure Scheme was 64,500,000 (2009 : Nil), representing 5% (2009 : Nil%) of the shares of the Company in issue at that date.

The number of outstanding share options under the Scheme are as follows:

Date of grant	Balance at January 1, 2010	Granted	Forfeited	Balance at December 31, 2010	Exercise price per share	Exercisable period	Vesting period
July 23, 2010	—	64,500,000	(6,196,000)	58,304,000	S$0.745	July 23, 2011 to July 22, 2015	July 23, 2011 to July 22, 2014

In respect of options granted, 10,000,000 options were granted to Executive Directors and 54,500,000 options were granted to employees.

There are no options granted to any of the Company's controlling shareholders or their associates (as defined in the Singapore Exchange Securities Trading Listing Manual).

The information on directors of the Company participating in the Epure Scheme is as follows:

Name of director	Options granted during the financial year	Aggregate options granted since commencement of the Scheme to the end of financial year	Aggregate options exercised since commencement of the Scheme to the end of the financial year	Aggregate options forfeited since commencement of the Scheme to the end of financial year	Aggregate options outstanding as at the end of financial year
Wang Kai	3,075,000	3,075,000	—	—	3,075,000
Luo Liyang	3,057,400	3,057,400	—	—	3,057,400
Zhang Baolin	3,080,000	3,080,000	—	—	3,080,000
Li Li *	3,650,000	3,650,000	—	—	3,650,000
Yan Xiaolei#	3,270,000	3,270,000	—	(3,270,000)	—

* Resigned on February 2, 2011.

Resigned on December 24, 2010.

No employees or employee of related corporations has received 5% or more of the total options granted under the Epure Scheme.

Upon the participant ceasing to be in the full-time employment of the Group, the options shall, to the extent unexercised, immediately forfeited. The exercise of the option granted under the Epure Scheme is also subject to the following conditions:

i) the options will be exercisable in four equal tranches, commencing one year from the date of grant and on each anniversary of the date of grant up to the fifth anniversary;

ii) the increase in profit after tax for each of the financial years ended/ending December 31, 2010, 2011, 2012 and 2013 must be at least 15.0%, excluding all exceptional items; and

iii) the compounded growth rate for profit after tax, based on profit after tax for the financial year ended December 31, 2009, must be at least 25% for each of the financial years ended/ending December 31, 2010, 2011, 2012 and 2013, excluding all exceptional items.

13. SUBSTANTIAL SHAREHOLDERS

At December 31, 2010, so far as is known to the Directors or chief executive of the Company, the following persons (other than the Directors or chief executive of the Company) had an interest or short position in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company under Section 336 of the SFO:

Name	Number of shares	Percentage to the issued share capital of the Company
Zhang Huiming	701,784,000 (L) *(Note 1)*	54.40
Sound Water (BVI) Limited	701,784,000 (L)	54.40
International Finance Corporation	103,950,000 (L)	8.10
JP Morgan Chase & Co.	77,598,000 (L)	6.02 (L)
	550,000 (S)	0.04 (S)
	77,008,000 (P)	5.97 (P)
Morgan Stanley	131,742,269 (L)	10.21 (L)
	132,677,539 (S)	10.29 (S)

(L) — Long position (S) — Short position (P) — Lending pool

Notes:

1. These shares were held by Sound Water (BVI) Limited, a company which was owned by Mr. Wen Yibo and his wife, Ms. Zhang Huiming as to 90% and 10% respectively. Hence, Ms. Zhang Huiming was deemed to be interested in the 701,784,000 shares of the Company held by Sound Water (BVI) Limited.

Save as disclosed above, at December 31, 2010, no person (other than Directors or chief executive of the Company) had an interest or a short position in the Shares and underlying Shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

14. AUDIT COMMITTEE

The Audit Committee ("AC") comprises three Independent Non-Executive Directors. At the date of this Report, the AC comprises the following members:

Wong See Meng	(Chairman)
Fu Tao	
Seow Han Chiang Winston	

The AC is scheduled to meet at least four times a year. It also holds informal meetings and discussions with management from time to time. The AC also meets with the external auditors without the presence of management at least once a year, and holds discussions as and when necessary.

The functions of the AC are as follows:

a) to review the Group's financial and operating results and accounting policies;

b) to review the quarterly, half-year and annual financial statements, and quarterly and annual announcements before submission to the Board of Directors for approval;

c) reviewing the audit plans of the external auditors and their audit reports;

d) to review internal control and procedures, including review of the internal auditor's internal audit plan and internal audit findings;

e) to ensure that the internal audit function is adequately resourced;

f) to review the co-ordination between the external auditors and management, the assistance given by management to the auditors and addressing any issues arising from the audits, and any matters raised by the auditors;

g) to consider and make recommendation on the appointment or re-appointment of the external auditors; and

h) to review Interested Person Transactions falling within the scope of the AC's term of reference.

The AC had full access to and co-operation of the management and external auditors has been given the resources required for it to discharge its function properly. Deloitte & Touche LLP ("DT") has unrestricted access to the AC. To facilitate discussions, the AC can invite any of the Directors and key executive of the Group to attend its meetings.

REPORT OF THE DIRECTORS

The AC has reviewed the independence of DT including the volume of non-audit services supplied by DT and is satisfied of DT's position as an independent external auditor. The nature and extent of such services will not prejudice the independence and objectivity of the external auditors. The Board of Directors has accepted the AC's recommendation to nominate DT for re-appointment as external auditors at the forthcoming Annual General Meeting of the Company.

15. AUDITORS

The auditors, Deloitte & Touche LLP, have expressed their willingness to accept re-appointment. There was no change of auditors of the Company in the last three years.

16. PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association or the laws of Singapore, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

17. SUFFICIENT PUBLIC FLOAT

Based on information that is publicly available to the Company and with the knowledge of the Directors, the Company had maintained sufficient public float as of December 31, 2010.

ON BEHALF OF THE DIRECTORS

Wen Yibo

Wang Kai

March 11, 2011

FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH SINGAPORE FINANCIAL REPORTING STANDARDS (SFRSs)

STATEMENT OF DIRECTORS

In the opinion of the directors, the consolidated financial statements of the Group and the statement of financial position and statement of changes in equity of the Company as set out on pages 77 to 164 are drawn up so as to give a true and fair view of the state of affairs of the Group and of the Company as at December 31, 2010 and of the results, changes in equity and cash flows of the Group and changes in equity of the Company for the financial year then ended and at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts when they fall due.

ON BEHALF OF THE DIRECTORS

Wen Yibo

Wang Kai

March 11, 2011

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF SOUND GLOBAL LTD.

We have audited the accompanying financial statements of Sound Global Ltd. (the "Company") and its subsidiaries (the "Group") which comprise the statements of financial position of the Group and the Company as at December 31, 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flow of the Group and the statement of changes in equity of the Company for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 77 to 164.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Singapore Companies Act (the "Act") and Singapore Financial Reporting Standards and devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair profit and loss accounts and balance sheets and to maintain accountability of assets.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Singapore Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITORS' REPORT

OPINION

In our opinion, the consolidated financial statements of the Group and the statement of financial position and statement of changes in equity of the Company are properly drawn up in accordance with the provisions of the Act and Singapore Financial Reporting Standards so as to give a true and fair view of the state of affairs of the Group and of the Company as at December 31, 2010 and of the results, changes in equity and cash flows of the Group and changes in equity of the Company for the year ended on that date.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In our opinion, the accounting and other records required by the Act to be kept by the Company and by the subsidiary incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

Deloitte & Touche LLP
Public Accountants and
Certified Public Accountants
Singapore

March 11, 2011

STATEMENT OF FINANCIAL POSITION

December 31, 2010

	Note	Group December 31, 2010 RMB'000	December 31, 2009 RMB'000 (restated)	January 1, 2009 RMB'000 (restated)
ASSETS				
Current assets				
Cash and cash equivalents	6	**2,027,352**	1,237,698	772,988
Restricted bank balances	6	**314,726**	72,208	369,481
Trade and other receivables	7	**808,750**	421,783	506,194
Amount due from contract customers	8	**337,651**	227,089	237,233
Inventories	9	**12,056**	11,543	21,863
Land use rights	10	**1,158**	1,158	1,158
Total current assets		**3,501,693**	1,971,479	1,908,917
Non-current assets				
Land use rights	10	**45,454**	46,612	47,770
Property, plant and equipment	11	**46,719**	47,617	49,992
Associate	13	**2,547**	2,561	2,540
Intangible assets	14	**40,000**	50,000	60,000
Goodwill	15	**41,395**	41,395	41,395
Service concession receivables	16	**665,118**	415,747	230,158
Deferred tax assets	17	**7,372**	7,372	2,935
Total non-current assets		**848,605**	611,304	434,790
Total assets		**4,350,298**	2,582,783	2,343,707

STATEMENT OF FINANCIAL POSITION

December 31, 2010

	Note	December 31, 2010 RMB'000	Group December 31, 2009 RMB'000 (restated)	January 1, 2009 RMB'000 (restated)
LIABILITIES AND EQUITY				
Current liabilities				
Bank loans	18	**430,200**	178,700	391,662
Trade and other payables	19	**886,414**	705,468	544,962
Amount due to contract customers	8	**9,611**	24,264	24,311
Income tax payable		**30,260**	14,598	9,970
Total current liabilities		**1,356,485**	923,030	970,905
Non-current liabilities				
Bank loans	18	**241,096**	48,300	—
Convertible loan notes	20	**784,878**	—	—
Deferred tax liabilities	17	**31,584**	19,509	16,242
Total non-current liabilities		**1,057,558**	67,809	16,242
Capital and reserves				
Share capital	21	**833,368**	833,368	833,368
Reserves		**1,095,287**	739,678	505,178
Equity attributable to owners of the Company		**1,928,655**	1,573,046	1,338,546
Non-controlling interests		**7,600**	18,898	18,014
Total equity		**1,936,255**	1,591,944	1,356,560
Total liabilities and equity		**4,350,298**	2,582,783	2,343,707

See accompanying notes to financial statements.

STATEMENT OF FINANCIAL POSITION

December 31, 2010

	Note	Company December 31, 2010 RMB'000	December 31, 2009 RMB'000	January 1, 2009 RMB'000
ASSETS				
Current assets				
Cash and cash equivalents	6	**145,075**	2,236	2,637
Restricted bank balances	6	**222,280**	35,923	367,793
Trade and other receivables	7	**855,976**	86,791	109,915
Total current assets		**1,223,331**	124,950	480,345
Non-current assets				
Property, plant and equipment	11	**69**	38	77
Subsidiaries	12	**802,551**	724,503	431,000
Total non-current assets		**802,620**	724,541	431,077
Total assets		**2,025,951**	849,491	911,422

STATEMENT OF FINANCIAL POSITION

December 31, 2010

	Note	December 31, 2010 RMB'000	Company December 31, 2009 RMB'000	January 1, 2009 RMB'000
LIABILITIES AND EQUITY				
Current liabilities				
Bank loans	18	—	—	40,047
Trade and other payables	19	**21,652**	2,398	3,074
Income tax payable		—	107	622
Total current liabilities		**21,652**	2,505	43,743
Non-current liabilities				
Bank loans	18	**215,096**	—	—
Convertible loan notes	20	**784,878**	—	—
Total non-current liabilities		**999,974**	—	—
Capital and reserves				
Share capital	21	**833,368**	833,368	833,368
Reserves		**170,957**	13,618	34,311
Total equity		**1,004,325**	846,986	867,679
Total liabilities and equity		**2,025,951**	849,491	911,422

See accompanying notes to financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended December 31, 2010

	Note	Group 2010 RMB'000	Group 2009 RMB'000 (restated)
Revenue	22	**1,765,672**	1,293,476
Cost of sales		**(1,229,527)**	(917,963)
Gross profit		**536,145**	375,513
Other operating income	23	**23,401**	13,861
Other expenses	24	**(76,753)**	(28,576)
Distribution expenses		**(12,815)**	(10,892)
Research and development expenses		**(4,863)**	(5,256)
Administrative expenses		**(79,219)**	(38,052)
Share of net (loss) profit of associate	13	**(14)**	21
Finance costs	25	**(36,815)**	(13,630)
Profit before income tax		**349,067**	292,989
Income tax expense	26	**(59,877)**	(10,236)
Profit for the year	27	**289,190**	282,753
Other comprehensive income:			
Exchange differences on translation		**366**	—
Total comprehensive income for the year		**289,556**	282,753
Profit attributable to:			
Owners of the Company		**289,104**	281,869
Non-controlling interests		**86**	884
		289,190	282,753
Total comprehensive income attributable to:			
Owners of the Company		**289,470**	281,869
Non-controlling interests		**86**	884
		289,556	282,753
Earnings per share (RMB cents):			
— Basic and Diluted	28	**22.41**	21.85

See accompanying notes to financial statements.

STATEMENTS OF CHANGES IN EQUITY

Year ended December 31, 2010

	Group										
	Share capital RMB'000 (Note 21)	Merge reserve RMB'000 (Note 30)	Capital reserve RMB'000 (Note 31)	Currency translation reserve RMB'000	Share option reserve RMB'000 (Note 33)	Convertible loan notes reserve RMB'000 (Note 20)	General reserves RMB'000 (Note 32)	Retained earnings RMB'000	Attributable to owners of the Company RMB'000	Non-controlling interests RMB'000	Total RMB'000
Balance at January 1, 2009, as previously reported	833,368	(88,296)	7,010	—	—	—	33,006	526,437	1,311,525	—	1,311,525
Effect of business combination under common control	—	—	27,000	—	—	—	—	21	27,021	18,014	45,035
Balance at January 1, 2009, as restated	833,368	(88,296)	34,010	—	—	—	33,006	526,458	1,338,546	18,014	1,356,560
Total comprehensive income for the year	—	—	—	—	—	—	—	281,869	281,869	884	282,753
Transfer to reserve fund	—	—	—	—	—	—	27,523	(27,523)	—	—	—
Dividends paid (Note 29)	—	—	—	—	—	—	—	(47,369)	(47,369)	—	(47,369)
Balance at December 31, 2009	833,368	(88,296)	34,010	—	—	—	60,529	733,435	1,573,046	18,898	1,591,944
Total comprehensive income for the year	—	—	—	366	—	—	—	289,104	289,470	86	289,556
Transfer to reserve fund	—	—	—	—	—	—	3,208	(3,208)	—	—	—
Recognition of equity component of convertible loan notes	—	—	—	—	—	79,676	—	—	79,676	—	79,676
Recognition of share based payments	—	—	—	—	12,479	—	—	—	12,479	—	12,479
Contribution from non-controlling interest	—	—	—	—	—	—	—	—	—	7,600	7,600
Acquisition of additional interest in a subsidiary	—	—	984	—	—	—	—	—	984	(18,984)	(18,000)
Deemed distribution to the ultimate holding company*	—	—	(27,000)	—	—	—	—	—	(27,000)	—	(27,000)
Balance at December 31, 2010	833,368	(88,296)	7,994	366	12,479	79,676	63,737	1,019,331	1,928,655	7,600	1,936,255

* The deemed distribution to the ultimate holding company arose upon the acquisition of Anyang Mingbo in January 2010, with 60% interest acquired from Beijing Sound Enviro for consideration of RMB27,000,000 by the Group.

STATEMENTS OF CHANGES IN EQUITY

Year ended December 31, 2010

	Company					
	Share capital RMB'000 (Note 21)	Capital reserve RMB'000 (Note 31)	Share option reserve RMB'000 (Note 33)	Convertible loan notes reserve RMB'000 (Note 20)	Retained earnings RMB'000	Total RMB'000
At January 1, 2009	833,368	7,010	—	—	27,301	867,679
Total comprehensive income for the year	—	—	—	—	26,676	26,676
Dividends paid (Note 29)	—	—	—	—	(47,369)	(47,369)
Balance at December 31, 2009	833,368	7,010	—	—	6,608	846,986
Total comprehensive income for the year	—	—	—	—	65,184	65,184
Recognition of equity component of convertible loan notes	—	—	—	79,676	—	79,676
Recognition of share based payments	—	—	12,479	—	—	12,479
Balance at December 31, 2010	833,368	7,010	12,479	79,676	71,792	1,004,325

See accompanying notes to financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2010

	Group 2010 RMB'000	Group 2009 RMB'000 (Restated)
Operating activities:		
Profit before income tax	**349,067**	292,989
Adjustments for:		
Depreciation of property, plant and equipment	**3,149**	2,931
Amortisation of land use rights	**1,158**	1,158
Amortisation of intangible assets	**10,000**	10,000
Interest income	**(23,254)**	(13,440)
Finance costs	**36,815**	13,630
Allowance for trade and other receivables	**—**	28,426
Unrealised foreign currency adjustment gain	**(4,062)**	(884)
Loss on disposal of property, plant and equipment	**8**	5
Share-based payment expenses	**12,479**	—
Share of net loss (profit) of associate	**14**	(21)
Operating cash flows before movements in working capital	**385,374**	334,794
Inventories	**(513)**	10,320
Trade and other receivables	**(389,667)**	127,456
Service concession receivables	**(231,399)**	(175,941)
Amounts due from contract customers	**(110,562)**	29,939
Trade and other payables	**164,965**	71,941
Amounts due to contract customers	**(14,653)**	(47)
Cash (used in) generated from operations	**(196,455)**	398,462
Income taxes paid	**(32,449)**	(13,042)
Income taxes refunded	**309**	6,264
Net cash (used in) from operating activities	**(228,595)**	391,684
Investing activities:		
Interest received	**5,282**	3,791
Purchases of property, plant and equipment	**(2,309)**	(563)
Proceeds from disposal of property, plant and equipment	**44**	2
Acquisition of available for sales investment	**—**	(2,700)
Disposal of available for sales investment	**2,700**	—
(Increase) Decrease in restricted bank balances	**(245,789)**	297,273
Net cash (used in) from investing activities	**(240,072)**	297,803

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2010

	Group 2010 RMB'000	Group 2009 RMB'000 (Restated)
Financing activities:		
Interest paid	**(15,845)**	(13,630)
Payment of dividends	—	(47,369)
Payment for combination of Anyang Mingbo	**(45,000)**	—
Proceeds on issue of convertible loan notes	**859,565**	—
Capital contribution from non-controlling interest	**7,600**	—
Borrowings raised	**694,350**	565,623
Repayments of borrowings	**(238,700)**	(730,285)
Net cash from (used in) financing activities	**1,261,970**	(225,661)
Net increase in cash and cash equivalents	**793,303**	463,826
Effect of foreign exchange rate changes	**(3,649)**	884
Cash and cash equivalents at beginning of year	**1,237,698**	772,988
Cash and cash equivalents at end of year (Note 6)	**2,027,352**	1,237,698

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2010

1 GENERAL

The Company (Registration No. 200515422C) is incorporated in Republic of Singapore with its principal place of business at 460 Alexandra Road, #14-04 PSA Building, Singapore 119963. Its registered address is at 1 Robinson Road, #17-00 AIA Tower, Singapore 048542. The Company is listed on the main board of the Singapore Exchange Securities Trading Limited in 2006 and on the Main Board of the Stock Exchange of Hong Kong Limited in 2010. The financial statements are expressed in Chinese Renminbi ("RMB").

The principal activity of the Company is that of investment holding.

The principal activities of its subsidiaries and associate are detailed in Notes 12 and 13 to the financial statements respectively. The principal places of business for its main subsidiaries are at the National Environmental Protection Industry Zone, Tongzhou district, Beijing PRC.

The consolidated financial statements of the Group and statement of financial position and statement of changes in equity of the Company for the year ended December 31, 2010 were authorised for issue by the Board of Directors on March 11, 2011.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation — In January 2010, the Group completed its acquisition of Anyang Mingbo, with 60% interest acquired from Beijing Sound Enviro and the remaining 40% interest acquired from a third party for considerations of RMB27,000,000 and RMB18,000,000 respectively.

The acquisition of Anyang Mingbo is regarded as a business combination under common control. The principles of merger accounting have therefore been applied, under which the consolidated financial statements have been prepared as if Anyang Mingbo had been a subsidiary of the Company since October 24, 2008, when Beijing Sound Enviro acquired the 60% interest in Anyang Mingbo with a consideration of RMB27,000,000 from a third party. The consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years ended December 31, 2009 and 2010 include the results, changes in equity and cash flows of the companies now comprising the Group, including Anyang Mingbo as if it had been a 60% interest owned subsidiary of the Company since January 1, 2009. The consolidated statements of financial position of the Group as at December 31, 2009 and January 1, 2009 have been prepared to present the assets and liabilities of the companies now comprising the Group including Anyang Mingbo, as if it had been a 60% interest owned subsidiary of the Company as of those days. The acquisition of the remaining 40% interest in Anyang Mingbo is accounted for as an acquisition of additional interest in a subsidiary in January 2010.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Basis of preparation (Cont'd)

Under merger accounting, the consolidated financial statements incorporate the financial statements items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party. The net assets of the combining entities or businesses are consolidated using the existing book values from the controlling parties' perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated statement of comprehensive income includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination. The comparative amounts in the consolidated financial statements are presented as if the entities or businesses had been combined at the end of the previous reporting period or when they first came under common control, whichever is shorter.

Business combination under common control

The effects of the combination of Anyang Mingbo on the result of the Group for the year ended December 31, 2009 and the financial position of the Group at December 31, 2009 are summarized below:

	Excluded Anyang Mingbo RMB'000 (Previously reported)	Combination of Anyang Mingbo RMB'000	Elimination adjustments RMB'000	Included Anyang Mingbo RMB'000 (Restated)
Revenue	1,293,476	33,208	(33,208)	1,293,476
Cost of sales	(917,963)	(33,208)	33,208	(917,963)
Gross profit	375,513	—	—	375,513
Other operating income	10,914	2,947	—	13,861
Other expenses	(28,576)	—	—	(28,576)
Distribution expenses	(10,892)	—	—	(10,892)
Research and development expenses	(5,256)	—	—	(5,256)
Administrative expenses	(38,052)	—	—	(38,052)
Share of net profit of associate	21	—	—	21
Finance costs	(13,630)	—	—	(13,630)
Profit before income tax	290,042	2,947	—	292,989
Income tax expense	(9,499)	(737)	—	(10,236)
Profit for the year and total comprehensive income	280,543	2,210	—	282,753
Profit for the year and total comprehensive income attributable to:				
Owners of the Company	280,543	1,326	—	281,869
Non-controlling interests	—	884	—	884
	280,543	2,210	—	282,753

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Basis of preparation (Cont'd)

Business combination under common control (Cont'd)

	Excluded Anyang Mingbo RMB'000 (Previously reported)	Combination of Anyang Mingbo RMB'000	Elimination adjustments RMB'000	Included Anyang Mingbo RMB'000 (Restated)
Current assets:				
Inventories	11,543	—	—	11,543
Trade and other receivables	461,852	1,318	(41,387)	421,783
Land use rights	1,158	—	—	1,158
Amounts due from contract customers for contract work	233,791	—	(6,702)	227,089
Restricted bank balances	72,208	—	—	72,208
Cash and cash equivalents	1,237,196	502	—	1,237,698
Total current assets	2,017,748	1,820	(48,089)	1,971,479
Non-current assets:				
Property, plant and equipment	47,550	67	—	47,617
Associate	2,561	—	—	2,561
Land use rights	46,612	—	—	46,612
Intangible assets	50,000	—	—	50,000
Goodwill	41,395	—	—	41,395
Service concession receivables	295,132	120,615	—	415,747
Deferred tax assets	7,372	—	—	7,372
Total non-current assets	490,622	120,682	—	611,304
Total assets	2,508,370	122,502	(48,089)	2,582,783
Current liabilities:				
Trade and other payables	681,056	72,501	(48,089)	705,468
Income tax payables	14,598	—	—	14,598
Bank loans	176,700	2,000	—	178,700
Amounts due to contract customers	24,264	—	—	24,264
Total current liabilities	896,618	74,501	(48,089)	923,030
Non-current liabilities:				
Deferred tax liabilities	18,752	757	—	19,509
Bank loans	48,300	—	—	48,300
Total non-current liabilities	67,052	757	—	67,809

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Basis of preparation (Cont'd)

Business combination under common control (Cont'd)

	Excluded Anyang Mingbo RMB'000 (Previously reported)	Combination of Anyang Mingbo RMB'000	Elimination adjustments RMB'000	Included Anyang Mingbo RMB'000 (Restated)
Capital and reserves:				
Share capital	833,368	—	—	833,368
Reserves	711,332	28,346	—	739,678
Equity attributable to owners of the Company	1,544,700	28,346	—	1,573,046
Non-controlling interests	—	18,898	—	18,898
Total equity	1,544,700	47,244	—	1,591,944
Total liabilities and equity	2,508,370	122,502	(48,089)	2,582,783

The effects of the combination of Anyang Mingbo on the Group's equity at January 1, 2009 are summarised below:

	Excluded Anyang Mingbo RMB'000 (Previously reported)	Combination of Anyang Mingbo RMB'000	Included Anyang Mingbo RMB'000 (Restated)
Share capital	833,368	—	833,368
Merge reserve	(88,296)	—	(88,296)
Capital reserve	7,010	27,000	34,010
General reserve	33,006	—	33,006
Retained earnings	526,437	21	526,458
Non-controlling interests	—	18,014	18,014
Total	1,311,525	45,035	1,356,560

Basis of accounting — The financial statements have been prepared in accordance with the historical cost basis except as disclosed in the accounting policies below, and are drawn up in accordance with the provisions of the Singapore Companies Act and Singapore Financial Reporting Standards ("FRS").

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Adoption of new and revised standards — In the current financial year, the Group has adopted all the new and revised FRSs and Interpretations of FRS ("INT FRS") that are relevant to its operations and effective for annual periods beginning on or after January 1, 2010. The adoption of these new/revised FRSs and INT FRSs does not result in changes to the Group's and Company's accounting policies and has no material effect on the amounts reported for the current or prior years except as follows:

FRS 103 (2009) Business Combinations

FRS 103 (2009) has been adopted in the current year and is applied prospectively to business combinations for which the acquisition date is on or after January 1, 2010. The main impact of the adoption of FRS 103 (2009) Business Combinations on the Group has been:

- to allow a choice on a transaction-by-transaction basis for the measurement of non-controlling interests (previously referred to as 'minority' interests) either at fair value or at the non-controlling interests' share of the fair value of the identifiable net assets of the acquire.

- to change the recognition and subsequent accounting requirements for contingent consideration. Under the previous version of the Standard, contingent consideration was recognised at the acquisition date only if payment of the contingent consideration was probable and it could be measured reliably; any subsequent adjustments to the contingent consideration were recognised against goodwill. Under the revised Standard, contingent consideration is measured at fair value at the acquisition date; subsequent adjustments to the consideration are recognised against goodwill only to the extent that they arise from better information about the fair value at the acquisition date, and they occur within the 'measurement period' (a maximum of 12 months from the acquisition date). All other subsequent adjustments are recognised in profit or loss;

- where the business combination in effect settles a pre-existing relationship between the Group and the acquiree, to require the recognition of a settlement gain or loss; and

- to require that acquisition-related costs be accounted for separately from the business combination, generally leading to those costs being recognised as an expense in consolidated profit or loss as incurred, whereas previously they were accounted for as part of the cost of the acquisition.

The change in accounting policy has no impact on the financial statements and earnings per share as reported in the statement of comprehensive income.

FRS 27 (2009) Consolidated and Separate Financial Statements

FRS 27 (2009) has been adopted for periods beginning on or after January 1, 2010 and has been applied retrospectively (subject to specified exceptions) in accordance with the relevant transitional provisions. The revised Standard has affected the Group's accounting policies regarding changes in ownership interests in its subsidiaries that do not result in a change in control.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Adoption of new and revised standards (Cont'd)

FRS 27 (2009) Consolidated and Separate Financial Statements (Cont'd)

In prior years, in the absence of specific requirements in FRSs, increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised where appropriate; for decreases in interests in existing subsidiaries that did not involve a loss of control, the difference between the consideration received and the carrying amount of the share of net assets disposed of was recognised in profit or loss.

When control of a subsidiary is lost as a result of a transaction, event or other circumstance, the revised Standard requires that the Group derecognise all assets, liabilities and non-controlling interests at their carrying amount. Any retained interest in the former subsidiary is recognised at its fair value at the date control is lost, with the gain or loss arising recognised in profit or loss.

The change in accounting policy has no impact on the financial statements and earnings per share as reported in the statement of comprehensive income.

At the date of authorisation of the financial statements, the following FRSs, INT FRSs and amendments to FRS that are relevent to the company were issued but not effective:

- FRS 24 (Revised) Related Party Disclosures

Consequential amendments were also made to various standards as a result of these new/revised standards.

The management anticipates that the adoption of the above FRS in future periods will not have a material impact on the financial statement of the company in the period of their initial adoption except for the following:

FRS 24 — (Revised) Related Party Disclosures

FRS 24 (Revised) Related Party Disclosures is effective for annual periods beginning on or after January 1, 2011. The revised standard clarifies the definition of a related party and consequently additional parties may be identified as related to the reporting entity. In addition, the revised standard provides partial exemption for government-related entities, in relation to the disclosure of transactions, outstanding balances and commitments. Where such exemptions apply, the reporting entity has to make additional disclosures, including the nature of the government's relationship with the reporting entity and information on significant transactions or group of transactions involved. In the period of initial adoption, the changes to related party disclosures, if any, will be applied retrospectively with restatement of the comparative information.

Basis of consolidation — The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Basis of consolidation (Cont'd)

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-company transactions, balances, income and expenses are eliminated on consolidation.

Non-controlling interests in subsidiaries are identified separately from the Group's equity therein. The interest of non-controlling shareholders may be initially measured (at date of original business combination) either at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement basis is made on an acquisition-by-acquisition basis. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any remained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for (i.e. reclassified to profit or loss or transferred directly to retained earnings) in the same manner as would be required if the relevant assets or liabilities were disposed of. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value of initial recognition for subsequent accounting under FRS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or jointly controlled entity.

In the Company's financial statements, investments in subsidiaries are carried at cost less any impairment in net recoverable value that has been recognised in the profit or loss.

Business combinations — Except for the acquisition of Anyang Mingbo, the acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the acquisition date fair value of assets given, liabilities incurred by the Group to former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Business combinations (Cont'd)

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments (see below). The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with FRS 39 Financial Instruments: Recognition and Measurement, or FRS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

Where a business combination is achieved in stages, the Group's previously held interests in the acquired entity are remeasured to fair value at the acquisition date (i.e. the date the Group attains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under the FRS are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with FRS 12 Income Taxes and FRS 19 Employee Benefits respectively;

- liabilities or equity instruments related to the replacement by the Group of an acquiree's share-based payment awards are measured in accordance with FRS 102 Share-based Payment; and

- assets (or disposal groups) that are classified as held for sale in accordance with FRS 105 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see below), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

The measurement period is the period from the date of acquisition to the date the Group obtains complete information about facts and circumstances that existed as of the acquisition date — and is subject to a maximum of one year from acquisition date.

The accounting policy for initial measurement of non-controlling interests is described above.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2010

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments — Financial assets and financial liabilities are recognised on the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial instrument and of allocating interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial instrument, or where appropriate, a shorter period. Income and expenses is recognised on an effective interest basis for debt instruments other than those financial instruments "at fair value through profit or loss".

Financial assets

Cash and cash equivalents

Cash and bank balances comprise cash on hand, demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as "loans and receivables". Loans and receivables are measured at amortised cost using the effective interest method less impairment. Interest is recognised by applying the effective interest method, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Financial assets (Cont'd)

Impairment of financial assets (Cont'd)

The objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty; or
- Default or delinquency in interest or principal payments; or
- It becoming probable that the borrower will enter bankruptcy or financial reorganisation.

For certain categories of financial asset, such as trade and other receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised costs due to unreliable fair value estimate, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

For financial assets measured at amortised costs, if, in a subsequent year, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through the profit or loss to the extent the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment had not been recognised.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Financial assets (Cont'd)

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Financial liabilities and equity instruments

Classification as debt or equity

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments are recorded at the proceeds received, net of direct issue costs.

Other financial liabilities

Trade and other payables are initially measured at fair value, net of transaction costs, and are subsequently measured at amortised cost, using the effective interest method, with interest expense recognised on an effective yield basis.

Interest-bearing bank loans and overdrafts are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the Group's accounting policy for borrowing costs (see below).

Financial guarantee contract liabilities are measured initially at their fair values and subsequently at the higher of the amount recognised as a provision and the amount initially recognised less cumulative amortisation in accordance with the revenue recognition policies described below.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Financial liabilities and equity instruments (Cont'd)

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Company and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the company measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with FRS 37, Provisions, Contingent Liabilities and Contingent Assets; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognition with FRS 18 Revenue.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expired.

Leases — Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to statement of comprehensive income on a straight-line basis over the term of the relevant lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Inventories — Inventories are stated at the lower of cost and net realisable value. Costs comprise direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Land use rights — Land use rights are stated at costs and are amortised, over the period of the lease, on a straight-line basis to the statement of comprehensive income. The lease periods for the 3 lands are approximately 47 years and 43 years respectively.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2010

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Property, plant and equipment — Properties in the course of construction for production, rental or administrative purposes, or for purposes not yet determined, is carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is charged so as to write off the cost of assets, other than properties under construction, over their estimated useful lives, using the straight-line method, on the following bases:

Buildings	3%
Plant and machinery	9%
Transportation vehicles	18%
Fixtures and equipments	18% to 33%

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

Fully depreciated assets still in use are retained in the financial statements.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in statement of comprehensive income.

Associate — An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Associate (Cont'd)

The results and assets and liabilities of associate is incorporated in these financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for under *FRS 105 Non-current Assets Held for Sale and Discontinued Operations*. Under the equity method, investments in associate is carried in the consolidated statements of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are not recognised, unless the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in statement of comprehensive income.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Intangible assets — Intangible assets acquired separately are reported at cost less accumulated amortisation and accumulated impairment losses. Intangible assets with finite useful lives are amortised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives are not amortised. Each period, the useful lives of such assets are reviewed to determine whether events and circumstances continue to support an indefinite useful life assessment for the asset. Such assets are tested for impairment in accordance with the policy below.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Intangible assets (Cont'd)

Amortisation is charged so as to write off the cost of the intangible assets acquired, over their estimated useful lives, using the straight-line method, on the following bases:

Patents — 6.5 years

The estimated useful lives and amortisation method are reviewed at the end of year end, with the effect of any changes in estimate being accounted for on a prospective basis.

Goodwill — Goodwill arising on the acquisition of a subsidiary or a jointly controlled entity represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary or jointly controlled entity recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a business is presented separately in the consolidated statement of financial position.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the statement of comprehensive income on disposal.

Impairment of tangible and intangible assets excluding goodwill — At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that the asset may be impaired.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Impairment of tangible and intangible assets excluding goodwill (Cont'd)

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Provisions — Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Share-based payments — The Group has an employee share option scheme under which it can issue equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed off on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Share-based payments (Cont'd)

Fair value is measured using the Binomial model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

Convertible loan notes — Convertible loan notes issued by the Group that contain both the liability and conversion option components are classified separately into respective items on initial recognition. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is classified as an equity instrument.

On initial recognition, the fair value of the liability component is determined using the prevailing market interest of similar non-convertible debts. The difference between the gross proceeds of the issue of the convertible loan notes and the fair value assigned to the liability component, representing the conversion option for the holder to convert the loan notes into equity, is included in equity (convertible loan notes reserve).

In subsequent periods, the liability component of the convertible loan notes is carried at amortised cost using the effective interest method. The equity component, representing the option to convert the liability component into ordinary shares of the Company, will remain in convertible loan notes reserve until the embedded option is exercised (in which case the balance stated in convertible loan notes reserve will be transferred to capital reserves. Where the option remains unexercised at the expiry date, the balance stated in convertible loan notes reserve will be released to retained earnings. No gain or loss is recognised in profit or loss upon conversion or expiration of the option.

Transaction costs that relate to the issue of the convertible loan notes are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible loan notes using the effective interest method.

Government grants — Government grants are recognised as income over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Service concession arrangements — The Group has entered into service concession arrangements with the various governing bodies or agencies of the government of the People's Republic of China (the "grantors") to build and operate waste water treatment plants. Under the concession arrangements, the Group will construct and/or operate the plants for a concession period of between 20 to 30 years and transfer the plants to the grantors at the end of the concession periods. Such concession arrangements fall within the scope of INT FRS 112 and are accounted for as follows:

Financial asset — service concession receivables

The Group recognises a service concession receivable if it has a contractual right under the service concession arrangements to receive a fixed and determinable amount of payments during the concession period irrespective of the usage of the plants. The service concession receivable is measured on initial recognition at its fair value. Subsequent to initial recognition, the service concession receivable is measured at amortised cost using the effective interest method. When the Group receives a payment during the concession period, it will apportion such payment between (i) a repayment of the service concession receivable (if any), which will be used to reduce the carrying amount of the service concession receivable on its statement of financial position, (ii) interest income, which will be recognised as finance income in profit or loss and (iii) revenue from operating and maintaining the plants to be recognised in profit or loss.

Revenue recognition — Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Construction contracts

Revenue from construction contracts are recognised when the outcome of a construction contract (which include turnkey services) can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, as measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Revenue recognition (Cont'd)

Construction contracts (Cont'd)

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as amounts due to customers for contract work. Amounts received before the related work is performed are included in the consolidated statement of financial position, as a liability, as advances received. Amounts billed for work performed but not yet paid by the customer are included in the consolidated statement of financial position under trade and other receivables.

Sale of goods

Revenue from the sale of goods when all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract. The stage of completion of the contract is determined as follows:

- servicing fees included in the price of products sold are recognised by reference to the proportion of the total cost of providing the servicing for the product sold, taking into account historical trends in the number of services actually provided on past goods sold; and
- revenue from time and material contracts is recognised at the contractual rates as labour hours are delivered and direct expenses are incurred.
- income from providing financial guarantee is recognised in statement of comprehensive income over the guarantee period on a straight-line basis.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Revenue recognition (Cont'd)

Interest and finance income

Interest and finance income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset's net carrying value.

Borrowing costs — Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in statement of comprehensive income in the period in which they are incurred.

Retirement benefit costs — Payments to defined contribution retirement benefit plans are charged as an expense as they fall due. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution plans where the Group obligations under the plans are equivalent to those arising in a defined contribution retirement benefit plan.

Employee leave entitlement — Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of the reporting period.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Income tax — Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are not taxable or tax deductible. The Group's liability for current tax is calculated using tax rates (and tax laws) that have been enacted or substantively enacted in countries where the Company and its subsidiaries operate by the end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised based on the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Income tax (Cont'd)

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items credited or debited outside profit or loss (either in other comprehensive income or directly in equity, in which case the tax is also recognised outside profit or loss (either in other comprehensive income or directly in equity, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or determining the excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost.

Foreign currency transactions and translation — The individual financial statements of each group entity are measured and presented in the currency of the primary economic environment in which the entity operates (its functional currency). The consolidated financial statements of the group and the statement of financial position of the company are presented in Renminbi, which is the functional currency of the company and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency are recorded at the rate of exchange prevailing on the date of the transaction. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the end of the reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on retranslation of monetary items are included in profit or loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income. For such non-monetary items, any exchange component of that gain or loss is also recognised in other comprehensive income.

Exchange differences on foreign currency borrowings relating to assets under construction for future productive use, are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Foreign currency transactions and translation (Cont'd)

For the purpose of presenting consolidated financial statements, the assets and liabilities of the group's foreign operations (including comparatives) are expressed in Reniminbi using exchange rates prevailing at the end of the reporting period. Income and expense items (including comparatives) are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in a separate component of equity under the header of foreign currency translation reserve.

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, loss of joint control over a jointly controlled entity that includes a foreign operation, or loss of significant influence over an associate that includes a foreign operation), all of the accumulated exchange differences in respect of that operation attributable to the Group are reclassified to profit or loss. Any exchange differences that have previously been attributed to non-controlling interests are derecognised, but they are not reclassified to profit or loss.

In the case of a partial disposal (i.e. no loss of control) of a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. of associates or jointly controlled entities not involving a change of accounting basis), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities (including monetary items that, in substance, form part of the net investment in foreign entities), and of borrowings and other currency instruments designated as hedges of such investments, are recognised in other comprehensive income and accumulated in a separate component of equity under the header of foreign currency translation reserve.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

Reserves — Pursuant to relevant laws and regulations in the PRC applicable to foreign investment enterprises and the Articles of Association of the PRC subsidiaries, the subsidiaries are required to maintain three statutory reserves, being a statutory surplus reserve fund, an enterprise fund and a staff welfare and bonus fund which are non-distributable. Appropriations to such reserves are made out of profit after taxation of the statutory financial statements of the subsidiaries. The subsidiaries are required to transfer 10% of its profit after taxation as reported in its PRC statutory financial statements to the statutory surplus reserve fund until the balance reached 50% of its registered capital. The statutory surplus reserve fund can be used to make up prior year losses incurred and, with approval from relevant government authority, to increase capital.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Reserves (Cont'd)

The subsidiaries are also required to make appropriation from profit after taxation as reported in the PRC statutory financial statements to the enterprise expansion fund at rates determined by the Board of Directors. The enterprise expansion fund, subject to approval by relevant government authority, may also be used to increase capital.

3 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 2 to the financial statements, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

i) Critical judgements in applying the Group's accounting policies

The management is of the opinion that any instances of application of judgement are not expected to have a significant effect on the amounts recognised in the financial statements.

ii) Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Estimated impairment of trade and other receivables, and amount due from contract customers

The Group makes allowances for bad and doubtful debts based on an assessment of the recoverability of trade and other receivables. Allowances are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts requires the exercise of judgement and the use of estimates. Where the expectation is different from the original estimate, such difference will impact carrying value of trade and other receivables and doubtful debts expenses in the period in which such estimate has been changed. The carrying amount of the trade and other receivables, and amount due from contract customers are disclosed in Notes 7 and 8 to the financial statements respectively.

3 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Cont'd)

ii) Key sources of estimation uncertainty (Cont'd)

Revenue recognition

The Group recognises contract revenue based on the stage of completion method. The stage of completion is measured in accordance with the accounting policy stated in Note 2 to the financial statements. Significant assumption is required in determining the stage of completion, the extent of the contract cost incurred, the estimated total contract revenue and contract cost and the recoverability of the costs. In making the assumptions, the Group evaluates by relying on past experience and the work of specialists. Revenue from construction contracts is disclosed in Note 22 to the financial statements.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating operating unit and a suitable discount rate in order to calculate present value. The carrying amount of goodwill is disclosed in Note 15 to the financial statements.

Impairment of intangible assets

Determining whether the intangible assets are impaired requires an estimation of the value in use of the cash-generating units to which such intangible asset has been allocated. The value in use calculation requires the group to estimate the future cash flows expected from the cash-generating units and an appropriate discount rate in order to calculate the present value of the future cash flows. Management has evaluated that the carrying amount of the intangible assets based on third-party specialists' valuation and is confident that the carrying amount of such intangible assets will be recovered in full. The carrying amount of the intangible assets at the end of the reporting period is disclosed in Note 14 to the financial statements.

Classification between financial assets and/or intangible asset under INT FRS 112 Service Concession Arrangements

The Group recognises the consideration received or receivable in exchange for the construction services as a financial asset and/or an intangible asset under public-to-private concession arrangement. However, if the Group is paid for the construction services partly by a financial asset and partly by an intangible asset, it is necessary to account separately for each component of the operator's consideration. The consideration received or receivable for both components shall be recognised initially at the fair value of the consideration received or receivable.

3 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Cont'd)

ii) Key sources of estimation uncertainty (Cont'd)

Classification between financial assets and/or intangible asset under INT FRS 112 Service Concession Arrangements (Cont'd)

The segregation of the consideration for a service concession arrangement between the financial asset component and the intangible asset component, if any, requires the Group to make an estimate of a number of factors, which include, inter alia, fair value of the construction services, expected future sewage treatment volume of the relevant sewage treatment plant over its service concession period, future guaranteed receipts and unguaranteed receipts, and also to choose a suitable discount rate in order to calculate the present value of those cash flows. No intangible assets have been recognised regarding to service concession arrangements during the financial year as the management considers the chance of exceeding the guaranteed tonnage is low. These estimates are determined by the Group's management based on their experience and assessment on current and future market conditions.

The carrying amount of the service concession receivables at the end of the reporting period is disclosed in Note 16 to the financial statements.

4 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT

(a) Capital risk management policies and objectives

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance, and to ensure that all externally imposed capital requirements are complied with.

The Group is required to maintain certain financial ratios in order to comply with covenants relating to its borrowings. The management ensures that the Group maintains financial ratios within a set range to comply with the imposed loan covenants.

The capital structure of the Group consists of debt, which includes the bank borrowings, cash and cash equivalents and equity attributable to equity holders of the Company, comprising paid up capital, accumulated profits and other reserves.

The Group's management reviews the capital structure on an on-going basis. As a part of this review, the management considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the management, the Group will balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt.

The Group's overall strategy remains unchanged from prior year. As at the end of the reporting period, the Group is in compliance with all capital requirements on its external borrowings.

4 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT (Cont'd)

(b) Categories of financial instruments

The following table sets out the financial instruments as at the end of the reporting period:

Group	2010 RMB'000	2009 RMB'000
Financial assets:		
Loan and receivables		
Service concession receivables	**674,538**	415,747
Trade receivables	**653,482**	365,059
Bills receivables	**51,506**	20,962
Bid and compliance deposits	**19,694**	4,777
Other receivables	**29,259**	13,412
Restricted bank balances	**314,726**	72,208
Cash and cash equivalents	**2,027,352**	1,237,698
Total	**3,770,557**	2,129,863
Financial liabilities at amortised cost:		
Trade payables	**581,211**	510,091
Other payables	**33,186**	25,902
Interest payables	**17,259**	1,278
Bid and compliance deposits	**13,034**	12,468
Bills payables	**11,818**	28,266
Bank loans	**671,296**	227,000
Convertible loan notes	**784,878**	—
Total	**2,112,682**	805,005

4 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT (Cont'd)

(b) Categories of financial instruments (Cont'd)

Company	2010 RMB'000	2009 RMB'000
Financial assets:		
Loan and receivables		
Trade receivables	**8,986**	1,200
Other receivables	**1,283**	791
Dividend receivable from subsidiaries	**252,000**	79,500
Due from subsidiaries	**593,707**	5,300
Restricted bank balances	**222,280**	35,923
Cash and cash equivalents	**145,075**	2,236
Total	**1,223,331**	124,950
Financial liabilities at amortised cost:		
Trade payables	**1,620**	400
Other payables	**20,032**	1,998
Bank loans	**215,096**	—
Convertible loan notes	**784,878**	—
Total	**1,021,626**	2,398

(c) Financial risk management policies and objectives

The management of the Group monitors and manages the financial risks relating to the operations of the Group to ensure appropriate measures are implemented in a timely and effective manner. These risks include market risk (including currency risk and interest rate risk), credit risk and liquidity risk.

(i) Market risk

The Group's activities expose primarily to the financial risks of changes in foreign currency exchange rates and interest rates. Management monitors risks associated with changes in foreign currency exchange rates and interest rates and will consider appropriate measures should the need arises.

There has been no significant change to the Group's exposure to market risk or the manner in which it manages and measures the risk.

4 **FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT** (Cont'd)

(c) Financial risk management policies and objectives (Cont'd)

(ii) Foreign currency risk management

The Group transacts businesses significantly in Renminbi and is expose to United States Dollars ("US$") and Singapore Dollars ("S$").

The carrying amounts of foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

Group	Liabilities 2010 RMB'000	Liabilities 2009 RMB'000	Assets 2010 RMB'000	Assets 2009 RMB'000
S$ denominated	—	—	23,820	37,281
US$ denominated	215,096	—	533,831	11,697

Company	Liabilities 2010 RMB'000	Liabilities 2009 RMB'000	Assets 2010 RMB'000	Assets 2009 RMB'000
S$ denominated	—	—	742	37,258
US$ denominated	215,096	—	366,559	901

Foreign currency sensitivity

The following table details the sensitivity to a 10% increase and decrease in the Renminbi ("RMB") against the relevant foreign currencies. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. A positive number below indicates an increase in profit and other equity where RMB strengthens 10% against the relevant currency. For a 10% weakening of the RMB against the relevant currency, there would be an equal and opposite impact on the statement of comprehensive income and the balances below would be negative.

4 **FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT** (Cont'd)

(c) Financial risk management policies and objectives (Cont'd)

(ii) Foreign currency risk management (Cont'd)

Foreign currency sensitivity (Cont'd)

	Impact to profit or loss	
	2010	2009
	RMB'000	RMB'000 (restated)
Group		
S$	**(2,382)**	(3,728)
US$	**(31,874)**	(1,170)
Company		
S$	**(74)**	(3,726)
US$	**(15,146)**	(9)

The sensitivity to foreign exchange rate changes has decreased during the current period mainly due to a decrease in monetary assets denominated foreign currency.

(iii) Interest rate risk management

The Group are mainly exposed to fair value interest rate risk in relation to its fixed-rate borrowings and convertible loan notes (see Note 18 and Note 20 for details). The Group is also exposed to cash flow interest rate risk in relation to its variable-rate borrowing and bank balances which carry prevailing market interest rates.

The Group also aims at keeping its fixed-rate borrowings on a short-term basis so as to minimise the interest rate risk. In order to achieve this result, most borrowings made by the Group are within one year period. The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arises.

4 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT (Cont'd)

(c) Financial risk management policies and objectives (Cont'd)

(iii) Interest rate risk management (Cont'd)

Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the reporting date. The sensitivity analyses below have been determined based on the exposure to interest rates for variable interest rate borrowings. Bank balances are excluded from the sensitivity analyses since they are not sensitive to fluctuation in interest rate. The analysis is prepared assuming the variable interest rate borrowings outstanding at the reporting date were outstanding for the whole year. A 50 basis point increase or decrease represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been increased/decreased by 50 basis points and all other variables were held constant, the Group's profit for the year would decrease/increase by approximately RMB2,363,000 (2009: RMB560,000) for the year ended December 31, 2010.

(iv) Credit risk management

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group only transacts with entities that are rated the equivalent of investment grade and above. This information is supplied by independent rating agencies where available and, if not available, the Group uses other publicly available financial information and its own trading records to rate its major customers. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by the counterparty limits that are reviewed and approved by the management.

The Group's credit risk primarily relates to the Group's trade and other receivables, advance payments to suppliers and subcontractors and pledged bank deposits. There is significant concentration of credit risk as the top five biggest customers account for approximately 26% (2009: 49%) of the carrying amounts of trade receivables as at the end of the reporting period. The management of the Group generally grants credit only to customers with good credit ratings and also closely monitors overdue trade debts. The recoverable amount of each individual trade debt is reviewed at the end of each reporting period and adequate impairment for doubtful debts has been made for irrecoverable amounts. In this regard, the management of the Group considers that the credit risk associated with the Group's trade receivable and advance payments to suppliers and subcontractors is significantly reduced.

The Group is also exposed to concentration of credit risk on its service concession receivables. The Group's management consider the associated credit risk is low as the corresponding grantors are all government bodies in the PRC, who either pay or guarantee the payment to the Group.

4 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT (Cont'd)

(c) Financial risk management policies and objectives (Cont'd)

(iv) Credit risk management (Cont'd)

The credit risk in relation to the Group's pledged bank deposits is not significant as the corresponding banks are reputable banking institutions in the PRC.

The maximum exposure to credit risk in the event that the counterparties fail to perform their obligations as at end of the financial period in relation to each class of recognised financial assets is the carrying amounts of those assets as stated in the statement of financial position.

Further details of credit risks on trade and other receivables are disclosed in Note 7 to the financial statements.

(v) Liquidity risk management

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

Liquidity and interest risk analysis

Non-derivative financial liabilities

The following table details the remaining contractual maturity for non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group and Company can be required to pay.

4 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT (Cont'd)

(c) Financial risk management policies and objectives (Cont'd)

(v) *Liquidity risk management* (Cont'd)

Non-derivative financial liabilities (Cont'd)

Group	Weighted average interest rate %	Within one year RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total undiscounted cash flow RMB'000	Carrying amount RMB'000
As of December 31, 2010						
Trade payables		**581,211**	**—**	**—**	**581,211**	**581,211**
Other payables		**33,186**	**—**	**—**	**33,186**	**33,186**
Interest payables		**17,259**	**—**	**—**	**17,259**	**17,259**
Convertible loan notes	**9.00**	**37,613**	**1,097,400**	**—**	**1,135,013**	**784,878**
Bid and compliance deposits		**13,034**	**—**	**—**	**13,034**	**13,034**
Bills payables		**11,818**	**—**	**—**	**11,818**	**11,818**
Borrowings						
Fixed-rate	**5.15**	**102,564**	**—**	**—**	**102,564**	**100,000**
Variable-rate	**5.40**	**350,954**	**176,332**	**113,267**	**640,553**	**571,296**
Total		**1,147,639**	**1,273,732**	**113,267**	**2,534,638**	**2,112,682**

Group	Weighted average interest rate %	Within one year RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total undiscounted cash flow RMB'000	Carrying amount RMB'000
As of December 31, 2009						
Trade payables		510,091	—	—	510,091	510,091
Other payables		25,902	—	—	25,902	25,902
Interest payables		1,278	—	—	1,278	1,278
Bid and compliance deposits		12,468	—	—	12,468	12,468
Bills payables		28,266	—	—	28,266	28,266
Borrowings						
Fixed-rate	5.31	95,390	—	—	95,390	94,700
Variable-rate	5.32	89,531	53,215	3,278	146,024	132,300
Total		762,926	53,215	3,278	819,419	805,005

4 **FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT** (Cont'd)

(c) Financial risk management policies and objectives (Cont'd)

Company	Weighted average interest rate %	Within one year RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total undiscounted cash flow RMB'000	Carrying amount RMB'000
As of December 31, 2010						
Trade payables		**1,620**	**—**	**—**	**1,620**	**1,620**
Other payables		**18,195**	**—**	**—**	**18,195**	**18,195**
Due to subsidiaries		**1,837**	**—**	**—**	**1,837**	**1,837**
Convertible loan notes	**9.00**	**37,613**	**1,097,400**	**—**	**1,135,013**	**784,878**
Borrowings						
Variable-rate	**4.84**	**8,624**	**146,427**	**113,267**	**268,318**	**215,096**
Total		**67,889**	**1,243,827**	**113,267**	**1,424,983**	**1,021,626**
As of December 31, 2009						
Trade payables		400	—	—	400	400
Other payables		1,961	—	—	1,961	1,961
Due to subsidiaries		37	—	—	37	37
Total		2,398	—	—	2,398	2,398

(vi) Fair value of financial assets and financial liabilities

The fair value of financial assets and financial liabilities are determined as follows:

- The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices and ask prices respectively; and

- The fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input.

The management consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.

4 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT (Cont'd)

(c) Financial risk management policies and objectives (Cont'd)

(vi) Fair value of financial assets and financial liabilities (Cont'd)

Except as detailed in the following table, the management of the Group consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values:

	2010		2009	
	Carrying amount RMB'000	Fair value RMB'000	Carrying amount RMB'000	Fair value RMB'000
Financial liabilities				
Convertible loan notes				
(Liability component)	**784,878**	**806,784**	—	—

5 (A) HOLDING COMPANY AND RELATED COMPANY TRANSACTIONS

The Company's immediate and ultimate holding company is Sound Water (BVI) Limited, a company incorporated in British Virgin Islands. Related companies in these financial statements refer to members of the ultimate holding company's group of companies.

Some of the Group's transactions and arrangements are between members of the ultimate holding company's group and the effects of these on the basis determined between the parties are reflected in these financial statements. The intercompany balances are unsecured, interest-free and repayable on demand unless stated otherwise.

Transactions between the Company and its subsidiaries, which are related companies of the Company, have been eliminated on consolidation and are not disclosed in this note.

5 (B) RELATED PARTY TRANSACTIONS

Related parties are entities with common direct or indirect shareholders and/or directors. Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions.

Some of the transactions and arrangements of the Group are with related parties and the effects of these transactions on the bases determined between the parties are reflected in these financial statements. Unless otherwise stated, the balances are unsecured, interest-free and repayable on demand.

(C) The names of individuals and entities related to the Group are as follows:

Name	Relationship
Baotou Lucheng Water Co., Ltd “Baotou Lucheng”	A PRC company owned by Sound Resources (90%) and Beijing Lv’meng (10%).
Beijing Lv’ meng Investment Co., Ltd “Beijing Lv’meng”	A subsidiary of BJ Sound Enviro.
Beijing Sound Environment Group Co., Ltd “BJ Sound Enviro”	A PRC company owned by Beijing Sanghua Environmental Technology Development Co., Ltd (“Beijing Sanghua”) (62.5%), Wen Yibo (36.25%) and Hu Xinling (a director of Sound Resources) (1.25%). Wen Yibo is the legal representative and director of BJ Sound Enviro. Hu Xinling is unrelated to the Group, Directors and Substantial Shareholders.
Beijing Sound Water Technology Co., Ltd “Sound Water Tech”	A PRC company owned by BJ Sound Enviro (90%) and a relative of Wen Yibo, Wen Shuangfei (10%).
Beijing Xiaojiahe Wastewater Treatment Co., Ltd “Beijing Xiaojiahe”	Under control of the same key management personnel.

5 (C) The names of individuals and entities related to the Group are as follows: (Cont'd)

Name	Relationship
Daye Qingbo Water Co., Ltd "Daye Qingbo"	A subsidiary of BJ Sound Enviro.
Sound Environmental Resources Co., Ltd "Sound Resources"	A PRC company listed on the Shen Zhen Stock Exchange and owned by BJ Sound Enviro (51.7%) and the remaining 48.3% is owned by an unrelated party and other public shareholders. Wen Yibo is a director of Sound Resources.
E'zhou Eqing Environmental Engineering Co., Ltd. "E'zhou Eqing"	A subsidiary of BJ Sound Enviro.
Hubei Jichu Water Co., Ltd "Hubei Jichu"	A subsidiary of Beijing Lv'meng.
Nanchang Xianghu Water Co., Ltd "Nanchang Xianghu"	A subsidiary of Sound Resources.
Huzhou Zheqing Water Co., Ltd "Huzhou Zheqing"	A subsidiary of BJ Sound Enviro.
Jiayu Jiaqing Water Co., Ltd. "Jiayu Jiaqing"	A subsidiary of BJ Sound Enviro.
Jingmen Xiajiawan Water Co., Ltd "Jingmen Xiajiawan"	A subsidiary of BJ Sound Enviro.
Jingzhou Jingqing Water Co., Ltd "Jingzhou Jingqing"	A subsidiary of BJ Sound Enviro.
Tongliao Bibo Water Co., Ltd "Tongliao Bibo"	A subsidiary of BJ Sound Enviro.
Tianmen Huangjin Wastewater Treatment Co., Ltd "Tianmen Huangjin"	An associates of BJ Sound Enviro.
Xiangfan Hanshui Qiyi Water Co., Ltd "Xiangfan Qingyi"	A subsidiary of BJ Sound Enviro.
Xianning Ganyuan Water Co., Ltd "Xianning Ganyuan"	A subsidiary of BJ Sound Enviro.

5 (D) Details of transactions are disclosed below.

i) **Trading transactions**

During the year, the trading transactions are as follows:

Entity	Revenue from construction contracts		Revenue from sale of goods/services	
	2010	2009	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Baotou Lucheng	**16,447**	5,134	**—**	—
Beijing Xiaojiahe	**—**	—	**—**	48
Daye Qingbo	**264**	8,283	**—**	—
E'zhou Eqing	**—**	2,864	**7**	—
Hubei Jichu	**—**	12,000	**—**	—
Jiayu Jiaqing	**25,516**	30,769	**—**	—
Jingmen Xiajiawan	**1,372**	5,682	**2,124**	—
Jingzhou Jingqing	**2,753**	14,618	**—**	—
Nanchang Xianghu	**—**	—	**—**	442
Tongliao Bibo	**15,713**	3,104	**38**	—
Xianning Ganyuan	**3,554**	2,500	**69**	2
Tianmen Huangjin	**34,685**	—	**—**	—
Total	**100,304**	84,954	**2,238**	492

The terms for the above transactions are negotiated and mutually agreed upon between the respective parties.

Entity	Trade receivable		Trade payables	
	December 31, 2010	December 31, 2009	December 31, 2010	December 31, 2009
	RMB'000	RMB'000	RMB'000	RMB'000
Baotou Lucheng	**5,134**	—	**—**	—
Beijing Sound Enviro	**—**	—	**2**	—
Beijing Xiaojiahe	**56**	156	**—**	—
E'zhou Eqing	**—**	22,313	**—**	—
Hubei Jichu	**2,727**	4,900	**—**	—
Huzhou Zheqing	**—**	4,513	**—**	—
Jingzhou Jingqing	**15,634**	1,405	**—**	—
Nanchang Xianghu	**98**	298	**—**	—
Tianmen Huangjin	**20,340**	—	**—**	—
Tongliao Bibo	**44**	15,100	**—**	—
Xianning Ganyuan	**2,002**	703	**—**	—
Total	**46,035**	49,388	**2**	—

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2010

5 (D) Details of transactions are disclosed below. (Cont'd)

i) **Trading transactions** (Cont'd)

Entity	Amount due from contract customers		Amount due to contract customers	
	December 31, 2010 RMB'000	December 31, 2009 RMB'000	December 31, 2010 RMB'000	December 31, 2009 RMB'000
Baotou Lucheng	**438**	—	—	—
Daye Qingbo	**984**	676	—	—
Hubei Jichu	—	1,200	—	—
Jiayu Jiaqing	**6,753**	—	—	14,869
Jingmen Xiajiawan	**938**	—	—	2,949
Jingzhou Jingqing	—	11,447	—	—
Tongliao Bibo	—	13,400	—	—
Tianmen Huangjin	**3,469**	—	—	—
Xianning Ganyuan	—	—	—	1,510
Xiangfan Qingyi	—	—	—	1,219
Total	**12,582**	26,723	—	20,547

ii) **Compensation of directors and other key management personnel**

The remuneration of directors and other members of key management during the year were as follows:

	Group 2010 RMB'000	Group 2009 RMB'000
Wages and salaries	**2,296**	1,655
Contributions to defined contribution plan	**230**	142
Share-based payments	**2,967**	—
Total	**5,493**	1,797

The remuneration of directors and key executives is determined having regard to the performance of individuals and market trends.

5 (D) Details of transactions are disclosed below. (Cont'd)

iii) Other receivables/Other payables

	Other receivables		Other payables	
	December 31, 2010 RMB'000	December 31, 2009 RMB'000	December 31, 2010 RMB'000	December 31, 2009 RMB'000
Board of Directors				
Wen Yi Bo	**50**	50	—	—
Yan Xiaolei	—	14	—	—
	50	64	—	—
Entities				
Beijing Lv'meng	—	2,700	—	—
Tongliao Bibo	—	300	**368**	—
BJ Sound Enviro	—	—	—	1,767
Soud Water Tech	**1,440**	—	**388**	—
Total	**1,440**	3,000	**756**	1,767

The amounts due to and from are interest-free, unsecured and repayable on demand.

iv) Others

1) Licencing of trademarks

Since 2002, the Group (being registered owner of certain trademarks) uses its trademarks for its water and wastewater treatment business. These trademarks are also used by BJ Sound Enviro for its investment in environmental protection and by Sound Water Tech, for the processing of distilled water at no consideration before March 2006.

In March 2006, the Group agreed to transfer the trademarks at no cost to BJ Sound Enviro pursuant to a Trademarks Transfer Agreement dated March 23, 2006. BJ Sound Enviro will in return grant the Group the license to use the trademarks for a period of up to 50 years at Nil consideration.

5 **(D)** Details of transactions are disclosed below. (Cont'd)

iv) Others (Cont'd)

2) In addition to the above transactions, the Group has entered into sub-contract arrangements with the following main contractors:

Name of main contractor	The project related to the sub-contract (the "Project")	Name of operator of the Project (the "Operator")	Relationship with the Operator
Hubei Gongye Construction Group Co., Ltd. ("Hubei Gongye Construction ")	Hubei Zhushan Wastewater Treatment Plant Construction Project	Hubei Jichu Water Co., Ltd.	Fellow Subsidiaries
Jingzhou City Construction Group Co., Ltd. ("Jingzhou City Construction")	Zhijiang and Hubei Jingzhou Wastewater Treatment Plant Construction Project	Jingzhou Jingqing and Zhijiang Zhiqing Water Co., Ltd.	Fellow Subsidiaries
Xiangfan Shizheng Engineering Group Co., Ltd. ("Xiangfan Shizheng")	Xiangfan Guanyinge Wastewater Treatment Plant Construction Project	Xiangfan Hanshui Qingyi Water Co., Ltd.	Fellow Subsidiaries
China National Chemical Engineering Co., Ltd ("China Chemical")	Tianmen Pipe Network Construction Project 1	Tianmen Huangjin Wastewater Treatment Co., Ltd	Fellow Subsidiary
Hebei Metallurgical Construction Group Co., Ltd ("Hebei Metallurgical")	Tianmen Pipe Network Construction Project 2	Tianmen Huangjin Wastewater Treatment Co., Ltd	Fellow Subsidiary
China Petroleum and Chemical Construction Co., Ltd c ("SINOPEC construction")	Tianmen Pump Station Construction Project over the operator	Tianmen Huangjin Wastewater Treatment Co., Ltd	The controlling shareholder has significant influence

The balances due from (to) are interest-free, unsecured and repayable on demand.

5 (D) Details of transactions are disclosed below. (Cont'd)

iv) **Others** (Cont'd)

During the year, the Group entered into the following transactions with the above mentioned main contractors:

Entity	Revenue from construction contracts		Purchases	
	2010	2009	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Hubei Gongye Construction	**2,584**	1,368	—	—
Jingzhou City Construction	—	5,545	—	—
Xiangfan Shizheng	**17,047**	—	—	—
China Chemical	**27,977**	—	—	—
SINOPEC Construction	**15,355**	—	—	—
Hebei Metallurgical	**18,414**	—	—	—
Total	**81,377**	6,913	—	—

Entity	Trade receivables		Trade payables	
	December 31, 2010	December 31, 2009	December 31, 2010	December 31, 2009
	RMB'000	RMB'000	RMB'000	RMB'000
Hubei Gongye Construction	**1,642**	5,151	**767**	1,284
Jingzhou City Construction	**258**	—	—	—
Xiangfan Shizheng	**2,740**	913	—	—
SINOPEC Construction	**14,111**	—	—	—
China Chemical	**14,153**	—	—	—
Hebei Metallurgica	**11,739**	—	—	—
Total	**44,643**	6,064	**767**	1,284

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2010

5 **(D)** Details of transactions are disclosed below. (Cont'd)

iv) Others (Cont'd)

Entity	Other receivables		Amount due from contract customers	
	December 31, 2010	December 31, 2009	December 31, 2010	December 31, 2009
	RMB'000	RMB'000	RMB'000	RMB'000
Hubei Gongye Construction	**—**	—	**1,410**	1,331
Jingzhou City Construction	**50**	50	**—**	258
SINOPEC Construction	**—**	—	**768**	—
China Chemical	**—**	—	**2,141**	—
Hebei Metallurgica	**—**	—	**1,397**	—
Total	**50**	50	**5,716**	1,589

6 CASH AND CASH EQUIVALENTS

	Group			Company		
	December 31, 2010	December 31, 2009	January 1, 2009	December 31, 2010	December 31, 2009	January 1, 2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cash and cash equivalents	2,027,352	1,237,698	772,988	145,075	2,236	2,637
Presentation on Statements of Financial Position						
Cash and cash equivalents	2,027,352	1,237,698	772,988	145,075	2,236	2,637
Restricted bank balances	314,726	72,208	369,481	222,280	35,923	367,793
Total	2,342,078	1,309,906	1,142,469	367,355	38,159	370,430

6 CASH AND CASH EQUIVALENTS (Cont'd)

The above balances that are not denominated in the functional currencies of the respective entities are as follows:

	Group			Company		
	December 31, 2010 RMB'000	December 31, 2009 RMB'000 (restated)	January 1, 2009 RMB'000 (restated)	December 31, 2010 RMB'000	December 31, 2009 RMB'000 (restated)	January 1, 2009 RMB'000 (restated)
S$ denominated	23,820	37,281	370,393	742	37,258	370,393
US$ denominated	533,831	11,697	37	366,559	901	37

Restricted bank balances of a certain subsidiaries amounting to RMB92,446,000 (2009: RMB36,285,000) have been pledged to financial institutions in respect of letters of guarantees issued to the certain subsidiaries to secure construction contracts. These pledged deposits bear fixed interest at approximately 0.36% (2009: 0.36%) per annum. The pledged bank deposits will be released upon the settlement of relevant contracts.

Restricted bank balances of the Company amounting to RMB222,280,000 (2009: RMB35,923,000) are pledge to a financial institution in respect of banking facilities provided to a subsidiary (Note 18). These pledged deposits bear interest at rates ranging at approximately 0.36% (2008: 0.05% to 0.36%) per annum.

Bank balances and cash at December 31, 2009 and December 31, 2010 were mainly denominated in RMB which is not a freely convertible currency in the international market. The exchange rate of RMB is determined by the Government of the PRC and the remittance of these funds out of the PRC is subject to exchange restrictions imposed by the Government of the PRC.

7 TRADE AND OTHER RECEIVABLES

	Group			Company		
	December 31, 2010 RMB'000	December 31, 2009 RMB'000	January 1, 2009 RMB'000	December 31, 2010 RMB'000	December 31, 2009 RMB'000	January 1, 2009 RMB'000
Trade receivables	701,477	413,054	442,231	8,986	1,200	8,222
Allowance for doubtful debts	(47,995)	(47,995)	(19,569)	—	—	—
Net	653,482	365,059	422,662	8,986	1,200	8,222
Bid and compliance deposits	19,694	4,777	21,267	—	—	—
Bills receivable	51,506	20,962	32,530	—	—	—
Advance payments to suppliers and subcontractors	45,389	17,573	18,439	—	—	—
Dividend receivable from subsidiaries	—	—	—	252,000	79,500	94,500
Due from subsidiaries — trade	—	—	—	—	5,300	4,979
Due from subsidiaries — non trade	—	—	—	593,707	—	1,841
Other receivables	29,259	13,412	11,296	1,283	791	373
Service concession receivables *(Note 16)*	9,420	—	—	—	—	—
Total	808,750	421,783	506,194	855,976	86,791	109,915
Movement in allowance for doubtful debts:						
Balance at beginning of year	47,995	19,569	8,315	—	—	—
Charge to profit and loss	—	28,426	11,254	—	—	—
Balance at end of year	47,995	47,995	19,569	—	—	—

The above allowance was provided for based on estimated irrecoverable amounts arising from construction contracts, determined by reference to past default experience. The Group reviews the recoverable amount of each individually significant trade debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts.

The Group has a policy of allowing trade customers with credit normally within 90 days except for construction project for which settlement is made in accordance with the terms specified in the contracts governing the relevant transactions. Overdue balances are reviewed regularly by the Group's management.

7 TRADE AND OTHER RECEIVABLES (Cont'd)

As at the end of the reporting period, the Group's trade receivables with carrying amount of approximately RMB136,460,000 (2009: RMB85,050,000) have been pledged as collateral for the short-term bank borrowings of RMB60,000,000 (2009: RMB50,000,000) (Note 18(i)).

Included in the Group's trade receivables are debtors with a carrying amount of RMB89,183,000 (2009: RMB128,450,000) as of December 31, 2010 which were overdue for which the Group has not provided for impairment loss as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances.

Aging of the Group's trade receivables past due but not impaired

	2010 RMB'000	2009 RMB'000
Overdue		
91 – 180 days	**8,816**	8,230
181 days – 1 year	**60,792**	43,238
1 to 2 years	**19,575**	60,445
2 to 3 years	**—**	16,537
	89,183	128,450

In determining the recoverability of a trade receivable, the Group and the Company consider any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. Accordingly, the management believe that there is no further credit provision required in excess of the allowance for doubtful debts.

The table below is an analysis of net trade receivables as at the end of the reporting period:

	Group			Company		
	December 31, 2010 RMB'000	December 31, 2009 RMB'000	January 1, 2009 RMB'000	December 31, 2010 RMB'000	December 31, 2009 RMB'000	January 1, 2009 RMB'000
Within 90 days	310,288	174,551	128,234	—	—	8,222
91 to 180 days	128,149	34,823	188,843	8,986	1,200	—
181 days to 1 year	195,470	46,445	66,665	—	—	—
1 to 2 years	19,575	92,703	38,920	—	—	—
2 to 3 years	—	16,537	—	—	—	—
Net trade receivables	653,482	365,059	422,662	8,986	1,200	8,222

7 TRADE AND OTHER RECEIVABLES (Cont'd)

As at the end of the reporting period, bills receivables with carrying amount of approximately RMB11,818,000 (2009: RMB Nil) have been pledged as collateral for the bill payables of RMB11,818,000 (2009: Nil).

The table below is an analysis of bills receivables as at the end of the reporting period:

	Group			Company		
	December 31, 2010 RMB'000	December 31, 2009 RMB'000	January 1, 2009 RMB'000	December 31, 2010 RMB'000	December 31, 2009 RMB'000	January 1, 2009 RMB'000
0 to 180 days	51,506	20,962	32,530	—	—	—

The amount due from subsidiaries are unsecured, interest-free and repayable on demand unless otherwise stated.

Management considers that the trade and other receivables that are neither past due or impaired are with creditworthy counterparties.

8 AMOUNTS DUE FROM/TO CONTRACT CUSTOMERS

	Group		
	December 31, 2010 RMB'000	December 31, 2009 RMB'000	January 1, 2009 RMB'000
Contracts in progress at the end of the reporting period:			
Amounts due from contract customers	**337,651**	227,089	237,233
Amounts due to contract customers	**(9,611)**	(24,264)	(24,311)
Net	**328,040**	202,825	212,922
Contract costs incurred plus recognised profits less recognised losses to date	**2,276,370**	1,797,547	1,143,862
Less: Progress billings	**(1,948,330)**	(1,594,722)	(930,940)
Net	**328,040**	202,825	212,922

The amount due from/to customers for contract work are all related to construction contracts in turnkey projects.

9 INVENTORIES

	Group		
	December 31, 2010 RMB'000	December 31, 2009 RMB'000	January 1, 2009 RMB'000
Equipment components, at cost:			
Finished goods	—	—	1,083
Work in progress	**2,418**	25	10,505
Raw materials	**9,638**	11,518	10,275
Total	**12,056**	11,543	21,863

10 LAND USE RIGHTS

	Group		
	December 31, 2010 RMB'000	December 31, 2009 RMB'000	January 1, 2009 RMB'000
Cost:			
At beginning of year	**49,921**	49,921	3,000
Arising on acquisition of subsidiary	—	—	46,921
At end of year	**49,921**	49,921	49,921
Accumulated amortisation:			
At beginning of year	**2,151**	993	420
Charge	**1,158**	1,158	573
At end of year	**3,309**	2,151	993
Carrying amount:			
At end of year	**46,612**	47,770	48,928
Less: Portion to be released to profit or loss in the next year under current assets	**(1,158)**	(1,158)	(1,158)
Amount due after one year	**45,454**	46,612	47,770

Presentation on Statements of Financial Position

Current assets	**1,158**	1,158	1,158
Non-current assets	**45,454**	46,612	47,770
Total	**46,612**	47,770	48,928

10 LAND USE RIGHTS (Cont'd)

This represents prepaid lease payments for land use rights of 3 (2009: 3) pieces of land located in the PRC on which the buildings of the subsidiaries are erected. The leases for 2 lands run for an initial period of 47 years commencing on October 18, 2001 and the other land run for an initial period of 43 years commencing April 6, 2008. None of the leases include contingent rentals.

As at the end of the reporting period, the Group has pledged land use rights with carrying amount of RMB2,391,000 (2009: RMB2,454,000) to secure general banking facilities granted to the Group (Note 18(i)).

11 PROPERTY, PLANT AND EQUIPMENT

	Group					
	Buildings RMB'000	Plant and machinery RMB'000	Transportation vehicles RMB'000	Fixtures and equipments RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:						
At January 1, 2009	44,446	8,106	2,643	3,917	—	59,112
Additions	—	30	108	425	—	563
Reclassifications	—	—	—	(12)	—	(12)
At December 31, 2009	44,446	8,136	2,751	4,330	—	59,663
Additions	—	24	1,121	1,164	—	2,309
Disposal	—	(113)	—	(9)	—	(122)
Translation difference	—	—	(11)	(2)	—	(13)
At December 31, 2010	44,446	8,047	3,861	5,483	—	61,837
Accumulated depreciation:						
At January 1, 2009	4,217	461	2,184	2,258	—	9,120
Depreciation	1,415	826	258	432	—	2,931
Disposal	—	—	—	(5)	—	(5)
At December 31, 2009	5,632	1,287	2,442	2,685	—	12,046
Depreciation	1,438	816	343	552	—	3,149
Disposal	—	(66)	—	(4)	—	(70)
Translation difference	—	—	(6)	(1)	—	(7)
At December 31, 2010	7,070	2,037	2,779	3,232	—	15,118
Carrying amount:						
At December 31, 2010	37,376	6,010	1,082	2,251	—	46,719
At December 31, 2009	38,814	6,849	309	1,645	—	47,617
At January 1, 2009	40,229	7,645	459	1,659	—	49,992

As at the end of the reporting period, the Group has pledged buildings with carrying amount of RMB33,278,000 (2009: RMB15,300,000) to secure general banking facilities granted to the Group (Note 18(i)).

11 PROPERTY, PLANT AND EQUIPMENT (Cont'd)

	Company		
	Office Equipment RMB'000	Office Renovation RMB'000	Total RMB'000
Cost:			
At January 1, 2009	548	—	548
Additions	35	—	35
At December 31, 2009	583	—	583
Additions	36	26	62
At December 31, 2010	619	26	645
Accumulated depreciation:			
At January 1, 2009	471	—	471
Depreciation for the year	74	*	74
At December 31, 2009	545	—	545
Depreciation for the year	31	*	31
At December 31, 2010	576	—	576
Carrying amount:			
As at December 31, 2010	43	26	69
As at December 31, 2009	38	—	38
As at January 1, 2009	77	—	77

* Amount less than RMB1,000

12 SUBSIDIARIES

	Company		
	December 31, 2010 RMB'000	December 31, 2009 RMB'000	January 1, 2009 RMB'000
Unquoted equity shares, at cost	**666,108**	588,060	431,000
Deemed investment	**136,443**	136,443	—
Total	**802,551**	724,503	431,000

12 SUBSIDIARIES (Cont'd)

Name of subsidiary	Place of incorporation	Issued and fully paid-up share capital/ registered capital	Equity interest attributable to the Company as at Year ended 31/12/2010 Direct %	Year ended 31/12/2010 Indirect %	Year ended 31/12/2009 Direct %	Year ended 31/12/2009 Indirect %	Principal activities
Beijing Sound *(Note i)* (1) 北京桑德環境工程有限公司	The PRC	RMB449,880,000	75	25	75	25	Environmental construction related to water treatment
Beijing Epure (1) 北京伊普國際水務有限公司	The PRC	US$20,000,000	100	—	100	—	Research and development of water treatment technologies and provision of services of technology consultation
Sound International Investment Holdings Limited ("Sound Investment") (3)	The BVI	US$1	100	—	100	—	Investment holding
Sound International Engineering Ltd. ("Sound International Engineering") (3)	The BVI	US$1	100	—	100	—	Investment holding
Epure International Engineering Pte. Ltd. ("Epure International Engineering ") (2)	Singapore	S$1	100	—	100	—	Investment holding
Epure Sound Technology (1) 北京伊普桑德環境工程技術有限公司	The PRC	RMB15,000,000	—	100	—	100	Research and development of water treatment technologies and provision of services of technology consultation

12 SUBSIDIARIES (Cont'd)

Name of subsidiary	Place of incorporation	Issued and fully paid-up share capital/ registered capital	Equity interest attributable to the Company as at Year ended 31/12/2010 Direct %	Year ended 31/12/2010 Indirect %	Year ended 31/12/2009 Direct %	Year ended 31/12/2009 Indirect %	Principal activities
Hi-Standard Equipment (1) 北京海斯頓水處理設備有限公司	The PRC	RMB66,000,000	—	100	—	100	Manufacture of wastewater treatment equipment
Xi'an Huqing (1) 西安户清水務有限公司	The PRC	RMB24,000,000	—	100	—	100	Construction, management and operation of the municipal wastewater projects, and sales of treated water
Xi'an Qinqing (1) 西安秦清水務有限公司	The PRC	RMB25,000,000	—	100	—	100	Construction, management and operation of the municipal wastewater projects
Guangxi Liqing (1) 廣西漓清水務有限公司	The PRC	US$5,000,000	—	100	—	100	Construction, management and operation of the municipal wastewater projects
Yiqing Water (1) 韓城市頤清水務有限公司	The PRC	RMB14,200,000	—	100	—	100	Construction, management and operation of the municipal wastewater projects

12 **SUBSIDIARIES** (Cont'd)

Name of subsidiary	Place of incorporation	Issued and fully paid-up share capital/ registered capital	Equity interest attributable to the Company as at Year ended 31/12/2010 Direct %	Year ended 31/12/2010 Indirect %	Year ended 31/12/2009 Direct %	Year ended 31/12/2009 Indirect %	Principal activities
Shangluo Wastewater *(Note ii)* (1) 商洛污水處理有限公司	The PRC	RMB2,760,000	—	100	—	100	Construction, management and operation of the municipal wastewater projects
Yulin Jingzhou *(Note iii)* (1) 榆林市靖州水務有限公司	The PRC	RMB2,280,000	—	100	—	100	Construction, management and operation of the municipal wastewater projects
Jiangyan Jiangyuan (1) 姜堰姜源污水處理有限公司	The PRC	RMB1,458,000,000	—	50.2 *(Note iv)*	—	50.2 *(Note iv)*	Construction, management and operation of the municipal wastewater projects
Fushun Qingxi *(Note v)* (1) 撫順清溪水務有限公司	The PRC	USD13,000,000	—	100	—	100	Construction, management and operation of the municipal wastewater projects
Hainan Baichuan (1) 海南百川水務有限公司	The PRC	RMB5,000,000	—	100	—	100	Construction, management and operation of the municipal wastewater projects

12 SUBSIDIARIES (Cont'd)

Name of subsidiary	Place of incorporation	Issued and fully paid-up share capital/ registered capital	Equity interest attributable to the Company as at Year ended 31/12/2010 Direct %	Year ended 31/12/2010 Indirect %	Year ended 31/12/2009 Direct %	Year ended 31/12/2009 Indirect %	Principal activities
Anyang Mingbo (1) 安陽明波水務有限公司	The PRC	RMB45,000,000	—	100	—	60	Construction, management and operation of the municipal wastewater projects
Yantai Bihai# (1) 烟台碧海水務有限公司	The PRC	RMB38,000,000	—	80	N/A	N/A	Construction, management and operation of the municipal wastewater projects
Daye Honglian# (1) 大冶鴻漣水務有限公司	The PRC	RMB3,000,000	—	100	N/A	N/A	Construction, management and operation of the municipal wastewater projects
Fushun Sangyuan# (1) 撫順桑遠環境工程有限公司	The PRC	RMB2,000,000	—	100	N/A	N/A	Construction, management and operation of the municipal wastewater projects

Notes:

(i) The registered capital of Beijing Sound is RMB500,000,000, of which RMB449,880,000 has been paid up as at December 31, 2010.

(ii) The registered capital of Shangluo Wastewater is RMB17,800,000, of which RMB2,760,000 has been paid up as at December 31, 2010.

(iii) The registered capital of Yulin Jingzhou is RMB11,400,000, of which RMB2,280,000 has been paid as at December 31, 2010.

(iv) Pursuant to the contract for Chinese-foreign contractual joint venture between the owners of Jiangyan Jiangyuan, The Company has control over Jiangyan Jiangyuan based on the voting procedures for financial and operational decisions and is entitled to 100% of the dividend distributed by such entity.

(v) The registered capital of Fushun Qingxi USD16,250,000, of which USD13,000,000 has been paid as at December 31, 2010.

\# Incorporated during the financial year.

12 SUBSIDIARIES (Cont'd)

(1) Audited by Deloitte Touche Tohmatsu CPA Ltd, Beijing Branch for consolidation purposes.

(2) Audited by Deloitte & Touche LLP, Singapore for consolidation purposes.

(3) The unaudited management accounts have been used for consolidation purposes as they are not material to the Group's financial statements.

13 ASSOCIATE

	Group		
	December 31, 2010 RMB'000	December 31, 2009 RMB'000	January 1, 2009 RMB'000
Unquoted equity shares, at cost	**2,000**	2,000	2,000
Share of post-acquisition profit	**547**	561	540
Total	**2,547**	2,561	2,540

Details of the associate are as follows:

Name of associate	Country of registration and operation	Group's effective equity interest and voting power held December 31, 2010 and 2009, and January 1, 2009 %	Cost December 31, 2010 and 2009, and January 1, 2009 RMB'000	Principal activity
Shanghai Chenghuan Water Operation Co., Ltd	People's Republic of China	20	2,000	Management of the operations of water and wastewater treatment plants in Shanghai

The unaudited management accounts have been used for consolidation purposes as it is not material to the Group's financial statements.

The following amounts are included in the Group's financial statements as a result of the equity accounting of the associate.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2010

13 ASSOCIATE (Cont'd)

	Group		
	December 31, 2010 RMB'000	December 31, 2009 RMB'000	January 1, 2009 RMB'000
Statement of Financial Position			
Total assets	**13,857**	17,163	25,170
Total liabilities	**(1,123)**	(4,358)	(12,470)
Net assets	**12,734**	12,805	12,700
Group's share of associate's net assets	**2,547**	2,561	2,540
Statement of Comprehensive Income			
Revenue	**5,453**	34,233	
(Loss) profit for the year	**(70)**	105	
Group's share of associate's (loss) profit for the year	**(14)**	21	

14 INTANGIBLE ASSETS

	Group		
	December 31, 2010 RMB'000	December 31, 2009 RMB'000	January 1, 2009 RMB'000
Cost:			
At beginning of year	**67,199**	67,199	—
Arising on acquisition of subsidiary	**—**	—	67,199
At end of year	**67,199**	67,199	67,199
Accumulated amortisation:			
At beginning of year	**17,199**	7,199	—
Amortisation	**10,000**	10,000	7,199
At end of year	**27,199**	17,199	7,199
Carrying amount:			
At beginning of year	**50,000**	60,000	—
At end of year	**40,000**	50,000	60,000

The intangible assets represent various patents which protect the design and specification in the manufacturing of waste water treatment equipment. Amortisation for the patents is provided on a straight-line basis over their estimated useful lives ranging from 4.5 years to 9.5 years. The average remaining period for the patents is 4 years (2009: 5 years).

15 GOODWILL

	Group		
	December 31, 2010 RMB'000	December 31, 2009 RMB'000	January 1, 2009 RMB'000
At beginning of year	**41,395**	41,395	—
Arising on acquisition of subsidiary	—	—	27,173
Adjustment for deferred tax liabilities	—	—	14,222
At end of year	**41,395**	41,395	41,395

Goodwill represents the synergistic benefits arising from the acquisition of the subsidiary, which is also the only cash generating unit for the purpose of impairment testing of the goodwill.

The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired. The recoverable amounts of the cash generating units are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates and expected order book secured and direct costs during the period. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the cash generating units. Order book secured and direct costs are based on past practices and expectations of future changes in the market.

The Group prepares cash flow forecasts, assuming a zero growth rate, derived from the most recent financial forecasts approved by the management for the next five years. The Group's internal rates of 8% (2009: 8%) are used to discount the future cash flows.

As at the end of the reporting period, management of the Group determines that there are no impairments of the goodwill. Management believes that any reasonably possible change in any of these assumptions would not cause the carrying amount of the goodwill to exceed its recoverable amount.

16 SERVICE CONCESSION RECEIVABLES

	Group		
	December 31, 2010 RMB'000	December 31, 2009 RMB'000	January 1, 2009 RMB'000
Service concession receivables	**674,538**	415,747	230,158
Less: Amounts due within one year shown under current assets *(Note 7)*	**(9,420)**	—	—
Service concession receivables	**665,118**	415,747	230,158

16 SERVICE CONCESSION RECEIVABLES (Cont'd)

Service concession receivables arose from the service concession contracts to build and operate waste water treatment and recycling water plants. The Group is the operator under certain build-operate-transfer arrangements. With respect to the contracts, the Group has evaluated and assessed that such contracts come under the scope of *INT FRS 112 Service Concession Arrangements*. Service concession receivables were recognised to the extent that the Group has an unconditional contractual right to receive cash from or at the direction of the grantor for the construction services.

Service concession receivables arose from the following:

(a) a 30-year contract in Xi'an to build and operate a waste water treatment plant. The plant started operations in 2009.

(b) a 28-year contract in Xi'an to build and operate a waste water treatment plant. The plant started operations in 2010.

(c) a 26-year contract in Guangxi to build and operate a waste water treatment plant. The plant started operations in 2010.

(d) a 25-year contract in Hancheng City to build and operate a waste water treatment plant. As at the end of the reporting period, the plant is still under construction and has not commenced operations.

(e) a 25-year contract in Shangluo City to build and operate a waste water treatment plant. The plant started operations in 2010.

(f) a 25-year contract in Yulin City to build and operate a waste water treatment plant. As at the end of the reporting period, the plant is still under construction and has not commenced operations.

(g) a 30-year contract in Jiangyan to build and operate a waste water treatment plant. The plant started operations in 2010.

(h) a 30-year contract in Fushun to build and operate a waste water treatment plant. As at the end of the reporting period, the plant is still under construction and has not commenced operations.

(i) a 25-year contract in Anyang to build and operate a waste water treatment plant. As at the end of the reporting period, the plant is still under construction and has not commenced operations.

(j) a 20-year contract in Yantai to build and operate a waste water treatment plant. As at the end of the reporting period, the plant is still under construction and has not commenced operations.

(k) a 27-year contract in Xi'an to build and operate a waste water treatment plant. As at the end of the reporting period, the plant is still under construction and has not commenced operations.

16 SERVICE CONCESSION RECEIVABLES (Cont'd)

With respect to the above projects, the Group has evaluated and assessed that such contracts come under the scope of *INT FRS 112 Service Concession Arrangements*. Under the terms of the arrangements, the Group will receive a minimum amount of RMB67,458,000 (2009: RMB39,955,000) yearly from the contracted parties (grantors) in exchange for services performed by the Group when the plants are in commercial operations.

In arriving at the carrying value of the service concession arrangements as at the end of the reporting period, weighted average effective interest rate of 4.3% (2009: 9.7%) per annum was used to discount the future expected cash flows.

Revenue and profits for the year arising from these arrangements for the provision of construction services amount to RMB145,894,000 (2009: RMB113,423,000) and RMB26,041,000 (2009: RMB25,991,000) respectively.

The management is of the opinion that the carrying amount of the above approximates its fair values.

As at the end of the reporting period, the Group has pledged certain service concession contracts to secure general banking facilities granted to the Group.

17 DEFERRED TAX ASSETS (LIABILITIES)

	Group December 31, 2010 RMB'000	December 31, 2009 RMB'000	January 1, 2009 RMB'000
Balance at beginning of year	**(12,137)**	(13,307)	—
Credit to profit or loss *(Note 26)*	**(12,075)**	1,170	915
Adjustment due to fair value adjustment arising from acquisition of subsidiary *(Note 15)*	**—**	—	(14,222)
Balance at end of year	**(24,212)**	(12,137)	(13,307)

The deferred tax assets/liabilities recognised by the Group, and the movements thereon, during the financial year are as follows:

	Allowance for doubtful debts RMB'000	Undistributed profits of the PRC subsidiaries RMB'000	Fair value adjustment arising from on acquisition of a subsidiary RMB'000	Service concession receivables RMB'000	Others RMB'000	Total RMB'000
At January 1, 2009 (restated)	2,935	(2,000)	(14,222)	(20)	—	(13,307)
Credit (Charge) to profit or loss	4,264	(2,500)	1,647	(2,414)	173	1,170
Addition in business combination	—	—	—	—	—	—
At December 31, 2008 (restated)	7,199	(4,500)	(12,575)	(2,434)	173	(12,137)
Credit (Charge) to profit or loss	—	(8,625)	1,596	(5,046)	—	(12,075)
At December 31, 2009	7,199	(13,125)	(10,979)	(7,480)	173	(24,212)

The deferred tax assets arose mainly from the allowance for doubtful debts provision. The deferred tax liabilities related to unremitted overseas income.

17 DEFERRED TAX ASSETS (LIABILITIES) (Cont'd)

	Group		
	December 31, 2010 RMB'000	December 31, 2009 RMB'000	January 1, 2009 RMB'000
Deferred tax assets	**7,372**	7,372	2,935
Deferred tax liabilities	**(31,584)**	(19,509)	(16,242)
Net	**(24,212)**	(12,137)	(13,307)

As at December 31, 2010, the Group has unused tax losses of RMB261,024,000 (2009: RMB2,172,000) available for offset against future profits. No deferred tax asset has been recognised in respect of those tax losses due to the unpredictability of future profit streams. The tax losses of RMB20,072,000 (2009: RMB Nil) at December 31, 2010 has no expiry date and the remainder will be expired as follows:

	2010 RMB'000	2009 RMB'000
2013	**1,224**	1,224
2014	**948**	948
2015	**3,780**	—
	5,952	2,172

Under the EIT Law, withholding tax is imposed on dividends declared to foreign investors in respect of profit earned by PRC subsidiaries from January 1, 2008 onward, deferred taxation has been provided for in the consolidated financial statements in respect of profits of relevant PRC subsidiaries to be distributed estimated by the directors of the Company. Meanwhile, deferred tax liabilities on the undistributed profits of the PRC subsidiaries of approximately RMB614,043,000 (2009: RMB414,269,000) which was earned after January 1, 2008, have not been recognized as of December 31, 2010, because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

18 BANK LOANS

	Group			Company		
	December 31, 2010 RMB'000	December 31, 2009 RMB'000	January 1, 2009 RMB'000	December 31, 2010 RMB'000	December 31, 2009 RMB'000	January 1, 2009 RMB'000
Secured bank borrowings *(note i)*	332,000	195,800	351,615	—	—	—
Unsecured bank borrowings	124,200	29,200	40,047	—	—	—
Other borrowings *(note ii)*	215,096	2,000	—	215,096	—	40,047
Total	671,296	227,000	391,662	215,096	—	40,047

18 BANK LOANS (Cont'd)

	Group December 31, 2010 RMB'000	Group December 31, 2009 RMB'000	Group January 1, 2009 RMB'000	Company December 31, 2010 RMB'000	Company December 31, 2009 RMB'000	Company January 1, 2009 RMB'000
Presentation on Statements of Financial Position						
Carrying amount repayable:						
Within 1 year	430,200	178,700	391,662	—	—	40,047
More than 1 year, but not exceeding 2 years	36,793	6,000	—	—	—	—
More than 2 years, but not exceeding 5 years	99,103	39,100	—	114,603	—	—
More than 5 years	105,200	3,200	—	100,493	—	—
Total	671,296	227,000	391,662	215,096	—	40,047
Less: Amount due within 1 year shown under current liabilities	(430,200)	(178,700)	(391,662)	—	—	(40,047)
Amount due after 1 year shown under non-current liabilities	241,096	48,300	—	215,096	—	—

	Group December 31, 2010 RMB'000	Group December 31, 2009 RMB'000	Group January 1, 2009 RMB'000	Company December 31, 2010 RMB'000	Company December 31, 2009 RMB'000	Company January 1, 2009 RMB'000
The borrowings comprise:						
Fixed-rate borrowings	100,000	94,700	351,615	—	—	—
Variable-rate borrowings (note iii)	571,296	132,300	40,047	215,096	—	40,047
Total	671,296	227,000	391,662	215,096	—	40,047

The effective interest rates per annum, which are also equal to contracted interest rates, at the respective reporting dates, are as follows:

	Group and Company December 31, 2010 %	Group and Company December 31, 2009 %	Group and Company January 1, 2009 %
Bank borrowing	**4.37–7.68**	4.62–8.22	3.40–8.22

18 BANK LOANS (Cont'd)

Details of all the bank loans, which are repayable within one year unless otherwise stated, are as follows:

(i) As of December 31, 2010, bank borrowings of approximately RMB60,000,000 were mortgaged by certain buildings and land use rights of the Group. Bank borrowings of approximately RMB180,000,000 were secured by the restricted bank balances of the Group. Bank borrowings of approximately RMB60,000,000 were pledged by certain trade receivables of the Group. Bank borrowings of approximately RMB32,000,000 were secured by Xi'an Qinqing's 30 years' charging right under the service concession contract.

As of December 31, 2009, bank borrowings of approximately RMB23,500,000 were mortgaged by certain buildings and land use rights of the Group and Beijing Sound Environmental Technology Co., Ltd ("Sound Enviro Tech"), a fellow subsidiary. Bank borrowings of approximately RMB50,000,000 were pledged by certain trade receivables of the Group and personal guarantee of Mr.Wen Yibo, an executive director of the Company. Bank borrowings of approximately RMB40,000,000 were pledged with bank balances and personal deposits of Mr.Wen Yibo. Bank borrowings of approximately RMB16,300,000 were secured by Guangxi Liqing's 8 years' charging rights under the service concession contract and of approximately RMB35,000,000 were secured by Xi'an Qinqing's 30 years' charging right under the service concession contract and personal guarantee of Mr. Wen Yibo and his wife. Bank borrowings of approximately RMB31,000,000 were pledged with bank balances.

(ii) Other borrowings of approximately RMB215,096,000 denominated in US$ as at December 31, 2010 were advanced from International Finance Corporation which were secured by the equity interests in certain subsidiaries. The interest rate was 3.5% above the relevant LIBOR interest rate. Meanwhile, other borrowings as at December 31, 2009 included advance from a third party of RMB2,000,000 at fixed rate of 5.80 % per annum.

(iii) The interest rates of variable-rate borrowings for the Group were varied according to the loan interest published by the People's Bank of China or LIBOR.

19 TRADE AND OTHER PAYABLES

	Group			Company		
	December 31, 2010 RMB'000	December 31, 2009 RMB'000	January 1, 2009 RMB'000	December 31, 2010 RMB'000	December 31, 2009 RMB'000	January 1, 2009 RMB'000
Trade payables						
Within 90 days	254,660	218,062	166,609	—	—	1,176
91 days to 180 days	147,593	104,120	102,418	1,620	—	—
181 days to 1 year	81,784	46,511	68,658	—	—	752
1 to 2 years	48,242	120,499	72,573	—	400	—
2 to 3 years	40,473	11,541	15,882	—	—	—
More than 3 years	8,459	9,358	—	—	—	—
Total trade payables	581,211	510,091	426,140	1,620	400	1,928
Other payables	33,186	25,902	16,270	2,707	1,961	1,146
Bid and compliance deposits	13,034	12,468	13,490	—	—	—
Interest payables	17,259	1,278	1,837	15,488	—	—
Due to subsidiaries *(Note 12)*	—	—	—	1,837	37	—
Advance from customers	77,402	3,028	5,734	—	—	—
Bills payable	11,818	28,266	—	—	—	—
Business taxes payables	91,468	67,969	47,712	—	—	—
Value added taxes payable	57,544	53,335	32,140	—	—	—
Other tax payables	3,492	3,131	1,639	—	—	—
Total	886,414	705,468	544,962	21,652	2,398	3,074

The average credit period on purchases of goods is 120 days (2009: 120 days).

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs.

The amount due to a shareholder was unsecured, interest-free and repayable on demand.

The table below is an analysis of notes payables as at the end of the reporting period:

	Group			Company		
	December 31, 2010 RMB'000	December 31, 2009 RMB'000	January 1, 2009 RMB'000	December 31, 2010 RMB'000	December 31, 2009 RMB'000	January 1, 2009 RMB'000
0 to 180 days	11,818	28,266	—	—	—	—

20 CONVERTIBLE LOAN NOTES

The Company issued RMB885 million, 6% convertible loan notes on September 15, 2010. The convertible loan notes entitle the holders to convert them into ordinary shares of the Company (unless previously redeemed, converted or purchased and cancelled) at any time on or after October 25, 2010 up to the close of business on September 8, 2015 at a conversion price (subject to adjustments) of S$0.924 per share, translated to RMB4.639 per share at fixed exchange rate. Unless previously redeemed, purchased or cancelled, the convertible loan notes will be redeemed on September 15, 2015. Interest of 6% will be paid semi-annually with the first interest payment date falling on March 15, 2011.

On or at any time after September 15, 2013, the Company may redeem all but not some of the convertible loan notes at a redemption price equivalent to RMB principal amount together with interest accrued on that date on some conditions (as defined in the Terms and Conditions of the Bonds in the Offering Circular dated September 10, 2010 (the "Offering Circular")). Meanwhile, the holders will have a right to require the Company to redeem the loan notes at a redemption price equivalent to RMB principal amount together with interest accrued on that date following the occurrence of relevant event (as defined in the Offering Circular).

The convertible loan notes contain two components, liability and equity elements. The equity element is presented in equity heading "convertible loan note reserve". The transaction costs of RMB25,435,000 are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. The effective interest rate of the liability component is 9% per annum. The movement of the liability component of the convertible loan notes for the year is set out below:

	December 31, 2010 RMB'000	December 31, 2009 RMB'000	January 1, 2009 RMB'000
Issuance of convertible loan notes	**779,889**	—	—
Interest charge *(Note 25)*	**20,477**	—	—
Carrying amount at the end of the year	**800,366**	—	—
Less: Amounts due within one year included in other payables shown under current liabilities	**(15,488)**	—	—
	784,878	—	—

21 SHARE CAPITAL

	Group and Company					
	December 31, 2010	December 31, 2009	January 1, 2009	December 31, 2010	December 31, 2009	January 1, 2009
	Number of shares ('000)			RMB'000	RMB'000	RMB'000
Issued and paid up:						
At beginning of year	1,290,000	1,290,000	430,000	833,368	833,368	833,368
Share split of 1 into 3	—	—	860,000	—	—	—
At the end of the financial year	1,290,000	1,290,000	1,290,000	833,368	833,368	833,368

Fully paid ordinary shares, which have no par value, carry one vote per share and carry a right to dividends as and when declared by the Company.

In 2008, the shareholders of the Company approved the share split of each ordinary share in the capital of the Company into three ordinary shares.

22 REVENUE

	Group	
	2010 RMB'000	2009 RMB'000
Revenue from construction contracts including turnkey services (and sale of equipments related to the construction contracts)	**1,563,258**	1,132,487
Revenue from sale of goods	**124,406**	125,382
Design service contracts	**47,361**	29,930
Operating and maintenance income	**30,647**	5,677
Total	**1,765,672**	1,293,476

23 OTHER OPERATING INCOME

	Group	
	2010 RMB'000	2009 RMB'000
Deemed interest income on service concession receivables	**17,972**	9,649
Interest income	**5,282**	3,791
Sundry income	**147**	421
Total	**23,401**	13,861

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2010

24 OTHER EXPENSES

	Group	
	2010	2009
	RMB'000	RMB'000
Allowance for doubtful debts	—	28,426
Exchange losses	**17,597**	150
Expenses related to dual listing of the Company's shares on the Hong Kong Stock Exchange	**59,156**	—
Total	**76,753**	28,576

25 FINANCE COSTS

	Group	
	2010	2009
	RMB'000	RMB'000
Interest expenses on bank loans	**16,338**	13,630
Interest expenses on convertible loan notes	**20,477**	—
	36,815	13,630

26 INCOME TAX EXPENSE

	Group	
	2010	2009
	RMB'000	RMB'000
Current	**48,111**	15,454
Overprovision in prior year	**(309)**	(4,048)
Deferred *(Note 17)*	**12,075**	(1,170)
Total	**59,877**	10,236

26 INCOME TAX EXPENSE (Cont'd)

The income tax expense for the Group differs from the amount of income tax expense determined by applying the PRC income tax rate of 25% to profit before income tax as a result of the following differences:

	Group	
	2010	2009
	RMB'000	RMB'000
Profit before income tax	**349,067**	292,989
Tax at the respective income tax rates of 25%	**87,267**	73,247
Tax effect of expenses not deductible	**25,998**	2,157
Tax effect of share of results of an associate	**4**	(5)
Tax effect of preferential tax rate and different tax rates of subsidiaries	**(66,075)**	(6,439)
Tax effect of tax exemption granted to a PRC subsidiary	**(1,713)**	(57,413)
Tax effect of previously unrecognised deductible temporary differences	**117**	—
Tax effect of tax losses not recognised	**5,963**	237
Deferred tax liabilities arising on undistributed profits in PRC subsidiaries post January 1, 2008	**8,625**	2,500
Overprovision in prior year	**(309)**	(4,048)
Income tax expense	**59,877**	10,236

26 INCOME TAX EXPENSE (Cont'd)

The income tax rates applicable to the subsidiaries established in the PRC are as follows:

	2010 %	2009 %
Beijing Sound *(Note i)*	**15**	15
Beijing Epure International Water Co., Ltd ("Beijing Epure") *(Note ii)*	**7.5**	Exempted
Beijing Epure Sound Environmental Engineering Technology Co., Ltd ("Epure Sound Technology")	**25**	25
Beijing Hi-Standard Water Treatment Equipment Co., Ltd ("Hi-standard Equipment") *(Notes iii)*	**15**	15
Xi'an Huqing Water Co., Ltd ("Xi'an Huqing") *(Notes iv)*	**Exempted**	25
Xi'an Qinqing Water Co., Ltd ("Xi'an Qinqing")	**25**	25
Guangxi Liqing Water Co., Ltd ("Guangxi Liqing") *(Notes iv)*	**Exempted**	25
Hancheng Yiqing Water Co., Ltd ("Yiqing Water")	**25**	25
Shangluo Wastewater Treatment Co., Ltd ("Shangluo Wasterwater")	**25**	25
Yulin City Jingzhou Water Co., Ltd ("Yulin Jingzhou")	**25**	25
Hainan Baichuan Water Co., Ltd ("Hainan Baichuan")	**25**	25
Jiangyan Jiangyuan Wastewater Treatment Co., Ltd ("Jiangyan Jiangyuan")	**25**	25
Fushun Qingxi Water Co., Ltd ("Fushun Qingxi")	**25**	25
Anyang Mingbo	**25**	25
Yantai Bihai Water Co., Ltd ("Yantai Bihai")	**25**	25
Daye Honglian Water Co., Ltd ("Daye Honglian")	**25**	25
Fushun Sangyuan Environmental Engineering Co., Ltd ("Fushun Sangyuan")	**25**	25

Notes:

(i) Beijing Sound is a Sino-foreign joint cooperative company located in Beijing Zhong Guan Cun Science Park, Beijing, the PRC.

According to the Enterprise Income Tax ("EIT") Law and Circular of State Administration of Taxation on Issues Concerning Implementation of Preferential Income Tax Enjoyed by High-and-New-Tech Enterprises (Guo Shui Han 2009 No. 203), high-and-new-tech enterprises are levied enterprise income tax at 15%. Beijing Sound is entitled to enjoy a preferential tax rate at 15% from year 2008 to year 2010 as it has further successfully applied to qualify as high-and-new-tech enterprise in 2009 for an effective period from January 1, 2008 to December 31, 2010.

The effective income tax rate of Beijing Sound Environmental Engineering Co., Ltd for the financial year is 15% (2009: 15%) per annum.

26 INCOME TAX EXPENSE (Cont'd)

(ii) Beijing Epure is a foreign investment enterprise located in Beijing Zhong Guan Cun Science Park, Beijing, the PRC. It has successfully applied to be a high-and-new-tech enterprise in 2009.

In accordance with the Interim Measures of Beijing New Tech Industry Development Test Zone approved by the State Council on May 10, 1988 and promulgated by the People's Government of Beijing on May 20, 1988, the newly established new tech enterprise within test zone shall be entitled to an exemption from income tax for the three years commencing from its establishment, and thereafter, entitled to a 50% relief of income tax for the next three years subject to the approval from the relevant authority. As a company established in a test zone, Beijing Epure was exempted from income tax for each of the years ended December 31, 2007, 2008 and 2009, and is subject to income tax at 7.5% for each of the years ended December 31, 2010, 2011 and 2012.

The effective income tax rate of Beijing Epure International Water Co., Ltd for the financial year is 7.5% (2009: Nil%) per annum.

(iii) Hi-Standard Equipment is a PRC limited company located in Beijing Zhong Guan Cun Science Park, Beijing, the PRC.

According to Guo Shui Han 2009 No. 203, Hi-Standard Equipment is entitled to enjoy a preferential tax rate at 15% from year 2008 to year 2010 as it has successfully applied to be a high-and-new-tech enterprise in 2009 for an effective period from January 1, 2008 to December 31, 2010. Hi-standard Equipment has continued enjoying the 15% tax rate in 2010.

The effective income tax rate of Beijing Hi-Standard Water Treatment Equipment Co., Ltd for the financial year is 15% (2009: 15%) per annum.

(iv) According to No.88 provision of the Implementation Rules on the EIT Law of the PRC and the third item in No.27 provision of the EIT Law of the PRC, the income of companies engaged in environmental protection projects, or energy and water saving projects, which meet relevant requirements, shall be exempted from enterprise income tax for three years commencing from the first revenue-generating year of operations and thereafter, be entitled to a 50% reduction from enterprise income tax for the next three years. The specific conditions and scope of projects shall be jointly formulated by the competent department of finance and taxation of the State Council in collaboration with other relevant departments of the State Council and shall be publicised and implemented after being approved by the State Council.

As at December 31, 2010, Xi'an Huqing and Guangxi Liqing have obtained the approval and are entitled to exempt from enterprise income tax in 2010, 2011 and 2012 and enjoy 12.5% preferential enterprise income tax rate in the following three years.

(v) Other PRC entities

The above entities are limited PRC company and each with a statutory tax rate of 25.0%.

Under the Law of the PRC on EIT and Implementation Regulation of the EIT Law, the statutory tax rate of the PRC subsidiaries is 25%. The EIT Law provides that qualified dividend income between two "resident enterprises" that have a direct investment relationship is exempted from income tax. Otherwise, such dividends will be subject to a withholding tax under the tax treaty or the domestic law.

(vi) Other non-PRC entities

The tax expenses for non-PRC entities are minimum as either the profits of an entity is not subject to tax in its country of incorporation, or the entities are not in a taxable position for the financial year.

27 PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging:

	2010 RMB'000	2009 RMB'000
Allowance for doubtful trade and other receivables	—	28,426
Amortisation of intangible assets*	**10,000**	10,000
Amortisation of land use rights	**1,158**	1,158
Audit fees:		
— to auditors of the Company	**500**	700
— to other auditors	**2,300**	1,300
Cost of inventories recognised as expense	**178,609**	178,461
Define contribution plans included in employees benefits expenses		3,530
Depreciation of property, plant and equipment	**3,149**	2,931
Share-based payments	**12,479**	—
Loss on disposal of property, plant and equipment	**8**	5
Director's remuneration		
— of the Company	**447**	420
— of the subsidiaries	**1,472**	635
Employees benefits expenses (including directors' remuneration)	**40,590**	37,243
Government grants — Jobs credit scheme	—	66
Non-audit fees:		
— to auditors of the Company	**110**	110

* Included in cost of sales

28 EARNINGS PER SHARE

	Group 2010 RMB'000 Basic	2009 RMB'000 Basic
Profit attributable to equity holders of the Company (RMB'000)	**289,104**	281,869
Weighted average number of ordinary shares ('000)	**1,290,000**	1,290,000
Earnings per share (RMB cents)	**22.41**	21.85

The computation of diluted earnings per share does not assume the conversion of the outstanding convertible loan notes since their exercise would result in an increase in earnings per share or the exercise of the Company's options because the exercise price of those options was higher than the average market price of shares since the grant date in 2010.

29 DIVIDENDS

The final tax-exempt (1-tier) dividend of S$0.01 in respect of the year ended December 31, 2010 per share totalling S$12,900,000 (equivalent to RMB66,088,000) has been proposed by the directors and is subject to approval by the shareholders at the annual general meeting. This has not been accrued as at the end of the reporting period.

For the financial year ended December 31, 2009, a tax exempt (1-tier) dividend of S$0.008 per ordinary share amounting to S$10,320,000 (equivalent to RMB47,369,000) was paid to shareholders in respect of the financial year ended December 31, 2008.

30 MERGER RESERVE

The merger reserve arises, pursuant to the Restructuring Exercise in 2006, from the use of the whole proceeds of the interest free loan granted by the Company's holding company, Sound Water (BVI) Limited, to finance the acquisition of the subsidiary, Beijing Sound Environmental Engineering Co., Ltd. The amount was calculated as the difference between the loan amount of US$18.8 million (equivalent to RMB150,896,000) and the share capital of the subsidiary acquired of RMB62,600,000.

31 CAPITAL RESERVE

This reflects

(a) the fair value benefit that the Company received in view of the 2,157,000 shares transferred to IPO consultant at a nominal value of S$1.00 during the initial public offering. The fair value is accounted for as share issue expense under the principles of FRS 102 Share-based Payments using the issue price of S$0.65 per share.

(b) the consideration of RMB27,000,000 in relation to the acquition of 60% interest in Anyang Mingbo Water Co., Ltd ("Anyang Mingbo") by Beijing Sound Environment Group Co., Ltd ("Beijing Sound Enviro"), a company controlled by the ultimate shareholders of the Company.

(c) the difference between the consideration of RMB18,000,000 in relation to the acquisition of 40% interest in Anyang Mingbo by the Group and the carrying value on the non-controlling interest.

32 GENERAL RESERVES

	Group	
	2010	2009
	RMB'000	RMB'000
Statutory reserve fund		
At beginning of the year	**60,529**	33,006
Transfer from retained earnings	**3,208**	27,523
At end of year	**63,737**	60,529

33 SHARE OPTION RESERVES

The share options have a fair value of S$14,564,000 (equivalent to RMB71,885,000) as at December 31, 2010.

The fair value was calculated using the Binominal model. The inputs into the model were as follows:

	2010
Fair market value per share at valuation date	**S$0.750**
Exercise price	**S$0.745**
Expected volatility	**40.4%**
Contractual life	**5 years**
Risk-free rate	**0.959%**
Expected dividend yield	**1.55%**

Expected volatility was determined with reference to the historical price volatility data from the date of valuation back to the period equal to the life of option. As the Company has a trading history shorter than the life of option and thus, the calculation of volatility is based on the longest available historical pricing data.

Risk-free rate was determined based on the yield to maturity of Singapore Government Bond as at the grant date of the option.

The Group recognised the total expense of RMB12,479,000 for the year ended December 31, 2010 in relation to the share option granted by the Company.

The number of outstanding share options under the Scheme are as follows:

Date of grant	Balance at January 1, 2010	Granted	Forfeited	Balance at December 31, 2010	Exercise price per share	Exercisable period	Vesting period
July 23, 2010	—	64,500,000	(6,196,000)	58,304,000	S$0.745	July 23, 2011 to July 22, 2015	July 23, 2011 to July 22, 2014

The number of the share options granted expected to vest has been reduced to reflect directors' best estimation of the options granted prior to completion of vesting period and accordingly the share option expense has been adjusted.

The Binomial model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

34 SEGMENT INFORMATION

The Group determines its operating segments based on internal reports about components of the Group that are regularly reviewed by the chief operating decision maker (the "CODM") in order to allocate resources to the segments and to assess their performance.

The Group is organised into business units based on their products and services, based on which information is prepared and reported to the Group's chief operating decision maker for the purposes of resource allocation and assessment of performance.

The Group is primarily engaged in three operating segments, namely (1) turnkey projects and services, (2) manufacturing (equipment fabrication), and (3) operations of water and wastewater treatment facilities ("O&M").

The accounting policies of the operating segments are the same as the Group's accounting policies describe in Note 2. Segment results represent the profits earned by each segment without allocation of central administration costs, directors' remuneration, share of result of an associate, interest income, foreign exchange gains and losses, finance costs at corporate level.

Inter-segment transfers: Segment revenue and expenses include transfers between business segments. Inter-segment sales are charged at prevailing market prices. These transfers are eliminated on consolidation.

Segment information about the Group's operating segments is presented below.

	Turnkey projects and services RMB'000	Equipment fabrications RMB'000	O&M RMB'000	Elimination RMB'000	Total RMB'000
2010					
Revenue					
External sales	**1,610,619**	**124,406**	**30,647**	**—**	**1,765,672**
Inter-segment sales	**—**	**52,193**	**—**	**(52,193)**	**—**
Total revenue	**1,610,619**	**176,599**	**30,647**	**(52,193)**	**1,765,672**
Results					
Segment results	**413,381**	**27,656**	**21,921**	**—**	**462,958**
Unallocated income					
Unallocated expenses					**(113,877)**
Share of result of an associate					**(14)**
Profit before income tax					**349,067**
2009					
Revenue					
External sales	1,162,417	125,382	5,677	—	1,293,476
Inter-segment sales	—	47,757	—	(47,757)	—
Total revenue	1,162,417	173,139	5,677	(47,757)	1,293,476
Results					
Segment results	260,038	26,511	10,480	—	297,029
Unallocated income					4,228
Unallocated expenses					(8,289)
Share of result of an associate					21
Profit before income tax					292,989

34 SEGMENT INFORMATION (Cont'd)

Inter-segment sales are charged at prevailing market price.

Segment assets represent property, plant and equipment, land use rights, intangible assets, goodwill, service concession receivables, deferred tax assets, inventories, trade and other receivables, amounts due from customers for contract work, restricted bank balances and bank balances and cash, which are attributable to each operating segments. Segment liabilities represent trade and other payables, tax payables, borrowings, amounts due to customers for contract work and deferred tax liabilities on undistributed profits of the PRC subsidiaries and fair value adjustment on business combination, which are attributable to each operating segments. In the internal reports regularly reviewed by the CODM, tax payables and deferred tax assets/liabilities are allocated to each segment, if applicable without allocating the related income tax expenses to relevant segments results.

As of December 31, 2010

	Turnkey projects and services RMB'000	Equipment fabrications RMB'000	O&M RMB'000	Elimination RMB'000	Total RMB'000
Assets and Liabilities					
Segment assets	3,192,166	521,309	939,067	(684,208)	3,968,334
Interest in an associate					2,547
Unallocated corporate assets *(note a)*					379,417
Consolidated assets					4,350,298
Segment liabilities	1,438,904	229,466	405,224	(684,208)	1,389,386
Deferred tax liabilities					24,104
Unallocated corporate liabilities *(note b)*					1,000,553
Consolidated liabilities					2,414,043

34 SEGMENT INFORMATION (Cont'd)

As of December 31, 2009

	Turnkey projects and services RMB'000	Equipment fabrications RMB'000	O&M RMB'000	Elimination RMB'000	Total RMB'000
Assets and Liabilities					
Segment assets	1,998,495	408,943	504,322	(370,527)	2,541,233
Interest in an associate					2,561
Unallocated corporate assets *(note a)*					38,989
Consolidated assets					2,582,783
Segment liabilities	931,659	139,022	271,599	(370,527)	971,753
Deferred tax liabilities					17,075
Unallocated corporate liabilities *(note b)*					2,011
Consolidated liabilities					990,839

Notes:

(a) Unallocated corporate assets mainly represent bank balances and cash, restricted bank balances, other receivable and property, plant and equipment at corporate level.

(b) Unallocated corporate liabilities represent borrowings, convertible loan notes, tax payable and other payable at corporate level.

34 SEGMENT INFORMATION (Cont'd)

Other information

For the year ended December 31, 2010

	Turnkey projects and services RMB'000	Equipment fabrications RMB'000	O&M RMB'000	Elimination RMB'000	Total RMB'000
Additions to non-current assets excluding financial instruments and deferred tax assets	858	269	1,120	62	2,309
Depreciation and amortisation	1,314	12,739	223	31	14,307
Interest income	5,071	202	9	—	5,282
Deemed imputed interest income on service concession receivables	—	—	17,972	—	17,972
Loss on disposal of property, plant and equipment	2	6	—	—	8
Finance costs	7,409	232	5,386	23,788	36,815

For the year ended December 31, 2009

	Turnkey projects and services RMB'000	Equipment fabrications RMB'000	O&M RMB'000	Elimination RMB'000	Total RMB'000
Additions to non-current assets excluding financial instruments and deferred tax assets	64	7	456	36	563
Depreciation and amortisation	1,171	12,728	116	74	14,089
Allowance for doubtful debts	28,426	—	—	—	28,426
Interest income	3,004	83	4	700	3,791
Deemed imputed interest income on service concession receivables	—	—	9,649	—	9,649
Loss on disposal of property, plant and equipment	5	—	—	—	5
Finance costs	12,756	—	846	28	13,630

34 SEGMENT INFORMATION (Cont'd)

Geographical information

The Group's operations are located in the PRC and Kingdom of Saudi Arabia ("Saudi Arabia"). The Group's revenue from continuing operations from external customers and information about its non-current assets other than financial instruments and deferred tax assets by geographical location of the assets are detailed below:

	2010 RMB'000	2009 RMB'000
Revenue from external customers		
The PRC	**1,597,803**	1,293,476
Saudi Arabia	**167,869**	—
	1,765,672	1,293,476

	31/12/2010 RMB'000	31/12/2009 RMB'000
Non-current assets		
The PRC	**175,826**	188,185
Saudi Arabia	**289**	—
	176,115	188,185

No revenue from a single external customer amount to 10% or more of the Group's revenue.

35 OPERATING LEASE ARRANGEMENTS

	Group	
	2010 RMB'000	2009 RMB'000
Minimum lease payments under operating leases recognised as an expense in the year	**2,396**	2,302

35 OPERATING LEASE ARRANGEMENTS (Cont'd)

At the end of the reporting period, the Group and the Company have outstanding commitments under non-cancellable operating leases, which fall due as follows:

	Group			Company		
	December 31, 2010 RMB'000	December 31, 2009 RMB'000	January 1, 2009 RMB'000	December 31, 2010 RMB'000	December 31, 2009 RMB'000	January 1, 2009 RMB'000
Within one year	1,419	1,553	1,701	2,039	1,201	940
In the second to fifth years inclusive	1,421	1,562	2,759	510	1,501	2,721
Total	2,840	3,115	4,460	2,549	2,702	3,661

Operating lease payments represent rentals payable by the Group and the Company for certain of its office properties. Leases are negotiated for an average term of one to two years and rentals are fixed for an average term of one to two years.

36 COMMITMENTS

	Company		
	December 31, 2010 RMB'000	December 31, 2009 RMB'000	January 1, 2009 RMB'000
Capital commitment for investment in subsidiaries	—	74,790	20,500

FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs)

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF SOUND GLOBAL LTD.

We have audited the consolidated financial statements of Sound Global Ltd. (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 168 to 245, which comprise the consolidated statement of financial position as at December 31, 2010, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITOR'S REPORT

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at December 31, 2010 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

March 11, 2011

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2010

	NOTES	2010 RMB'000	2009 RMB'000 (Restated)
Revenue	6	**1,765,672**	1,293,476
Cost of sales		**(1,229,527)**	(917,963)
Gross profit		**536,145**	375,513
Other operating income	7	**23,401**	13,861
Other expenses	8	**(76,753)**	(28,576)
Distribution expenses		**(12,815)**	(10,892)
Research and development expenses		**(4,863)**	(5,256)
Administrative expenses		**(79,219)**	(38,052)
Share of result of an associate		**(14)**	21
Finance costs	9	**(36,815)**	(13,630)
Profit before income tax		**349,067**	292,989
Income tax expenses	10	**(59,877)**	(10,236)
Profit for the year		**289,190**	282,753
Other comprehensive income			
Exchange difference arising on translation and total other comprehensive income for the year		**366**	—
Total comprehensive income for the year		**289,556**	282,753
Profit for the year attributable to:			
Owners of the Company		**289,104**	281,869
Non-controlling interests		**86**	884
		289,190	282,753
Total comprehensive income attributable to:			
Owners of the Company		**289,470**	281,869
Non-controlling interests		**86**	884
		289,556	282,753
Earnings per share (in RMB cents)			
Basic and diluted	14	**22.41**	21.85

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At December 31, 2010

	NOTES	December 31, 2010 RMB'000	December 31, 2009 RMB'000 (Restated)	January 1, 2009 RMB'000 (Restated)
NON-CURRENT ASSETS				
Property, plant and equipment	16	**46,719**	47,617	49,992
Interest in an associate	20	**2,547**	2,561	2,540
Land use rights	18	**45,454**	46,612	47,770
Intangible assets	17	**40,000**	50,000	60,000
Goodwill	19	**41,395**	41,395	41,395
Service concession receivables	21	**665,118**	415,747	230,158
Deferred tax assets	22	**7,372**	7,372	2,935
		848,605	611,304	434,790
CURRENT ASSETS				
Inventories	23	**12,056**	11,543	21,863
Trade and other receivables	25	**808,750**	421,783	506,194
Land use rights	18	**1,158**	1,158	1,158
Amounts due from customers for contract work	24	**337,651**	227,089	237,233
Restricted bank balances	26	**314,726**	72,208	369,481
Bank balances and cash	26	**2,027,352**	1,237,698	772,988
		3,501,693	1,971,479	1,908,917
CURRENT LIABILITIES				
Trade and other payables	27	**886,414**	705,468	544,962
Tax payables		**30,260**	14,598	9,970
Borrowings — due within one year	28	**430,200**	178,700	391,662
Amounts due to customers for contract work	24	**9,611**	24,264	24,311
		1,356,485	923,030	970,905
NET CURRENT ASSETS		**2,145,208**	1,048,449	938,012
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,993,813**	1,659,753	1,372,802

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At December 31, 2010

	NOTES	December 31, 2010 RMB'000	December 31, 2009 RMB'000 (Restated)	January 1, 2009 RMB'000 (Restated)
NON-CURRENT LIABILITIES				
Deferred tax liabilities	22	**31,584**	19,509	16,242
Borrowings — due after one year	28	**241,096**	48,300	—
Convertible loan notes	30	**784,878**	—	—
		1,057,558	67,809	16,242
TOTAL ASSETS LESS TOTAL LIABILITIES		**1,936,255**	1,591,944	1,356,560
CAPITAL AND RESERVES				
Share capital	29	**833,368**	833,368	833,368
Reserves		**1,095,287**	739,678	505,178
Equity attributable to owners of the Company		**1,928,655**	1,573,046	1,338,546
Non-controlling interests		**7,600**	18,898	18,014
		1,936,255	1,591,944	1,356,560

The consolidated financial statements on pages 168 to 245 were approved and authorized for issue by the board of directors on March 11, 2011 and are signed on its behalf by:

Wen Yibo
Director

Wang Kai
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2010

	Share capital RMB'000	Merger reserve RMB'000 (Note i)	Capital reserve RMB'000 (Note ii)	Translation reserve RMB'000	Share option reserve RMB'000	Convertible loan notes reserve RMB'000	Statutory surplus fund RMB'000 (Note iii)	Retained earnings RMB'000	Attributable to owners of the Company RMB'000	Non-controlling interests RMB'000	Total RMB'000
At January 1, 2009 as originally stated	833,368	(88,296)	7,010	—	—	—	33,006	526,437	1,311,525	—	1,311,525
Effect of business combination under common control	—	—	27,000	—	—	—	—	21	27,021	18,014	45,035
Balance at January 1, 2009	833,368	(88,296)	34,010	—	—	—	33,006	526,458	1,338,546	18,014	1,356,560
Profit for the year and total comprehensive income	—	—	—	—	—	—	—	281,869	281,869	884	282,753
Transfer to reserve fund	—	—	—	—	—	—	27,523	(27,523)	—	—	—
Dividends paid	—	—	—	—	—	—	—	(47,369)	(47,369)	—	(47,369)
Balance at December 31, 2009	833,368	(88,296)	34,010	—	—	—	60,529	733,435	1,573,046	18,898	1,591,944
Profit for the year	—	—	—	—	—	—	—	289,104	289,104	86	289,190
Other comprehensive income for the year	—	—	—	366	—	—	—	—	366	—	366
Total comprehensive income for the year	—	—	—	366	—	—	—	289,104	289,470	86	289,556
Transfer to reserve fund	—	—	—	—	—	—	3,208	(3,208)	—	—	—
Recognition of equity component of convertible loan notes	—	—	—	—	—	79,676	—	—	79,676	—	79,676
Recognition of equity-settled share based payments	—	—	—	—	12,479	—	—	—	12,479	—	12,479
Contribution from non-controlling interest	—	—	—	—	—	—	—	—	—	7,600	7,600
Acquisition of additional interest in a subsidiary	—	—	984	—	—	—	—	—	984	(18,984)	(18,000)
Deemed distribution to the ultimate holding company (note iv)	—	—	(27,000)	—	—	—	—	—	(27,000)	—	(27,000)
Balance at December 31, 2010	833,368	(88,296)	7,994	366	12,479	79,676	63,737	1,019,331	1,928,655	7,600	1,936,255

Notes:

(i) The merger reserve arose, pursuant to the reorganization in 2006, from the use of the whole proceeds of the interest free loan granted by the Company's immediate holding company, Sound Water (BVI) Limited ("Sound Water"), a company incorporated in the British Virgin Islands (the "BVI"), to finance the acquisition of a subsidiary, Beijing Sound Environmental Engineering Co., Ltd. ("Beijing Sound"). The amount was calculated as the difference between the loan amount of US$18.8 million (equivalent to RMB150,896,000) and the share capital of the subsidiary acquired of RMB62,600,000.

(ii) This reflects (a) the fair value of the 2,157,000 shares of the Company transferred to an initial public offering consultant at a nominal value of S$1.00 during the listing on Singapore Exchange Securities Trading Limited (the "SGX") in 2006. (b) the consideration of RMB27,000,000 in relation to the acquisition of 60% interest in Anyang Mingbo Water Co., Ltd. ("Anyang Mingbo") by Beijing Sound Environment Group Co., Ltd ("Beijing Sound Enviro"), a company controlled by the ultimate shareholders of the Company. (c) the difference between the consideration of RMB18,000,000 in relation to the acquisition of 40% interest in Anyang Mingbo by the Group and the carrying value on the non-controlling interest.

(iii) In accordance with the Articles of Association of certain subsidiaries established in the People's Republic of China (the "PRC"), those subsidiaries are required to transfer 5% to 10% of the profit after taxation to the statutory surplus reserve until the reserve reaches 50% of the registered capital. Transfer to this reserve must be made before distributing dividends to equity owners. The statutory surplus reserve can be used to make up for previous year's losses, expand the existing operations or convert into additional capital of the subsidiaries.

(iv) The deemed distribution to the ultimate holding company arose upon the acquisition of Anyang Mingbo in January 2010, with 60% interest acquired from Beijing Sound Enviro for consideration of RMB27,000,000 by the Group.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2010

	2010 RMB'000	2009 RMB'000 (Restated)
OPERATING ACTIVITIES		
Profit before income tax	**349,067**	292,989
Adjustments for:		
Depreciation of property, plant and equipment	**3,149**	2,931
Amortization of land use rights	**1,158**	1,158
Amortization of intangible assets	**10,000**	10,000
Interest income	**(23,254)**	(13,440)
Finance costs	**36,815**	13,630
Allowance for doubtful debts	**—**	28,426
Foreign exchange gain and loss	**(4,062)**	(884)
Loss on disposal of property, plant and equipment	**8**	5
Share-based payment expenses	**12,479**	—
Share of result of an associate	**14**	(21)
Operating cash flows before movements in working capital	**385,374**	334,794
(Increase) decrease in inventories	**(513)**	10,320
(Increase) decrease in trade and other receivables	**(389,667)**	127,456
Increase in service concession receivables	**(231,399)**	(175,941)
(Increase) decrease in amounts due from customers for contract work	**(110,562)**	29,939
Increase in trade and other payables	**164,965**	71,941
Decrease in amounts due to customers for contract work	**(14,653)**	(47)
Cash (used in) generated from operations	**(196,455)**	398,462
Income taxes paid	**(32,449)**	(13,042)
Income taxes refunded	**309**	6,264
NET CASH (USED IN) FROM OPERATING ACTIVITIES	**(228,595)**	391,684
INVESTING ACTIVITIES		
Interest received	**5,282**	3,791
Purchases of property, plant and equipment	**(2,309)**	(563)
Proceeds from disposal of property, plant and equipment	**44**	2
Acquisition of available for sales investment	**—**	(2,700)
Disposal of available for sales investment	**2,700**	—
(Increase) decrease in restricted bank balances	**(245,789)**	297,273
NET CASH (USED IN) FROM INVESTING ACTIVITIES	**(240,072)**	297,803

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2010

	2010 RMB'000	2009 RMB'000 (Restated)
FINANCING ACTIVITIES		
Interest paid	**(15,845)**	(13,630)
Payment of dividends	**—**	(47,369)
Payment for combination of Anyang Mingbo	**(45,000)**	—
Proceeds on issue of convertible loan notes	**859,565**	—
Capital contribution from non-controlling interest	**7,600**	—
Borrowings raised	**694,350**	565,623
Repayments of borrowings	**(238,700)**	(730,285)
NET CASH FROM (USED IN) FINANCING ACTIVITIES	**1,261,970**	(225,661)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**793,303**	463,826
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**1,237,698**	772,988
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**(3,649)**	884
CASH AND CASH EQUIVALENTS AT END OF YEAR REPRESENTED BY BANK BALANCES AND CASH	**2,027,352**	1,237,698

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

1. GENERAL INFORMATION AND BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

The Company was a limited liability company incorporated in Singapore on November 7, 2005 under the Singapore Companies Act and its shares are listed on the SGX and the Main Board of the Stock Exchange of Hong Kong Limited ("the HKSE"). The registered office of the Company is at 1 Robinson Road, #17-00 AIA Tower, Singapore 048542. Its principal place of business is at 460 Alexandra Road, #14-04 PSA Building, Singapore 119963.

The Company is an investment holding company which is also engaged in environmental construction related design services. Its subsidiaries (together with the Company, collectively referred as the "Group") are mainly engaged in environmental construction related to water treatment, research and development of water treatment technologies and provision of services for technology consultation and construction, management and operation of the municipal wastewater projects and sale of treated water.

The consolidated financial statements are presented in Renminbi ("RMB"), the currency of the primary economic environment in which the principal subsidiaries of the Company operate. The functional currency of the Company is RMB.

The Company's immediate and ultimate parent is Sound Water.

In January 2010, the Group completed its acquisition of Anyang Mingbo, with 60% interest acquired from Beijing Sound Enviro and the remaining 40% interest acquired from a third party for considerations of RMB27,000,000 and RMB18,000,000 respectively.

The acquisition of Anyang Mingbo is regarded as a business combination under common control. The principles of merger accounting have therefore been applied, under which the consolidated financial statements have been prepared as if Anyang Mingbo had been a subsidiary of the Company since October 24, 2008, when Beijing Sound Enviro acquired the 60% interest in Anyang Mingbo with a consideration of RMB27,000,000 from a third party. The consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years ended December 31, 2009 and 2010 include the results, changes in equity and cash flows of the companies now comprising the Group, including Anyang Mingbo as if it had been a 60% interest owned subsidiary of the Company since January 1, 2009. The consolidated statements of financial position of the Group as at December 31, 2009 and January 1, 2009 have been prepared to present the assets and liabilities of the companies now comprising the Group including Anyang Mingbo, as if it had been a 60% interest owned subsidiary of the Company as of those days. The acquisition of the remaining 40% interest in Anyang Mingbo is accounted for as an acquisition of additional interest in a subsidiary in January 2010.

1. GENERAL INFORMATION AND BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

Business combination under common control

The effects of the combination of Anyang Mingbo on the result of the Group for the year ended December 31, 2009 and the financial position of the Group at December 31, 2009 are summarized below:

	Excluded Anyang Mingbo RMB'000 (Previously reported)	Combination of Anyang Mingbo RMB'000	Elimination adjustments RMB'000	Included Anyang Mingbo RMB'000 (Restated)
Revenue	1,293,476	33,208	(33,208)	1,293,476
Cost of sales	(917,963)	(33,208)	33,208	(917,963)
Gross profit	375,513	—	—	375,513
Other operating income	10,914	2,947	—	13,861
Other expenses	(28,576)	—	—	(28,576)
Distribution expenses	(10,892)	—	—	(10,892)
Research and development expenses	(5,256)	—	—	(5,256)
Administrative expenses	(38,052)	—	—	(38,052)
Share of result of an associate	21	—	—	21
Finance costs	(13,630)	—	—	(13,630)
Profit before income tax	290,042	2,947	—	292,989
Income tax expenses	(9,499)	(737)	—	(10,236)
Profit for the year and total comprehensive income	280,543	2,210	—	282,753
Profit for the year and total comprehensive income attributable to:				
Owners of the Company	280,543	1,326	—	281,869
Non-controlling interests	—	884	—	884
	280,543	2,210	—	282,753

1. GENERAL INFORMATION AND BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

Business combination under common control (Cont'd)

	Excluded Anyang Mingbo RMB'000 (Previously reported)	Combination of Anyang Mingbo RMB'000	Elimination adjustments RMB'000	Included Anyang Mingbo RMB'000 (Restated)
NON-CURRENT ASSETS				
Property, plant and equipment	47,550	67	—	47,617
Interest in an associate	2,561	—	—	2,561
Land use rights	46,612	—	—	46,612
Intangible assets	50,000	—	—	50,000
Goodwill	41,395	—	—	41,395
Service concession receivables	295,132	120,615	—	415,747
Deferred tax assets	7,372	—	—	7,372
	490,622	120,682	—	611,304
CURRENT ASSETS				
Inventories	11,543	—	—	11,543
Trade and other receivables	461,852	1,318	(41,387)	421,783
Land use rights	1,158	—	—	1,158
Amounts due from customers for contract work	233,791	—	(6,702)	227,089
Restricted bank balances	72,208	—	—	72,208
Bank balances and cash	1,237,196	502	—	1,237,698
	2,017,748	1,820	(48,089)	1,971,479
CURRENT LIABILITIES				
Trade and other payables	681,056	72,501	(48,089)	705,468
Tax payables	14,598	—	—	14,598
Bank borrowings — due within one year	176,700	2,000	—	178,700
Amounts due to customers for contract work	24,264	—	—	24,264
	896,618	74,501	(48,089)	923,030
NET CURRENT ASSETS	1,121,130	(72,681)	—	1,048,449
TOTAL ASSETS LESS CURRENT LIABILITIES	1,611,752	48,001	—	1,659,753
NON-CURRENT LIABILITIES				
Deferred tax liabilities	18,752	757	—	19,509
Bank borrowings — due after one year	48,300	—	—	48,300
	67,052	757	—	67,809
TOTAL ASSETS LESS TOTAL LIABILITIES	1,544,700	47,244	—	1,591,944
CAPITAL AND RESERVES				
Share capital	833,368	—	—	833,368
Reserves	711,332	28,346	—	739,678
Equity attributable to owners of the Company	1,544,700	28,346	—	1,573,046
Non-controlling interests	—	18,898	—	18,898
	1,544,700	47,244	—	1,591,944

1. GENERAL INFORMATION AND BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

Business combination under common control (Cont'd)

The effects of the combination of Anyang Mingbo on the Group's equity at January 1, 2009 are summarized below:

	Excluded Anyang Mingbo RMB'000 (Previously reported)	Combination of Anyang Mingbo RMB'000	Included Anyang Mingbo RMB'000 (Restated)
Share capital	833,368	—	833,368
Merge reserve	(88,296)	—	(88,296)
Capital reserve	7,010	27,000	34,010
Statutory surplus fund	33,006	—	33,006
Retained earnings	526,437	21	526,458
Non-controlling interests	—	18,014	18,014
	1,311,525	45,035	1,356,560

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied the following new and revised Standards and Interpretations issued by the International Accounting Standards Board.

IFRS 2 (Amendments)	Group Cash-settled Share-based Payment Transactions
IFRS 3 (as revised in 2008)	Business Combinations
IAS 27 (as revised in 2008)	Consolidated and Separate Financial Statements
IAS 39 (Amendments)	Eligible Hedged Items
IFRSs (Amendments)	Improvements to IFRSs issued in 2009
IFRSs (Amendments)	Amendments to IFRS 5 as part of Improvements to IFRSs issued in 2008
IFRIC 17	Distributions of Non-cash Assets to Owners

Except as described below, the application of the new and revised Standards and Interpretations in the current year has had no material effect on the amounts reported in these consolidated financial statements and/or disclosures set out in these consolidated financial statements.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (Cont'd)

IAS 27 (as revised in 2008) Consolidated and Separate Financial Statements

The application of IAS 27 (as revised in 2008) has resulted in changes in the Group's accounting policies for changes in ownership interests in subsidiaries of the Group.

Specifically, the revised Standard has affected the Group's accounting policies regarding changes in the Group's ownership interests in its subsidiaries that do not result in loss of control. In prior years, in the absence of specific requirements in IFRSs, increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised, when appropriate; for decreases in interests in existing subsidiaries that did not involve a loss of control, the difference between the consideration received and the adjustment to the non-controlling interests was recognised in profit or loss. Under IAS 27 (as revised in 2008), all such increases or decreases are dealt with in equity, with no impact on goodwill or profit or loss.

These changes have been applied prospectively from January 1, 2010 in accordance with the relevant transitional provisions.

The Group has not early adopted the following new and revised standards, amendments and interpretations that have been issued but are not yet effective:

IFRSs (Amendments)	Improvements to IFRSs 2010[1]
IFRS 1 (Amendment)	Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters[2]
IFRS 1 (Amendment)	Severe Hyperinflation and Removal of Fixed for First-time Adopters[3]
IFRS 7 (Amendments)	Disclosures — Transfers of Financial Assets[3]
IFRS 9	Financial Instruments[4]
IFRS 12 (Amendment)	Deferred Tax: Recovery of Underlying Assets[5]
IAS 24 (Revised)	Related Party Disclosures[6]
IAS 32 (Amendment)	Classification of Rights Issues[7]
IFRIC 14 (Amendment)	Prepayments of a Minimum Funding Requirement[6]
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments[2]

1 Effective for annual periods beginning on or after July 1, 2010 and January 1, 2011, as appropriate.
2 Effective for annual periods beginning on or after July 1, 2010
3 Effective for annual periods beginning on or after July 1, 2011
4 Effective for annual periods beginning on or after January 1, 2013
5 Effective for annual periods beginning on or after January 1, 2012
6 Effective for annual periods beginning on or after January 1, 2011
7 Effective for annual periods beginning on or after February 1, 2010

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (Cont'd)

IFRS 9 Financial Instruments (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. IFRS 9 Financial Instruments (as revised in November 2010) adds requirements for financial liabilities and for derecognition.

Under IFRS 9, all recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Currently, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

IFRS 9 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.

The directors anticipate that IFRS 9 will be adopted in the Group's consolidated financial statements for financial year ending December 31, 2013 and that the application of the new Standard may have an impact on amounts reported in respect of the Group's financial assets and financial liabilities.

The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared under the historical cost basis except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with the following accounting policies which conform with IFRSs. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the HKSE and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Non-controlling interests in subsidiaries are presented separately from the equity of the owners of the Company.

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Prior to January 1, 2010, losses applicable to the non-controlling interests in excess of the non-controlling interests in the subsidiary's equity were allocated against the interests of the Group except to the extent that the non-controlling interests had a binding obligation and were able to make an additional investment to cover the losses.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Basis of consolidation (Cont'd)

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interest in a subsidiary from January 1, 2010 that do not result in the Group losing control over the subsidiary are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest determined at the date when control is lost and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Where certain assets of the subsidiary are measured at revalued amounts or fair values and the related cumulative gain or loss has been recognized in other comprehensive income and accumulated in equity, the amounts previously recognized in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings at the date when control is lost). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or jointly controlled entity.

Business combinations

Business combinations prior to January 1, 2010

The acquisition of subsidiaries is accounted for using the acquisition method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, and liabilities incurred or assumed by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities are recognized at their fair values at the acquisition date.

Goodwill arising on acquisition is recognized as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognized. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognized immediately in profit or loss.

The non-controlling interest shareholders in the acquiree are initially measured at the non-controlling interest's proportion of the net fair value of the assets, liabilities and contingent liabilities recognized.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Business combinations (Cont'd)

Business combinations on or after January 1, 2010

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognized in profit or loss as incurred.

At the acquisition date the acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3(2008) are recognized at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognized and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively;

- liabilities or equity instruments related to the replacement by the Group of an acquiree's share-based payment awards are measured in accordance with IFRS 2 Share-based Payment; and

- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with IFRS 5.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after assessment, the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

Non-controlling interests was initially measured at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets.

Where a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognized in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Business combinations (Cont'd)

Business combinations on or after January 1, 2010 (Cont'd)

Changes in the value of the previously held equity interest recognized in other comprehensive income and accumulated in equity before the acquisition date are reclassified to profit or loss when the Group obtains control over the acquiree.

Merger accounting for business combination involving entities under common control

The consolidated financial statements incorporate the financial statements items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are consolidated using the existing book values from the controlling parties' perspective. No amount is recognized in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated statement of comprehensive income includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the consolidated financial statements are presented as if the entities or businesses had been combined at the end of the previous reporting period or when they first came under common control, whichever is shorter.

Goodwill

Capitalized goodwill arising on an acquisition of a business is presented separately in the consolidated statement of financial position. Such goodwill is carried at cost less any accumulated impairment losses.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in profit or loss. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of the relevant cash-generating unit, the attributable amount of goodwill capitalized is included in the determination of the amount of profit or loss on disposal.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Investments in associates

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associates, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognizing its share of further losses. An additional share of losses is provided for and a liability is recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable.

Construction contracts

When the outcome of a construction contract including construction services of the infrastructure under a service concession arrangement (which include turnkey services) can be estimated reliably, revenue and costs are recognized by reference to the stage of completion of the contract activity at the end of the reporting period, as measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably, its receipt is considered probable and they have been agreed with the customer.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognized as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Revenue recognition (Cont'd)

Construction contracts (Cont'd)

Where contract costs incurred to date plus recognized profits less recognized losses exceed progress billings, the surplus is shown as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognized profits less recognized losses, the surplus is shown as amounts due to customers for contract work. Amounts received before the related work is performed are included in the consolidated statement of financial position, as a liability, as advances received. Amounts billed for work performed but not yet paid by the customer are included in the consolidated statement of financial position under trade and other receivables.

Sale of goods

Revenue from the sale of goods when the goods are delivered and the title has passed.

Rendering of services

Service income including that from operating service provided under service concession arrangements is recognised when services are provided. Revenue from a contract to provide services is recognized by reference to the stage of completion of the contract.

Interest income

Interest income from a financial asset (excluding financial assets through profit or loss) is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred. Benefits received and receivable as an incentive to enter into an operating lease are recognized as a reduction of rental expenses on a straight-line basis over the lease term.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes other than construction in progress are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment other than construction in progress over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognized impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the period in which the item is derecognized.

Foreign currencies

In preparing the financial statements of the Company and individual entities, transactions in currencies other than the entity's functional currency (the currency of the primary economic environment in which the entity operates) are recorded in the respective functional currency at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that day. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on retranslation of monetary items are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. RMB) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (the translation reserve).

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Borrowing costs

Borrowing costs directly attributed to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing cost eligible for capitalization.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

Retirement benefit costs

Payments to the defined contribution retirement benefits scheme under the state-managed retirement benefit schemes are charged as an expense when employees have rendered service entitling them to the contribution.

Taxation

Income tax expenses represent the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the consolidated statement of the comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognized on temporary differences between the carrying amount of assets and liabilities in the consolidated financial statements and the corresponding tax basis used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries and an associate, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Taxation (Cont'd)

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realized, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognized in profit or loss, except when it relates to items that are recognized in other comprehensive income or directly in equity, in which case the deferred tax is also recognized in other comprehensive income or directly in equity respectively.

Land use rights

Land use rights are stated at cost and amortized on a straight-line basis over the lease terms. Land use rights which are to be amortized in the next twelve months or less are classified as current assets.

Intangible assets

Intangible assets acquired separately

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortization and any accumulated impairment losses. Amortization for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss in the period when the asset is derecognized.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognized separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date. Subsequent to initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortization and any accumulated impairment losses, being their fair value at the date of the revaluation less subsequent accumulated amortization and any accumulated impairment losses.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Intangible assets (Cont'd)

Intangible assets acquired in a business combination (Cont'd)

Amortization for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. Alternatively, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

Research and development expenditures

Expenditure on research activities is recognized as an expense in the period in which it is incurred. An internally-generated intangible asset arising from development expenditure is recognized only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial operation. The resultant asset is amortized on a straight-line basis over its useful life, and carried at cost less accumulated amortization and any accumulated impairment losses.

The amount initially recognized for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria. Where no internally-generated intangible asset can be recognized, development expenditure is charged to profit or loss in the period in which it is incurred. Subsequent to initial recognition, internally-generated intangible asset is reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets acquired separately.

Impairment of tangible assets and intangible assets other than goodwill

At the end of reporting period, the Group reviews the carrying amounts of its tangible assets and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Impairment of tangible assets and intangible assets other than goodwill (Cont'd)

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is calculated using weighted average method.

Financial instruments

Financial assets and financial liabilities are recognized on the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets

The Group's financial assets are mainly loans and receivables.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Interest income is recognized on an effective interest basis for debt instruments.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial assets (Cont'd)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each reporting date subsequent to initial recognition, loans and receivables (including service concession receivables, trade and other receivables and bank balances and cash) are carried at amortized cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Impairment of financial assets

Loans and receivables are assessed for indicators of impairment at each reporting date. Loans and receivables are impaired where there is objective evidence that, as a result of one or more events that occurred after its initial recognition, the estimated future cash flows have been impacted.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization.

An impairment loss is recognized in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

For certain categories of loans and receivables, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments and observable changes in national or local economic conditions that are correlated with default on receivables.

The carrying amounts of the loans and receivables are reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss. When a trade and other receivable are considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial assets (Cont'd)

Impairment of financial assets (Cont'd)

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognized on an effective interest basis.

Financial liabilities

Financial liabilities including liability component of the convertible loan notes, borrowings and trade and other payables are subsequently measured at amortized cost, using the effective interest method.

Equity instruments

Equity instruments issued by Company are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognized when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial liabilities and equity instruments (Cont'd)

Derecognition (Cont'd)

Financial liabilities are derecognized when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Share-based payment transactions

Equity-settled share-based payment transactions

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share option reserve). At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share option reserve.

At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to capital reserve. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained earnings.

Convertible loan notes

Convertible loan notes issued by the Group that contain both the liability and conversion option components are classified separately into respective items on initial recognition. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is classified as an equity instrument.

On initial recognition, the fair value of the liability component is determined using the prevailing market interest of similar non-convertible debts. The difference between the gross proceeds of the issue of the convertible loan notes and the fair value assigned to the liability component, representing the conversion option for the holder to convert the loan notes into equity, is included in equity (convertible loan notes reserve).

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Convertible loan notes (Cont'd)

In subsequent periods, the liability component of the convertible loan notes is carried at amortised cost using the effective interest method. The equity component, representing the option to convert the liability component into ordinary shares of the Company, will remain in convertible loan notes reserve until the embedded option is exercised (in which case the balance stated in convertible loan notes reserve will be transferred to capital reserve. Where the option remains unexercised at the expiry date, the balance stated in convertible loan notes reserve will be released to retained earnings. No gain or loss is recognised in profit or loss upon conversion or expiration of the option.

Transaction costs that relate to the issue of the convertible loan notes are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible loan notes using the effective interest method.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are disclosed below.

Estimated impairment of trade and other receivables

The Group makes allowances for bad and doubtful debts based on an assessment of the recoverability of trade and other receivables. Allowances are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts requires the use of judgment and estimates. Where the expectation is different from the original estimate, such difference will impact carrying value of trade and other receivables and doubtful debts expenses in the period in which such estimate has been changed. The carrying amount of the trade and other receivables are disclosed in Note 25.

Revenue recognition

The Group recognizes contract revenue based on the stage of completion method. The stage of completion is measured in accordance with the accounting policy stated in Note 3. Significant assumption is required in determining the stage of completion, the extent of the contract cost incurred, the estimated total contract revenue and the estimated total contract cost and the recoverability of the costs. In making the assumption, the Group evaluates by relying on past experience and the work of the project management team. Revenue from construction contracts is disclosed in Note 6. Changes in estimate of contract revenue or contract costs, or changes in the estimated outcome of a contract could impact the amounts of revenue and expenses recognized in profit or loss in the period in which the change is made and in subsequent periods. Such impact could potentially be significant.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (Cont'd)

Accounting for IFRIC 12 Service Concession Arrangements

The Group recognizes the consideration received or receivable in exchange for the construction services as a financial asset and/or an intangible asset under public-to-private concession arrangement. However, if the Group is paid for the construction services partly by a financial asset and partly by an intangible asset, it is necessary to account separately for each component of the operator's consideration. The consideration received or receivable for both components shall be recognized initially at the fair value of the consideration received or receivable.

The segregation of the consideration for a service concession arrangement between the financial asset component and the intangible asset component, if any, requires the Group to make an estimate of a number of factors, which include, inter alia, fair value of the construction services, expected future wastewater treatment volume of the relevant sewage treatment plant over its service concession period, future guaranteed receipts and unguaranteed receipts, and also to choose a suitable discount rate in order to calculate the present value of those cash flows. No intangible assets have been recognized regarding to service concession arrangements as the management considers the chance to exceed the guaranteed tonnage is low. These estimates are determined by the Group's management based on their experience and assessment on current and future market condition. Changes in these estimates could impact the amounts of construction revenue and deemed interest income and expenses recognized in profit or loss in the period in which the change is made and in subsequent periods. Such impact could potentially be significant.

5. SEGMENT INFORMATION

The Group determines its operating segments based on internal reports about components of the Group that are regularly reviewed by the chief operating decision maker (the "CODM") in order to allocate resources to the segments and to assess their performance.

The Group is organized into business units based on their products and services, based on which information is prepared and reported to the Group's chief operating decision maker for the purposes of resource allocation and assessment of performance.

The Group is primarily engaged in three operating segments, namely (1) turnkey projects and services, (2) manufacturing (equipment fabrication), and (3) operations of water and wastewater treatment facilities ("O&M").

The accounting policies of the operating segments are the same as the Group's accounting policies describe in Note 3. Segment results represent the profits earned by each segment without allocation of central administration costs, directors' remuneration, share of result of an associate, interest income, foreign exchange gains and losses, finance costs at corporate level.

5. SEGMENT INFORMATION (Cont'd)

Segment information about the Group's operating segments is presented below.

	Turnkey projects and services RMB'000	Equipment fabrications RMB'000	O&M RMB'000	Elimination RMB'000	Total RMB'000
2010					
Revenue					
External sales	**1,610,619**	**124,406**	**30,647**	**—**	**1,765,672**
Inter-segment sales	**—**	**52,193**	**—**	**(52,193)**	**—**
Total revenue	**1,610,619**	**176,599**	**30,647**	**(52,193)**	**1,765,672**
Segment results	**413,381**	**27,656**	**21,921**	**—**	**462,958**
Unallocated expenses					**(113,877)**
Share of result of an associate					**(14)**
Profit before income tax					**349,067**

	Turnkey projects and services RMB'000	Equipment fabrications RMB'000	O&M RMB'000	Elimination RMB'000	Total RMB'000
2009					
Revenue					
External sales	1,162,417	125,382	5,677	—	1,293,476
Inter-segment sales	—	47,757	—	(47,757)	—
Total revenue	1,162,417	173,139	5,677	(47,757)	1,293,476
Segment results	260,038	26,511	10,480	—	297,029
Unallocated income					4,228
Unallocated expenses					(8,289)
Share of result of an associate					21
Profit before income tax					292,989

Inter-segment sales are charged at prevailing market price.

5. SEGMENT INFORMATION (Cont'd)

Segment assets represent property, plant and equipment, land use rights, intangible assets, goodwill, service concession receivables, deferred tax assets, inventories, trade and other receivables, amounts due from customers for contract work, restricted bank balances and bank balances and cash, which are attributable to each operating segments. Segment liabilities represent trade and other payables, tax payables, borrowings, amounts due to customers for contract work and deferred tax liabilities on undistributed profits of the PRC subsidiaries and fair value adjustment on business combination, which are attributable to each operating segments. In the internal reports regularly reviewed by the CODM, tax payables and deferred tax assets/liabilities are allocated to each segment, if applicable without allocating the related income tax expenses to relevant segments results.

As of December 31, 2010

	Turnkey projects and services RMB'000	Equipment fabrications RMB'000	O&M RMB'000	Elimination RMB'000	Total RMB'000
Assets and Liabilities					
Segment assets	3,192,166	521,309	939,067	(684,208)	3,968,334
Interest in an associate					2,547
Unallocated corporate assets *(note a)*					379,417
Consolidated assets					4,350,298
Segment liabilities	1,438,904	229,466	405,224	(684,208)	1,389,386
Deferred tax liabilities					24,104
Unallocated corporate liabilities *(note b)*					1,000,553
Consolidated liabilities					2,414,043

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

5. SEGMENT INFORMATION (Cont'd)

As of December 31, 2009

	Turnkey projects and services RMB'000	Equipment fabrications RMB'000	O&M RMB'000	Elimination RMB'000	Total RMB'000
Assets and Liabilities					
Segment assets	1,998,495	408,943	504,322	(370,527)	2,541,233
Interest in an associate					2,561
Unallocated corporate assets *(note a)*					38,989
Consolidated assets					2,582,783
Segment liabilities	931,659	139,022	271,599	(370,527)	971,753
Deferred tax liabilities					17,075
Unallocated corporate liabilities *(note b)*					2,011
Consolidated liabilities					990,839

Notes:

(a) Unallocated corporate assets mainly represent bank balances and cash, restricted bank balances, other receivable and property, plant and equipment at corporate level.

(b) Unallocated corporate liabilities represent borrowings, convertible loan notes, tax payable and other payable at corporate level.

Other information

For the year ended December 31, 2010

	Turnkey projects and services RMB'000	Equipment fabrications RMB'000	O&M RMB'000	Unallocated RMB'000	Total RMB'000
Additions to non-current assets excluding financial instruments and deferred tax assets	**858**	**269**	**1,120**	**62**	**2,309**
Depreciation and amortization	**1,314**	**12,739**	**223**	**31**	**14,307**
Interest income	**5,071**	**202**	**9**	**—**	**5,282**
Imputed interest income on service concession receivables	**—**	**—**	**17,972**	**—**	**17,972**
Loss on disposal of property, plant and equipment	**2**	**6**	**—**	**—**	**8**
Finance costs	**7,409**	**232**	**5,386**	**23,788**	**36,815**

5. **SEGMENT INFORMATION** (Cont'd)

Other information (Cont'd)

For the year ended December 31, 2009

	Turnkey projects and services RMB'000	Equipment fabrications RMB'000	O&M RMB'000	Unallocated RMB'000	Total RMB'000
Additions to non-current assets excluding financial instruments and deferred tax assets	64	7	456	36	563
Depreciation and amortization	1,171	12,728	116	74	14,089
Allowance for doubtful debts	28,426	—	—	—	28,426
Interest income	3,004	83	4	700	3,791
Imputed interest income on service concession receivables	—	—	9,649	—	9,649
Loss on disposal of property, plant and equipment	5	—	—	—	5
Finance costs	12,756	—	846	28	13,630

Geographical information

The Group's operations are located in the PRC and Kingdom of Saudi Arabia ("Saudi Arabia"). The Group's revenue from continuing operations from external customers and information about its non-current assets other than financial instruments and deferred tax assets by geographical location of the assets are detailed below:

	2010 RMB'000	2009 RMB'000
Revenue from external customers		
The PRC	**1,597,803**	1,293,476
Saudi Arabia	**167,869**	—
	1,765,672	1,293,476

	December 31, 2010 RMB'000	December 31, 2009 RMB'000
Non-current assets		
The PRC	**175,826**	188,185
Saudi Arabia	**289**	—
	176,115	188,185

No revenue from a single external customer amount to 10% or more of the Group's revenue.

6. REVENUE

	2010 RMB'000	2009 RMB'000
Revenue from construction contracts (including turnkey services and sales of equipments related to construction contracts)	**1,563,258**	1,132,487
Revenue from sale of goods	**124,406**	125,382
Operating and maintenance income	**30,647**	5,677
Design service	**47,361**	29,930
	1,765,672	1,293,476

7. OTHER OPERATING INCOME

	2010 RMB'000	2009 RMB'000
Interest income	**5,282**	3,791
Imputed interest income on service concession receivables	**17,972**	9,649
Sundry income	**147**	421
	23,401	13,861

8. OTHER EXPENSES

	2010 RMB'000	2009 RMB'000
Expenses related to listing on the HKSE	**59,156**	—
Net foreign exchange losses	**17,597**	150
Allowance for doubtful debts	**—**	28,426
	76,753	28,576

9. FINANCE COSTS

	2010 RMB'000	2009 RMB'000
Interest expenses on borrowings		
— wholly repayable within five years	**13,027**	12,785
— not wholly repayable within five years	**3,311**	845
Interest expenses on convertible loan notes	**20,477**	—
	36,815	13,630

10. INCOME TAX EXPENSES

	2010 RMB'000	2009 RMB'000
The charge comprises:		
Current tax PRC income tax	**48,111**	15,454
Over provision in prior year		
PRC income tax	**—**	(4,048)
Singapore income tax	**(309)**	—
	(309)	(4,048)
Deferred tax *(Note 22)*	**12,075**	(1,170)
	59,877	10,236

The Singapore income tax represents income tax in Singapore which is calculated at the prevailing tax rate on the taxable income of companies established in Singapore. For the years ended December 31, 2009 and 2010, the tax rate was 17%.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the statutory tax rate of the PRC subsidiaries is 25%.

The EIT Law provides that qualified dividend income between two "resident enterprises" that have a direct investment relationship is exempted from income tax. Otherwise, such dividends will be subject to a withholding tax under the tax treaty or the domestic law.

10. INCOME TAX EXPENSES (Cont'd)

The income tax rates applicable to the subsidiaries established in the PRC are as follows:

	2010 %	2009 %
Beijing Sound *(Note i)*	**15**	15
Beijing Epure International Water Co., Ltd ("Beijing Epure") *(Note ii)*	**7.5**	Exempted
Beijing Epure Sound Environmental Engineering Technology Co., Ltd ("Epure Sound Technology")	**25**	25
Beijing Hi-Standard Water Treatment Equipment Co., Ltd ("Hi-standard Equipment") *(Notes iii)*	**15**	15
Xi'an Huqing Water Co., Ltd ("Xi'an Huqing") *(Notes iv)*	**Exempted**	25
Xi'an Qinqing Water Co., Ltd ("Xi'an Qinqing")	**25**	25
Guangxi Liqing Water Co., Ltd ("Guangxi Liqing") *(Notes iv)*	**Exempted**	25
Hancheng Yiqing Water Co., Ltd ("Yiqing Water")	**25**	25
Shangluo Wastewater Treatment Co., Ltd ("Shangluo Wasterwater")	**25**	25
Yulin City Jingzhou Water Co., Ltd ("Yulin Jingzhou")	**25**	25
Hainan Baichuan Water Co., Ltd ("Hainan Baichuan")	**25**	25
Jiangyan Jiangyuan Wastewater Treatment Co., Ltd ("Jiangyan Jiangyuan")	**25**	25
Fushun Qingxi Water Co., Ltd ("Fushun Qingxi")	**25**	25
Anyang Mingbo	**25**	25
Yantai Bihai Water Co., Ltd ("Yantai Bihai")	**25**	25
Daye Honglian Water Co., Ltd ("Daye Honglian")	**25**	25
Fushun Sangyuan Environmental Engineering Co., Ltd ("Fushun Sangyuan")	**25**	25

Notes:

(i) Beijing Sound is a Sino-foreign joint cooperative company located in Beijing Zhong Guan Cun Science Park, Beijing, the PRC.

According to the EIT Law and Circular of State Administration of Taxation on Issues Concerning Implementation of Preferential Income Tax Enjoyed by High-and-new-tech Enterprises (Guo Shui Han 2009 No. 203), high-and-new-tech enterprises are levied enterprise income tax at 15%. Beijing Sound was entitled to enjoy a preferential tax rate at 15% from year 2008 to year 2010 as it has further successfully applied as a high-and-new-tech enterprise in 2009 for an effective period from January 1, 2008 to December 31, 2010.

(ii) Beijing Epure is a foreign investment enterprise located in Beijing Zhong Guan Cun Science Park, Beijing, the PRC. It has successfully applied as a high-and-new-tech enterprise in 2009.

In accordance with the Interim Measures of Beijing New Tech Industry Development Test Zone approved by the State Council on May 10, 1988 and promulgated by the People's Government of Beijing on May 20, 1988, the newly established new tech enterprise within test zone shall be entitled to an exemption from income tax for the three years commencing from its establishment, and thereafter, entitled to a 50% relief of income tax for the next three years subject to the approval from the relevant authority. As a company established in a test zone, Beijing Epure was exempted from income tax for each of the years ended December 31, 2007, 2008 and 2009, and is subject to income tax at 7.5% for each of the years ended December 31, 2010, 2011 and 2012.

(iii) Hi-Standard Equipment is a PRC limited company located in Beijing Zhong Guan Cun Science Park, Beijing, the PRC.

According to Guo Shui Han 2009 No. 203, Hi-Standard Equipment was entitled to enjoy a preferential tax rate at 15% from year 2008 to year 2010 as it has successfully applied as a high-and-new-tech enterprise in 2009 for an effective period from January 1, 2008 to December 31, 2010. Hi-standard Equipment has continued enjoying the 15% tax rate in 2010.

(iv) According to No. 88 provision of the Implementation Rules on the EIT Law of the PRC and the third item in No. 27 provision of the EIT Law of the PRC, the income of companies engaged in environmental protection projects, or energy and water saving projects, which meet relevant requirements, shall be exempted from enterprise income tax for three years commencing from the first revenue-generating year of operations and thereafter, be entitled to a 50% reduction from enterprise income tax for the next three years. The specific conditions and scope of projects shall be jointly formulated by the competent department of finance and taxation of the State Council in collaboration with other relevant departments of the State Council and shall be publicized and implemented after being approved by the State Council. As at December 31, 2010, Xi'an Huqing and Guangxi Liqing have obtained the approval and are entitled to exempt from enterprise income tax in 2010, 2011 and 2012 and enjoy 12.5% preferential enterprise income tax rate in the following three years.

10. INCOME TAX EXPENSES (Cont'd)

The income tax expenses can be reconciled to the profit before income tax per the consolidated statements of comprehensive income as follows:

	2010 RMB'000	2009 RMB'000
Profit before income tax	**349,067**	292,989
Tax at the applicable income tax rate 25%	**87,267**	73,247
Tax effect of expenses not deductible for tax purpose	**25,998**	2,157
Tax effect of share of result of an associate	**4**	(5)
Tax effect of preferential tax rate and different tax rates of subsidiaries	**(66,075)**	(6,439)
Effect of tax exemption	**(1,713)**	(57,413)
Tax effect of unrecognized deductible temporary differences	**117**	—
Tax effect of tax losses not recognized	**5,963**	237
Deferred tax liabilities arising on undistributed profit in the PRC subsidiaries from January 1, 2008 onwards	**8,625**	2,500
Over provision in prior year *(note)*	**(309)**	(4,048)
Income tax expense	**59,877**	10,236

Note: As Hi-Standard Equipment did not obtain the high-and-new-tech enterprise certification from relevant authority as of December 31, 2008, this entity provided income tax for the year ended December 31, 2008 at a tax rate of 25%. After it obtained the high-and-new-tech certification in 2009, which entitled it to a 15% preferential tax rate from 2008, Hi-standard Equipment reversed the over provision in 2009.

11. PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging:

	2010 RMB'000	2009 RMB'000
Amortization of intangible assets, included in cost of sales	**10,000**	10,000
Amortization of land use rights	**1,158**	1,158
Auditors' remuneration	**2,800**	2,000
Cost of inventories recognized as expense	**178,609**	178,461
Depreciation for property, plant and equipment	**3,149**	2,931
Loss on disposal of property, plant and equipment	**8**	5
Staff cost		
Director's remuneration	**1,919**	1,055
Other staff costs		
Staff cost excluded retirement benefit costs	**35,120**	32,756
Contribution to defined contribution plans	**4,330**	3,432
Share-based payments	**11,700**	—
Total staff cost	**53,069**	37,243

12. DIRECTORS' EMOLUMENTS

Details of the emoluments paid to the directors of the Company for the year are as follows:

	2010 RMB'000	2009 RMB'000
Directors' fees	**447**	420
Directors' emoluments:		
— Basic salaries and allowances	**577**	538
— Contribution to defined contribution plans	**116**	97
— Share-based payments	**779**	—
	1,472	635
Total	**1,919**	1,055

12. DIRECTORS' EMOLUMENTS (Cont'd)

	Directors' fee RMB'000	Salaries and other benefit RMB'000	Contribution to defined contribution plans RMB'000	Share-based payments RMB'000	Total RMB'000
Year ended December 31, 2010					
Name of director					
WEN Yibo	—	152	29	—	181
LI Li	—	165	29	—	194
ZHANG Baolin (appointed on March 12, 2010)	—	133	29	745	907
YAN Xiaolei (retired on December 24, 2010)	—	125	28	—	153
Wang Kai (appointed on December 24, 2010)	—	2	1	34	37
WONG See Meng	220	—	—	—	220
FU Tao	60	—	—	—	60
SEOW Han Chiang	167	—	—	—	167
	447	577	116	779	1,919

	Directors' fee RMB'000	Salaries and other benefit RMB'000	Contribution to defined contribution plans RMB'000	Total RMB'000
Year ended December 31, 2009				
Name of director				
WEN Yibo	—	147	26	173
LI Li	—	159	26	185
WANG Zhili (retired on March 5, 2010)	—	111	19	130
YAN Xiaolei	—	121	26	147
HO Yew Mun (retired on April 27, 2009)	86	—	—	86
WONG See Meng (appointed on May 18, 2009)	133	—	—	133
FU Tao	60	—	—	60
SEOW Han Chiang	141	—	—	141
	420	538	97	1,055

13. EMOLUMENTS OF THE FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals included no director (2009: one) for the year ended December 31, 2010. The emoluments of the directors are included in the disclosure in Note 12 above. The emoluments of the five (2009: remaining four) highest paid individuals for the year ended December 31, 2010 are as follows:

	2010 RMB'000	2009 RMB'000
Salaries and other benefits	**2,805**	1,693
Performance related incentive payments *(note)*	**2,521**	—
Contribution to defined contributions plan	**380**	136
Share-based payments	**294**	—
	6,000	1,829

Note: The performance related incentive payment is determined based on evaluation of each individual annually.

No emoluments were paid by the Group to the directors or the five highest paid individuals as inducement to join or upon joining the Group or as compensation for loss of office. None of the directors of the Company has waived any emoluments during the years ended December 31, 2009 and 2010.

Their emoluments were within the following band:

	Number of individuals	
	2010	2009
Nil to HK$1,000,000	**3**	4
HK$1,000,001 to HK$1,500,000	**1**	—
HK$3,000,001 to HK$3,500,000	**1**	—

14. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share attributable to the ordinary equity shareholders of the Company is based on the following data:

	2010 RMB'000	2009 RMB'000
Profit for the year attributable to owners of the Company	**289,104**	281,869
	'000	'000
Weighted average number of shares	**1,290,000**	1,290,000

The computation of diluted earnings per share does not assume the conversion of the outstanding convertible loan notes since their exercise would result in an increase in earnings per share or the exercise of the Company's options because the exercise price of those options was higher than the average market price of shares since the grant date in 2010.

15. DIVIDENDS

	2010 RMB'000	2009 RMB'000
Dividends recognized as distributions during the year	—	47,369

The final dividend of S$0.01 in respect of the year ended December 31, 2010 per share totalling S$12,900,000 (equivalent to RMB66,088,000) has been proposed by the directors and is subject to approval by the shareholders at the forthcoming annual general meeting.

In 2009, the Company declared and paid a dividend of S$0.008 per ordinary share with total dividends of S$10,320,000 (equivalent to approximately RMB47,369,000) to shareholders for the year ended December 31, 2008.

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Plant and machinery RMB'000	Transportation vehicles RMB'000	Fixtures and equipments RMB'000	Total RMB'000
COST					
At January 1, 2009	44,446	8,106	2,643	3,917	59,112
Additions	—	30	108	425	563
Transfer	—	—	—	(12)	(12)
At December 31, 2009	44,446	8,136	2,751	4,330	59,663
Additions	—	24	1,121	1,164	2,309
Disposal	—	(113)	—	(9)	(122)
Translation difference	—	—	(11)	(2)	(13)
At December 31, 2010	**44,446**	**8,047**	**3,861**	**5,483**	**61,837**
ACCUMULATED DEPRECIATION					
At January 1, 2009	4,217	461	2,184	2,258	9,120
Charge for the year	1,415	826	258	432	2,931
Disposal	—	—	—	(5)	(5)
At December 31, 2009	5,632	1,287	2,442	2,685	12,046
Charge for the year	1,438	816	343	552	3,149
Disposal	—	(66)	—	(4)	(70)
Translation difference	—	—	(6)	(1)	(7)
At December 31, 2010	**7,070**	**2,037**	**2,779**	**3,232**	**15,118**
CARRYING AMOUNT					
At December 31, 2010	**37,376**	**6,010**	**1,082**	**2,251**	**46,719**
At December 31, 2009 (restated)	38,814	6,849	309	1,645	47,617
At January 1, 2009 (restated)	40,229	7,645	459	1,659	49,992

Depreciation is charged so as to write off the cost of assets over their estimated useful lives, using the straight-line method, on the following rate per annum:

Buildings	3%
Plant and machinery	9%
Transportation vehicles	18%
Fixtures and equipments	18%–33%

As of December 31, 2010 the Group has pledged buildings with carrying amount of approximately RMB33,278,000 (2009: RMB15,300,000) to secure general banking facilities granted to the Group.

17. INTANGIBLE ASSETS

	RMB'000
COST	
At January 1, 2009, December 31, 2009 and 2010	67,199
ACCUMULATED DEPRECIATION	
At January 1, 2009	7,199
Amortization for the year	10,000
At December 31, 2009	17,199
Amortization for the year	10,000
At December 31, 2010	**27,199**
CARRYING AMOUNTS	
At December 31, 2010	**40,000**
At December 31, 2009	50,000
At January 1, 2009	60,000

The intangible assets represent various patents which protect the design and specification in the manufacturing of wastewater treatment equipments. Amortization for the patents is provided on a straight-line basis over their estimated useful lives ranging from 4.5 to 9.5 years.

18. LAND USE RIGHTS

	RMB'000
COST	
At January 1, 2009, December 31, 2009 and 2010	49,921
ACCUMULATED DEPRECIATION	
At January 1, 2009	993
Charge for the year	1,158
At December 31, 2009	2,151
Charge for the year	1,158
At December 31, 2010	**3,309**
CARRYING AMOUNTS	
At December 31, 2010	**46,612**
At December 31, 2009	47,770
At January 1, 2009	48,928

18. LAND USE RIGHTS (Cont'd)

	December 31, 2010 RMB'000	December 31, 2009 RMB'000	January 1, 2009 RMB'000
Analyzed for reporting purpose as:			
— Current asset	**1,158**	1,158	1,158
— Non-current asset	**45,454**	46,612	47,770
	46,612	47,770	48,928

The amount represents the prepayment of rentals for land use rights situated in the PRC. The leasehold land has lease terms ranging from 43 to 47 years.

As of December 31, 2010, the Group has pledged land use rights with carrying amount of approximately RMB2,391,000 (2009: RMB2,454,000) to secure general banking facilities granted to the Group.

19. GOODWILL

	RMB'000
COST	
Balance as at January 1, 2009, December 31, 2009 and 2010	41,395

Goodwill has been allocated to the cash-generating unit of Beijing Hi-Standard in equipment fabrication segment.

The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired. The recoverable amount of the cash generating unit is determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates and expected order book secured and direct costs during the forecasted period. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the cash generating unit. Order book secured and direct costs are estimated based on past practices and expectations of future changes in the market.

The value in use calculation uses cash flow forecasts derived from the most recent financial forecasts approved by the management for the next five years, and discount rate of 8% (2009: 8%) as of December 31, 2010. No growth rate is extrapolated beyond the 5-year forecasted period.

During the years ended December 31, 2009 and 2010, management of the Group determines that there are no impairments of Beijing Hi-Standard. Management believes that any reasonably possible change in any of these assumptions would not cause the carrying amount of Beijing Hi-Standard to exceed its recoverable amount.

20. INTEREST IN AN ASSOCIATE

	December 31, 2010 RMB'000	December 31, 2009 RMB'000	January 1, 2009 RMB'000
Unquoted equity investments, at cost	**2,000**	2,000	2,000
Share of post-establishment profits	**547**	561	540
	2,547	2,561	2,540

Name of associate	Country of establishment and operation	The Group's equity interest and voting power held 2010 %	2009 %	Principal activity
Shanghai Chenghuan Water Operation Co., Ltd	The PRC	**20**	20	Management and operations of wastewater treatment plants

The summarized financial information of the associate is set out below:

	2010 RMB'000	2009 RMB'000
Total assets	**13,857**	17,163
Total liabilities	**(1,123)**	(4,358)
Net assets	**12,734**	12,805
The Group's share of an associate's net assets	**2,547**	2,561
Revenue	**5,453**	34,233
(Loss) profit for the year	**(70)**	105
The Group's share of an associate's net assets	**(14)**	21

21. SERVICE CONCESSION RECEIVABLES

	December 31, 2010 RMB'000	December 31, 2009 RMB'000 (Restated)	January 1, 2009 RMB'000 (Restated)
Service concession receivables	**674,538**	415,747	230,158
Less: Amounts due within one year shown under current assets	**(9,420)**	—	—
Service concession receivables	**665,118**	415,747	230,158

Service concession receivables arose from the service concession contracts to build and operate wastewater treatment and recycling water plants. The Group is the operator under certain build-operate-transfer arrangements. With respect to the contracts, the Group has evaluated and assessed that such contracts come under the scope of IFRIC 12 Service Concession Arrangements. Service concession receivables were recognized to the extent that the Group has an unconditional contractual right to receive cash from or at the direction of the grantor for the construction services.

22. DEFERRED TAXATION

The deferred tax assets/liabilities recognized by the Group, and the movements thereon are as follows:

	Allowance for doubtful debt RMB'000	Undistributed profits of the PRC subsidiaries RMB'000	Fair value adjustment arising from acquisition of a subsidiary RMB'000	Service concession receivables RMB'000	Others RMB'000	Total RMB'000
At January 1, 2009 (restated)	2,935	(2,000)	(14,222)	(20)	—	(13,307)
Credit (charge) to profit or loss	4,264	(2,500)	1,647	(2,414)	173	1,170
At December 31, 2009 (restated)	7,199	(4,500)	(12,575)	(2,434)	173	(12,137)
Credit (charge) to profit or loss	—	(8,625)	1,596	(5,046)	—	(12,075)
At December 31, 2010	**7,199**	**(13,125)**	**(10,979)**	**(7,480)**	**173**	**(24,212)**

22. DEFERRED TAXATION (Cont'd)

The following is the analysis of the deferred tax balances for financial reporting purposes:

	December 31, 2010 RMB'000	December 31, 2009 RMB'000 (Restated)	January 1, 2009 RMB'000 (Restated)
Deferred tax assets	**7,372**	7,372	2,935
Deferred tax liabilities	**(31,584)**	(19,509)	(16,242)
	(24,212)	(12,137)	(13,307)

As at December 31, 2010, the Group has unused tax losses of RMB26,024,000 (2009: RMB2,172,000) available for offset against future profits. No deferred tax asset has been recognized in respect of those tax losses due to the unpredictability of future profit streams. The tax losses of RMB20,072,000 (2009: nil) at December 31, 2010 has no expiry date and the remainder will be expired as follows:

	2010 RMB'000	2009 RMB'000
2013	**1,224**	1,224
2014	**948**	948
2015	**3,780**	—
	5,952	2,172

Under the EIT Law, withholding tax is imposed on dividends declared to foreign investors in respect of profit earned by PRC subsidiaries from January 1, 2008 onward, deferred taxation has been provided for in the consolidated financial statements in respect of profits of relevant PRC subsidiaries to be distributed estimated by the directors of the Company. Meanwhile, deferred tax liabilities on the undistributed profits of the PRC subsidiaries of approximately RMB614,043,000 (2009: RMB414,269,000) which was earned after January 1, 2008, have not been recognized as of December 31, 2010, because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

23. INVENTORIES

	December 31, 2010 RMB'000	December 31, 2009 RMB'000	January 1, 2009 RMB'000
Raw materials	**9,638**	11,518	10,275
Work in progress	**2,418**	25	10,505
Finished goods	**—**	—	1,083
	12,056	11,543	21,863

24. AMOUNTS DUE FROM/TO CUSTOMERS FOR CONTRACT WORK

	December 31, 2010 RMB'000	December 31, 2009 RMB'000 (Restated)	January 1, 2009 RMB'000 (Restated)
Contracts in progress at reporting date:			
Amounts due from customers for contract work	**337,651**	227,089	237,233
Amounts due to customers for contract work	**(9,611)**	(24,264)	(24,311)
	328,040	202,825	212,922
Contract costs incurred plus recognized profits less recognized losses	**2,276,370**	1,797,547	1,143,862
Less: Progress billings	**(1,948,330)**	(1,594,722)	(930,940)
	328,040	202,825	212,922

The amounts due from/to customers for contract work are all related to construction contracts in turnkey projects.

25. TRADE AND OTHER RECEIVABLES

The following is an analysis of trade and other receivables at the end of reporting period:

	December 31, 2010 RMB'000	December 31, 2009 RMB'000 (Restated)	January 1, 2009 RMB'000 (Restated)
Trade receivables	**701,477**	413,054	442,231
Allowance for doubtful debts	**(47,995)**	(47,995)	(19,569)
	653,482	365,059	422,662
Bills receivables	**51,506**	20,962	32,530
Bid and compliance deposits	**19,694**	4,777	21,267
Advance payments to suppliers and subcontractors	**45,389**	17,573	18,439
Other receivables	**29,259**	13,412	11,296
Service concession receivables	**9,420**	—	—
Total	**808,750**	421,783	506,194

The table below is an analysis of trade receivables net of allowance for doubtful debts and bills receivables based on invoice issuance date:

	2010 RMB'000	2009 RMB'000
Trade receivables:		
Within 90 days	**310,288**	174,551
91–180 days	**128,149**	34,823
181 days–1 year	**195,470**	46,445
1 to 2 years	**19,575**	92,703
2 to 3 years	—	16,537
	653,482	365,059
Bills receivables:		
Within 180 days	**51,506**	20,962

The Group has a policy of allowing trade customers with credit normally within 90 days except for construction project for which settlement is made in accordance with the terms specified in the contracts governing the relevant transactions. Overdue balances are reviewed regularly by the Group's management.

25. TRADE AND OTHER RECEIVABLES (Cont'd)

Included in the Group's trade receivables are debtors with a carrying amount of RMB89,183,000 (2009: RMB128,450,000) as of December 31, 2010 which were overdue for which the Group has not provided for impairment loss as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances.

Aging of trade receivables past due but not impaired

	2010 RMB'000	2009 RMB'000
91–180 days	**8,816**	8,230
181 days–1 year	**60,792**	43,238
1 to 2 years	**19,575**	60,445
2 to 3 years	**—**	16,537
	89,183	128,450

As of December 31, 2010, trade receivables with carrying amount of approximately RMB136,460,000 (2009: RMB85,050,000) have been pledged as collateral for the short-term borrowings of RMB60,000,000 (2009: RMB50,000,000).

As of December 31, 2010, bills receivables with carrying amount of approximate RMB11,818,000 (2009: nil) have been pledged as collateral for the bills payables of RMB11,818,000 (2009: nil).

Movement in allowance for doubtful debts:

	2010 RMB'000	2009 RMB'000
Balance at beginning of year	**47,995**	19,569
Charge to profit or loss	**—**	28,426
Balance at end of year	**47,995**	47,995

In determining the recoverability of trade receivables, the Group considers any change in the credit quality of the trade receivables from the date credit was initially granted up to the reporting date. The above allowance was mainly provided for based on estimated irrecoverable amounts arising from construction contracts, determined by reference to past default experience. The Group reviews the recoverable amount of each individually significant debt at each reporting date to ensure that adequate impairment losses are made for irrecoverable amounts.

26. BANK BALANCES AND CASH

Bank balances and cash comprise cash and short-term deposits with an original maturity of three months or less which are held with financial institutions and carry interest at prevailing market rate at 0.36% (2009: from 0.05% to 0.36%) per annum as of December 31, 2010.

Bank balances and cash were mainly denominated in RMB which is not a freely convertible currency in the international market. The exchange rate of RMB is determined by the Government of the PRC and the remittance of these funds out of the PRC is subject to exchange restrictions imposed by the Government of the PRC.

Bank balances and cash that are denominated in currency other than the functional currency are set out below:

	December 31, 2010 RMB'000	December 31, 2009 RMB'000
Singapore Dollar ("S$")	**766**	1,358
United States dollar ("US$")	**247,046**	11,697

Restricted bank balances

As of December 31, 2010, bank balances of certain subsidiaries of RMB92,446,000 (2009: RMB36,285,000) have been pledged to financial institutions in respect of letters of guarantees issued to certain subsidiaries to secure construction contracts. The bank balances bear fixed interest at 0.36% (2009: 0.36%) per annum as of December 31, 2010. The restricted bank balances will be released upon the settlement of relevant contracts.

As of December 31, 2010, bank balances of the Group of RMB222,280,000 (2009: RMB35,923,000) were pledge to financial institutions in respect of banking facilities provided to the Group. These bank balances bear fixed interest at 0.36% (2009: 0.36%) per annum as of December 31, 2010.

The restricted bank balances that are denominated in currency other than the functional currency are set out below:

	December 31, 2010 RMB'000	December 31, 2009 RMB'000
S$	**23,054**	35,923
US$	**286,785**	—

27. TRADE AND OTHER PAYABLES

The credit terms of trade payables vary according to the terms agreed with different suppliers. The following is an aged analysis of trade payables based on invoice issuance date at the respective reporting dates:

	December 31, 2010 RMB'000	December 31, 2009 RMB'000 (Restated)	January 1, 2009 RMB'000 (Restated)
Trade payables			
Within 90 days	**254,660**	218,062	166,609
91 days to 180 days	**147,593**	104,120	102,418
181 days to 1 year	**81,784**	46,511	68,658
1 to 2 years	**48,242**	120,499	72,573
2 to 3 years	**40,473**	11,541	15,882
More than 3 years	**8,459**	9,358	—
	581,211	510,091	426,140
Other payables	**33,186**	25,902	16,270
Interest payables	**17,259**	1,278	1,837
Bid and compliance deposits	**13,034**	12,468	13,490
Advance from customer	**77,402**	3,028	5,734
Bills payables	**11,818**	28,266	—
Value added tax payables	**57,544**	53,335	32,140
Business tax payables	**91,468**	67,969	47,712
Other tax payables	**3,492**	3,131	1,639
	886,414	705,468	544,962

The table below is an analysis of bills payables as at the reporting date:			
Within 180 days	**11,818**	28,266	—

Trade payables principally comprise amounts outstanding for trade purchases and ongoing costs.

28. BORROWINGS

	December 31, 2010 RMB'000	December 31, 2009 RMB'000 (Restated)	January 1, 2009 RMB'000
Secured bank borrowings *(note i)*	**332,000**	195,800	351,615
Unsecured bank borrowings	**124,200**	29,200	40,047
Other borrowings *(note ii)*	**215,096**	2,000	—
	671,296	227,000	391,662
Carrying amount repayable:			
Within one year	**430,200**	178,700	391,662
More than one year, but not exceeding two years	**36,793**	6,000	—
More than two years but not more than five years	**99,103**	39,100	—
More than five years	**105,200**	3,200	—
	671,296	227,000	391,662
Less: Amounts due within one year shown under current liabilities	**(430,200)**	(178,700)	(391,662)
	241,096	48,300	—

The borrowings comprise:

	2010 RMB'000	2009 RMB'000
Fixed-rate borrowings	**100,000**	94,700
Variable-rate borrowings *(note iii)*	**571,296**	132,300
	671,296	227,000

28. BORROWINGS (Cont'd)

The effective interest rates per annum, which are also equal to contracted interest rates, at the respective reporting dates, are as follows:

	2010	2009
Borrowings	**4.374~ 7.680%**	4.617~ 8.217%

Note:

(i) As of December 31, 2010, bank borrowings of approximately RMB60,000,000 were mortgaged by certain buildings and land use rights of the Group. Bank borrowings of approximately RMB180,000,000 were secured by the restricted bank balances of the Group. Bank borrowings of approximately RMB60,000,000 were pledged by certain trade receivables of the Group. Bank borrowings of approximately RMB32,000,000 were secured by Xi'an Qinqing's 30 years' charging right under the service concession contract.

A s of December 31, 2009, bank borrowings of approximately RMB23,500,000 were mortgaged by certain buildings and land use rights of the Group and Beijing Sound Environmental Technology Co., Ltd ("Sound Enviro Tech"), a fellow subsidiary. Bank borrowings of approximately RMB50,000,000 were pledged by certain trade receivables of the Group and personal guarantee of Mr.Wen Yibo, an executive director of the Company. Bank borrowings of approximately RMB40,000,000 were pledged with bank balances and personal deposits of Mr.Wen Yibo. Bank borrowings of approximately RMB16,300,000 were secured by Guangxi Liqing's 8 years' charging rights under the service concession contract and of approximately RMB35,000,000 were secured by Xi'an Qinqing's 30 years' charging right under the service concession contract and personal guarantee of Mr. Wen Yibo and his wife. Bank borrowings of approximately RMB31,000,000 were pledged with bank balances.

(ii) Other borrowings of approximately RMB215,096,000 denominated in US$ as at December 31, 2010 were advanced from International Finance Corporation which were secured by the equity interest in certain subsidiaries. The interest rate was 3.5% above the relevant LIBOR interest rate. Meanwhile, other borrowings as at December 31, 2009 included advance from a third party of RMB2,000,000 at fixed rate of 5.80 % per annum.

(iii) The interest rates of variable-rate borrowings for the Group were varied according to the loan interest published by the People's Bank of China or LIBOR.

29. SHARE CAPITAL

Issued and fully paid	Number of shares	RMB'000
At January 1, 2009, December 31, 2009 and 2010	1,290,000,000	833,368

The Company has one class of ordinary shares with no par value and carry no right to fixed income.

30. CONVERTIBLE LOAN NOTES

The Company issued RMB885 million, 6% convertible loan notes on September 15, 2010. The convertible loan notes entitle the holders to convert them into ordinary shares of the Company (unless previously redeemed, converted or purchased and cancelled) at any time on or after October 25, 2010 up to the close of business on September 8, 2015 at a conversion price (subject to adjustments) of S$0.924 per share, translated to RMB4.639 per share at fixed exchange rate. Unless previously redeemed, purchased or cancelled, the convertible loan notes will be redeemed on September 15, 2015. Interest of 6% will be paid semi-annually with the first interest payment date falling on March 15, 2011.

On or at any time after September 15, 2013, the Company may redeem all but not some of the convertible loan notes at a redemption price equivalent to RMB principal amount together with interest accrued on that date on some conditions (as defined in the Terms and Conditions of the Bonds in the Offering Circular dated September 10, 2010 (the "Offering Circular")). Meanwhile, the holders will have a right to require the Company to redeem the loan notes at a redemption price equivalent to RMB principal amount together with interest accrued on that date following the occurrence of relevant event (as defined in the Offering Circular).

The convertible loan notes contain two components, liability and equity elements. The equity element is presented in equity heading "convertible loan note reserve". The transaction costs of RMB25,435,000 are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. The effective interest rate of the liability component is 9% per annum. The movement of the liability component of the convertible loan notes for the year is set out below:

	2010 RMB'000	2009 RMB'000
Issuance of convertible loan notes	**779,889**	—
Interest charge *(Note 9)*	**20,477**	—
Carrying amount at the end of the year	**800,366**	—
Less: Amounts due within one year included in other payables shown under current liabilities	**(15,488)**	—
	784,878	—

31. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance. The Group's overall strategy remains unchanged for the year ended December 31, 2010.

The capital structure of the Group consists of debt, which includes the borrowings, convertible bond notes and equity attributable to owners the Company, comprising share capital, retained earnings and other reserves.

The Group's management reviews the capital structure on an on-going basis. As part of the review, the management considers the cost of capital and the risks associated with each class of capital. The Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

32. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2010 RMB'000	2009 RMB'000
Financial assets		
Loan and receivables		
Service concession receivables	**674,538**	415,747
Trade receivables	**653,482**	365,059
Bills receivables	**51,506**	20,962
Bid and compliance deposits	**19,694**	4,777
Other receivables	**29,259**	13,412
Restricted bank balances	**314,726**	72,208
Bank balances and cash	**2,027,352**	1,237,698
Total	**3,770,557**	2,129,863
Financial liabilities at amortized cost		
Trade payables	**581,211**	510,091
Other payables	**33,186**	25,902
Interest payables	**17,259**	1,278
Bid and compliance deposits	**13,034**	12,468
Bills payables	**11,818**	28,266
Borrowings	**671,296**	227,000
Convertible loan notes	**784,878**	—
Total	**2,112,682**	805,005

32. FINANCIAL INSTRUMENTS (Cont'd)

Financial risk management objectives and polices

The Group's major financial instruments include trade and other receivables, service concession receivables, trade and other payables, borrowings, convertible loan notes, restricted bank balances, bank balances and cash. Details of these financial instruments are disclosed in the respective notes.

The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner. The Group's objectives, policies and processes managing the risk and the methods used to measure the risk remains unchanged during the year December 31, 2010.

Credit risk

The Group's maximum exposure to credit risk which will cause a financial loss due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognized financial assets as stated in the consolidated statement of financial position at the respective reporting dates.

In order to minimize the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. The amounts presented in the statements of financial position are net of allowances for doubtful receivables, if any, estimated by the Company's management based on prior experience and the current economic environment. The Group reviews the recoverable amount of each individual debt at each reporting date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group's credit risk primarily relates to the Group's trade and other receivables, service concession receivables and bank balances. There is concentration of credit risk as the top five biggest customers account for approximately 26% (2009: 49%) of the carrying amounts of trade receivables as of December 31, 2010. The management of the Group generally grants credit only to customers with good credit ratings and also closely monitors overdue trade debts. The recoverable amount of each individual trade receivables is reviewed at each reporting date and adequate impairment for doubtful debts has been made for irrecoverable amounts. In this regard, the management of the Group considers that the credit risk associated with the Group's trade receivable is significantly reduced.

32. FINANCIAL INSTRUMENTS (Cont'd)

Credit risk (Cont'd)

The Group is also exposed to the concentration of credit risk on its service concession receivables. The directors of the Company consider the associated credit risk is low as the corresponding grantors are all government bodies in the PRC, who either pay or guarantee the payment to the Group.

The credit risk in relation to the Group's bank balances is not significant as the corresponding banks are reputable banking institutions.

Market risk

The Group's activities expose primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Group currently does not have a foreign currency hedging policy. Management monitors risks associated with changes in foreign currency exchange rates and interest rates and will consider hedging significant foreign currency exchange rates or interest rates exposure should the need arises.

Foreign currency risk management

The Group undertakes certain financing and treasury transactions in foreign currencies. Hence, exposures to exchange rate fluctuations arise.

The carrying amounts of foreign currency denominated monetary assets of restricted bank balances and bank balances and cash and monetary liabilities of borrowings at the reporting date are as follows:

	Liabilities		Assets	
	2010	2009	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000
S$	—	—	**23,820**	37,281
US$	**215,096**	—	**533,831**	11,697

32. FINANCIAL INSTRUMENTS (Cont'd)

Market risk (Cont'd)

Foreign currency risk management (Cont'd)

Sensitivity analysis

The following table details the sensitivity to a 10% increase and decrease in functional currency against the relevant foreign currency. 10% is the sensitivity rate used and represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. A negative number below indicates a decrease in profit where functional currency strengthens 10% against the relevant currency. For a 10% weakening of the functional currency against the relevant currency, there would be an equal and opposite impact on the profit or loss and the amounts below would be positive.

	S$		US$	
	2010	2009	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Profit for the year	**(2,382)**	(3,728)	**(31,874)**	(1,170)

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the reporting period.

Interest rate risk

The Group are mainly exposed to fair value interest rate risk in relation to its fixed-rate borrowings and convertible loan notes (see Note 28 and Note 30 for details). The Group is also exposed to cash flow interest rate risk in relation to its variable-rate borrowing and bank balances which carry prevailing market interest rates.

The Group also aims at keeping its fixed-rate borrowings on a short-term basis so as to minimize the interest rate risk. In order to achieve this result, most borrowings made by the Group are within one year period. The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arises.

32. FINANCIAL INSTRUMENTS (Cont'd)

Market risk (Cont'd)

Interest rate risk (Cont'd)

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the reporting date. The sensitivity analyses below have been determined based on the exposure to interest rates for variable interest rate borrowings. Bank balances are excluded from the sensitivity analyses since they are not sensitive to fluctuation in interest rate. The analysis is prepared assuming the variable interest rate borrowings outstanding at the reporting date were outstanding for the whole year. A 50 basis point increase or decrease represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been increased/decreased by 50 basis points and all other variables were held constant, the Group's profit for the year would decrease/increase by approximately RMB2,363,000 (2009: RMB560,000) for the year ended December 31, 2010.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilization of borrowings and ensures compliance with loan covenants.

The following table details the remaining contractual maturity for non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. To the extent that interest flows are variable-rate, the undiscounted amount is derived from interest rate curve at the end of reporting period.

32. FINANCIAL INSTRUMENTS (Cont'd)

Liquidity risk (Cont'd)

	Weighted average interest rate %	Within one year RMB'000	1-5 years RMB'000	Over 5 years RMB'000	Total undiscounted cash flow RMB'000	Carrying amount RMB'000
As of December 31, 2010						
Trade payables		581,211	—	—	581,211	581,211
Other payables		33,186	—	—	33,186	33,186
Interest payables		17,259	—	—	17,259	17,259
Convertible loan notes	9.00	37,613	1,097,400	—	1,135,013	784,878
Bid and compliance deposits		13,034	—	—	13,034	13,034
Notes payables		11,818	—	—	11,818	11,818
Borrowings						
Fixed-rate	5.15	102,564	—	—	102,564	100,000
Variable-rate	5.40	350,954	176,332	113,267	640,553	571,296
Total		1,147,639	1,273,732	113,267	2,534,638	2,112,682

	Weighted average interest rate %	Within one year RMB'000	1-5 years RMB'000	Over 5 years RMB'000	Total undiscounted cash flow RMB'000	Carrying amount RMB'000
As of December 31, 2009						
Trade payables		510,091	—	—	510,091	510,091
Other payables		25,902	—	—	25,902	25,902
Interest payables		1,278	—	—	1,278	1,278
Bid and compliance deposits		12,468	—	—	12,468	12,468
Notes payables		28,266	—	—	28,266	28,266
Borrowings						
Fixed-rate	5.31	95,390	—	—	95,390	94,700
Variable-rate	5.32	89,531	53,215	3,278	146,024	132,300
Total		762,926	53,215	3,278	819,419	805,005

32. FINANCIAL INSTRUMENTS (Cont'd)

Fair value

The fair value of financial assets and financial liabilities are determined as follows:

- The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using rates from observable current market transactions as input.

Except as detailed in the following table, the directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortized cost in the consolidated financial statements approximate their fair values:

	2010		2009	
	Carring amount RMB'000	Fair value RMB'000	Carrying amount RMB'000	Fair value RMB'000
Financial liabilities				
Convertible loan notes				
(Liability component)	**784,878**	806,784	—	—

33. OPERATING LEASES COMMITMENTS

The Company as lessee

Lease payment recognized as an expense:

	2010 RMB'000	2009 RMB'000
Minimum lease payments paid under operating recognized as an expense in the year	**2,396**	2,302

33. OPERATING LEASES COMMITMENTS (Cont'd)

The Company as lessee (Cont'd)

At the reporting date, the Group has outstanding commitments under non-cancellable operating leases, which fall due as follows:

	2010 RMB'000	2009 RMB'000
Within one year	**1,419**	1,553
In the second to fifth years inclusive	**1,421**	1,562
	2,840	3,115

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for lease terms of one to two years and rentals are fixed for lease terms of one to two years.

34. RETIREMENT BENEFIT PLANS

The Group's full-time employees in the PRC and Singapore are respectively covered by a government-sponsored defined contribution pension scheme and a comprehensive social security savings plan, which includes a retirement scheme. The employees are entitled to a monthly pension from their retirement dates. The PRC Government and Singapore Government are responsible for the pension liability to these retired employees. The Group is required to make annual contributions to the retirement plans of a prescribed amount of employees' salaries, which are charged as an expense when the employees have rendered services entitling them to the contributions.

During the year ended December 31, 2010, the total amounts contributed by the Group to the schemes and charged to profit or loss represent contributions payable to the schemes by the Group at rates specified in the rules of the schemes and are as follows:

	2009 RMB'000	2010 RMB'000
Contribution to defined contribution plan	**4,446**	3,529

As of December 31, 2010, the contribution due in respect of the year that had not been paid to the schemes is RMB92,600 (2009: RMB100,000).

35. SHARE-BASED PAYMENT TRANSACTIONS

Existing Share Option Scheme

The Company's existing share option scheme (the "Existing Share Option Scheme"), was adopted pursuant to a resolution passed on April 30, 2010 for the primary purpose of providing an opportunity for employees and directors (including non-executive and independent directors) of the Group to participate in the equity of the Company so as to motivate them to greater dedication and higher standards of performance, and to give recognition to past contribution and services. Under the Existing Share Option Scheme, the Board of Directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company. At December 31, 2010, the number of shares in respect of which options had been granted under the Existing Share Option Scheme was 64,500,000 (2009: nil), representing 5% (2009: nil) of the shares of the Company in issue at that date. The total number of shares in respect of which options may be granted under the Existing Share Option Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Persons who are controlling shareholders (being persons who directly or indirectly have an interest of 15% of the Company's issued share capital) or their associates shall not participate in the Existing Share Option Scheme unless their participation and the actual number of shares to be issued to them and the terms of any options to be granted to them, have been approved by independent shareholders of the Company in general meeting by way of a separate resolution for each such person.

All the options under the Existing Share Option Scheme were granted on July 23, 2010 at a consideration of S$1 paid by each grantee and will be valid for 5 years from the date of grant. The options may be exercised after the first anniversary of the offering date of that option, provided always that the options shall be exercised before the fifth anniversary of the relevant offering date or such earlier date as may be determined by the committee appointed by the Board to administer the Existing Share Option Scheme. The exercise price for each share in respect of which a market price option is exercisable shall be fixed by the committee as the price equal to the average of the last dealt price(s) for a share, for the last five market days immediately preceding the offering date of that option ("Market Price"). The exercise price for each share in respect of which a discount price option is exercisable shall be determined by the committee at its absolute discretion, and fixed by the committee at a price which is set at a discount to the Market Price, provided that the maximum discount shall not exceed 20% of the Market Price (or such other percentage or amount as may be prescribed or permitted for the time being by the SGX).

35. SHARE-BASED PAYMENT TRANSACTIONS (Cont'd)

Existing Share Option Scheme (Cont'd)

Details of the options are as follows:

	Date of grant	Vesting period	Exercise period	Exercise price
July 2010	July 23, 2010	July 23, 2010 to July 22, 2014	July 23, 2011 to July 22, 2015	S$0.745

Upon the participant ceasing to be in the full-time employment of the Group, the options shall, to the extent unexercised, immediately lapse. The exercise of the option granted under the Existing Share Option Scheme is also subject to the following conditions:

(a) the options will be exercisable in four equal tranches, commencing one year from the date of grant and on each anniversary of the date of grant up to the fifth anniversary;

(b) the increase in profit after tax for each of the financial years ended/ending December 31, 2010, 2011, 2012 and 2013 must be at least 15.0%, excluding all exceptional items; and

(c) the compounded growth rate for profit after tax, based on profit after tax for the financial year ended December 31, 2009, must be at least 25% for each of the financial years ended/ending December 31, 2010, 2011, 2012 and 2013, excluding all exceptional items.

Movements in the share option in the year ended December 31, 2010 are as follows:

	Outstanding at January 1, 2010	Granted during 2010	Forfeited during 2010	Outstanding at December 31, 2010
Options granted as at July 23, 2010	—	64,500,000	(6,196,000)	58,304,000
Exercisable at the end of the year				nil
Weighted average exercise price	—	S$ 0.745	S$ 0.745	S$ 0.745

During the year ended December 31, 2010, the option was granted on July 23, 2010, with estimated fair values of S$14,564,000 (equivalent to RMB71,885,000).

35. SHARE-BASED PAYMENT TRANSACTIONS (Cont'd)

Existing Share Option Scheme (Cont'd)

The fair value was calculated using the Binominal model. The inputs into the model were as follows:

	2010
Fair market value per share at valuation date	S$0.750
Exercise price	S$0.745
Expected volatility	40.4%
Contractual life	5 years
Risk-free rate	0.959%
Expected dividend yield	1.55%

Expected volatility was determined with reference to the historical price volatility data from the date of valuation back to the period equal to the life of option. As the Company has a trading history shorter than the life of option and thus, the calculation of volatility is based on the longest available historical pricing data.

Risk-free rate was determined based on the yield to maturity of Singapore Government Bond as at the grant date of the option.

The Group recognised the total expense of RMB12,479,000 for the year ended December 31, 2010 in relation to the share option granted by the Company.

The number of the share options granted expected to vest has been reduced to reflect directors' best estimation of the options granted prior to completion of vesting period and accordingly the share option expense has been adjusted.

The Binomial model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

36. RELATED PARTY TRANSACTIONS

(a) During the year, the Group entered into the following significant transactions with related parties except for those already disclosed in other notes:

	2010 RMB'000	2009 RMB'000
Revenue from construction contracts		
Fellow subsidiaries:		
Baotou Lucheng Water Co., Ltd ("Baotou Lucheng")	**16,447**	5,134
Daye Qingbo Water Co., Ltd ("Daye Qingbo")	**264**	8,283
E'zhou Eqing Environmental Engineering Co., Ltd. ("E'zhou Eqing")	**—**	2,864
Jiayu Jiaqing Water Co., Ltd. ("Jiayu Jiaqing")	**25,516**	30,769
Jingmen Xiajiawan Water Co., Ltd ("Jingmen Xiajiawan")	**1,372**	5,682
Jingzhou Jingqing Water Co., Ltd ("Jingzhou Jingqing")	**2,753**	14,618
Tongliao Bibo Water Co., Ltd ("Tongliao Bibo")	**15,713**	3,104
Xianning Ganyuan Water Co., Ltd ("Xianning Ganyuan")	**3,554**	2,500
Hubei Jichu Water Co., Ltd ("Hubei Jichu")	**—**	12,000
	65,619	84,954
Associate of a fellow subsidiary:		
Tianmen Huangjin Wastewater Treatment Co., Ltd ("Tianmen Huangjin")	**34,685**	—
Revenue from sales of goods		
Fellow subsidiaries:		
Beijing Xiaojiahe Wastewater Treatment Engineering Co., Ltd ("Beijing Xiaojiahe")	**—**	48
Nanchang Xianghu Water Co., Ltd ("Nanchang Xianghu")	**—**	442
Xianning Ganyuan	**69**	2
E'zhou Eqing	**7**	—
Tongliao Bibo	**38**	—
	114	492
Revenue from design service		
Fellow subsidiary:		
Jingmen Xiajiawan	**2,124**	—

The terms for the above transactions are negotiated and mutually agreed between the respective parties.

36. RELATED PARTY TRANSACTIONS (Cont'd)

(b) At the reporting date, the Group had the following balances with related parties:

	2010 RMB'000	2009 RMB'000
Trade receivables		
Fellow subsidiaries:		
Baotou Lucheng	5,134	—
E'zhou Eqing	—	22,313
Hubei Jichu	2,727	4,900
Huzhou Zheqing Water Co., Ltd	—	4,513
Jingzhou Jingqing	15,634	1,405
Nanchang Xianghu	98	298
Tongliao Bibo	44	15,100
Xianning Ganyuan	2,002	703
Beijing Xiaojiahe	56	156
	25,695	49,388
Associate of a fellow subsidiary:		
Tianmen Huangjin	20,340	—
Trade payables		
Fellow Subsidiary:		
Beijing Sound Enviro	2	—
Amounts due from customers for contract work		
Fellow subsidiaries:		
Daye Qingbo	984	676
Jingzhou Jingqing	—	11,447
Tongliao Bibo	—	13,400
Hubei Jichu	—	1,200
Jiayu Jiaqing	6,753	—
Baotou Lucheng	438	—
Jingmen Xiajiawan	938	—
	9,113	26,723
Associate of a fellow subsidiary:		
Tianmen Huangjin	3,469	—
Amounts due to customers for contract work		
Fellow subsidiaries:		
Jiayu Jiaqing	—	14,869
Jingmen Xiajiawan	—	2,949
Xianning Ganyuan	—	1,510
Xiangfan Hanshui Qingyi Water Co., Ltd	—	1,219
	—	20,547

36. RELATED PARTY TRANSACTIONS (Cont'd)

(c) Compensation of key management personnel

The emoluments of key management during the year including the directors disclosed in Note 12 were as follows:

	2010 RMB'000	2009 RMB'000
Wages and salaries	**2,296**	1,655
Contributions to defined contribution plan	**230**	142
Share-based payments	**2,967**	—
	5,493	1,797

(d) Finance arrangement

No guarantee was provided by related parties as at December 31, 2010. Details of guarantees as at December 31, 2009 in respect of borrowings provided by related parties are set out in Note 28.

36. RELATED PARTY TRANSACTIONS (Cont'd)

(e) At the reporting date, the Group had the following balances with related parties:

	2010 RMB'000	2009 RMB'000	Maximum balances during the year 2010 RMB'000
Other receivables			
Directors			
Yan Xiaolei	—	14	**14**
Wen Yi Bo	**50**	50	**50**
	50	64	**64**

	2010 RMB'000	2009 RMB'000
Fellow subsidiaries		
Beijing Lv'meng	—	2,700
Tongliao Bibo	—	300
Sound Water	**1,440**	—
	1,440	3,000
Other payables		
Fellow subsidiaries		
Beijing Sound Enviro	—	1,767
Sound Water	**388**	—
Tongliao Bibo	**368**	—
	756	1,767

The above amounts due to and from related parties are interest-free, unsecured and repayable on demand.

36. RELATED PARTY TRANSACTIONS (Cont'd)

(f) Others

1) Licensing of trademarks

Since 2002, the Group (previously being registered owner of certain trademarks) uses its trademarks for its water and wastewater treatment business. These trademarks are also used by Beijing Sound Enviro for its investments in environmental protection and its subsidiary, by Beijing Sound Water Technology Co., Ltd. for the processing of purified drinking water at no consideration before March 2006.

In March 2006, the Group agreed to transfer the trademarks for free to Beijing Sound Enviro pursuant to a Trademarks Transfer Agreement dated March 23, 2006. Beijing Sound Enviro will in return grant the Group the right to use the trademarks for a period of up to 50 years at nil consideration.

36. RELATED PARTY TRANSACTIONS (Cont'd)

(f) Others (Cont'd)

2) In addition to the above transactions, the Group has entered into sub-contract arrangements with the following main contractors:

Name of main contractor	The project related to the sub-contract (the "Project")	Name of operator of the Project (the "Operator")	Relationship with the Operator
Hubei Gongye Construction Group Co., Ltd ("Hubei Gongye Construction Group")	Hubei Zhushan Wastewater Treatment Plant Construction Project	Hubei Jichu Water Co. Ltd.	Fellow Subsidiary
Xiangfan Shizheng Engineering Group Co., Ltd ("Xiangfan Shizheng")	Xiangfan Guanyinge Wastewater Treatment Plant Construction Project	Xiangfan Hanshui Qingyi Water Co., Ltd.	Fellow Subsidiary
Jingzhou City Construction Group Co., Ltd ("Jingzhou City Construction")	Zhijiang and Hubei Jingzhou Wastewater Treatment Plant Construction Project	Jingzhou Jingqing and Zhijiang Zhiqing Water Co., Ltd.	Fellow Subsidiary
China National Chemical Engineering Co., Ltd ("China Chemical")	Tianmen Pipe Network Construction Project 1	Tianmen Huangjin Wastewater Treatment Co., Ltd	Fellow Subsidiary
Hebei Metallurgical Construction Group Co., Ltd ("Hebei Metallurgical")	Tianmen Pipe Network Construction Project 2	Tianmen Huangjin Wastewater Treatment Co., Ltd	Subsidiary Fellow
China Petroleum and Chemical Construction Co., Ltd ("SINOPEC construction")	Tianmen Pump Station Construction Project	Tianmen Huangjin Wastewater Treatment Co., Ltd	The controlling shareholder has significant influence over the operator

36. RELATED PARTY TRANSACTIONS (Cont'd)

(f) Others (Cont'd)

2) In addition to the above transactions, the Group has entered into sub-contract arrangements with the following main contractors: (Cont'd)

During the year, the Group entered into the following transactions with the above mentioned main contractors:

	2010 RMB'000	2009 RMB'000
Revenue from construction contracts		
Hubei Gongye Construction Group	**2,584**	1,368
Jingzhou City Construction	**—**	5,545
Xiangfan Shizheng	**17,047**	—
China Chemical	**27,977**	—
SINOPEC Construction	**15,355**	—
Hebei Metallurgical	**18,414**	—
	81,377	6,913

36. RELATED PARTY TRANSACTIONS (Cont'd)

(f) Others (Cont'd)

2) In addition to the above transactions, the Group has entered into sub-contract arrangements with the following main contractors: (Cont'd)

At the reporting date, the Group had the following balances with these main contractors:

	2010 RMB'000	2009 RMB'000
Trade receivables		
Hubei Gongye Construction Group	**1,642**	5,151
Xiangfan Shizheng	**2,740**	913
SINOPEC Construction	**14,111**	—
China Chemical	**14,153**	—
Hebei Metallurgica	**11,739**	—
Jingzhou City Construction	**258**	—
	44,643	6,064
Trade payables		
Hubei Gongye Construction Group	**767**	1,284
Amounts due from customers for contract work		
Hubei Gongye Construction Group	**1,410**	1,331
Jingzhou City Construction	**—**	258
SINOPEC Construction	**768**	—
China Chemical	**2,141**	—
Hebei Metallurgica	**1,397**	—
	5,716	1,589
Other receivables		
Jingzhou City Construction	**50**	50

The above mentioned other receivables are interest-free, unsecured and repayable on demand.

37. PARTICULARS OF SUBSIDIARIES

Name of subsidiary	Place of incorporation	Issued and fully paid-up share capital/ registered capital	Equity interest attributable to the Company as at December 31, 2010 Direct %	December 31, 2010 Indirect %	December 31, 2009 Direct %	December 31, 2009 Indirect %	Principal activities
Beijing Sound (*Note i*) 北京桑德環境工程有限公司	The PRC	RMB449,880,000	75	25	75	25	Environmental construction related to water treatment
Beijing Epure 北京伊普國際水務有限公司	The PRC	US$20,000,000	100	—	100	—	Research and development of water treatment technologies and provision of services of technology consultation
Sound International Investment Holdings Limited (“Sound Investment”)	The BVI	US$1	100	—	100	—	Investment holding
Sound International Engineering Ltd. (“Sound International Engineering”)	The BVI	US$1	100	—	100	—	Investment holding
Epure International Engineering Pte. Ltd. (“Epure International Engineering”)	Singapore	S$1	100	—	100	—	Investment holding
Epure Sound Technology 北京伊普桑德環境工程技術有限公司	The PRC	RMB15,000,000	—	100	—	100	Research and development of water treatment technologies and provision of services of technology consultation

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37. PARTICULARS OF SUBSIDIARIES (Cont'd)

Name of subsidiary	Place of incorporation	Issued and fully paid-up share capital/ registered capital	Equity interest attributable to the Company as at December 31, 2010 Direct %	December 31, 2010 Indirect %	December 31, 2009 Direct %	December 31, 2009 Indirect %	Principal activities
Hi-Standard Equipment 北京海斯頓水處理設備有限公司	The PRC	RMB66,000,000	—	100	—	100	Manufacture of wastewater treatment equipment
Xi'an Huqing 西安户清水務有限公司	The PRC	RMB24,000,000	—	100	—	100	Construction, management and operation of the municipal wastewater projects, and sales of treated water
Xi'an Qinqing 西安秦清水務有限公司	The PRC	RMB25,000,000	—	100	—	100	Construction, management and operation of the municipal wastewater projects
Guangxi Liqing 廣西漓清水務有限公司	The PRC	US$5,000,000	—	100	—	100	Construction, management and operation of the municipal wastewater projects
Yiqing Water 韓城市頤清水務有限公司	The PRC	RMB14,200,000	—	100	—	100	Construction, management and operation of the municipal wastewater projects
Shangluo Wastewater *(Note ii)* 商洛污水處理有限公司	The PRC	RMB2,760,000	—	100	—	100	Construction, management and operation of the municipal wastewater projects

37. PARTICULARS OF SUBSIDIARIES (Cont'd)

Name of subsidiary	Place of incorporation	Issued and fully paid-up share capital/ registered capital	Equity interest attributable to the Company as at December 31, 2010 Direct %	December 31, 2010 Indirect %	December 31, 2009 Direct %	December 31, 2009 Indirect %	Principal activities
Yulin Jingzhou *(Note iii)* 榆林市靖州水務有限公司	The PRC	RMB2,280,000	—	100	—	100	Construction, management and operation of the municipal wastewater projects
Jiangyan Jiangyuan 姜堰姜源污水處理有限公司	The PRC	RMB1,458,000,000	—	50.2 *(Note iv)*	—	50.2 *(Note iv)*	Construction, management and operation of the municipal wastewater projects
Fushun Qingxi *(Note v)* 撫順清溪水務有限公司	The PRC	US$13,000,000	—	100	—	100	Construction, management and operation of the municipal wastewater projects
Hainan Baichuan 海南百川水務有限公司	The PRC	RMB5,000,000	—	100	—	100	Construction, management and operation of the municipal wastewater projects
Anyang Mingbo 安陽明波水務有限公司	The PRC	RMB45,000,000	—	100	—	60	Construction, management and operation of the municipal wastewater projects

37. PARTICULARS OF SUBSIDIARIES (Cont'd)

Name of subsidiary	Place of incorporation	Issued and fully paid-up share capital/ registered capital	Equity interest attributable to the Company as at December 31, 2010 Direct %	Indirect %	December 31, 2009 Direct %	Indirect %	Principal activities
Yantai Bihai 煙台碧海水務有限公司	The PRC	RMB38,000,000	—	80	N/A	N/A	Construction, management and operation of the municipal wastewater projects
Daye Honglian 大冶鴻漣水務有限公司	The PRC	RMB3,000,000	—	100	N/A	N/A	Construction, management and operation of the municipal wastewater projects
Fushun Sangyuan 撫順桑遠環境工程有限公司	The PRC	RMB2,000,000	—	100	N/A	N/A	Construction, management and operation of the municipal wastewater projects

Notes:

(i) The registered capital of Beijing Sound is RMB500,000,000, of which RMB449,880,000 has been paid up as at December 31, 2010.

(ii) The registered capital of Shangluo Wastewater is RMB17,800,000, of which RMB2,760,000 has been paid up as at December 31, 2010.

(iii) The registered capital of Yulin Jingzhou is RMB11,400,000, of which RMB2,280,000 has been paid as at December 31, 2010.

(iv) Pursuant to the contract for Chinese-foreign contractual joint venture between the owners of Jiangyan Jiangyuan, the Company has control over Jiangyan Jiangyuan based on the voting procedures for financial and operational decisions and is entitled to 100% of the dividend distributed by such entity.

(v) The registered capital of Fushun Qingxi is US$16,250,000, of which US$13,000,000 has been paid as at December 31, 2010.

FIVE-YEAR FINANCIAL SUMMARY

CONSOLIDATED RESULTS

	For the year ended December 31,				
	2010	2009	2008	2007	2006
	RMB'000	RMB'000 (restated)	RMB'000 (restated)	RMB'000 (restated)	RMB'000
Revenue	**1,765,672**	1,293,476	1,024,808	697,341	505,620
Profit before tax	**349,067**	292,989	232,013	191,081	137,804
Income tax expense	**(59,877)**	(10,236)	(28,313)	(28,680)	(21,527)
Profit for the year	**289,190**	282,753	203,700	162,401	116,277
Attributable to					
Owners of the Company	**289,104**	281,869	203,686	161,173	110,549
Non-controlling interests	**86**	884	14	1,228	5,728
	289,190	282,753	203,700	162,401	116,277

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	December 31,				
	2010	2009	2008	2007	2006
	RMB'000	RMB'000 (restated)	RMB'000 (restated)	RMB'000 (restated)	RMB'000
Total assets	**4,350,298**	2,582,783	2,343,707	1,804,379	1,263,927
Total liabilities	**2,414,043**	990,839	987,147	652,683	565,057
Net assets	**1,936,255**	1,591,944	1,356,560	1,151,696	698,870

SHAREHOLDERS' INFORMATION

Number of shares issued	:	**1,290,000,000**
Issued and fully paid-up capital	:	**SGD175,944,790.22**
Class of shares	:	**ordinary shares**
Voting rights	:	**one vote per share**

As at March 3, 2011, the Company did not hold any treasury shares.

SUBSTANTIAL SHAREHOLDERS (as recorded in the Register of Substantial Shareholders as at March 3, 2011)

Name of Substantial Shareholders	Direct Interest		Deemed Interest	
	No. of Shares	%	No. of Shares	%
Wen Yibo[(1)]	500,000	0.04	584,289,000	45.29
Sound Water (BVI) Limited[(1)]	572,784,000	44.40	—	—
Zhang Huiming[(1)]	—	—	584,289,000	45.29
Tang Lianfang[(1)]	—	—	584,289,000	45.29
Zhang Linmao[(1)]	—	—	584,289,000	45.29
International Finance Corporation[(2)]	103,950,000	8.06	—	—

Notes:

1. (a) Green Capital Holdings Limited is a company incorporated in BVI and is a registered holder of 11,505,000 shares in the capital of the Company. Its shareholders are Tang Lianfang (50%) and Zhang Linmao (50%), who are respectively the mother-in-law and father-in-law of Wen Yibo, the Company's Executive Chairman.

   (b) Sound Water (BVI) Limited is a company incorporated in BVI. Its shareholders are Wen Yibo (90%) and his wife, Zhang Huiming (10%).

   (c) Wen Yibo, Zhang Huiming, Tang Lianfang and Zhang Linmao are deemed to have an interest in the shares held by Green Capital Holdings Limited and Sound Water (BVI) Limited.

2. International Finance Corporation ("IFC") is the private sector arm of the World Bank Group and is owned by its 178 member countries. IFC is involved in promoting private businesses in developing countries by making loans and equity investments, helping companies mobilize financing in the international financial markets, and providing advice and technical assistance to businesses and governments.

FREE FLOAT

As at March 3, 2011, approximately 46.61% of the shareholding in the Company was held in the hands of the public (on the basis of information available to the Company).

Accordingly, the Company has complied with Rule 723 of the Listing Manual of the Singapore Exchange Securities Trading Limited.

STATISTICS OF SHAREHOLDINGS

As at March 3, 2011

DISTRIBUTION OF SHAREHOLDINGS

Size Of Shareholdings	No. of Shareholders	%	No. of Shares	%
1–999	8	0.27	1,169	0.00
1,000–10,000	1,631	55.38	11,033,200	0.86
10,001–1,000,000	1,289	43.77	51,498,000	3.99
1,000,001 and above	17	0.58	1,227,467,631	95.15
Total	**2,945**	**100.00**	**1,290,000,000**	**100.00**

TWENTY LARGEST SHAREHOLDERS

No.	Name	No. of Shares	%
1	HKSCC Nominees Limited	355,116,000	27.53
2	DBS Nominees Pte Ltd	198,833,054	15.41
3	HSBC (Singapore) Nominees Pte Ltd	182,644,025	14.16
4	Citibank Nominees Singapore Pte Ltd	164,644,617	12.76
5	Morgan Stanley Asia (Singapore) Securities Pte Ltd	118,409,994	9.18
6	DBS Vickers Securities (S) Pte Ltd	65,525,000	5.08
7	DBSN Services Pte Ltd	52,111,762	4.04
8	BNP Paribas Securities Services Singapore	21,854,352	1.69
9	United Overseas Bank Nominees Pte Ltd	20,179,000	1.56
10	DB Nominees (S) Pte Ltd	12,787,695	0.99
11	Raffles Nominees (Pte) Ltd	12,391,777	0.96
12	OCBC Securities Private Ltd	10,377,020	0.81
13	UOB Kay Hian Pte Ltd	3,089,000	0.24
14	Merrill Lynch (Singapore) Pte Ltd	2,948,650	0.23
15	CIMB Securities (Singapore) Pte Ltd	2,824,000	0.22
16	Kim Eng Securities Pte. Ltd.	2,356,685	0.18
17	Phillip Securities Pte Ltd	1,375,000	0.11
18	Lim Teck Kiat	750,000	0.06
19	OCBC Nominees Singapore Pte Ltd	694,000	0.05
20	Yeo Seck Kan	500,000	0.04
	Total	**1,229,411,631**	**95.30**

STATISTICS OF BONDHOLDING

As at March 3, 2011

BONDHOLDER OF 6% CONVERTIBLE BONDS DUE 2015

Maturity Date : September 15, 2015

Conversion Price : Initial Conversion Price of S$0.924 per Share. If, on the date that is 12 months after September 15, 2010 (the "Reset Date"), the arithmetic average of the closing prices of the Shares for the 20 consecutive trading days immediately prior to the Reset Date (the "Reset Reference Price") is less than the Initial Conversion Price, the conversion price shall be reset downwards to the Reset Reference Price.

Conversion Premium : 20% above reference share price i.e. S$0.77

Redemption Price : 100% of principal amount on maturity date in USD equivalent

Conversion Period : At any time on or after October 25, 2010 to September 8, 2015

The RMB885 million 6% convertible bond due 2015 issued by Sound Global Ltd on September 15, 2010 (the "2010 CBs") are represented by a Global Certificate registered in name of HSBC Nominees (Hong Kong) Limited, which is a nominee of a Common Depository and holding the bonds on behalf for, Euroclear Bank S.A./ N.V. and Clearstream Banking, société anonyme.

As at March 3, 2011, HSBC Nominees (Hong Kong) Limited, is entered in the register of holders as the holder of the RMB885 million 2010 CBs. The identity of the holders of the beneficial interests in the 2010 CBs is not currently known.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of **SOUND GLOBAL LTD.** (the "**Company**") will be held at 333 Orchard Road, Mandarin Orchard Singapore, Main Tower, Level 5 Grange Ballroom, Singapore 238867 on **Saturday, 30 April 2011** at 10.00 a.m. for the following purposes:

AS ORDINARY BUSINESS

1. To receive and adopt the Directors' Report and Audited Accounts of the Company for the year ended 31 December 2010 together with the Auditors' Report thereon. **(Resolution 1)**

2. To declare a first and final (one-tier tax exempt) dividend of S$0.01 per ordinary share for the year ended 31 December 2010. **(Resolution 2)**

3. To re-elect the following Directors retiring pursuant to the Company's Articles of Association:

   Mr. Wen Yibo as Executive Director (Article 89) **(Resolution 3)**
   Mr. Fu Tao as Independent Non-Executive Director (Article 89) **(Resolution 4)**
   Mr. Wang Kai as Executive Director (Article 88) **(Resolution 5)**
   Mr. Luo Liyang as Executive Director (Article 88) **(Resolution 6)**
   [See Explanatory Note (i)]

4. To approve the payment of Directors' fees of S$104,500/– for the year ended 31 December 2010 (2009: S$126,000/–). **(Resolution 7)**

5. To re-appoint Deloitte & Touche LLP as the Company's Auditors and to authorise the Directors to fix their remuneration. **(Resolution 8)**

6. To transact any other ordinary business which may properly be transacted at an Annual General Meeting.

AS SPECIAL BUSINESS

To consider and if thought fit, to pass the following resolutions as Ordinary Resolutions, with or without any modifications:

7. Authority to allot and issue shares in the capital of the Company — Share Issue Mandate

"That, pursuant to Section 161 of the Companies Act, Cap. 50 and Rule 806 of the Listing Manual of the Singapore Exchange Securities Trading Limited ("SGX-ST") and the Rules Governing the Listing of Securities (the "Listing Rules") of the Stock Exchange of Hong Kong Limited (the "SEHK"), the Directors of the Company be authorized and empowered to:

(A) (i) issue shares in the Company ("shares") whether by way of rights, bonus or otherwise; and/or

(ii) make or grant offers, agreements or options (collectively, "Instruments") that might or would require shares to be issued, including but not limited to the creation and issue of (as well as adjustments to) options, warrants, debentures or other instruments convertible into shares,

at any time and upon such terms and conditions and for such purposes and to such persons as the Directors of the Company shall in their absolute discretion deem fit; and

NOTICE OF ANNUAL GENERAL MEETING

(B) (notwithstanding the authority conferred by this Resolution may have ceased to be in force) issue shares in pursuance of any Instrument made or granted by the Directors while this Resolution was in force,

provided that:

(1) the aggregate number of shares (including shares to be issued in pursuance of the Instruments, made or granted pursuant to this Resolution) and convertible securities to be issued pursuant to this Resolution shall not exceed fifty per cent. (50%) of the total number of issued shares (excluding treasury shares) in the capital of the Company (as calculated in accordance with sub-paragraph (2) below), of which the aggregate number of shares and convertible securities to be issued other than on a pro-rata basis to the shareholders of the Company shall not exceed twenty per cent. (20%) of the total number of issued shares (excluding treasury shares) in the capital of the Company (as at the time of passing of this Resolution);

(2) (subject to such calculation as may be prescribed by the SGX-ST) for the purpose of determining the aggregate number of shares and convertible securities that may be issued under sub-paragraph (1) above on a pro-rata basis, the total number of issued shares (excluding treasury shares) in the capital of the Company shall be based on the total number of issued shares (excluding treasury shares) in the capital of the Company at the time of the passing of this Resolution, after adjusting for:

(a) new shares arising from the conversion or exercise of convertible securities;

(b) new shares arising from exercising share options or vesting of share awards outstanding or subsisting at the time of the passing of this Resolution, provided the options or awards were granted in compliance with the rules of the Listing Manual of the SGX-ST; and

(c) any subsequent bonus issue, consolidation or subdivision of shares;

(3) in exercising the authority conferred by this Resolution, the Company shall comply with the provisions of the Listing Manual of the SGX-ST as amended from time to time (unless such compliance has been waived by the SGX-ST), the Listing Rules as amended from time to time (unless such compliance has been waived by the SEHK) and the Articles of Association of the Company; and

(4) unless revoked or varied by the Company in a general meeting, such authority shall continue in force until the conclusion of the next Annual General Meeting of the Company or the date by which the next Annual General Meeting is required by law to be held, whichever is the earlier." *[See Explanatory Note (ii)]* **(Resolution 9)**

8. Authority to grant options and issue shares under the Sound Global Share Option Scheme

"That, pursuant to Section 161 of the Companies Act, the Directors be and are hereby empowered to grant options, and to allot and issue from time to time such number of shares as may be required to be issued pursuant to the exercise of options granted under the Sound Global Share Option Scheme (the "**Scheme**") provided always that the aggregate number of shares in respect of which such options may be granted and which may be issued pursuant to the Scheme shall not exceed fifteen per cent. (15%) of the issued share capital of the Company from time to time." *[See Explanatory Note (iii)]* **(Resolution 10)**

9. **Authority to renew the mandate for interested person transactions (the "Shareholders' Mandate")**

"That:

(A) approval be and is hereby given for the purposes of Rule 920 of the Listing Manual of the SGX-ST for the Company, its subsidiaries and associated companies or any of them to enter into transactions falling within the categories of Interested Person Transactions, set out in the Circular dated 28 March 2011 (the "Circular"), with BJ Sound Environment Group Co., Ltd, its subsidiaries and associated companies, provided that such transactions are transacted on normal commercial terms and on terms or conditions that would not be prejudicial to the interests of the Company and/or its minority shareholders and in accordance with the guidelines and procedures for Interested Person Transactions as set out in the Circular;

(B) the Shareholders' Mandate shall, unless revoked or varied by the Company in general meeting, continue in force until the conclusion of the next Annual General Meeting of the Company; and

(C) the Directors of the Company be and are hereby authorised to complete and do all such acts and things (including executing all such documents as may be required) as they may consider expedient or necessary or in the interests of the Company to give effect to the Shareholders' Mandate and/or this Resolution as they may think fit." *[See Explanatory Note (iv)]* **(Resolution 11)**

By Order of the Board
Tan Wei Shyan
Secretary

Singapore, 28 March 2011

Explanatory Notes:

(i) Mr. Fu Tao will, upon re-election as an Independent Non-Executive Director of the Company, remain as a Member of the Audit Committee and Remuneration Committee. He will be considered independent for the purposes of Rule 704(8) of the Listing Manual of the SGX-ST and Rule 3.13 of the Listing Rules.

(ii) The Ordinary Resolution 9 proposed in item 7 above, if passed, will empower the Directors of the Company to issue shares, make or grant instruments convertible into shares and to issue shares pursuant to such instruments, up to a number not exceeding, in total, 50% of the total number of issued shares (excluding treasury shares) in the capital of the Company, of which up to 20% may be issued other than on a pro-rata basis to shareholders.

For determining the aggregate number of shares that may be issued on a pro-rata basis, the total number of issued shares (excluding treasury shares) will be calculated based on the total number of issued shares (excluding treasury shares) in the capital of the Company at the time this Ordinary Resolution is passed after adjusting for new shares arising from the conversion or exercise of any convertible securities or share options or vesting of share awards which are outstanding or subsisting at the time when this Ordinary Resolution is passed and any subsequent bonus issue, consolidation or subdivision of shares. In determining the 20% which may be issued other than on a pro-rata basis, the total number of issued shares (excluding treasury shares) will be calculated based on the total number of issued shares (excluding treasury shares) in the capital of the Company at the time this Ordinary Resolution is passed.

(iii) The Ordinary Resolution 10 proposed in item 8 above, if passed, will empower the Directors of the Company, to grant options and to allot and issue shares upon the exercise of such options in accordance with the Scheme.

(iv) The Ordinary Resolution 11 proposed in item 9 above, if passed, will empower the Directors of the Company to exercise all powers of the Company to enter into certain types of recurrent transactions of a revenue or trading nature or those necessary for its day-to-day operations with the specified classes of persons who are considered to be "interested persons" for the purposes of Chapter 9 of the Listing Manual of the SGX-ST, on terms of the Shareholders' Mandate set out in the Circular.

Notes:

1. A Member entitled to attend and vote at the Annual General Meeting is entitled to appoint more than one proxy to attend and vote in his/her stead. A proxy need not be a Member of the Company.

2. If the appointor is a corporation, the proxy must be executed under seal or the hand of its duly authorised officer or attorney.

3. The instrument appointing a proxy must be deposited at the registered office of the Company at 1 Robinson Road, #17-00 AIA Tower, Singapore 048542 (for Singapore shareholders), or at the office of the Company's Hong Kong branch share registrar, Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong (for Hong Kong shareholders), not less than forty-eight hours (48) before the time appointed for the Annual General Meeting.

Notice of Books Closure Date and Dividend Payment Date

NOTICE IS HEREBY GIVEN that the Singapore Principal Share Transfer Books and Singapore Register of Members of the Company in Singapore will be closed from 12 May 2011 after 5:00 p.m. to 13 May 2011 for the purpose of determining the Members' entitlements to the first and final dividend to be proposed at the Annual General Meeting of the Company to be held on 30 April 2011. Duly completed transfers in respect of shares in the Company received up to close of the business at 5:00 p.m. on 12 May 2011 by the Company's Singapore Principal Registrar, Boardroom Corporate & Advisory Services Pte. Ltd., 50 Raffles Place, #32-01 Singapore Land Tower, Singapore 048623, will be registered to determine Members' entitlements to such dividend. Members whose Securities Accounts with The Central Depository (Pte) Limited are credited with shares of the Company as at 5:00 p.m. on 12 May 2011 will be entitled to such proposed dividend. The Hong Kong Branch Share Register will be closed on 13 May 2011 for the purpose of determining the Members' entitlements to the dividend to be proposed at the Annual General Meeting. In order to qualify for the proposed first and final dividend for Hong Kong Shareholders, all transfers, accompanied by the relevant share certificates, must be lodged with the Hong Kong Branch Share Registrar of the Company, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, not later than 4:00 p.m. on 12 May 2011. The dividend, if approved at the Annual General Meeting, will be paid on 27 May 2011.

By Order of the Board
Tan Wei Shyan
Secretary

Singapore, 28 March 2011

CORPORATE INFORMATION

BOARD OF DIRECTORS
Executive Directors
Wen Yibo (Chairman)
Wang Kai (Chief Executive Officer)
Luo Liyang
Zhang Baolin

Independent Non-Executive Directors
Wong See Meng (Lead Independent Non-Executive Director)
Seow Han Chiang Winston
Fu Tao

COMMITTEES
Audit Committee
Wong See Meng (Chairman)
Seow Han Chiang Winston
Fu Tao

Remuneration Committee
Seow Han Chiang Winston (Chairman)
Wong See Meng
Fu Tao

Nomination Committee
Wong See Meng (Chairman)
Wen Yibo
Seow Han Chiang Winston

AUTHORISED REPRESENTATIVES (SGX)
Wen Yibo
Tan Wei Shyan

AUTHORISED REPRESENTATIVES (SEHK)
Wen Yibo
Wong Tak Yee

JOINT COMPANY SECRETARIES
Tan Wei Shyan, LLB
Wong Tak Yee, Chartered Secretary (ACIS, ACS)

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Hong Kong Stock Code: 00967

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The Bank of East Asia Limited

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Partner-in-charge: Chua How Kiat
Date of appointment: November 12, 2010

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