A STEADY STREAM

Sound Global Ltd. Annual Report 2012

桑德國際
sound global

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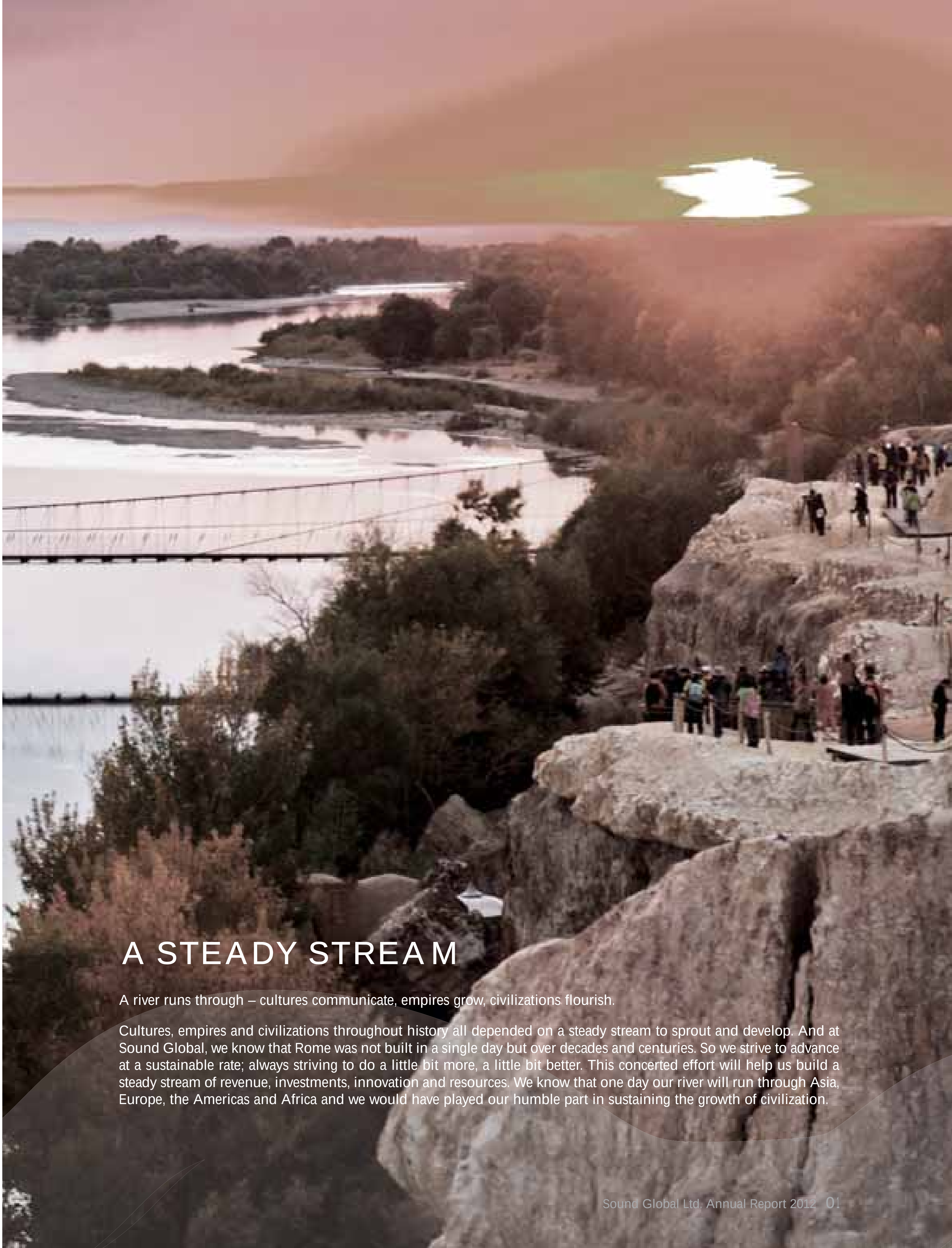


A STEADY STREAM

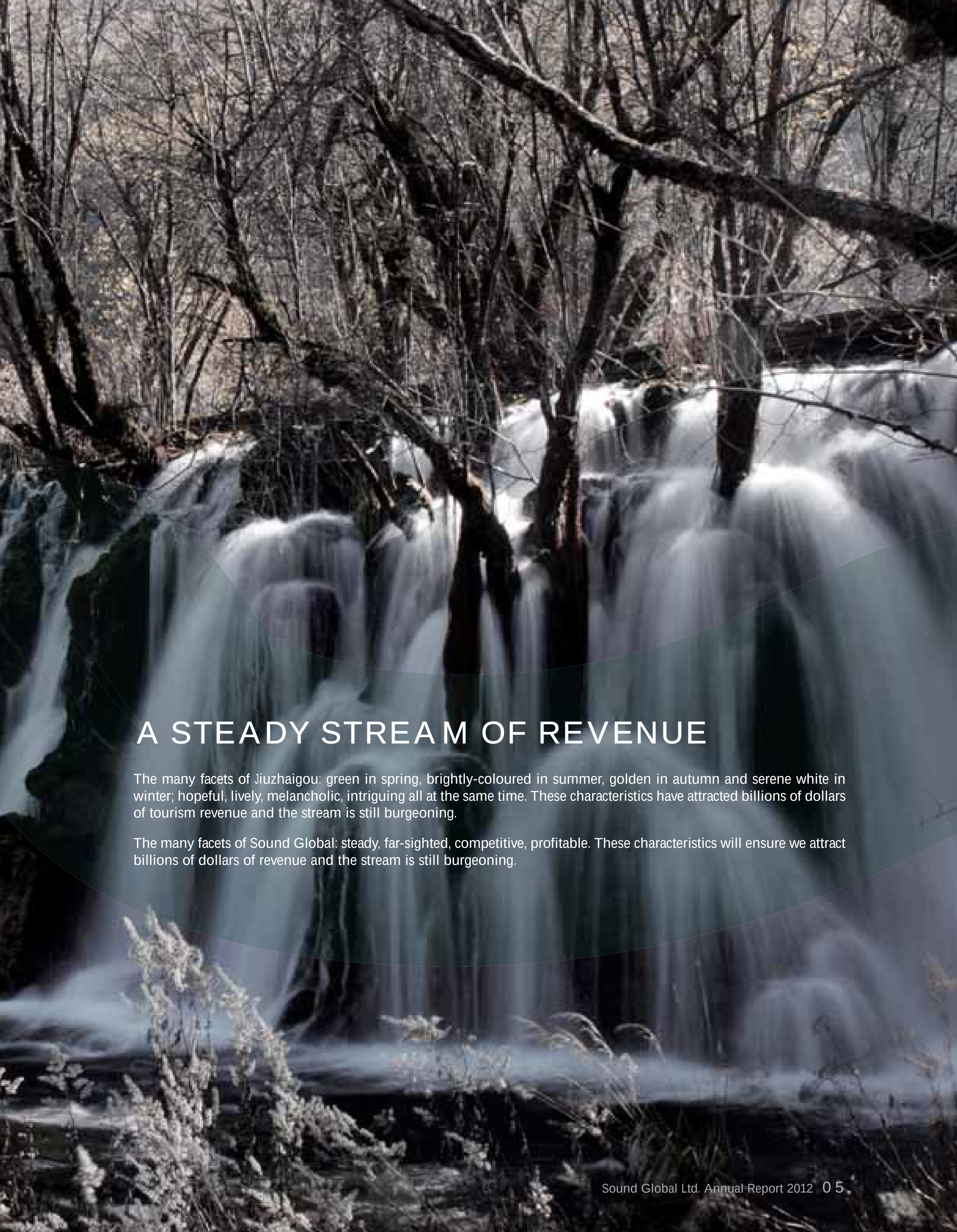
A river runs through – cultures communicate, empires grow, civilizations flourish.

Cultures, empires and civilizations throughout history all depended on a steady stream to sprout and develop. And at Sound Global, we know that Rome was not built in a single day but over decades and centuries. So we strive to advance at a sustainable rate; always striving to do a little bit more, a little bit better. This concerted effort will help us build a steady stream of revenue, investments, innovation and resources. We know that one day our river will run through Asia, Europe, the Americas and Africa and we would have played our humble part in sustaining the growth of civilization.

CORPORATE PROFILE

Sound Global 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. ("Hi-Standard"), progressing towards its aspiration of becoming a fully integrated services provider.



A STEADY STREAM OF REVENUE

The many facets of Jiuzhaigou: green in spring, brightly-coloured in summer, golden in autumn and serene white in winter; hopeful, lively, melancholic, intriguing all at the same time. These characteristics have attracted billions of dollars of tourism revenue and the stream is still burgeoning.

The many facets of Sound Global: steady, far-sighted, competitive, profitable. These characteristics will ensure we attract billions of dollars of revenue and the stream is still burgeoning.

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 Ltd. throughout the years.

Review

In 2002, the Ministry of Construction advocated market-oriented reforms in the public utilities sector that marked a new era of change in the water industry of China. After a decade of these reforms, the market, social and capital environment for the water industry has evolved. This was especially significant in 2010 during which energy saving and environmental protection were prioritized by the State Council among the top seven emerging industries. In 2012, the 18th National Congress of the Communist Party of China again addressed the issue of "ecological civilization" and targeted to further promote the vision strategically. The Chinese leadership recognised that ecological civilization is vital to the long-term plan that would usher a healthy and prosperous future for all Chinese people. In face of the difficult situation of limited resources, deteriorating environment, and unbalanced ecosystem, the plan to attain ecological civilization must be highly prioritized and incorporated into all aspects of economy, politics, culture, and social construction so as to accentuate our respect, accommodation and protection of nature.

Since its foray into the environmental protection sector in China's suburban-rural areas in 2011, Sound Global has repeatedly won bids for township sewage treatment projects, such as projects in Changsha, Fushun, Jiangyan and Siyang. These projects were won due to Sound Global's strengths in its self-developed technology of "integrated device and industrialization of wastewater treatment in suburban-rural areas" and its strategy of fully leveraging on its advantages in terms of technology, capital, management and industrial chain. The construction of these projects would greatly facilitate the reduction of COD discharge in the service areas, and largely enhance the development of wastewater treatment in the suburban-rural areas. In addition, the technology of "integrated device and industrialization of wastewater treatment in suburban-rural areas" was included in the 2012 Torch Plan(2012年度火炬計劃) by the Ministry of Science and Technology of China.

In the next decade, suburban rural areas will become the main targets of the wastewater treatment industry. Capitalizing on its technical advantages in integrated wastewater treatment, as well as its comprehensive knowledge of the whole industry chain, including capital, project implementation, equipment, and operation, Sound Global will be able to formulate an economically feasible solution for environmental protection in the suburban-rural areas of China. With various counties or cities across provinces in China as its basis, Sound Global will undertake additional projects by deploying those technologies and models. Ultimately Sound Global aims to capture 15 to 20 percent of market share in the suburban rural areas of China.

The environmental services industry ushered in a breakthrough for the environment protection industry by bringing in numerous opportunities for upgrading and transformation. With increasing demands for environmental protection services, specialized and integrated operation will be an inevitable approach for the development of the water industry. With foresight, Sound Global has achieved parallel development in many fields, including municipal wastewater and industrial wastewater treatment, as well as pipe network construction. Following the commissioned projects in Hainan, Sound Global has continued to explore the market this year in numerous areas namely Shaanxi, Inner Mongolia, Hainan, and innovated studiously in management models of wastewater treatment, pipe network, pumping stations and industrial sewage treatment. All these efforts have brought positive impacts to the execution of the State's policies and industry development.

Prospects

Drawing inspiration from the phrase "hot and trendy", the 18th National Congress proposed the concept of "Building Beautiful China" as the new blueprint for future development. During the 18th National Congress, the issue of "ecological civilization" was mentioned for the first time, while the report of the Congress proposed for the first time the ideas of "developing greenery, encouraging recycling and promoting low carbon discharge". Strong emphasis on environmental protection, recycling of resources, energy-saving and emission-reduction has been shown by all ranks of the authority from the Central Government to the Ministry of Environmental Protection, which demonstrated China's unprecedented regard for environmental protection during an era of economic transformation.

Currently, China is suffering from serious water shortage and water pollution and its water environment is in a poor condition. The "Plan for Facilities Construction for Urban Wastewater Treatment and Recycling" under the 12th Five-Year Plan(「十二五」中國城鎮污水處理及再生利用設施建設規劃) issued by the State Council provided explicit guidelines for the rapid development of the water treatment industry. The plan stipulated a planned investment amount of nearly RMB430 billion in the construction of facilities for the urban wastewater treatment and recycling during the 12th Five-Year Plan period, and an investment amount of RMB104 billion in increasing urban wastewater treatment capacity. The plan also targeted an additional sewage treatment capacity of 45.7 million cubic meters per day, in which share of the capacity among municipalities, counties and towns are respectively 26.1 million cubic meters per day, 10.1 million cubic meters per day, and 9.6 million cubic meters per day. The rate of urban wastewater treatment would increase to 85.0% from 77.5% in 2010. During the 12th Five-Year Plan period, the total upgraded urban wastewater treatment capacity across the planned areas nationwide would be 26.1 million cubic meters per day, while the aggregate amount of investment would be RMB13.7 billion.

With sewage treatment being highlighted during the "12th Five-Year" period, the water treatment industry woud also maintain a momentum for sustainable and rapid growth. Moreover, as the water treatment industry would be less vulnerable to economic cycles, it would be able to maintian steady growth during economic downturns. As such, in the first three quarters of 2012, the overall net profit of the environmental protection sector recorded period-to-period rise of 18.0%.

With supportive policies being launched continuously, the environmental protection industry would be able to make great progress in the next five years. It would also be a critical time to showcase that enterprises have the ability to formulate appropriate strategies and tackle challenges. The water treatment industry is entering into an era of segmental development and Sound Global would focus on the development of urban sewage treatment, upgrading of existing projects and environment services.

I believe that Sound Global will present satisfactory results to its shareholders in 2013.

Appreciation

I hereby would like to express my gratitude to all shareholders, customers and business partners for the continuous care and support for Sound Global. I would also like to express my heartfelt thanks to the management team and our staff for their dedication to the Company's long-term development. I wish you every success in your work and a happy family in 2013.

Wen Yibo

主席致詞

尊敬的列位股東：

首先，本人謹代表桑德國際有限公司，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

2002年建設部大力推進公用事業市場化改革，成為中國水務產業的改革元年，經過10年的市場化改革，水業的市場環境、社會環境、資本環境都發生了改變，特別是在2010年，國務院將節能環保列為七大新興產業之首；2012年，中共十八大會議再次論及“生態文明”，並將其提升到更高的戰略層面。生態文明，是關係人民福祉、關乎民族未來的長遠大計。面對資源約束趨緊、環境污染嚴重、生態系統退化的嚴峻形勢，把生態文明建設放在突出地位，融入經濟、政治、文化、社會建設各方面和全過程，體現了尊重自然、順應自然、保護自然的理念。

自2011年進軍中國鄉鎮和農村環境治理領域後，桑德國際憑藉其自主研發的“小城鎮污水處理一體化裝置及產業化”技術頻頻中標鄉鎮污水項目，充分發揮了在技術、資金、管理和產業鍊等方面的優勢，長沙項目、撫順項目、姜堰項目、泗陽項目……這些項目的建成，將會大大改善所服務區域的COD減排，大力提升鄉鎮污水環境的友好和諧發展。同時，“小城鎮污水處理一體化裝置及產業化”技術已列入科技部2012年度火炬計劃。

未來十年鄉鎮和農村環境治理領域將是污水處理的主戰場，桑德國際在污水綜合處理的技術優勢，及資本、工程實施、設備、運營等全產業鏈方面的綜合優勢，為中國的農村環境治理探索出一套經濟可行的解決方案。桑德國際今後還將在中國多個省份以縣或市為區域單元，採用該技術和模式建造更多的項目，桑德國際的目標是佔領中國鄉鎮污水處理市場的15%～20%。

環境服務業是環保產業發展獲得突破的轉折點，為環保產業的升級和轉型帶來良機，隨著環境服務的需求日益增多，專業化、集團化的運營服務是水務運營發展的必然選擇，桑德在市政污水和工業廢水與管網等領域齊頭並進，繼海南打捆項目之後，今年在陝西、內蒙古、海南等區域繼續開拓市場，業務模式不斷創新，涉及到污水、管網、泵站和工業廢水的託管運營，對國家政策及行業發展起到了良好的示範與積極的影響。

展望

美麗中國“火”，環保產業“熱”。“十八大”報告提出了“美麗中國”概念，勾勒出未了中國發展的新藍圖。十八大報告首次單篇論述“生態文明”，全國黨代會報告第一次提出“推進綠色發展、循環發展、低碳發展”等等，從中央到環保部均釋放出了政府強烈關注環境保護、資源循環利用、節能減排的信號，在經濟轉型時期，表明了中國對環保的重視程度提升到空前的高度。

目前，中國水資源短缺和水污染嚴重，“水環境”狀況相當惡劣。國務院辦公廳頒布的《“十二五”中國城鎮污水處理及再生利用設施建設規劃》對水處理行業發展作了明確規定，引導行業繼續快速發展。“規劃”要求在“十二五”期間，全國城鎮污水處理及再生利用設施建設規劃投資近4300億元。新增城鎮污水處理能力投資1040億元，新增污水處理規模4569萬立方米/日，其中，設市城市2608萬立方米/日，縣城1006萬立方米/日，建制鎮955萬立方米/日，城市污水處理率從2010年的77.5%提升至85.0%；“十二五”期間，全國規劃範圍內的城鎮升級改造污水處理規模2611萬立方米/日，總投資137億元。

污水處理是“十二五”期間重點加強的領域，水處理行業也將保持持續快速增長的勢頭。且水處理行業受經濟周期影響不大，在經濟低迷期仍然能保持較好增長。2012年前三季度，環保板塊總體淨利潤同比增長18%。

隨著扶持政策的持續出台，未來五年，即是環保產業大踏步向前發展的時期，也是考驗企業在戰略制定及危機處理等方面的能力，未來水務處理領域整體上將進入細分時代，而發展的重點則是將向鄉鎮污水處理傾斜，向現有項目提標改造傾斜，向環境服務業傾斜。

我相信，桑德國際在2013年能夠向股東們交出一份令人滿意的業績。

致謝

籍此，感謝各位股東、客戶及事業夥伴長期以來對桑德國際的的關心和支持，感謝公司各位管理人員及全體員工為公司的長遠發展所做出的努力，預祝各位，2013年事業發達、闔家歡樂！

文一波

A STEADY STREAM OF INVESTMENT

The Yellow River is endearingly called the Mother River. It is the cradle of Chinese civilization and the spirit of Chinese culture. Throughout time and history, countless rulers have invested to control and tame the river, yet empires have risen and fallen according to the temper of the waters. Still the investments keep swarming in.

But new investments now aim to contribute, as opposed to control, so our Mother River runs smoother and cleaner. We have also attracted a steady stream of investments to enable us to play our little part in enriching Chinese civilization and enhancing Chinese culture.

CEO'S OPERATIONS REVIEW

Dear shareholders,

I am sincerely thankful to all the staff and shareholders of Sound Global for your invaluable support over the year. At the very beginning of the year 2013, I am honored to present to you the results we have achieved in the past year and our development plan for the coming year.

Operations Condition

During 2012, by adhering to the long-term development strategy and the annual operation objectives, the Company sped up its expansion and formulated its strategy. At the same time, Sound Global consolidated and developed the foundation for the municipal water treatment market, strengthen its business in the suburban-rural areas and environmental protection services. The Company also penetrated its coverage in various international countries, lifting itself to a new level of development in terms of professionalism, sustainability, scale expansion and internationalization.

As at the end of 2012, the number of projects managed by the Company increased from 92 in 2011 to 105 in 2012, representing an increase of 14.1% as compared with last year; aggregate production value was RMB2.7 billion, an increase of 15.9% as compared with last year.

Technological R&D

Sound Global boasts of the industry's largest technological Research and Development (R&D) centre and has a team of over 100 R&D personnel. This elite team consists of professionals with abundant engineering experience and outstanding expertise, as well as energetic and creative young talents. Upholding an unwavering spirit to protect the environment, this team constantly assures that Sound Global always remains the leader in the industry in terms of technology. To date, our Company has completed 47 technological R&D topics, 9 of which started in 2012. In addition to its 61 patents, the Company obtained another 6 invention patents and 12 utility model patents in 2012. In 2012, the Company was awarded water treatment technology research project under the "Twelfth Five-Year Plan" of the State and a total of 4 externally financed programmes, including the research projects from the Beijing Municipal Science and Technology Commission. With this progress, Sound Global will gradually become the leader in R&D in the sphere of water treatment within the country.

Marketing Nationwide

Sound Global has established various sales offices across the nation, covering all major provinces in China, an overseas office in Singapore specializing in developing international trade, and a branch office in Saudi Arabia exploring the markets in Saudi Arabia and the Middle East. Sound Global has actively participated in local and overseas conferences and exhibitions, indentified new projects through local partners, promoted the sale of equipments through sales agent, established long-term local cooperation relationship, and conducted extensive research to understand the local market environments and the needs of customers from different markets. The excellent execution capabilities of our team and the good reputation of the Company helped to secure additional projects: Sound Global won the bid for the 500,000 ton-per-day water supply project for the No. 6 water treatment plant in Changchun and secured an equipment procurement and installation contract in respect of SWTP-9 the fourth processing line from the owner of MARAFIQ in Saudi Arabia. By bidding for various projects in different countries such as Philippines, India, Indonesia, Sri Lanka, the Company was able to effectively execute its development layout in the international water market as well as mark its foothold in the environmental protection segment in the suburban-rural areas of China. The SMART technology deployed in the Changsha county project established a new operation model for wastewater treatment in the suburban-rural areas. Additional projects in Fushun Jiangyan and Siyang were also obtained.

Human Resources

Management and technical talents are critical elements in the success of an enterprise or society. As such, Sound Global has assembled a team of management, technical and professional talents. In 2012, more than 20 personnel who have overseas work experience and/or education have joined Sound Global. These talents have taken up positions in project management, technological R&D, engineering design and international business development.

Sound Global has traditionally attached great importance to the development and nurture of talents, and hence, has established a system for talent development and management as well as internal training. At the same time, Sound Global has collaborated with prestigious educational institutions to nurture master's degree students and talents with post-doctorate credentials. The Company conducted more than 35 internal and external trainings in the past year, with participants from the various divisions of marketing, R&D, design, project management, operation management, procurement, finance, securities, and human resources management. This talent nurturing mechanism, which integrates internal and external training, has continuously improved the overall quality of the staff of Sound Global, and has expanded and strengthened the team of key personnel, paving a solid foundation to provide first-class human capital for the future growth and expansion of Sound Global.

Development Objective

For the coming 2013, following the vision of "Building Beautiful China", Sound Global will facilitate the progress of projects in major cities and undertake the pilot project of recycling industrial sewage water. The Company will explore existing capital markets for the development of integrated environmental protection services in industrial areas. Building on new technologies and consolidating innovative business models, Sound Global will improve practices in municipal water treatment and expand its market share in the segment of upgrading of potable water plants. All these efforts will boost the Company's scale of production as well as bolster growth of production volumes.

The coming five to ten years will be a period filled with strategic opportunities for the development of Sound Global. In the next five years, we aim to shape Sound Global into an enterprise known for its high esteem, superior quality and advanced technology, as well as having an excellent reputation in the capital markets. In the next ten years, we aim to have Sound Global ranked among the top ten water enterprises in the world.

Appreciation

I hereby would like to express my gratitude to all local and overseas staff that had devoted invaluable contribution to the development of Sound Global. It was due to their efforts and support that have enabled Sound Global to achieve the results today. In the coming year, the Company will strive for continual development and innovation, so as to achieve returns for all our shareholders, customers, staff and partners. Let's build a world-class water environment enterprise!

Wang Kai

首席執行官營運回顧

尊敬的股東們：

非常感謝桑德國際全體員工及諸位股東一年來給予的鼎力支持！藉此辭舊迎新之際，我很榮幸向諸位股東介紹在過去一年取得的成績，並展現未來一年公司的發展規劃。

經營狀況

2012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，鞏固與發展城市水務市場基礎上，強化農村小城鎮業務以及環境服務業務。國際市場開拓實現了在多個國家佈局。專業化、持續化、規模化、國際化的發展戰略再上新台階。

截止到2012年底，公司項目管理數量由2011年的92個上升到2012年的105個，較去年增長14.1%，生產總值人民幣26.5億元，較去年增長15.9%。

技術研發

桑德國際擁有業內最大的環保企業技術研發中心，擁有一支超過百人的技術團隊，這支由極富工程經驗和深厚技術造詣的專家、具有活力和創新能力的年輕才俊們組成的精英團隊，以為環境矢志不渝的貢獻精神保證了桑德國際的技術研發實力始終走在行業的最前端。截止目前，我公司已完成47項技術研發課題，其中2012年新開課題9項，並在已擁有61項專利的基礎上，2012年新增6項發明專利，12項實用新型專利。2012年榮獲國家"十二五"水專項重大研究課題；北京市科委研究課題等共計4項外部資助課題。桑德國際將逐步成為國家重大水專項研究的主要力量。

市場營銷

桑德國際在國內設立銷售網絡，覆蓋到中國的所有主要省份，在新加坡擁有海外辦事處，專注於開拓國際市場，在沙特阿拉伯設立有一個分公司，致力於沙特及中東地區拓展市場工作。桑德國際積極參與國內外會議和展覽，通過當地合作夥伴尋找新項目，通過銷售代理擴展設備銷售，專注於建立長期的地方合作關係，深入了解當地市場環境，了解不同市場的客戶的要求，強大的執行實力以及良好的項目口碑給我們帶來更多項目信息：中標長春六水廠50萬噸/日給水項目；獲得沙特MARAFIQ業主授予的SWTP-9第四條處理線設備採購與安裝合同。通過在菲律賓、印度、印度尼西亞、斯里蘭卡等國家的項目投標活動，廣泛與有效的推進國際水務市場的發展與佈局；進軍中國鄉鎮和農村環境治理，SMART工藝治理長沙縣鄉鎮污水，開創了中國鄉鎮污水治理新模式。再獲撫順項目、姜堰小城鎮項目、泗陽小城鎮項目。

人力資源

管理人才與技術人才，對於一個企業乃至一個社會都是不可缺少的人才。現在，桑德國際匯聚了一批優秀的管理人才、技術人才和專業人才。2012年，又有二十餘位具有國外工作、學習經歷的海歸人員加盟桑德國際，充實到項目管理、技術研發、工程設計、國際市場開拓等崗位。

桑德國際公司歷來重視人才開發與培養，建立了系統的人才發展及內部培養機制。同時，通過與知名高校聯合培養碩士生、博士後人才。全年組織企業內訓、外訓35次，參加人員涉及市場、研發、設計、項目管理、運營管理、採購、財務、證券、人力資源管理等崗位，內外結合的培養機制，使桑德員工的整體素質得到不斷提升，骨干人員隊伍不斷壯大，為實現建立高效與精干人力資源目標奠定基礎，為滿足桑德國際未來戰略發展需要提供了優良人才資源。

發展目標

2013年：桑德國際結合"美麗中國"建設加大城鎮項目推進力度；工業廢水綜合回用示範項目、工業園區環境綜合服務開拓現資市場；以新技術為基礎結合商務模式創新在市政污水提標改造、自來水升級改造領域加大市場份額，實現公司規模、產值等快速增長。

未來五到十年，是桑德國際發展的戰略機遇期。我們的發展目標是利用五年時間，將桑德國際打造成為高品位、高品質、高技術的產業，資本市場形象俱優的一流水務企業，在十年內，使桑德國際進入國際水務企業前十名。

致謝

在此，感謝一年來為桑德國際事業發展做出貢獻的海內外人士，正是由於你們的努力和支持，桑德國際才取得了今天的成績。在新的一年裡，我們將繼續開拓進取、持續創新，為更好地實現股東、客戶、員工和合作夥伴的共贏的目標，為建設國際一流的水務環境企業而努力奮鬥！

王凱

FINANCIAL HIGHLIGHTS

REVENUE (RMB '000)

GROSS PROFIT (RMB '000)

PROFIT BEFORE INCOME TAX (RMB '000)

PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY (RMB '000)

CONSOLIDATED RESULTS

	For the year ended December 31,				
	2012	**2011**	**2010**	**2009**	**2008**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
				(restated)	**(restated)**
Revenue	**2,652,256**	2,287,575	1,765,672	1,293,476	1,024,808
Gross profit	**800,387**	722,052	536,145	375,513	333,588
Profit before income tax	**503,411**	481,208	349,067	292,989	232,013
Income tax expenses	**(75,902)**	(67,383)	(59,877)	(10,236)	(28,313)
Profit for the year	**427,509**	413,825	289,190	282,753	203,700
Profit for the year attributable to					
Owners of the company	**427,509**	413,825	289,104	281,869	203,686
Non-controlling interests	**-**	-	86	884	14
	427,509	413,825	289,190	282,753	203,700
Earnings per share (in RMB cents)					
Basic	**33.14**	32.08	22.41	21.85	15.79
Diluted	**32.35**	31.32	22.41	21.85	15.79

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at December 31,				
	2012	**2011**	**2010**	**2009**	**2008**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
				(restated)	**(restated)**
Current assets	**5,008,194**	3,701,937	3,501,693	1,971,479	1,908,917
Non-current assets	**1,830,931**	1,254,247	848,605	611,304	434,790
Total assets	**6,839,125**	4,956,184	4,350,298	2,582,783	2,343,707
Current liabilities	**1,763,281**	2,064,145	1,356,485	923,030	970,905
Non-current liabilities	**2,421,332**	587,370	1,057,558	67,809	16,242
Total liabilities	**4,184,613**	2,651,515	2,414,043	990,839	987,147
Capital and reserves	**2,654,512**	2,304,669	1,936,255	1,591,944	1,356,560

MANAGEMENT DISCUSSION & ANALYSIS

SIGNIFICANT TRENDS, CONDITIONS AND EVENTS

The Company will continuously expand its share in the Engineering, Procurement and Construction ("EPC") market and consolidate its leading market position by proactively seeking Sewage Treatment Plant Upgrade and Improvement Project. The requirement on the standard of the discharge is relatively low for a number of sewage treatment plants which were built during the period of "9th Five-Year-Plan" and "10th Five-Year-Plan" and this will give rise to the opportunity of equipment modification. This generates a tremendous demand for improving the discharge standard of the sewage treatment plants with the implementation of the measures on upgrading the discharge standard to grade 1A standard in various regions and provinces. In addition, with the adoption of more stringent regulatory standard by the government of the People's Republic of China ("PRC") in respect to zero discharge of industrial sewage and recycling, improvement projects from industrial sewage treatment sector will be undertaken.

The Company will actively seek out projects with relatively good return and controllable risk in a cautious manner, expanding the source of stable income from BOT and Operation and Maintenance ("O&M") projects. The rapid pace of development of urbanization of the PRC and the zonation development for industrial and corporate enterprises help to create investment opportunities which provides the Company with investment options with more favorable returns and therefore the Company will increase its efforts to develop investment projects. The Company will continue to explore O&M markets vigorously. Currently, there are approximately 3,000 municipal sewage treatment plants under operation and 2,000 sewage treatment plants under construction in the PRC. Following the completion of the construction of large-scale sewage treatment facilities in the PRC, the proportion of water treatment enterprises turning to water service companies will increase year by year. In addition, with the gradual maturity of the political environment for the third-party trust operation aspect of the industrial sewage treatment market, the water operation service market has entered from the incubation stage into a stage where the scale begins to expand rapidly.

The Company will continue to expand its international business steadily, including EPC and equipment sales, extending its coverage to emerging markets and developing countries such as the Saudi Arabia and Southeast Asia regions, in order to satisfy the enormous demand from such regions. The Company has been qualified for tendering certain overseas projects and has established relevant market development systems in these countries. The Company aims to achieve remarkable progress and development in the next three to five years.

Urban sewage has been one of the main sources of regional pollution in the PRC. The sewage treatment market for small towns is still in its beginning stage, which will be a new strategic target in the PRC following the sewage treatment projects for large and middle-sized cities. In the future, a rapid growth in the construction of sewage treatment plants for small-sized cities is expected. By fully leveraging on our strengths in the technology, management and integrated industrial chain, as well as developing and applying the state-of-art patent technology similar to SMART* patent technology, the Company, through centralised, modularised and clustered management, will formulate an economically viable solution for the environmental management in the towns and rural areas in the PRC.

* Small & Skillful, Multiple & Modular, Active & Automatic, Rapid and Technologic

REVIEW OF GROUP'S FINANCIAL PERFORMANCE

For the year ended December 31, 2012, 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.

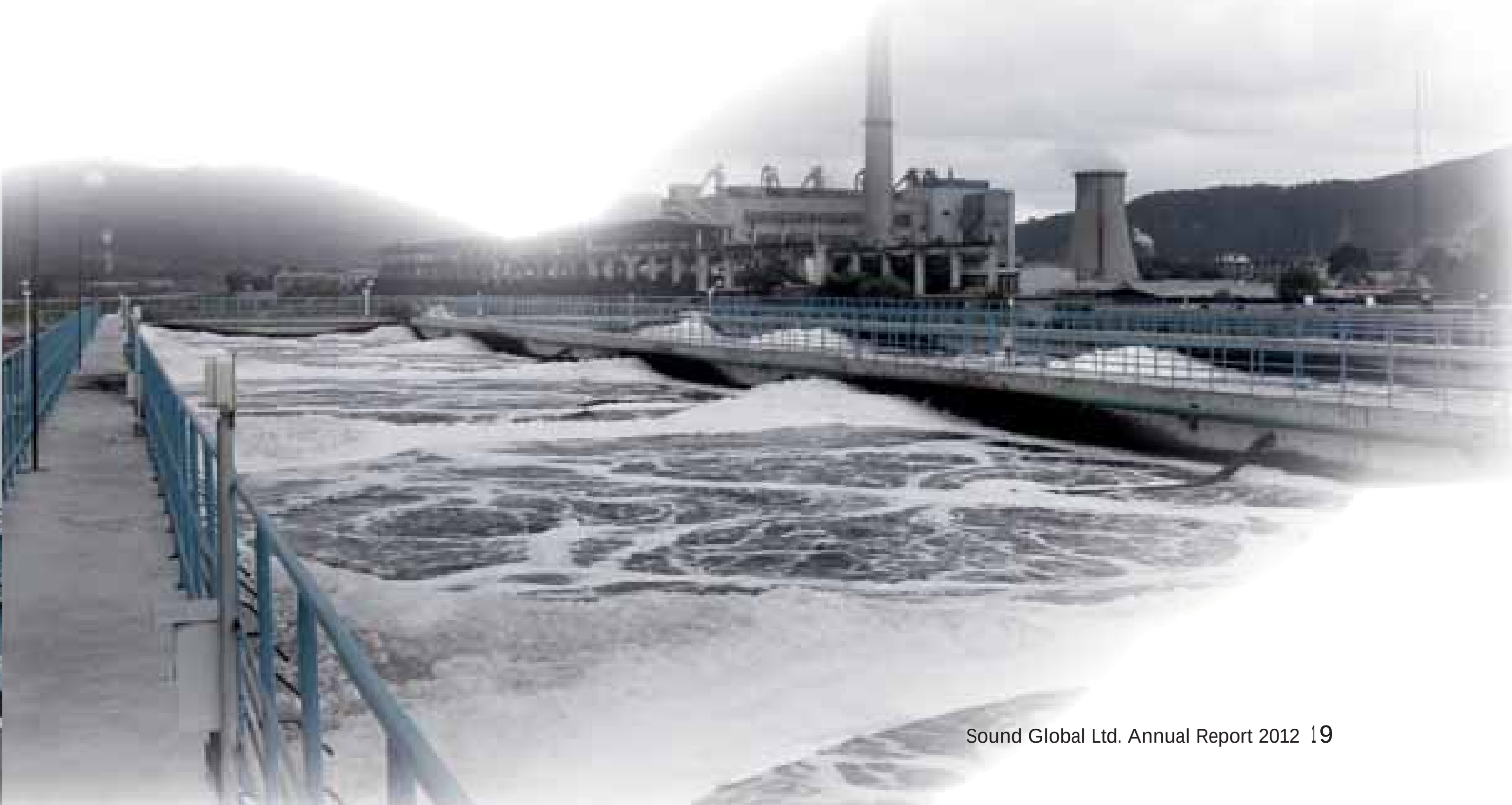
Revenue

The Group's revenue increased by approximately RMB364.7 million or 15.9% from approximately RMB2,287.6 million in 2011 to approximately RMB2,652.3 million in 2012.

Turnkey revenue increased by approximately RMB276.4 million or 12.7% from approximately RMB2,169.6 million in 2011 to RMB2,446.0 million in 2012 as the Group expands its operations. Profit contribution from turnkey projects and services increased by approximately RMB79.7 million or 15.1% from approximately RMB528.2 million in 2011 to approximately RMB607.9 million in 2012. The Group continues to be awarded and is fulfilling its EPC projects in PRC.

Revenue from equipment fabrication segment decreased by approximately RMB11.9 million or 5.0% from approximately RMB239.2 million in 2011 to RMB227.3 million in 2012. Profit contribution from equipment fabrication segment decreased by approximately RMB44.5 million or 85.6% from approximately RMB52.0 million in 2011 to approximately RMB7.5 million in 2012.

Revenue from operations and maintenance segment increased by approximately RMB34.5 million or 57.7% from approximately RMB59.8 million in 2011 to approximately RMB94.3 million in 2012. Profit contribution from operations and maintenance segment increased by approximately RMB6.5 million or 24.0% from approximately RMB27.1 million in 2011 to approximately RMB33.6 million in 2012. Revenue and profit increased as more BOT projects started operations in 2012.



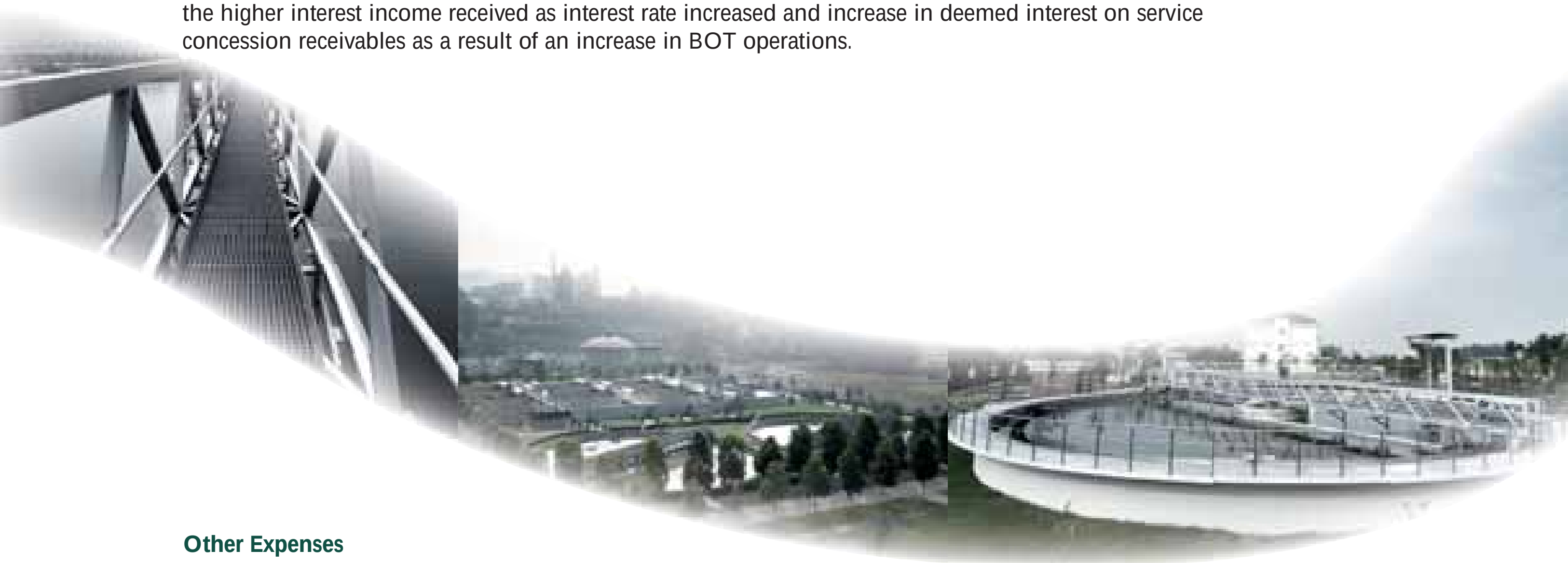
Gross Profit and Gross Profit Margin

Gross profit increased by approximately RMB78.3 million or 10.8% from approximately RMB722.1 million in 2011 to approximately RMB800.4 million in 2012. The increase in 2012 was due to the higher revenue and the stable gross profit margin throughout the financial year.

The gross profit margin decreased by approximately 1.4% from approximately 31.6% in 2011 to approximately 30.2% in 2012. 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 Income

Other income increased by approximately RMB25.2 million or 73.9% from approximately RMB34.1 million in 2011 to approximately RMB59.3 million in 2012. The increase in 2012 was mainly due to the higher interest income received as interest rate increased and increase in deemed interest on service concession receivables as a result of an increase in BOT operations.



Other Expenses

Other expenses decreased by approximately RMB7.8 million or 71.3% from approximately RMB10.9 million in 2011 to approximately RMB3.1 million in 2012. The expenses for 2011 mainly arose from foreign exchange loss while the expense for 2012 mainly arose from allowance for doubtful debts.

Distribution and Selling Expenses

Distribution and selling expenses increased by approximately RMB12.9 million or 52.5% from approximately RMB24.6 million in 2011 to approximately RMB37.5 million in 2012. The increase in 2012 was mainly due to increase in travelling expenses, after-sales expense and tender fees paid to agents as driven by increase in business operations.

Research and Development Expenses

Research and development expenses increased by approximately RMB11.2 million or 88.0% from approximately RMB12.8 million in 2011 to approximately RMB24.0 million in 2012 due to an increase in material costs and salaries to facilitate the increase in business operations.

Administrative Expenses

Administrative expenses remained relatively consistent at approximately RMB118.5 million in 2011 and approximately RMB118.0 million in 2012.

Share of Result of an Associate and Gain on Disposal of an Associate

This pertained to 20% owned Shanghai Chenghuan Water Operation Co., Ltd for which the Group's share of loss was approximately RMB81,000 in 2011. The associate was disposed of during the third quarter of 2011 resulting in a gain of approximately RMB85,000 in 2011.

Finance Costs

Finance costs increased by approximately RMB65.4 million or 60.5% from approximately RMB108.2 million in 2011 to approximately RMB173.6 million in 2012. The increase was mainly due to interest expense recognised for the USD senior notes issued in the third quarter of 2012.

Income Tax Expenses

Income tax expenses increased by approximately RMB8.5 million or 12.6% from approximately RMB67.4 million in 2011 to approximately RMB75.9 million in 2012. Income tax expenses increased as a result of an increase in Group's profit.

Profit Attributable to Owners of the Company

As a result of the above, profit attributable to owners of the Company increased by approximately RMB13.7 million or 3.3% from approximately RMB413.8 million in 2011 to approximately RMB427.5 million in 2012.

REVIEW OF GROUP'S FINANCIAL POSITION

Current Assets

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

Trade receivables, stated at net of allowance for doubtful debts, amounted to approximately RMB1,203.8 million. The allowance for doubtful debts was approximately RMB51.0 million. Service concession receivables due within one year and bill receivables amounted to approximately RMB78.6 million and RMB45.4 million respectively.

Other receivables were made up mainly of performance and tender deposits placed when we bid for projects of approximately RMB23.6 million, advance payments to suppliers and subcontractors of approximately RMB60.8 million as well as other receivables of approximately RMB20.8 million.

Amount due from customers for contract work 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, 2012, 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 increase in trade receivables and bank balances driven by the increased business operations.

Non-Current Assets

The Group's non-current assets consisted of property, plant and equipment, land use rights, service concession receivables, deferred tax assets, restricted bank balances 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 33% per annum.

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.

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 within one year, trade and other payables, amounts due to customers for contract work 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 RMB784.7 million, other taxes payable (including value added tax and sales tax) of approximately RMB194.5 million, performance and tender deposits received from sub-contractors and bills payables of approximately RMB45.9 million, advances received from customer of approximately RMB24.5 million as well as accruals and other payables (including interest payables) of approximately RMB121.0 million.

Amount due to customers for contract work 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 decrease in current liabilities was due mainly to the classification of convertible loan notes to non-current liabilities, partly offset by the increase in borrowings and trade and other payables resulting from increase in business operations.

Non-Current Liabilities

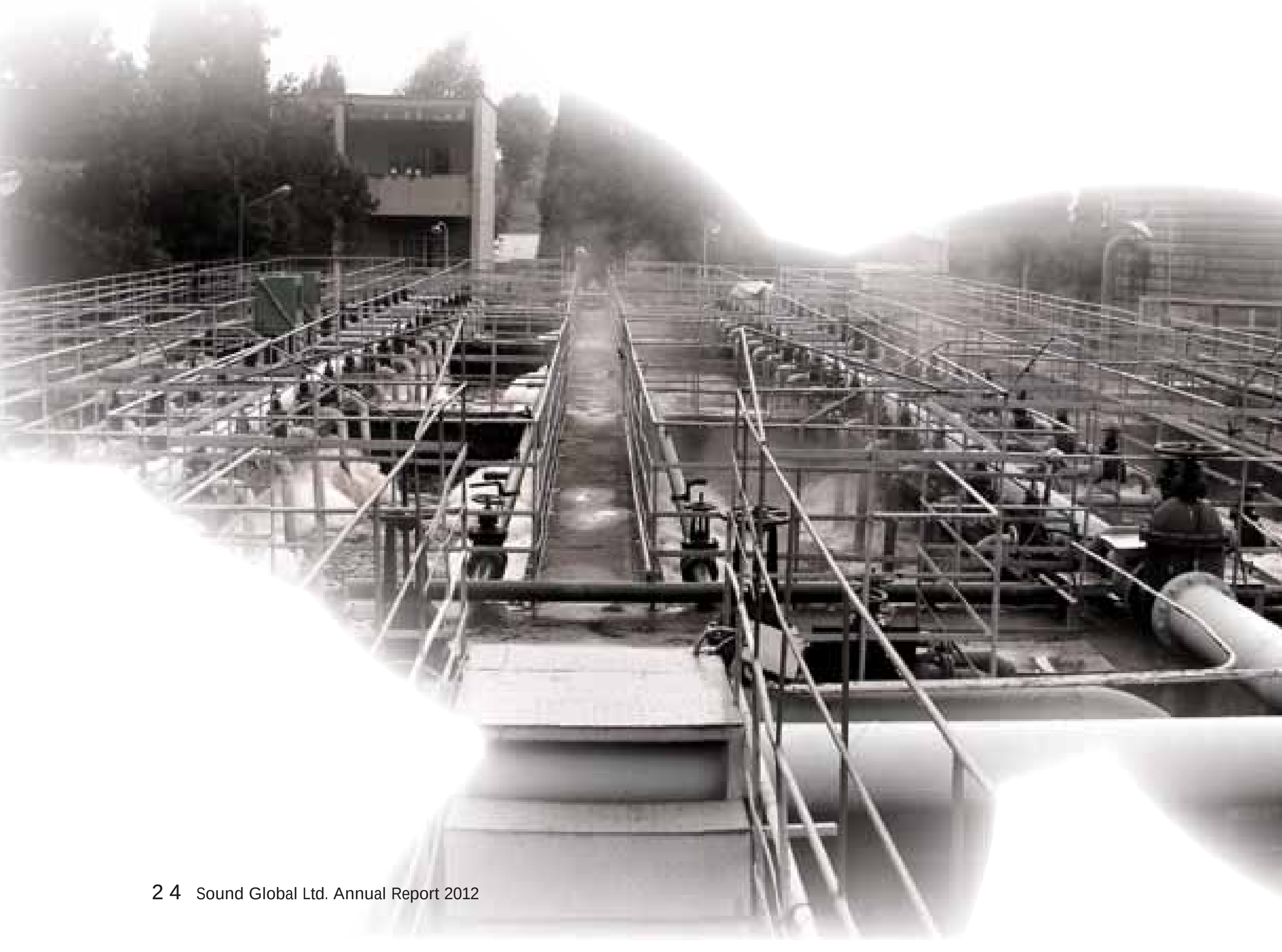
Long term borrowings were obtained to fund our BOT projects.

Warrants were issued to International Finance Corporation ("IFC") on December 5, 2011 in relation to the additional USD36.0 million loan from IFC.

USD senior notes due on 2017 were issued on August 10, 2012 and the proceeds of the notes is used to invest in prospective BOT projects, refinance the convertible bonds and certain borrowings and for working capital and other general and corporate purposes.

Convertible loan notes represent the debt component of the bonds issued on September 15, 2010. Amount decreased due to partial redemption and repurchase amounting to RMB285 million during the year.

Deferred tax liabilities arose mainly from unremitted overseas dividends, upward fair value adjustments for assets upon the acquisition of Hi-Standard and deemed interest income on service concession receivables.



Capital and Reserves

Equity attributable to owners of the Company increased by approximately RMB349.8 million or 15.2% from approximately RMB2,294.1 million as at December 31, 2011 to approximately RMB2,643.9 million as at December 31, 2012. This increase was due mainly to retained profits of approximately RMB427.5 million, partly offset by dividends paid of approximately RMB65.1 million.

The non-controlling interest of approximately RMB10.6 million relates to a 20% and 10% minority interest in Yantai Bihai Water Co., Ltd and Anyang Taiyuan Water Co., Ltd respectively. Both of these subsidiaries are operating BOT projects.

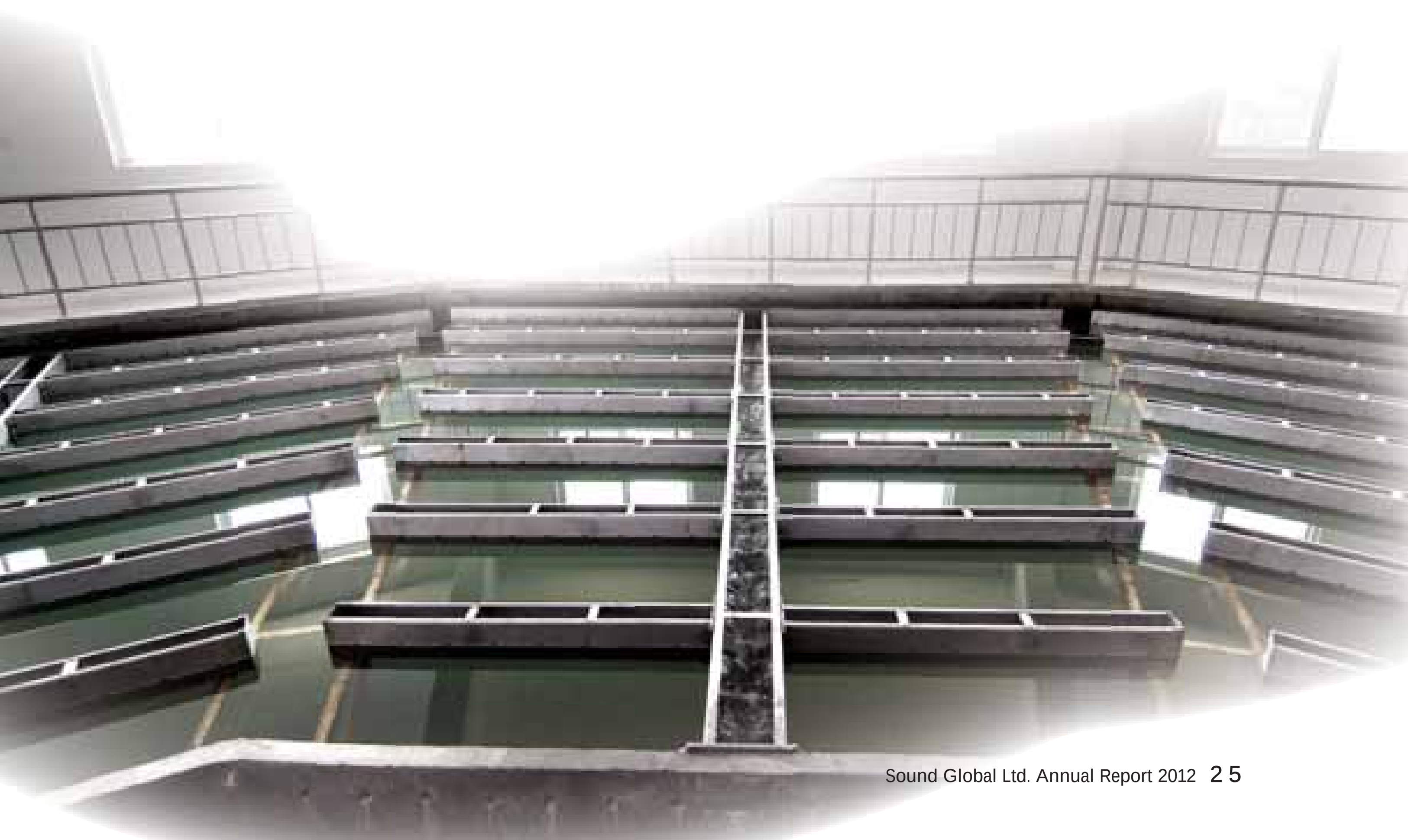
Cash Flow Statement

Net cash used in operating activities was approximately RMB105.7 million in 2012. The negative cash flow in operation in 2012 was mainly arose from increase in trade and other receivables and service concession receivables as driven by the increased business operations.

Net cash used in investing activities amounted to approximately RMB19.2 million in 2012. These amounts were due mainly to the increase in pledged deposits which is in line with the increase in borrowings.

Net cash generated from financing activities amounted to approximately RMB962.9 million in 2012. These amounts were due to new borrowings raised and senior notes issued in third quarter of 2012.

As at December 31, 2012, the Group's cash position remained strong and stood at approximately RMB2,912.1 million.



EMPLOYEES AND REMUNERATION POLICY

As at December 31, 2012, there were 1,394 (2011: 1,101) 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, discretionary incentive bonuses and share options to eligible staff based on their performance and contributions to the Group.

Gearing

	December 31, 2012	December 31, 2011
	RMB'000	RMB'000
Borrowings (current)	465,496	311,838
Borrowings (non-current)	888,662	540,352
Convertible loan notes (current)	-	818,252
Convertible loan notes (non-current)	557,618	-
Senior notes (non-current)	922,644	-
Total debt	2,834,420	1,670,442
Bank balances and cash	2,912,077	2,074,426
Shareholders' equity	2,654,512	2,304,669
Net debt	Net cash	Net cash
Total debt to equity ratio	1.07	0.72

Loans

Aggregate amount of Group's borrowings and debt securities:

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

As at December 31, 2012		As at December 31, 2011	
Secured	Unsecured	Secured	Unsecured
RMB'000	RMB'000	RMB'000	RMB'000
363,146	102,350	175,558	954,532

Amount repayable after one year:

As at December 31, 2012		As at December 31, 2011	
Secured	Unsecured	Secured	Unsecured
RMB'000	RMB'000	RMB'000	RMB'000
1,800,506	568,418	517,852	22,500

Details of any collateral:
The bank loans are secured by charges over the Company's assets, right under the service concession contracts and equity interest in certain subsidiaries.

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 Sound Group Limited, ("SGL"), 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 SGL pursuant to a trademarks transfer agreement dated March 23, 2006. SGL 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) 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 SGL, by which the Group agreed to provide EPC services and sale of goods to SGL and its subsidiaries ("SGL Group"). SGL 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 ended December 31, 2010, 2011 and 2012 must not exceed RMB100 million. For the year ended December 31, 2012, the contract amounts of the new EPC services and sale of goods contracts entered into under the EPC Framework Agreement was RMB15.5 million. The EPC Framework Agreement is for a term until December 31, 2012 and the Group has no intention to extend the same. Upon the expiry of the term of the EPC Framework Agreement, the Company will ensure its compliance with the Listing Rules.

(C) 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.

(D) Confirmation from external auditor in respect of the continuing connected transactions

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

A STEADY STREAM OF INNOVATION

Shanghai – glittering kaleidoscope and glamourous lifestyles. But what identifies the city is the innate culture of pursuing excellence and innovation, fed by the steady stream of inspiration from the river.

The Huang Pu River rushes through the city of lights, inspiring us to constantly innovate to maintain our cutting edge.

BOARD OF DIRECTORS

WEN YIBO
Executive Director and Chairman

Mr. Wen Yibo, aged 47, 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 degree in environmental engineering. Mr. Wen has accumulated more than 18 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 Co., Ltd and Mr. Wen has served as its Chairman since then.

In recognition of the contributions made by Mr. Wen 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 director and legal representative of several companies including Sound Group Limited 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 a director of Sound Water (BVI) Limited, a substantial shareholder of the Company.

ZHANG JINGZHI
Executive Director and Chief Executive Officer

Mr. Zhang, aged 42, is an Executive Director and Chief Executive Officer of our Company. The appointment of Mr. Zhang as an Executive Director and Chief Executive Officer of the Company was on March 4, 2013.

Mr. Zhang graduated with a bachelor degree in management information system from University of Science and Technology Beijing, School of Management in June 1993 and a master degree in business administration from School of Business, Renmin University of China in April 2001. Mr. Zhang was accorded a senior engineer (professor level) by the Beijing Senior Specialized Technique Qualification Evaluation Committee.

In his early years, Mr. Zhang served at the University of Science and Technology Beijing, School of Management and Ministry of Metallurgical Industry. He joined Sound Group Limited in April 2001 and successively served as an assistant to the president and vice president. From January 2004 to March 2011, he served as a director and successively as a general manager and an executive general manager of Sound Environmental Resources Co., Ltd, the shares of which are listed on Shenzhen Stock Exchange. From April 2011 to February 2013, he served as the executive chairman of Beijing Environment Sanitation Investment Co., Ltd.

Mr. Zhang was the general manager of Sound Environmental Resources Co., Ltd., responsible for overall operation. He was in charge and completed the investment, funding and implementation of nearly twenty solid waste treatment projects. Mr. Zhang was awarded the title of "Excellent Entrepreneur in Environment Protection Industry of China" （中國環保產業優秀企業家）in 2009 and ranked 11th in the "2009 Forbes Best CEO of China Listed Company" list（福布斯中國上市公司最佳CEO榜第11位）. As an expert in environment protection industry, Mr. Zhang was also invited to attend and present industry analysis reports at several industry forums.

BOARD OF DIRECTORS

WANG KAI
Executive Director and Chief Financial Officer

Mr. Wang Kai, aged 50, is an Executive Director and Chief Financial Officer of our Company. Mr. Wang was appointed to our Board on December 24, 2010 and he was the Chief Executive Officer from February 2, 2011 to March 3, 2013. He was subsequently appointed as Chief Financial Officer of the Company with effect from March 4, 2013.

Mr. Wang graduated with a bachelor and master 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 Sound Group Limited in 1998 as the chief engineer. Mr. Wang was appointed as the deputy general manager of Beijing Sound Environmental Engineering Co., Ltd in August 2010 and has been appointed as its Director since October 2010.

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 master degree in Environmental Science and Engineering from Tsinghua University. He was the chief technology officer of Sound Group Limited, 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.

JIANG ANPING
Executive Director

Mr. Jiang Anping, aged 40, is an Executive Director and was appointed to our Board on October 3, 2011. He is the head of the design and research department of Beijing Sound Environmental Engineering Co., Ltd and the assistant to the general manager (technical) of the Company.

Mr. Jiang graduated with a bachelor of engineering from the Department of Civil Engineering of Tianjin University in July 1995, and a master of engineering from the Department of Environmental Science and Engineering of Tsinghua University in July 1998. He obtained the doctoral degree in engineering science from the Department of Biological Systems Engineering of Washington State University in U.S.A. in December 2009.

From July 1998 to December 1999, he worked as the assistant engineer in the design department of water supply and drainage under Beijing Municipal Engineering Professional Design Institute; from January 2000 to August 2000, he was the project manager of Beijing China Union Engineering Company Limited; from September 2000 to September 2002, he was the engineer of technical design of Beijing Puresino-Boda Environmental Engineering Co., Ltd.; from October 2002 to July 2005, he worked as the head of the second technology department at research and design institute of Beijing Sound Environmental Engineering Co., Ltd.; from August 2005 to June 2010, he was the assistant researcher of Washington State University; from July 2010 to the present, he has successively served as the chief engineer of the design and research institute, the deputy head of the design and research institute, the head of the design and research institute and the assistant to the general manager (technical) of the Company.

Mr. Jiang has profound professional skills and extensive experience in respect of engineering technologies. As the leader of the development projects of important technologies and key engineering design projects, Mr. Jiang will surely play an important role in the technical innovation and the improvement of the design capability in foreign engineering projects of the Company.

BOARD OF DIRECTORS

LUO LIYANG
Executive Director

Mr. Luo Liyang, aged 39, 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 Environmental Engineering Co., Ltd 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.

WONG SEE MENG
Lead Independent Non-Executive Director

Mr. Wong See Meng, aged 64, 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 Singapore Pte. Ltd.. He joined ESSO 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.

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.. From May 2011 to October 2012, Mr. Wong was a non-independent and non-executive director of Multi-Fineline Electronix, Inc., the shares of which are listed on NASDAQ. Currently Mr. Wong provides training on banking and finance for senior management staff from various Chinese banks.

BOARD OF DIRECTORS

SEOW HAN CHIANG WINSTON
Independent Non-Executive Director

Mr. Seow Han Chiang Winston, aged 44, is an Independent Non-Executive Director and was appointed to our Board on August 24, 2006.

Mr. Seow 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 and has been practicing law in Singapore since his admission.

Mr. Seow joined Madhavan Partnership as an associate in 1995 and became a partner in the corporate department in 1998. From 2006 to 2012, he was successively a corporate partner of KS Chia Gurdeep & Param, KhattarWong and RHTLaw Taylor Wessing LLP. He is currently a corporate partner of Ho & Wee. Mr. Seow is also currently an independent non-executive director of Eucon Holding Limited and Goldtron Limited, the shares of which are listed on Singapore Exchange Securities Trading Limited.

FU TAO
Independent Non-Executive Director

Mr. Fu Tao, aged 45, 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.

JOINT COMPANY SECRETARIES

TAN WEI SHYAN
Joint Company Secretary

Mr. Tan Wei Shyan, aged 35, has been one of our joint company secretaries since April 2007. Mr. Tan graduated with a bachelor of laws (honors) degree 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 had 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 Secretary

Ms. Wong Tak Yee, aged 56, 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 is a Chartered Secretary and a fellow member of both The Institute of Chartered Secretaries and Administrators in United Kingdom and The Hong Kong Institute of Chartered Secretaries (HKICS). She also holds the Practitioner's Endorsement certificate issued by HKICS. 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 many listed companies in Hong Kong.

INFORMATION FOR INVESTORS

ANNUAL RESULTS ANNOUNCEMENT
February 27, 2013

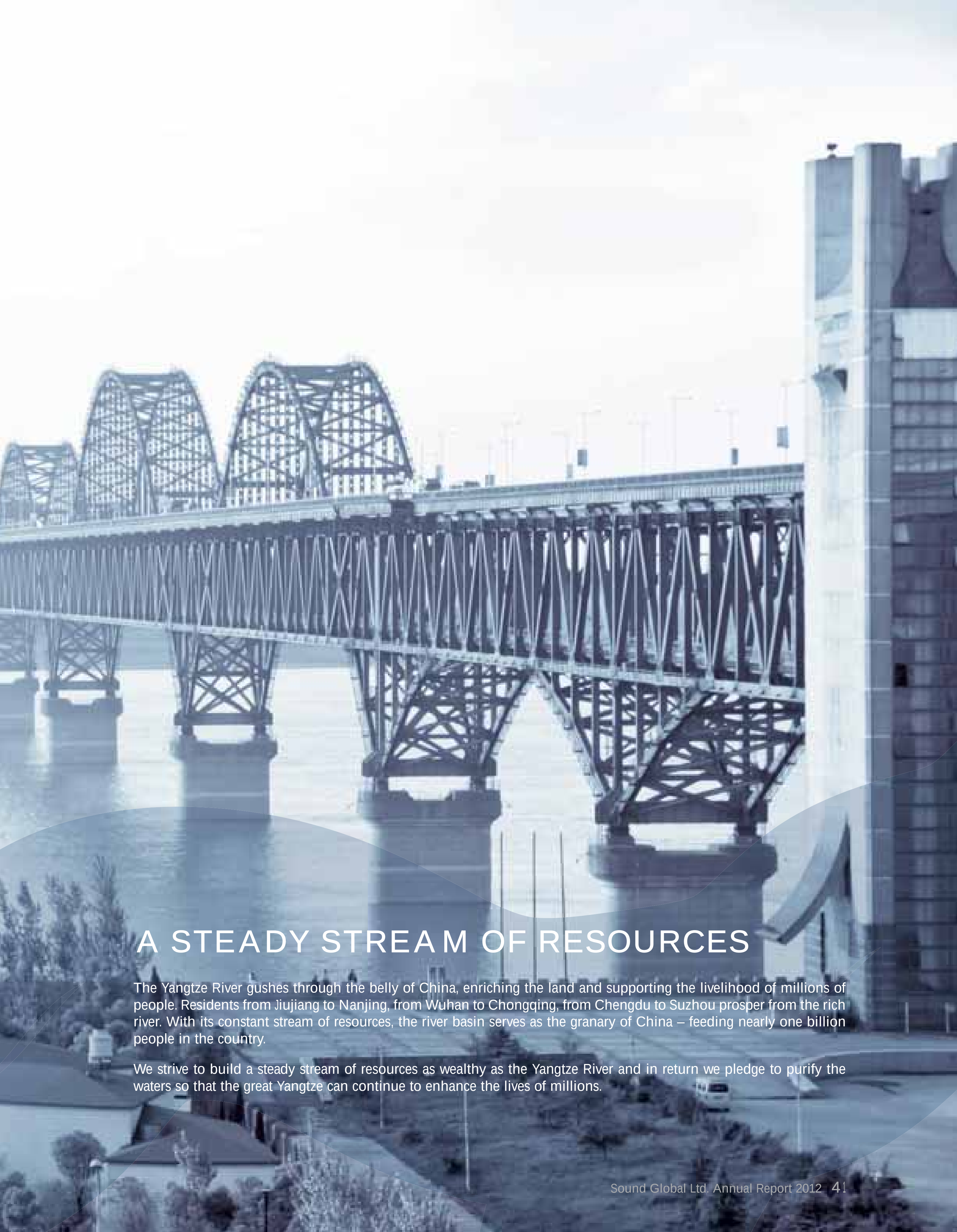
ANNUAL GENERAL MEETING
April 29, 2013

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 2598 1588



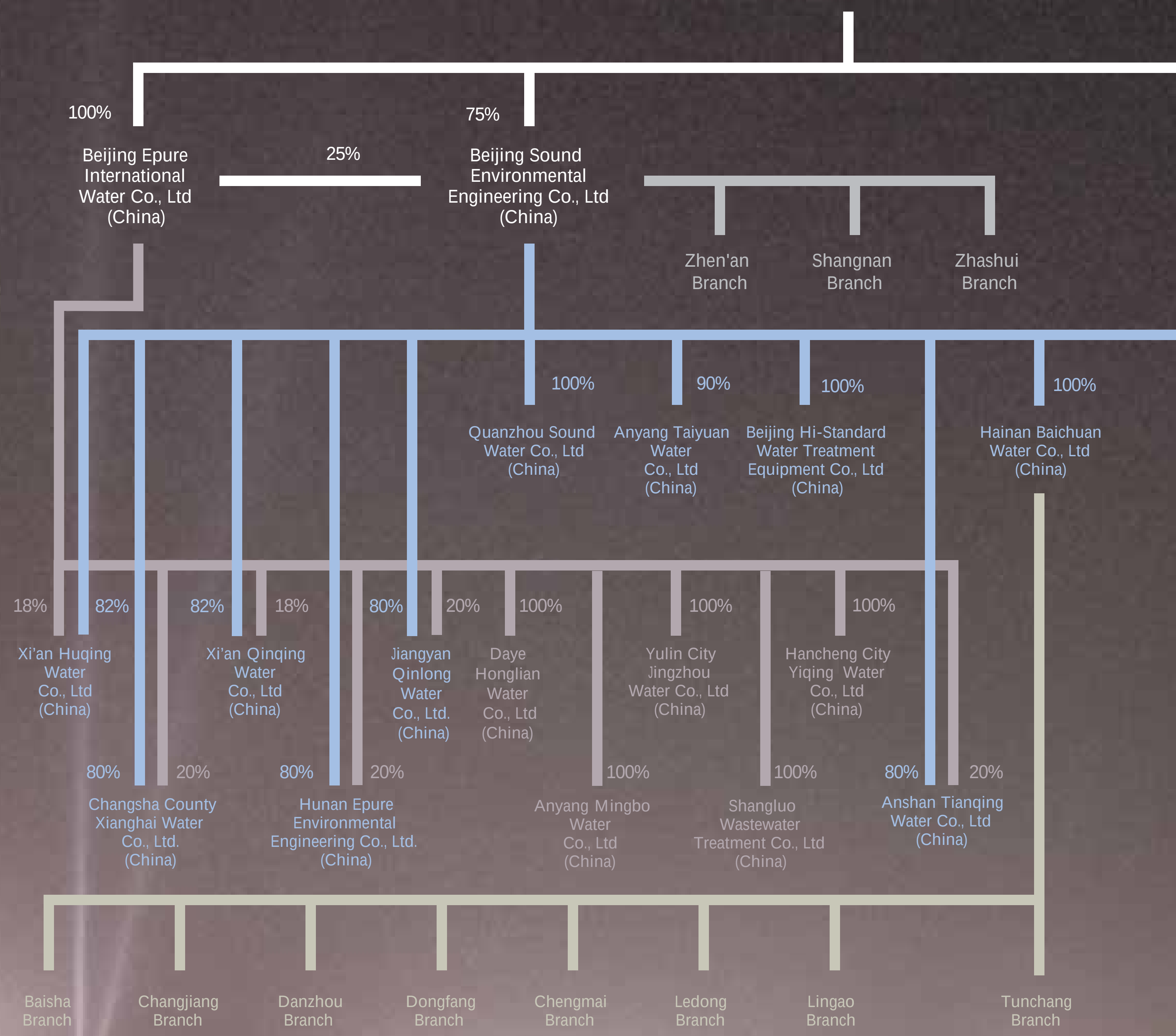
A STEADY STREAM OF RESOURCES

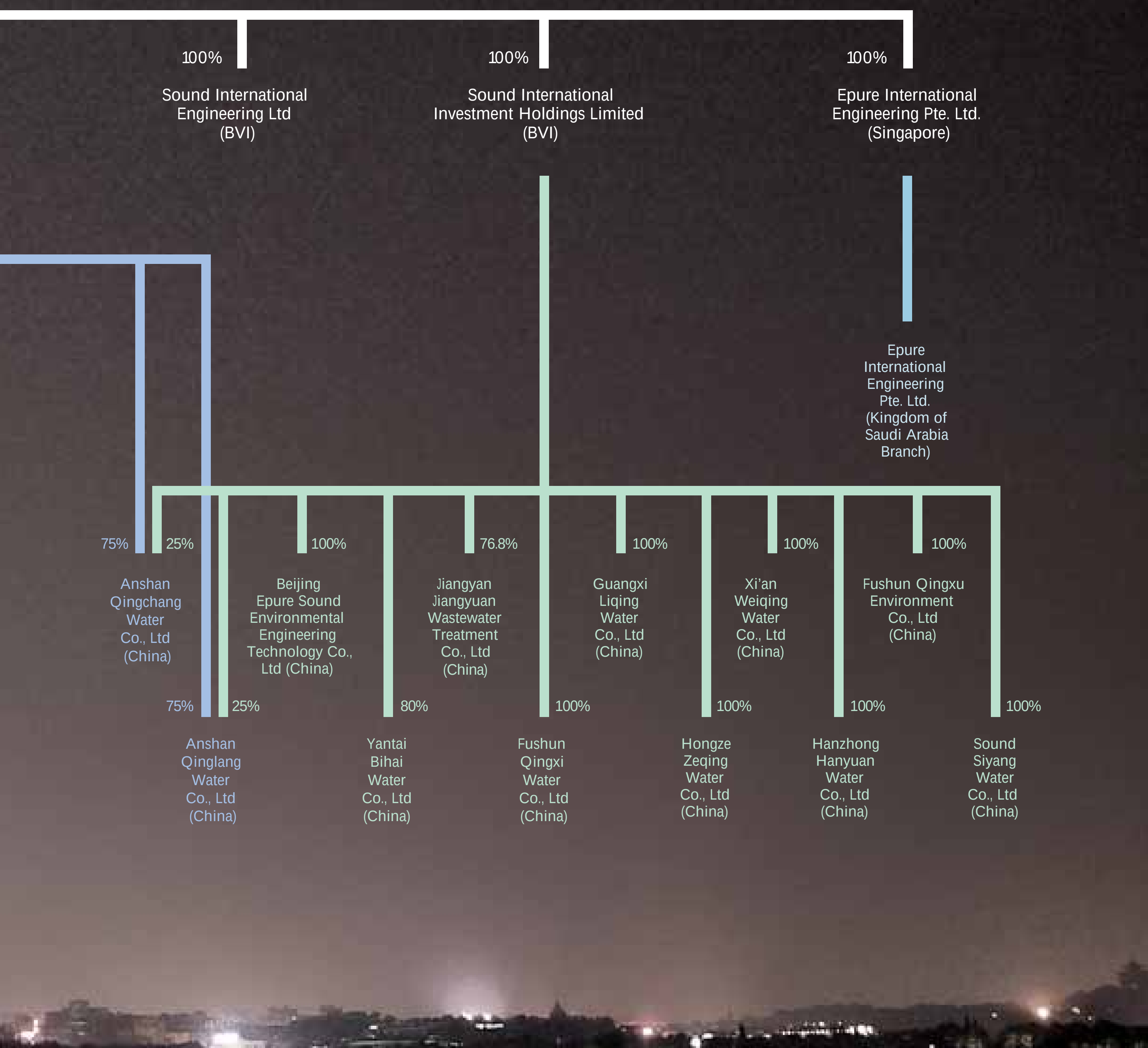
The Yangtze River gushes through the belly of China, enriching the land and supporting the livelihood of millions of people. Residents from Jiujiang to Nanjing, from Wuhan to Chongqing, from Chengdu to Suzhou prosper from the rich river. With its constant stream of resources, the river basin serves as the granary of China – feeding nearly one billion people in the country.

We strive to build a steady stream of resources as wealthy as the Yangtze River and in return we pledge to purify the waters so that the great Yangtze can continue to enhance the lives of millions.

CORPORATE STRUCTURE

AS AT FEBRUARY 28, 2013




100%
Sound International Engineering Ltd (BVI)
100%
Sound International Investment Holdings Limited (BVI)
100%
Epure International Engineering Pte. Ltd. (Singapore)
Epure International Engineering Pte. Ltd. (Kingdom of Saudi Arabia Branch)
75%
25%
Anshan Qingchang Water Co., Ltd (China)
100%
Beijing Epure Sound Environmental Engineering Technology Co., Ltd (China)
76.8%
Jiangyan Jiangyuan Wastewater Treatment Co., Ltd (China)
100%
Guangxi Liqing Water Co., Ltd (China)
100%
Xi'an Weiqing Water Co., Ltd (China)
100%
Fushun Qingxu Environment Co., Ltd (China)
75%
25%
Anshan Qinglang Water Co., Ltd (China)
80%
Yantai Bihai Water Co., Ltd (China)
100%
Fushun Qingxi Water Co., Ltd (China)
100%
Hongze Zeqing Water Co., Ltd (China)
100%
Hanzhong Hanyuan Water Co., Ltd (China)
100%
Sound Siyang Water Co., Ltd (China)

CORPORATE CALENDAR

2012

JAN

FEB

Full-year results announcement
FY2011 results was announced on Feb 28, 2012

MAR

Incorporation of a wholly-owned subsidiary in Dagushan, Anshan City, Liaoning Province, the People's Republic of China (the "PRC")
Anshan Tianqing Water Co., Ltd., with registered capital of RMB30 million, was incorporated by Beijing Sound Environmental Engineering Co., Ltd. (80%) and Beijing Epure International Water Co., Ltd. (20%) in Dagushan, Anshan City, Liaoning Province, the PRC. Its principal activity involves wastewater treatment and utilisation.

APR

FY2011 Annual General Meeting
FY2011 Annual General Meeting was held on April 27, 2012, and all resolutions relating to the matters as set out in the Notice of AGM were duly passed.

MAY

Incorporation of a wholly-owned subsidiary in Jiangyan City, Jiangsu Province in the PRC
Jiangyan Qinlong Water Co., Ltd., was incorporated by Beijing Sound Environmental Engineering Co., Ltd. (80%) and Beijing Epure International Water Co., Ltd. (20%) in Jiangyan City, Jiangsu Province, the PRC, with a registered capital of RMB16.5 million. Its principal activity involves wastewater treatment and utilisation.

First Quarter Results Announcement
1Q FY2012 results was announced on May 9, 2012.

Secured Build, Operate and Transfer (BOT) project in Chang'an District, Xi'an City, Shaanxi Province, the PRC
Sound Global won the bid for the BOT project of the phase II expansion of a wastewater plant in Chang'an District, Xi'an City, Shaanxi Province, the PRC. Upon completion of phase II, its treatment capacity will be increased by 50,000 tonnes per day to realize a total treatment of 100,000 tonnes per day. The investment is approximately RMB58.6 million.

Secured Transfer-Operate-Transfer (TOT) project in Hailun City, Heilongjiang Province, the PRC
Sound Global won the bid for the TOT project of a wastewater plant in Hailun City, Heilongjiang Province in the PRC. The project has a treatment capacity of 20,000 tonnes per day. Sound Global will acquire all the assets and interests of the wastewater plant at a consideration of RMB30 million.

JUN

Secured wastewater treatment plant BOT project in Nanshanpian, Quangang Petrochemical Industrial Zone of Quanzhou City, Fujian Province, the PRC
The Company won the bid for the wastewater treatment plant BOT project in Nanshanpian, Quangang Petrochemical Industrial Zone of Quanzhou City, Fujian Province, the PRC. The Company will invest and construct a wastewater treatment plant with a current designed capacity of 100,000 tonnes per day. The first phase of construction, with a total investment of RMB133 million, will process 25,000 tonnes of wastewater per day. The concession period is 30 years with basic water treatment tariff at RMB4.48 per tonne.

JUL

AUG

Capacity Increase of Jingbian County Wastewater Treatment BOT Project

Company entered into an agreement to undertake the second phase to expand the existing capacity as well as to increase the existing discharge standard of the wastewater treatment plant BOT project in Jingbian County, Shaanxi Province, the PRC. The project aims to expand the plant's capacity to 30,000 tonnes per day. The project will be built and operated under the BOT arrangement with an investment amount of approximately RMB81.49 million. The operational service tariff is at RMB1.55 per tonne, with a concession period of 30 years.

Issue of US$150,000,000 11.875% Senior Notes Due 2017

The Company and the Subsidiary Guarantors entered into the Purchase Agreement with HSBC and Deutsche Bank in connection with the issuance and sale of US$150 million aggregate principal amount of 11.875% senior notes due 2017. The estimated net proceeds of the Notes, after reduction of the estimated expenses, will be approximately US$146.2 million. The Company intends to use the proceeds of the Notes to invest in prospective BOT projects, refinance the 2010 Convertible Bonds and repay the term loan facility with Wing Lung Bank Limited and for working capital and other general and corporate purposes.

Second quarter results announcement

2Q FY2012 result was announced on Aug 14, 2012.

Incorporation of a wholly-owned subsidiary in Ningyuan, Anshan City, Liaoning Province, the PRC

Anshan Qingchang Water Co., Ltd was incorporated by Beijing Sound Environmental Engineering Co., Ltd. (75%) and Sound International Investment Holdings Limited (25%) with a registered capital of RMB92.35 million. Its principal activity involves of wastewater treatment and utilisation.

Incorporation of a wholly-owned subsidiary in Dongtai, Anshan City, Liaoning Province, the PRC

Anshan Qinglang Water Co., Ltd. was incorporated by Beijing Sound Environmental Engineering Co., Ltd. (75%) and Sound International Investment Holdings Limited (25%) with a registered capital of RMB102 million. Its principal activity involves of wastewater treatment and utilisation.

Voluntary liquidation of a wholly owned subsidiary

A dormant wholly-owned subsidiary, Fushun Sangyuan Environmental Engineering Co., Ltd, a company incorporated in the PRC, was voluntarily liquidated.

SEP

Partial redemption of 6% convertible bonds due 2015

The Company partially redeemed bonds of an aggregate amount of RMB263 million at the option of bondholders. The consideration for the redemption of the bonds was funded from the net proceeds the Company received from the issue of the USD150 million 11.875% Senior Notes due 2017. All bonds which were redeemed by the company would forthwith be cancelled.

CORPORATE CALENDAR

2012

OCT

Secured sewage treatment plant network project located in 14 rural areas in Siyang County, Jiangsu Province, the PRC

Sound Global won the bid for the sewage treatment plant network project located in 14 rural areas in Siyang County, Jiangsu Province, the PRC. The project consists of 14 sewage treatment plants with a total daily capacity of 22,000 tonnes and has a licensed operating term of 30 years. The project will be built and operated under the BOT arrangement with total investments amounting to approximately RMB240 million.

Secured the municipal wastewater treatment upgrading project in Hancheng City, Shaanxi Province, the PRC

The Company entered into a licensing agreement for the BOT project relating to municipal wastewater treatment upgrading project in Hancheng City, Shaanxi Province, the PRC. The total investment of the project is RMB98 million.

NOV

Third quarter results announcement

3Q FY2012 results was announced on November 12, 2012

Repurchase and cancellation of RMB885 million USD settled 6% convertible bonds due 2015

The Company repurchased an aggregate principal amount of RMB15 million of Convertible Bonds by way of an over-the-counter purchase. The outstanding aggregate principal amount of Convertible Bonds following the cancellation of the Repurchased Bonds was RMB607 million.

DEC

Incorporation of a wholly-owned subsidiary in Siyang County, Jiangsu Province, the PRC

Sound Siyang Water Co., Ltd. was incorporated by Sound International Investment Holdings Limited with a registered capital of US$15 million. Its principal activity involves wastewater treatment and utilisation.

Sound Global and China Railway 18th Bureau jointly won the bid for No.6 Water Treatment Plant Project in Changchun City, Jilin Province, the PRC

The project's long-term projected capacity is 500,000 tonnes per day with the near term capacity at 250,000 tonnes per day. The project requires a total investment of approximately RMB2.035 billion and is expected to commence construction in 2013 with projected completion in 2015.

Repurchase and cancellation of RMB885 million USD settled 6% convertible bonds due 2015

The Company repurchased an aggregate principal amount of RMB7 million of Convertible Bonds by way of an over-the-counter purchase. The outstanding aggregate principal amount of Convertible Bonds following the cancellation of the Repurchased Bonds was RMB600 million.

Secured a bid for Sewage Treatment Plant Project in Shuanggui, Liangping County, Chongqing City, the PRC

Sound Global won the bid for Shuanggui Sewage Treatment Plant (BOT) Infrastructure Project in Chongqing City, the PRC. This project is designed with sewage treatment capacity of 15,000 tonnes per day for phase I and 30,000 tonnes per day for phase II. Phase I of the project requires a total investment of approximately RMB50 million, with sewage treatment tariff of RMB1.89 per tonne. The licensed operating term is 22 years.

2013

JAN

Incorporation of a wholly-owned subsidiary in Quanzhou City, Fujian Province in the PRC

Quanzhou Sound Water Co., Ltd., was incorporated by Beijing Sound Environmental Engineering Co., Ltd. in Quanzhou City, Fujian Province, the PRC, with a registered capital of RMB23 million. Its principal activity involves wastewater treatment and utilisation.

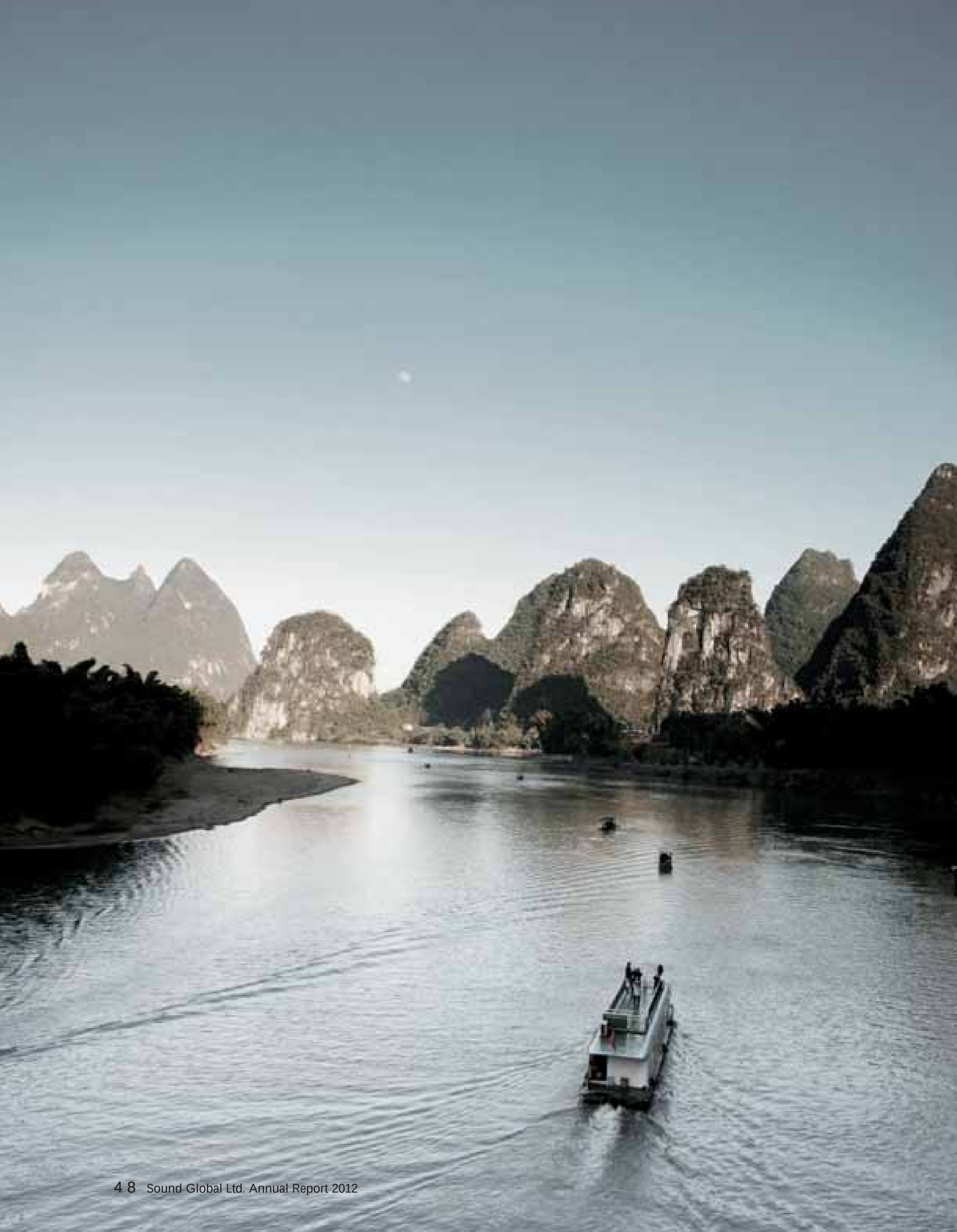
FEB

Secured a bid for water supply facility project in Nanshan Sub-District, Quangang District, Quanzhou City, Fujian Province, the PRC

Sound Global won the bid for the Water Supply Facility Project in Nanshan Sub-District, Quangang District, Quanzhou City, Fujian Province, the PRC. Investment and construction of the project will be carried out by Sound Global, with a total investment amount of approximately RMB95.02 million. The construction of this project includes water intake engineering, water transmission pipeline construction and a water purification factory. The scale of the water purification factory is as follows: 100,000 cubic meters per day for public facilities, 50,000 cubic meters per day for the construction of water treatment facilities and 25,000 cubic meters per day for the installation of equipment.

Full-year results announcement

FY2012 results was announced on Feb 27, 2013



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 own 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 and the Corporate Governance Code (formerly 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") for the year under review. In so doing the Company endeavours to set the stage for greater transparency and protection of the shareholders' interests.

The Board is of the view that throughout the year under review, the Company has complied with all of the code provisions as set out in the HK CG Code, save and except for Code Provisions A.4.1, A.6.7 and E.1.2, details will be set out below.

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/code provisions 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 8 Directors: 1 executive Director and Chairman, 4 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	47	November 7, 2005	April 30, 2011	Executive Director and Chairman	Executive Director and Chairman
Zhang Jingzhi	42	March 4, 2013	NA	Executive Director and Chief Executive Officer ("CEO")	Executive Director and CEO
Wang Kai	50	December 24, 2010	April 30, 2011	Executive Director and Chief Financial Officer ("CFO")	Executive Director and CFO

Name of Director	Age	Date of first appointment	Date of last re-election	Position	Current Occupation
Luo Liyang	39	February 2, 2011	April 30, 2011	Executive Director	Executive Director
Jiang Anping	40	October 3, 2011	April 27, 2012	Executive Director	Executive Director
Wong See Meng	64	May 18, 2009	April 27, 2012	Independent Non-Executive Director	Independent Non-Executive Director
Fu Tao	45	August 24, 2006	April 30, 2011	Independent Non-Executive Director	Director of the Water Policy Research Centre, Tsinghua University
Seow Han Chiang Winston	44	August 24, 2006	April 27, 2012	Independent Non-Executive Director	Corporate Partner, Ho & Wee

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.

During the year ended December 31, 2012, the Board at all times met with the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors representing one-third of the Board. 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 Directors an annual confirmation of his independence pursuant to the Singapore CG Code and Rule 3.13 of the Listing Rules and the Company considers all 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, 2012 and the attendance of each Director at the Board and Board Committee meetings where relevant and general meeting(s) is as follows:

	Board	Audit Committee	Nomination Committee	Remuneration Committee	General Meeting
Number of meetings held	6	4	1	1	1
Wen Yibo	4	3^	1	NA	0
	2*	1^*			
Wang Kai	1	1^	NA	NA	0
	4*	3^*			
Luo Liyang	5*	4^*	NA	NA	0
Jiang Anping	1	3^	NA	NA	0
	4*	1^*			
Wong See Meng	5	4	1	1	1
	1*				
Fu Tao	4*	4*	NA	1*	0
Seow Han Chiang Winston	5	4	1	1	1
	1*				

^: by invitation
*: via conference call

Apart from regular Board meetings, the Chairman also held meeting with the non-executive Directors (including independent non-executive Directors) without the executive Directors present during the year.

1.4 Training and Continuous Professional Development Program

The Board recognises the importance of appropriate training for its Directors and participation in continuous development by 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. All the Directors and key executives are encouraged to participate in continuous development to develop and refresh their skills and knowledge, particularly on new laws and regulations affecting the Group's business and governance practices, and roles, functions and duties of a listed company director. All Directors are requested to provide the Company with their respective training records.

During the year ended December 31, 2012, all Directors have received regular updates on the changes to and developments in the relevant laws and regulations applicable to the Directors.

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's Approval

The Board has identified a number of areas for which the Board has direct responsibility for decision making. Responsibilities relating to implementing decisions of the Board, directing and co-ordinating the daily operation and management of the Company are delegated to the management. 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 Company's 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.

The Directors shall disclose to the Company details of other offices held by them and the Board regularly reviews the contribution required from each Director to perform his responsibilities to the Company.

Principle 3: Chairman and CEO

1.7 Chairman and CEO

Mr. Wen Yibo is the Chairman and Mr. Zhang Jingzhi 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. Zhang. Mr. Zhang is responsible for directing our Group's overall strategy and growth. Mr. Wen and Mr. Zhang 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. Management ensures that the Board receives regular reports on the Group's financial performance and operations. Board papers are given to the Directors before the scheduled meetings to facilitate Board discussions on specific matters and issues. 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 Director and Chairman of the Board)
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 at least annually, 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 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.

The Board and NC have strived to ensure that members of the Board 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 year
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 Sound Group Limited Sound Environmental Resources Co., Ltd Green Capital Holdings Limited Sound Water (BVI) 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
Zhang Jingzhi	NIL	Sound Environmental Resources Co., Ltd Beijing Environment Sanitation Investment Co., Ltd
Wang Kai	Beijing Sound Environmental Engineering Co., Ltd	NIL
Luo Liyang	NIL	NIL
Jiang Anping	Beijing Sound Environmental Engineering Co., Ltd	NIL
Wong See Meng	NIL	Lion Asiapac Ltd Multi-Fineline Electronix, Inc.
Fu Tao	Beijing Jincheng Property and Technology Development Co., Ltd Beijing Capital Co., Ltd Jiangsu Jiangnan Water Co., Ltd	Interchina Holdings Company Limited

Name of Director	Present Directorships	Past directorships for the past 3 year
Seow Han Chiang Winston	Eucon Holding Limited Goldtron 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 Oceanexplor Logistics Pte Ltd Offshoreworks (Singapore) Pte Ltd Oils Overseas (Asia Pacific) Pte Ltd Sanwa F&B Pte Ltd Sanwa Group Pte Ltd Self Energy Pte Ltd Superiorcoat Pte Ltd Armenian Holdings Pte Ltd Anzeco Perdana Pte Ltd	Fastube Limited Petchem International Pte Ltd Petchem International Trading & Shipping Pte Ltd Sigma-Two Pte Ltd Atlantic Navigation Holdings (Singapore) Limited

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.

Code Provision A.4.1 of the HK CG Code stipulates that non-executive directors shall be appointed for a specific term, subject to re-election. Although the independent non-executive Directors are not appointed for a specific term, all Directors shall submit themselves for re-election at least once every three years pursuant to the Company's Articles of Association. 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. Fu Tao and Mr. Zhang Jingzhi 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 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 including determining the remuneration packages of individual executive Directors and senior management (for endorsement by the Board), the remuneration policy and structure for all Directors and senior management; and establishing transparent procedures for developing such remuneration policy and structure to ensure that no Director or any of his associates will participate in deciding his own remuneration. The RC meets whenever required. The review will cover all aspects of remuneration including but not limited to Directors' and senior management's 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 Director and key management executive. Such performance is measured by goals and objectives set for each individual Director and 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 entered into 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, 2012 are as follows:

	Number of Directors		Top Five Key Executives	
	2012	2011	2012	2011
S$500,000 to below S$750,000	-	-	-	1
Below $250,000	7	9	5	4
Total	7	9	5	5

The summary table for compensation paid/payable to the Directors of the Group for the financial year ended December 31, 2012 is set out below:

Name	Salary/Bonus	Other contributions	Directors' Fees	Total Compensation
	%	%	%	%
Executive Directors				
Below S$250,000				
Wen Yibo	72	28	-	100
Wang Kai	67	33	-	100
Luo Liyang	74	26	-	100
Jiang Anping	72	28	-	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 other than the 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, 2012.

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. 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 has full access to and co-operation of the management and external auditors, Deloitte Touche Tohmatsu, Hong Kong and Deloitte & Touche LLP, Singapore (collectively known as "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.

During the year under review, the AC has 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 RMB3,176,000 to the external auditor for its audit services and has paid approximately RMB1,071,000 to the external auditors for the issuance of senior notes and tax consultancy 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 and all of its significant subsidiaries are audited or reviewed by Deloitte & Touche LLP, Singapore and overseas practice of Deloitte Touche Tohmatsu Limited for consolidation purposes. Accordingly, Rule 716 of the Listing Manual of the Singapore Exchange Securities Trading Limited (the "Listing Manual") is not applicable. The Company complies with Rules 712 and 715 of the Listing Manual.

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.

Any internal control weaknesses identified by the external auditors, DT, during the course of their audit, 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. In the opinion of the Board, with the concurrence of the AC, the internal controls, addressing financial, operational and compliance risks, are adequate.

Corporate Governance Functions

The Board is responsible for performing the functions set out in the code provision D.3.1 of the HK CG Code.

The Board reviewed the Company's corporate governance policies and practices, training and continuous professional development of Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (the "Model Code") and the Written Guidelines for Securities Transactions by the Relevant Employees adopted by the Company, and the Company's compliance with the HK CG Code and disclosure in this Corporate Governance Report.

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

Due to change in funds requirement, the Board re-allocates the intended use of proceeds in following manner:

- approximately 45% for investment in prospective BOT projects and water and wastewater treatment projects in other investment project formats and the acquisition of BOT projects with attractive return profiles from local enterprises and municipal governments;
- approximately 14% to repay certain existing indebtedness;
- approximately 38% for working capital and other general corporate purposes.
- approximately 3% as pledged deposits for certain loans/bank facilities

Following the change in amount allocated the net proceeds of approximately USD126.6 million have been deployed in the following manner:

Use of Convertible Bonds Proceeds	Amount re-allocated and fully deployed as at December 31, 2012 (USD'000)
Investment and acquisition of BOT projects	57,082
To repay certain existing indebtedness	17,997
General working capital and other general corporate purposes	
• Restricted bank deposits for certain loans/bank facilities	3,380
• Other operating expenses	48,115
Total	126,574

Senior Notes Proceeds

The net proceeds of the USD150 million 11.875% senior notes due 2017 is approximately USD146.2 million and have been deployed in the following manner:

Use of USD Senior Notes Proceeds	Amount (USD'000)
Net proceeds	146,234
Investment and acquisition of BOT projects	(19,917)
Refinancing the 6% Convertible Bonds	(49,220)
Repayment of the term loan facility with Wing Lung Bank Limited	(12,917)
For working capital and other general and corporate purposes	
• Repayment of borrowings and relevant interest	(3,749)
• Restricted bank deposits for certain loans/bank facilities	(3,973)
• Other operating expenses	(14,125)
Balance as at December 31, 2012	42,333

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

The Company recognizes the importance of providing the Board with sufficient, up-to-date and 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 its 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, 2012. 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 HKExnews 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 shareholders' approval are tabled separately for adoption at the AGM. The Chairman of the Board and the Chairpersons of the AC, RC and NC (or a member or duly appointed delegate of each Committee) and external auditors 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. One of the independent non-executive Directors and the Chairman did not attend the 2012 AGM due to other work commitment which deviates from Code Provisions A.6.7 and E.1.2 of the HK CG Code. They will use their best endeavours to attend all future Shareholders' meetings of the Company.

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

During the year under review, the Company has not made any change to its Articles of Association.

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. 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 year ended December 31, 2012.

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 inside/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 Sound Group Limited, its subsidiaries and associated companies. This general mandate was renewed on April 27, 2012 and will be renewed at the forthcoming AGM.

The following table summarises the Interested Person Transactions entered into for the year ended December 31, 2012:

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)	Aggregate value of all Interested Person Transactions conducted under Shareholders' Mandate pursuant to Rule 920 (excluding transactions less than S$100,000)
	RMB'000	RMB'000
Linqu Yiqing Environment Energy Co., Ltd	NIL	3,270
Anda Anhua Environmental Co., Ltd	NIL	7,520
Huzhou Zheqing Water Co., Ltd	333	NIL
Hongze Hongqing Environment Co., Ltd	NIL	230
Sound Group Ltd.	4,101	NIL
Total	4,434	11,020

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 Renminbi, with some transactions in Singapore Dollars, Bangladeshi Taka, 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.

Company Secretaries

Ms. Wong Tak Yee of Tricor Services Limited and Mr. Tan Wei Shyan of Shook Lin & Bok LLP, external service providers, have been engaged by the Company as its joint company secretaries in Hong Kong and Singapore respectively. Their primary contact person at the Company is Mr. Wang Kai, CFO of the Company.

Shareholders' Rights

To safeguard shareholders' interests and rights, a separate resolution is proposed for each substantially separate issue at shareholders' meetings, including the election of individual Directors. All resolutions put forward at shareholders' meetings will be voted on by poll pursuant to the Articles of Association of the Company and poll results will be posted on the websites of the Company and of Singapore Exchange and SEHK after each shareholders' meeting.

Convening an Extraordinary General Meeting On Requisition by Shareholders

Pursuant to Section 176 of the Companies Act (Chapter 50 of Singapore) ("CA"), shareholders may requisition the Directors of the Company to convene an extraordinary general meeting, provided that such shareholders hold at the date of the deposit of requisition not less than 10 per cent. of the paid-up capital which carry voting rights at general meetings. The requisition shall state the objects of the meeting. Alternatively, Section 177 of the CA permits two or more shareholders holding not less than 10% of the total number of issued shares of the Company (excluding treasury shares) to call a meeting of the Company. The requirements and procedures for requisitioning and calling a meeting are as set out in Section 176 and Section 177 of the CA respectively.

Putting Forward Proposals at General Meetings

Under Section 183 of the CA, any number of shareholders representing not less than five (5) per cent. of the total voting rights, or not less than 100 shareholders holding shares in the Company on which there has been paid up an average sum, per shareholder, of not less than S$500, may requisition the Company to give notice of a resolution intended to be dealt with at the next AGM. Shareholders should follow the requirements and procedures as set out in Section 183 of the CA for putting forward a resolution at the AGM.

Putting Forward Enquiries to the Board

For putting forward any enquiries to the Board of the Company, shareholders may send written enquiries to the Company.

Note: The Company will not normally deal with verbal or anonymous enquiries.

Contact Details

Shareholders may send their enquiries or requests as mentioned above to the following:

<u>Singapore:</u>

Address:	1 Robinson Road, #17-00 AIA Tower, Singapore 048542 (For the attention of Joint Company Secretary)
Fax:	(65) 6535 8577
Email:	IR@soundglobal.hk

<u>Hong Kong:</u>

Address:	Unit 1805, 18th Floor, Tower Two, Lippo Centre, 89 Queensway, Admiralty, Hong Kong (For the attention of Joint Company Secretary)
Fax:	(852) 2526 6533
Email:	IR@soundglobal.hk

For the avoidance of doubt, shareholder(s) must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

Shareholders may call the Company at (852) 2526 6552 for any assistance.

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, 2012. These financial statements are prepared in accordance with International Financial Reporting Standards which also in compliance with the Singapore Financial Reporting Standards.

1. PRINCIPAL ACTIVITIES

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

2. RESULTS AND DIVIDENDS

The Group's profit for the year ended December 31, 2012 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 84 to 174 of this annual report.

The directors do not propose any final dividend in respect of the year ended December 31, 2012.

3. RESERVES AND DISTRIBUTABLE 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. The Company's reserves available for distribution to shareholders as at December 31, 2012 amounted to RMB4.2 million (2011: RMB66.6 million).

4. PROPERTY, PLANTS AND EQUIPMENT

Details of significant changes in the property, plant and equipment of the Group and the Company during the year are set out in Note 16 to the financial statements.

5. ISSUED CAPITAL

Movements in issued capital of the Group and the Company during the year are set out in Note 28 to the financial statements.

6. CONVERTIBLE LOAN NOTES

Details of the convertible loan notes of the Group and the Company during the year are set out in Note 29 to the financial statements.

7. WARRANTS

Details of the warrants of the Group and the Company during the year are set out in Note 30 to the financial statements.

8. SENIOR NOTES

Detail of the senior notes of the Group and the Company during the year are set out in Note 31 to the financial statements.

9. 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, 2012.

10. MAJOR SUPPLIERS AND CUSTOMERS

The purchase from the largest supplier of the Group for 2012 was approximately RMB136.7 million, which accounted for 7.8% of the total purchase of the Group for the year and the total purchase from the five largest suppliers was approximately RMB562.5 million, which accounted for 32.1% 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 capital had any interest in any of the five largest suppliers of the Group. The sales to the largest customer of the Group for 2012 was approximately RMB284.5 million, which accounted for 10.7% of the total sales of the Group for the year and the total sales from the five largest customers was approximately RMB602.4 million, which accounted for 22.7% 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 capital had any interest in any of the five largest customers of the Group.

11. DIRECTORS

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

Executive Directors
Wen Yibo (Chairman)
Zhang Jingzhi (Chief Executive Officer) (appointed on March 4, 2013)
Wang Kai
Luo Liyang
Jiang Anping

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. Zhang Jingzhi, Mr. Wen Yibo, Mr. Wang Kai and Mr. Fu Tao will retire as Directors at the forthcoming AGM, and being eligible, will offer themselves for re-election.

No Directors proposed for re-election at the forthcoming AGM has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one 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.

12. 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 15 of the Report of the Directors.

13. DIRECTORS' INTERESTS IN SHARES AND DEBENTURES

(a) Disclosure under Singapore Law

The Directors 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 director 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, 2012	At December 31, 2012	At January 1, 2012	At December 31, 2012
	Number of ordinary shares			
Sound Water (BVI) Limited – Ordinary shares of US$1.00 each				
Wen Yibo	515,505,600	631,605,600	186,278,400	70,178,400
The Company				
Wen Yibo	1,907,000	11,733,000	713,289,000	713,289,000

By virtue of Section 7 of the Singapore Companies Act, Mr. 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, 2013 were the same as those as at December 31, 2012.

(b) Disclosure under Hong Kong law

As at December 31, 2012, 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 SEHK 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); 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 SEHK were as follows:

Long Position in the Ordinary Shares ("Shares") of the Company and Associated Corporation are as follows:

(A) The 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	11,733,000	-	701,784,000#1	713,517,000	55.31
Wang Kai	3,075,000#2	-	-	3,075,000	0.24
Luo Liyang	3,057,400#2	-	-	3,057,400	0.24
Jiang Anping	1,140,000#2	-	-	1,140,000	0.09

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 Share options granted under the Epure Share Option Scheme of the Company.

(B) Associated Corporation — Sound Water (BVI) Limited #3

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	1	-	10	100

Notes:

#3 Sound Water (BVI) Limited was owned by Mr. Wen Yibo and his wife, Ms. Zhang Huiming as to 90% and 10% respectively.

Save as disclosed above, as at December 31, 2012, 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 Part XV of the SFO) which were required to be notified to the Company and SEHK 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 SEHK.

14. 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 or 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.

15. SHARE OPTION

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

The Scheme is administered by the RC 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 RC 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 quotations 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 the 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 which should be paid within 30 days from the date of offer. 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 RC.

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 independent non-executive 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 RC 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.

No options to take up unissued shares of the Company or any subsidiary were granted under the Scheme since the date of adoption up to December 31, 2012. As at the date of this Annual Report, the total number of shares which may be issued upon exercise of all options to be granted under the Scheme is 129,000,000 shares, representing 10% of the issued share capital of the Company. The remaining life of the Scheme is approximately 7 years.

(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 the SEHK. No further options are available for issue under the Epure Scheme as at the date of this Annual Report.

As at December 31, 2012, the number of shares in respect of which options had been granted under the Epure Scheme was 64,500,000 (2011: 64,500,000), representing 5% (2011: 5%) of the shares of the Company in issue at that date.

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

Date of grant	Vesting period	Exercisable period	Exercisable price	Outstanding at January 1, 2012	Forfeited	Outstanding at December 31, 2012
July 23, 2010	July 23, 2010 to July 22, 2014	July 23, 2011 to July 22, 2015	S$0.745	42,989,200	9,838,800	33,150,400

In respect of options granted on July 23, 2010, 10,000,000 options were granted to the then executive directors and 54,500,000 options were granted to the then employees.

There are no options granted to any of the Company's controlling shareholders or their associates.

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

Name	Date of grant	Vesting period	Exercisable period	Exercisable price	Outstanding at January 1, 2012	Forfeited	Outstanding at December 31, 2012
Director							
Wang Kai	July 23, 2010	July 23, 2010 to July 22, 2014	July 23, 2011 to July 22, 2015	S$0.745	3,075,000	-	3,075,000
Luo Liyang	July 23, 2010	July 23, 2010 to July 22, 2014	July 23, 2011 to July 22, 2015	S$0.745	3,057,400	-	3,057,400
Jiang Anping	July 23, 2010	July 23, 2010 to July 22, 2014	July 23, 2011 to July 22, 2015	S$0.745	1,140,000	-	1,140,000
Other employees	July 23, 2010	July 23, 2010 to July 22, 2014	July 23, 2011 to July 22, 2015	S$0.745	35,716,800	9,838,800	25,878,000

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%, 15%, 10% and 10% respectively, 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, for each of the financial years ended/ending December 31, 2010, 2011, 2012 and 2013 must be at least 25%, 25%, 15% and 15% respectively, excluding all exceptional items.

16. SUBSTANTIAL SHAREHOLDERS

As at December 31, 2012, 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 interests or short positions 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 or as the Company is aware:

Name	Number of shares	Percentage to the issued share capital of company (%)
Zhang Huiming	713,517,000 (L)#	55.31 (L)
Sound Water (BVI) Limited	701,784,000 (L)	54.40 (L)
International Finance Corporation	132,104,545 (L)	10.24 (L)
JPMorgan Chase & Co.	110,351,262 (L) 5,000,500 (S) 83,206,969 (P)	8.55 (L) 0.39 (S) 6.45 (P)
Norges Bank	76,152,000 (L)	5.90 (L)
Central Huijin Investment Ltd	189,069,767 (L)	14.66 (L)
China Construction Bank Corporation	189,069,767 (L)	14.66 (L)

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

Note:

\# These Shares were held by her husband, Mr. Wen Yibo (11,733,000 Shares) and Sound Water (BVI) Limited (701,784,000 Shares), 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 713,517,000 Shares of the Company held by Mr. Wen Yibo and Sound Water (BVI) Limited.

Save as disclosed above, as at December 31, 2012, 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.

17. AUDIT COMMITTEE

The AC comprises three Independent Non-Executive Directors. As 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, half-year and annual announcements before submission to the Board of Directors for approval;

c) to review 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 Tohmatsu, Hong Kong and Deloitte & Touche LLP, Singapore (collectively known as "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.

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.

18. AUDITORS

The financial statements of the Company, which include applicable disclosures required by the Rules Governing the Listing of Securities on the SEHK and SGX, and by the Hong Kong Companies Ordinance and the Singapore Companies Act, are prepared in accordance with International Financial Reporting Standards and are also in compliance with Singapore Financial Reporting Standards. These financial statements were audited by Deloitte Touche Tohmatsu, Hong Kong and Deloitte & Touche LLP, Singapore.

The auditors, Deloitte Touche Tohmatsu, Hong Kong, and Deloitte & Touche LLP, Singapore have expressed their willingness to accept re-appointment as its auditors at the forthcoming Annual General Meeting.

19. 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.

20. SUFFICIENT PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, the Company had maintained a sufficient public float as at December 31, 2012.

ON BEHALF OF THE DIRECTORS

Wen Yibo

Wang Kai

March 11, 2013

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 84 to 174 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, 2012, 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, 2013

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF SOUND GLOBAL LTD.

Note: This report has been issued for statutory requirements and in accordance with the Rules Governing the Listing of Securities on the SGX.

Report on the Financial Statements

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, 2012, and the statement of comprehensive income, statement of changes in equity and statement of cash flows 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 84 to 174.

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 AUDITOR'S REPORT

TO THE MEMBERS OF SOUND GLOBAL LTD.

Opinion

In our opinion, the consolidated financial statement 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, 2012 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, 2013

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF SOUND GLOBAL LTD.
(incorporated in Republic of Singapore with limited liability)

Note: This report has been issued in accordance with the Rules Governing the Listing of Securities on the Stock Exchange of the Hong Kong Limited.

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 84 to 174, which comprise the consolidated statement of financial position as at December 31, 2012, 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. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about 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 of consolidated 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 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

TO THE MEMBERS OF SOUND GLOBAL LTD.

(incorporated in Republic of Singapore with limited liability)

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, 2012 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, 2013

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2012

		The Group	
	NOTES	2012	2011
		RMB'000	RMB'000
Revenue	6	**2,652,256**	2,287,575
Cost of sales		**(1,851,869)**	(1,565,523)
Gross profit		**800,387**	722,052
Other income	7	**59,298**	34,105
Other expenses	8	**(3,124)**	(10,888)
Distribution and selling expenses		**(37,508)**	(24,590)
Research and development expenses		**(23,995)**	(12,766)
Administrative expenses		**(118,039)**	(118,512)
Share of result of an associate		**-**	(81)
Gain on disposal of an associate		**-**	85
Finance costs	9	**(173,608)**	(108,197)
Profit before income tax		**503,411**	481,208
Income tax expenses	10	**(75,902)**	(67,383)
Profit for the year	11	**427,509**	413,825
Other comprehensive income			
Exchange difference arising on translation and total other comprehensive income for the year		**101**	641
Total comprehensive income for the year		**427,610**	414,466
Profit for the year attributable to:			
Owners of the Company		**427,509**	413,825
Non-controlling interests		**-**	-
		427,509	413,825
Total comprehensive income attributable to:			
Owners of the Company		**427,610**	414,466
Non-controlling interests		**-**	-
		427,610	414,466
Earnings per share (in RMB cents)			
Basic	15	**33.14**	32.08
Diluted	15	**32.35**	31.32

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT DECEMBER 31, 2012

		The Group	
	NOTES	December 31, 2012 RMB'000	December 31, 2011 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	16	**47,524**	47,527
Intangible assets	17	**20,000**	30,000
Land use rights	18	**43,136**	44,294
Goodwill	19	**41,395**	41,395
Service concession receivables	20	**1,643,483**	1,083,659
Deferred tax assets	21	**7,822**	7,372
Restricted bank balances	25	**27,571**	-
		1,830,931	1,254,247
CURRENT ASSETS			
Inventories	22	**24,371**	21,587
Trade and other receivables	24	**1,433,015**	1,120,279
Land use rights	18	**1,158**	1,158
Amounts due from customers for contract work	23	**584,436**	427,640
Restricted bank balances	25	**53,137**	56,847
Bank balances and cash	25	**2,912,077**	2,074,426
		5,008,194	3,701,937
CURRENT LIABILITIES			
Trade and other payables	26	**1,170,609**	871,297
Tax payables		**64,117**	54,949
Borrowings - due within one year	27	**465,496**	311,838
Amounts due to customers for contract work	23	**63,059**	7,809
Convertible loan notes	29	**-**	818,252
		1,763,281	2,064,145
NET CURRENT ASSETS		**3,244,913**	1,637,792
TOTAL ASSETS LESS CURRENT LIABILITIES		**5,075,844**	2,892,039

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT DECEMBER 31, 2012

	NOTES	The Group December 31, 2012 RMB'000	The Group December 31, 2011 RMB'000
NON-CURRENT LIABILITIES			
Deferred tax liabilities	21	**48,877**	39,065
Borrowings - due after one year	27	**888,662**	540,352
Convertible loan notes	29	**557,618**	-
Warrants	30	**3,531**	7,953
Senior notes	31	**922,644**	-
		2,421,332	587,370
TOTAL ASSETS LESS TOTAL LIABILITIES		**2,654,512**	2,304,669
CAPITAL AND RESERVES			
Issued capital	28	**833,368**	833,368
Reserves		**1,810,544**	1,460,701
Equity attributable to owners of the Company		**2,643,912**	2,294,069
Non-controlling interests		**10,600**	10,600
		2,654,512	2,304,669

The consolidated financial statements on pages 84 to 174 were approved and authorized for issue by the board of directors on March 11, 2013 and are signed on its behalf by:

Wen Yibo Director	Wang Kai Director

STATEMENT OF FINANCIAL POSITION

AT DECEMBER 31, 2012

	NOTES	The Company December 31, 2012 RMB'000	December 31, 2011 RMB'000
NON-CURRENT ASSETS			
Equipment	16	**15**	80
Investment in subsidiaries	39	**2,093,770**	802,551
		2,093,785	802,631
CURRENT ASSETS			
Trade and other receivables	24	**593,847**	1,412,725
Bank balances and cash	25	**186,332**	60,246
		780,179	1,472,971
CURRENT LIABILITIES			
Trade and other payables	26	**62,910**	11,924
Borrowings - due within one year	27	**54,146**	28,758
Convertible loan notes	29	**-**	818,252
		117,056	858,934
NET CURRENT ASSETS		**663,123**	614,037
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,756,908**	1,416,668
NON-CURRENT LIABILITIES			
Borrowings - due after one year	27	**339,062**	391,652
Convertible loan notes	29	**557,618**	-
Warrants	30	**3,531**	7,953
Senior notes	31	**922,644**	-
		1,822,855	399,605
TOTAL ASSETS LESS TOTAL LIABILITIES		**934,053**	1,017,063
CAPITAL AND RESERVES			
Issued capital	28	**833,368**	833,368
Reserves		**100,685**	183,695
		934,053	1,017,063

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2012

The Group	Issued capital	Merger reserve	Capital reserve	Translation reserve	Share options reserve	Convertible loan notes reserve	Statutory surplus reserve	Retained earnings	Attributable to owners of the Company	Non-controlling interests	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		(note i)	(note ii)				(note iii)				
Balance at January 1, 2011	833,368	(88,296)	7,994	366	12,479	79,676	63,737	1,019,331	1,928,655	7,600	1,936,255
Profit for the year	-	-	-	-	-	-	-	413,825	413,825	-	413,825
Other comprehensive income for the year	-	-	-	641	-	-	-	-	641	-	641
Total comprehensive income for the year	-	-	-	641	-	-	-	413,825	414,466	-	414,466
Transfer to reserve fund	-	-	-	-	-	-	75,758	(75,758)	-	-	-
Recognition of equity-settled share based payments	-	-	-	-	17,882	-	-	-	17,882	-	17,882
Acquisition of a subsidiary	-	-	-	-	-	-	-	-	-	3,000	3,000
Dividends paid (Note 14)	-	-	-	-	-	-	-	(66,934)	(66,934)	-	(66,934)
Balance at December 31, 2011	833,368	(88,296)	7,994	1,007	30,361	79,676	139,495	1,290,464	2,294,069	10,600	2,304,669
Profit for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**427,509**	**427,509**	**-**	**427,509**
Other comprehensive income for the year	**-**	**-**	**-**	**101**	**-**	**-**	**-**	**-**	**101**	**-**	**101**
Total comprehensive income for the year	**-**	**-**	**-**	**101**	**-**	**-**	**-**	**427,509**	**427,610**	**-**	**427,610**
Transfer to reserve fund	**-**	**-**	**-**	**-**	**-**	**-**	**3,105**	**(3,105)**	**-**	**-**	**-**
Early redemption of convertible loan notes	**-**	**-**	**-**	**-**	**-**	**(20,273)**	**-**	**-**	**(20,273)**	**-**	**(20,273)**
Repurchase of convertible loan notes	**-**	**-**	**-**	**-**	**-**	**(1,377)**	**-**	**-**	**(1,377)**	**-**	**(1,377)**
Recognition of equity-settled share based payments	**-**	**-**	**-**	**-**	**9,003**	**-**	**-**	**-**	**9,003**	**-**	**9,003**
Transfer upon forfeiture of share options	**-**	**-**	**-**	**-**	**(7,871)**	**-**	**-**	**7,871**	**-**	**-**	**-**
Dividends paid (Note 14)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(65,120)**	**(65,120)**	**-**	**(65,120)**
Balance at December 31, 2012	**833,368**	**(88,296)**	**7,994**	**1,108**	**31,493**	**58,026**	**142,600**	**1,657,619**	**2,643,912**	**10,600**	**2,654,512**

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2012

The Company	Issued capital RMB'000	Capital reserve RMB'000	Share options reserve RMB'000	Convertible loan notes reserve RMB'000	Retained earnings RMB'000	Total RMB'000
Balance at January 1, 2011	833,368	7,010	12,479	79,676	71,792	1,004,325
Profit and total comprehensive income for the year	-	-	-	-	61,790	61,790
Dividends paid (Note 14)	-	-	-	-	(66,934)	(66,934)
Recognition of equity-settled share-based payments	-	-	17,882	-	-	17,882
Balance at December 31, 2011	833,368	7,010	30,361	79,676	66,648	1,017,063
Loss and total comprehensive expense for the year	**-**	**-**	**-**	**-**	**(5,243)**	**(5,243)**
Dividends paid (Note 14)	**-**	**-**	**-**	**-**	**(65,120)**	**(65,120)**
Recognition of equity-settled share-based payments	**-**	**-**	**9,003**	**-**	**-**	**9,003**
Transfer upon forfeiture of share options	**-**	**-**	**(7,871)**	**-**	**7,871**	**-**
Early Redemption of convertible loan notes	**-**	**-**	**-**	**(20,273)**	**-**	**(20,273)**
Repurchase of convertible loan notes	**-**	**-**	**-**	**(1,377)**	**-**	**(1,377)**
Balance at December 31, 2012	**833,368**	**7,010**	**31,493**	**58,026**	**4,156**	**934,053**

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 issued capital of the subsidiary acquired of RMB62,600,000.

(ii) The balance 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 difference between the consideration of RMB18,000,000 in relation to the acquisition of 40% interest in Anyang Mingbo Water Co., Ltd. ("Anyang Mingbo"), a subsidiary, by the Group and the carrying amount on the non-controlling interest and (c) the deemed distribution to the ultimate holding company arose upon the acquisition of Anyang Mingbo in January 2010, with 60% interest acquired from Sound Group Limited ("Sound Group", formerly known as Beijing Sound Environment Group Co., Ltd.), a fellow subsidiary of the Company, for consideration of RMB27,000,000 by the Group.

(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 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.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2012

	NOTE	The Group 2012 RMB'000	The Group 2011 RMB'000
OPERATING ACTIVITIES			
Profit before income tax		**503,411**	481,208
Adjustments for:			
Depreciation of property, plant and equipment		**4,529**	3,975
Amortization of land use rights		**1,158**	1,160
Amortization of intangible assets		**10,000**	10,000
Interest income		**(50,568)**	(31,378)
Loss on early redemption and repurchase of convertible loan notes		**119**	-
Finance costs		**173,608**	108,197
Allowance for doubtful debts		**3,003**	83
Foreign exchange gain and loss		**(4,821)**	8,745
Loss on disposal of property, plant and equipment		**256**	80
Share-based payment expenses		**9,003**	17,882
Fair value change of warrant		**(4,422)**	-
Gain on disposal of an associate		**-**	(85)
Share of result of an associate		**-**	81
Operating cash flows before movements in working capital		**645,276**	599,948
Increase in inventories		**(2,784)**	(9,531)
Increase in trade and other receivables		**(315,739)**	(310,220)
Increase in service concession receivables		**(518,756)**	(395,969)
Increase in amounts due from customers for contract work		**(156,796)**	(89,989)
Increase (decrease) in trade and other payables		**245,196**	(2,105)
Increase (decrease) in amounts due to customers for contract work		**55,250**	(1,802)
Cash used in operations		**(48,353)**	(209,668)
Income taxes paid		**(57,372)**	(35,213)
NET CASH USED IN OPERATING ACTIVITIES		**(105,725)**	(244,881)

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2012

	NOTE	The Group 2012 RMB'000	The Group 2011 RMB'000
INVESTING ACTIVITIES			
Interest received		**9,500**	10,006
Purchases of property, plant and equipment		**(4,844)**	(4,869)
Proceeds from disposal of property, plant and equipment		**60**	2
Proceeds from disposal of an associate		**-**	2,046
Dividend received from an associate		**-**	505
Deemed acquisition of a subsidiary	32	**-**	459
Increase in restricted bank balances		**(58,869)**	(20,308)
Decrease in restricted bank balances		**34,979**	269,490
NET CASH (USED IN) FROM INVESTING ACTIVITIES		**(19,174)**	257,331
FINANCING ACTIVITIES			
Interest paid		**(110,458)**	(87,886)
Payment of dividends		**(65,120)**	(66,934)
Net proceeds on issue of senior notes		**923,084**	-
Early redemption of convertible loan notes		**(263,000)**	-
Repurchase of convertible loan notes		**(22,052)**	-
Borrowings raised		**892,860**	649,847
Repayments of borrowings		**(392,413)**	(451,791)
NET CASH FROM FINANCING ACTIVITIES		**962,901**	43,236
NET INCREASE IN CASH AND CASH EQUIVALENTS		**838,002**	55,686
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**2,074,426**	2,027,352
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**(351)**	(8,612)
CASH AND CASH EQUIVALENTS AT END OF YEAR REPRESENTED BY BANK BALANCES AND CASH		**2,912,077**	2,074,426

1. GENERAL INFORMATION

The Company (Singapore Registration Number 200515422C) was a limited liability company incorporated in Republic of Singapore ("Singapore") on November 7, 2005 under the Singapore Companies Act and its shares are listed on the Main Board of the SGX and the Main Board of the Stock Exchange of Hong Kong Limited (the "SEHK"). 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 company is Sound Water.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied the following amendments to standards issued by the International Accounting Standards Board.

Amendments to IAS 12	Deferred Tax: Recovery of Underlying Asset;
Amendments to IFRS 7	Financial Instruments: Disclosures - Transfers of Financial Assets;

Except as described below, the application of the amendments to standards in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Amendments to IFRS 7 Disclosures – Transfers of Financial Assets

The Group has applied for the first time the amendments to IFRS 7 Disclosures-Transfers of Financial Assets in the current year. The amendments increase the disclosure requirements for transactions involving the transfer of financial assets in order to provide greater transparency around risk exposures when financial assets are transferred.

The Group has arrangements with various suppliers to transfer to the suppliers its contractual rights to receive cash flows from certain bill receivables. The arrangements are made through endorsing those bill receivables to suppliers on a full recourse basis. Specifically, if the bill receivables are not paid at maturity, the suppliers have the right to request the Group to pay the unsettled balance. As the Group has not transferred the significant risks and rewards relating to these bill receivables, it continues to recognise the full carrying amount of the bill receivables. The relevant disclosures have been made regarding the transfer of these bill receivables on application of the amendments to IFRS 7 (see note 24a). In accordance with the transitional provisions set out in the amendments to IFRS 7, the Group has not provided comparative information for the disclosures required by the amendments.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS - continued

The Group has not early adopted the following new and revised standards, amendments and interpretation that have been issued but are not yet effective:

Amendments to IFRSs	Annual Improvements to IFRSs 2009 - 2011 Cycle[1]
Amendments to IFRS 7	Disclosures - Offsetting Financial Assets and Financial Liabilities[1]
Amendments to IFRS 9 and IFRS 7	Mandatory Effective Date of IFRS 9 and Transition Disclosures[3]
Amendments to IFRS 10, IFRS 11 and IFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance[1]
Amendments to IFRS 10, IFRS 12 and IAS 27	Investment Entities[2]
IFRS 9	Financial Instruments[3]
IFRS 10	Consolidated Financial Statements[1]
IFRS 11	Joint Arrangements[1]
IFRS 12	Disclosure of Interests in Other Entities[1]
IFRS 13	Fair Value Measurement[1]
IAS 19 (as revised in 2011)	Employee Benefits[1]
IAS 27 (as revised in 2011)	Separate Financial Statements[1]
IAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[1]
Amendments to IAS 1	Presentation of Items of Other Comprehensive Income[4]
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities[2]
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine[1]

[1] Effective for annual periods beginning on or after January 1, 2013.
[2] Effective for annual periods beginning on or after January 1, 2014.
[3] Effective for annual periods beginning on or after January 1, 2015.
[4] Effective for annual periods beginning on or after July 1, 2012.

The directors of the Company anticipate that the application of the new and revised standards, amendments or interpretation 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 International Financial Reporting Standards and the accounting policies are set out below. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the SEHK and SGX, and by the Hong Kong Companies Ordinance and the Singapore Companies Act.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

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.

Income and expenses 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 in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

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.

Investment in subsidiaries

Investments in subsidiaries are included in the Company's statement of financial position at cost less any identified impairment loss.

Business combinations

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 the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition related costs are generally recognized in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value, 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 share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 Share-based Payment at the acquisition date (see the accounting policy below); and

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Business combinations - continued

- 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 that Standard.

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 re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed 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 that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another Standard.

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. The financial statements of associates used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. 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.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

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.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

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, measured by the proportion that contract costs incurred for work performed to date relative 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 - continued

Revenue recognition - continued

Construction contracts - continued

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 is recognised when the goods are delivered and titles have passed at which time 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

Service income including that from operating service provided under service concession arrangements is recognized 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.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

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 recognized as an expense on a straight-line basis over the term of the relevant lease. Contingent rentals arising under operating leases are recognized 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.

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 are stated in the consolidated statement of financial position 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 over their estimated useful lives and after taking into account of their estimated residual values, using the straight-line method, at the following rates per annum:

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

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Foreign currencies - continued

Exchange differences arising on the settlement of monetary items, and on retranslation of monetary items are recognized 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 recognized in other comprehensive income and accumulated in equity (the translation reserve).

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.

Government grants

Government grants are not recognized until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognized in profit or loss on a systematic basis over the periods in which the Group recognizes as expenses the related costs for which the grants are intended to compensate.

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 recognized in profit or loss in the period in which they become receivable.

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 and 30 years and transfer the plants to the grantors at the end of the concession periods. Such concession arrangements fall within the scope of IFRIC 12 and are accounted for as follow:

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Service concession arrangements - continued

Financial asset - service concession receivables

The Group recognises a service concession receivable if it has an unconditional contractual right under the service concession arrangements to receive a fixed or 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.

Retirement benefit costs

Payments to the defined contribution retirement benefits scheme under the state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme are recognized as an expense when employees have rendered service entitling them to the contributions.

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 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 amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. 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, 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Taxation - continued

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. Current and 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 current and deferred tax is also recognized in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

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.

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.

Amortization for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Intangible assets - continued

Internally-generated intangible assets - research and development expenditure

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 activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

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 losses of tangible assets and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)

At the end of reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives 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.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Impairment losses of tangible assets and intangible assets other than goodwill (see the accounting policy in respect of goodwill above) - continued

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, 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 (or a cash-generating unit) 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 the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sales.

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 debt instrument 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 or 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 debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognized on an effective interest basis for debt instruments other than those financial instruments classified as "financial assets at fair value through profit or loss".

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial assets - continued

Cash and cash equivalents

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

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, restricted bank balances 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 considered to be 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 affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization.

For financial assets carried at amortised cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's 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, in addition, 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 - continued

Financial assets - continued

Impairment of financial assets - continued

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 as either financial liabilities or as equity in accordance with 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 issued by the Group are recognized at the proceeds received, net of direct issue costs.

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 (including all fees and 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 liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognized on an effective interest basis.

Financial liabilities at fair value through profit or loss

Financial liabilities are classified as fair value through profit or loss ("FVTPL") when the financial liabilities are either held for trading or it is those designated at FVTPL on initial recognition.

Financial liabilities at FVTPL represent warrants issued by the Group, which are derivatives not designated nor effective as a hedging instrument.

Financial liabilities at FVTPL are measured at fair value, with changes in fair value arising on remeasurement recognized directly in profit or loss in the period in which they arise.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial liabilities and equity instruments - continued

Other financial liabilities

Other financial liabilities including liability component of the convertible loan notes, senior notes, borrowings and trade and other payables are subsequently measured at amortized cost, using the effective interest method.

Derivative financial instruments

Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognized in profit or loss immediately.

Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

Derecognition

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when 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 continues to recognize the asset to the extent of its continuing involvement and recognizes an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

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 options 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 recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share options reserve.

At the time when the share options are exercised, the amount previously recognized 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 recognized 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 in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. 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 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 recognized in profit or loss upon conversion or expiration of the option.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Convertible loan notes - continued

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.

When the Group extinguishes the convertible loan notes before maturity through early redemption or repurchase in which the original conversion privileges are unchanged, the entity allocates the consideration paid and any transaction costs for the repurchase or redemption to the liability and equity components of the instrument at the date of the transaction. The method used in allocating the consideration paid and transaction costs to the separate components is consistent with that used in the original allocation to the separate components of the proceeds received by the Group when the convertible loan notes were issued. Once the allocation of the consideration is made, any resulting gain or loss relating to liability component is recognised in profit or loss and the amount of consideration relating to equity component is recognised in equity.

4. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, the directors of the Company are 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 on-going basis. Revisions to accounting estimates are recognized 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 there is no instance of application of judgement expected to have a significant effect on the amounts recognized in the financial statements.

4. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY - continued

ii. Key sources of estimation uncertainty

The following are 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.

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 amount 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 24.

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 estimation is required in determining the stage of completion, including 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 assessing the estimation, the Group relies on past experience and the work of the project management team. 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.

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.

4. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY - continued

ii. Key sources of estimation uncertainty - continued

Accounting for IFRIC 12 Service Concession Arrangements - continued

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.

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. Where the actual future cash flows are less than expected, a material impairment loss may arise. The carrying amount of goodwill and details of the recoverable amount calculation are disclosed in Note 19 to the financial statements.

Impairment of intangible assets and property, plant and equipment

Determining whether the intangible assets and property, plant and equipment are impaired requires an estimation of the value in use of the cash-generating units to which intangible assets and property, plant and equipment have 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. Where the actual future cash flows are less than expected, a material impairment loss may arise. The carrying amount of the intangible assets and property, plant and equipment at the end of the reporting period is disclosed in Notes 17 and 16 to the financial statements.

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 CODM 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 Fabrications"), 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 describing 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, gain on disposal of an associate, interest income, foreign exchange gains and losses, finance costs and loss on early redemption and repurchase of convertible loan notes at corporate level.

Segment information about the Group's operating segments is presented below.

The Group	Turnkey projects and services	Equipment Fabrications	O&M	Segment total	Elimination	Consolidated
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
2012						
Revenue						
External sales	**2,445,959**	**111,991**	**94,306**	**2,652,256**	**-**	**2,652,256**
Inter-segment sales	**-**	**115,349**	**-**	**115,349**	**(115,349)**	**-**
Total revenue	**2,445,959**	**227,340**	**94,306**	**2,767,605**	**(115,349)**	**2,652,256**
Segment results	**607,876**	**7,513**	**33,635**	**649,024**	**-**	**649,024**
Unallocated income						**17,888**
Unallocated expenses						**(163,501)**
Profit before income tax						**503,411**

5. SEGMENT INFORMATION - continued

The Group	Turnkey projects and services	Equipment Fabrications	O&M	Segment total	Elimination	Consolidated
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
2011						
Revenue						
External sales	2,169,608	58,191	59,776	2,287,575	-	2,287,575
Inter-segment sales	-	181,050	-	181,050	(181,050)	-
Total revenue	2,169,608	239,241	59,776	2,468,625	(181,050)	2,287,575
Segment results	528,211	52,019	27,077	607,307	-	607,307
Unallocated income						1,248
Unallocated expenses						(127,351)
Share of result of an associate						(81)
Gain on disposal of an associate						85
Profit before income tax						481,208

Inter-segment sales are charged at prices agreed between the group entities and are eliminated on consolidation.

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 segment. Segment liabilities represent trade and other payables, tax payables, borrowings, amounts due to customers for contract work and deferred tax liabilities except for those arisen from undistributed profits of the PRC subsidiaries, which are attributable to each operating segment. 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 segment results.

5. SEGMENT INFORMATION - continued

The Group	Turnkey projects and services	Equipment Fabrications	O&M	Segment total	Elimination	Consolidated
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As of December 31, 2012						
Assets and Liabilities						
Segment assets	**4,708,878**	**551,925**	**2,418,070**	**7,678,873**	**(1,026,918)**	**6,651,955**
Unallocated corporate assets (note a)						**187,170**
Consolidated assets						**6,839,125**
Segment liabilities	**2,144,465**	**220,531**	**891,277**	**3,256,273**	**(1,026,918)**	**2,229,355**
Deferred tax liabilities						**20,125**
Unallocated corporate liabilities (note b)						**1,935,133**
Consolidated liabilities						**4,184,613**
As of December 31, 2011						
Assets and Liabilities						
Segment assets	3,547,502	551,453	1,641,784	5,740,739	(846,522)	4,894,217
Unallocated corporate assets (note a)						61,967
Consolidated assets						4,956,184
Segment liabilities	1,415,234	217,062	593,119	2,225,415	(846,522)	1,378,893
Deferred tax liabilities						26,008
Unallocated corporate liabilities (note b)						1,246,614
Consolidated liabilities						2,651,515

Notes:

(a) Unallocated corporate assets mainly represent bank balances and cash, trade and other receivables and equipment at corporate level.

(b) Unallocated corporate liabilities mainly represent borrowings, convertible loan notes, senior notes, warrants and other payables at corporate level.

5. SEGMENT INFORMATION - continued

Other information

The Group	Turnkey projects and services RMB'000	Equipment Fabrications RMB'000	O&M RMB'000	Unallocated RMB'000	Total RMB'000
For the year ended December 31, 2012					
Additions to non-current assets excluding financial instruments and deferred tax assets	**2,589**	**149**	**2,096**	**10**	**4,844**
Depreciation and amortization	**1,739**	**12,823**	**1,050**	**75**	**15,687**
Interest income	**8,654**	**327**	**38**	**481**	**9,500**
Imputed interest income on service concession receivables	**-**	**-**	**41,068**	**-**	**41,068**
Loss on disposal of property, plant and equipment	**256**	**-**	**-**	**-**	**256**
Finance costs	**18,441**	**2,476**	**17,250**	**135,441**	**173,608**
For the year ended December 31, 2011					
Additions to non-current assets excluding financial instruments and deferred tax assets	1,704	754	2,314	97	4,869
Depreciation and amortization	1,499	12,802	748	86	15,135
Interest income	8,194	497	67	1,248	10,006
Imputed interest income on service concession receivables	-	-	21,372	-	21,372
Loss on disposal of property, plant and equipment	80	-	-	-	80
Finance costs	12,218	1,203	11,804	82,972	108,197

5. SEGMENT INFORMATION - continued

Geographical information

The Group's operations are located in the PRC, Kingdom of Saudi Arabia ("Saudi Arabia") and the People's Republic of Bangladesh ("Bangladesh"). The Group's revenue from external customers is presented based on the location of the operations of customers. Information about the Group's non-current assets other than financial instruments and deferred tax assets is presented based on the geographical location of the assets.

	The Group	
	2012	2011
	RMB'000	RMB'000
Revenue from external customers		
The PRC	**2,547,797**	1,957,120
Saudi Arabia	**96,032**	330,455
Bangladesh	**8,427**	-
	2,652,256	2,287,575

	The Group	
	December 31, 2012	December 31, 2011
	RMB'000	RMB'000
Non-current assets		
The PRC	**150,682**	162,890
Saudi Arabia	**1,373**	326
	152,055	163,216

Revenue from Jiangyan City Housing and Urban Construction Bureau in turnkey projects and services segment contributed 10.73% of the Group's total revenue for the year ended December 31, 2012. (2011: Revenue from Power & Water Utility Company for Jubail & Yanbu (Marafiq) in turnkey projects and services segment contributed 14.45% of the Group's total revenue for the year). Except for this, no other single customers contributed 10% or more to the Group's total revenue for the year ended December 31, 2012.

6. REVENUE

	The Group	
	2012	2011
	RMB'000	RMB'000
Revenue from construction contracts		
- Turnkey services	**2,157,012**	1,763,577
- Sales of equipment	**217,306**	352,174
Revenue from sale of goods	**111,991**	58,191
Operating and maintenance income	**94,306**	59,776
Design service	**71,641**	53,857
	2,652,256	2,287,575

7. OTHER INCOME

	The Group	
	2012	2011
	RMB'000	RMB'000
Interest income	**9,500**	10,006
Imputed interest income on service concession receivables	**41,068**	21,372
Net foreign exchange gain	**675**	-
Government grants	**3,419**	2,621
Gain arising on change in fair value of financial liability classified as held for trading	**4,422**	-
Sundry income	**214**	106
	59,298	34,105

8. OTHER EXPENSES

	The Group	
	2012	2011
	RMB'000	RMB'000
Allowance for doubtful debts	**3,003**	83
Loss on early redemption and repurchase of convertible loan notes	**119**	-
Sundry expense	**2**	-
Net foreign exchange losses	**-**	10,805
	3,124	10,888

9. FINANCE COSTS

	The Group	
	2012	2011
	RMB'000	RMB'000
Interest expenses on borrowings		
- wholly repayable within five years	**32,019**	21,856
- not wholly repayable within five years	**29,828**	15,356
Effective interest expenses on convertible loan notes	**66,250**	70,985
Effective interest expenses on senior notes	**45,511**	-
	173,608	108,197

10. INCOME TAX EXPENSES

	The Group	
	2012	2011
	RMB'000	RMB'000
The charge comprises:		
Current tax		
PRC income tax	**66,540**	59,906
Over provision in prior year		
PRC income tax	**-**	(4)
Deferred tax (Note 21)	**9,362**	7,481
	75,902	67,383

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, 2011 and 2012, 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 - continued

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

	2012 %	2011 %
Beijing Sound (note i)	**15**	15
Beijing Epure International Water Co., Ltd ("Beijing Epure") (note ii)	**7.5**	7.5
Beijing Hi-Standard Water Treatment Equipment Co., Ltd ("Hi-Standard Equipment") (note iii)	**15**	15
Xi'an Huqing Water Co., Ltd ("Xi'an Huqing") (note iv)	**Exempted**	Exempted
Xi'an Qinqing Water Co., Ltd ("Xi'an Qinqing") (note iv)	**Exempted**	Exempted
Guangxi Liqing Water Co., Ltd ("Guangxi Liqing") (note iv)	**Exempted**	Exempted
Shangluo Wastewater Treatment Co., Ltd ("Shangluo Wasterwater") (note iv)	**Exempted**	Exempted
Yulin City Jingzhou Water Co., Ltd ("Yulin Jingzhou") (note iv)	**Exempted**	Exempted
Hainan Baichuan Water Co., Ltd ("Hainan Baichuan") (note iv)	**Exempted**	Exempted
Jiangyan Jiangyuan Wastewater Treatment Co., Ltd ("Jiangyan Jiangyuan") (note iv)	**Exempted**	Exempted
Hancheng City Yiqing Water Co., Ltd("Yiqing Water ") (note iv)	**Exempted**	Exempted
Xi'an Weiqing Water Co., Ltd ("Xi'an Weiqing") (note iv)	**Exempted**	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 2008 to 2013 and as it has successfully applied as a high-and-new-tech enterprise in 2008 for a period from 2008 to 2011 and further successfully applied in 2011 for a period from 2011 to 2013.

(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 liability 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 2011 as it has successfully applied as a high-and-new-tech enterprise in 2008 from 2008 to 2011. It further successfully applied in 2011 for an effective period from 2011 to 2013.

10. INCOME TAX EXPENSES - continued

Notes: - continued

(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. Xi'an Huqing, Xi'an Qinqing, Guangxi Liqing, Hainan Baichuan and Jiangyan Jiangyuan 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. Shangluo Wasterwater, Yiqing Water and Yulin Jingzhou have obtained the approval and are entitled to exempt from enterprise income tax in 2011, 2012 and 2013 and enjoy 12.5% preferential enterprise income tax rate in the following three years.Xi'an Weiqing has obtained the approval and are entitled to exempt from enterprise income tax in 2012, 2013 and 2014 and enjoy 12.5% preferential enterprise income tax rate in the following three years.

The income tax expenses can be reconciled to the profit before income tax per the consolidated statement of comprehensive income as follows:

	The Group	
	2012	2011
	RMB'000	RMB'000
Profit before income tax	**503,411**	481,208
Tax at the applicable income tax rate 25%	**125,853**	120,302
Tax effect of expenses not deductible for tax purpose	**39,161**	30,308
Tax effect of share of result of an associate	**-**	20
Tax effect of preferential tax rate and different tax rates of subsidiaries	**(93,633)**	(90,186)
Effect of tax exemption	**(4,764)**	(3,902)
Tax effect of unrecognized deductible temporary differences	**90**	447
Tax effect of tax losses not recognized	**5,695**	6,898
Deferred tax liabilities arising on undistributed profits in the PRC subsidiaries from January 1, 2008 onwards	**3,500**	3,500
Over provision in prior year	**-**	(4)
Income tax expense	**75,902**	67,383

11. PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging:

	The Group	
	2012	2011
	RMB'000	RMB'000
Amortization of intangible assets, included in cost of sales	**10,000**	10,000
Amortization of land use rights	**1,158**	1,160
Auditors' remuneration	**3,176**	3,767
Non-audit fees - to auditors of the Company and the Group	**1,071**	176
Cost of inventories recognized as expenses	**237,254**	220,385
Depreciation for property, plant and equipment	**4,529**	3,975
Loss on disposal of property, plant and equipment	**256**	80
Staff cost		
Directors' remuneration	**3,409**	4,242
Other staff costs		
Staff cost excluded retirement benefit costs	**71,214**	52,613
Contribution to defined contribution plans	**8,939**	6,652
Share-based payments	**7,230**	15,034
Total staff cost	**90,792**	78,541

12. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

Details of the emoluments paid to the directors and the chief executive of the Company for the year are as follows:

	The Group	
	2012	2011
	RMB'000	RMB'000
Directors' fees	**615**	625
Directors' emoluments:		
- Basic salaries and allowances	**792**	595
- Bonus	**97**	54
- Contribution to defined contribution plans	**132**	120
- Share-based payments	**1,773**	2,848
	2,794	3,617
Total	**3,409**	4,242

12. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS - continued

The Group	Directors' fee RMB'000	Salaries and other benefit RMB'000	Bonus RMB'000 (note)	Contribution to defined contribution plans RMB'000	Share-based payments RMB'000	Total RMB'000
Year ended December 31, 2012						
Name of director						
WEN Yibo	**-**	**230**	**-**	**33**	**-**	**263**
LUO Liyang	**-**	**187**	**55**	**33**	**745**	**1,020**
WANG Kai	**-**	**187**	**-**	**33**	**750**	**970**
JIANG Anping	**-**	**188**	**42**	**33**	**278**	**541**
WONG See Meng	**303**	**-**	**-**	**-**	**-**	**303**
FU Tao	**60**	**-**	**-**	**-**	**-**	**60**
SEOW Han Chiang Winston	**252**	**-**	**-**	**-**	**-**	**252**
	615	**792**	**97**	**132**	**1,773**	**3,409**

The Group	Directors' fee RMB'000	Salaries and other benefit RMB'000	Bonus RMB'000	Contribution to defined contribution plans RMB'000	Share-based payments RMB'000	Total RMB'000
Year ended December 31, 2011						
Name of director						
WEN Yibo	-	157	-	30	-	187
LI Li (resigned on Feburary 2, 2011)	-	14	-	2	-	16
ZHANG Baolin (resigned on October 3, 2011)	-	115	27	22	-	164
LUO Liyang (appointed on Feburary 2, 2011)	-	136	25	28	1,291	1,480
WANG Kai	-	138	-	30	1,428	1,596
JIANG Anping (appointed on October 3, 2011)	-	35	2	8	129	174
WONG See Meng	308	-	-	-	-	308
FU Tao	60	-	-	-	-	60
SEOW Han Chiang Winston	257	-	-	-	-	257
	625	595	54	120	2,848	4,242

Mr. Wen Yibo is also the Chief Executive of the Company and his emoluments disclosed above include those for services rendered by him as the Chief Executive.

Note:
The bonus is determined based on evaluation of each individual annually, which is approved by remuneration committee.

13. EMOLUMENTS OF THE FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals included two (2011: two) directors for the year ended December 31, 2012. The emoluments of the directors are included in the disclosure in Note 12 above. The emoluments of the remaining three (2011: three) highest paid individuals for the year ended December 31, 2012 are as follows:

	The Group	
	2012	2011
	RMB'000	RMB'000
Salaries and other benefits	**2,078**	1,461
Performance related incentive payments (note)	**280**	2,228
Contribution to defined contributions plan	**126**	129
Share-based payments	**296**	918
	2,780	4,736

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, 2011 and 2012.

Their emoluments were within the following band:

	Number of individuals	
	2012	2011
Nil to HK$1,000,000	**1**	2
HK$1,000,001 to HK$1,500,000	**2**	-
HK$3,500,001 to HK$4,000,000	**-**	1

14. DIVIDENDS

	The Group and the Company	
	2012	2011
	RMB'000	RMB'000
Dividends recognized as distributions during the year	**65,120**	66,934

During the current year, a final dividend of S$0.01 per share in respect of the year ended December 31, 2011 (2011: final dividend of S$0.01 in respect of the year ended December 31, 2010) was declared and paid to the shareholders of the Company. The aggregated amount of the final dividend declared and paid in the current year amounted to RMB 65,120,000 (2011: RMB66,934,000).

No dividend has been proposed by the directors in respect of the year ended December 31, 2012.

15. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

	The Group	
	2012	2011
	RMB'000	RMB'000
Earnings for the purpose of basic earnings per share	**427,509**	413,825
Effect of dilutive potential ordinary shares:		
Interest on convertible loan notes	**66,250**	70,985
Loss on early redemption and repurchase of convertible loan notes	**119**	-
Earnings for the purpose of diluted earnings per share	**493,878**	484,810

	'000	'000
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,290,000**	1,290,000
Effect of dilutive potential ordinary shares from:		
Convertible loan notes	**236,657**	257,690
Weighted average number of shares	**1,526,657**	1,547,690

	RMB cents	RMB cents
Earnings per share		
Basic	**33.14**	32.08
Diluted	**32.35**	31.32

15. EARNINGS PER SHARE - continued

The computation of diluted earnings per share in 2012 does not assume the exercise of the Company's options or warrants because the exercise price of those options or warrants was higher than the average market price of shares from January 1, 2012 to December 31, 2012.

The computation of diluted earnings per share in 2011 does not assume the exercise of the Company's options or warrants because the exercise price of those options or warrants was higher than the average market price of shares from January 1, 2011 or issuance date to December 31, 2011.

16. PROPERTY, PLANT AND EQUIPMENT

The Group	Buildings RMB'000	Plant and machinery RMB'000	Transportation vehicles RMB'000	Fixtures and equipment RMB'000	Total RMB'000
COST					
At January 1, 2011	44,446	8,047	3,861	5,483	61,837
Additions	-	1,227	1,774	1,868	4,869
Disposal	-	-	-	(791)	(791)
Translation difference	-	-	(19)	(4)	(23)
At December 31, 2011	44,446	9,274	5,616	6,556	65,892
Additions	527	1,697	1,210	1,410	4,844
Disposal	-	-	(244)	(356)	(600)
Translation difference	-	1	(3)	(4)	(6)
At December 31, 2012	**44,973**	**10,972**	**6,579**	**7,606**	**70,130**
ACCUMULATED DEPRECIATION					
At January 1, 2011	7,070	2,037	2,779	3,232	15,118
Charge for the year	1,419	880	737	939	3,975
Disposal	-	-	-	(709)	(709)
Translation difference	-	-	(13)	(6)	(19)
At December 31, 2011	8,489	2,917	3,503	3,456	18,365
Charge for the year	1,477	1,414	629	1,009	4,529
Disposal	-	-	(220)	(64)	(284)
Translation difference	-	1	(3)	(2)	(4)
At December 31, 2012	**9,966**	**4,332**	**3,909**	**4,399**	**22,606**
CARRYING AMOUNT					
At December 31, 2012	**35,007**	**6,640**	**2,670**	**3,207**	**47,524**
At December 31, 2011	35,957	6,357	2,113	3,100	47,527

As of December 31, 2012 the Group has pledged buildings with carrying amount of approximately RMB30,865,000 (2011: RMB31,448,000) to secure general banking facilities granted to the Group.

16. PROPERTY, PLANT AND EQUIPMENT - continued

The Company	Fixtures and equipment RMB'000
COST	
At January 1, 2011	645
Additions	97
At December 31, 2011	742
Additions	10
At December 31, 2012	**752**
ACCUMULATED DEPRECIATION	
At January 1, 2011	576
Charge for the year	86
At December 31, 2011	662
Charge for the year	75
At December 31, 2012	**737**
CARRYING AMOUNT	
At December 31, 2012	**15**
At December 31, 2011	80

17. INTANGIBLE ASSETS

	The Group RMB'000
COST	
At January 1, 2011, December 31, 2011 and 2012	**67,199**
ACCUMULATED AMORTIZATION	
At January 1, 2011	27,199
Amortization for the year	10,000
At December 31, 2011	37,199
Amortization for the year	10,000
At December 31, 2012	**47,199**
CARRYING AMOUNTS	
At December 31, 2012	**20,000**
At December 31, 2011	30,000

17. INTANGIBLE ASSETS - continued

The intangible assets represent various patents which protect the design and specification in the manufacturing of wastewater treatment equipment. 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

	The Group RMB'000
COST	
At January 1, 2011, December 31, 2011 and 2012	**49,921**
ACCUMULATED AMORTIZATION	
At January 1, 2011	3,309
Charge for the year	1,160
At December 31, 2011	4,469
Charge for the year	1,158
At December 31, 2012	**5,627**
CARRYING AMOUNTS	
At December 31, 2012	**44,294**
At December 31, 2011	45,452

	The Group	
	December 31, 2012 RMB'000	December 31, 2011 RMB'000
Analyzed for reporting purpose as:		
- Current asset	**1,158**	1,158
- Non-current asset	**43,136**	44,294
	44,294	45,452

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, 2012, the Group has pledged land use rights with carrying amount of approximately RMB2,264,000 (2011: RMB2,327,000) to secure general banking facilities granted to the Group.

19. GOODWILL

	The Group RMB'000
COST	
Balance as at January 1, 2011, December 31, 2011 and 2012	**41,395**

Goodwill has been allocated to the cash-generating unit of Hi-Standard Equipment in equipment fabrications 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% (2011: 8%) as of December 31, 2012. No growth rate is extrapolated beyond the 5-year forecasted period.

During the years ended December 31, 2011 and 2012, management of the Group determines that there are no impairments of Hi-Standard Equipment cash generating unit. Management believes that any reasonably possible change in any of these assumptions would not cause the carrying amount of Hi-Standard Equipment cash generating unit to exceed its recoverable amount.

20. SERVICE CONCESSION RECEIVABLES

	The Group	
	December 31, 2012 RMB'000	December 31, 2011 RMB'000
Service concession receivables	**1,722,065**	1,121,874
Less: Amounts due within one year shown under current assets (Note 24)	**(78,582)**	(38,215)
Service concession receivables due after one year	**1,643,483**	1,083,659

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 ("BOT") arrangements. With respect to the contracts, the Group has evaluated and assessed that such contracts fall into 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.

20. SERVICE CONCESSION RECEIVABLES - continued

The Group has 22 (2011:15) BOT projects in progress, among which 11 (2011:8) BOT projects were in the operation period during the year ended December 31, 2012. Those arrangements entitle the Group concession rights for periods ranging from 20 to 30 years with minimum guaranteed tonnage and tariff per ton defined in the agreements.

21. DEFERRED TAXATION

The deferred tax assets/liabilities recognized by the Group, and the movements thereon are as follows:

The Group	Allowance fordoubtful debt	Undistributed profits of the PRC subsidiaries	Fair value adjustment arising from acquisition of a subsidiary	Service concession receivables	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2011	7,199	(13,125)	(10,979)	(7,480)	173	(24,212)
Credit (charge) to profit or loss	-	(3,500)	1,596	(5,577)	-	(7,481)
At December 31, 2011	7,199	(16,625)	(9,383)	(13,057)	173	(31,693)
Credit (charge) to profit or loss	450	(3,500)	1,596	(7,908)	-	(9,362)
At December 31, 2012	**7,649**	**(20,125)**	**(7,787)**	**(20,965)**	**173**	**(41,055)**

The following is the analysis of the deferred tax balances for financial reporting purposes:

	The Group	
	December 31, 2012	December 31, 2011
	RMB'000	RMB'000
Deferred tax assets	**7,822**	7,372
Deferred tax liabilities	**(48,877)**	(39,065)
	(41,055)	(31,693)

21. DEFERRED TAXATION - continued

As at December 31, 2012, the Group has unused tax losses of RMB76,395,000 (2011: RMB53,615,000) 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 RMB52,420,000 (2011: RMB35,948,000) at December 31, 2012 has no expiry date and the remainder will be expired as follows:

	The Group	
	2012	2011
	RMB'000	RMB'000
2013	**1,224**	1,224
2014	**948**	948
2015	**3,780**	3,780
2016	**11,715**	11,715
2017	**6,308**	-
	23,975	17,667

Under the EIT Law, withholding tax is imposed at 5% on dividends declared to foreign investors in respect of profit earned by PRC subsidiaries from January 1, 2008 on-ward, 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 RMB1,575,058,000 (2011: RMB1,036,533,000) which was earned after January 1, 2008, have not been recognized as of December 31, 2012, 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.

22. INVENTORIES

	The Group	
	December 31, 2012	December 31, 2011
	RMB'000	RMB'000
Raw materials	**16,296**	19,405
Work in progress	**3,319**	136
Finished goods	**4,756**	2,046
	24,371	21,587

23. AMOUNTS DUE FROM/TO CUSTOMERS FOR CONTRACT WORK

	The Group	
	December 31, 2012	December 31, 2011
	RMB'000	RMB'000
Contracts in progress at reporting date:		
Amounts due from customers for contract work	**584,436**	427,640
Amounts due to customers for contract work	**(63,059)**	(7,809)
	521,377	419,831
Contract costs incurred plus		
recognized profits less recognized losses	**4,262,979**	2,818,844
Less: Progress billings	**(3,741,602)**	(2,399,013)
	521,377	419,831

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

24. TRADE AND OTHER RECEIVABLES

The followings are an analysis of trade and other receivables at the end of reporting period:

	The Group	
	December 31, 2012	December 31, 2011
	RMB'000	RMB'000
Trade receivables	**1,254,867**	961,838
Allowance for doubtful debts	**(51,041)**	(48,038)
	1,203,826	913,800
Bills receivable	**45,378**	22,446
Bid and compliance deposits	**23,642**	20,780
Advance payments to suppliers and subcontractors	**60,828**	82,593
Other receivables	**20,759**	42,445
Service concession receivables (Note 20)	**78,582**	38,215
Total	**1,433,015**	1,120,279

24. TRADE AND OTHER RECEIVABLES - continued

	The Company	
	December 31, 2012 RMB'000	December 31, 2011 RMB'000
Trade receivables	**5,401**	24,103
Dividend receivables from subsidiaries	**587,750**	447,000
Due from subsidiaries	**-**	940,915
Other receivables	**696**	707
Total	**593,847**	1,412,725

The following is an aged analysis of trade receivables net of allowance for doubtful debts presented based on the date of construction service are provided/goods are delivered which approximated the respective dates on which revenue was recognised.

	The Group	
	December 31, 2012 RMB'000	December 31, 2011 RMB'000
Trade receivables:		
Within 90 days	**243,561**	269,887
91 to 180 days	**347,257**	284,507
181 days to 1 year	**341,725**	245,520
1 to 2 years	**242,574**	113,886
2 to 3 years	**28,709**	-
	1,203,826	913,800
Bills receivable:		
Within 180 days	**45,378**	22,446

	The Company	
	December 31, 2012 RMB'000	December 31, 2011 RMB'000
Trade receivables:		
Within 90 days	**101**	12,088
91 to 180 days	**-**	3,150
1 to 2 years	**5,300**	8,865
	5,401	24,103

24. TRADE AND OTHER RECEIVABLES - continued

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.

Included in the Group's trade receivables are debtors with a carrying amount of RMB329,714,000 (2011: RMB119,160,000) as of December 31, 2012 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

	The Group	
	December 31, 2012	December 31, 2011
	RMB'000	RMB'000
91 to 180 days	**33,167**	-
181 days to 1 year	**25,264**	5,274
1 to 2 years	**242,574**	113,886
2 to 3 years	**28,709**	-
	329,714	119,160

	The Company	
	December 31, 2012	December 31, 2011
	RMB'000	RMB'000
91 to 180 days	**-**	3,150
1 to 2 years	**5,300**	8,865
	5,300	12,015

Movement in allowance for doubtful debts:

	The Group	
	2012	2011
	RMB'000	RMB'000
Balance at beginning of year	**48,038**	47,995
Charge to profit or loss	**3,003**	83
Amounts written off as uncollectable	**-**	(40)
Balance at end of year	**51,041**	48,038

24. TRADE AND OTHER RECEIVABLES - continued

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.

Management considers that the trade and other receivables that are neither past due nor impaired are with creditworthy counterparties.

As of December 31, 2012, trade receivables with carrying amount of approximately RMB165,489,000 (2011: RMB120,695,000) have been pledged as collateral for the short-term borrowings of RMB100,000,000 (2011: RMB60,000,000).

24a. TRANFERS OF FINANCIAL ASSETS

The following were the Group's financial assets as at December 31, 2012 that were endorsed to suppliers on a full recourse basis. As the Group has not transferred the significant risks and rewards relating to these bills receivables, it continues to recognise the full carrying amount of the biils receivables and the associated liabilities being trade payables. These financial assets are carried at amortised cost in the Group's consolidated statement of financial position.

As at December 31, 2012	Carrying amount of transferred assets	Carrying amount of associated liabilities	Net position
	RMB '000	RMB '000	RMB '000
Bills receivables endorsed to suppliers with full recourse	34,548	34,548	-

25. BANK BALANCES AND CASH

Bank balances and cash comprise cash with an original maturity of three months or less which are held with banks and carry interest at prevailing market rate from 0.35% to 0.5% (2011: 0.36% to 0.50%) per annum as of December 31, 2012.

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 balance and cash of the Group and the Company represent cash and cash equivalents of the Group and the Company.

25. BANK BALANCES AND CASH - continued

Bank balances and cash that are denominated in currency other than the functional currency are set out below:

	The Group	
	December 31, 2012	December 31, 2011
	RMB'000	RMB'000
Singapore Dollar ("S$")	**2,729**	1,440
United States Dollar ("US$")	**186,113**	64,025
Bangladeshi Taka ("BDT")	**1,067**	4,439
Hongkong Dollar ("HKD")	**386**	-
Australian Dollar ("AUD")	**347**	-

	The Company	
	December 31, 2012	December 31, 2011
	RMB'000	RMB'000
US$	**182,946**	58,811
S$	**2,653**	1,378
AUD	**347**	-
HKD	**386**	-

Restricted bank balances of the Group

As of December 31, 2012, bank balances of certain subsidiaries of RMB80,708,000 (2011: RMB56,847,000) have been pledged to banks in respect of letters of guarantees issued to certain subsidiaries to secure construction contracts. The bank balances bear prevailing interest rate ranging from 0.35% to 0.5% (2011: 0.36% to 0.5%) per annum as of December 31, 2012. The restricted bank balances will be released upon the completion of relevant contracts. As at December 31, 2012, restricted bank balances of RMB27,571,000 (December 31, 2011: Nil) has been pledged to secure construction contracts that will be completed one year after the end of the reporting period, therefore they are classfied as non-current assets.

The restricted bank balances that are denominated in currency other than the functional currency are set out below:

	The Group	
	December 31, 2012	December 31, 2011
	RMB'000	RMB'000
S$	**23,165**	22,037
US$	**12,294**	23,197

26. 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:

	The Group	
	December 31, 2012	December 31, 2011
	RMB'000	RMB'000
Trade payables		
Within 90 days	**334,294**	223,035
91 days to 180 days	**162,540**	166,285
181 days to 1 year	**100,454**	74,385
1 to 2 years	**128,829**	78,496
2 to 3 years	**40,890**	17,457
More than 3 years	**17,742**	28,675
	784,749	588,333
Bills payable within 180 days	**35,000**	10,595
Other payables	**62,685**	30,870
Borrowings interest payables	**3,939**	4,196
Convertible loan notes interest payables	**10,500**	-
Senior notes interest payables	**43,873**	-
Bid and compliance deposits	**10,955**	10,626
Advance from customers	**24,455**	64,641
Value added tax payables	**61,947**	66,055
Business tax payables	**128,545**	92,065
Other tax payables	**3,961**	3,916
	1,170,609	871,297

26. TRADE AND OTHER PAYABLES - continued

	The Company	
	December 31, 2012	December 31, 2011
	RMB'000	RMB'000
Trade payables		
Within 90 days	**557**	2,000
91 days to 180 days	**-**	600
181 days to 1 year	**-**	-
1 to 2 years	**4,220**	1,620
	4,777	4,220
Other payables	**3,760**	4,676
Interest payables	**-**	1,194
Convertible loan notes interest payables	**10,500**	-
Senior notes interest payables	**43,873**	-
Due to subsidiaries	**-**	1,834
	62,910	11,924

Trade payables principally comprise amounts outstanding for trade purchases and on-going costs.

The average credit period on purchases of goods is 90 days (2011: 90 days).

27. BORROWINGS

	The Group	
	December 31, 2012	December 31, 2011
	RMB'000	RMB'000
Secured bank borrowings (note i)	**847,800**	273,000
Borrowings from International Finance Corporation (note ii)	**393,208**	420,410
Unsecured bank borrowings	**113,150**	158,780
	1,354,158	852,190
Carrying amount repayable (note iv):		
Within one year	**375,206**	271,188
More than one year but not exceeding two years	**169,583**	108,267
More than two years but not exceeding five years	**514,635**	269,664
More than five years	**294,734**	203,071
	1,354,158	852,190

27. BORROWINGS - continued

	The Group	
	December 31, 2012 RMB'000	December 31, 2011 RMB'000
Less: Amounts not repayable within one year from the end of the reporting period but contain a repayment on demand clause	**(112,650)**	(48,780)
Amounts due within one year	**(352,846)**	(263,058)
Amounts show under current liabilities	**465,496**	311,838
Amounts show under non-current liabilities	**888,662**	540,352

	The Company	
	December 31, 2012 RMB'000	December 31, 2011 RMB'000
Borrowings from International Finance Corporation (note ii)	**393,208**	420,410
Carrying amount repayable (note iv):		
Within one year	**54,146**	28,758
More than one year but not exceeding two years	**54,713**	59,207
More than two years but not exceeding five years	**167,855**	153,534
More than five years	**116,494**	178,911
	393,208	420,410
Less: Amounts due within one year shown under current liabilities	**(54,146)**	(28,758)
Amount shown under non-current liabilities	**339,062**	391,652

The borrowings comprise:

	The Group	
	December 31, 2012 RMB'000	December 31, 2011 RMB'000
Fixed-rate borrowings	**50,000**	30,000
Variable-rate borrowings (note iii)	**1,304,158**	822,190
	1,354,158	852,190

	The Company	
	December 31, 2012 RMB'000	December 31, 2011 RMB'000
Variable-rate borrowings (note iii)	**393,208**	420,410

27. BORROWINGS - continued

The effective interest rates per annum at the respective reporting dates, are as follows:

	The Group	
	December 31, 2012	December 31, 2011
Borrowings	**2.901% – 8.16%**	4.838% – 8.16%

	The Company	
	December 31, 2012	December 31, 2011
Borrowings	**2.901% – 4.838%**	4.838% – 8.16%

Note:

(i) As of December 31, 2012, bank borrowings of approximately RMB75,000,000 were mortgaged and secured by certain buildings and land use rights of the Group. Bank borrowings of approximately RMB100,000,000 were secured by certain trade receivables of the Group. Bank borrowings of approximately RMB672,800,000 were secured by Anshan Tianqing Water Co., Ltd., Anshan Qingchang Water Co., Ltd., Anshan Qinglang Water Co., Ltd.,Xi'an Qinqing, Changsha City Xianghai Water Co., Ltd.'s 30 years' and Xi'an Huqing's 28 years' and Anyang Taiyuan Water Co., Ltd.'s 25 years' charging rights under the respective service concession contracts.

As of December 31, 2011, bank borrowings of approximately RMB75,000,000 were mortgaged and secured by certain buildings and land use rights of the Group. Bank borrowings of approximately RMB60,000,000 were secured by certain trade receivables of the Group. Bank borrowings of approximately RMB138,000,000 were secured by Xi'an Qinqing, Xi'an Huqing and Changsha Xianghai's 30 years' respective charging rights under the service concession contracts.

(ii) Borrowings from International Finance Corporation of approximately RMB393,208,000 (2011: RMB420,410,000) denominated in US$ as at December 31, 2012 were advanced from International Finance Corporation ("IFC") which were secured by the equity interest in certain subsidiaries. The interest rate was 3.5% per annum above the relevant London Interbank Offered Rate ("LIBOR") interest rate. The effective interest rate after considering the transaction costs (see note 30) is 4.84% and 5.46% per annum.

(iii) The interest rate of variable-rate bank borrowings of the Group was varied according to the loan interest published by the People's Bank of China ("PBOC') or LIBOR.

(iv) The amount due are based on scheduled repayment dates set out in the loan agreements.

(v) The above borrowings will be repayable from March, 2013 to June, 2020.

28. ISSUED CAPITAL

	The Group and the Company	
Issued and paid up	Number of shares	RMB'000
At January 1, 2011, December 31, 2011 and 2012	**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.

The amount of issued capital represents the net proceeds from allotment of ordinary shares.

29. 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) fixed in RMB. In the current year, the conversion price was adjusted to RMB3.384 per share as a result of the dividend declared by the company according to the terms of the convertible loan notes agreement. Unless previously redeemed, purchased or cancelled, the convertible loan notes will be redeemed on September 15, 2015. Interest of 6% per annum 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 convertible loan notes on September 15, 2012 or following the occurrence of relevant event (as defined in the Offering Circular) at a redemption price equivalent to RMB principal amount together with interest accrued on that date. The entire balance of convertible loan notes was classified as current liabilities as at December 31, 2011 as the Company does not have an unconditional right to defer settlement in the coming year. As at December 31, 2012, the remaining balance of the convertible loan notes (subsequent to the redemption and repurchase of convertible loan notes in September, November and December 2012 as described below) was classified as non- current liabilities as the holders did not have any redemption right prior to the maturity date on September 8, 2015.

The convertible loan notes contain two components, liability and equity elements. The equity element is presented in equity heading "convertible loan notes 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 at initial recognition. The effective interest rate of the liability component is 9% per annum.

On September 15, 2012, the Company partially redeemed convertible loan notes of an aggregate principal amount of RMB263,000,000 at the option of the holders and the redemption price is equivalent to RMB principal amount together with interest accrued on that date. The consideration paid has been allocated between the liability and equity components of the convertible loan notes. The difference between the consideration allocated to the liability component and the carrying amount of the liability component is recognized as redemption loss of RMB 117,000 which was charged to profit or loss.

On November 20, 2012 and December 20, 2012, the Company repurchased convertible loan notes with an aggregate principal amount of RMB15,000,000 and RMB7,000,000 respectively by way of an over-the-counter purchase at consideration of RMB15,010,000 and RMB7,042,000 respectively. The consideration paid has been allocated between the liability and equity components of the convertible loan notes. The difference between the consideration allocated to the liability component and the carrying amount of the liability component is recognized as redemption loss of RMB2,000 which was charged to profit or loss.

29. CONVERTIBLE LOAN NOTES - continued

The movements of the liability component of the convertible loan notes for the year is set out below:

	The Group and the Company	
	2012	**2011**
	RMB'000	**RMB'000**
Carrying amount as at January 1	**818,252**	800,366
Interest charge (Note 9)	**66,250**	70,985
Interest paid	**(53,101)**	(53,099)
Early redemption by the holders	**(242,610)**	-
Repurchased by the Company	**(20,673)**	-
Carrying amount as at December 31	**568,118**	818,252
Less: Amounts shown under current liabilities	**(10,500)**	(818,252)
	557,618	-

30. WARRANTS

On December 5, 2011, the Company issued warrants to IFC as condition to draw down a borrowing of US$36,000,000 from IFC (the "IFC loan"). Each warrant carries the right for IFC to subscribe for one share at the initial exercise price of S$1.10 (subject to adjustments) per share until December 4, 2014.

Based on the initial exercise price of S$1.10 per share, 28,154,545 shares will be allotted and issued upon full exercise of the warrants, representing approximately 2.18% of the issued capital of the Company as at December 31, 2011.

The warrants are derivatives and classified as financial liabilities at FVTPL. The warrants are issued in connection with the IFC loan and therefore considered as transaction costs directly attributable to the IFC loan. The fair value of the warrants at initial recognition amounting to approximately RMB7,953,000 was deducted against the proceed received from the IFC loan and included in estimating the effective interest of the IFC loan. The carrying amount of those warrants is approximately RMB3,531,000 (2011:RMB7,953,000) as at December 31, 2012.

31. SENIOR NOTES

On August 6, 2012, the Company issued guaranteed senior fixed rate notes to the public at par with the aggregated nominal value of US$150,000,000 (the "Notes") which carried at fixed interest rate of 11.875% per annum (interest payable semi-annually in arrears) and will be fully repayable by August 10, 2017.

The Notes are listed on the SEHK. They are senior obligations of the Company and guaranteed by certain of the Company's existing subsidiaries, other than (i) those organized under the laws of the PRC and (ii) Sound International Investment Holdings Limited. The guarantees are effectively subordinated to the secured obligations of each guarantor, to the extent of the value of the assets serving as security.

At any time on or after August 10, 2015, the Company may on any one or more occasions redeem all or any part of the Notes, at the redemption prices (expressed as percentages of principal amount) set forth as below, plus accrued and unpaid interest, if any, to the applicable date of redemption.

Year	Redemption price
2015	105.9375%
2016 and thereafter	102.96875%

At any time prior to August 10, 2015, the Company may at its option redeem the Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the Notes redeemed plus the Applicable Premium as of, and accrued and unpaid interest, if any, to the redemption date.

Applicable Premium means, with respect to a Note at any redemption date, the greater of (1) 1.00% of the principal amount of such Note and (2) the excess of (A) the present value at such redemption date of the redemption price of such Note at August 10, 2015, plus all required remaining scheduled interest payments due on such Note through August 10, 2015 (but excluding accrued and unpaid interest to the redemption date), computed using a discount rate equal to the Adjusted Treasury Rate as disclosed in the offering circular dated August 6. 2012 plus 100 basis points, over (B) the principal amount of such Note on such redemption date.

At any time and from time to time prior to August 10, 2015, the Company may, subject to certain conditions, at its option redeem up to 35% of the aggregate principal amount of the Notes at a redemption price of 111.875% of the principal amount of the Notes redeemed, plus accrued and unpaid interest, if any, to the redemption date.

In the opinion of the directors, the fair value of all early redemption options is insignificant on initial recognition and at the end of the reporting period.

Upon the occurrence of a change control triggering event, the Company is required to make an offer to repurchase all outstanding Notes at a purchase price equal to 101% of their principal amount plus accrued and unpaid interest, if any, to the repurchase date.

31. SENIOR NOTES - continued

If the Company or a guarantor would become obliged to pay certain additional amounts as a result of certain changes in specified tax laws, the Company may redeem the Notes, in whole but not in part, at redemption price equal to 100% of the principal amount plus accrued and unpaid interest, if any, to the date fixed by the Company for redemption.

The net carrying amount of the Notes is stated net of issue expenses totalling US$146,233,000, (equivalent to approximately RMB923,084,000) and the effective interest rate of the Notes is 12.57% per annum.

The movement of the Notes for the year ended December 31, 2012 are set out below:

	The Group and the Company	
	2012	2011
	RMB'000	RMB'000
Initial fair value on the date of issuance	**923,084**	-
Interest charge (Note 9)	**45,511**	-
Exchange gain	**(2,078)**	-
Carrying amount at the end of the year	**966,517**	-
Less: Interest payables within one year included in other payables shown under current liabilities	**(43,873)**	-
	922,644	-

32. ACQUISITION OF A SUBSIDIARY

In July 2011, the Group injected RMB27,000,000 to Anyang Taiyuan Water Co., Ltd. ("Anyang Taiyuan") as capital contribution and Anyang Taiyuan became a 90% owned subsidiary of the Group. The transaction has been deemed as acquisition of assets, which mainly represent service concession agreement awarded to Anyang Taiyuan.

	RMB'000
Net assets acquired	
Bank balances and cash	459
Trade and other receivables	1,392
Service concession receivables	1,200
Trade and other payables	(51)
	3,000
Non-controlling interest	3,000
Net cash inflow arising on acquisition	
Bank balances and cash acquired	459

33. 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 from prior year.

The capital structure of the Group consists of debt, which includes the borrowings, convertible loan notes, senior notes and equity attributable to owners of the Company, comprising issued 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.

34. FINANCIAL INSTRUMENTS

Categories of financial instruments

	The Group	
	December 31, 2012	December 31, 2011
	RMB'000	RMB'000
Financial assets		
Loans and receivables		
Service concession receivables	**1,722,065**	1,121,874
Trade receivables	**1,203,826**	913,800
Bills receivables	**45,378**	22,446
Bid and compliance deposits	**23,642**	20,780
Other receivables	**20,759**	42,445
Restricted bank balances	**80,708**	56,847
Bank balances and cash	**2,912,077**	2,074,426
Total	**6,008,455**	4,252,618

34. FINANCIAL INSTRUMENTS - continued

Categories of financial instruments - continued

	The Group	
	December 31, 2012 RMB'000	December 31, 2011 RMB'000
Financial liabilities		
Financial liabilities at amortized cost		
Trade payables	**784,749**	588,333
Bills payables	**35,000**	10,595
Other payables	**62,685**	30,870
Borrowings interest payables	**3,939**	4,196
Convertible loan notes interest payables	**10,500**	-
Senior notes interest payables	**43,873**	-
Bid and compliance deposits	**10,955**	10,626
Borrowings	**1,354,158**	852,190
Convertible loan notes	**557,618**	818,252
Senior notes	**922,644**	-
	3,786,121	2,315,062
Fair value through profit or loss		
Held for trading - warrants	**3,531**	7,953
Total	**3,789,652**	2,323,015

	The Company	
	December 31, 2012 RMB'000	December 31, 2011 RMB'000
Financial assets		
Loans and receivables		
Trade receivables	**5,401**	24,103
Dividend receivables from subsidiaries	**587,750**	447,000
Due from subsidiaries	**-**	940,915
Other receivables	**696**	707
Bank balances and cash	**186,332**	60,246
Total	**780,179**	1,472,971

34. FINANCIAL INSTRUMENTS - continued

Categories of financial instruments - continued

	The Company	
	December 31, 2012 RMB'000	December 31, 2011 RMB'000
Financial liabilities		
Financial liabilities at amortized cost		
Trade payables	**4,777**	4,220
Due to subsidiaries	**-**	1,834
Other payables	**3,760**	4,676
Interest payables	**-**	1,194
Convertible loan notes interest payables	**10,500**	-
Senior notes interest payables	**43,873**	-
Borrowings	**393,208**	420,410
Senior notes	**922,644**	-
Convertible loan notes	**557,618**	818,252
	1,936,380	1,250,586
Fair value through profit or loss		
Held for trading - warrants	**3,531**	7,953
Total	**1,939,911**	1,258,539

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, senior notes, warrants, 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 from prior year.

The company's major financial instruments include trade and other receivables, trade and other payables, borrowings, convertible loan notes, senior notes, warrants, bank balances and cash. Details of these financial instruments are disclosed in the respective notes.

The Company's objectives, policies and processes in managing risk, and the methods used, are similar to those applied to the Group.

34. FINANCIAL INSTRUMENTS - continued

Credit risk management

The Group's and Company'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 statements of financial position at the respective reporting dates.

In order to minimize the credit risk, the management of the Group and Company 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 Group's and Company's management based on prior experience and the current economic environment. The Group and Company 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 and Company'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 no significant concentration of credit risk as the top five biggest customers account for approximately 22% (2011: 18%) of the carrying amounts of trade receivables as of December 31, 2012. 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.

The Group is 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.

The Company's credit risk primarily relates to the Company's dividend receivables from subsidiaries and bank balances. The management of the Company considers the credit risk associated with the Company's dividend receivable from subsidiaries is low as those subsidiaries are with strong cash flow position. The credit risk in relation to the Company's bank balances is not significant as the corresponding banks are reputable banking institutions.

34. FINANCIAL INSTRUMENTS - continued

Market risk management

The Group's activities expose primarily to the financial risks of changes in foreign currency exchange rates, interest rates and price risk of the Company's shares. The Group currently does not have a foreign currency or interest rate 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 and the Company undertake 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 and senior notes at the reporting date are as follows:

	The Group			
	Liabilities		Assets	
	2012	2011	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000
S$	**-**	-	**25,894**	23,477
US$	**1,315,852**	420,410	**198,407**	87,222
BDT	**-**	-	**1,067**	4,439
HKD	**-**	-	**386**	-
AUD	**-**	-	**347**	-

	The Company			
	Liabilities		Assets	
	2012	2011	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000
S$	**-**	-	**2,653**	1,378
US$	**1,315,852**	420,410	**182,946**	58,811
HKD	**-**	-	**386**	-
AUD	**-**	-	**347**	-

34. FINANCIAL INSTRUMENTS - continued

Market risk management - continued

Foreign currency risk management - continued

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.

	The Group					
	S$		US$		BDT	
	2012	2011	2012	2011	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Profit for the year	**(2,589)**	(2,348)	**111,745**	33,319	**(107)**	(444)

	The Group			
	HKD		AUD	
	2012	2011	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Profit for the year	**(39)**	-	**(35)**	-

	The Company			
	S$		US$	
	2012	2011	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Profit for the year	**(265)**	(138)	**113,291**	36,160

	The Company			
	HKD		AUD	
	2012	2011	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Profit for the year	**(39)**	-	**(35)**	-

34. FINANCIAL INSTRUMENTS - continued

Market risk management - continued

Interest rate risk management

The Group is mainly exposed to fair value interest rate risk in relation to its fixed-rate borrowings, convertible loan notes and senior notes (see Note 27, 29 and 31 for details). The Company is mainly exposed to fair value interest rate risk in relation to its convertible loan notes and senior (see Note 29 and 31 for details). The Group and the Company are 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's and the Company's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of loan interest published by PBOC and LIBOR. The Company's cash flow interest rate risk is mainly concentrated on the fluctration of loan interest Published by LIBOR.

The Group and the Company currently do 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.

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 the management of the Group and the Company considered they are not sensitive to fluctuation in interest rate. The analysis is prepared assuming the variable interest rate borrowings outstanding at the end of the reporting period 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 RMB5,361,000 (2011: RMB3,171,000) for the year ended December 31, 2012.

If interest rates had been increased/decreased by 50 basis points and all other variables were held constant, the Company's profit for the year would decrease/increase by approximately RMB1,632,000 (2011: RMB1,745,000) for the year ended December 31, 2012.

Other price risk management

The Group and the Company are exposed to equity price risk through its warrants issued. The management closely monitors the price risk and will take proper action if the risk is significant. If the price of the Company's share price had been 15% higher/lower while all other input variables of the valuation model were held constant, the profit for the year ended December 31, 2012 would decrease/increase by RMB2,294,000/RMB1,721,000 (2011: RMB3,308,000/RMB2,481,000).

34. FINANCIAL INSTRUMENTS - continued

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 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 at the end of reporting period.

The Group	Weighted average interest rate	On demand	Within one year	1-5 years	Over 5 years	Total undiscounted cash flow	Carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As of December 31, 2012							
Trade payables		**-**	**784,749**	**-**	**-**	**784,749**	**784,749**
Other payables		**-**	**62,685**	**-**	**-**	**62,685**	**62,685**
Bid and compliance deposits		**-**	**10,955**	**-**	**-**	**10,955**	**10,955**
Bills payable		**-**	**35,000**	**-**	**-**	**35,000**	**35,000**
Convertible loan notes	**6.00**	**-**	**36,000**	**672,000**	**-**	**708,000**	**568,118**
Senior notes	**11.875**	**-**	**112,187**	**1,393,477**	**-**	**1,505,664**	**966,517**
Borrowings							
Fixed-rate	**6.00**	**-**	**52,692**	**-**	**-**	**52,692**	**50,000**
Variable-rate	**6.32**	**112,650**	**371,644**	**753,998**	**317,569**	**1,555,861**	**1,308,097**
Total		**112,650**	**1,465,912**	**2,819,475**	**317,569**	**4,715,606**	**3,786,121**
As of December 31, 2011							
Trade payables		-	588,333	-	-	588,333	588,333
Other payables		-	30,870	-	-	30,870	30,870
Bid and compliance deposits		-	10,626	-	-	10,626	10,626
Bills payable		-	10,595	-	-	10,595	10,595
Convertible loan notes	6.00	-	938,100	-	-	938,100	818,252
Borrowings							
Fixed-rate	6.00	-	31,011	-	-	31,011	30,000
Variable-rate	6.33	48,780	271,796	432,469	215,614	968,659	826,386
Total		48,780	1,881,331	432,469	215,614	2,578,194	2,315,062

34. FINANCIAL INSTRUMENTS - continued

Liquidity risk management - continued

The table that follows summarises the maturity analysis of term loans with a repayment on demand clause based on agreed scheduled repayments set out in the loan agreements. The amounts include interest payments computed using contractual rates. As a result, these amounts were greater than the amounts disclosed in the "on demand" time band in the maturity analysis. Taking into account the Group's financial position, the directors do not consider that it is probable that the bank will exercise its discretion to demand immediate repayment. The directors believe that such term loans will be repaid in accordance with the scheduled repayment dates set out in the loan agreements.

The Group	Weighted average interest rate	Within one year	1 to 5 years	Over 5 years	Total undiscounted cash flow	Carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
31 December 2012	**7.79**	**30,255**	**95,298**	**9,085**	**134,638**	**112,650**
31 December 2011	7.32	11,465	45,489	-	56,954	48,780

The amounts included above for variable interest rate instruments for non-derivative financial liabilities are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

The Company	Weighted average interest rate	Within one year	1 to 5 years	Over 5 years	Total undiscounted cash flow	Carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As of December 31, 2012						
Trade payables		**4,777**	**-**	**-**	**4,777**	**4,777**
Other payables		**3,760**	**-**	**-**	**3,760**	**3,760**
Convertible loan notes	**6.00**	**36,000**	**672,000**	**-**	**708,000**	**568,118**
Senior notes	**11.875**	**112,187**	**1,393,477**	**-**	**1,505,664**	**966,517**
Borrowings						
Variable-rate	**4.84**	**73,677**	**272,440**	**124,420**	**470,537**	**393,208**
Total		**230,401**	**2,337,917**	**124,420**	**2,692,738**	**1,936,380**

34. FINANCIAL INSTRUMENTS - continued

Liquidity risk management - continued

The Company	Weighted average interest rate	Within one year	1 to 5 years	Over 5 years	Total undiscounted cash flow	Carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As of December 31, 2011						
Trade payables		4,220	-	-	4,220	4,220
Other payables		4,676	-	-	4,676	4,676
Borrowing interest payables		1,194	-	-	1,194	1,194
Due to subsidiaries		1,834	-	-	1,834	1,834
Convertible loan notes	6.00	938,100	-	-	938,100	818,252
Borrowings						
Variable-rate	5.84	42,021	282,036	189,654	513,711	420,410
Total		992,045	282,036	189,654	1,463,735	1,250,586

The amounts included above for variable interest rate instruments for non-derivative financial liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of reporting period.

Fair value

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 in active liquid markets are determined with reference to quoted market bid prices and ask prices respectively;
- The fair value of financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis;
- The fair value of derivative instruments (warrants) is determined by applying option pricing model using rates from observable current market transactions as input, to the extent possible.

34. FINANCIAL INSTRUMENTS - continued

Fair value - continued

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:

	2012		2011	
	Carrying amount	Fair value	Carrying amount	Fair value
	RMB'000	RMB'000	RMB'000	RMB'000
The Group and the Company				
Financial liabilities				
Convertible loan notes				
(Liability component)	**568,118**	**615,330**	818,252	916,425
Senior notes	**966,517**	**1,006,010**	-	-

Fair value measurements recognized in the consolidated statement of financial position

Below provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

As detailed in Note 30, the warrants issued by the Company to IFC are classified as financial liabilities at FVTPL. The fair value of those warrants was measured by Level 3 fair value measurements. A gain of RMB 4,422,000 (2011: nil) arising on change in fair value of the warrants were recognized during the year.

35. OPERATING LEASES COMMITMENTS

The Company as lessee

Lease payment recognized as an expense:

	2012 RMB'000	2011 RMB'000
Minimum lease payments paid under operating lease recognized as an expense in the year	**3,666**	2,799

At the reporting date, the Group has outstanding commitments under non-cancellable operating leases, which fall due as follows:

	The Group	
	2012 RMB'000	2011 RMB'000
Within one year	**2,111**	2,183
In the second to fifth years inclusive	**1,589**	3,575
	3,700	5,758

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.

36. 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, 2012, 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:

	The Group	
	2012 RMB'000	2011 RMB'000
Contribution to defined contribution plan	**9,071**	6,772

As of December 31, 2012, the contribution due in respect of the year that had not been paid to the schemes is RMB15,000 (2011: RMB3,000).

37. 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, 2012, the number of shares in respect of which options had been granted under the Existing Share Option Scheme was 64,500,000 (2011: 64,500,000), representing 5% (2011: 5%) 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 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).

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

37. SHARE-BASED PAYMENT TRANSACTIONS - continued

Existing Share Option Scheme - continued

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, 2012 and 2013 must be at least 10%, 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 15% for each of the financial years ended/ending December 31, 2012 and 2013, excluding all exceptional items.

Movements in the share option in the year ended December 31, 2012 are as follows:

	Outstanding at January 1, 2012	Granted during 2012	Forfeited during 2012	Outstanding at December 31, 2012
Options granted as at July 23, 2010	**42,989,200**	**-**	**(9,838,800)**	**33,150,400**
Exercisable at the end of the year				**16,575,200**
Weighted average exercise price	**S$ 0.745**	**N/A**	**S$ 0.745**	**S$ 0.745**

Movements in the share option in the year ended December 31, 2011 are as follows:

	Outstanding at January 1, 2011	Granted during 2011	Forfeited during 2011	Outstanding at December 31, 2011
Options granted as at July 23, 2010	58,304,000	-	(15,314,800)	42,989,200
Exercisable at the end of the year				10,747,300
Weighted average exercise price	S$ 0.745	N/A	S$ 0.745	S$ 0.745

37. SHARE-BASED PAYMENT TRANSACTIONS - continued

Existing Share Option Scheme - continued

The Group recognized the total expense of RMB9,003,000 for the year ended December 31, 2012 (2011: RMB17,882,000) 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 at the end of the reporting 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.

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.

38. (A) RELATED COMPANY TRANSACTIONS

Related companies in these financial statements refer to members of Sound Water, the ultimate holding company's group of companies.

Transactions between the Company and its subsidiaries, which are related companies of the Company, have been eliminated on consolidation.

(a) At the reporting date, the Company had the following balances with related parties:

	The Company	
	December 31, 2012	December 31, 2011
	RMB'000	RMB'000
Trade receivables		
Fellow subsidiaries:		
Xi'an Qinqing	**5,300**	5,300

38. (A) RELATED COMPANY TRANSACTIONS - continued

(a) At the reporting date, the Company had the following balances with related parties: - continued

	The Company	
	December 31, 2012	December 31, 2011
	RMB'000	RMB'000
Due from subsidiaries		
Fellow subsidiaries:		
Beijing Epure Water	**-**	120,491
Sound International Investment Holding Co. Ltd.	**-**	638,588
Epure International Engineering Pte. Ltd.	**-**	181,836
	-	940,915

	The Company	
	December 31, 2012	December 31, 2011
	RMB'000	RMB'000
Trade payables		
Fellow subsidiaries:		
Beijing Sound	**400**	400
Beijing Epure	**3,820**	3,820
Hi-Standard Equipment	**557**	-
	4,777	4,220

	The Company	
	December 31, 2012	December 31, 2011
	RMB'000	RMB'000
Dividend receivables		
Fellow subsidiaries		
Beijing Sound	**177,750**	165,000
Beijing Epure	**410,000**	282,000
	587,750	447,000

38. (A) RELATED COMPANY TRANSACTIONS - continued

(a) At the reporting date, the Company had the following balances with related parties: - continued

	The Company	
	December 31, 2012	December 31, 2011
	RMB'000	RMB'000
Due to subsidiaries		
Fellow subsidiaries:		
Beijing Sound	**-**	1,834

38. (B) RELATED PARTY TRANSACTIONS

Some of the transactions and arrangements of the Group are with related parties. Unless otherwise stated, the balances are unsecured, interest-free and repayable on demand.

(a) During the year, the Group entered into the following significant transactions with related parties:

	The Group	
	2012	2011
	RMB'000	RMB'000
Revenue from construction contracts		
Fellow subsidiaries:		
Baotou Lucheng Water Co., Ltd. ("Baotou Lucheng")	**-**	31
Beijing Guozhong Biology Technology Co., Ltd. ("Beijing Guozhong Biology Technology")	**7,101**	36,746
Anda Anhua Environmental Co., Ltd. ("Anda Anhua")	**7,520**	-
Linqu Yiqing Environment Energy Co., Ltd. ("Linqu Yiqing")	**2,620**	-
Jiayu Jiaqing Water Co., Ltd. ("Jiayu Jiaqing")	**-**	9,447
Jingmen Xiajiawan Water Co., Ltd. ("Jingmen Xiajiawan")	**-**	714
	17,241	46,938

38. (B) RELATED PARTY TRANSACTIONS - continued

(a) During the year, the Group entered into the following significant transactions with related parties: - continued

	The Group	
	2012	2011
	RMB'000	RMB'000
Revenue from sales of goods		
Fellow subsidiaries:		
Huzhou Zheqing Water Co., Ltd. ("Huzhou Zheqing")	**284**	-
Tongliao Bibo Water Co., Ltd ("Tongliao Bibo")	**77**	-
Baotou Lucheng	**-**	43
Beijing Xiaojiahe Wastewater Treatment Engineering Co., Ltd. ("Beijing Xiaojiahe")	**-**	1,902
Jiayu Jiaqing	**-**	171
	361	2,116
Revenue from design service		
Fellow subsidiaries:		
Beijing Guozhong Biology Technology	**-**	1,800
Jiayu Jiaqing	**-**	165
	-	1,965

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

38. (B) RELATED PARTY TRANSACTIONS - continued

(b) At the reporting date, the Group had the following balances with related parties:

	The Group	
	December 31, 2012	December 31, 2011
	RMB'000	RMB'000
Trade receivables		
Fellow subsidiaries:		
Jiayu Jiaqing	**5,399**	2,050
Baotou Lucheng	**2,653**	5,503
Jingzhou Jingqing Water Co., Ltd.	**1,098**	7,734
Anda Anhua	**665**	-
Jingmen Xiajiawan	**408**	1,267
Huzhou Zheqing	**333**	-
Linqu Yiqing	**284**	-
Tongliao Bibo	**134**	44
Xianning Ganyuan Water Co., Ltd.	**81**	2,040
Nanchang Xianghu Water Co., Ltd.	**69**	98
Beijing Guozhong Biology Technology	**-**	1,722
Daye Qingbo Water Co., Ltd.	**-**	468
	11,124	20,926
Amounts due from customers for contract work		
Fellow subsidiaries:		
Beijing Guozhong Biology Technology	**1,667**	11,024
Anda Anhua	**376**	-
Linqu Yiqing	**131**	-
Jiayu Jiaqing	**-**	3,349
Baotou Lucheng	**-**	150
	2,174	14,523
Other receivables		
Director		
Luo Liyang	**85**	17

The maximum balance outstanding for amounts due from Luo Liyang, a director during the year was RMB130,000 (2011: RMB151,000).

38. (B) RELATED PARTY TRANSACTIONS - continued

(b) At the reporting date, the Group had the following balances with related parties: - continued

	The Group	
	December 31, 2012	December 31, 2011
	RMB'000	RMB'000
Other payables		
Fellow subsidiary		
Tongliao Bibo	**3,076**	3,076
Advance from customers		
Fellow subsidiary		
Sound Group	**408**	-

(c) Compensation of key management personnel

The emoluments of key management during the year including the directors and chief executive disclosed in Note 12 were as follows:

	The Group	
	2012	2011
	RMB'000	RMB'000
Wages and salaries	**2,282**	1,717
Performance related incentive payments	**170**	96
Contributions to defined contribution plan	**143**	135
Share-based payments	**1,773**	4,268
	4,368	6,216

38. (B) RELATED PARTY TRANSACTIONS - continued

(d) 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 Sound Group 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 Sound Group pursuant to a Trademarks Transfer Agreement dated March 23, 2006. Sound Group will in return grant the Group the right to use the trademarks for a period of up to 50 years at nil consideration.

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
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

38. (B) RELATED PARTY TRANSACTIONS - continued

(d) Others - continued

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

At the reporting date, the Group had the following balances with these main contractors:

	The Group	
	December 31, 2012	December 31, 2011
	RMB'000	RMB'000
Trade receivables		
Jingzhou City Construction	-	258
Trade payables		
Hubei Gongye Construction Group	-	767
Other payables		
Jingzhou City Construction	-	2

39. INVESTMENT IN SUBSIDIARIES

	The Company	
	December 31, 2012	December 31, 2011
	RMB'000	RMB'000
Unquoted equity shares, at cost	**666,108**	666,108
Deemed investment *	**1,427,662**	136,443
Total	**2,093,770**	802,551

* This represent the deemed investment arising from amount due from subsidiaries. The subsidiaries have no contractual obligation to repay the funding to the Company and the eventual return of capital contribution is at the discretion and ability of the subsidiaries.

39. INVESTMENT IN SUBSIDIARIES - continued

Name of subsidiary	Place of incorporation and operation	Issued and fully paid-up Issued capital/ registered capital	Equity interest attributable to the Company as at December 31, 2012 Direct %	December 31, 2012 Indirect %	December 31, 2011 Direct %	December 31, 2011 Indirect %	Principal activities
Beijing Sound 北京桑德環境工程有限公司	The PRC	RMB500,000,000	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. (3) ("Sound International Engineering")	The BVI	US$1	100	-	100	-	Investment holding
Epure International Engineering Pte. Ltd. (2) ("Epure International Engineering ")	Singapore	S$1	100	-	100	-	Investment holding
Beijing Epure Sound Environment Engineering Technology Co., Ltd (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

39. INVESTMENT IN SUBSIDIARIES - continued

Name of subsidiary	Place of incorporation and operation	Issued and fully paid-up Issued capital/ registered capital	Equity interest attributable to the Company as at December 31, 2012		December 31, 2011		Principal activities
			Direct %	Indirect %	Direct %	Indirect %	
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) 西安戶清水務有限公司	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	RMB51,000,000	-	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

39. INVESTMENT IN SUBSIDIARIES - continued

Name of subsidiary	Place of incorporation and operation	Issued and fully paid-up Issued capital/ registered capital	Equity interest attributable to the Company as at December 31, 2012 Direct %	December 31, 2012 Indirect %	December 31, 2011 Direct %	December 31, 2011 Indirect %	Principal activities
Shangluo Wastewater (1) 商洛污水處理有限公司	The PRC	RMB13,800,000	-	100	-	100	Construction, management and operation of the municipal wastewater projects
Yulin Jingzhou (1) 榆林市靖州水務有限公司	The PRC	RMB11,400,000	-	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	RMB145,800,000	-	76.8 (note i)	-	76.8 (note i)	Construction, management and operation of the municipal wastewater projects
Fushun Qingxi Water Co., Ltd (1) 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 (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

39. INVESTMENT IN SUBSIDIARIES - continued

Name of subsidiary	Place of incorporation and operation	Issued and fully paid-up Issued capital/ registered capital	Equity interest attributable to the Company as at December 31, 2012 Direct %	December 31, 2012 Indirect %	December 31, 2011 Direct %	December 31, 2011 Indirect %	Principal activities
Anyang Mingbo Water Co., Ltd (1) 安陽明波水務有限公司	The PRC	RMB45,000,000	-	100	-	100	Construction, management and operation of the municipal wastewater projects
Yantai Bihai Water Co., Ltd (1) 煙台碧海水務有限公司	The PRC	RMB38,000,000	-	80	-	80	Construction, management and operation of the municipal wastewater projects
Daye Honglian Water Co., Ltd (1) 大冶鴻漣水務有限公司	The PRC	RMB18,000,000	-	100	-	100	Construction, management and operation of the municipal wastewater projects
Fushun Sangyuan Environmental Engineering Co., Ltd (1) 撫順桑遠環境工程有限公司 (note ii)	The PRC	RMB2,000,000	-	N/A	-	100	Construction, management and operation of the municipal wastewater projects
Changsha County Xianghai Water Co., Ltd. (1) 長沙縣湘海水務有限公司	The PRC	RMB43,524,000	-	100	-	100	Construction, management and operation of the municipal wastewater projects

39. INVESTMENT IN SUBSIDIARIES - continued

Name of subsidiary	Place of incorporation and operation	Issued and fully paid-up Issued capital/ registered capital	Equity interest attributable to the Company as at				Principal activities
			December 31, 2012		December 31, 2011		
			Direct	Indirect	Direct	Indirect	
			%	%	%	%	
Hongze Zeqing Water Co., Ltd. (1) 洪澤澤清水務有限公司	The PRC	US$12,000,000	-	100	-	100	Construction, management and operation of the municipal wastewater projects
Xi'an Weiqing (1) 西安渭清水務有限公司	The PRC	US$3,000,000	-	100	-	100	Construction, management and operation of the municipal wastewater projects
Hanzhong Hanyuan Water Co., Ltd. (1) 漢中漢源水務有限公司	The PRC	US$7,280,000	-	100	-	100	Construction, management and operation of the municipal wastewater projects
Anyang Taiyuan Water Co., Ltd. (1) 安陽泰元水務有限公司	The PRC	RMB30,000,000	-	90	-	90	Construction, management and operation of the municipal wastewater projects
Hunan Epure Environmental Engineering Co., Ltd. 湖南伊普環境工程有限公司 ("Hunan Epure") (1) (note iii)	The PRC	RMB6,000,000	-	100	-	100	Construction, management and operation of the municipal wastewater projects

39. INVESTMENT IN SUBSIDIARIES - continued

Name of subsidiary	Place of incorporation and operation	Issued and fully paid-up Issued capital/ registered capital	Equity interest attributable to the Company as at December 31, 2012		December 31, 2011		Principal activities
			Direct	Indirect	Direct	Indirect	
			%	%	%	%	
Fushun Qingxu Environment Co., Ltd. 撫順清旭環保有限公司 (“Fushun Qingxu “) (1) (note iv)	The PRC	US$1,000,100	-	100	-	100	Construction, management and operation of the municipal wastewater projects
Anshan Tianqing Water Co., Ltd 鞍山天清水務有限公司 (“Anshan Tianqing”) (1) (note v)	The PRC	RMB30,000,000	-	100	-	N/A	Construction, management and operation of the municipal wastewater projects
Anshan Qinglang Water Co., Ltd 鞍山清朗水務有限公司 (“Anshan Qinglang”) (1) (note v)	The PRC	RMB102,000,000	-	100	-	N/A	Construction, management and operation of the municipal wastewater projects
Anshan Qingchang Water Co., Ltd 鞍山清暢水務有限公司 (“Anshan Qingchang”) (1) (note v)	The PRC	RMB92,350,000	-	100	-	N/A	Construction, management and operation of the municipal wastewater projects
Jiangyan Qinlong Water Co., Ltd 姜堰市溱瀧水務有限公司 (“Jiangyan Qinlong”) (1) (note v)	The PRC	RMB16,500,000	-	100	-	N/A	Construction, management and operation of the municipal wastewater projects

39. INVESTMENT IN SUBSIDIARIES - continued

Name of subsidiary	Place of incorporation and operation	Issued and fully paid-up Issued capital/ registered capital	Equity interest attributable to the Company as at				Principal activities
			December 31, 2012		December 31, 2011		
			Direct	Indirect	Direct	Indirect	
			%	%	%	%	
Sound Siyang Water Co., Ltd. 桑德泗陽水務有限公司 ("Siyang Water") (1) (note v)	The PRC	USD$15,000,000	-	100	-	N/A	Construction, management and operation of the municipal wastewater projects
Quanzhou Sound Water Co., Ltd 泉州桑德水務有限公司 ("Quanzhou Water") (1) (note v)	The PRC	RMB23,000,000	-	100	-	N/A	Construction, management and operation of the municipal wastewater projects

None of the subsidiaries had issued any debt securities at the end of the year.

Notes:

(i) 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.

(ii) Fushun Sangyuan was liquidated on April 26, 2012.

(iii) The registered capital of Hunan Epure is RMB30,000,000, of which RMB6,000,000 has been paid as at December 31, 2012.

(iv) The registered capital of Fushun Qingxu is US$5,000,000, of which US$1,000,100 has been paid as at December 31, 2012.

(v) Those entities are newly incorporated or established in the current year.

(1) Audited or reviewed by overseas practice of Deloitte Touche Tohmatsu Limited for consolidation purposes.

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

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

40 RECONCILIATION BETWEEN INTERNATIONAL FINANCIAL REPORTING STANDARDS AND SINGAPORE FINANCIAL REPORTING STANDARDS

These consolidated financial statements are also in compliance with the Singapore Financial Reporting Standards.

FIVE-YEAR FINANCIAL SUMMARY

Consolidated Results

	For the year ended December 31,				
	2012	2011	2010	2009	2008
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
			(restated)	(restated)	(restated)
Revenue	**2,652,256**	2,287,575	1,765,672	1,293,476	1,024,808
Profit before income tax	**503,411**	481,208	349,067	292,989	232,013
Income tax expenses	**(75,902)**	(67,383)	(59,877)	(10,236)	(28,313)
Profit for the year	**427,509**	413,825	289,190	282,753	203,700
Profit for the year attributable to					
Owners of the Company	**427,509**	413,825	289,104	281,869	203,686
Non-controlling interests	**-**	-	86	884	14
	427,509	413,825	289,190	282,753	203,700

Consolidated Statement of Financial Position

	December 31,				
	2012	2011	2010	2009	2008
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
			(restated)	(restated)	(restated)
Total assets	**6,839,125**	4,956,184	4,350,298	2,582,783	2,343,707
Total liabilities	**4,184,613**	2,651,515	2,414,043	990,839	987,147
Net assets	**2,654,512**	2,304,669	1,936,255	1,591,944	1,356,560

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 February 28, 2013, the Company did not hold any treasury shares.

SUBSTANTIAL SHAREHOLDERS (as recorded in the Register of Substantial Shareholders as at February 28, 2013)

Name of Substantial	Direct Interest		Deemed Interest	
Shareholders	No. of Shares	%	No. of Shares	%
Wen Yibo[1]	11,733,000	0.91	713,289,000	55.29
Sound Water (BVI) Limited[1]	701,784,000	54.40	—	—
Zhang Huiming[1]	—	—	725,022,000	56.20
Tang Lianfang[1]	—	—	713,289,000	55.29
Zhang Linmao[1]	—	—	713,289,000	55.29
International Finance Corporation[2]	103,950,000	8.06	—	—
Norges Bank	76,152,000	5.90	—	—

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. This excludes 28,154,545 warrant shares.

FREE FLOAT

As at February 28, 2013, approximately 29.84% 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 February 28, 2013

DISTRIBUTION OF SHAREHOLDINGS

SIZE OF SHAREHOLDINGS	NO. OF SHAREHOLDERS	%	NO. OF SHARES	%
1 - 999	10	0.40	1,777	0.00
1,000 - 10,000	1,352	54.67	9,052,560	0.70
10,001 - 1,000,000	1,095	44.28	46,244,130	3.59
1,000,001 AND ABOVE	16	0.65	1,234,701,533	95.71
TOTAL	**2,473**	**100.00**	**1,290,000,000**	**100.00**

TWENTY LARGEST SHAREHOLDERS

NO.	NAME	NO. OF SHARES	%
1	HKSCC NOMINEES LIMITED	288,220,000	22.34
2	HSBC (SINGAPORE) NOMINEES PTE LTD	276,302,292	21.42
3	DBS NOMINEES PTE LTD	200,808,894	15.57
4	CITIBANK NOMINEES SINGAPORE PTE LTD	159,174,441	12.34
5	MORGAN STANLEY ASIA (SINGAPORE) SECURITIES PTE LTD	97,317,000	7.54
6	DBSN SERVICES PTE LTD	83,951,259	6.51
7	DBS VICKERS SECURITIES (S) PTE LTD	66,000,000	5.12
8	RAFFLES NOMINEES (PTE) LTD	25,838,398	2.00
9	BNP PARIBAS SECURITIES SERVICES	10,493,000	0.81
10	UNITED OVERSEAS BANK NOMINEES PTE LTD	8,920,000	0.69
11	DB NOMINEES (S) PTE LTD	6,866,522	0.53
12	OCBC SECURITIES PRIVATE LTD	4,721,029	0.37
13	MERRILL LYNCH (SINGAPORE) PTE LTD	2,185,698	0.17
14	PHILLIP SECURITIES PTE LTD	1,454,000	0.11
15	UOB KAY HIAN PTE LTD	1,377,000	0.11
16	YEO SECK KAN	1,072,000	0.08
17	MAYBANK KIM ENG SECURITIES PTE LTD	988,130	0.08
18	OCBC NOMINEES SINGAPORE PTE LTD	736,000	0.06
19	CIMB SECURITIES (SINGAPORE) PTE LTD	684,000	0.05
20	KHO YANG THONG	530,000	0.04
	TOTAL	**1,237,639,663**	**95.94**

STATISTICS OF BONDHOLDING

As at February 28, 2013

BONDHOLDER OF 6% CONVERTIBLE BONDS DUE 2015

Maturity Date : September 15, 2015

Conversion Price : With effect from May 31, 2012, the Conversion Price has been adjusted to S$0.674 per Share. Initial Conversion Price was S$0.924 per Share.

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 February 28, 2013, HSBC Nominees (Hong Kong) Limited, is entered in the register of holders as the holder of the balance of 2010 CBs at RMB600 million. 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 Kennedy Room, Level 7, Conrad Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Monday, 29 April 2013 at 10:00 a.m. (the "Annual General Meeting") 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 2012 together with the Auditors' Report thereon. **(Ordinary Resolution 1)**

2. To re-elect the following Directors retiring pursuant to the Company's Articles of Association (the "**Articles**"):

   Mr. Zhang Jingzhi as an Executive Director (Article 88) **(Ordinary Resolution 2)**
   Mr. Wen Yibo as an Executive Director (Article 89) **(Ordinary Resolution 3)**
   Mr. Wang Kai as an Executive Director (Article 89) **(Ordinary Resolution 4)**
   Mr. Fu Tao as an Independent Non-Executive Director (Article 89) **(Ordinary Resolution 5)**
   See Explanatory Note (i)

3. To approve the payment of Directors' fees of S$122,000/– for the year ended 31 December 2012 (2011: S$122,000/–). **(Ordinary Resolution 6)**

4. To re-appoint Deloitte Touche Tohmatsu, Hong Kong and Deloitte & Touche LLP, Singapore as the Company's Auditors and to authorise the Directors to fix their remuneration. **(Ordinary Resolution 7)**

5. 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:

6. Authority to allot and issue ordinary shares in the capital of the Company (the "Shares") — Share Issue Mandate

   "That, pursuant to Section 161 of the Companies Act, Chapter 50 of Singapore (the "Companies Act") and Rule 806 of the Listing Manual (the "Listing Manual") of the Singapore Exchange Securities Trading Limited (the "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 authorised and empowered to:

   (A) (i) issue Shares whether by way of rights, bonus or otherwise; and/or

   (ii) make or grant offers, agreements or options (collectively, the "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

(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:

(i) 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 50.0% of the total number of issued Shares (excluding treasury shares) in the capital of the Company (as calculated in accordance with sub-section (ii) 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 20.0% 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);

(ii) (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-section (i) 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;

(iii) 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; and

(iv) 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) **(Ordinary Resolution 8)**

7. 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 15.0% of the issued share capital of the Company from time to time."
See Explanatory Note (iii) **(Ordinary Resolution 9)**

8. 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 22 March 2013 (the "Circular"), with Sound Group Limited, 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 a 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) **(Ordinary Resolution 10)**

9. Authority to renew the Share Purchase Mandate (as defined below)

"That:

(A) approval be and is hereby given to the Directors of all the powers of the Company to purchase or acquire Shares not exceeding in aggregate the Maximum Limit (as hereafter defined), at such price(s) as may be determined by the Directors from time to time up to the Maximum Price (as hereafter defined), whether by way of:

(i) on-market purchase(s) (the "Market Purchase"), transacted on the SGX-ST or the SEHK through the ready market, through one or more duly licensed stockbrokers appointed by the Company for the purpose; and/or

(ii) off-market purchase(s) (the "Off-Market Purchase") effected pursuant to an equal access scheme, as may be determined or formulated by the Directors as they consider fit, which scheme(s) shall satisfy all conditions prescribed by the Companies Act or any statutory modification thereof, as the case may be,

and otherwise in accordance with all other laws and regulations, including but not limited to, the provisions of the Companies Act, the Listing Manual, the Listing Rules and the rules and regulations of the Securities and Futures Commission of Hong Kong as may for the time being be applicable, be and is hereby authorised and approved generally and unconditionally (the "Share Purchase Mandate");

(B) unless varied or revoked by the Shareholders of the Company in a general meeting, the authority conferred on the Directors pursuant to the Share Purchase Mandate may be exercised by the Directors at any time and from time to time during the period from the date of passing this Resolution and expiring on:

(i) conclusion of the next annual general meeting of the Company;

(ii) the date by which the next annual general meeting of the Company is required by the Articles or any applicable laws to be held;

(iii) the date on which the purchases or acquisitions of Shares pursuant to the Share Purchase Mandate have been carried out to the full extent mandated; or

(iv) the date on which the authority conferred by the Share Purchase Mandate is revoked or varied by the Shareholders in a general meeting,

whichever is the earliest;

(C) in this Resolution:

"Maximum Limit" means that number of issued Shares representing 10.0% of the total number of issued Shares as at the date of the passing of this Resolution;

"Maximum Price", in relation to a Share to be purchased or acquired, means the purchase price (excluding brokerage, stamp duties, commission, applicable goods and services tax and other related expenses) which shall not exceed:

(a) in the case of a Market Purchase, 105.0% of the Average Closing Price (hereinafter defined); and

(b) in the case of an Off-Market Purchase pursuant to an equal access scheme, 120.0% of the Highest Last Dealt Price, where:

"Average Closing Price" means the average of the closing market prices of a Share for the five consecutive market days being a day on which the SGX-ST or the SEHK, as the case may be, is open for trading in securities) on which the Shares are transacted on the SGX-ST or the SEHK, as the case may be, immediately preceding the date of the making of the offer pursuant to the Off-Market Purchase, and deemed to be adjusted in accordance with the Listing Manual or the Listing Rules, as the case may be, for any corporate action which occurs after the relevant five-market day period;

"Highest Last Dealt Price" means the highest price transacted for a Share as recorded on the SGX-ST or the SEHK, as the case may be, on the market day on which there were trades in the Shares immediately preceding the date of the making of the offer pursuant to the Off-Market Purchase;

"date of the making of the offer" means the date on which the Company announces its intention to make an offer for an Off-Market Purchase, stating therein the purchase price (which shall not be more than the Maximum Price for an Off-Market Purchase calculated on the foregoing basis) for each Share and the relevant terms of the equal access scheme for effecting the Off-Market Purchase;

"Depositor", "Depository" and "Depository Agent" shall have the meanings ascribed to them, respectively, in Section 130A of the Companies Act; and

"Shareholder" means a duly registered holder from time to time of the Shares in the capital of the Company; and

(D) the Directors and/or any of them be and are hereby authorised to complete and do all such acts and things (including executing such documents as may be required) as they and/or he may consider necessary, expedient, incidental or in the interests of the Company to give effect to the transactions contemplated and/or authorised by this Resolution."

See Explanatory Note (v) **(Ordinary Resolution 11)**

By Order of the Board
SOUND GLOBAL LTD.
Tan Wei Shyan
Secretary

Singapore, 22 March 2013

Explanatory Notes:

(i) Mr. Fu Tao will, upon re-election as an Independent Non-Executive Director of the Company, remains 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 and Rule 3.13 of the Listing Rules.

(ii) The Ordinary Resolution 8 proposed in item 6 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, 50.0% of the total number of issued Shares (excluding treasury shares) in the capital of the Company, of which up to 20.0% 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 20.0% 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 the Ordinary Resolution 8 is passed.

(iii) The Ordinary Resolution 9 proposed in item 7 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 10 proposed in item 8 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, subject to and in accordance with the terms of the Shareholders' Mandate set out in the Circular.

(v) 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 purchase or acquire Shares not exceeding in aggregate the Maximum Limit, at such price(s) as may be determined by the Directors from time to time up to the Maximum Price subject to and in accordance with the terms of the Share Purchase Mandate set out in the Circular.

Notes:

1. A Shareholder of the Company is 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 Shareholder 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 (48) hours before the time appointed for holding the Annual General Meeting, or any adjournment thereof.

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CORPORATE INFORMATION

BOARD OF DIRECTORS
Executive Directors
Wen Yibo (Chairman)
Zhang Jingzhi (Chief Executive Officer)
Wang Kai (Chief Financial Officer)
Luo Liyang
Jiang Anping

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 (FCIS, FCS (PE))

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PRINCIPAL BANKERS
Industrial and Commercial Bank of China
The Hongkong and Shanghai Banking Corporation Limited
The Bank of East Asia, Limited

AUDITORS
Deloitte & Touche LLP
Certified Public Accountants
6 Shenton Way Tower Two
#32-00
Singapore 068809
Partner-in-charge: Lim Kuan Meng
Date of appointment: April 27, 2012

Deloitte Touche Tohmatsu
Certified Public Accountants
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88 Queensway
Hong Kong

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WongPartnership LLP
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Marina Bay Financial Centre Tower 3
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Mason Ching & Associates
1803, 18/F., World-Wide House
19 Des Voeux Road Central,
Hong Kong

Designed by
TREESOME COMMUNICATIONS

桑德國際
sound global

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Co. Reg. No. 200515422C