*You should read the following discussion and analysis together with our consolidated audited financial statements and the notes thereto as of and for the years ended December 31, 2007, 2008 and 2009 and three months ended March 31, 2010, and unaudited financial information for the three months ended March 31, 2009, included in the Accountants' Report set out in Appendix I to this Listing Document and our unaudited interim financial information as of and for the six months ended June 30, 2009 and 2010 and the notes thereto as set out in Appendix II to this Listing Document. The Accountants' Report has been prepared in accordance with International Financial Reporting Standards ("**IFRS**"). The unaudited interim financial information has been prepared in accordance with Singapore Financial Reporting Standards ("**SFRS**"). In January 2010, we completed our acquisition of Anyang Mingbo. The acquisition of Anyang Mingbo is regarded as a business combination under common control for the purpose of our financial statements. The following discussion and analysis contains certain forward-looking statements that reflect our current views with respect to future events and financial performance that involve risks and uncertainties. These statements are based on assumptions and analysis made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. Please see the section entitled "Risk Factors" in this Listing Document.*

OVERVIEW OF OUR OPERATIONS

We are one of the leading one-stop integrated water and wastewater treatment solutions providers in the PRC. In 2009, we were ranked first among the "Top Ten Outstanding Engineering Companies" by China Water (中國水網). We offer services covering the full value chain of the water and wastewater treatment industry — from the design and construction of water and wastewater treatment facilities, to the operation and maintenance of water and wastewater treatment facilities and the manufacture of water and wastewater treatment equipment. We place significant emphasis on our in-house design capability and the innovative adaptation and application of technologies to offer customized, cost-effective and practical solutions for the diverse challenges presented by the treatment of municipal and industrial water and wastewater in the PRC. In 2009, we were awarded the 2009 Key Environmental Protection Practical Technology Certificate by the China Association of Environmental Protection Industry (中國環境保護產業協會) for our application of the rim-flow secondary sedimentation technology and the SDN coking coal wastewater treatment technology.

Water and wastewater treatment projects represent the largest proportion of our revenue. Revenue from our turnkey projects and services accounted for 100.0%, 90.0%, 89.9% and 84.5% of our revenues for the years ended December 31, 2007, 2008 and 2009 and the three months ended March 31, 2010, respectively. During the Track Record Period, we completed more than 100 EPC projects, the vast majority of which were wastewater EPC projects. Our completed EPC projects had wastewater treatment capacities of up to 200,000 tonnes of wastewater per day for municipal projects and up to 198,500 tonnes per day for industrial projects. As of June 30, 2010, we had entered into contracts with external customers for 24 EPC projects, which represent an order book of approximately RMB964.6 million (excluding the engineering and construction work for our BOT projects and BT project), of which our SAR342 million (equivalent to approximately RMB620 million) upgrade and construction project in Saudi Arabia accounted for approximately 64%. As of the Latest Practicable Date, we had 11 BOT projects, of which four were in commercial operation, two were in trial operation, two were under construction and three were yet to commence construction. In late 2009, we entered into O&M contracts with eight local governments in Hainan Province, the PRC, on a bundled basis to manage and operate eight municipal wastewater treatment plants with a combined treatment capacity of 142,000 tonnes per day under five year concession terms.

In July 2008, we acquired a 100% equity interest in Hi-Standard, through which we conduct our equipment manufacturing business. We manufacture standard and customized waster and wastewater treatment equipment for use in our projects and for sale to external PRC customers, and also sell a small quantity of such equipment to overseas customers. Hi-Standard's key products include grit removers, sludge scrapers, sludge dehydrators, oxidation ditches and SBR equipment. We generated revenue from external sales of equipment produced by Hi-Standard of RMB102.7 million, RMB125.4 million and RMB33.6 million in the year ended December 31, 2008 (for the period after our acquisition of Hi-Standard in July 2008), in the year ended December 31, 2009 and for the three months ended March 31, 2010, respectively.

We have grown rapidly during the Track Record Period. Our total revenue grew from RMB697.3 million for the year ended December 31, 2007 to RMB1,293.5 million in 2009, representing an increase of approximately RMB596.1 million. Our net profit after tax attributable to Shareholders also grew from RMB161.2 million in 2007 to RMB281.9 million in the year ended December 31, 2009, representing an increase of RMB120.7 million. As a result of the significant development of our business during the Track Record Period and the expected further expansion and diversification of our business, our historical financial performance may not be indicative of our future performance.

Please refer to the section headed "Business" for further information about our business and operations.

During the Track Record Period, we derived most of our revenue from our EPC projects in the PRC and substantially all of our remaining revenue from the construction phase of our BOT projects and our equipment manufacturing business. As we only commenced commercial operation of one of our BOT facilities during the Track Record Period in the second half of 2009, we did not record any revenue from the operation of BOT projects during the years ended December 31, 2007 and 2008 and only recorded minimal revenue during the year ended December 31, 2009 and the three months ended March 31, 2010. We had commenced commercial operation for one of our O&M projects in the first quarter of 2010, and therefore did not record any revenue in that segment attributable to our O&M projects for the years ended December 31, 2007, 2008 and 2009. We expect our revenue sources to become more diversified from 2010. In addition to the revenue from our EPC projects in the PRC, we anticipate that a substantial proportion of our revenue may come from our EPC project in Saudi Arabia, O&M projects in Hainan, the construction and operational phases of our existing and new BOT projects and our equipment manufacturing business. We plan to further expand into new international markets for our EPC projects and undertake more BOT, O&M and other types of projects, and also plan to further develop our equipment manufacturing business by commencing the manufacture of reverse osmosis membrane and modules for use in water and wastewater treatment.

The rapid expansion of our business will pose significantly different risks than those we were exposed to when we primarily undertook EPC projects in the PRC. There is no assurance that our experience of undertaking EPC projects in the PRC may be applied successfully to our international EPC projects, or to our BOT or O&M projects, or to any of the other businesses we are conducting or plan to enter into in the near future. These projects and businesses differ from our EPC projects in terms of their capital investment and operational requirements, risk profile and longer payback periods. We may not have the necessary experience, technology, capital or other resources to pursue these projects or businesses or to compete effectively with other solution providers or operators in these new markets. For example, our overseas projects may have unforeseen costs. Our historical results of operations, which mainly represent EPC projects in the PRC, thus are not indicative of our future performance. Nor do our historical results of operations indicate our performance in conducting the equipment and membrane manufacturing businesses. These uncertainties may affect the profitability of our Company. Please refer to the section of this Listing Document headed "Risk Factors — Our business model has undergone significant changes during the Track Record Period and will continue to undergo changes in the future and our historical results of operations may not be indicative of our future performance" for more information on the risks associated with our future development.

The results of our operations are subject to seasonality. Construction activities are generally slower during the first half of each year due mainly to the festive seasons and winter period. Typically our Group records lower revenue in the first half of the year than in the second half. Please refer to the section headed "Risk Factors — The results of our operations are subject to seasonality" for further information.

BASIS OF PRESENTATION

The financial statements are prepared in accordance with the historical cost basis, except as disclosed in the accounting policies described in "Appendix I — Accountants' Report". The consolidated financial statements incorporate the financial statements of our Company and entities controlled by our Company (its subsidiaries). Control is achieved where we have the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The results of subsidiaries acquired or disposed of during the year are included in the consolidated statements 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 our Group. All intra-group transactions, balances, income and expenses are eliminated on consolidation. Non-controlling interests in subsidiaries are presented separately from the equity of the owners of our Company.

In January 2010, we completed the acquisition of Anyang Mingbo, with 60% interest acquired from Beijing Sound Enviro and the remaining 40% interest acquired from a third party for considerations of RMB27.0 million and RMB18.0 million, respectively. The acquisition of Anyang Mingbo is regarded as a business combination under common control. The principles of merger accounting have therefore been applied, under which the consolidated financial statements have been prepared as if Anyang Mingbo had been a subsidiary of our Group since October 24, 2008, when Beijing Sound Enviro acquired the 60% interest in Anyang Mingbo with a consideration of RMB27.0 million from a third party. Our consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years ended December 31, 2008 and 2009 and the three months ended March 31, 2009 and 2010 include the results, changes in equity and cash flows of Anyang Mingbo since October 24, 2008. The consolidated statements of financial position of our Group as of December 31, 2008 and 2009 have been prepared to present the assets and liabilities of the companies now comprising our Group taking into account the effective dates of acquisitions of entities from outsiders, as if Anyang Mingbo was a 60% interest owned subsidiary of our Group since October 24, 2008. The acquisition of the remaining 40% interest in Anyang Mingbo is accounted for as an acquisition of additional interest in a subsidiary in January 2010.

SUMMARY OF SIGNIFICANT DIFFERENCES BETWEEN IFRS FINANCIAL STATEMENT LINE ITEMS AND SFRS FINANCIAL STATEMENTS LINE ITEMS

As a company listed on SGX-ST in Singapore, we make regular public disclosures in compliance with the regulatory requirements of the SGX-ST, including filing annual reports, quarterly reports and announcements of material events. Our financial information during the Track Record Period therefore was compiled in accordance with SFRS using S$ as our functional currency and our financial information for the year ended and as of December 31, 2009 and the three months ended March 31, 2010 was compiled using the RMB as our functional currency, which information has been audited by our independent auditors. In contemplation of the Listing, we changed our functional currency to RMB and our accounting standards to IFRS to follow the prevailing market practice in Hong Kong. As a result, certain differences between the IFRS financial statement line items and SFRS financial statement line items arose due to the change of our functional currency and conversion from SFRS to IFRS for our financial statements for the years ended and as of December 31, 2007 and 2008. Following the Listing, we intend to publish our financial statements in accordance with IFRS. We will also publish our quarterly results in Hong Kong and Singapore.

Summary of Line Items of Consolidated Statements of Comprehensive Income

In the IFRS consolidated statements of comprehensive income, a new line item, other expenses was added to reflect the effect of the change of our functional currency from S$ to RMB. Primarily due to the appreciation of the RMB relative to S$ in 2007 and 2008, we recorded exchange losses of RMB3.3 million and RMB28.0 million in those periods, respectively. Furthermore, we reclassified the research and development expenses, which were previously included in “administrative expenses”, as a new line item in the IFRS consolidated statements of comprehensive income. The reclassified research and development expenses were RMB4.7 million and RMB6.0 million for the years ended December 31, 2007 and 2008, respectively. We also reclassified the allowance for doubtful debts from “administrative expenses” to “other expenses” and reclassified amortization of intangible assets from “administrative expenses” to “cost of sales”. The reclassified allowance for doubtful debts was nil and RMB11.3 million, respectively, and the reclassified amortization of intangible assets was nil and RMB7.2 million, respectively, for the years ended December 31, 2007 and 2008. The impact of differences between SFRS and IFRS on our consolidated statement of comprehensive income for the year ended December 31, 2009 and the three months ended March 31, 2010 was minimal.

Summary of Line Items of Consolidated Statements of Financial Position

In the SFRS balance sheets, our cash and bank balances and cash, including restricted bank balances, were RMB1,180.1 million and RMB1,142.5 million as of December 31, 2007 and 2008, respectively. In the IFRS consolidated statements of financial position, the above amounts were reclassified into (i) restricted bank balances and (ii) bank balances and cash (not including restricted bank balances). In 2007 and 2008, our restricted bank balances were our deposits in Singapore pledged to financial institutions to secure loans made to our subsidiaries in the PRC. The restricted bank balances were RMB418.6 million and RMB369.5 million, respectively, and the bank balances and cash were RMB761.4 million and RMB773.0 million, respectively, as of December 31, 2007 and 2008.

We further increased the balance of our goodwill by RMB14.2 million as of December 31, 2008. This reflected an increase in our deferred tax liabilities of the same amount, which was recognized retrospectively in accordance with IFRS after the applicable PRC enterprise income tax rate for Hi-Standard was ascertained in 2009. The impact of differences between SFRS and IFRS on our consolidated statement of financial position for the year ended December 31, 2009 and the three months ended March 31, 2010 was minimal.

Recent Acquisition

In January 2010, we completed our acquisition of Anyang Mingbo, which then became a wholly-owned subsidiary of our Group. For further details regarding the financial information of Anyang Mingbo, please refer to "Appendix I — Accountants' Report — B. Subsequent Events".

The acquisition of Anyang Mingbo is regarded as a business combination under common control for the purpose of our financial statements. The principles of merger accounting have therefore been applied, under which the financial information has been prepared as if Anyang Mingbo had been a subsidiary of our Group since October 24, 2008, when Beijing Sound Enviro acquired the 60% interest in Anyang Mingbo at a consideration of RMB27.0 million from an independent third party and Anyang Mingbo became under common control with our Company. The consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows of our Company for the years ended December 31, 2008 and 2009 and the three months ended March 31, 2009 and 2010 include the results, changes in equity and cash flows of Anyang Mingbo. The consolidated statements of financial position of our Group as of December 31, 2008 and 2009 have been restated to present the assets and liabilities of the companies now comprising our Group taking into account the effective dates of acquisitions of entities from third parties, as if the acquisition of 60% interest from Beijing Sound Enviro has been completed as of that date. The acquisition of the remaining 40% interest in Anyang Mingbo is accounted for as an acquisition of additional interest in a subsidiary in January 2010.

Recent Development

On September 15, 2010, we issued an aggregate principal amount of RMB885 million US dollar settled convertible bonds, including an upsize option of RMB205 million US dollar settled convertible bonds. The Convertible Bonds bear interest at the rate of six per cent. per annum, payable semi-annually in arrear in March and September of each year. Our Convertible Bonds are convertible at the option of the bondholders, at any time, during the period beginning on and including the Bonds Issue Date, being October 25, 2010, until the close of business on the date which is the 7th day prior to the date falling five years from the Bonds Issue Date (both days inclusive), unless previously redeemed or purchased and cancelled.

MAJOR FACTORS AFFECTING OUR PERFORMANCE

Our business, financial position and results of operations, as well as the period-to-period comparability of our results of operations, are significantly affected by a number of factors, including:

Demand for Our Services and Products

The demand for water and wastewater treatment services and products, particularly in the PRC, is an important factor that affects our performance. Demand in the PRC has been driven by several factors, including rapid population growth, industrialization, urbanization, regulatory requirements imposed by the government, worsening environmental conditions, increasing awareness of environmental protection and, more recently, the economic stimulus plan implemented by the PRC Government.

Under the recent economic stimulus plan, the PRC's infrastructure spending is expected to increase and approximately RMB210 billion or 5.3% of the PRC Government's RMB4 trillion stimulus package is expected to be spent on environmental protection industries. As local governments build facilities to improve water supplies and treat wastewater in response to the economic stimulus plan, the water and wastewater treatment sector is thus expected to benefit from the increased injection of funds. We believe that this increased spending on infrastructure generally, and on the water and wastewater treatment infrastructure specifically, will further increase the demand for our EPC and O&M services and Hi-Standard products and opportunities in BOT projects. Furthermore, with environmental protection remaining a priority for the PRC Government in its 11th five-year plan, we expect stricter environmental protection and water quality standards to be promulgated and implemented. We believe an increasing number of the water and wastewater treatment systems in the country will need to be upgraded or replaced, and increases in tariff rates will become necessary to offer reasonable returns on investments made by the private sector. We anticipate that the PRC Government's goal of substantially reducing levels of pollutants in rivers, lakes and seas in the PRC will create an increasing demand for our EPC and O&M services and Hi-Standard's products and result in more growth opportunities in BOT projects. However, there is no assurance that the PRC Government will not change their policies over environmental protection, which may in turn affect the outlook of our business.

We will focus our efforts on utilizing our resources to expand and strengthen our services and products and increase our market share in response to these demands. We intend to selectively expand our project portfolio in areas with favorable economic situations where customers tend to have stronger credit quality or in areas where opportunities exist for us to provide water and/or wastewater treatment services to surrounding towns or cities. We will continue to focus on markets where service requirements are linked to growing urbanization, increasing standards of living, and rising environmental and wastewater management requirements.

Access to Capital and Cost of Financing

Our performance is affected by our access to capital, the balance of our borrowings and the total amount raised through other financing methods, as well as any interest rate fluctuations and other financing costs. Due to our business expansion from low-capital intensive turnkey projects and services to capital-intensive BOT projects in implementing our strategy to increase our proportion of recurring income, we are actively seeking to finance the acquisition and development of new BOT projects and other capital expenditures through bank borrowings, public or private offerings of our equity securities and cash flow from our operating activities.

Our access to capital is very important to our performance. There have been uncertainties in the development of our industry due to the recent drastic changes in capital market conditions and general weakness in the global economy. Tightening of liquidity in 2008 impacted our ability to start or invest in new BOT projects, slowed our growth and materially affected our performance. After the credit market improved during 2009, we started to undertake new BOT projects in the PRC. Continued or future tightening of liquidity could negatively affect our performance.

Our borrowings and cost of financing also impact our performance. As of December 31, 2007, 2008 and 2009 and March 31, 2010, our outstanding short-term borrowings amounted to RMB347.9 million, RMB391.7 million, RMB178.7 million and RMB195.2 million, respectively, and our outstanding long-term borrowings amounted to nil, nil, RMB48.3 million and RMB50.5 million, respectively. The weighted average interest rate per year applicable to our fixed-rate bank borrowings was 5.49%, 6.52%, 5.31% and 5.26% per annum as of December 31, 2007, 2008 and 2009 and the three months ended March 31, 2010, respectively. The weighted average interest rate applicable to our variable-rate bank borrowings was 5.57%, 3.4%, 5.32% and 5.77% per annum as of December 31, 2007, 2008 and 2009 and the three months ended March 31, 2010, respectively. Any change in the interest rate on our borrowings or the amount of our borrowings will affect our interest payments and finance costs and therefore affect our cash flow, financial condition and results of operations. In addition, our access to capital and cost of financing are also affected by restrictions imposed from time to time by the PRC Government to restrain money supply and credit availability for fixed asset investments.

On September 15, we issued an aggregate principal amount of RMB885 million US dollar settled six per cent. convertible bonds due 2015, including an upsize option of RMB205 million of such bonds exercisable at any time up to and including October 15, 2010.

Effective Cost Control of Turnkey Projects and Services and BOT Projects

Our turnkey projects and services typically include design services, sub-contracting of construction and installation work, procurement of equipment, and maintenance and testing of equipment and facilities. We undertake BOT projects by investing in designing, constructing and installing water or wastewater treatment facilities and thereafter operating the facilities for up to 30 years upon completion. We rely on our effective control of each part of our turnkey projects and services and BOT projects to reduce our operating costs and increase our profitability, which in turn, depends on the following:

- detailed preparation of optimal designs and customized solutions;
- accurate estimates of contract costs at the tender stage and percentage of completion during construction;

- cost-effective procurement of quality equipment;
- careful selection and supervision of sub-contractors; and
- cost-effective operation and maintenance of the facilities.

As part of our turnkey projects and services, we are usually contracted to provide our customers with effective designs and customized solutions to enhance the operating efficiency of our customers' facilities. These customers have different needs and requirements for their projects, and our designs and solutions thus need to be adapted in response to their specific needs and requirements. Our competitive advantage lies in our ability to prepare customized designs and solutions for customers and to provide such services in a cost effective manner.

Our turnkey projects' prices are usually fixed upon signing the project agreements. As we make our initial cost estimates based on cost indicators available at the time tenders are made, the accuracy of our estimates for our turnkey projects affects our profitability. In addition, we may need to perform extra or variation order work in connection with our contracts. The prices for such extra or variation order work may in addition to cost indicators, be determined based on additional factors such as the need to complete projects on time and develop relationships and business opportunities with our customers. Whether the extra work or variation order can be accurately reflected in the overall price charged to our customers will affect our revenue from the project and our profitability. Furthermore, the amount of revenue we recognize for our construction contracts in any financial period is based on the percentage of completion. Effective control of our project costs, proper reflection of the variations of our different projects and accurate estimates of our percentage of completion are thus necessary to ensure the timely recognition of our revenue and profitability levels.

In a turnkey project or on a separate basis, we are often contracted to procure suitable water and wastewater treatment equipment for our customers. We help our customers to choose products from a wide range of suppliers, including our subsidiary, Hi-Standard. The useful lives, product warranties, purchase costs, repair and maintenance costs and replacement costs of these products may vary significantly. We must promptly procure quality equipment to be used at the project sites for our customers. Our ability to furnish such services in a cost effective manner thus will have an impact on our profitability.

In addition, in completing our turnkey projects and services, we generally rely on sub-contractors to construct the water and wastewater treatment facilities. We carefully check our sub-contractors' qualifications, track records and references to select the most suitable ones for our projects. During the construction period, we supervise them and examine their work with the assistance of both our own technicians and third-party project supervision companies. However our sub-contractors' performance may differ in each case as their goals, economic interests, technical capabilities and willingness to perform their contractual obligations and cooperate with our management may vary. While the price under our contracts with our sub-contractors is generally fixed, in some cases, we may agree to increase our sub-contractor's contract price if there is a substantial increase in raw material prices where our customer agrees to a corresponding increase in our contract sum. Non-performing sub-contractors may cause delays and/or significant increases in our costs which would impact the progress of the project and hence our recognition of revenue. Our profitability may be affected as a result of any change of our sub-contracting costs, which are one of the most significant components of our cost of sales. Thus, our profitability also depends on our selection and supervision of suitable sub-contractors and our ability to minimize our risk of exposure to their defaults.

For our BOT projects, we are responsible for the cost of construction of the water and wastewater facilities, and the cost of maintenance and repair of the treatment facilities during the concession period, which may be up to 30 years. The repair, maintenance and replacement costs of water and wastewater treatment equipment vary significantly. Our ability to operate and maintain the facilities in a cost effective manner will have an impact on our profitability.

Project Portfolio and Product Mix

Our profitability is also affected by the type, number and value of the projects which we undertake in a relevant financial year, the stage of completion of the relevant project and the type, number and value of the environmental protection equipment which we sell. We have developed from an EPC business to an integrated water solutions provider that combines technical design and consulting, product design and manufacturing, as well as project investment and the provision of facilities management services for multiple water and wastewater treatment plants for periods of up to 30 years. As of June 30, 2010, we had entered into contracts with external customers for 24 EPC projects and as of the Latest Practicable Date, we had undertaken 11 BOT projects, including nine that we wholly own, one in which we have an 80% equity interest and one in which we have a 50.2% equity interest but over which we maintain the management and financial control. Of these BOT projects, four had already started commercial operation, two had started trial operation, two were under construction and three were yet to start construction. We are therefore expanding our business in the BOT format which is more capital intensive. We plan to increase the proportion of our recurring income by expanding our BOT business through selectively bidding for and investing in new projects, purchasing additional projects from the BSE Group and acquiring projects from local enterprises and/ or municipal governments. We also entered into O&M contracts with eight local governments in Hainan Province, the PRC to manage and operate eight municipal wastewater treatment plants. We further plan to expand our O&M operations through bidding for new projects offered by municipal governments. In the future, we may also invest in water and wastewater treatment projects in project formats other than BOT, EPC or O&M formats. The effect of those project formats on our financial results, including our profitability and financing needs, may differ materially from the projects that we undertook in the past.

We acquired Hi-Standard in July 2008, thereby obtaining our manufacturing capacity of water and wastewater treatment equipment. We offer products including grit removers, sludge scrapers, sludge dehydrators, oxidation ditches and SBR equipment.

Our overall profitability is determined by the profitability of these individual projects and our equipment sales as well as their respective contribution to our total revenue and profits. We select our projects after considering a number of important factors, including:

- the economic development of the local area and applicable regulatory requirements;
- supply of and demand for water and wastewater treatment services and products;

- credit rating and track record of the customers;
- estimated costs of the projects and products;
- income stream from different stages of a project;
- stability and recurring nature of the income stream from a project;
- our business goals and strategies; and
- orders for the same or similar services and products in the future.

These factors carry different weights at different times and for different project types and our criteria for selecting our projects and product offerings thus may change from time to time. Furthermore, our project portfolio and product mix may also change due to factors such as the project format preferred by our customers, availability of finance, competition for different project types and changes in regulations. Different mixes of our projects and products at different times thus will cause corresponding changes in our profitability in the relevant financial periods.

Taxation

Our future profitability will be affected by changes in tax rates in the countries or regions where we operate our business, particularly in the PRC, where we currently carry out a substantial part of our business and derive a substantial portion of our revenue and profit.

Our effective tax rates, calculated as the income tax expense divided by the profit before income tax, for the years ended December 31, 2007, 2008 and 2009 and the three months ended March 31, 2010 were 15.0%, 12.2%, 3.5% and 14.5%, respectively. According to the PRC New Enterprise Income Tax Law and relevant regulations, the enterprise income tax for important high-and-new-tech enterprises which require State support shall be levied at the reduced tax rate of 15%. Our subsidiary, Beijing Epure, was established in 2006. In accordance with the Interim Measures of Beijing New Tech Industry Development Test Zone (《北京市新技術產業開發試驗區暫行條例》) approved by the State Council on May 10, 1988 and promulgated by the People's Government of Beijing on May 20, 1988, Beijing Epure is entitled to an exemption from PRC enterprise income tax for three years commencing from its establishment, and thereafter, entitled to a 50% relief from the enterprise income tax for the next three years as a high-and-new-tech enterprise, subject to the approval of the relevant tax authority. The year ended December 31, 2007 was the first year of the tax exemption period for Beijing Epure. Its applicable income tax rate for each of the years ended December 31, 2007, 2008 and 2009 was nil, and for the year ending December 31, 2010 is 7.5% according to the approval from the relevant tax authorities. For each of the years ending December 31, 2011 and December 31, 2012, its applicable income tax rate is expected to be 7.5%, subject to the approval from competent authorities. Beijing Sound applied for and received approval to enjoy a preferential tax rate of 15% from 2006 to 2010, under the "New-and-High-Tech Enterprises" scheme provided in the New Enterprise Income Tax Law. Hi-Standard also applied for and received an approval to enjoy a preferential tax rate of 15% from 2008 to 2010 as a new-and-high-tech enterprise under the New Enterprise Income Tax Law. Beijing Epure, Beijing Sound and Hi-Standard are required to file re-examination applications three months prior to the expiration of the valid period of their respective current high-and-new-tech enterprise qualification. They are allowed to apply for the preferential tax treatment if they complete relevant re-examination processes and obtain the updated high-and-new-tech enterprise qualifications. If such approvals are granted, Beijing Epure, Beijing Sound and Hi-Standard will be entitled to the reduced tax rate for three more years. If such approvals are not granted, each of Beijing Epure, Beijing Sound and Hi-Standard will be subject to the normal PRC enterprise income tax rate of 25% upon the expiry of the validity period of their respective current high-and-new-tech enterprise qualification.

In addition, in order to encourage the construction of environmental protection projects, companies carrying out environmental protection projects, or energy and water saving projects, which meet relevant requirements are entitled to an exemption from PRC income tax with respect to the income from such projects for the three years commencing from the first income-making year of operations. Thereafter, such entities are entitled to a 50% tax reduction in PRC income tax for the next three years. As of the Latest Practicable Date, our wholly-owned BOT project companies, Shangluo Wastewater, Xi'an Qinqing, Guangxi Liqing and Xi'an Huqing were in the process of applying for such preferential tax treatment according to the New Enterprise Income Tax Law.

We are further subject to Singapore income tax on our income derived from Singapore sources. Our Company received interest income on deposits in a Singapore account and also derived revenue from the provision of limited consultation and design services from Singapore to customers outside of Singapore. Our tax rates in Singapore were 18%, 18%, 17% and 17% in 2007, 2008 and 2009 and the three months ended March 31, 2010, respectively. Furthermore, any profits we earn from our project in Saudi Arabia will be subject to Saudi Arabia tax at the rate of 20%. At an estimated value of SAR342 million (equivalent to approximately RMB620 million), our wastewater treatment contract with Marafiq accounts for 64% of the value of our order book for EPC projects (excluding the engineering and construction work for our BOT projects and BT project) as of June 30, 2010. Taxes we pay on the income derived from the project may have an impact on our profitability. Going forward, we intend to increase the proportion of our overseas business with a particular focus on developing countries. The applicable tax rate in the jurisdictions in which we operate in the future will therefore affect the profitability of the projects we have there and our effective tax rate.

The termination or expiry of any of our existing preferential tax treatments will adversely impact our future operating results. Changes in the taxes applicable to our business in the PRC, Singapore, Saudi Arabia or anywhere else we may have operations in the future will affect our tax expenses and our profitability. As a result, our historical operating results may not be indicative of our operating results for future periods.

Tariff Rates and Volume

For our BOT and O&M projects, our revenue and profitability are also affected by the tariff rates under the relevant concession and wastewater treatment services agreements relating to the plants we operate and manage and the volume of water and wastewater we treat. We intend to seek opportunities to acquire and/or invest in more BOT projects and to undertake more O&M projects in the future. Pursuant to the concession and wastewater treatment services agreements for these projects, our customers are required to pay us regular, usually monthly, tariff payments for the operation of the plant upon completion of construction, which is based on the tariff rate set under the agreement and the volume of water treated.

The tariff rates are determined by our local municipal government customers based on factors including the economic indicators for the region in which our plants are operating, supply of and demand for water and wastewater treatment services and products, government policies regulating the usage of water and discharge of wastewater and the cost of providing water and wastewater treatment services in the relevant area. Under the relevant concession agreements and wastewater treatment services agreements, we often have the right to apply to the relevant local municipal governments for tariff adjustments once every two to three years. Pursuant to the terms of those agreements, a number of factors will be taken into account by the local governments in considering our applications, including the consumer price index, labor costs, electricity charges and the amount of our initial capital investment in relation to water and wastewater treatment. One or more of these factors may cause our operating costs to increase significantly. Any adjustments agreed with our customers may not be timely or sufficient to offset such increases. Furthermore, our applications for adjustments may not be approved for policy reasons. As a result, our revenue and profitability may be affected significantly by changes in the tariff rates or the lack thereof.

The volume of water and wastewater we treat may also cause the revenue and profits we derive from such projects to vary significantly during the concession period. Our typical concession agreement and/or wastewater treatment services agreements stipulate a guaranteed minimum volume of wastewater to be treated each year. Even if we treat a volume of wastewater which is lower than the stipulated minimum, we are entitled to receive payment based on the guaranteed minimum volume set out in the relevant agreements. We are entitled to payments for wastewater treated by the facilities we operate in excess of the required minimum amount. The payments in excess of the minimum guaranteed amount we are entitled to are dependent on a number of factors that may vary from contract to contract and include:

- additional volume for which the local municipal government is obligated or willing to pay;
- tariff rates applicable to the excess volume over the required minimum volume;
- the capacity and utilization rate of the relevant water and wastewater treatment plants; and
- the supply of and demand for water and wastewater treatment in the regions where our plants operate.

Any of these factors may cause our revenue and operating costs to vary from one financial period to another, and our profitability will thus increase or decease as a result of such variations.

Competition

Our performance is also affected by competition in the markets where we operate. The market where we conduct our business is highly fragmented and competitive, characterized by rapid technological advancement, and intense competition for industrial and municipal projects. Furthermore, with the PRC Government's expected increase in spending on infrastructure and rising demand for water and wastewater treatment solutions in the country, more solution providers may enter into the PRC market, some of which may have stronger relationships with local governments or industrial enterprises in certain areas or have greater financial resources than us to win bids for turnkey projects and services, BOT and O&M projects or equipment supplies.

We compete on the basis of our ability to provide efficient designs and practical solutions, expertise and effective operation and maintenance of water and wastewater treatment plants, comprehensive and timely after-sales services, brand recognition and track record, quality customized equipment and competitive pricing and payment terms. We intend to leverage our leading market position and advanced technical knowhow and capitalize on the PRC Government's effort to heighten the nation's environmental protection standards to expand our customer base and increase our market share. We currently focus on procuring large and complex industrial EPC projects and packaged municipal EPC projects to increase our profitability. We expect to increase sales of our customized equipment to external customers. We also seek to undertake long-term BOT and O&M projects to increase our recurring income and expand into international markets to diversify our turnkey project portfolio. Our ability to maintain or further increase our profitability will primarily depend on our ability to compete on the above basis and differentiate ourselves from our competitors.

Currency Exchange Rates

We undertake certain transactions denominated in foreign currencies and hence are exposed to the risk of exchange rate fluctuations. During the Track Record Period, we had assets or liabilities denominated in the Singapore dollar and the US dollar. The carrying amounts of our net foreign currency denominated monetary assets as of December 31, 2007, 2008 and 2009 and March 31, 2010 were RMB413.8 million, RMB330.4 million, RMB49.0 million and RMB41.3 million, respectively. During the Track Record Period, we did not conduct any projects and sold only minimal quantities of equipment denominated in currencies other than the RMB. Due to the recent expansion of our business outside of the PRC and, in particular, our entry into a contract with respect to the EPC and upgrade project in Saudi Arabia in December 2009, with an estimated value of SAR342 million (equivalent to approximately RMB620 million), as well as an expected increase in the number of transactions denominated in currencies other than RMB, we expect our foreign currency risks to increase in the future. Furthermore, we may use US dollars or other currencies to enter into contracts to provide services or products to our international customers or purchase certain goods or services during our ordinary course of our business or to borrow money. The value of the RMB against these currencies fluctuates and is affected by, among other things, changes in the political and economic conditions in the PRC and the countries that issue the currencies used in our business. Due to the fluctuations in the value of the RMB against the other currencies we used during the Track Record Period, we had exchange losses of RMB3.3 million, RMB28.0 million, RMB0.2 million and nil for the years ended December 31, 2007, 2008 and 2009 and the three months ended March 31, 2010, respectively. The US$34 million loan which we recently entered into with IFC will be denominated in U.S. dollars. Our Convertible Bonds are RMB denominated but settled in US dollar. Significant fluctuations in exchange rates may in the future materially and adversely affect the value of our net assets, earnings and any declared dividends and may lead to an increase in our costs or a decline in our revenue.

We currently do not have a foreign currency hedging policy but will consider hedging significant exchange rate exposures should the need arise. We intend to convert the advance payments we receive under each construction contract into RMB as soon as practicable. We place purchase orders for imported materials and equipment denominated in foreign currencies soon after the associated construction contracts come into effect. As a result, our performance will partly depend on the effectiveness of these measures and the extent of any fluctuations in currency exchange rates. Please refer to "Financial Information — Market Risk" below for more information.

Order Book and New Orders

Our order book and the new orders that we receive have a significant effect on our future revenue. Our order book comprises our estimate of the value of our backlog and our new projects. The construction period for an EPC project or the construction phase of a BOT project is approximately six to 24 months from the commencement of construction to completion. We accept orders for different types of projects and services based on a number of factors such as the margin we expect to achieve on the different types of projects we undertake, the financial position of the customers placing the orders and our projected capacity during the period in which the projects would be required to be completed.

We undertake water and wastewater treatment projects primarily on an EPC, BOT and O&M basis and experienced significant growth in the total value of the contracts for our turnkey projects and services in 2009. As of June 30, 2010, we had entered into contracts with external customers for 24 EPC projects, representing an order book of approximately RMB964.6 million (excluding the engineering and construction work for our BOT projects and BT project), of which our project in Saudi Arabia accounted for approximately 64%. As we recognize our revenue from our construction contracts on the percentage-of-completion method with respect to the EPC projects and the construction phase of our BOT projects, our order book at any particular date is not necessarily indicative of the revenue we will recognize in any particular future period. Please refer to the sections headed "Risk Factors — Inaccurate estimates in applying percentage-of-completion accounting may result in a reduction of previously reported profits and have a significant impact on our period-to-period results of operations" and "Risk Factors — You should not rely on the EPC orders we have received in the past, which are typically non-recurring in nature, or the value of our order book in the past as an indication of our future growth or results of operations" for further details.

The value of a contract for a project or other transaction in our order book represents the amount we expect to receive in respect of such project or transaction in the future, assuming our performance is in accordance with the terms of the contract. The value of the orders we receive thus will impact our future performance. Any cancellation of orders or termination of projects under construction by our customers may result in a reduction of our future revenue. Please refer to the section headed "Business — Our Water and Wastewater Treatment Business — Order Book" for further details of our order book.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. The methods, estimates and judgments that we use in applying our accounting policies may have a significant impact on our results as reported in our consolidated financial statements included elsewhere in this Listing Document. Some of the accounting policies require us to make difficult and subjective judgments. Below is a summary of the accounting policies in accordance with IFRS that we believe are both important to the presentation of our financial results and involve the need to make judgments, estimates and assumptions about the effect of matters that are inherently uncertain. We also have other policies that we consider to be significant accounting policies, which are set forth in detail in Note 3 to the Accountants' Report in Appendix I to this Listing Document.

Revenue Recognition of Construction Contracts

We recognize revenue from construction contracts when the outcome of a construction contract (which includes the design and construction work of our EPC and BOT projects) can be estimated reliably. We recognize revenue and costs by reference to the stage of completion of the contract at the reporting date, as measured by the proportion of contract costs incurred for work performed based on estimated total contract costs, except where this would not be representative of the actual stage of completion of the project. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer. Where the outcome of a construction contract cannot be estimated reliably, we recognize contract revenue to the extent of contract costs incurred that it is probable will be recoverable. We recognize sub-contracting costs as expenses based on the percentage of completion method. When it is probable that total contract costs will exceed total contract revenue, we immediately recognize the expected loss.

The determination of the stage of completion requires assumptions, including assumptions as to the extent of the contract cost incurred, the estimated total contract revenue and contract cost and the recoverability of the costs. In making such assumptions, we make evaluations primarily by relying on past experience and the work of the project management team.

Changes in the 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.

Property, Plant and Equipment

We state property, plant and equipment at cost less subsequent accumulated depreciation and accumulated impairment losses. Depreciation is provided for to write off the cost of items of property, plant and equipment, other than construction in progress, over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method, on the following bases:

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

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

Financial Assets — 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 balance sheet date subsequent to initial recognition, loans and receivables (including service concession receivables, trade and other receivables and bank balances and cash) are carried at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Intangible Assets

We report intangible assets at cost less accumulated amortization and accumulated impairment losses. Intangible assets with finite useful lives are amortized on a straight-line basis over their estimated useful lives. For patents we acquired in a business combination such as patents acquired as a result of the acquisition of Hi-Standard, the estimated useful life is 4.5 to 9.5 years. We measure gains or losses arising from derecognition of an intangible asset as the difference between the net disposal proceeds and the carrying amount of the asset which are recognized in the consolidated statements of comprehensive income when the asset is derecognized.

Impairments

We calculate the impairment loss of our financial and non-financial assets at each balance sheet date. In particular:

- the impairment loss of the financial assets carried at amortized cost, including our service concession receivables, is calculated as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate;
- the impairment loss of the financial assets carried at cost is calculated as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset; and
- the impairment loss of the tangible and intangible assets excluding goodwill, is calculated as the difference between the carrying amount of the asset and the recoverable amount, which is the higher of the fair value less costs to sell and value in use. Value in use is the

estimated future cash flows discounted to their present value using a pre-tax discount rate the reflects current market assessments of the time value of money and risks specific to the asset.

The carrying amount of an asset is reduced by the impairment loss directly with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is determined to be uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to the allowance account. Changes in the carrying amount of the allowance account are recognized in the consolidated statements of comprehensive income.

Our estimates are based on objective evidence in determining an amount that is a reasonable approximation of these values or prices, as the case may be. It is difficult to precisely estimate the values or prices we use in our calculations. Loans and receivables are impaired when there is objective evidence that, as a result of one or more events that occurred after its initial recognition, the estimated future cash flows have been impacted. For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment. For all other financial assets, objective evidence of impairment could include significant financial difficulty of the issuer or counterparty, default or delinquency in interest or principal payments or it becoming probable that the borrower will enter bankruptcy or financial re-organization.

Trade and other receivables

We make 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 our judgment and estimates by reference to our past default experience. Where our expectation of bad and doubtful debts is different from the original estimate, such difference will impact the carrying value of trade and other receivables and our doubtful debts expense in the period in which such estimate has changed. We review the recoverable amount of each individually significant trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts.

Intangible asset/Goodwill

Determining whether the intangible asset/goodwill is impaired requires an estimation of the value in use of the cash-generating units to which such intangible asset/goodwill has been allocated. The value in use calculation requires us 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.

Inventories

We state inventories at the lower of cost and net realizable value. We calculate cost using the weighted average method. The net realizable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

DESCRIPTION OF SELECTED LINE ITEMS OF STATEMENTS OF COMPREHENSIVE INCOME

Revenue

During the Track Record Period, we derived our revenue primarily from the following segments of business:

- turnkey projects and services, including EPC projects, design services contracts, equipment procurement services, and the design and construction work of our BOT projects;
- equipment manufacturing; and
- operation and maintenance of water and wastewater treatment facilities, including stand-alone O&M projects and the operational phase of our BOT projects upon completion of construction.

Prior to our acquisition of Hi-Standard in July 2008, our principal source of revenue was from the provision of turnkey projects and services, namely, construction contracts, equipment procurement contracts and design services contracts. After we acquired Hi-Standard, a portion of our revenue was derived from the sales of water and wastewater treatment equipment to external customers. Sales of equipment made by Hi-Standard to our other subsidiaries engaged in our construction projects (including our EPC and BOT projects) are eliminated in our consolidated accounts as inter-segment sales.

We commenced commercial operation of one of our BOT projects in the second half of 2009 and commenced commercial operation of one of our O&M projects in the first quarter of 2010. We commenced commercial operation of another two of our BOT projects in the second half of 2010. As a result, we did not record any revenue under our operation and maintenance segment in 2007 or 2008. We recognized revenue of RMB5.7 million and RMB2.6 million from the operational phase of one BOT project for the year ended December 31, 2009 and the three months ended March 31, 2010, respectively. We accounted for this revenue in our operation and maintenance operating segment.

The following table sets forth our revenue from our three principal operating segments during the periods indicated:

	Year ended December 31,			Three months ended March 31,	
	2007	2008	2009	2009	2010
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000) (unaudited)	(RMB'000)
Revenue					
Turnkey projects and services					
Construction contracts					
Construction and installation	505,146	700,226	1,006,519	109,911	186,728
Equipment procurement	179,451	154,958	125,968	3,596	10,324
Design service contracts	12,744	66,894	29,930	13,940	736
Sub-total	**697,341**	**922,078**	**1,162,417**	**127,447**	**197,788**
Equipment Manufacturing	**—**	**102,730**	**125,382**	**7,927**	**33,616**
Operation and Maintenance	**—**	**—**	**5,677**	**—**	**2,633**
Total	**697,341**	**1,024,808**	**1,293,476**	**135,374**	**234,037**

Turnkey projects and services

Revenue from our turnkey projects and services, accounting for approximately 100.0%, 90.0%, 89.9% and 84.5% of our total revenue for the years ended December 31, 2007, 2008 and 2009 and the three months ended March 31, 2010, respectively, comprises revenue from construction contracts and design service contracts. Our revenue from construction contracts, constituting approximately 98.2%, 83.4%, 87.6% and 84.2% of our total revenue for the years ended December 31, 2007, 2008 and 2009 and the three months ended March 31, 2010, respectively, primarily comprised the revenue from construction and installation services and equipment procurement services. For the years ended December 31, 2007, 2008 and 2009 and the three months ended March 31, 2010, the revenue from construction and installation services accounted for approximately 73.8%, 81.9%, 88.9% and 94.8%, respectively, and revenue from equipment procurement services accounted for approximately 26.2%, 18.1%, 11.1% and 5.2%, respectively, of our revenue from construction contracts, respectively. Our construction and installation revenue also include revenue from the provision of related technology consultation services and equipment maintenance services during the Track Record Period. During 2008, 2009 and the three months ended March 31, 2010, our sub-contractors purchased a higher portion of the equipment used in their construction directly instead of using us to help acquire such equipment for them, thus resulting in a decrease in the revenue contribution from our equipment procurement over the Track Record Period.

Revenue from our standalone design services contracts accounted for 1.8%, 6.5%, 2.3% and 0.3% of our total revenue for the years ended December 31, 2007, 2008 and 2009 and the three months ended March 31, 2010, respectively. Our design services had become increasingly integrated with the construction and installation services of our turnkey projects and contributed to the revenue increase in our turnkey projects and services over the Track Record Period.

Revenue from our turnkey projects and services, on the basis of project types, is divided into the revenue from our EPC projects and the revenue from the construction phase of our BOT projects.

As we expand our BOT business, we expect an increasing proportion of our revenue to be attributable to the construction phase of our BOT projects. We acquired our equipment manufacturing subsidiary, Hi-Standard, in July 2008. Primarily as a result of the revenue contribution from equipment manufacturing in 2008, 2009 and the three months ended March 31, 2010, the contribution from the turnkey projects and services segment decreased in 2008, 2009 and the three months ended March 31, 2010 as a proportion of total revenue.

	Year ended December 31,						Three months ended March 31,			
	2007		2008		2009		2009		2010	
	Amount (RMB'000)	% of total Revenue	Amount (RMB'000)	% of total Revenue	Amount (RMB'000)	% of total Revenue	Amount (RMB'000) (unaudited)	% of total Revenue	Amount (RMB'000)	% of total Revenue
Turnkey Projects and Services										
EPC Projects (including design service contracts) . . .	697,341	100.0%	861,925	84.1%	1,024,164	79.2%	104,275	77%	195,183	83.4%
BOT Construction Phase	—	—	60,153	5.9%	138,253	10.7%	23,172	17.1%	2,605	1.1%
Sub-total	**697,341**	**100.0%**	**922,078**	**90.0%**	**1,162,417**	**89.9%**	**127,447**	**94.1%**	**197,788**	**84.5%**

EPC projects

We recognize revenue from our EPC projects on the basis of the percentage of completion, commencing when a legally binding contract is executed and when the total construction costs of the facilities under development can be reliably estimated. We send an invoice to a customer when a contractually stipulated milestone is reached and our assessment of the achievement of the milestone is agreed upon by the customer. We normally expect to receive the cash flow matching the recognized revenue within the credit period, which is based on the terms specified in the relevant contract, subject to subsequent review. Our revenue for construction contracts thus may fluctuate from period to period as the revenue in any period depends on the terms of the EPC contracts and/or BOT projects under construction in the period, the stage of completion reached and the amount of revenue already recognized and the accuracy of our estimates.

BOT projects

We recognize revenue from a BOT project during both the construction phase and the operational phase, although we typically only receive payments from our customers during the operational phase. The revenue we expect to generate from a BOT project is estimated at the time the relevant contracts for the project are entered into. Our estimation of the expected revenue may change due to a number of factors and necessary adjustments may be required, which may affect our results in subsequent years.

Upon signing relevant agreements for a BOT project, we estimate the revenue and cost for both the construction phase and the operational phase based on our experience from comparable EPC projects and our knowledge about the operation of wastewater treatment facilities. We estimate the revenue from the construction phase and the operational phase at the same time.

In our statements of comprehensive income, we account for the revenue recognized from the construction phase of a BOT project in the same manner as the revenue from an EPC project. We account for the revenue recognized from the operational phase of the BOT project in the same manner as we account for the revenue from an O&M project. The revenue recognized from the construction phase of a BOT project is also recognized as a service concession receivable to be offset against the allocated amount after receipt of cash tariff payments and other payments received related to the relevant project. BOT projects are not treated in our financial statements as a separate operating segment in terms of the accounting treatment of the related revenue.

The proportion of the total revenue from a project attributable to the construction phase may vary from project to project based on our management's estimate of the total revenue over the duration of the project and the allocation of future tariff payments between the operational phase revenue and the settlement against the service concession receivables based on the minimum guaranteed treatment volume of water or wastewater as set out in the relevant concession agreement. The percentage of total revenue from the project attributable to the construction revenue may increase or decrease during the concession period due to factors such as tariff adjustments and the volume of wastewater treated which would impact the amount of tariff income received and hence the respective percentage of contribution of the construction and operational phases to the total revenue derived from the project. Based on our existing BOT projects, the construction phase accounts for approximately 12% to 42% of our total revenue of the BOT projects, while the operational phase accounts for the remainder of the total revenue from these projects.

The cash tariff payments received during the operational phase of our BOT projects are allocated between the settlement of the service concession receivables and the revenue from the operational phase of the projects. The allocation of the future tariff payments to settle the service concession receivables is estimated at the time we estimate the revenue from the construction and operational phases. As a result, the revenue from the operational phase for a financial period is determined by, among other things, the amount of tariff payments received or receivable and the settlement amount of the service concession receivables for the financial period.

The following table sets forth our revenue from our BOT projects during the periods indicated:

BOT Revenue	Year ended December 31, 2007 Amount (RMB'000)	2007 % of total Revenue	2008 Amount (RMB'000)	2008 % of total Revenue	2009 Amount (RMB'000)	2009 % of total Revenue	Three months ended March 31, 2009 Amount (RMB'000) (unaudited)	2009 % of total Revenue	2010 Amount (RMB'000)	2010 % of total Revenue
Construction Phase										
— revenue falling into the turnkey projects and services operating segment	—	—	60,153	5.9%	138,253	10.7%	23,172	17.1%	2,605	1.1%
— revenue falling into the equipment manufacturing operating segment	—	—	6,240	0.6%	25,590	2.0%	—	—	11,502	4.9%
Operational Phase										
— revenue falling into the operation and maintenance segment	—	—	—	—	5,677	0.4%	—	—	1,928	0.8%
Total	**—**	**—**	**66,393**	**6.5%**	**169,520**	**13.1%**	**23,172**	**17.1%**	**16,035**	**6.8%**

In accordance with paragraph 16 of HK(IFRIC) Interpretation 12 and other applicable accounting rules and principles, our accounting entries for a BOT project from the signing of the relevant contract to the completion of the project are made as follows:

Construction phase (assuming the construction period is two years):

- *for year one*: construction revenue is recognized in the statements of comprehensive income on the basis of the percentage of completion, and a service concession receivable is correspondingly recognized in the statements of financial position; and

- *for year two*: construction revenue is recognized in the statements of comprehensive income on the basis of the percentage of completion, and a service concession receivable is correspondingly recognized in the statements of financial position; in addition, an amount of imputed interest income is recognized as other operating income with respect to the service concession receivables at an effective interest rate in the statements of comprehensive income and added to service concession receivables correspondingly in the statements of financial position.

Operational phase

- during any year tariff payments are received, the total amount received will be accounted for in the statements of cash flow. The received amount is allocated between the settlement of the service concession receivables and revenue from the operational phase; and

- an amount of imputed interest income is recognized as other operating income based on the outstanding balance of the service concession receivables multiplied by a relevant effective interest rate in the statements of comprehensive income and a corresponding amount is recognized to increase the service concession receivables in the statements of financial position. The effective interest rate is determined, with respect to each BOT project, as the rate that exactly discounts estimated future cash receipts through the expected life of service concession receivables.

Construction phase

For the construction phase of our BOT projects, we estimate the construction revenue upon signing the relevant agreements for the project and we recognize revenue on the same percentage of completion basis as for our EPC projects for the purposes of our financial statements, in accordance with IFRS. Generally, we do not receive any payment from our customers during the construction phase of these projects. However, two of our BOT project companies, Shangluo Wastewater and Yulin Jingzhou, received government prepayments during the construction phase of their respective projects.

As we continue to undertake more BOT projects in the future, our cash flow requirements and funding needs will change significantly. We will rely increasingly on our internally generated and borrowed funds for the construction of these projects. More of our cash will be used as we recognize more BOT construction revenue. Generally, the matching cash inflow for our construction revenue from our BOT projects will only be received in the form of cash tariff payments during the concession periods of the relevant BOT projects, which can be up to 30 years. Based on our internal forecast, we expect that we need to operate the facilities for approximately ten years before we will be able to recover our initial investment in the projects. Please refer to the section headed "Risk Factors — BOT projects are capital intensive with long payback periods and we may require additional funding for these and our other investment projects" for further information.

We determine the revenue from and profit for the construction phase of a BOT project based on a number of factors, which involve estimations by our management, including:

- our estimate of the profit margin based on our experience from comparable EPC construction contracts;
- technical requirements of the construction (e.g., quality of wastewater input and output specified in the relevant agreements);
- total amount of investment stipulated in the concession agreement; and
- any extra work or variation orders requested by our customers during construction.

These estimations are determined by our management before the commencement of the BOT projects.

The amount of revenue recognized from the construction phase of a BOT project, together with any payments for land use rights and ancillary costs in connection with the construction phase of the

BOT project, is accounted for as a service concession receivable to be settled during the term of the concession of the BOT project, which can be up to 30 years.

For the year ended December 31, 2007, we recognized no revenue in respect of the construction of our BOT projects as we commenced construction of our BOT projects in 2008. For the years ended December 31, 2008 and 2009 and the three months ended March 31, 2010, we recognized revenue of RMB66.4 million, RMB163.8 million and RMB14.1 million, respectively, from the construction phase of our BOT projects, which accounted for approximately 6.5%, 12.7% and 6.0% of our total revenue for the same periods, respectively. These amounts have also been recognized as service concession receivables in our consolidated statements of financial position, which are typically to be settled against the tariff and other payments received related to the relevant BOT projects. We expect our service concession receivables to increase materially in the future as we undertake an increasing number of BOT projects. Unlike trade receivables for our EPC projects, service concession receivables are settled during the concession period of the relevant BOT project, which can be up to 30 years. We are subject to the risk that these receivables may not be fully settled, which would cause an impairment of our financial assets and adversely affect our results of operations in the future. There is no assurance that we will receive the agreed tariff payments in full or on time during the concession periods. For the year ended December 31, 2009 and the three months ended March 31, 2010, we recognized revenue of RMB5.7 million and RMB1.9 million from the operational phase of our BOT projects, which amounts were recorded in our operation and maintenance operating segment. We received cash payments of RMB3.5 million after one of our BOT projects commenced operation in the second half of 2009 and received cash payments of RMB0.9 million from such BOT project for the first quarter of 2010. We did not receive any tariff in respect of the operation of our BOT projects in the years ended December 31, 2007 or 2008. Please refer to the sections headed “Risk Factors — We are exposed to the credit risk of and payment delays by our customers” and “Risk Factors — We typically only receive payment in connection with the revenue recognized from the construction of our BOT projects on receipt of cash tariff payments during the operational phase of these BOT projects and we may not have the cash inflow matching the revenue recognized during the construction phase” for more information.

Operational phase

For the operational phase of our BOT projects we receive regular payments, usually monthly, from the relevant customer once the facility is operational based on the contractually agreed tariff and the volume of water treated, subject to guaranteed minimum payments stipulated in the relevant project agreements.

In addition to the above factors we usually consider in determining the revenue recognized for the construction phase of our BOT projects, we determine the revenue from and profit for the operational phase of our BOT projects on the basis of the following additional factors, which involve estimations by our management:

- the effective interest rate on service concession receivables, which is usually set between the treasury bond interest rate and the prevailing commercial interest rate in the PRC;
- the price, tariff adjustment and other material terms negotiated with our customers; and
- the cost of operations and average profit margin of operation and maintenance of comparable wastewater treatment facilities.

Revenue recognized during the operational phase of our BOT projects are allocated under the revenue falling into the operation and maintenance segment.

Operation and Maintenance

Our revenue recorded under the operation and maintenance segment comprises the revenue from our standalone O&M projects and from the operational phase of our BOT projects. We recognize revenue when our services related to the operation and maintenance of the water or wastewater treatment facilities are provided. For our standalone O&M projects, under the terms of the relevant service agreements we are entitled to receive regular, usually monthly, payments from our customers on the basis of the agreed tariff rate and the volume of water/wastewater we treated, subject to a minimum guaranteed volume stipulated in the relevant concession agreements. For the operational phase of our BOT projects, revenue is recognized and received in a manner similar to a standalone O&M project, except that the regular payments, usually monthly, received from a customer are allocated between the settlement of the service concession receivables and the revenue recognized for the O&M services under the BOT project.

We entered into agreements for our first bundled O&M project in Hainan Province, the PRC in late 2009. We had commenced commercial operation of one of our O&M projects in Hainan in the first quarter of 2010 and therefore recorded revenue of RMB0.7 million in our operation and maintenance segment attributable to our O&M projects. For the year ended December 31, 2009 and the three months ended March 31, 2010, we recognized revenue of RMB5.7 million and RMB1.9 million, respectively, from the operational phase of our BOT projects, which amount was recorded in our operation and maintenance operating segment. We received cash payments of RMB3.5 million and RMB0.9 million for the year ended December 31, 2009 and the three months ended March 31, 2010, respectively, in respect of the operation of one of our BOT projects. We accounted for our assets held by our BOT projects companies in our operation and maintenance segment for our internal reporting purposes.

Equipment Manufacturing

Following the acquisition of our equipment manufacturing subsidiary, Hi-Standard, in July 2008, we derived a portion of our revenue from sales to external customers of equipment manufactured by Hi-Standard, accounting for approximately 10.0%, 9.7% and 14.4% of our revenue for the years ended December 31, 2008 and 2009 and the three months ended March 31, 2010, respectively. The revenue from sales of equipment produced by Hi-Standard to other companies within our Group was eliminated upon the consolidation of our Group's financial results. Variations in the proportion of equipment produced by Hi-Standard used by our Group's project business and eliminated as intra-group sales during different financial periods may thus cause fluctuations in the revenue we record from our equipment manufacturing segment in our consolidated financial results. The eliminated inter-segment sales upon consolidation amounted to RMB41.9 million and RMB47.8 million, representing approximately 29.0% and 27.6% of Hi-Standard's total sales before inter-segment elimination for 2008 and 2009, respectively. The inter-segment sales decreased significantly to RMB0.2 million for the three months ended March 31, 2010 compared with RMB18.2 million for the three months ended March 31, 2009 as our inter-segment sales contracts were completed in 2009 and we did not enter into any major inter-segment sales contracts in the first quarter of 2010.

Hi-Standard's revenue contribution in our consolidated financial statements in terms of external sales decreased slightly from approximately 10.0% in 2008 to approximately 9.7% in 2009. Hi-Standard's revenue contribution increased to 14.4% for the three months ended March 31, 2010 compared to 5.9% for the three months ended March 31, 2009 due to the increase in equipment sales.

Cost of sales

The following table sets forth our cost of sales during the periods indicated:

	Year ended December 31,						Three months ended March 31, 2010			
	2007	% of cost of sales	2008	% of cost of sales	2009	% of cost of sales	2009	% of cost of sales	2010	% of cost of sales
	(RMB'000)		(RMB'000)		(RMB'000)		(RMB'000) (unaudited)		(RMB'000)	
Cost of Sales										
Construction and Installation	333,920	70.4%	495,410	71.7%	726,510	79.2%	78,816	87.3%	131,416	80.1%
Equipment Procurement	140,337	29.6%	129,086	18.7%	98,229	10.7%	3,633	4.0%	8,155	5.0%
Equipment Manufacturing	—	—	66,724	9.6%	90,231	9.8%	7,883	8.7%	23,157	14.1%
Operation and Maintenance	—	—	—	—	2,993	0.3%	—	—	1,326	0.8%
Total	**474,257**	**100.0%**	**691,220**	**100.0%**	**917,963**	**100.0%**	**90,332**	**100.0%**	**164,054**	**100.0%**

Cost of sales accounted for approximately 68.0%, 67.4%, 71.0% and 70.1% of our revenue for the years ended December 31, 2007, 2008 and 2009 and the three months ended March 31, 2010, respectively. We recognize costs related to construction and installation based on the percentage-of-completion method. Our cost of sales includes the construction and installation cost for sub-contracting construction and installation work for our EPC projects and for the construction phase of our BOT projects. It also includes the cost of providing our equipment procurement services and for manufacturing customized equipment. Our construction and installation cost further includes cost for the management and supervision of our projects. Our costs recognized for construction contracts may fluctuate from period to period as our costs in any period depend on the EPC contracts and construction of the BOT projects in respect of which we have recognized revenue in the relevant financial period.

The construction and installation cost primarily represents the cost we incur in respect of sub-contracting the construction and installation work of our projects, which includes the cost of equipment and raw materials our sub-contractors purchase themselves as part of the sub-contracted work. Construction and installation cost constituted the largest component of our cost of sales, accounting for approximately 70.4%, 71.7%, 79.2% and 80.1% of our total cost of sales in 2007, 2008, 2009 and the three months ended March 31, 2010, respectively. Our sub-contracting cost constituted approximately 97.5%, 98.0%, 97.4% and 98.6% of our total construction and installation cost for the years ended December 31, 2007, 2008, 2009 and the three months ended March 31, 2010, respectively.

Our equipment procurement cost comprised primarily the cost of procuring equipment for our customers. The cost of procuring equipment accounted for approximately 29.6%, 18.7%, 10.7% and 5.0% of our total cost of sales for the years ended December 31, 2007, 2008 and 2009 and the three months ended March 31, 2010, respectively.

For a BOT project, the construction and installation costs and any other costs incurred during its construction phase are not capitalized as fixed assets in our financial statements but instead are expensed in connection with the revenue recognized on the percentage of completion basis. The amount equal to the revenue recognized plus any related payments such as payments for land use rights in connection with the construction phase of the BOT project is accounted for as a service concession receivable, a long-term financial asset that is to be settled throughout the concession period.

Our equipment manufacturing cost represents the cost incurred by Hi-Standard in manufacturing and sales of its equipment, including amortization of the patents we acquired on the acquisition of Hi-Standard in July 2008, which we amortize on a straight-line basis of 4.5 to 9.5 years. The fair value of the patents was RMB67.2 million upon acquisition. We acquired Hi-Standard in July 2008 and our equipment manufacturing costs accounted for approximately 9.6%, 9.8% and 14.1% of our total cost of sales for 2008, 2009 and the three months ended March 31, 2010, respectively. As the revenue from the sale of equipment produced by Hi-Standard to other companies within our Group was eliminated upon consolidation of our Group's financial results, variations in the amount of inter-segment sales in different financial periods thus may cause fluctuations in our revenue recorded from this segment in our consolidated financial results. As a result, our equipment manufacturing cost may not reflect the full extent of Hi-Standard's costs as a percentage of its revenue. Our equipment manufacturing cost accounted for approximately 46.1%, 52.1% and 68.6% of the revenue from this segment before inter-segment elimination for 2008, 2009 and the three months ended March 31, 2010, respectively. We believe that increases in the prices of raw materials, such as the price of steel, generally does not materially impact our gross margin for equipment sales as we generally take into account prevailing market prices when determining contract price due to the short manufacturing cycle after receipt of a customer's order.

We further incurred operation and maintenance costs of RMB3.0 million and RMB1.3 million, which accounted for approximately 0.3% and 0.8% of our total cost of sales for the year ended December 31, 2009 and the three months ended March 31, 2010, respectively, as one of our BOT projects commenced operation in the second half of 2009 and one of our O&M projects commenced operation in the first quarter of 2010.

Other operating income

The following table sets forth our other operating income during the periods indicated:

	Year ended December 31,			Three months ended March 31,	
	2007	2008	2009	2009	2010
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000) (unaudited)	(RMB'000)
Other Operating Income					
Interest income	13,422	10,031	3,791	1,123	1,320
Interest income on receivable from a trust company	8,024	—	—	—	—
Imputed interest income on service concession receivables	—	45	9,649	2,413	4,493
Government grants	1,400	—	—	—	—
Change in fair value of held for trading investments	211	—	—	—	—
Net foreign exchange gain	—	—	—	—	93
Sundry income	292	61	421	—	64
Total	**23,349**	**10,137**	**13,861**	**3,536**	**5,970**

Our other operating income accounted for only approximately 3.3%, 1.0%, 1.1% and 2.6% of our total revenue in 2007, 2008, and 2009 and the three months ended March 31, 2010, respectively. We received less interest income on our deposits in 2008 and 2009 due to the lower effective interest rates and lower amounts of our deposits in these periods. Furthermore, we received a one-time government grant for upgrading our environmental technology in 2007. We also had interest income on receivables from a PRC trust company in 2007, which did not recur in 2008, 2009 or for the three months ended March 31, 2010 as we did not make any similar investment due to the change in the economic environment.

Our imputed interest income on service concession receivables is the amount of interest accrued on the outstanding balance of the service concession receivables, at an effective interest rate reasonably decided by our management at the time of estimation of project revenue. Such interest income is recognized as an addition to the service concession receivables and settled against the tariffs and other payments received related to the relevant BOT projects.

Other expenses

Our other expenses during the Track Record Period were comprised of net foreign exchange losses, allowance for doubtful debts and expenses related to the proposed global offering. The net foreign exchange losses we incurred were due to the exposure of our assets or liabilities denominated in currencies other than the RMB to currency fluctuations, such as our bank deposits denominated in the Singapore dollar and the US dollar in our Singapore bank accounts. Our net foreign exchange losses were RMB3.3 million, RMB28.0 million, RMB0.2 million and nil for 2007, 2008, 2009 and the three months ended March 31, 2010, respectively. The losses in 2007, 2008 and 2009 were primarily due to the appreciation of the RMB relative to the Singapore dollar during the period. The allowance for doubtful debts were nil, RMB11.3 million, RMB28.4 million and nil for 2007, 2008 and 2009 and the three months ended March 31, 2010, respectively. The increase in allowances for doubtful debts for 2007, 2008 and 2009 was due primarily to our provision for receivables owed by certain customers facing tight cash flows in 2008 and those facing financial difficulties which failed to make payments for overdue receivables in 2009. The decrease in allowance for doubtful debt to nil for the three months ended March 31, 2010 was due to better collection of debts in the first quarter of 2010. Our other expenses for the three months ended March 31, 2010 included expenses of RMB7.1 million related to the proposed global offering.

Distribution expenses

Our distribution expenses comprise primarily office expenses, travel and transportation expenses for our sales staff, salaries and staff costs for our sales and support staff, after sales expenses and entertainment expenses. After sales expenses were incurred for services we rendered to our customers after sales of our services or products, including the provision of on-site training and follow-up visits.

Our distribution expenses were RMB8.9 million, RMB11.8 million, RMB10.9 million and RMB2.0 million, and accounted for approximately 1.3%, 1.1%, 0.8% and 0.9% of our revenue for 2007, 2008 and 2009 and the three months ended March 31, 2010, respectively. Salaries and staff costs for our sales and support staff increased as a percentage of distribution expenses, accounting for approximately 25.5%, 28.3%, 39.8% and 53.0% in 2007, 2008, 2009 and the three months ended March 31, 2010, respectively. We incurred significantly more after-sales expenses in 2008, 2009 and the three months ended March 31, 2010. Our after-sales expenses accounted for approximately 4.6%, 18.2%, 18.1% and 19.0% of our distribution expenses for the years ended December 31, 2007, 2008 and 2009 and the three months ended March 31, 2010, respectively.

Research and development costs

Our research and development costs represent the expenses we incur to develop new technologies and upgrade our existing technology used or to be used in undertaking environmental projects and the provision of related services. Our research and development costs were RMB4.7 million, RMB6.0 million, RMB5.3 million and RMB1.1 million, which accounted for approximately 0.7%, 0.6%, 0.4% and 0.5% of our total revenue for the years ended December 31, 2007, 2008 and 2009 and the three months ended March 31, 2010, respectively.

Administrative expenses

Our administrative expenses comprise rental expenses for our offices, office expenses, amortization and depreciation of land use rights, salaries and staff costs and professional fees paid to legal counsel, accountants and other intermediaries for our financing activities.

Our administrative expenses were RMB16.6 million, RMB30.1 million, RMB38.1 million and RMB8.9 million and accounted for approximately 2.4%, 2.9%, 2.9% and 3.8% of our revenue for the years ended December 31, 2007, 2008 and 2009 and the three months ended March 31, 2010, respectively.

The total amount of emoluments paid to our Directors was RMB1.0 million, RMB1.2 million, RMB1.1 million and RMB0.3 million for the years ended December 31, 2007, 2008 and 2009 and the three months ended March 31, 2010, respectively. The emoluments payable to each independent non-executive Director was individually negotiated after taking into account factors such as the time and effort spent, responsibilities of the Directors, and the need to pay competitive fees to attract and retain the Directors. The remuneration of an independent non-executive Director in Singapore is generally higher than that of an independent non-executive Director based in the PRC due to the difference in average salary and the cost of living between the two countries. The remuneration of each independent non-executive Director was approved by our Company's remuneration committee. We expect our administrative expenses to increase significantly in the future as we expand our BOT business and our BOT projects become operational.

Share of results of an associate

Our share of the results of an associate was negligible during the Track Record Period. During the Track Record Period we owned a 20% equity interest in Shanghai Chenghuan, a PRC company specializing in the management and operation of water and wastewater treatment plants in Shanghai. As a result of the equity accounting method used by our Company, we accounted for our share of its loss/profit in our consolidated statements of comprehensive income.

Finance costs

The following table sets forth our finance costs during the periods indicated:

	Year ended December 31,			Three months ended March 31,	
	2007	**2008**	**2009**	**2009**	**2010**
	(RMB'000)	**(RMB'000)**	**(RMB'000)**	**(RMB'000) (unaudited)**	**(RMB'000)**
Interest expenses on bank borrowings	21,925	25,141	13,630	5,232	3,498

Our finance cost comprises interest expenses on bank borrowings. Our total outstanding borrowings were RMB347.9 million, RMB391.7 million, RMB227.0 million and RMB245.7 million as of December 31, 2007, 2008 and 2009 and March 31, 2010, respectively. The weighted average interest rates for our bank borrowings ranged from 3.40% to 6.52% per annum for the periods indicated. We expect our long-term loans to increase substantially as we increase our investments in BOT projects and finance these projects with long term loans.

Income tax expenses

Our Company and its subsidiaries, which primarily operate in the PRC and Singapore, respectively, are taxed in accordance with the respective prevailing tax regulations of the jurisdiction in which they are incorporated. The following table sets forth our income tax expenses during the periods indicated:

	Year ended December 31,			Three months ended March 31,	
	2007	2008	2009	2009	2010
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000) (unaudited)	(RMB'000)
Income tax expenses (credit)					
PRC income tax	26,660	29,228	15,454	1,461	6,510
Singapore income tax	2,020	—	—	—	—
Over provision in prior years	—	—	(4,048)	(4,048)	—
Deferred tax	—	(915)	(1,170)	365	1,212
Total	**28,680**	**28,313**	**10,236**	**(2,222)**	**7,722**

Our effective tax rate, calculated as the income tax expense for the period divided by the profit before income tax for the same period, was 15.0%, 12.2%, 3.5% and 14.5% for the years ended December 31, 2007, 2008 and 2009 and the three months ended March 31, 2010, respectively. Our lower tax rates in 2008 and 2009 were primarily due to the following reasons:

- Beijing Epure is a foreign investment enterprise. It applied for and was granted the status of a high-and-new-tech enterprise. It was therefore entitled to exemption from PRC income tax for the three years commencing 2007. The applicable income tax rate of Beijing Epure was nil for the Track Record Period. Beijing Epure recognized revenue of RMB9.2 million, RMB219.0 million and RMB707.8 million or approximately 1.3%, 21.4% and 54.7% of our total revenue for 2007, 2008 and 2009, respectively. Meanwhile, Beijing Epure contributed RMB22.8 million, RMB125.7 million and RMB239.2 million, or approximately 11.9%, 54.2% and 81.6% of our profit before income tax for 2007, 2008 and 2009, respectively. The effect of the tax exemption was more significant in 2008 and 2009 than in 2007 as a higher amount of revenue was contributed by Beijing Epure in 2008 and 2009.

- Beijing Sound was subject to income tax at the rate of 15% prior to the new Enterprise Income Tax Law taking effect, which became effective on January 1, 2008. It received approval to enjoy a preferential tax rate of 15% for the three years beginning 2008 under the new Enterprise Income Tax Law, as a high-and-new-tech enterprise. The income tax rate for Beijing Sound was 15% for each of the years ended December 31, 2007, 2008 and 2009. Beijing Sound contributed RMB177.7 million, RMB116.6 million and RMB34.4 million, or approximately 93.0%, 50.3% and 11.8% of our profit before income tax for 2007, 2008 and 2009, respectively. As a result of the reduced profit contribution, taxes paid by Beijing Sound decreased in 2008 and 2009.

- Hi-Standard applied for and was granted a tax incentive to enjoy a preferential tax rate of 15% as a high-and-new-tech enterprise for a period of three years starting in 2008. However, our results of operation for 2008 did not reflect this preferential tax rate as we had not obtained the high-tech enterprise certification for Hi-Standard as of December 31,

2008. The benefit of the reduced tax rate for 2008 was reflected in our results of operations for 2009 instead. Hi-Standard therefore provided income tax for the year ended December 31, 2008 at a tax rate of 25%. In our results for 2009, Hi-Standard then reversed the over-provision made in 2008 after obtaining certification as a high-and-new-tech enterprise in 2009. In addition, Hi-Standard provided income tax for 2009 at the lower rate of 15%. Hi-Standard contributed RMB32.8 million and RMB26.5 million, or approximately 14.1% and 9.0% of our profit before income tax for 2008 and 2009, respectively. The amount due to the reversal of income taxes was RMB4.0 million in 2009.

- Our income tax expenses were also affected by the deferred tax assets/liabilities allotted charged to our statements of comprehensive income. Net deferred tax assets/liabilities may arise in a financial period after netting our deferred tax assets in the period against the deferred tax liabilities.

  In 2008, our balance of allowance for doubtful debts was RMB19.6 million, as compared to RMB8.3 million in 2007 and our estimated distributable profit earned by PRC subsidiaries after January 1, 2008 to be contributed was RMB40.0 million.

- Our Company, incorporated in Singapore, was subject to an income tax rate of 18%, 18% and 17% on its income derived from Singapore in 2007, 2008 and 2009, respectively. Our income subject to Singapore income tax included interest income from the deposits in our Singapore accounts and fees from provision of consultation and design services from Singapore to some customers outside of Singapore.

Our higher effective tax rate for the three months ended March 31, 2010 was primarily due to an increase of the applicable income tax rate for Beijing Epure from nil for the year ended December 31, 2009 to 7.5% for the three months ended March 31, 2010 according to the approval from the relevant tax authorities. In addition, there was an income tax credit of approximately RMB2.2 million for the three months ended March 31, 2009 arising from the reversal of income tax expense provided for by Hi-Standard following the confirmation of tax incentive for Hi-Standard, which reduced our effective tax rate for the three months ended March 31, 2009.

The other PRC companies within our Group were subject to income tax at the rate of 25%. Primarily due to Beijing Epure's tax exemption status, more projects were undertaken by Beijing Epure and thus significantly more revenue and profit was contributed by Beijing Epure during the Track Record Period.

Under the New Enterprise Income Tax Law, withholding tax is imposed on dividends declared to foreign investors in respect of profit earned by PRC subsidiaries from January 1, 2008. Deferred taxation has been provided for in respect of profits of relevant PRC subsidiaries to be distributed based on the estimation of our Directors. Accordingly, deferred tax liabilities on the remaining undistributed profit of our PRC subsidiaries of RMB196.8 million and RMB414.3 million were not recognized as of December 31, 2008 and 2009, respectively.

Our tax expense will increase significantly if we fail to obtain government approvals for preferential tax treatment for our subsidiaries such as Beijing Epure, Beijing Sound and our BOT project companies. As we increase our international business, we may become subject to tax in other countries and this will also cause our tax expenses to increase significantly.

RESULTS OF OPERATIONS

Selected consolidated statements of comprehensive income information

The following information should be read in conjunction with the full text of this Listing Document, including the consolidated financial statements and the notes thereto included in the Accountants' Report set out in Appendix I to this Listing Document. Our financial statements in Appendix I to this Listing Document are prepared and presented in accordance with IFRS.

	Year ended December 31,			Three months ended March 31,	
	2007	2008	2009	2009	2010
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000) (unaudited)	(RMB'000)
Revenue	**697,341**	**1,024,808**	**1,293,476**	**135,376**	**234,037**
Cost of sales	(474,257)	(691,220)	(917,963)	(90,332)	(164,054)
Gross profit	**223,084**	**333,588**	**375,513**	**45,042**	**69,983**
Other operating income	23,349	10,137	13,861	3,536	5,970
Other expenses	(3,256)	(39,225)	(28,576)	(17,969)	(7,075)
Distribution expenses	(8,904)	(11,784)	(10,892)	(1,505)	(2,000)
Research and development expenses	(4,697)	(6,000)	(5,256)	(1,220)	(1,113)
Administrative expenses	(16,585)	(30,087)	(38,052)	(6,518)	(8,881)
Share of result of an associate	15	525	21	29	(42)
Finance costs	(21,925)	(25,141)	(13,630)	(5,232)	(3,498)
Profit before income tax	**191,081**	**232,013**	**292,989**	**16,163**	**53,344**
Income tax expenses	(28,680)	(28,313)	(10,236)	2,222	(7,722)
Profit for the year and total comprehensive income	**162,401**	**203,700**	**282,753**	**18,385**	**45,622**
Profit for the year and total comprehensive income attributable to owners of our Company	**161,173**	**203,686**	**281,869**	**18,164**	**45,536**

Three months ended March 31, 2010 compared to three months ended March 31, 2009

Revenue

Our revenue increased by RMB98.7 million or 72.9% from RMB135.4 million for the three months ended March 31, 2009 to RMB234.0 million for the three months ended March 31, 2010. The increase was attributable to (i) the increase of revenue from the turnkey projects and services amounting to approximately RMB70.4 million; (ii) the increase of revenue from Hi-Standard of approximately RMB25.7 million, which arose from the sale of customized environmental water and wastewater treatment equipment to external customers; and (iii) the increase of revenue from the operation and maintenance segment of approximately RMB2.6 million.

Cost of Sales

Our cost of sales increased by RMB73.7 million, or 81.6%, from RMB90.3 million for the three months ended March 31, 2009 to RMB164.1 million for the three months ended March 31, 2010. The increase in cost of sales was primarily attributable to (i) an increase in construction and installation costs of RMB52.6 million; (ii) an increase in equipment manufacturing costs of RMB15.3 million; and (iii) an increase in equipment procurement costs of RMB4.5 million. The increases in our construction and installation costs were primarily due to the increased proportion of the work that was sub-contracted and the fact that our sub-contractors purchased more equipment themselves for the three months ended March 31, 2010 compared to the same period in the previous year. The increase in our equipment procurement costs was primarily due to the construction of some major EPC projects in the first quarter of 2010. The significant increase in equipment manufacturing costs was primarily due to the increase in sales of Hi-Standard.

Gross profit and gross profit margin

Gross profit increased by approximately RMB25.0 million or 55.4% from approximately RMB45.0 million for the three months ended March 31, 2009 to approximately RMB70.0 million in for the three months ended March 31, 2010.

The gross profit margin was 29.9% for the three months ended March 31, 2010 and 33.3% for the three months ended March 31, 2009. Given the nature of the turnkey projects, where revenue is recognized based on the percentage of completion, the gross profit margin for engineering work would fluctuate from quarter to quarter depending on the amount of revenue recognized for the relevant projects during the relevant quarters.

Other operating income

Other operating income increased by approximately RMB2.5 million or 68.8% from approximately RMB3.5 million for the three months ended March 31, 2009 to approximately RMB6.0 million for the three months ended March 31, 2010. This increase was due mainly to the deemed interest income arising from service concession receivables as a result of the increased investment in BOT projects for the three months ended March 31, 2010.

Other expenses

Our other expenses decreased by RMB10.9 million or 60.6% from RMB18.0 million for the three months ended March 31, 2009 to RMB7.1 million for the three months ended March 31, 2010 primarily due to a decrease in net foreign exchange losses of RMB16.4 million and a decrease in allowance for doubtful debts from RMB1.6 million to nil, partially offset by an increase of expenses relating to the proposed global offering of RMB7.1 million.

Distribution expenses

Our distribution expenses increased by RMB0.5 million or 33.3% from RMB1.5 million for the three months ended March 31, 2009 to RMB2.0 million for the three months ended March 31, 2010. The increase of our distribution expense for the three months ended March 31, 2010 was due mainly to the increase in travelling and entertainment expenses as business activities increased and increase in salaries and related costs as headcount increased from 573 as of March 31, 2009 to 670 as of March 31, 2010.

Research and development expenses

Research and development expenses remained relatively consistent at approximately RMB1.2 million for the three months ended March 31, 2009 compared with RMB1.1 million in for the three months ended March 31, 2010.

Administrative expenses

Our administrative expenses increased by approximately RMB2.4 million or 36.9% from RMB6.5 million for the three months ended March 31, 2009 to RMB8.9 million for the three months ended March 31, 2010. The increase was primarily due to:

- an increase of salaries and related costs of approximately RMB1.0 million as our headcount increased;
- an increase of approximately RMB0.8 million in other miscellaneous expenses as operating activities increased; and
- contribution of approximately RMB0.6 million from the operating and maintenance segment of Xi'an Qinqing and Hainan Baichuan.

Share of results of an associate

Our associate, Shanghai Chenghuan, had a loss of RMB0.04 million for the three months ended March 31, 2010, as compared to a gain of RMB0.03 million for the three months ended March 31, 2009.

Finance costs

Finance costs decreased by approximately RMB1.7 million or 33.1% from approximately RMB5.2 million for the three months ended March 31, 2009 to approximately RMB3.5 million for the three months ended March 31, 2010. The decrease was due mainly to lower borrowing costs as a result of a decrease in the highest interest rate partially of set by a marginal increase in loan amount.

Bank loans as of March 31, 2010 and March 31, 2009 were RMB245.7 million and RMB264.8 million respectively. Interest rates ranged from 4.6% to 7.1% per annum for the three months ended March 31, 2010 and 4.6% to 8.2% per annum for the three months ended March 31, 2009.

Profit before income tax

As a result of the foregoing factors, our profit before income tax increased by RMB37.2 million or 230.0% from RMB16.2 million for the three months ended March 31, 2009 to RMB53.3 million for the three months ended March 31, 2010.

Income tax expense

There was an income tax credit of approximately RMB2.2 million for the three months ended March 31, 2009 arising from the reversal of income tax expenses provided for in 2008 following the confirmation of tax incentive for Hi-Standard. Income tax expenses were RMB7.7 million for the three months ended March 31, 2010.

Profit for the year and total comprehensive income and net profit margin

As a result of the foregoing factors, our profit and total comprehensive income for the year increased by RMB27.2 million or 148.1% from RMB18.4 million for the three months ended March 31, 2009 to RMB45.6 million for the three months ended March 31, 2010. Our net profit margin, calculated as the profit for the period divided by total revenue, calculated as net profit for the year divided by total revenue, increased from 13.6% for the three months ended March 31, 2009 to 19.5% for the three months ended March 31, 2010.

2009 compared to 2008

Revenue

Our revenue increased by RMB268.7 million or 26.2% from RMB1,024.8 million in 2008 to RMB1,293.5 million in 2009 as we expanded our operations. The increase was primarily attributed to: (i) higher revenue recognized from our major EPC projects and the construction phase of our BOT projects; (ii) higher revenue contributed by Hi-Standard; and (iii) revenue from the operational phase of a BOT project.

The revenue from our turnkey projects and services (including equipment procurement, design services and the construction phase of our BOT projects) in 2009 was RMB1,162.4 million, which included RMB1,041.7 million from our EPC projects (including equipment procurement and design services) and RMB120.7 million from the construction phase of our BOT projects (excluding revenue recognized under equipment manufacturing).

We recognized more revenue from our major EPC projects including Putian City Wastewater Treatment Plant, Handan Comprehensive Wastewater Treatment Project, Leihe Shabei Wastewater Project, Chenggong Luolong River Wastewater Project, and Fushun Reservoir Pollution Control Project. The revenue from our EPC projects (other than revenue from the construction phase of our BOT projects) amounted to RMB1,041.7 million and accounted for 80.6% of our total revenue.

We recognized more revenue from the construction phase of our BOT projects in 2009 as we secured a number of new projects in 2009 and commenced construction of more of our projects. Our revenue contributing BOT project companies included Hancheng Yiqing, Shangluo Wastewater, Yulin Jingzhou and Jiangyan Jiangyuan. The revenue from the construction phase of our BOT projects (including revenue recognized under equipment manufacturing) amounted to RMB163.8 million and accounted for 12.7% of our total revenue in 2009.

In 2009, revenue from the sale of water and wastewater treatment equipment by Hi-standard increased by RMB22.7 million from RMB102.7 million in 2008 to RMB125.4 million in 2009, and accounted for 8.4% of the increase in our revenue after elimination of inter-segment results. We used equipment produced by Hi-Standard widely in the construction of our projects and inter-segment sales amounted to RMB47.8 million during the year compared to RMB41.9 million in 2008. Higher revenue in this segment in 2009 was also primarily due to the fact that we recorded a full year's results from Hi-Standard in 2009 while in 2008 we only recorded revenue from Hi-Standard following completion of our acquisition of Hi-Standard in July 2008.

Finally, our BOT project company, Xi'an Qinqing, also contributed RMB5.7 million to our revenue in 2009 after it started commercial operation in the second half of 2009.

Cost of sales

Our cost of sales increased by RMB226.8 million, or 32.8%, from RMB691.2 million in 2008 to RMB918.0 million in 2009. The increase in cost of sales was primarily attributed to (i) a significant increase in construction and installation costs of RMB231.1 million; (ii) an increase in equipment manufacturing costs of RMB23.5 million; and (iii) operational costs for our first operational BOT project, which commenced operation in the second half of 2009, of RMB3.0 million. The increase in this cost was partially offset by a decrease in equipment procurement costs of RMB30.9 million. The increase in the construction and installation costs was due to a large portion of construction work that we sub-contracted as we obtained more turnkey projects and undertook more BOT projects. Our sub-contractors purchased more equipment directly themselves rather than us purchasing such equipment for their use. Costs of the equipment purchased directly by the sub-contractors were included in construction and installation costs thereby increasing our construction and installation costs but contributing to the decrease in our equipment procurement costs in 2009. Our equipment manufacturing cost increased from RMB66.7 million to RMB90.2 million in 2009. The increase was primarily due to the fact that we recorded a full year's amortization of patents and land-use rights of Hi-Standard in 2009 while in 2008 we only recorded such amortization expenses following completion of our acquisition of Hi-Standard in July 2008. We also incurred costs in our operation and maintenance segment as one of our BOT projects commenced operation in the second half of 2009.

Gross profit and gross profit margin

Our gross profit increased by RMB41.9 million, or 12.6%, from RMB333.6 million in 2008 to RMB375.5 million in 2009. Our gross profit margin, calculated as the gross profit divided by the total revenue, decreased from 32.6% in 2008 to 29.0% in 2009. Due to the nature of our turnkey projects, where revenue is recognized based on the percentage of completion, the gross profit margin for our turnkey projects fluctuates depending on the percentage of completion of the relevant projects, the varying profitability of respective individual projects and the amount of revenue recognized from them.

Other operating income

Other operating income increased by RMB3.7 million, or 36.7%, from RMB10.1 million in 2008 to RMB13.9 million in 2009. The increase was mainly due to the imputed interest income of RMB9.6 million recognized on service concession receivables in connection with our BOT projects, partially offset by a decrease in bank interest income of RMB6.2 million.

Other expenses

Other expenses decreased by RMB10.6 million, or 27.0%, from RMB39.2 million in 2008 to RMB28.6 million in 2009. The decrease was mainly due to a decrease in the amount of net foreign exchange losses to RMB0.2 million in 2009, as compared to RMB28.0 million of net foreign exchange losses recorded in 2008, partially offset by an increase in allowance for doubtful debts of RMB17.2 million in 2009.

Distribution expenses

Our distribution expenses decreased by RMB0.9 million or 7.6% from RMB11.8 million in 2008 to RMB10.9 million in 2009. The decrease was due to our management's efforts in cutting costs. We took stringent cost control measures to reduce office, traveling, transportation and entertainment expenses during the year.

Research and development expenses

Our research and development expenses remained relatively flat at RMB5.3 million in 2009.

Administrative expenses

Our administrative expenses increased by RMB8.0 million or 26.5% from RMB30.1 million in 2008 to RMB38.1 million in 2009. The increase was mainly due to the following:

- additional expenses incurred by Hi-Standard of RMB3.8 million in 2009;
- expenses incurred by Xi'an Qinqing of RMB1.0 million related to the operation of its BOT wastewater treatment plant in the second half of 2009; and

- an increase in other miscellaneous expenses of RMB3.2 million as our operating activities increased.

Share of results of an associate

Our associate, Shanghai Chenghuan, contributed RMB0.02 million in 2009, as compared to RMB0.5 million in 2008.

Finance Costs

Finance costs decreased by RMB11.5 million, or 45.8%, from RMB25.1 million in 2008 to RMB13.6 million in 2009. The decrease was mainly due to a decrease in interest payable on our bank borrowings. Our borrowing decreased from RMB391.7 million as of December 31, 2008 to RMB227.0 million as of December 31, 2009.

Profit before income tax

As a result of the foregoing factors, our profit before income tax increased by RMB61.0 million or 26.3% from RMB232.0 million in 2008 to RMB293.0 million in 2009.

Income tax expenses

Our income tax expense decreased by RMB18.1 million or 63.8% from RMB28.3 million in 2008 to RMB10.2 million in 2009, although our profit before income tax increased by RMB61.0 million. The decrease was primarily due to the following:

- our lower effective tax rate of 3.5% in 2009, as compared to 12.2% in 2008; we also recognized a reversal of income tax expenses of RMB4.0 million provided for in year 2008 following the confirmation of a tax incentive for Hi-Standard; and

- a higher percentage of profits was attributed to Beijing Epure, which was tax exempt during 2009.

Profit for the year and total comprehensive income and net profit margin

As a result of the foregoing factors, our profit and total comprehensive income for the year increased by RMB79.1 million, or 38.8%, from RMB203.7 million in 2008 to RMB282.8 million in 2009. Our net profit margin, calculated as net profit for the year divided by total revenue, increased from 19.9% in 2008 to 21.9% in 2009.

2008 compared to 2007

Revenue

Our revenue increased by RMB327.5 million or 47.0% from RMB697.3 million in 2007 to RMB1,024.8 million in 2008, which was attributable to: (i) an increase in revenue of RMB195.1 million recognized from our construction contracts and an increase in revenue of RMB54.2 million from our design service contracts which was partially offset by a decrease of RMB24.5 million in our equipment procurement; and (ii) revenue of RMB102.7 million from our new equipment manufacturing operating segment following our acquisition of Hi-Standard in July 2008.

The increase in revenue in 2008 as compared to 2007 from our turnkey projects and services was primarily due to the EPC projects and construction phase of BOT projects from which we recognized revenue in 2008. We had more EPC projects under construction in 2008 and more revenue was recognized under the percentage of completion method based on the stages of development of these projects. We started to undertake BOT projects in 2008 and made investment in three BOT projects during the year.

The revenue from the following projects accounted for a total of 44.9% of our total revenue for 2008: Shaanxi Xi'an City Chang'an District Wastewater Treatment Project, Hubei E'zhou Wastewater Treatment Project, Shaanxi Xi'an City Hu County Wastewater Treatment Project, Hubei Jingzhou Wastewater Treatment Project, Jilin Water Treatment Project, Henan Anyang City Wastewater Treatment Project (which at that time we carried out on an EPC project basis) and Guangxi Chongzuo City Wastewater Treatment Project.

In 2008, revenue from our standalone design projects increased by RMB54.2 million from RMB12.7 million in 2007 to RMB66.9 million in 2008, contributing 6.5% of our total revenue. We were able to undertake more standalone design services contracts in 2008 as our headcount increased. However, our design services became increasingly integrated with our turnkey projects and contributed to the revenue increase in our turnkey projects and services.

As a result of the acquisition of Hi-Standard in July 2008, we added a new operating segment to reflect the income from our equipment manufacturing business. The external revenue from this new segment of business upon consolidation was RMB102.7 million in 2008 and accounted for 31.4% of our increase in revenue after elimination of inter-segment results. We also used Hi-Standard equipment widely in the construction of our projects and inter-segment sales amounted to RMB41.9 million during the year.

Cost of sales

Our cost of sales increased by RMB217.0 million, or 45.7%, from RMB474.3 million in 2007 to RMB691.2 million in 2008 as a result of our increased business activities. The increase in cost of sales was primarily attributable to (i) a significant increase in construction and installation costs of RMB150.3 million; and (ii) manufacturing costs of RMB66.7 million as a result of our acquisition of Hi-Standard, which included the amortization of the patents held by Hi-Standard based on the useful life of such patents of 4.5 to 9.5 years. The increase in construction and installation costs was due to additional construction work that we sub-contracted as we obtained more turnkey projects and BOT projects. Our sub-contractors purchased more equipment directly themselves rather than us purchasing such equipment for their use. As a result, costs of the equipment purchased directly by the sub-contractors were included in the construction and installation cost, which contributed to the decrease of our equipment procurement cost in 2008. In July 2008, we acquired Hi-Standard and started to incur manufacturing cost after it became one of our subsidiaries. We conducted no manufacturing activities and incurred no manufacturing cost in 2007.

Gross profit and gross profit margin

Our gross profit increased by RMB110.5 million, or 49.5% from RMB223.1 million in 2007 to RMB333.6 million in 2008. The gross profit margin increased from 32.0% for 2007 to 32.6% for 2008. Our gross profit and profit margin may fluctuate between financial periods, depending on our project mix and the progress of the projects under construction.

Other operating income

Other operating income decreased by RMB13.2 million or 56.6% from RMB23.3 million in 2007 to RMB10.1 million in 2008. The decrease was mainly due to the following:

- our PRC subsidiary, Beijing Sound, received a one-time government grant of RMB1.4 million in 2007 but did not receive such grant in 2008;
- we received interest income of RMB8.0 million in respect of funds of RMB150.0 million placed with Inner Mongolia Trust and Investment Ltd. Co. at an interest rate of 7.35% in 2007. The deposited funds were fully withdrawn in September 2007; and
- an overall decrease in the interest rates for our US dollar and Singapore dollar deposits in 2008.

Other expenses

Our other expenses increased by RMB36.0 million, from RMB3.3 million in 2007 to RMB39.2 million in 2008. The increase was mainly attributable to the following:

- an increase in net foreign exchange losses of RMB24.7 million. This was primarily due to the appreciation of the RMB relative to the Singapore dollar and US dollar during the period. As of December 31, 2008, the amount of our net foreign currency denominated monetary assets was RMB330.4 million, of which net monetary assets equivalent to RMB37,000 were denominated in US dollars and the rest in Singapore dollars; and
- an increase in allowances for doubtful debts by RMB11.3 million. The increase was primarily due to provisions for receivables from certain customers facing financial difficulties.

Distribution expenses

Our distribution expenses increased by RMB2.9 million, or 32.3%, from RMB8.9 million in 2007 to RMB11.8 million in 2008. The increase was due mainly to increases in after sales expenses of RMB1.7 million and salaries and staff costs of RMB1.1 million. We incurred more after sales expenses due to the increase in our business activities, our undertaking of more industrial projects, and our increased effort to provide comprehensive after sales services to our customers, such as on-site training and follow-up visits. We incurred increased salaries and staff costs primarily due to an increase in headcount in our sales and marketing department as a result of our increased business activities.

Research and development expenses

Our research and development expenses increased by RMB1.3 million from 2007 to 2008. The increase was in line with the increase in our business operations and in respect of improvements and refinements we made to our operating process.

Administrative expenses

Our administrative expenses increased by RMB13.5 million, or 81.4%, from RMB16.6 million in 2007 to RMB30.1 million in 2008. The increase was mainly attributable to the following:

- increases in salaries and related welfare costs of RMB9.7 million. The increase was due in part to an increase in our headcount partly due to the acquisition of our subsidiary, Hi-Standard. The acquisition of Hi-Standard accounted for an increase of RMB1.3 million in our Group's salaries and related expenses; and

- an increase in professional fees of RMB4.1 million. The increase was primarily due to the expenses for a cancelled issue of convertible bonds in 2008.

Share of results of an associate

Our associate, Shanghai Chenghuan, contributed RMB0.5 million in 2008, as compared to RMB0.02 million in 2007. It gained profit from its economies of scale as it undertook more operations and maintenance work in 2008. Due to equity accounting of the share of our associate's profit, we accounted for the attributed share of the profit in our statement of comprehensive income.

Finance costs

Our finance costs increased by RMB3.2 million or 14.7% from RMB21.9 million in 2007 to RMB25.1 million in 2008. The increase was primarily due to the increase in interest expenses on bank borrowings driven partly by an increase in the bank borrowings of RMB43.7 million and a small increase in our average interest rate on borrowed funds.

Profit before income tax

As a result of the forgoing factors, our profit before income tax increased by RMB40.9 million, or 21.4%, from RMB191.1 million in 2007 to RMB232.0 million in 2008.

Income tax expense

Our income tax expense decreased by RMB0.4 million, or 1.3%, from RMB28.7 million in 2007 to RMB28.3 million in 2008 despite the increase in our profit before income tax of RMB40.9 million. This was primarily due to our lower effective tax rate of 12.2% in 2008, as compared to 15.0% in 2007. Our lower effective tax rate in 2008 was mainly due to the preferential tax treatment received by our PRC subsidiaries, Beijing Epure and Beijing Sound. The applicable tax rate for Beijing Epure in both 2007 and 2008 was nil. The applicable tax rate for Beijing Sound during the Track Record Period was 15%. Furthermore, net deferred tax assets of RMB0.9 million were credited to our consolidated statement of comprehensive income in 2008, further reducing our income tax expense for the year.

Profit for the year and total comprehensive income and net profit margin

As a result of the foregoing factors, our profit and total comprehensive income for the year increased by RMB41.3 million, or 25.4%, from RMB162.4 million in 2007 to RMB203.7 million in 2008. Our net profit margin decreased from 23.3% in 2007 to 19.9% in 2008.

LIQUIDITY AND CAPITAL RESOURCES

Prior to the Listing on the Stock Exchange, we funded our operations principally through cash flow from our operating activities, bank borrowings, proceeds from our initial public offering in Singapore and from private offerings of our debt and equity securities. Our principal liquidity and capital requirements relate to the following:

- investments in our BOT and other similar projects;
- costs and expenses related to the operation of our water and wastewater treatment business and facilities; and
- capital expenditures for the purchase of property, plant and equipment.

Our EPC projects (excluding the construction phase of our BOT projects) are typically not capital intensive. After we enter into contracts with a customer, we normally would require the customer to make an advance payment of approximately 15% to 25% of the contract price and make progress payments on the basis of the percentage of completion and milestones set forth in the contract. We then enter into sub-contracting contracts with our sub-contractors, who are typically responsible for the completion of the relevant parts of the construction and installation work. We usually tie the timing and amount of our payments to sub-contractors to the payments received from our customers. Thus, payment to our sub-contractors is usually made after we receive our customers' payment and the amount paid out is normally not larger than the amount we receive. The working capital required for our EPC projects is no more than the difference between these two amounts if we pay our sub-contractors before receiving the corresponding payment from our customers. We usually fund the capital needs of our EPC projects, if any, with the cash flow from our operating activities and short-term bank borrowings.

However, we require significantly larger capital outlays for the construction portion of our BOT projects. Although we recognize revenue during the construction phase of a BOT project, we typically receive no advance payment or progress payment from our customer during this phase. Instead, we receive regular, usually monthly, payments from our customers after the water or wastewater treatment facilities commence operation, which is after the completion of the construction phase and testing of the constructed facilities, which typically lasts six to 24 months. As a result, the construction cash outflow we incur can only be settled against tariff payments which occur in installments over the concession period, which can be up to 30 years. The estimated investment amounts of our existing BOT projects range from RMB36.1 million to RMB151.0 million per project. As a result, we will need to finance these projects with long-term bank borrowings or advance payments from the local governments in addition to the proceeds from public offerings or private placements of our securities. As part of our growth strategy, we plan to expand our BOT business substantially and obtain substantial financing from various sources, the amount of which will depend on the sizes of the projects we plan to undertake and the amount of bank borrowings we are able to secure. A significant part of our financing needs is expected to be met from the net proceeds from the Issue of Convertible Bonds and our long-term bank borrowings.

Summary of Cash Flow Movements

The following table is a condensed summary of our consolidated statements of cash flow for the periods indicated:

	Year ended December 31,			Three months ended March 31,	
	2007	2008	2009	2009	2010
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000) (unaudited)	(RMB'000)
Net cash generated from operating activities	120,815	188,057	391,684	46,047	18,376
Net cash generated from (used in) investing activities	69,720	(152,174)	297,803	100,572	29,525
Net cash generated from / (used in) financing activities	265,691	(24,269)	(225,661)	(132,130)	(29,798)
Net increase in cash and cash equivalents	456,226	11,614	463,826	14,489	18,103
Cash and cash equivalents at beginning of year	**306,195**	**761,405**	**772,988**	**772,988**	**1,237,698**
Effect of translation of foreign exchange rate changes	(1,016)	(31)	884	(16,793)	95
Cash and cash equivalents at end of year	**761,405**	**772,988**	**1,237,698**	**770,684**	**1,255,896**

Net cash generated from operating activities

In 2007, the net cash generated from operating activities was RMB120.8 million. This comprised operating cash flows before movements in working capital of RMB194.1 million adjusted for net working capital outflow of RMB47.7 million and income tax paid of RMB25.6 million. The net working capital outflow was primarily due to an increase in trade and other receivables of RMB139.8 million and amounts due from customers for contract work of RMB22.6 million and a decrease in amounts due to customers for contract work of RMB5.7 million, which was the amount of advance payments from our customers in excess of our progress billings. This was partially offset by an increase in trade and other payables of RMB120.2 million. The increase in trade and other receivables, amounts due from customers for contract work and trade and other payables was due to the increase in our business activities. The decrease in amounts due to customers for contract work was due to a decrease in the amount of work to be completed for our customers relative to the advance payments we received under the relevant contracts.

In 2008, the net cash generated from our operating activities was RMB188.1 million. This comprised operating cash flow before changes in working capital of RMB289.4 million, adjusted for net working capital outflow of RMB73.2 million and income tax paid of RMB28.2 million. The net working capital outflow was due mainly to an increase in amounts due from customers for contract work of RMB136.2 million, an increase in service concession receivables of RMB80.9 million and a decrease in trade and other receivables of RMB18.7 million, partially offset by an increase in trade and other payables of RMB104.4 million, a decrease in inventories of RMB2.8 million and an increase in amounts due to customers for contract work of RMB18.0 million. The increase in trade and other payables and amounts due to/from customers for contract work and trade and other receivables was due to the increase in our business activities. The decrease in our inventories was primarily due to our sale of customized equipment manufactured by Hi-Standard in 2008. The increase in our service concession receivables was primarily due to the acquisition and incorporation of Xi'an Qinqing, Xi'an Huqing and Guangxi Liqing in 2008.

In 2009, the net cash generated from operating activities was RMB391.7 million. This comprised operating cash flow before changes in working capital of RMB334.8 million, adjusted for net working capital inflow of RMB63.7 million, income tax paid of RMB13.0 million and income tax refunded of RMB6.3 million. The net working capital inflow was due mainly to decreases in trade and other receivables of RMB127.5 million, amounts due from customers for contract work of RMB29.9 million, inventories of RMB10.3 million and an increase in trade and other payables of RMB71.9 million, partially offset by an increase in service concession receivables of RMB175.9 million. The decrease in trade and other receivables and amounts due from customers were due to a higher percentage of these receivables that were collected from our customers in the second half of the year. The inventory decreased as Hi-Standard completed a substantial portion of its contracted work and shipped all of its finished equipment to its customers by the end of the year. The increase in trade payables was primarily due to our increased investment in BOT projects. The service concession receivables increased significantly as the number of BOT projects that we recognized revenue from increased to seven by the end of the year, and more revenue was recognized during the year from the construction of these projects.

For the three months ended March 31, 2010, the net cash generated from operating activities was RMB18.4 million. This comprised operating cash flow before changes in working capital of RMB54.5 million, adjusted for net working capital outflow of RMB35.4 million and income tax paid of RMB0.6 million. The net working capital inflow was due primarily to a decrease in trade and other payables of RMB38.8 million and an increase in service concession receivables of RMB17.9 million partially offset by decrease of amounts due from contract customers of RMB36.8 million. The decrease in trade and other payables was due to our faster payment. The increase in service concession receivables was due to the accumulation of EPC portion of our BOT projects.

Net cash generated from/used in investing activities

In 2007, the net cash inflow generated from our investing activities was RMB69.7 million, which was mainly due to our withdrawal of RMB150.0 million deposited with a PRC trust company and interest received of RMB21.4 million, partially offset by an increase in restricted bank balances of RMB60.2 million and our payment of RMB27.2 million to a minority interest for an additional interest in a subsidiary and payment for our acquisition of available for sale investments of RMB9.6 million and purchases of property, plant and equipment of RMB3.8 million. We received additional interest income as a result of the high interest rate of 7.35% on RMB150.0 million we deposited with a PRC trust company in 2007. Our restricted bank balances increased due to the higher bank balances pledged as collateral in respect of a higher level of RMB bank borrowings in the PRC. We made payments to minority interest shareholders for an additional interest in a subsidiary due to our acquisition of 25% in Beijing Sound Environmental Engineering Co., Ltd. from minority shareholders in 2007. Our available for sale investments were in unlisted equity shares issued by private entities in the PRC. Additionally, we purchased more property, plant and equipment in line with our business growth.

In 2008, the net cash flow used in our investing activities was RMB152.2 million. The outflow was primarily due to the net cash used for the acquisition of subsidiaries of RMB189.3 million in respect of the acquisition of Hi-Standard, Xi'an Huqing and Xi'an Qinqing and purchases of property, plant and equipment of RMB1.1 million, partially offset by a decrease in restricted bank balances of RMB26.7 million, interest received of RMB10.0 million and proceeds from the disposal of available for sale investments of RMB1.5 million. We purchased Hi-Standard for RMB208.0 million. We purchased the remaining 82% interest in Xi'an Huqing and Xi'an Qinqing for an aggregate amount of RMB16.4 million. After netting cash and cash equivalents acquired and available for sale investments disposed of, our total related cash outflow amounted to RMB189.3 million for the acquisitions. We also purchased more office equipment in line with our increased business activities and our restricted bank balances decreased as we repaid certain secured bank loans.

In 2009, the net cash flow generated from our investing activities was RMB297.8 million. The inflow was primarily due to the decrease in restricted bank balances of RMB297.3 million and interest received of RMB3.8 million, partially offset by payment for the acquisition in 2009 of available for sale investment of RMB2.7 million and the purchase of property, plant and equipment of RMB0.5 million. The decrease in our restricted bank balances was due to the reduction in the amount of our bank loans borrowed with restricted bank balances pledged as collaterals against loans in the PRC. Our available for sale investment represented our investment in an unlisted equity interest in a BOT wastewater treatment project in Langzhou, Gansu Province, the PRC, which we disposed of before the end of 2009. As of December 31, 2009, the consideration was still not yet settled and thus was included in trade and other receivables.

For the three months ended March 31, 2010, the net cash generated from our investing activities was RMB29.5 million. The inflow was primarily due to the decrease in restricted bank balances of RMB25.7 million, the disposal of available-for-sale investments of RMB2.7 million and interest received of RMB1.3 million. The decrease in our restricted bank balances was due to the reduction in the amount of our bank loans borrowed which were subject to restricted bank balances pledged as collateral against such loans in the PRC.

Net cash generated from / used in financing activities

In 2007, the net cash flow from our financing activities was RMB265.7 million. The inflow was primarily due to the proceeds on an issue of Shares of RMB327 million and from new bank borrowings raised of RMB257.9 million, offset by the repayment of bank borrowings of RMB287.9 million, interest paid of RMB21.9 million and payments of share issue expenses of RMB9.4 million.

In 2008, the net cash flow used in our financing activities was RMB24.3 million. The outflow was primarily due to our repayment of bank borrowings of RMB1,042.4 million, payment of dividends of RMB43.8 million and payment of interest of RMB25.1 million, offset by proceeds from new bank borrowings raised of RMB1,087.1 million. We repaid some of our bank borrowings as they became due within the year and obtained new bank borrowings to restore our working capital to the level before our repayment of the matured indebtedness. Our interest paid increased as we paid more interest on our bank borrowings due to higher interest rates.

In 2009, the net cash flow used in our financing activities was RMB225.7 million. The outflow was primarily due to our repayment of bank borrowings of RMB730.3 million, payment of dividends of RMB47.4 million and payment of interest of RMB13.6 million, offset by new bank borrowings raised of RMB565.6 million. We paid the dividends and repaid our bank borrowings as we rolled over some short-term bank borrowings and more internally generated funds were available for our working capital.

For the three months ended March 31, 2010, the net cash flow used in our financing activities was RMB29.8 million. The outflow was primarily due to the payment of RMB45.0 million for the acquisition of Anyang Mingbo, payment of borrowings of RMB31.5 million and payment of interest of RMB3.5 million, partially offset by new bank borrowings of RMB50.2 million.

Inventory

Our inventory comprised finished goods, work in progress and raw materials. The inventory of Hi-Standard accounted for 97.1% and 93.0% of our total inventory, as of December 31, 2008 and 2009, respectively. The value of our inventory accounted for 1.1% and 0.6% of our total current assets as of the respective balance sheet dates.

The following table sets forth our inventory positions as of the balance sheet dates indicated:

	As of December 31,			As of March 31,
	2007	2008	2009	2010
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
Inventory				
Finished goods	—	1,083	—	134
Work in progress	—	10,505	25	446
Raw materials	478	10,275	11,518	16,015
Total	**478**	**21,863**	**11,543**	**16,595**

Our inventory was RMB0.5 million as of December 31, 2007. It was primarily due to the fact that we subcontracted most of our construction work and did not carry any significant inventory.

In 2008, our inventory increased by RMB21.4 million, from RMB0.5 million as of December 31, 2007 to RMB21.9 million as of December 31, 2008. The increase is primarily due to an increase of RMB10.5 million in work in progress and RMB9.8 million in raw materials. The increases in work in progress and raw materials were primarily due to the inventory of Hi-Standard as a result of our acquisition of Hi-Standard in July 2008.

In 2009, our inventory decreased by RMB10.3 million, or 47.2%, from RMB21.9 million as of December 31, 2008 to RMB11.5 million as of December 31, 2009. The decrease was primarily due to decreases of RMB10.5 million in work in progress and RMB1.1 million in finished goods, partially offset by a slight increase of RMB1.2 million in raw materials. Raw materials increased as Hi-Standard prepared for increased orders for its customized equipment. Our inventories decreased substantially as Hi-Standard completed a substantial portion of its contracted work and shipped all of its finished equipment to its customers by the end of the year. Inventories from our turnkey projects and services were not material as most of the construction work was sub-contracted to third parties.

For the three months ended March 31, 2010, our inventory increased by RMB5.1 million, or 43.8% from RMB11.5 million as of December 31, 2009 to RMB16.6 million as of March 31, 2010 due to increased in demand for equipment of Hi-Standard.

We did not experience any material impairment to our inventory, such as from slow moving or otherwise obsolete inventory, over the Track Record Period and thus did not provide for any inventory impairment allowance during the Track Record Period.

For the years ended December 31, 2007, 2008, 2009 and the three months ended March 31, 2010, the inventory turnover days for our Group were nil, 12, 5 and 9 days, and the inventory turnover days for Hi-Standard for the years ended December 31, 2008 and 2009 and the three months ended March 31, 2010 were 39, 31 and 70 days, respectively. Our inventory turnover days for our Group's and Hi-Standard's inventory were calculated as the ending inventory balances for the relevant period divided by the cost of sales for the period, multiplied by 365 days for our Group for 2007, 2008 and 2009 and 90 days for the three months ended March 31, 2010 and, for Hi-Standard, by 184 days for

2008 and 365 days for 2009 and 90 days for the three months ended March 31, 2010. Due to that fact that our acquisition of Hi-Standard occurred in July 2008, the number of days in 2008 for the purpose of calculating Hi-Standard's inventory turnover days was 184 days and the relevant period was from July 1, 2008 to December 31, 2008.

Our inventory turnover days for Hi-Standard decreased by eight days in 2009. The decrease was primarily due to the significantly lower inventory balance as of December 31, 2009.

Our inventory turnover days for Hi-Standard for the three months ended March 31, 2010 increased by 39 days for the three months ended March 31, 2010 to 70 days for the three months ended March 31, 2010 compared to 31 days for the year ended December 31, 2009 as we stocked more inventory in the first quarter of 2010 due to increased demand for our products.

Trade and Other Receivables

Our trade receivables represent primarily the balances due from our external customers, to whom certain credit terms are offered, net of allowance for doubtful debts. Our other receivables primarily include deposits for tendering bids for projects, bills receivables such as commercial drafts, advance payment to suppliers and sub-contractors, advances to staff for traveling and advances to branches for their working capital purposes.

The following table sets forth our trade and other receivables as of the indicated balance sheet dates:

	As of December 31,			As of March 31,
	2007	2008	2009	2010
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
Trade and Other Receivables				
Trade receivables	409,462	442,231	413,054	416,814
Allowance for doubtful debts	(8,315)	(19,569)	(47,995)	(47,995)
Total of Net Trade Receivables	**401,147**	**422,662**	**365,059**	**368,819**
Bills receivable	30,383	32,530	20,962	5,569
Bid and compliance deposits	34,891	21,267	4,777	13,654
Advance payments to suppliers and sub-contractors	2,182	18,439	17,573	17,297
Other receivables	1,734	11,296	13,412	15,450
Total	**470,337**	**506,194**	**421,783**	**420,789**

Included in the above amounts were amounts due from related companies/parties of RMB172.6 million, RMB117.6 million, RMB49.4 million and RMB24.9 million as of December 31, 2007, 2008 and 2009 and the three months ended March 31, 2010, respectively. These amounts were incurred because we undertook projects as a sub-contractor from the BSE Group and Sound Environmental Resources. The decreases in 2008, 2009 and the three months ended March 31, 2010 were attributed to our collection of these amounts from related companies/parties.

The trade receivables overdue but not impaired amounted to RMB65.4 million, RMB39.9 million, RMB128.5 million and RMB120.5 million, representing 13.9%, 7.9%, 30.5% and 28.6% of our total trade and other receivables as of December 31, 2007, 2008 and 2009 and the three months ended March 31, 2010, respectively. The amount overdue but not impaired for the three months ended March 31, 2010 was primarily due to (i) RMB50.5 million due from Beijing Hi-Standard Equipment Company for equipment sale and (ii) RMB43.2 million due from our state-owned enterprise and municipal government customers.

The overdue trade receivables of RMB50.5 million as of March 31, 2010 owed by Beijing Hi-Standard Equipment Company were due to payment delay from customers of Beijing Hi-Standard. In 2008, Hi-Standard entered into an agreement with Beijing Hi-Standard Equipment Company, under which Hi-Standard agreed to provide equipment to Beijing Hi-Standard Equipment Company for their equipment supply projects and Beijing Hi-Standard Equipment Company would pay Hi-Standard with payments it received from its customers. Beijing Hi-Standard Equipment Company experienced payment delays from its customers in the first quarter of 2010. We are working with Beijing Hi-Standard Equipment Company to collect payments from those customers. As of June 30, 2010, we had received RMB13.2 million from Beijing Hi-Standard Equipment Company in respect of its trade receivable which was overdue but not impaired as of March 31, 2010.

The overdue trade receivables of RMB43.2 million as of March 31, 2010 are owed by several state-owned enterprises and municipal governments. The overdue amounts were mainly due to longer payment periods and more internal procedures prior to payment. We normally grant longer credit periods, usually up to one year, to the customers in this category. We believe that the possibility of a default by a state-owned enterprise or a municipal government is minimal and our management made the judgment based on our experience that such receivables are not impaired. As of June 30, 2010, we had received RMB13.8 million from the customer in connection with the trade receivable overdue but not impaired as of March 31, 2010.

We previously categorized as trade receivables overdue but not impaired an amount of RMB20.4 million payable by a customer in the steel industry in Jilin province as of March 31, 2010. The amount was for the construction work we completed for the customer during 2008 and 2009. Primarily due to the change of its ownership and resulting corporate changes, the customer did not make the payments when they were due. After resuming its normal corporate activities in late 2009, the customer agreed to pay us the full amount pursuant to a payment plan. We thus granted the customer an extended credit period of 540 days. As of December 31, 2009, the amount was not regarded as overdue until the above credit period expires. As of June 30, 2010, we had received RMB20.4 million from the customer in connection with the trade receivable overdue but not impaired as of March 31, 2010.

In 2008, our net trade receivables increased by RMB21.6 million, or 5.4%, from RMB401.1 million as of December 31, 2007 to RMB422.7 million as of December 31, 2008. The increase was primarily due to an increase of trade receivables of RMB32.8 million as a result of the increased business, offset by an increase in allowance for doubtful debts of RMB11.3 million.

In 2009, our net trade receivables decreased by RMB57.6 million, or 13.6 %, from RMB422.7 million as of December 31, 2008 to RMB365.1 million. The decrease was primarily due to a decrease in trade receivables of RMB29.2 million and an increase in allowance for doubtful debts of RMB28.4 million. We made a concerted effort to collect trade receivables from our customers in 2009 and reduced part of the balance by the end of the year.

For the three months ended March 31, 2010, our net trade receivables remained stable at RMB368.8 million compared to RMB365.1 million as of December 31, 2009.

The allowance for doubtful debts increased from 2.0% of our gross trade receivables as of December 31, 2007 to 4.4% as of December 31, 2008 and further to 11.6% as of December 31, 2009 and remained stable at 11.5% as of March 31, 2010. The increase in our allowance for doubtful debts in 2009 was due to the allowance we made for receivables owed by our customers facing financial difficulties due to the recent economic downturn and failing to make payments for the overdue receivables.

The net trade receivable turnover days were 210 days, 151 days, 103 days and 144 days in 2007, 2008 and 2009 and the three months ended March 31, 2010, respectively. The net trade receivables turnover days were calculated as the ending net trade receivable balances for the period, divided by revenue for the period, multiplied by 365 days for a year and 90 days for three months. The decrease of 52 days in 2008 and further decrease of 43 days in 2009 were primarily due to our careful monitoring of our trade receivables and continued debt-collection efforts as well as higher amounts of allowance for doubtful debt made during these periods. The increase of 41 days in net trade receivable turnover days for the three months ended March 31, 2010 was due to seasonality of our business.

The following table sets forth a summary of the age of our trade receivables net of allowance for doubtful debts and bills receivable as of the balance sheet dates indicated:

	As of December 31,			As of March 31,
	2007	2008	2009	2010
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
Net Trade Receivables				
Within 90 days	117,022	128,234	174,551	142,478
91 – 180 days	139,500	188,843	34,823	127,675
181 days – 1 year	79,181	66,665	46,445	39,719
1 to 2 years	61,052	38,920	92,703	57,947
2 to 3 years	4,392	—	16,537	1,000
Total	**401,147**	**422,662**	**365,059**	**368,819**
Bills Receivable				
0 – 180 days	30,383	32,530	20,962	5,569

In practice, we normally allow the customers purchasing the equipment manufactured by Hi-Standard a credit period of 90 days. For our other customers, including those for our turnkey and O&M projects and services, the credit period is based on the terms specified in the contracts governing the relevant transactions, subject to subsequent review. Certain customers of our construction services set forth their requested credit periods in their bidding documents. We do not have a uniform credit policy. The credit periods of individual customers are therefore considered on a case-by-case basis and may be influenced by the demands of customers or may be set forth in the relevant construction or service contracts, as appropriate. For those customers that are government authorities or large enterprises with good credit history, we usually agree to the granting of a longer credit period. The credit periods thus granted would normally range from 90 days to one year depending on the negotiated terms and subsequent review.

As of December 31, 2007, 2008 and 2009 and March 31, 2010, the net trade receivables within one year constituted 83.7%, 90.8%, 70.1% and 84.0% of our total net trade receivables, respectively. The receivables that are past due but not impaired included in our trade receivables are amounts overdue for which we have not provided for impairment loss as there has not been a significant change in credit quality and amounts are still considered recoverable. These amounts can be collected during the regular course of business in the reasonable judgment of our management. They are not secured by any collateral or credit enhancements.

In determining the recoverability of a trade receivable, we consider the change in the credit quality of the trade receivables from the date credit was initially granted up to the reporting date. We believe that there is no further credit provision required in excess of the allowance for doubtful debts. As of March 31, 2010, the majority of our net trade receivables that remained outstanding were still within their respective credit terms. Based on our customers' payment history and financial condition, we believe that the outstanding amounts will be paid in the ordinary course of our business.

Other Receivables

Our other receivables increased by RMB2.1 million from RMB11.3 million as of December 31, 2008 to RMB13.4 million as of December 31, 2009 and further increased by RMB2.1 million to RMB15.5 million as of March 31, 2010, primarily due to an increase in the VAT receivables for Hi-Standard and cash advances to employees and sales teams for out-of-pocket expenses that will be incurred and reimbursed in the ordinary course of business as our business operation increased rapidly since the second half of 2009. The time lag in reimbursements and expenses was due to the slower business activities in the first half of the year, which were attributed to extended national holidays and winter weather unsuitable for construction activities during this period. The claims for these expenses were normally processed before the year end.

Amounts due from Customers for Contract Work

Amounts due from customers for contract work refer to the amount of contract costs incurred plus recognized profit less recognized loss related to our EPC projects (excluding the construction phase of our BOT projects) in excess of the amount of progress billings, including the amounts retained by our customers for contract work during the relevant warranty periods. We usually provide a one-year warranty period for our EPC projects and allow customers to retain up to 5%, or up to 10% in some cases, of the contract price until the expiration of the relevant warranty period. As of December 31, 2007, 2008 and 2009 and March 31, 2010, the amounts retained by our customers for contract work amounted to RMB57.0 million, RMB68.0 million, RMB46.4 million and RMB69.5 million, respectively.

As of December 31, 2007, 2008 and 2009 and the three months ended March 31, 2010, the amount due from our customers for contract work was RMB120.8 million, RMB237.2 million, RMB227.1 million and RMB190.3 million, respectively, accounting for 6.8%, 12.4%, 11.5% and 9.9% of our current assets as of the above balance sheet dates, respectively. The amount due from our customers for contract work increased by RMB116.4 million, or 96.3% in 2008, to RMB237.2 million as of December 31, 2008, but decreased by RMB10.1 million, or 4.3%, to RMB227.1 million as of December 31, 2009. The amount due from our customers for current contract work decreased by RMB36.8 million, or 16.2% from RMB227.1 million as of December 31, 2009 to RMB190.3 million as of March 31, 2010. The increase in 2008 was primarily due to the increase in our projects under construction and the amount of work completed before the applicable milestones for progress billings were reached. The decrease in 2009 and the three months ended March 31, 2010 was due to more progress billings made relative to the amount of work completed.

For our turnkey projects and services, we generally invoice our customers according to the milestones for installment payment in the relevant construction contracts on the basis of the percentage of completion. After each milestone is agreed to have been reached by our customers, we demand payments for the agreed portion of the contract prices.

Trade and Other Payables

The following table sets forth our trade and other payables as of the indicated balance sheet dates:

	As of December 31,			As of March 31,
	2007	2008	2009	2010
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
Trade and Other Payables				
Trade Payables	225,466	426,140	510,091	487,552
Other payables	11,260	18,107	27,180	33,156
Bid and compliance deposits	11,876	13,490	12,468	11,405
Advance from customer	—	5,734	3,028	1,029
Bills payables	—	—	28,266	4,903
Value added tax payables	13,849	32,140	53,335	52,366
Business tax payables	26,144	47,712	67,969	72,516
Other tax payables	1,033	1,639	3,131	3,799
Total	**289,628**	**544,962**	**705,468**	**666,726**

Included in the above amounts were other payables to related companies/parties of RMB0.03 million, nil, RMB1.8 million and RMB0.8 million as of December 31, 2007, 2008 and 2009 and March 31, 2010, respectively. The amounts due to related parties were unsecured, interest-free and repayable on demand.

Our trade payables increased by RMB200.7 million, or 89.0%, to RMB426.1 million as of December 31, 2008, and further by RMB84.0 million, or 19.7% to RMB510.1 million as of December 31, 2009, primarily due to the increase in our business activities. Our trade payables decreased by RMB22.5 million, or 4.4% as of March 31, 2010 due to faster payment made in the first quarter of 2010. As of December 31, 2008, our trade payables also included the trade payables of RMB59.2 million of Hi-Standard, which was acquired by us in 2008. The increase in 2009 was also due to slower payments to our sub-contractors and suppliers as a result of our substantial investments in BOT projects using our internally generated funds. The increase of trade payables over one year in

2009 from 2008 was primarily due to our acquisition of Hi-Standard in 2008 which had a significant amount of trade payables over one year as it is a manufacturing business.

The turnover days for our trade payables on cost of sales were 174 days, 225 days, 203 days and 271 days for 2007, 2008 and 2009 and the three months ended March 31, 2010, respectively. The turnover days for our trade payables were calculated as the ending trade payables for the period, divided by the cost of sales in the period, multiplied by 365 days for a one-year period and 90 days for a three-month period. The turnover days increased by 51 days in 2008 due to our large cash outlay for our investments in BOT projects in 2008 and understandings reached with our sub-contractors to make payments to them after our receipt of payments from our customers in connection with the sub-contracted work. The decrease of 22 days in 2009 was due to the faster payments to our sub-contractors and suppliers as we also collected payments faster from our customers, as a result of our effort to balance our collection and payment. The increase of 68 days for the three months ended March 31, 2010 was due to the seasonality of our business.

The following table sets forth a summary of the age of our trade payables as of the balance sheet dates indicated:

	As of December 31,			As of March 31,
	2007	2008	2009	2010
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
Trade Payables				
Within 90 days	102,720	166,609	218,062	159,420
91 days to 180 days	73,609	102,418	104,120	118,905
181 days to 1 year	30,557	68,658	46,511	76,164
Over 1 year	18,580	88,455	141,398	133,063
Total	**225,466**	**426,140**	**510,091**	**487,552**

As of December 31, 2007, 2008 and 2009 and March 31, 2010, the trade payables within one year constituted 91.8%, 79.2%, 72.3% and 72.7% of the total net trade payables, respectively.

Credit terms from our sub-contractors and/or suppliers may vary depending on the terms in the relevant contracts. The average credit period for purchases of goods is 120 days. There is no uniform standard credit period we receive from our sub-contractors. Following a generally accepted practice in our industry in the PRC, we generally reach an understanding with our sub-contractors about the payment schedule, which is often contingent upon the payment schedule we negotiate with our customers. Our payments to our sub-contractors are often made after we receive the payments from our customers in connection with the sub-contracted work. As such, we generally negotiate credit periods with our sub-contractors on the basis of the credit periods agreed with our customers and attempt to match our payments to sub-contractors and suppliers with the payments we receive from our customers.

Amounts due to Customers for Contract Work

Amounts due to customers for contract work represent primarily the amount of progress billings in excess of the total amount of the contract costs incurred plus recognized profit less recognized loss. The amounts due to our customers for contract work were RMB6.3 million, RMB24.3 million, RMB24.3 million and RMB15.5 million, accounting for 1.0%, 2.5%, 2.6% and 1.7% of our current liabilities as of December 31, 2007, 2008 and 2009 and March 31, 2010, respectively.

In 2008, our amounts due to customers for contract work increased by RMB18.0 million, or 285.3%, from RMB6.3 million as of December 31, 2007 to RMB24.3 million as of December 31, 2008. The increase was primarily due to an increase in the amount of work to be completed for our customers relative to the advance payments we received as a result of an increased number of new projects. The increase in the amount due to our customers for contract work during the Track Record Period was in line with our business growth.

Our amounts due to customers for contract work remained almost unchanged at RMB24.3 million as of December 31, 2009.

Our amounts due to customers for contract work decreased by RMB8.8 million, or 36.2% to RMB15.5 million as of March 31, 2010 compared to RMB24.3 million as of December 31, 2009 as a number of our projects had progressed beyond the initial stages when we could receive advance payments. Due to the less amount of advance payments we received, our amounts due to customers for contract work decreased after the relevant construction work commenced.

WORKING CAPITAL

Taking into account our available credit facilities and our operating cash flow, our Directors are of the opinion that we have sufficient working capital for our present requirements and for at least the next 12 months from the date of this Listing Document.

NET CURRENT ASSETS

Details of our current assets and liabilities at each of the indicated balance sheet dates are as follows:

	As of December 31,			As of March 31,	As of July 31,
	2007	2008	2009	2010	2010
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000) (unaudited)
Current assets					
Bank balances and cash	761,405	772,988	1,237,698	1,255,896	1,395,508
Restricted bank balances	418,647	369,481	72,208	46,476	26,216
Trade and other receivables	470,337	506,194	421,783	420,789	463,509
Amounts due from customers for contract work	120,846	237,233	227,089	190,290	197,706
Inventories	478	21,863	11,543	16,595	19,315
Land use rights	63	1,158	1,158	1,158	1,158
Total current assets	**1,771,776**	**1,908,917**	**1,971,479**	**1,931,204**	**2,103,412**
Current liabilities					
Bank borrowings-due within one year	347,920	391,662	178,700	195,200	190,700
Trade and other payables	289,628	544,962	705,468	666,726	835,123
Amounts due to customers for contract work	6,310	24,311	24,264	15,470	2,353
Tax payables	8,825	9,970	14,598	20,464	23,961
Total current liabilities	**652,683**	**970,905**	**923,030**	**897,860**	**1,052,137**
Net current assets	**1,119,093**	**938,012**	**1,048,449**	**1,033,344**	**1,051,275**

As of July 31, 2010, being the most recent practicable date for our net current assets/liabilities position before Listing, we had net current assets of RMB1,051.3 million.

Restricted Bank Balances

Our restricted balances were RMB418.6 million, RMB369.5 million, RMB72.2 million and RMB46.5 million as of December 31, 2007, 2008 and 2009 and March 31, 2010. In 2007 and 2008, our restricted bank balances were primarily deposits in our Singapore banks pledged to financial institutions to secure bank borrowings lent to our subsidiaries in the PRC. Such balances would be released after the borrowings secured by the balances were repaid in the PRC. From 2009, we increasingly relied on our internally generated funds and PRC local bank borrowings for our RMB working capital purposes and thus relied less on using our bank deposits in Singapore as collateral for obtaining bank borrowings in the PRC.

Amounts due from/to related parties

The following table sets forth our amounts due from/to related parties as of the balance sheet dates indicated:

	As of December 31,			As of March 31,
	2007	2008	2009	2010
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
Trade receivables	172,554	117,576	49,388	24,907
Trade payables	300	—	—	2
Other receivables	21,318	9,316	3,064	354
Other payables	33	—	1,767	805
Amounts due from customers for contract work	50,525	125,510	26,723	17,921
Amounts due to customers for contract work	—	8,150	20,547	14,065

Unless otherwise stated, the balances are unsecured, interest free and repayable on demand.

Trade receivables and amounts due from/to customers for contract work arose primarily from the provision of services to members of the BSE Group and Sound Environmental Resources and its subsidiaries. The principal business of Beijing Sound Enviro and its subsidiaries (including for these purposes Sound Environmental Resources and its subsidiaries) is investment and operation of environmental protection projects. We provided construction and installation services and equipment to them in respect of 14 turnkey projects during the Track Record Period. Trade payables to related parties pertained to our payables to Shanghai Chenghuan, our associate in which we own a 20% interest and the trade payables arose primarily from the sub-contracting work our associate did for us. Other receivables/payables were primarily advance payments to/from the related parties for projects to be undertaken by related parties/our Group.

SERVICE CONCESSION RECEIVABLES FROM BOT PROJECTS

Service concession receivables are recognized based on the construction revenue and ancillary cash outflows such as land use rights in connection with the construction phase of our BOT projects. As of December 31, 2008 and 2009 and March 31, 2010, our service concession receivables were RMB230.2 million, RMB415.7 million and RMB438.2 million, respectively. As of the Latest Practical Date, we had 11 BOT projects of which three had commenced commercial operation. We expect our service concession receivables to increase materially in the future as we undertake an increased number of BOT projects.

For each of our BOT projects, we are paid regular, usually monthly, tariff amounts by the relevant customer once the facility is operational, based on the contractually agreed tariff rate and the actual volume of water treated, which is subject to a guaranteed minimum volume equivalent payment. We generally do not receive payments from our customers during the construction phase of these projects except for two such projects, Shaanxi Shangluo City Wastewater Treatment Projects and Shaanxi Yulin City Jingbian County Wastewater Treatment Project. In accordance with IFRS, we recognize revenue from these projects both during the construction phase and during the operational phase. During the construction phase, we recognize revenue on the percentage of completion basis.

This revenue is recorded under our turnkey projects and services segment. The amount recognized from the construction phase is then also accounted for as a service concession receivable along with certain ancillary cash outflows such as land use rights, which is to be settled against the cash tariffs received and other payments received related to the relevant BOT project. The service concession receivables recognized are subsequently settled during the entire concession period of the relevant BOT project. The payment we receive after the facility is in operation is allocated between operational revenue and the settlement of the service concession receivables. The total revenue we recognized from the construction phase of our BOT projects amounted to RMB66.4 million, RMB163.8 million and RMB14.1 million in 2008, 2009 and for the three months ended March 31, 2010, respectively.

Our balance of service concession receivables of RMB503.4 million as of June 30, 2010 reflected primarily (i) RMB98.7 million of service concession receivables recorded upon acquisition of Shaanxi Xi'an City Chang'an District Wastewater Treatment Project and Shaanxi Xi'an City Hu County Wastewater Treatment Project from Beijing Sound Enviro in 2008 and RMB50.6 million upon the acquisition of Anyang Mingbo; (ii) RMB66.4 million, RMB163.8 million and RMB62.3 million of revenue recognized from the construction phase of our BOT projects in 2008, 2009 and the six months ended June 30, 2010, respectively; (iii) RMB18.7 million for the imputed interest on service concession receivables; and (iv) RMB57.1 million for miscellaneous payments, including RMB19.1 million for land costs and value added taxes. The above amounts were offset by RMB13.5 million of advance payments received from local governments.

The aggregate amount allocated from the tariff payments we received as of June 30, 2010 to settle against the service concession receivables as of March 31, 2010 was RMB0.8 million.

CAPITAL EXPENDITURES

Our major capital expenditures comprise additions to property, plant and equipment. The purchase of such assets was financed mainly by funds generated from operations and short-term bank loans. The following table sets forth our capital expenditures for the years ended December 31, 2007, 2008 and 2009 and the three months ended March 31, 2010:

	Year ended December 31,			Three months ended March 31,
	2007	2008	2009	2010
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
Capital Expenditures During the Track Record Period				
Property, plant and equipment	3,766	1,124	563	227

During the Track Record Period, our capital expenditures were incurred primarily for the purchase of office and manufacturing equipment. In 2009 and the three months ended March 31, 2010, we made less purchases as most of our existing equipment was in working condition and could meet most of our business needs. The cash payments we made during the construction phase of our BOT projects were accounted for as cost of sales or service concession receivables. We thus recorded no capital expenditures related to our BOT projects.

OPERATING LEASE ARRANGEMENTS

Our operating lease arrangements as of March 31, 2010 are set forth as follows:

	Payment due by period		
	Total	Within 1 year	2-5 years
	(RMB'000)	(RMB'000)	(RMB'000)
Operating lease arrangements	3,302	2,002	1,300

INDEBTEDNESS

As of July 31, 2010, being the latest practicable date for the purpose of the indebtedness statement contained in this Listing Document, we had outstanding unsecured borrowings from a third party of approximately RMB2.0 million and bank borrowings of approximately RMB237.7 million, of which RMB208.5 million were secured by fixed charges on certain of our assets, including properties, land use rights, trade receivables, charging rights under the service concession contract and bank balances.

Our Group's banking facilities are also secured by personal guarantees given by a director. It is expected that the guarantees will be released upon the Listing.

The maturity profile of borrowings as of the latest practicable date for the purpose of the indebtedness statement contained in this Listing Document is as follows:

	As of July 31, 2010
	(RMB'000) (unaudited)
Borrowings	
Within one year	190,700
After one year but within two years	10,700
After two years but within five years	38,300
More than five years	—
Total	239,700

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, our Group did not have outstanding as of July 31, 2010 any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptable credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities.

Our borrowings were denominated principally in Renminbi, with a small portion denominated in Singapore dollars for 2008. The following table sets forth our outstanding borrowings as of December 31, 2007, 2008 and 2009 and March 31, 2010:

	As of December 31,			As of March 31,
	2007	2008	2009	2010
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
Bank Loans				
— secured	337,920	351,615	195,800	214,500
— unsecured	10,000	40,047	29,200	29,200
— Other borrowings	—	—	2,000	2,000
Total	**347,920**	**391,662**	**227,000**	**245,700**
— current bank borrowings	347,920	391,662	178,700	195,200
— non-current bank borrowings	—	—	48,300	50,500
Total	**347,920**	**391,662**	**227,000**	**245,700**

Our current bank borrowings are our bank loans payable within one year and the current portion of our long term bank loans payable within one year. During the Track Record Period, most of our bank borrowings were fixed-rate loans, which accounted for 54.6%, 89.8%, 41.7% and 44.6% of our total bank borrowings as of December 31, 2007, 2008 and 2009 and March 31, 2010, respectively. Our variable-rate bank borrowings outstanding as of December 31, 2008 were denominated in the Singapore dollar and carried an interest rate of 2.5% plus the swap offer rate determined by the Development Bank of Singapore. The weighted average interest rate per year applicable to our fixed-rate bank borrowings was 5.49%, 6.52%, 5.31% and 5.26% per annum, as of December 31, 2007, 2008 and 2009 and March 31, 2010, respectively. The weighted average interest rate applicable to our variable-rate bank borrowings was 5.57%, 3.40%, 5.32% and 5.77% per annum as of December 31, 2007, 2008 and 2009 and March 31, 2010, respectively.

The maturity profile of our interest-bearing borrowings as of each of the balance sheet dates during the Track Record Period is as follows:

	As of December 31,			As of March 31,
	2007	2008	2009	2010
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
Bank Loans				
Within one year	347,920	391,662	178,700	195,200
After one year but within two years	—	—	6,000	6,200
After two years but within five years	—	—	39,100	43,100
More than five years	—	—	3,200	1,200
Total	**347,920**	**391,662**	**227,000**	**245,700**

We obtained long term bank borrowings to fund our BOT projects. As of July 31, 2010, being the latest practicable date for the purpose of the indebtedness statement contained in this Listing Document, we had entered into long term amortization loans with several PRC banks for two of our BOT projects with an amortization schedule of five to six years. The project loans were secured by pledging either our concession rights or our rights to future tariff payments in relation to the relevant BOT projects. Pursuant to an approval letter from the relevant bank's credit committee in relation to one project loan in the amount of RMB49 million, the actual loan agreement to be entered into between the bank and the relevant project company shall include a covenant that such project company is prohibited to pay dividends before full repayment. Our Group's project loans are also secured by personal guarantees given by certain director. The guarantees will be released upon Listing.

On May 28, 2010, we entered into an amortization loan of US$34 million with a term of up to 2019 with the IFC for the purpose of funding the four BOT projects carried out by Anyang Mingbo, Guangxi Liqing, Hancheng Yiqing, and Fushun Qingxi (the "**Borrower Companies**"). Under the IFC loan agreement and the supplemental agreements, including the equity interest pledge agreements and shareholder loan agreements, we pledged to IFC our equity interests in Beijing Epure, Guangxi Liqing, Fushun Qingxi and Sound International Investment Holdings Limited (BVI). We also agreed that we would, in future, pledge the shares of any intermediate holding company that may become a direct or indirect owner of the equity interests in Anyang Mingbo and/or Hancheng Yiqing. We intend to make loans and advances to our BOT project companies for these BOT projects in the form of shareholder loans from us to these four BOT project companies. Under the IFC loan agreement, we are required to provide to IFC within 60 days of the date of the loan agreement the insurance certificates for these four BOT projects with regard to their construction/expansion phase and the ongoing/operational phase, covering all risks relating to construction, marine cargo (including marine and inland transit and transportation), professional indemnity, fire and named perils or all risks, business interruption, third party liability, and any other insurance required by local legislation. The IFC shall be named as an additional named insured or loss payee under the insurance policies. If at any time and for any reason any insurance required to be maintained is not maintained in full force and effect, IFC is entitled to procure such insurance at our expense. As a term of the loan, we are also required to maintain our listing on the main board of the SGX-ST, the Stock Exchange, London Stock Exchange, New York Stock Exchange or any other stock exchange agreed in writing by IFC. In addition, the IFC loan agreement contains affirmative covenants with respect to, among others, use of proceeds, environmental matters and existing project company indebtedness and restrictive covenants with respect to, among others, certain capital expenditure for fixed assets, fund raising or leasing activities by the Borrower Companies and financial covenants discussed below. Furthermore, we are required to prepay the outstanding loan together with accrued interest under certain circumstances including, among others, any voluntary, optional or mandatory prepayment or repurchase or reacquisition for value of any financial debt, any sale or disposition of assets relating to any of these four BOT projects, failure to meet certain financial ratios (including the financial debt to EBITDA ratio, the financial debt to equity ratio, the liabilities to tangible net worth ratio and the current ratio), or if Mr. Wen ceases to hold a certain percentage of shareholding in our Company or other events relating to change of control. Mr. Wen has given us an undertaking that he would not decrease his shareholding in our Company to the extent that it would trigger an early repayment of the IFC loan under the terms of the loan. If we are unable to comply with the covenants or restrictions contained in our bank loans or other indebtedness, IFC may declare all amounts outstanding under the loan agreement to be due and payable. Please refer to the sections headed "Financial Information — Disclosure Required Under Rules 13.13 to 13.19 of the Listing Rules" and "Risk Factors — If we are unable to comply with the covenants or restrictions contained in our bank loans, banks could declare all amounts outstanding under these bank loans to be due and payable, which could materially adversely affect our financial condition" for further details.

As of June 30, 2010, our Group had a total unutilized banking facilities of RMB248.1 million.

As of July 31, 2010, being the latest practicable date for the purpose of the indebtedness statement contained in this Listing Document, our Group had a total unutilized banking facilities of RMB248.1 million. We had approximately RMB0.8 million unutilized short term banking facilities (with maturities of less than one year) and approximately RMB232.6 million unutilized long term banking facilities (with maturities of more than one year). In March 2010, we entered into a revolving credit facility agreement with HSBC for a five-year revocable bank facility of RMB54.2 million, of which approximately RMB14.7 million remained unutilized as of July 31, 2010. HSBC can unilaterally revoke the credit facility and ask for immediate repayment at any time.

In March 2010, we entered into a strategic cooperation agreement with China Merchants Bank for an indicative credit line of up to US$600 million for a term of three years, which shall be extended automatically if neither party serves a termination notice within three days prior to the expiry of the term. The actual loan amount will be determined on a case by case basis and each application made by us for a loan under the strategic cooperation agreement will require separate lending approval from China Merchants Bank. We may not be able to secure the required approvals when we seek to borrow under the credit line. We also have entered into a non legally-binding memorandum of understanding with IFC in respect of a possible further loan of up to US$36 million. Any such further loan would be subject to relevant credit approvals being obtained and the entering of legally binding documentation. However, there is no assurance that we will be able to secure such additional loan from IFC. Please refer to the sections headed "Risk Factors — Our indebtedness or an inability to borrow additional amounts or refinance our debt could adversely affect our results of operations and financial condition and prevent us from fulfilling our financial obligations and business objectives" and "Risk Factors — If we are unable to comply with the covenants or restrictions contained in our bank loans, banks could declare all amounts outstanding under these bank loans to be due and payable which could materially adversely affect our financial condition" for further details.

We expect that our long term bank loans will increase significantly as we expand our BOT business and invest in BOT projects. Our BOT projects have concession terms of up to 30 years. Depending on the term of the loans and our ability to pay down the loans, we may seek refinancing towards the end of the loan term. In addition, pursuant to applicable regulations, banks in the PRC may only provide loans for an amount of up to 80% of the total project investment, with the balance required to be funded from our internal resources. On September 15, 2010, we issued an aggregate principal amount of RMB885 million US dollar settled convertible bonds, including an upsize option of RMB205 million of such convertible bonds. The Convertible Bonds bear interest at the rate of six per cent. per annum, payable semi-annually in arrear in March and September of each year. Our Convertible Bonds are convertible at the option of the bondholders, at any time, during the period beginning on and including the Bonds Issue Date, being October 25, 2010, until the close of business on the date which is the 7^{th} day prior to the date falling five years from the Bonds Issue Date (both days inclusive), unless previously redeemed or purchased and cancelled.

Please refer to the section headed "Business — Our Water and Wastewater Treatment Business — Our BOT Business — Business process for our BOT Projects — Project Financing" for further details on how we have financed and expect to finance our BOT projects.

OFF-BALANCE SHEET COMMITMENT AND ARRANGEMENTS

We do not have any off-balance sheet commitments or arrangements as of May 15, 2010, being the most recent practicable date such information is available to us.

CONTINGENT LIABILITIES

As of the Latest Practicable Date, we did not have significant contingent liabilities. We are currently not involved in any material legal proceedings, nor are we aware of any pending or potential material legal proceedings involving us.

SFRS FIRST SIX MONTH FINANCIAL INFORMATION

As a listed company in Singapore, we are required to publish quarterly unaudited interim financial information prepared in accordance with SFRS in compliance with the regulatory requirements of the SGX-ST. Because we released certain financial statements for the first six months of 2010 (including financial statements for the same period in 2009) prior to the date of this Listing Document, we have incorporated those SFRS financial statements, in condensed form, in this Listing Document. The financial statements, the unaudited condensed consolidated statement of financial position as of June 30, 2010 and the restated condensed consolidated statement of financial position as of December 31, 2009 and January 1, 2009 (as comparative figures) and unaudited condensed consolidated statement of comprehensive income for the six months ended June 30, 2010 and 2009, included in this Listing Document, have been derived from the unaudited consolidated financial information prepared in accordance with SFRS included in our report published on the website of the SGX-ST on August 10, 2010 and have been reviewed by our reporting accountants in accordance with Hong Kong Standard on Review Engagements 2410 "Engagements to Review Financial Statements". Please refer to Appendix II to this Listing Document headed "Unaudited Interim Financial Information" for more information.

There are certain differences between the IFRS and SFRS financial statements. Our directors consider the impact of differences between SFRS and IFRS on the profit of our Group for the six months ended June 30, 2010 and 2009, respectively, and on the total equity of the Group as of June 30, 2010 and 2009, respectively, prepared under SFRS and as compared to IFRS were minimal. Accordingly, no reconciliation has been prepared in this regard.

Following the Listing, we intend to publish our financial statements in accordance with IFRS.

Selected Condensed Financial Information

The selected condensed consolidated statements of comprehensive income for the six months ended June 30, 2009 and 2010 set forth below are derived from Appendix II to this Listing Document and are prepared in accordance with SFRS. You should read the following summary information in conjunction with Appendix II.

	Six months ended June 30,	
	2009	2010
	(RMB'000) (Unaudited and restated)	(RMB'000) (Unaudited)
Revenue	437,658	644,989
Gross profit	133,341	195,003
Profit before income tax	95,639	146,289
Profit for the period	95,639	120,097
Total comprehensive income	95,639	120,149

In January 2010, we completed our acquisition of Anyang Mingbo, with the acquisition of a 60% interest from Beijing Sound Enviro and the remaining 40% interest from a third party. The acquisition of Anyang Mingbo is regarded as a business combination under common control for the purpose of our financial statements. The condensed consolidated financial information was therefore prepared as if Anyang Mingbo had been our subsidiary since January 1, 2009. As a result, for the purposes of our interim financial statements, we also restated our condensed consolidated statements of comprehensive income for the six months ended June 30, 2009, condensed consolidated statements of financial position as of January 1, 2009 and December 31, 2009, and condensed consolidated statements of cashflow for the six months ended June 30, 2010 to reflect the effect of the acquisition on the basis of the above accounting treatment.

Our revenue increased from RMB437.7 million for the six months ended June 30, 2009 to RMB645.0 million for the same period in 2010 as we expanded our operations. The increase was primarily attributable to:

(i) An increase in revenue of RMB157.5 million recognized from our major EPC projects and the construction phase of our BOT projects as our business activities increased. The revenue we recognized from the construction phase of our BOT projects was RMB62.3 million for the six months ended June 30, 2010 compared to RMB57.8 million for the same period in 2009;

(ii) An increase in revenue of RMB44.0 million contributed by Hi-standard as a result of increased sales; and

(iii) Revenue of RMB1.7 million from our Hainan project, which started operation in the first quarter of 2010, and RMB4.1 million from the operational phase of our BOT projects, which revenue had been accounted for as revenue falling into our operation and maintenance segment. For the six months ended June 30, 2009, none of our BOT and O&M projects were operational and we therefore recorded no revenue under our operation and maintenance segment during the same period.

Our cost of sales increased from RMB304.3 million for the six months ended June 30, 2009 to RMB450.0 million for the six months ended June 30, 2010 as a result of our business expansion. Other expenses increased from RMB13.7 million to RMB25.1 million primarily due to expenses related to the proposed global offering.

Our Directors believe that the impact of the difference between SFRS and IFRS on our profit for the six months ended June 30, 2010 and on our total equity as of June 30, 2010 were minimal. We thus prepared no reconciliation of our SFRS statements to IFRS statements in this regard.

Our service concession receivables increased from RMB415.7 million as of December 31, 2009 to RMB503.4 million as of June 30, 2010. The increase was primarily due to (i) RMB43.8 million due to the construction and equipment procurement revenue recognized in connection with our BOT projects (not including the revenue recognized for Anyang Mingbo); (ii) RMB20.1 million for land use rights, value-added taxes and miscellaneous expenses, which were offset by a total cash payment we received of RMB3.8 million, including RMB0.8 million of cash tariff allocated for the settlement of the service concession receivables; (iii) RMB18.5 million in connection with the equipment procurement for Anyang Mingbo; and (iv) RMB9.0 million of imputed interest on the outstanding service concession receivables. As a result of our acquisition of Anyang Mingbo, the amount of our service concession receivables as of December 31, 2009 was restated from RMB295.1 million to RMB415.7 million.

Our bank balances and cash increased from RMB1,237.7 million as of December 31, 2009 to RMB1,357.0 million as of June 30, 2010. The increase was primarily due to the net cash generated from operating activities of RMB107.9 million and net cash generated from investing activities of RMB50.8 million partially offset by net cash used in financing activities of RMB39.5 million, which included payment of RMB45 million for the purchase of Anyang Mingbo, which was partially offset by new bank borrowings.

Publication of Quarterly Financial Results

We are required to publish our unaudited quarterly financial results in accordance with the Listing Manual. Upon our Listing on the Stock Exchange, we will publish unaudited quarterly financial results at the same time in Hong Kong in accordance with the Listing Rules.

MARKET RISK

Our activities are exposed primarily to the financial risks of changes in foreign currency exchange rates and interest rates. We monitor risks associated with changes in foreign currency exchange rates and interest rates and will consider appropriate measures should the need arise.

Foreign Currency Risk

We undertake certain transactions denominated in foreign currencies and hence are exposed to the risk of exchange rate fluctuations. During the Track Record Period, we had assets or liabilities denominated in the Singapore dollar and US dollar. The carrying amounts of our net foreign currency amounts as of December 31, 2007, 2008, and 2009 and March 31, 2010 were RMB413.8 million, RMB330.4 million, RMB49.0 million and RMB41.3 million, respectively. Assuming a 10% increase in the RMB against the relevant foreign currencies, we would have incurred a loss of RMB41.4 million, RMB33.0 million, RMB4.9 million and RMB4.1 million for the years ended 2007, 2008, and 2009 and the three months ended March 31, 2010, respectively. A 10% weakening of the RMB against the relevant currency would have had an equal and opposite impact on our statement of comprehensive income. However, this sensitivity analysis is unrepresentative of our inherent foreign exchange risk as our year-end exposure did not reflect our exposure during the year, which usually varies from period to period during the year. Our sensitivity to foreign exchange rate changes decreased in 2008 and 2009 mainly due to a decrease in our monetary assets denominated in the Singapore dollar. Due to the recent global expansion of our business outside the PRC and, in particular, our entry into a SAR342 million (equivalent to approximately RMB620 million) EPC and upgrade contract in Saudi Arabia in December 2009, we expect our exposure to foreign currency risks to increase in the future due to the resulting increased number of transactions denominated in currencies other than the RMB. In addition, our Convertible Bonds are RMB denominated but will be settled in US dollar. We currently do not have a foreign currency hedging policy but will consider hedging significant exchange rate exposure should the need arise. Furthermore, if the US dollar were to depreciate against the RMB, we may experience material exchange losses as the proceeds of the IFC loan will be denominated in U.S. dollars.

For more information on our foreign currency risk, please refer to Appendix I, Note 35 “Financial Instruments — Market Risk — Foreign currency risk management.”

Interest Rate Risk

We were exposed to fair value interest rate risk in relation to our fixed-rate bank borrowings and cash flow interest rate risk in relation to our variable-rate bank borrowings and bank balances which carry prevailing market interest rates. Our total bank borrowings outstanding were RMB347.9 million, RMB391.7 million, RMB227.0 million and RMB245.5 million and our variable-rate borrowings were RMB157.9 million, RMB40.0 million, RMB132.3 million and RMB136.0 million as of December 31, 2007, 2008 and 2009 and March 31, 2010, respectively. We did not adopt an interest rate hedging policy during the Track Record Period but will consider hedging significant interest rate risk should the need arise. Assuming the amount of our variable-rate borrowings outstanding at the balance sheet date were outstanding for the whole period and all other variables were held constant, a 50 basis point increase/decrease in our interest rate would have decreased/increased our profit by RMB0.8 million, RMB0.2 million, RMB0.7 million and RMB0.7 million for the years ended December 31, 2007, 2008 and 2009 and the three months ended March 31, 2010, respectively.

For more information on our interest rate risk, please refer to Appendix I, Note 35 “Financial Instruments — Market Risk — Interest Rate Risk.”

Liquidity Risk

We monitor and maintain an adequate level of cash and cash equivalents to finance our operations and mitigate the effects of fluctuations in cash flows. We monitor the use of our bank borrowings and compliance with the loan covenants. Based on the undiscounted cash flows of the financial liabilities at the earliest date on which we can be required to pay, as of December 31, 2007, 2008 and 2009 and March 31, 2010, our total non-derivative financial liabilities payable upon demand or in less than a year were RMB601.5 million, RMB856.0 million, RMB762.9 million and RMB740.4 million, and payable within one to five years was nil, nil, RMB53.2 million and RMB57.9 million and payable over five years was nil, nil, RMB3.3 million and RMB1.3 million, respectively.

Effects of Inflation

According to the National Bureau of Statistics of China, China's overall national inflation rate, as represented by changes in the general consumer price index, was 4.8% and 5.9%, for the years ended December 31, 2007 and 2008, respectively. The inflation rate in China has been subject to an upward trend since 2007. Although there can be no assurance as to the impact in future periods, inflation has not had a significant effect on our business during the Track Record Period.

CREDIT RISK

We are exposed to credit risks. Our counterparties' default on their contractual obligations may cause us financial losses. In order to minimize this credit risk, our management has delegated a team responsible for the determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up actions are taken to recover overdue debts. The amounts presented in the consolidated statements of financial position are net of allowances for doubtful receivables, if any, estimated by our management based on our prior experience and the current economic environment. We review the recoverable amount of each individual debt at each balance sheet date so that adequate impairment losses are made for irrecoverable amounts. In this regard, our Directors seek to reduce our credit risk.

Our credit risk relates primarily to our trade and other receivables, service concession receivables and bank balances. There was significant concentration of credit risk as our five largest trade debtors accounted for 65%, 54%, 49% and 48% of the carrying amounts of trade receivables as of December 31, 2007, 2008 and 2009 and the three months ended March 31, 2010, respectively. We closely monitor overdue trade debts. The recoverable amount of each individual trade debt was reviewed at each balance sheet date and we believe adequate impairment for doubtful debts had been made for irrecoverable amounts.

The maximum exposure to credit risk in the event that the counterparties fail to perform their obligations as of end of the financial period in relation to each class of recognized financial assets was the carrying amounts of those assets as stated in our consolidated statements of financial position.

The credit risk in relation to bank balances is not significant as the corresponding banks are reputable banking institutions.

Upon the execution of each EPC contract, we usually require an advance payment of between 15% and 25% of the contract value. Thereafter, we will invoice our customers based on the progress of the project pursuant to progress payment dates stated in the contract. Upon invoice, we expect immediate payment from our customers. Based on our past experience, our customers generally take between two and three months to pay the advance payment and between six and eighteen months to pay the progress billings. Our customers usually retain between 5% and 10% of the project sum as retention monies, which are generally held for a warranty period of up to 12 months after acceptance by the customer before being released to us.

CERTAIN FINANCIAL RATIOS

	As of December 31,			As of March 31,
	2007	2008	2009	2010
Current ratio[(1)]	2.7	2.0	2.1	2.2
Quick ratio[(2)]	2.7	1.9	2.1	2.1

	Year ended December 31,			Three months ended March 31,
	2007	2008	2009	2010
Return on assets[(3), (5)]	9.0%	8.7%	10.9%	Not meaningful
Return on equity[(4), (5)]	14.1%	15.0%	17.8%	Not meaningful

Notes:

(1) Current ratio is calculated by dividing the total current assets by the total current liabilities

(2) Quick ratio is calculated by dividing the result of the total current assets minus inventories by the total current liabilities.

(3) Return on assets is calculated by dividing the profit after income tax for each year by the balance of the total assets as of the end of each year.

(4) Return on equity is calculated by dividing the profit after income tax for each year by the balance of the total equity as of the end of each year.

(5) Annualized to 365 days.

Current Ratio

As of December 31, 2007, 2008, 2009 and March 31, 2010, our current ratio was 2.7, 2.0, 2.1 and 2.2, respectively. Our current ratio decreased from 2.7 as of December 31, 2007 to 2.0 as of December 31, 2008. The decrease was primarily due to higher trade and other payables as we matched our payments of trade payables with our receipts of trade receivables in connection with the sub-contracted work. Our current ratio increased from 2.0 as of December 31, 2008 to 2.1 as of December 31, 2009. The increase was primarily due to a decrease in current liabilities as we repaid more bank borrowings. Please see "Liquidity and Capital Resources" in this section for further details regarding our liquidity.

Quick Ratio

As of December 31, 2007, 2008, 2009 and March 31, 2010, our quick ratio was 2.7, 1.9, 2.1 and 2.1, respectively. Our quick ratio decreased from 2.7 as of December 31, 2007 to 1.9 as of December 31, 2008. The decrease was primarily due to higher trade and other payables as we matched our payments of trade payables with our receipts of trade receivables in connection with the sub-contracted work. Our quick ratio increased from 1.9 as of December 31, 2008 to 2.1 as of December 31, 2009. The increase was primarily due to increased cash and trade receivables as a result of increased business activities.

Return on Assets

For the years ended December 31, 2007, 2008 and 2009, our return on assets was 9.0%, 8.7% and 10.9%, respectively. The return on assets decreased from 9.0% in 2007 to 8.7% in 2008. The decrease was primarily due to our private placement of 30 million new shares in July 2007, partly offset by higher profits. The return on assets increased from 8.7% in 2008 to 10.9% in 2009 and decreased to 1.8% for the three months ended March 31, 2010. The increase in 2008 and 2009 was mainly due to our higher profits for 2009. Please refer to the section headed "Results of Operations" in this section for further details on our profitability.

Return on Equity

For the years ended December 31, 2007, 2008 and 2009, our return on equity was 14.1%, 15.0% and 17.8%, respectively. The increases in the return on equity for 2008 and 2009 were primarily due to our higher profits as a result of increased business activities in these years.

DISTRIBUTABLE RESERVES

The aggregate amount of distributable reserves of our Company as of December 31, 2009 and March 31, 2010 was RMB6.6 million and nil, respectively. The decrease for the three months ended March 31, 2010 was primarily due to the expenses related to the proposed global offering. Please refer to the paragraph headed "Other Expenses" in this section for further details.

PROPERTY INTERESTS AND PROPERTY VALUATION

Our Group's property interests that are attributable to owners of our Company as valued by Jones Lang LaSalle Sallmanns Limited, an independent property valuer, as of July 31, 2010 was RMB72,850,000. There is a net revaluation deficit, representing the difference between the capital value of the properties and their net book value of RMB85,085,000 (after adjusting for depreciation and amortization during the period from March 31, 2010 to July 31, 2010). See Appendix III to this Listing Document for further details of the property interests of our Group and the text of the letter and valuation report of these property interests prepared by the property valuer.

Disclosure of the reconciliation between the valuation of the interests in properties attributable to owners of our Company as of July 31, 2010 and such property interests in our Group's consolidated statement of financial position as of March 31, 2010 as required under Rule 5.07 of Listing Rules is set forth below:

	RMB'000
Net book value of property interests of our Group as of March 31, 2010	
Buildings	38,459
Prepaid lease payments	47,481
	85,940
Movements for the period from March 31, 2010 to July 31, 2010	
Less: depreciation during the period (unaudited)	(470)
Less: amortization during the period (unaudited)	(385)
Net book value as of July 31, 2010 (unaudited)	85,085
Valuation deficit (unaudited)	(12,235)
Valuation of properties as of July 31, 2010	72,850

DIVIDENDS AND DIVIDEND POLICY

We declared dividends of approximately S$8.6 million and S$10.3 million based on the distributable profits at the end of the relevant years in 2007 and 2008. We declared no dividends for the year ended December 31, 2009 or for the three months ended March 31, 2010. We paid dividends of S$8.6 million and S$10.3 million in 2008 and 2009, respectively (equivalent to RMB43.8 million and RMB47.4 million, respectively). We paid the declared amounts to our Shareholders using the net cash generated from our operating activities and did not obtain external funding for the distributions. There is no assurance, however, that dividends will be paid in the future or as to the timing of any dividends that are to be paid in the future.

We currently do not have a formal dividend policy. The declaration and payment of future dividends will depend upon our operating results, financial condition, other cash requirements including capital expenditures, the terms of borrowing arrangements (if any) and other factors deemed relevant by our Directors. Final dividends paid by us must be approved by an ordinary resolution of our Shareholders at a general meeting and must not exceed the amount recommended by our Directors. Our Directors may, without the approval of our Shareholders, also declare an interim dividend. We must pay all dividends out of accumulated profits.

Future dividend payments will also depend upon the availability of dividends received from our operating subsidiaries in the PRC. PRC law requires that dividends be paid only out of the profit after-tax calculated according to PRC accounting principles, which differ in certain aspects from IFRS and SFRS. PRC Law also requires a foreign-invested enterprise to transfer at least 10% of its profit after-tax (after offsetting prior years' losses) to a statutory reserve until the reserve balance reaches 50% of the registered capital of the enterprise. The transfer to its reserve must be made before distribution of dividends to its equity holders. Distributions from our PRC operating subsidiaries may also be restricted if they incur losses or due to PRC law restricting payments of dividends to us or in accordance with any restrictive covenants in bank credit facilities, convertible bond instrument or other agreements that we or our PRC operating subsidiaries may enter into in the future.

For information relating to the restrictions on the payment of dividends by our PRC subsidiaries and taxes payable on dividends, please refer to the section entitled "Risk Factors" of this Listing Document. Please refer to the sections headed "Risk Factors — The PRC's foreign exchange control may significantly limit our ability to utilize our revenue to pay our expenses and conduct our business and affect our ability to receive dividends and other payments from Beijing Sound and Beijing Epure and our other PRC subsidiaries" and "Risk Factors — Our PRC subsidiaries are subject to restrictions on the payment of dividends to us under PRC law, which can negatively affect our ability to pay our expenses and other liabilities and conduct our business, and the tax exemptions on dividends received by our Company and our Shareholders may be affected by the newly enacted Enterprise Income Tax Law" for further information.

RELATED PARTY TRANSACTIONS

For the discussion of related party transactions, please refer to Note 38 to the Accountants' Report set out in Appendix I to this Listing Document. With respect to the related parties transactions set out in the Accountants' Report in Appendix I to this Listing Document, our Directors confirm that these transactions were conducted on normal commercial terms and/or our terms are not less favorable than terms available from independent third-parties, which are considered fair, reasonable and in the interest of the shareholders of our Company as a whole.

DISCLOSURE REQUIRED UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

On May 28, 2010, we entered into an amortization loan with a term up to 2019 with IFC in the amount of US$34 million. We are required under the loan agreement to prepay the outstanding loan together with accrued interest under certain circumstances including, among others, if (A) Mr. Wen, together with his family members, ceases to hold at least (i) until December 31, 2013, 33% and (ii) from January 1, 2014 until the full repayment of such loan, 26%, of the shareholding in our Company or other events relating to a change of control or (B) Mr. Wen, any of the companies in which he is a direct or indirect controlling shareholder or their affiliates, any other associate of Mr. Wen or any of the companies in which such associate is a direct or indirect controlling shareholder, shall have, without the prior written consent of IFC, by itself or in cooperation with or through any third party, conducted, whether directly or indirectly, any activity or business in competition with that which is conducted or proposed to be conducted by our Company, the Borrower Companies or any subsidiary which has net income of more than 10% of our net income on a consolidated basis (including the carrying on or operation of any project in the water or wastewater treatment industry, including the provision of engineering, procurement and construction services), whether by means of equity investment, non-equity investment or otherwise, including without limitation, as employee, agent, co-venturer, or by means of establishment of branches and provision of technical support and consultancy services, except for any such activity or business as disclosed in the public announcement of our Company through the SGX-ST relating to the Strategic Development Memorandum entered into by our Company and dated April 7, 2010 which included comments as to the conduct of BOT projects in Hubei Province, PRC. As a result of the above obligations, details of the loan are disclosable under Rule 13.18 of the Listing Rules.

Save as disclosed above, the Directors confirm that as of the Latest Practicable Date there were no circumstances that would give rise to the disclosure requirements under Rules 13.13 to 13.19 of the Listing Rules.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that there has been no material adverse change in our financial or trading position or prospects since March 31, 2010, which is the date at which our latest audited financial statements were prepared.