桑德國際
sound global

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SOUNDLY

Sound Global Ltd. Annual Report 2011

CONTENT

SOUNDLY

The day breaks. First lights highlight the calm of the water, accentuate the stoic of the mountains, and diffuse the mystery of the surrounding fog – a perfect picture of sound. Underneath the serenity, a hive is constantly buzzing with activity: families of fishes migrating downstream, an owl returning to its nest with prey in beak, dew dancing off the leaves.

It is these little details that add to the appreciation of tranquillity and they reflect the efforts ploughed in by the team at Sound Global. It has been eight years since our initial public offering in Singapore and we take pride in presenting our partners and shareholders another sound year. We pledge to continue to operate soundly, invest soundly, govern soundly and last but not least, grow soundly.

CORPORATE PROFILE

Sound Global Ltd. (formerly known as Epure International Ltd.) is one of China's leading turnkey water & wastewater treatment solutions providers. Backed by extensive R&D and technical expertise, it has successfully completed many award-winning projects. The Group develops proprietary technologies and customises them into effective turnkey solutions for industrial and municipal projects. It has a strong marketing network in China, where it is much sought after for its strong design and engineering project management capabilities.

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

OPERATING SOUNDLY

An idyllic afternoon by the lake – a nice warm sun, hot but not scorching; my favourite tune playing through the earphones; sipping a glass of iced coconut juice ; floating in the middle of the water, occasionally dipping my toes into the water.

We strive to work harder so the company will operate soundly and our partners and shareholders can have more idyllic afternoons by the lake.

CHAIRMAN'S STATEMENT

Dear shareholders,

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

Review

The year 2011 marked the beginning of China's "12th Five-Year Plan", during which the political environment and market conditions was in flux: the Guidelines on National Environmental Education and Communication (2011-2015) (《全國環境宣傳教育行動綱要 (2011—2015年)》) was published for the first time; the No. 1 Document of the Chinese Central Government (《2011年中央一號文件》) specified that the government would "adopt the most stringent management policy on water resources"; the Beijing municipal government published the "Opinions on Fostering the Development of the Reform of the Water Industry" (《關於進一步加強水務改革發展的意見》); the National People's Congress was expected to review the "Environmental Protection Law" (《環境保護法》) this year in 2012; the ordinance on wastewater treatment and reuse was also expected to be launched. Under the "12th Five-Year Plan", the environmental protection industry was ranked the first among the top seven strategic emerging industries while the key emphasis of China's environmental development would be wastewater treatment, including removal of nitrogen and phosphorus, upgrade and improvement of existing wastewater treatment plants, construction of wastewater treatment plants in small and medium cities as well as treatment of industrial sewage. The "12th Five-Year Plan" has presented the environmental protection industry with unprecedented opportunities.

Be it for the domestic or international markets, cities or villages, Sound Global has never ceased its development in the areas of waters and environmental protection. Following its precedence of initiating the first overseas turnkey project as a water enterprise in China in 2008, Sound Global entered into a joint venture which successfully clinched a water supply Engineering Procurement and Construction ("EPC") turnkey project in Chittagong, Bangladesh in 2011. This success thoroughly demonstrated the advanced level of technology and project construction management capability of Sound Global. This was a milestone in Sound Global's international expansion into the EPC markets of large-scale wastewater and portable water management. It also established a solid foundation for Sound Global's future success in clinching large-scale projects internationally.

In the realm of wastewater management, although the volume of wastewater generated by rural areas and townships is relatively smaller than that by the cities, these wastewater projects still will require a unique and customised set of technology. Sound Global, after much scientific exploration and research, managed to propose technology, management approaches and business models that were suitable for wastewater treatment in the suburban-rural areas. These proposals realized the potential of centralized treatment of wastewater and ensured that wastewater treatment facilities were operated soundly in these suburban-rural areas. In 2011, Sound Global expanded into the markets of environmental management in China's suburban-rural areas. Sound Global engineered a new program -- the "Sound Global SMART* Solution for Wastewater Treatment in Small Townships". This program was implemented in 18 bundled wastewater treatment projects in Changsha County of Hunan Province. Subsequently, Sound Global was awarded other projects in Jiangyan, Fushun and Xinbin. These "integrated wastewater treatment" programs, developed by Sound Global, established successful models for wastewater treatment in suburban-rural areas of China.

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

Prospects

Leveraging on past experience, the initial phase in the first year of the "Five-Year Plan" is to enact the guideline document for the introduction of policy standards. The investment quantum under the "Five-Year Plan" escalates the fastest during the second year while the scale of investment will expand gradually each year from the third to fifth year. The total investment on environmental protection under the "12th Five-Year Plan" is expected to be RMB3.1 trillion, while the investment amount in 2012 will be over RMB0.6 trillion, with growth rate of 25% over the same period in the last year. As such, 2012 will be the year with the highest growth rate of investment under the "Five-Year Plan".

As demands for environmental protection services become more comprehensive and sophisticated, and factors affecting the environment change with time, conditions of the environmental service industry will also evolve. The future development trend for the water market will be as follows: the focus of construction of wastewater facilities in cities will be on upgrading of quality; the market for wastewater facilities operation will gradually be opened to private investors; and the market for suburban-rural areas will continue to grow rapidly for the next 10 to 15 years.

Since 2010, the market of water treatment services has moved from incubation to its present stage of escalating growth. At the same time, the water treatment industry has gradually become more professional and corporatized. As a result, the future of the water treatment industry will be dominated by large corporations which are able to provide integrated services. Sound Global has abundant operations experience in BOT projects and is constantly enhancing its professional operation standards. The smooth running of 9 water plants in the commissioned projects of Hainan, which were acquired in 2009, reflected the strength of Sound Global as an integrated professional service operator. By securing the industrial operation service project in 2011, Sound Global has set a precedent and has established a foundation for it to become a market leader in the future.

In China's rural areas, the wastewater treatment market is almost unexplored. As rural areas contain over half of China's population, pollution control in rural districts and townships has become an imminent challenge. Sound Global, taking into full consideration of China's policies of "Continuous Environmental Improvement in Rural Areas", will build maiden project clusters in 8 provinces and municipalities assigned in the first phase of development. This will fully demonstrate the strengths of Sound Global as an integrated service provider in areas of technology, capital and management. The success of wastewater treatment in suburban-rural areas achieved in 2011 by Sound Global will serve as precedents for future wastewater treatment projects in China.

In the course of the "12th Five-Year Plan", there will be unprecedented development opportunities for China's environmental protection industry. Sound Global is confident of capitalizing on this opportunity to further consolidate its position as China's leading enterprise in the water industry and at the same time achieving new breakthroughs for the industry.

Appreciation

I hereby would like to express my gratitude to all shareholders, customers and business partners for the continuous care and support for Sound Global. I would also like to express my heartfelt thanks to the management team and our staff for their efforts towards the Company's long-term development. I wish you every success in your work and a happy family in 2012.

Wen Yibo
Chairman

主席致詞

尊敬的列位股東：

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

回顧

2011年，是中國「十二五」規劃的開局之年，政策環境與市場競爭格局不斷發生變化：全國環境宣教綱要《全國環境宣傳教育行動綱要(2011—2015年)》首次發佈；《2011年中央一號文件》指出將「實行最嚴格的水資源管理制度」；北京市下發《關於進一步加強水務改革發展的意見》；《環境保護法》務實修改預計年內人大審議；污水處理回用條例醞釀出臺……「十二五」規劃，環保產業位列七大戰略性新興產業之首，而中國環保發展第一大重點領域就是污水處理，包括脱氮除磷、現有污水處理廠升級改造、中小城市污水處理廠建設以及工業廢水處理等，「十二五」規劃環保產業迎來了空前的歷史機遇。

從國內到國外，從城市到農村，桑德在水務以至環境領域內的發展腳步從未停歇。繼2008年桑德開創中國水務企業總承包海外項目先河後，2011年桑德國際又以聯合體的形式中標孟加拉吉大港給水EPC總包項目，此次中標充分證明了桑德國際所擁有的先進技術水平和項目建設管理能力。自此桑德國際已完成國際市場大型污水、自來水EPC市場開拓佈局，為未來大規模開發國際市場打下良好基礎。

在污水處理領域，與城市污水相比，農村鄉鎮的污水量規模相對較小，但麻雀雖小，五臟俱全，需要量身定做污水處理技術路線。經過科學求證、探討，桑德國際公司提出了適合鄉鎮污水處理特點的技術路線、管理路線和商業模式，實現了污水的集中處理，保證了污水處理設施處於良好的運營狀態。2011年，桑德國際進軍中國鄉鎮和農村環境治理領域，創新了「桑德SMART小城鎮污水解決方案」，並在湖南省長沙縣的18個鄉鎮污水項目捆綁打包處理項目中實施。之後，又獲得了薑堰小城鎮項目、撫順、新賓等農村環境綜合治理項目。桑德國際探索出的「集約化的污水處理」模式，為中國鄉鎮污水處理與農村連片環境治理提供成功借鑒路徑，開創了中國鄉鎮污水治理新模式。

展望

經驗表明，「五年計劃」的初年，是以制定政策標準、出臺綱領性文件為首要任務，「五年計劃」的第二年投資增速最高，從第二年起投資規模將逐年加大。預計「十二五」環保總投資3.1萬億人民幣，2012年投資6000億人民幣以上，同比增長25%，可見2012年將是五年計劃中投資增速最高的年度。

隨著環境服務的訴求日益綜合、日益專業化，環境需求等因素的變化將會給環境服務業形態帶來變化。今後水務市場的發展趨勢：城市污水設施建設轉向提標為主，運營市場逐步釋放、農村小城鎮市場迅速發展持續10~15年。

從2010年開始，水務運營服務市場已經由孕育階段進入規模快速上升階段。水務運營隊伍從各個投資主體獨立發展向專業化、集團化的運營服務過渡。這意味著能夠未來在水務運營市場新浪潮中自由遨遊的，將是那些具備一定綜合實力的大型環保企業。桑德國際有多年的BOT項目運營經驗以及不斷提升的運營專業水平，2009年接管的海南9個水廠捆綁運營委託項目的良好運行成果，展現出了桑德國際作為綜合性專業化運營服務商的優勢；2011年工業運營服務項目的突破，為桑德國際在水務運營服務市場掌握一定的主動權奠定了基礎。

在中國農村，污水治理幾乎是空白，而農村承載中國超過50%的人口，農村及鄉鎮污染治理是中國當前的一個急需解決而具有挑戰性的任務。桑德國際將結合國家「農村環境連片整治」的支持政策，在規劃確定的首批8個省、直轄市地區，以縣為區域單元建造多個項目群，充分發揮桑德國際的技術、資金、管理和產業鏈完整的優勢。桑德國際2011年在小城鎮污水治理領域所取得的成功，將為解決中國水環境問題起到典範作用。

十二•五期間，將是中國環保產業前所未有的發展機遇，桑德國際有信心能夠把握住這一機遇，繼續鞏固作為中國領先水務企業地位並實現新的跨越。

致謝

在此，感謝各位股東、客戶及事業夥伴長期以來對桑德國際的的關心和支持，感謝公司各位管理人員及全體員工為公司的長遠發展所做出的努力，預祝各位，2012年工作順利，闔家歡樂！

文一波
主席

INVESTING SOUNDLY

The little boy took to water like a fish, jumping into the lotus pond without a slight hint of fear. There was still no sight of him after the ripples have subsided and a sense of apprehension begins to fill the air. Is he safe under the muddy waters? Did he get entangled in the web of roots?

Then suddenly two bright eyes emerged from the water followed by the widest grin. And we knew that we have made the right decisions.

CEO'S OPERATIONS REVIEW

Dear shareholders,

I am sincerely thankful to all the staff and shareholders of Sound Global for your great support and care in the past year. At the very beginning of the year 2012, I am honored to present to you the results we have achieved in the past year and our development plan for the coming year.

Operations Condition

By adhering to the long-term development strategy and the annual operation objectives, the Company sped up its expansion and formulated the strategic layout for the water-treatment market, progressively developed its operation and maintenance business and business in suburban-rural areas, and at the same time won bids for the Bangladesh Water Supply Project and Anshan Project in 2011. These developments have furthered the Company's global development strategy emphasizing professionalism, consistency and scale of operation.

As at the end of 2011, the number of projects managed by the Company increased from 72 in 2010 to 92 in 2011, an increase of 27.78% as compared with last year; aggregate production value was RMB2.29 billion, an increase of 29.56% as compared with last year.

Technological R & D

Sound Global has the largest environmental protection enterprise technological R&D center among its peers, and has a R&D team of over 100 personnel. This elite team consists of professionals with abundant engineering experience and outstanding expertise, as well as energetic and creative young talents. Upholding an unwavering spirit to protect the environment, this team constantly assures that Sound Global always remains the leader in the industry in terms of technology. To date, our Company has completed 40 technological R&D topics, 7 of which started in 2011. In addition to its 50 patents, the Company obtained another 7 invention patents and 4 utility model patents in 2011. The in-depth treatment technology of SD-UNR Coked Wastewater Membrane Treatment and the Landfill Leach Treatment Technology were cited as the national key practical technologies for environmental protection in 2011. In 2011, the Company was awarded the technology program research project of efficient nitrogen removing fillers for urban sewage treatment plants and carriers development and application（城市污水處理廠專用高效脱氮填料和載體開發及應用）(Topic number: Z11110905890000)（北京市科技計劃課題研究）in Beijing. With this progress Sound Global will gradually become the leader in R&D in the sphere of water treatment.

Marketing Nationwide

Sound Global has established 18 sales offices across the nation, covering all major provinces in China; an overseas office in Singapore specializing in developing international trade; and a branch office in Saudi Arabia exploring the markets in Saudi Arabia and the Middle East. In the past year, Sound Global has actively marketed its services: the Company participated in local and overseas conferences and exhibitions, seek new projects through local partners, promoted the sale of equipments through sales agent, established long-term local cooperation relationship, and conducted extensive research on local market environments and the needs of customers from different markets. It was through the excellent execution capabilities of our team and the good reputation of the Company that won the Company additional projects: Sound Global clinched the bid for the 300,000 ton-per-day water supply project in Chittagong, Bangladesh, thereby giving the Company a foothold in the spheres of portable and wastewater treatment in the international water market; and entered the suburban-rural markets by securing the project in Fushun. The SMART technology deployed in the

Changsha county project established a new operation model for wastewater treatment in the suburban-rural areas. Moving forward, this advanced technology and original business model will enable Sound Global to have a significant edge in wastewater treatment for suburban-rural areas.

Human Resources

Management and technical talents are critical elements in the success of an enterprise or society. As such, Sound Global has assembled a team of management, technical and professional talents. In 2011, more than 20 personnel who have overseas work experience and/or education have joined Sound Global. These talents have taken up positions in project management, technological R&D, engineering design and international business development.

Sound Global has traditionally attached great importance to the development and nurture of talents, and hence, has established a system for talent development and management as well as internal training. At the same time, Sound Global has collaborated with prestigious educational institutions to nurture master's degree students and talents with post-doctorate credentials. The company conducted more than 40 internal and external trainings in the past year, with participants from the various divisions of marketing, R&D, design, project management, operation management, procurement, finance, securities, and human resources management. This talent-nurturing mechanism, which integrates internal and external training, has continuously improved the overall quality of the staff of Sound Global, and has expanded and strengthened the team of key personnel. This has established a great foundation to provide first-class human capital for the future growth and expansion of Sound Global.

Development Objective

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

Appreciation

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

Wang Kai
Chief Executive Officer

首席執行官營運回顧

尊敬的股東們：

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

經營狀況

2011年，公司圍繞長期發展戰略和年度經營目標，加快水務市場擴展和戰略布局，託管運營業務及農村小城鎮業務逐步展開，成功中標孟加拉給水項目、鞍山項目，為全面實施專業化、持續化、規模化、國際化的發展戰略再上了新臺階。

截止到2011年底，公司項目管理數量由2010年的72個上升到2011年的92個，較去年增長27.78%，生產總值人民幣22.88億元，較去年增長29.56%。

技術研發

桑德國際擁有業內最大的環保企業技術研發中心，擁有一支超過百人的技術團隊，這只由極富工程經驗和深厚技術造詣的專家、具有活力和創新能力的年輕才俊們組成的精英團隊，以為環境矢志不渝的貢獻精神保證了桑德國際的技術研發實力始終走在行業的最前端。截止目前，我公司已完成40項技術研發課題，其中2011年新開課題7項，並在已擁有50項專利的基礎上，2011年新增7項發明專利，4項實用新型專利，SD-UNR焦化廢水膜深度處理技術及垃圾填埋場滲濾液深度處理技術被評為2011年國家重點環境保護實用技術。2011年榮獲北京市科技計劃課題研究—城市污水處理廠專用高效脱氮填料和載體開發及應用(課題編號：Z11110905890000)，桑德國際將逐步成為國家重大水專項研究的主要力量。

市場營銷

桑德國際在國內設立18個銷售團隊，覆蓋到中國的所有主要省份，在新加坡擁有1個海外辦事處，專注於開拓國際市場，在沙特阿拉伯設有一個分公司，致力於沙特及中東地區拓展市場工作。桑德國際積極參與國內外會議和展覽，通過當地合作夥伴尋找新項目，通過銷售代理擴展設備銷售，專注於建立長期的地方合作關係，深入瞭解當地市場環境，瞭解不同市場的客户的要求，強大的執行實力以及良好的項目口碑給我們帶來更多項目信息：2011年中標孟加拉吉大港30萬噸／天給水項目，完成國際市場水務市場給水、污水全領域佈局；進軍中國鄉鎮和農村環境治理，獲得撫順農村環境綜合治理項目。SMART 工藝治理長沙縣鄉鎮污水，開創了中國鄉鎮污水治理新模式。桑德國際在鄉鎮污水處理領域的創新技術和獨創業務模式必將發揮巨大的優勢作用。

人力資源

管理人才與技術人才，對於一個企業乃至一個社會都是不可缺少的人才。現在，桑德國際匯聚了一批優秀的管理人才、技術人才和專業人才。2011年，又有二十餘位具有國外工作、學習經歷的海歸人員加盟桑德國際，充實到項目管理、技術研發、工程設計、國際市場開拓等崗位。

桑德國際公司歷來重視人才開發與培養，建立了系統的人才發展及內部培養機制。同時，與知名高校聯合培養碩士生、博士後人才。全年組織企業內訓、外訓40餘次，參加人員涉及市場、研發、設計、項目管理、運營管理、採購、財務、證券、人力資源管理等崗位，內外結合的培養機制，使桑德員工的整體素質得到不斷提升，骨幹人員隊伍不斷壯大，為實現建立高效與精幹人力資源目標奠定基礎，為滿足桑德國際未來戰略發展需要提供了優良人才資源。

發展目標

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

致謝

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

王凱
首席執行官

FINANCIAL HIGHLIGHTS

REVENUE (RMB'000)

2007	697,341
2008	1,024,808
2009	1,293,476
2010	1,765,672
2011	2,287,575

GROSS PROFIT (RMB'000)

2007	223,084
2008	333,588
2009	375,513
2010	536,145
2011	722,052

PROFIT BEFORE INCOME TAX (RMB'000)

2007	191,081
2008	232,013
2009	292,989
2010	349,067
2011	481,208

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

2007	161,173
2008	203,686
2009	281,869
2010	289,104
2011	413,825

CONSOLIDATED RESULTS

	For the year ended December 31,				
	2011	2010	2009	2008	2007
	RMB'000	RMB'000	RMB'000 (restated)	RMB'000 (restated)	RMB'000 (restated)
Revenue	**2,287,575**	1,765,672	1,293,476	1,024,808	697,341
Gross profit	**722,052**	536,145	375,513	333,588	223,084
Profit before income tax	**481,208**	349,067	292,989	232,013	191,081
Income tax expenses	**(67,383)**	(59,877)	(10,236)	(28,313)	(28,680)
Profit for the year	**413,825**	289,190	282,753	203,700	162,401
Profit for the year attributable to					
Owners of the company	**413,825**	289,104	281,869	203,686	161,173
Non-controlling interests	**—**	86	884	14	1,228
	413,825	289,190	282,753	203,700	162,401
Earnings per share (in RMB cents)					
Basic	**32.08**	22.41	21.85	15.79	12.97
Diluted	**31.32**	22.41	21.85	15.79	12.97

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at December 31,				
	2011	2010	2009	2008	2007
	RMB'000	RMB'000	RMB'000 (restated)	RMB'000 (restated)	RMB'000 (restated)
Current assets	**3,701,937**	3,501,693	1,971,479	1,908,917	1,771,776
Non-current assets	**1,254,247**	848,605	611,304	434,790	32,603
Total assets	**4,956.184**	4,350,298	2,582.783	2,343,707	1,804,379
Current liabilities	**2,064,145**	1,356,485	923,030	970,905	652,683
Non-current liabilities	**587,370**	1,057,558	67,809	16,242	—
Total liabilities	**2,651,515**	2,414,043	990,839	987,147	652,683
Capital and reserves	**2,304,669**	1,936,255	1,591,944	1,356,560	1,151,696

MANAGEMENT DISCUSSION & ANALYSIS

SIGNIFICANT TRENDS, CONDITIONS AND EVENTS

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

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

The Company will continue to expand its international business steadily, including EPC and equipment sales, extending its coverage to emerging markets and developing countries such as the Saudi Arabia and Southeast Asia regions, in order to satisfy the enormous demand from such regions.

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

REVIEW OF GROUP'S FINANCIAL PERFORMANCE

For the year ended December 31, 2011, there were no material differences between the consolidated financial statements of the Group prepared under Singapore Financial Reporting Standards (SFRSs) and International Financial Reporting Standards (IFRSs). Hence, the following review applies to both financial statements.

Revenue

The Group's revenue increased by approximately RMB521.9 million or 29.6% from approximately RMB1,765.7 million in 2010 to approximately RMB2,287.6 million in 2011.

The increase was mainly attributed to: (1) increased contribution from O&M segment of approximately RMB29.2 million from RMB30.6 million in 2010 to RMB59.8 million in 2011 as certain BOT projects started operations; and (2) increased contribution from the turnkey EPC services amounting to RMB559.0 million from RMB1,610.6 million to RMB2,169.6 million, partly contributed by the increased revenue from the Saudi project and the Group continues to bid for EPC projects in the PRC. These increases were partly offset by the decreased external sales from Hi-Standard by approximately RMB66.2 million from RMB124.4 million in 2010 to RMB58.2 million in 2011 as Hi-Standard service inter-segment.

Gross Profit and Gross Profit Margin

Gross profit increased by approximately RMB186.0 million or 34.7% from approximately RMB536.1 million in 2010 to approximately RMB722.1 million in 2011. The increase in 2011 was due to the higher revenue and the stable gross profit margin throughout the financial year.

The gross profit margin increased by approximately 1.2% from approximately 30.4% in 2010 to approximately 31.6% in 2011. Given the nature of the turnkey projects, where revenue is recognised based on the percentage of completion, the gross profit margin for engineering works would fluctuate from quarter to quarter depending on the amount of revenue recognised for the relevant projects during the quarters in review. On a year-to-year basis, the gross profit margin remained relatively stable at around 30%.

MANAGEMENT DISCUSSION & ANALYSIS

Other Income

Other income increased by approximately RMB10.7 million or 45.7% from approximately RMB23.4 million in 2010 to approximately RMB34.1 million in 2011. The increase for 2011 was mainly due to the higher interest income received as interest rate increased and increase in deemed interest on service concession receivables as a result of an increase in BOT operations.

Other Expenses

Other expenses decreased by approximately RMB65.9 million or 85.8% from approximately RMB76.8 million in 2010 to approximately RMB10.9 million in 2011. The higher expenses for 2010 were mainly due to the expenses related to listing on the SEHK.

Distribution and Selling Expenses

Distribution and selling expenses increased by approximately RMB11.8 million or 91.9% from approximately RMB12.8 million in 2010 to approximately RMB24.6 million in 2011. This was mainly due to tender fees related to the projects bid in 2011 payable to agents amounted to approximately RMB8.5 million.

Research and Development Expenses

Research and development expenses increased by approximately RMB7.9 million or 162.5% from approximately RMB4.9 million in 2010 to approximately RMB12.8 million in 2011 due to an increase in material costs and salaries to facilitate the increase in business operations.

Administrative Expenses

Administrative expenses increased by approximately RMB39.3 million or 49.6% from approximately RMB79.2 million in 2010 to approximately RMB118.5 million in 2011. It was mainly due to an increase in:

(1) administrative expenses for Saudi Arabia project by approximately RMB17.7 million from approximately RMB18.4 million in 2010 to approximately RMB36.1 million in 2011 as major operations were undertaken in the current year;

(2) salaries and related staff costs by approximately RMB7.8 million from approximately RMB23.2 million in 2010 to approximately RMB31.0 million in 2011. This was due to salary increment and increase of Group's headcount; and

(3) expenses in relation to share base payments by approximately RMB5.4 million from approximately RMB12.5 million in 2010 to approximately RMB17.9 million in 2011 as share options were granted in the third quarter of 2010.

Finance Costs

Finance costs increased by approximately RMB71.4 million or 193.9% from approximately RMB36.8 million in 2010 to approximately RMB108.2 million in 2011. The increase was resulted from the interest in bank borrowings by approximately RMB20.9 million from approximately RMB16.3 million in 2010 to RMB37.2 million in 2011 as the Group's borrowing increased. In addition, the interest expenses on convertible loan notes increased by approximately RMB50.5 million from approximately RMB20.5 million in 2010 to RMB71.0 million in 2011 as the convertible loan notes were issued in the third quarter of 2010.

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

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

Income Tax Expenses

Income tax expenses increased by approximately RMB7.5 million or 12.5% from approximately RMB59.9 million in 2010 to approximately RMB67.4 million in 2011. Income tax expenses increased as a result of an increase in the Group's profit.

Profit Attributable to Owners of the Company

Profit attributable to owners of the Company increased by approximately RMB124.7 million or 43.1% from approximately RMB289.1 million in 2010 to approximately RMB413.8 million in 2011. The increase in 2011 was mainly contributed by the turnkey projects and services segment as the Group continues to bid for EPC projects.

MANAGEMENT DISCUSSION & ANALYSIS

REVIEW OF GROUP'S FINANCIAL POSITION

Current Assets

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

Trade receivables, stated at net of allowance for doubtful debts, amounted to approximately RMB913.8 million. The allowance for doubtful debts was approximately RMB48.0 million.

Other receivables were made up mainly of performance and tender deposits placed when we bid for projects and bills receivables of approximately RMB43.3 million, advance payments to suppliers and subcontractors of approximately RMB82.6 million, other receivables of approximately RMB42.4 million as well as service concession receivables due within one year of approximately RMB38.2 million.

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

Inventories refer to equipment components and parts. As at December 31, 2011, the overall increase in inventories was attributable mainly to Hi-Standard. Inventories from turnkey business are not expected to be material as most of the civil engineering works are subcontracted to third parties.

The increase in current assets arose mainly from the increase in trade receivables and amount due from contract customers driven by the increased business operations, partly offset by the decrease in restricted bank balances.

Non-Current Assets

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

Property, plant and equipment comprised mainly of building, plant and machinery, transportation vehicles, and fixtures and equipments. We depreciate our property, plant and equipment using the straight-line method over their estimated useful lives, at rates ranging between 3% and 33% per annum. The slight increase in property, plant and equipment was due mainly to additions for increasing business operations.

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

Investment in an associate pertained to the 20% stake in Shanghai Chenghuan Water Operation Co., Ltd. The associate was disposed in the third quarter of 2011.

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

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

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

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

Current Liabilities

The Group's current liabilities were made up mainly of borrowings within one year, trade and other payables, amounts due to contract customers for contract work, income tax payable and convertible loan notes within one year.

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

Trade and other payables were made up of amounts outstanding for trade purchases of approximately RMB588.3 million, other taxes payable (including value added tax and sales tax) of approximately RMB162.0 million, performance and tender deposits received from sub-contractors and bills payables of approximately RMB21.2 million, advances received from customer of approximately RMB64.6 million as well as accruals and other payables of approximately RMB35.2 million.

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

Income tax payable increased as the business operations increased.

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

The increase in current liabilities was due mainly to the classification of convertible loan notes redeemable within one year from non-current liabilities, partly offset by the reduction in borrowings due within one year.

MANAGEMENT DISCUSSION & ANALYSIS

Non-Current Liabilities

Long term borrowings were obtained to fund our BOT projects.

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

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

Capital and Reserves

Equity attributable to owners of the Company increased by approximately RMB365.4 million or 18.9% from approximately RMB1,928.7 million as at December 31, 2010 to approximately RMB2,294.1 million as at December 31, 2011. This increase was due mainly to retained profits of approximately RMB413.8 million, partly offset by dividends paid of approximately RMB66.9 million.

The non-controlling interest of approximately RMB10.6 million as at December 31, 2011 relates to a 20% and 10% minority interest in Yantai Bihai Water Co., Ltd and Anyang Taiyuan Water Co., Ltd respectively. Both of these subsidiaries are operating BOT projects.

Cash Flow Statement

Net cash used in operating activities was approximately RMB244.9 million in 2011. The negative cash flow in operation is resultant from increase in amount due from contract customers, trade and other receivables and service concession receivables as driven by the increased business operations.

Net cash generated from investing activities amounted to approximately RMB257.3 million in 2011. These amounts were due mainly to the decrease in pledged deposits as certain bank borrowings were repaid and bank guarantee released.

Net cash generated from financing activities amounted to approximately RMB43.2 million in 2011. These amounts were due mainly to the new borrowing from IFC raised in the fourth quarter of 2011, partly offset by the repayment of bank borrowings and payment of dividend and finance costs.

As at December 31, 2011, the Group's cash position remained strong and stood at approximately RMB2,074.4 million.

Employees and Remuneration Policy

As at December 31, 2011, there were 1,101 (2010: 699) employees in the Group. Staff remuneration packages are determined in consideration of market conditions and the performance of the individuals concerned, and are subject to review from time to time. The Group also provides other staff benefits including medical and life insurance, discretionary incentive bonuses and share options to eligible staff based on their performance and contributions to the Group.

Gearing

	As at December 31, 2011	As at December 31, 2010
	RMB'000	RMB'000
Borrowings (current)	311,838	430,200
Borrowings (non-current)	540,352	241,096
Convertible loan notes (current)	818,252	—
Convertible loan notes (non-current)	—	784,878
Total debt	1,670,442	1,456,174
Bank balances and cash	2,074,426	2,027,352
Shareholders' equity	2,304,669	1,936,255
Net debt	Net cash	Net cash
Total debt to equity ratio	0.72	0.75

Loans

Aggregate amount of Group's borrowings and debt securities:

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

As at December 31, 2011		As at December 31, 2010	
Secured	Unsecured	Secured	Unsecured
RMB'000	RMB'000	RMB'000	RMB'000
146,800	983,290	306,000	124,200

Amount repayable after one year:

As at December 31, 2011		As at December 31, 2010	
Secured	Unsecured	Secured	Unsecured
RMB'000	RMB'000	RMB'000	RMB'000
126,200	414,152	241,096	784,878

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

GOVERNING SOUNDLY

As the gates starts to move, everything becomes more majestic – the droning sound, the slow but purposeful rotation. Even the water flows with more urgency seemingly knowing that in a few moments the flow will be interrupted.

As the gates lower into the path of the water, a feeling of sympathy is aroused. How much can get pass the gates now? And when will the gates be lifted again?

As the gates lock into their final position, sealing all water behind it, a sense of inevitability sets in. As the last drops of water drip off the base, the governing process is sound and the water level is regulated.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

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

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

Trademark licenses

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

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

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

EPC Framework Agreement

The Group has entered into the EPC Framework Agreement ("EPC Framework Agreement") on June 18, 2010 with Sound Group Limited, by which the Group agreed to provide EPC services and sale of goods to Sound Group Limited and its subsidiaries ("SGL Group"). SGL Group is a connected person of us. The maximum aggregate annual amounts of new contracts entered into in relation to the provision of EPC services and sales of goods under the EPC Framework Agreement for each of the three years ended December 31, 2010 and 2011 and ending December 31, 2012 must not exceed RMB100 million. For the year ended December 31, 2011, the contract amounts of the new EPC services and sale of goods contracts entered into under the EPC Framework Agreement was RMB48.16 million.

(C) Confirmation from Independent Non-Executive Directors

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

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

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

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

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

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

INFORMATION FOR INVESTORS

ANNUAL RESULTS ANNOUNCEMENT
February 28, 2012

ANNUAL GENERAL MEETING
April 27, 2012

BOOK CLOSURE DATE
May 18, 2012

DIVIDEND PAYOUT DATE
May 31, 2012

PRINCIPAL SHARE REGISTRAR IN SINGAPORE
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Singapore 048623

BRANCH SHARE REGISTRAR IN HONG KONG
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STOCK CODES
Singapore Stock Exchange: E6E.SI
Hong Kong Stock Exchange: 00967

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WEN YIBO

Executive Director And Chairman

Mr. Wen Yibo, aged 46, is an Executive Director and Chairman of our Company and a founder of our Group. He was appointed to our Board on November 7, 2005 and is responsible for charting our Group's strategic direction.

Mr. Wen graduated with a bachelor of environmental engineering from the Lanzhou Railway College (currently known as Lanzhou Jiaotong University) in July 1986. In December 1989, he graduated from Tsinghua University with a master degree in environmental engineering. Mr. Wen has accumulated more than 17 years of experience in the environmental protection industry. Between 1989 and 1990, Mr. Wen worked as a lecturer in the environmental engineering department of Tsinghua University. From 1990 to 1993, he was a senior engineer at the engineering division of the Planning and Design Institute of the Ministry of Chemical Engineering. In November 1993, Wen Yibo and his wife, Zhang Huiming, co-founded Beijing Sound Environmental Technology Development Company and Mr. Wen has served as its Chairman since then.

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

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

BOARD OF DIRECTORS

WANG KAI

Executive Director and Chief Executive Officer

Mr. Wang Kai, aged 49, is an Executive Director and Chief Executive Officer of our Company. Mr. Wang was appointed to our Board on December 24, 2010 and he was appointed as the Chief Executive Officer on February 2, 2011.

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

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

JIANG ANPING

Executive Director

Mr. Jiang Anping, aged 39, is an Executive Director and was appointed to our Board on October 3, 2011. He is the head of the design and research department of Beijing Sound Environmental Engineering Co., Ltd and the assistant to the general manager (technical) of the Company.

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

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

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

BOARD OF DIRECTORS

LUO LIYANG

Executive Director

Mr. Luo Liyang, aged 38, is an Executive Director and was appointed to our Board on February 2, 2011. Mr. Luo has been the deputy general manager (marketing) of our Company since March 12, 2010 and the deputy general manager and manager of the marketing department in Beijing Sound Environmental Engineering Co., Ltd since he joined our Group in May 2000. He is responsible for market planning and channel exploitation, construction and management of product platform and establishment of our sales network. Mr. Luo graduated with a bachelor degree in environmental monitoring from Henan Normal University in July 1997.

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

WONG SEE MENG

Lead Independent Non-Executive Director

Mr. Wong See Meng, aged 63, is an Independent Non-Executive Director and was appointed to our Board on May 18, 2009.

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

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

He joined Forward Overseas Credit Ltd. as the general manager in 1981 and became the chief general manager in 1983 until 1987. From 1987 to 2001, he worked in Development Bank of Singapore Ltd.. He joined the Development Bank of Singapore Ltd. as the general manager in 1987 and became the senior vice president in 1993 and the managing director in 1997. He was the general manager of Raffles Medical Group (Hong Kong) between 2001 and 2002 and the business development manager of Sino Land Group (Hong Kong) between 2002 and 2003. From 2003 to 2007, he was the managing director of ORIX Leasing Singapore Ltd.. Mr. Wong has been appointed as a non-independent and non-executive director of Multi-Fineline Electronix, Inc., the shares of which are listed NASDAQ, since May 2011. Currently Mr. Wong provides training on banking and finance for senior management staff from various Chinese banks.

BOARD OF DIRECTORS

SEOW HAN CHIANG WINSTON

Independent Non-Executive Director

Mr. Seow Han Chiang Winston, aged 43, is an Independent Non-Executive Director and was appointed to our Board on August 24, 2006.

Mr. Seow holds a bachelor of law (honors) degree from the National University of Singapore. He was admitted as an Advocate and Solicitor of the Supreme Court of Singapore in 1995 and has been practicing law in Singapore since his admission.

Mr. Seow joined Madhavan Partnership as an associate in 1995 and became a partner in the corporate department in 1998. Since July 2005, Mr. Seow has been appointed as a non-independent director of Eucon Holding Limited, the shares of which are listed on Singapore Exchange Securities Trading Limited. From 2006 to 2007, he was a corporate partner of KS Chia Gurdeep & Param. From 2007 to May 2011, he was a corporate partner of KhattarWong. He is currently a corporate partner of RHT Law LLP.

FU TAO

Independent Non-Executive Director

Mr. Fu Tao, aged 44, is an Independent Non-Executive Director and was appointed to our Board on August 24, 2006.

Mr. Fu graduated from the Peking University in 1990 with a bachelor of science in applied chemistry. He obtained a master degree in environmental engineering from Tsinghua University in 1993 and also obtained a doctorate in civil engineering from the Harbin University of Civil Engineering and Architecture (currently known as Harbin Institute of Technology) in 1999.

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

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

SENIOR MANAGEMENT & JOINT COMPANY SECRETARIES

ZHOU HAO

Deputy General Manager

Mr. Zhou Hao, aged 40, has been the Deputy General Manager (Operations) of our Company since March 12, 2010 and the Deputy General Manager of Beijing Sound Environmental Engineering Co., Ltd since he joined our Group in March 1998. He is responsible for the management of our EPC business, project management and engineering debug and delivery. Mr. Zhou obtained a bachelor degree of water treatment and drainage from the environmental engineering department of Xi'an Metallurgy and Architecture College (currently known as Xi'an University of Architecture and Technology) in July 1993. From August 1993 to March 1998, he worked as an assistant director of the design office of the mechanical power department of Ningxia Hengli Steel Group.

YU MAN TO GERALD

Chief Financial Officer and Joint Company Secretary

Mr. Yu Man To Gerald, aged 45, joined our Company as Chief Financial Officer on June 21, 2011. He oversees and coordinates the operation of the Group's finance department including all financial, accounting and taxation functions and financing activities of the Group. He is also one of the joint company secretaries of the Group.

Mr. Yu holds a master degree in business administration and a bachelor degree in business. He is a fellow member of the Hong Kong Institute of Certified Public Accountants (FCPA) and a certified public accountant in Australia (CPA (Aust.)). Before joining the Company, Mr. Yu worked as the chief financial officer and company secretary of Towngas China Company Limited, Wai Chun Mining Industry Group Company Limited and Wai Chun Group Holdings Limited. Mr. Yu was with Towngas China for almost 9 years and was with an international accounting firm for over 7 years prior to joining Towngas China.

TAN WEI SHYAN

Joint Company Secretary

Mr. Tan Wei Shyan, aged 34, has been one of our joint company secretaries since April 2007. Mr. Tan graduated with a bachelor of laws (honors) degree from the University of Exeter in 2001. He was admitted as an Advocate and Solicitor of the Supreme Court of Singapore in 2003. Mr. Tan was engaged in general corporate work, and had experience in commercial transactions including joint ventures, commercial leases and listed companies work. Since 2005, Mr. Tan has been practicing at Shook Lin & Bok LLP in Singapore where he is currently a partner in the corporate and corporate finance department.

WONG TAK YEE

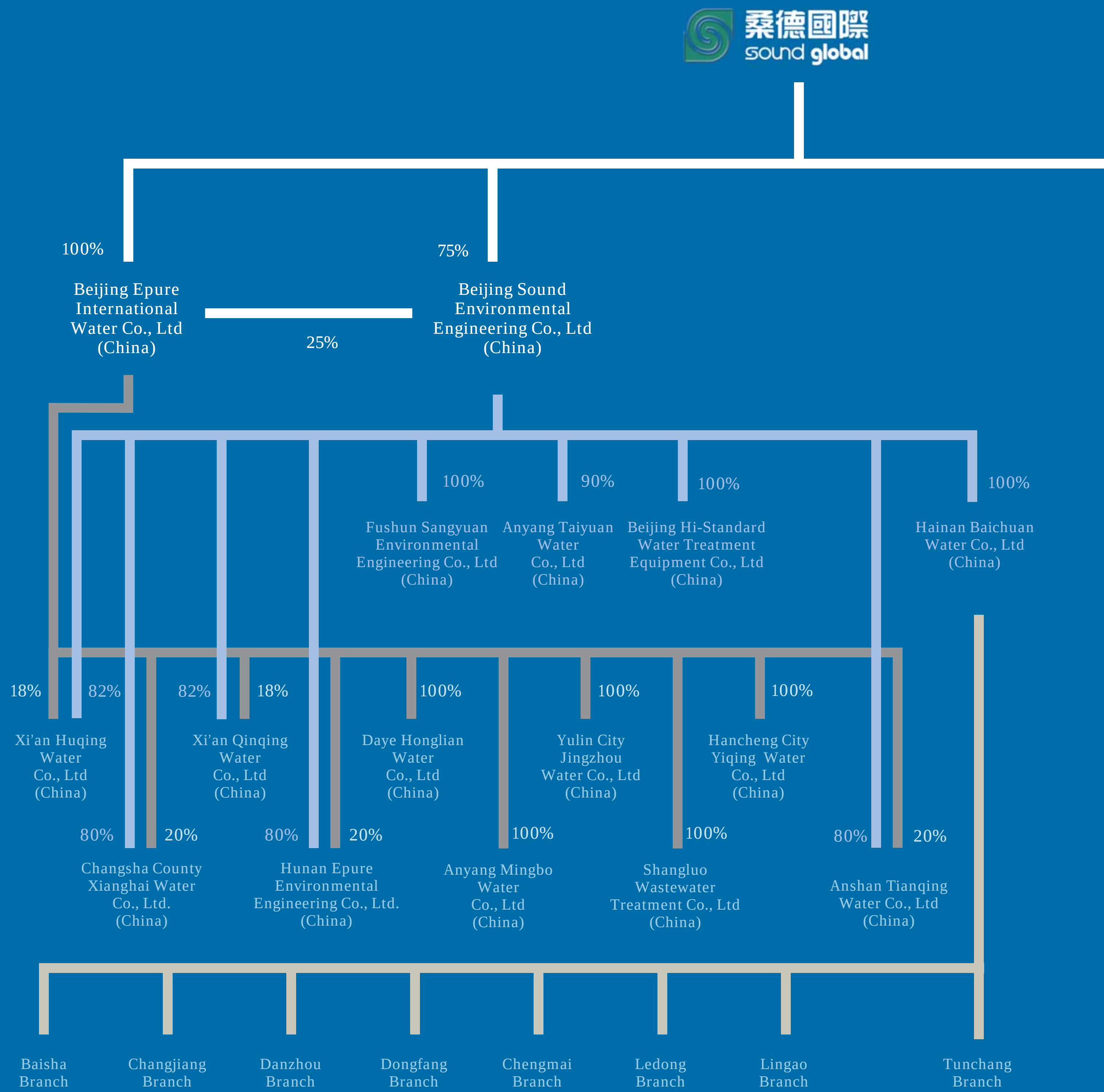
Joint Company Secretary

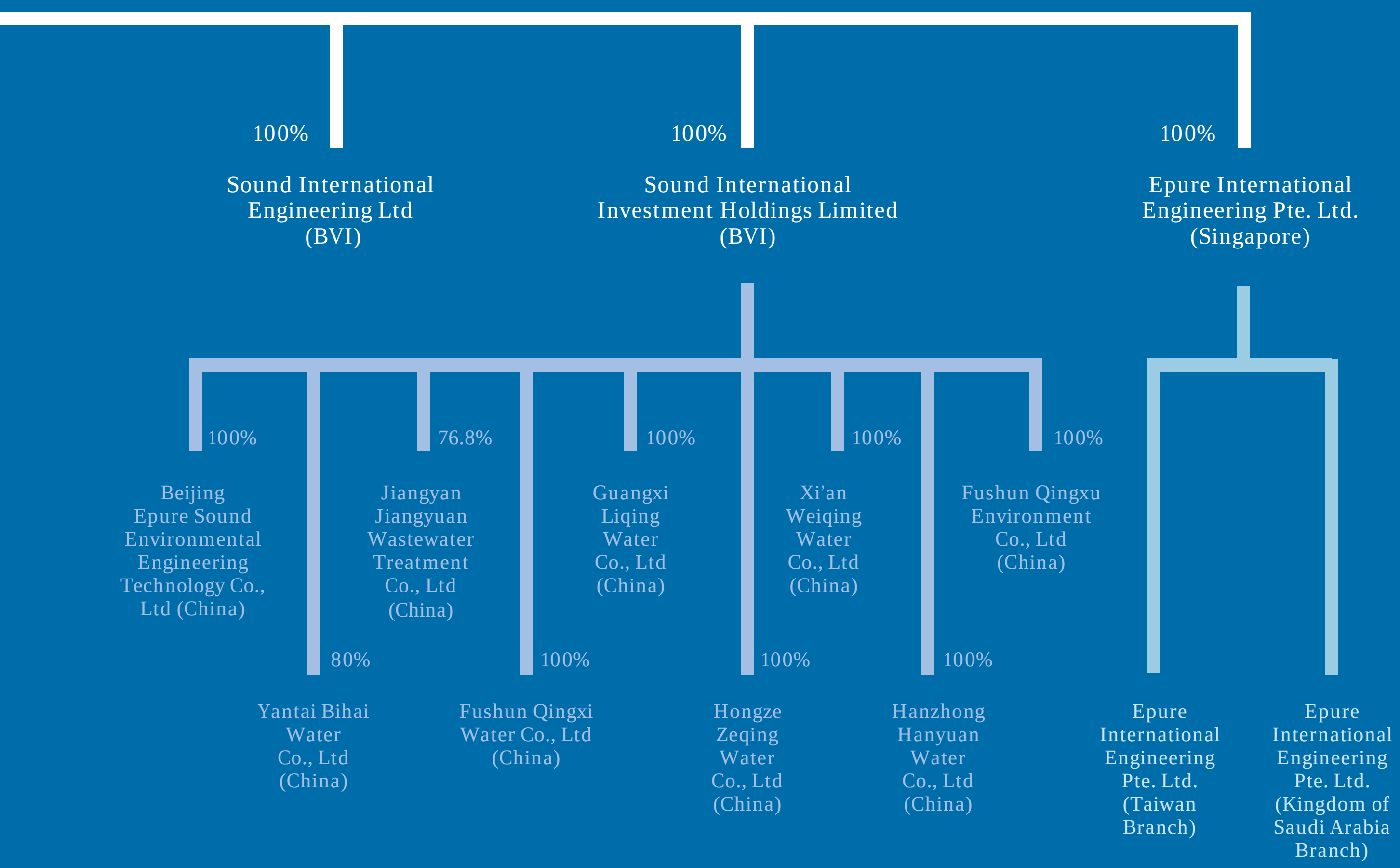
Ms. Wong Tak Yee, aged 55, has been one of our joint company secretaries since June 2010. Ms. Wong graduated with a bachelor degree of arts in language and translation from The Open University of Hong Kong in 2006 and also obtained her master degree of arts in English for the professions from The Hong Kong Polytechnic University in 2009. Ms. Wong is a Chartered Secretary and a fellow member of both The Institute of Chartered Secretaries and Administrators in United Kingdom and The Hong Kong Institute of Chartered Secretaries (HKICS). She also holds the Practitioner's Endorsement certificate issued by HKICS. From 1997 to 2000, Ms. Wong worked at Deloitte Touche Tohmatsu in Hong Kong as a senior manager of the company secretarial services department. Since 2000, Ms. Wong has been working at Tricor Group and is currently a director of the corporate services division of Tricor Services Limited. Ms. Wong has over 25 years of experience in providing corporate secretarial services and has been providing professional services to many listed companies in Hong Kong.

GROWING SOUNDLY

The young chick flaps its wings as hard as it can but it only manages to hop above the perch by a few centimetres. It tries again, this time with better result. It tries again, and again and again, and each time it hops a little higher. We know that as long as it continues to try, one day the chick will grow into a heron and sooner it will soar to the sky.

CORPORATE STRUCTURE
(AS AT FEBRUARY 29, 2012)




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

CORPORATE CALENDAR

JANUARY 2011

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

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

FEBRUARY

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

MARCH

APRIL

Secured BOT project in Henan Province
Sound Global won the bidding and signed an agreement for the wastewater treatment of Anyang National Hi-Tech Industrial Development Zone in Henan Province, PRC. With a designed scale of 50,000 tons per day, this project will be constructed and operated by adopting the BOT method. The investment of the project is about RMB120 million and the BOT plant has a concession period of 25 years when completed.

Establishment of a wholly-owned subsidiary in the People's Republic of China
Sound Global's wholly-owned subsidiary, Sound International Investment Holdings Limited, incorporated a wholly-owned subsidiary, Xi'an Weiqing Water Co., Ltd in Shaanxi Province, Xi'an City. The subsidiary's registered capital is US$3 million and its principal activity consists of municipal wastewater treatment and utilisation.

Establishment of a joint venture project management company in the People's Republic of China
A joint venture project management company, Changsha County Xianghai Water Co., Ltd., with registered capital of RMB43.5 million was incorporated on April 6 by the Company's wholly owned subsidiaries, Beijing Sound Environmental Engineering Co., Ltd. (80%) and Beijing Epure International Water Co., Ltd. (20%) in Hunan Province, Changsha City. Its principal activity involves wastewater treatment and utilisation.

FY2010 Annual General Meeting
FY 2010 Annual General Meeting was held on April 30, 2011, and all resolutions relating to the matters set out in Notices of AGM were duly passed.

MAY

First Quarter Results Announcement
1QFY2010 results was announced on May 11, 2011.

Sound Global and China National Technical Import & Export Corporation jointly won an EPC contract in Chittagong, Bangladesh
Sound Global, together with China National Technical Import & Export Corporation, successfully won the bid for the Karnaphuli Water Supply Implementation Project in Chittagong. This project is an Engineering, Procurement and Construction (EPC) contract and will take approximately 30 months to complete. The total contract amount is approximately USD50 million.

Secured the comprehensive improvement of rural environment project in Fushun County
Sound Global won a bid to undertake a project for the comprehensive improvement of rural environment in Fushun City, the PRC. The investment of the project is about RMB225 million and the construction will take approximately 24 months to complete. This project will be the demonstration project for the comprehensive improvement of rural environment in Fushun County, covering 50 villages in total, utilising Sound Global's advanced SMART patent technology in building multiple water treatment plants of domestic sewage and the ancillary facilities for pipe networks, as well as the design, procurement and installation of relevant equipment.

JUNE

Received approval in-principle for the listing and quotation of Convertible Bonds
On June 10, 2011, Sound Global received the approval in-principle from the SGX-ST for the listing and quotation of up to 60,476,526 new shares in the capital of the Company to be allotted and issued upon conversion of the RMB885,000,000 in principal amount of 6% Convertible Bonds due in year 2015.

Sound Global increase the loan amount from US$34 million to US$70 million with the International Finance Corporation (IFC)
On June 25, 2011, Sound Global entered into the Restated Loan Agreement with IFC pursuant to which IFC agreed to increase the principal amount of the loan facility granted by it to the Company from US$34 million to US$70 million. This loan will be used to finance the Group's BOT projects in the PRC. As one of the conditions for the disbursement of this loan, the Company is to enter into the Warrant Agreement with IFC, where IFC is entitled to subscribe for the Warrant Shares at the exercise price of SGD1.10 per Share. However, the Company and IFC have not entered into the Warrant Agreement as at that date.

JULY

Establishment of a wholly-owned subsidiary in the People's Republic of China
Sound Global's wholly-owned subsidiary, Sound International Investment Holdings Limited, incorporated a wholly-owned subsidiary, Hanzhong Hanyuan Water Co., Ltd. in Hanzhong City, Shanxi Province, the PRC. The subsidiary's registered capital is USD7.28 million and its principal activity consists of construction, operation and utilisation of municipal wastewater treatment.

Extraordinary General Meeting
Extraordinary General Meeting was held on July 22, 2011 and all the proposed resolutions relating to the matters set out in Notice of EGM, including the issue of 6% convertible bonds due 2015 with an agreegate principal amount of RMB885 million convertible into fully paid-up new ordinary shares of the Company and proposed adoption of the share purchase mandate, were duly passed.

CORPORATE CALENDAR

AUGUST

Second quarter results announcement
2Q FY2011 results was announced on Aug 8, 2011.

SEPTEMBER

Proposed issue of unlisted warrants
On September 20, 2011, the Company and IFC entered into the Warrant Agreement in respect of the Warrant Subscription by IFC. Each Warrant carries the right for IFC to subscribe for one Warrant Share at the initial Exercise Price of S$1.10 per Warrant Share during the Exercise Period. The estimated net proceeds from the full exercise of the Warrants of approximately USD25 million is intended to be used for the general working capital of the Group.

OCTOBER

Proposed issue of unlisted warrants
Received approval in-principle for the proposed issue of unlisted warrants
On October 6, 2011, SGX-ST granted approval in-principle for the listing and quotation of up to 28,154,545 warrant shares.

Secured a bid for five rural wastewater treatment projects in Jiangyan City
Sound Global won a bid to build and operate wastewater treatment plants in five rural towns, the regional water supply and the regional wastewater treatment in Jiangyan City, Jiangsu Province, in China. The project includes investment, build, operate and transfer of the wastewater treatment plants with a total daily treatment capacity of 13,000 tonnes, the building and transfer (BT) of the ancillary facilities for wastewater pipe networks, and the BT of the water supply pipe networks. The concession period is 25 years and a total investment of approximately RMB480 million. The construction period will last for 14 months and is expected to commence operation by late December 2012.

Investment in a new subsidiary in Anyang City, Henan Province in the People's Republic of China
Sound Global's wholly-owned subsidiary, Beijing Sound Environmental Engineering Co., Ltd, subscribed for a 90% stake Anyang Taiyuan Water Co., Ltd., a company incorporated in Anyang City, Henan Province, the PRC with a registered capital of RMB30 million. The remaining 10% stake is owned by an external party. Its principal activity involves construction and operation of municipal wastewater treatment project.

Sound Global won a municipal wastewater treatment project in Dongtai, Anshan City, Liaoning Province in the People's Republic of China
Sound Global won a bid for the municipal wastewater treatment project in Dongtai, Anshan City. The Company will invest and construct a wastewater treatment with a current designed capacity of 100,000 tonnes per day as a BOT project with a concession period of 30 years. The total investment of the project is approximately RMB202.7 million.

NOVEMBER

Secured the municipal wastewater treatment project in Ningyuan, Anshan City, Liaoning Province in the People's Republic of China
The Company won a bid for the municipal wastewater treatment project in Ningyuan, Anshan City. Sound Global Ltd. will invest and construct a wastewater treatment with a current designed capacity of 80,000 tonnes per day as a BOT project. The total investment of the project is approximately RMB190 million and the concession period of this project is 30 years.

Disposal of equity interest in Shanghai Chenghuan Co., Ltd (Shanghai Chenghuan)
The Company announced that its wholly-owned subsidiary, Beijing Sound Environmental Engineering Co., Ltd, has disposed its 20% equity interest in Shanghai Chenghuan for a consideration of approximately RMB2,046,000 to an independent third party. The Company's share of the net assets value of Shanghai Chenghuan at time of disposal was approximately RMB1,961,000, resulting in a gain on disposal of approximately RMB85,000.

Third quarter results announcement
3Q FY2011 results was announced on November 11, 2011.

Extraordinary General Meeting
Extraordinary General Meeting was held on November 11, 2011 and all the proposed resolutions relating to the matters set out in Notice of EGM, including the proposed issue of unlisted warrants, were duly passed.

DECEMBER

Secured a bid for a municipal wastewater treatment project in Dagushan, Anshan City, Liaoning Province in the People's Republic of China
The Company won the bid for the municipal wastewater treatment project in Dagushan, Anshan City, Liaoning Province. This project will be constructed and operated using the BOT method with a current designed capacity of 30,000 tonnes per day. The total investment for this project is approximately RMB94 million with a concession period of 30 years.

Investment in a new subsidiary in Xiangtan City, Hunan Province in the People's Republic of China
On December 6, 2011, an engineering company, Hunan Epure Environmental Engineering Co., Ltd. was incorporated by Sound Global's wholly owned subsidiaries, Beijing Sound Environmental Engineering Co., Ltd. (80%) and Beijing Epure International Water Co., Ltd. (20%) in Hunan Province, Xiangtan City. The subsidiary's registered capital is RMB30 million and its principal activity consists of research and develop treatment of municipal and industrial wastewater and water recycling technology and production techniques, provide technical consultation and services, sale of self-developed products, construction and other professional contract services, engineering design and consultation, and pollution control facilities services.

Incorporation of a wholly-owned subsidiary in Fushun City, Liaoning Province in the People's Republic of China
Sound Global's wholly-owned subsidiary, Sound International Investment Holdings Limited, incorporated a wholly-owned subsidiary, Fushun Qingxu Environment Co., Ltd. in Fushun City, Liaoning Province, the PRC with a registered capital of USD5 million. Its principal activity consists of wastewater treatment and utilisation and development of environmental protection projects.

JANUARY 2012

FEBRUARY

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

CORPORATE GOVERNANCE REPORT, FINANCIAL STATEMENTS AND OTHER INFORMATION

CORPORATE GOVERNANCE REPORT

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

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

1. BOARD MATTERS

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

1.1 Role of Board of Directors

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

1.2 The Board of Directors

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

Name of Director	Age	Date of first appointment	Date of last re-election	Position	Current Occupation
Wen Yibo	46	November 7, 2005	April 30, 2011	Executive Director and Chairman	Executive Director and Chairman
Wang Kai	49	December 24, 2010	April 30, 2011	Executive Director and CEO	Executive Director and CEO
Luo Liyang	38	February 2, 2011	April 30, 2011	Executive Director	Executive Director
Jiang Anping	39	October 3, 2011	NA	Executive Director	Executive Director
Wong See Meng	63	May 18, 2009	April 30, 2010	Independent Non-Executive Director	Independent Non-Executive Director

Name of Director	Age	Date of first appointment	Date of last re-election	Position	Current Occupation
Fu Tao	44	August 24, 2006	April 30, 2011	Independent Non-Executive Director	Director of the Water Policy Research Centre, Tsinghua University
Seow Han Chiang Winston	43	August 24, 2006	April 30, 2010	Independent Non-Executive Director	Corporate Partner, RHT Law LLP

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

For the year ended December 31, 2011, the Board has complied with the minimum requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors. The Board also complied with the requirement that at least one such independent non-executive Director should possess the appropriate professional qualifications of accounting or related financial management expertise under Rule 3.10 of the Listing Rules. Furthermore, the Company has received from each of its independent non-executive director an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and the Company considers the independent non-executive Directors to be independent. There is no relationship among members of the Board.

1.3 Board Processes

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

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

CORPORATE GOVERNANCE REPORT

The Board meets at least quarterly, to coincide with the announcements of the Group's quarterly results and whenever warranted by circumstances. The number of Board and Board Committee meetings held for the financial year ended December 31, 2011 and the attendance of each Director where relevant is as follows:

	Board	Audit Committee	Nomination Committee	Remuneration Committee
Number of meetings held	4	4	1	1
Wen Yibo	1*	1^*	1*	NA
	3	3^		
Wang Kai	4*	4^*	NA	NA
Li Li	NA	NA	NA	NA
(Resigned on February 2, 2011)				
Luo Liyang	2*	2^*	NA	NA
(Appointed on February 2, 2011)	2	2^		
Zhang Baolin	2	2^	NA	NA
(Resigned on October 3, 2011)				
Jiang Anping	1*	1^*	NA	NA
(Appointed on October 3, 2011)				
Wong See Meng	1*	1*	1	1
	3	3		
Fu Tao	1*	1*	NA	1*
	2	2		
Seow Han Chiang Winston	4	4	1	1

^: by invitation
*: via conference call

1.4 Training

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

1.5 Independent Non-Executive Directors

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

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

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

1.6 Matters Requiring Board Approval

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

The Board is also responsible for the following corporate matters:

- Approving quarterly, half-year and year-end financial results announcements;
- Reviewing the interim reports, annual reports and statutory accounts;
- Reviewing the broad policies, strategic and financial objectives;
- Overseeing the business conduct and affairs;
- Convening of shareholders' meetings;
- Reviewing material acquisitions and disposal of assets;
- Reviewing a framework for proper internal controls and risk management; and
- Ensuring the Group's compliance to laws, regulations, policies, guidelines and internal code of conduct.

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

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

1.7 Chairman and CEO

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

CORPORATE GOVERNANCE REPORT

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

Principle 6: Access to Information

1.8 Access to Information

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

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

2. BOARD COMMITTEES

Principle 4: Board Membership
Principle 5: Board Performance

2.1 Nomination Committee

The NC was formed in October 2006.

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

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

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

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

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

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

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

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

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

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

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

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

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

CORPORATE GOVERNANCE REPORT

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

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

Code Provision A.4.1 of the HK CG Code stipulates that non-executive Directors shall be appointed for a specific term, subject to re-election. Although the independent non-executive directors are not appointed for a specific term, all Directors shall submit themselves for re-election at least once every three years pursuant to the Company's Articles of Association. Under the Company's Articles of Association, any new Director so appointed by the Board shall hold office only until the next following Annual General Meeting ("AGM") of the Company and shall be then eligible for re-election at the meeting. Mr. Jiang Anping, Mr. Wong See Meng and Mr. Seow Han Chiang Winston will retire at the forthcoming AGM. The Nomination Committee recommended that they be nominated for re-appointment at the forthcoming AGM.

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

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

2.2 Remuneration Committee

Our RC was formed in October 2006.

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

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

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

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

Remuneration Matters

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

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

CORPORATE GOVERNANCE REPORT

The details of the remuneration of Directors and top five key executives of the Group disclosed in bands for services rendered during the financial year ended December 31, 2011 are as follows:

	Number of Directors		Top Five Key Executives	
	2011	2010	2011	2010
S$500,000 to below S$750,000	—	—	1	1
Below $250,000	9	9	4	4
Total	9	9	5	5

The summary table for compensation paid/payable to the Directors of the Group for the financial year ended December 31, 2011 is set out below:

Name	Salary %	Benefits In Kind %	Directors' Fees %	Total Compensation %
Executive Directors				
Below S$250,000				
Wen Yibo	64%	36%	—	100
Wang Kai	61%	39%	—	100
Li Li	67%	33%	—	100
Luo Liyang	54%	46%	—	100
Zhang Baolin	54%	46%	—	100
Jiang Anping	57%	43%	—	100
Independent Non-Executive Directors				
Below S$250,000				
Wong See Meng	—	—	100	100
Fu Tao	—	—	100	100
Seow Han Chiang Winston	—	—	100	100

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

Immediate Family Member of Directors/Substantial Shareholders

The Group does not have any employee who is an immediate family member of a Director, CEO and/or substantial shareholder whose remuneration exceeded S$150,000 during the financial year ended December 31, 2011.

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

2.3 Audit Committee

Our AC was formed in October 2006.

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

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

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

The functions of the AC are as follows:

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

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

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

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

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

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

g. review Interested Person Transactions.

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

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

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

CORPORATE GOVERNANCE REPORT

The AC has reviewed the independence of DT including the volume of non-audit services supplied by DT and is satisfied of DT's position as an independent external auditor. There is no disagreement between the Board and AC regarding the selection, appointment, resignation or dismissal of external auditors. During the year under review, the Group has paid an aggregate of approximately RMB3,767,000 to the external auditor for its audit services and has paid approximately RMB176,000 to the external auditors for tax consultancy services . The nature and extent of such services will not prejudice the independence and objectivity of the external auditors. The Board has accepted the AC's recommendation to nominate DT for re-appointment as external auditors at the forthcoming AGM of the Company.

The Company, all its subsidiaries and significant associates are audited by DT. Accordingly, Rule 716 of the Listing Manual of the Singapore Exchange Securities Trading Limited (the "Listing Manual") is not applicable. The Company complies with Rules 712 and 715 of the Listing Manual.

Internal Audit and Internal Controls

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

Any internal control weaknesses identified by the external auditors, DT, during the course of their audit, together with their recommendations to address such weaknesses, were reported to and reviewed by the AC.

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

Use of Proceeds from Placement and Convertible Bonds

Placement Proceeds

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

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

Convertible Bonds Proceeds

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

Use of Convertible Bonds Proceeds (USD'000)	Amount Allocated	Amount Deployed as at December 31, 2011
Investment and acquisition of BOT projects	75,944	57,082
For R&D	6,329	—
To repay certain existing indebtedness	12,657	9,963
General working capital and other general corporate purposes	31,644	31,644
Total	126,574	98,689

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

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

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

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended December 31, 2011. The Directors are responsible for overseeing the preparation of financial statements of the Company with a view to ensuring that such financial statements give a true and fair view of the state of affairs of the Group and that relevant statutory and regulatory requirements and applicable accounting standards are complied with.

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

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

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

CORPORATE GOVERNANCE REPORT

Dealings in Securities

The Company has adopted a code of conduct rules regarding securities transactions by the Directors on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (the "Model Code"). In addition, specific enquiry has been made to all Directors in relation to whether the Directors have complied with the required standard set out in the Model Code and its code of conduct regarding Directors' securities transactions. The Company was not aware of any information that reasonably suggested that the Directors had not complied with the requirements as stipulated in the Model Code during the year ended December 31, 2011.

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

Interested Person Transactions

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

On August 15, 2007, shareholders approved a general mandate for the Group to provide EPC and management services to Sound Group Limited, its subsidiaries and associated companies. This general mandate was renewed on April 30, 2011 and will be renewed at the forthcoming AGM.

The following table summarises the Interested Person Transactions entered into for the year ended December 31, 2011:

Name of Interested Person	Aggregate value of all Interested Person Transactions during the financial period under review (excluding transactions less than S$100,000 and transactions conducted under Shareholders' Mandate pursuant to Rule 920) RMB'000	Aggregate value of all Interested Person Transactions conducted under Shareholders' Mandate pursuant to Rule 920 (excluding transactions less than S$100,000) RMB'000
Beijing Guozhong Biotechnology Co., Ltd	NIL	46,200
Beijing Xiaojiahe Wastewater Treatment Engineering Co., Ltd.	NIL	1,960
Total	NIL	48,160

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

Risk Management

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

Material Contracts

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

REPORT OF THE DIRECTORS

The directors present their report together with the audited consolidated financial statements of the Group and the statement of financial position and statement of changes in equity of the Company for the financial year ended December 31, 2011.

1. PRINCIPAL ACTIVITIES

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

2. RESULTS AND DIVIDENDS

The Group's profit for the year ended December 31, 2011 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 79 to 154 and pages 158 to 227 of this annual report.

The final dividend for the year ended December 31, 2011 proposed by the directors is set out in Note 12 and Note 14 to the financial statements prepared in accordance with SFRSs and IFRSs respectively.

3. RESERVES

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

4. PROPERTY, PLANTS AND EQUIPMENT

Details of significant changes in the property, plant and equipment of the Group during the year are set out in Note 14 and Note 16 to the financial statements prepared in accordance with SFRSs and IFRSs respectively.

5. ISSUED CAPITAL

Movements in issued capital of the Group and the Company during the year are set out in Note 27 and Note 29 to the financial statements prepared in accordance with SFRSs and IFRSs respectively.

6. CONVERTIBLE LOAN NOTES

Details of the convertible loan notes of the Group and the Company during the year are set out in Note 32 and Note 30 to the financial statements prepared in accordance with SFRSs and IFRSs respectively.

7. WARRANTS

Details of the warrants of the Group and the Company during the year are set out in Note 33 and Note 31 to the financial statements prepared in accordance with SFRSs and IFRSs respectively.

8. PURCHASE, SALE AND REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the year ended December 31, 2011.

9. MAJOR SUPPLIERS AND CUSTOMERS

The purchase from the largest supplier of the Group for 2011 was approximately RMB106,986,000, which accounted for 7.2% of the total purchase of the Group for the year and the total purchase from the five largest suppliers was approximately RMB447,310,000, which accounted for 30.1% of the total purchases of the Group for the year. None of the Directors and their associates, or, so far as the Directors were aware, shareholders who owned more than 5% of the Company's issued capital had any interest in any of the five largest suppliers of the Group.

The sales to the largest customer of the Group for 2011 was approximately RMB330,000,000, which accounted for 14.4% of the total sales of the Group for the year and the total sales from the five largest customers was approximately RMB580,457,000, which accounted for 25.4% of the total sales of the Group for the year. None of the Directors and their associates, or, so far as the Directors were aware, shareholders who owned more than 5% of the Company's issued capital had any interest in any of the five largest customers of the Group.

10. DIRECTORS

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

Executive Directors	
Wen Yibo	(Chairman)
Wang Kai	(Chief Executive Officer)
Luo Liyang	(Appointed on February 2, 2011)
Jiang Anping	(Appointed on October 3, 2011)
Zhang Baolin	(Resigned on October 3, 2011)
Li Li	(Resigned on February 2, 2011)

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

In accordance with Articles 88 and 89 of the Articles of Association of the Company, Mr. Jiang Anping, Mr. Wong See Meng and Mr. Seow Han Chiang Winston will retire as Directors at the forthcoming AGM, and being eligible, offer themselves for re-election.

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

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

REPORT OF THE DIRECTORS

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

Neither at the end of the financial year nor at any time during the financial year did there subsist any arrangement whose object is to enable the directors of the Company to acquire benefits by means of the acquisition of shares or debentures in the Company or any other body corporate except for the options mentioned in paragraph 14 of the Report of the Directors.

12. DIRECTORS' INTERESTS IN SHARES AND DEBENTURES

(a) Disclosure under Singapore Law

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

Name of director and companies in which interest are held	Shareholdings registered in name of director		Shareholdings in which directors are deemed to have an interest	
	At January 1, 2011	At December 31, 2011	At January 1, 2011	At December 31, 2011
	Number of ordinary shares			
Sound Water (BVI) Limited — Ordinary shares of US$1.00 each				
Wen Yibo	515,505,600	**515,505,600**	186,278,400	**186,278,400**
The Company				
Wen Yibo	—	**1,907,000**	713,289,000	**713,289,000**

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

The directors' interests in the shares and options of the Company at January 21, 2012 were the same as those as at December 31, 2011.

(b) Disclosure under Hong Kong law

As at December 31, 2011, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which (a) were required to be notified to the Company and SEHK pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to Section 352 of the SFO, to be recorded in the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules, to be notified to the Company and SEHK were as follows:

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

(A) The Company

Name	Number of Shares held, capacity and nature of interest				Percentage to the issued share capital of the Company (%)
	Directly beneficially owned	Through spouse or minor children	Through controlled corporation	Total	
Wen Yibo	1,907,000	—	701,784,000 *(Note 1)*	703,691,000	54.55
Wang Kai	3,075,000 *(Note 2)*	—	—	3,075,000	0.24
Luo Liyang	3,057,400 *(Note 3)*	—	—	3,057,400	0.24
Jiang Anping	1,140,000 *(Note 4)*	—	—	1,140,000	0.09

Notes:

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

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

3. Mr. Luo Liyang was granted share options to subscribe for 3,057,400 Shares of the Company under the Epure Share Option Scheme of the Company.

4. Mr. Jiang Anping was granted share options to subscribe for 1,140,000 Shares of the Company under the Epure Share Option Scheme of the Company.

REPORT OF THE DIRECTORS

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

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

Note:

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

Save as disclosed above, as at December 31, 2011, none of the Directors or chief executive of the Company had any interest or short position in the Shares, underlying Shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and SEHK pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests and short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules, to be notified to the Company and SEHK.

13. DIRECTORS' RECEIPT AND ENTITLEMENT TO CONTRACTUAL BENEFITS

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

14. SHARE OPTION

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

The Scheme is administered by the RC comprising:

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

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

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

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

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

The consideration for the grant of an option is S$1.00 which should be paid within 30 days from the date of offer. Options granted with the exercise price shall only be exercised after the first anniversary but before the fifth anniversary of the date of grant of that option.

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

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

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

REPORT OF THE DIRECTORS

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

No options to take up unissued shares of the Company or any subsidiary were granted under the Scheme since the date of adoption up to December 31, 2011. As at the date of this Annual Report, the total number of shares which may be issued upon exercise of all options to be granted under the Scheme is 129,000,000 shares, representing 10% of the issued share capital of the Company. The remaining life of the Scheme is approximately 8 years.

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

The Group adopted the Epure Scheme on August 15, 2007 and the Epure Scheme was terminated upon listing on the SEHK. No further options are available for issue under the Epure Scheme as at the date of this Annual Report.

As at December 31, 2011, the number of shares in respect of which options had been granted under the Epure Scheme was 64,500,000 (2010: 64,500,000), representing 5% (2010: 5%) of the shares of the Company in issue at that date.

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

Date of grant	Vesting period	Exercisable period	Exercisable price	Outstanding at January 1, 2011	Forfeited	Outstanding at December 31, 2011
July 23, 2010	July 23, 2011 to July 22, 2014	July 23, 2011 to July 22, 2015	S$0.745	58,304,000	(15,314,800)	42,989,200

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

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

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

Name	Date of grant	Vesting period	Exercisable period	Exercisable price	Outstanding at January 1, 2011	Forfeited	Outstanding at December 31, 2011
Director							
Wang Kai	July 23, 2010	July 23, 2011 to July 22, 2014	July 23, 2011 to July 22, 2015	S$0.745	3,075,000	—	3,075,000
Luo Liyang	July 23, 2010	July 23, 2011 to July 22, 2014	July 23, 2011 to July 22, 2015	S$0.745	3,057,400	—	3,057,400
Jiang Anping	July 23, 2010	July 23, 2011 to July 22, 2014	July 23, 2011 to July 22, 2015	S$0.745	1,140,000	—	1,140,000
Zhang Baolin*	July 23, 2010	July 23, 2011 to July 22, 2014	July 23, 2011 to July 22, 2015	S$0.745	3,080,000	(3,080,000)	—
Li Li **	July 23, 2010	July 23, 2011 to July 22, 2014	July 23, 2011 to July 22, 2015	S$0.745	3,650,000	(3,650,000)	—
Other employees	July 23, 2010	July 23, 2011 to July 22, 2014	July 23, 2011 to July 22, 2015	S$0.745	44,301,600	(8,584,800)	35,716,800

* Resigned on October 3, 2011.

** Resigned on February 2, 2011.

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

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

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

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

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

REPORT OF THE DIRECTORS

15. SUBSTANTIAL SHAREHOLDERS

As at December 31, 2011, so far as is known to the Directors or chief executive of the Company, the following persons (other than the Directors or chief executive of the Company) had interests or short positions in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company under Section 336 of the SFO or as the Company is aware:

Name	Number of shares	Percentage to the issued share capital of company (%)
Zhang Huiming	703,691,000 *(Note 1)*	54.55
Sound Water (BVI) Limited	701,784,000 (L)	54.40 (L)
International Finance Corporation	132,104,545 (L)	10.02 (L)
Morgan Stanley	134,192,421 (L)	10.40 (L)
	132,656,420 (S)	10.28 (S)
Deutsche Bank Aktiengesellschaft	95,921,011 (L)	7.44 (L)
	29,722,478 (S)	2.30 (S)
JP Morgan Chase & Co.	77,560,696 (L)	6.01 (L)
	77,536,696 (P)	6.01 (P)
Norges Bank	77,751,000 (L)	6.03 (L)

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

Note:

1. These Shares were held by her husband, Mr. Wen Yibo (1,907,000 Shares) and Sound Water (BVI) Limited (701,784,000 Shares), a company which was owned by Mr. Wen Yibo and his wife, Ms. Zhang Huiming as to 90% and 10% respectively. Hence, Ms. Zhang Huiming was deemed to be interested in the 703,691,000 Shares of the Company held by Mr. Wen Yibo and Sound Water (BVI) Limited.

Save as disclosed above, as at December 31, 2011, no person (other than Directors or chief executive of the Company) had an interest or a short position in the Shares and underlying Shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

16. AUDIT COMMITTEE

The AC comprises three Independent Non-Executive Directors. As at the date of this Report, the AC comprises the following members:

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

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

The functions of the AC are as follows:

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

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

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

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

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

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

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

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

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

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

REPORT OF THE DIRECTORS

17. AUDITORS

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

18. PRE-EMPTIVE RIGHTS

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

19. SUFFICIENT PUBLIC FLOAT

Based on information that is publicly available to the Company and with the knowledge of the Directors, the Company had maintained sufficient public float as at December 31, 2011.

ON BEHALF OF THE DIRECTORS

Wen Yibo

Luo Liyang

March 8, 2012

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

STATEMENT OF DIRECTORS

In the opinion of the directors, the consolidated financial statements of the Group and the statement of financial position and statement of changes in equity of the Company as set out on pages 79 to 154 are drawn up so as to give a true and fair view of the state of affairs of the Group and of the Company as at December 31, 2011, and of the results, changes in equity and cash flows of the Group and changes in equity of the Company for the financial year then ended and at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts when they fall due.

ON BEHALF OF THE DIRECTORS

Wen Yibo

Luo Liyang

March 8, 2012

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF SOUND GLOBAL LTD.

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Sound Global Ltd. (the "Company") and its subsidiaries (the "Group") which comprise the statements of financial position of the Group and the Company as at December 31, 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows of the Group and the statement of changes in equity of the Company for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 79 to 154.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

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

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

OPINION

In our opinion, the consolidated financial statement of the Group and the statement of financial position and statement of changes in equity of the Company are properly drawn up in accordance with the provisions of the Act and Singapore Financial Reporting Standards so as to give a true and fair view of the state of affairs of the Group and of the Company as at December 31, 2011 and of the results, changes in equity and cash flows of the Group and changes in equity of the Company for the year ended on that date.

INDEPENDENT AUDITORS' REPORT

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

Deloitte & Touche LLP
Public Accountants and
Certified Public Accountants
Singapore

March 8, 2012

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2011

	NOTES	2011	2010
		RMB'000	RMB'000
Revenue	6	**2,287,575**	1,765,672
Cost of sales		**(1,565,523)**	(1,229,527)
Gross profit		**722,052**	536,145
Other income	7	**34,105**	23,401
Other expenses	8	**(10,888)**	(76,753)
Distribution and selling expenses		**(24,590)**	(12,815)
Research and development expenses		**(12,766)**	(4,863)
Administrative expenses		**(118,512)**	(79,219)
Share of result of an associate		**(81)**	(14)
Gain on disposal of an associate		**85**	—
Finance costs	9	**(108,197)**	(36,815)
Profit before income tax		**481,208**	349,067
Income tax expenses	10	**(67,383)**	(59,877)
Profit for the year	11	**413,825**	289,190
Other comprehensive income			
Exchange difference arising on translation and total other comprehensive income for the year		**641**	366
Total comprehensive income for the year		**414,466**	289,556
Profit for the year attributable to:			
Owners of the Company		**413,825**	289,104
Non-controlling interests		**—**	86
		413,825	289,190
Total comprehensive income attributable to:			
Owners of the Company		**414,466**	289,470
Non-controlling interests		**—**	86
		414,466	289,556
Earnings per share (in RMB cents)			
Basic	13	**32.08**	22.41
Diluted	13	**31.32**	22.41

STATEMENTS OF FINANCIAL POSITION

AT DECEMBER 31, 2011

	NOTES	Group 2011	Group 2010
		RMB'000	RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**47,527**	46,719
Interest in an associate	18	**—**	2,547
Land use rights	16	**44,294**	45,454
Intangible assets	15	**30,000**	40,000
Goodwill	17	**41,395**	41,395
Service concession receivables	19	**1,083,659**	665,118
Deferred tax assets	20	**7,372**	7,372
		1,254,247	848,605
CURRENT ASSETS			
Inventories	21	**21,587**	12,056
Trade and other receivables	23	**1,120,279**	808,750
Land use rights	16	**1,158**	1,158
Amounts due from customers for contract work	22	**427,640**	337,651
Restricted bank balances	24	**56,847**	314,726
Bank balances and cash	24	**2,074,426**	2,027,352
		3,701,937	3,501,693
CURRENT LIABILITIES			
Trade and other payables	25	**871,297**	886,414
Tax payables		**54,949**	30,260
Borrowings — due within one year	26	**311,838**	430,200
Amounts due to customers for contract work	22	**7,809**	9,611
Convertible loan notes	32	**818,252**	—
		2,064,145	1,356,485
NET CURRENT ASSETS		**1,637,792**	2,145,208
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,892,039**	2,993,813
NON-CURRENT LIABILITIES			
Deferred tax liabilities	20	**39,065**	31,584
Borrowings — due after one year	26	**540,352**	241,096
Convertible loan notes	32	**—**	784,878
Warrants	33	**7,953**	—
		587,370	1,057,558
TOTAL ASSETS LESS TOTAL LIABILITIES		**2,304,669**	1,936,255
CAPITAL AND RESERVES			
Issued capital	27	**833,368**	833,368
Reserves		**1,460,701**	1,095,287
Equity attributable to owners of the Company		**2,294,069**	1,928,655
Non-controlling interests		**10,600**	7,600
		2,304,669	1,936,255

	NOTES	Company 2011 RMB'000	2010 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**80**	69
Investment in subsidiaries	39	**802,551**	802,551
		802,631	802,620
CURRENT ASSETS			
Trade and other receivables	23	**1,412,725**	855,977
Restricted bank balances	24	**—**	222,280
Bank balances and cash	24	**60,246**	145,075
		1,472,971	1,223,332
CURRENT LIABILITIES			
Trade and other payables	25	**11,924**	21,653
Borrowings — due within one year	26	**28,758**	—
Convertible loan notes	32	**818,252**	—
		858,934	21,653
NET CURRENT ASSETS		**614,037**	1,201,679
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,416,668**	2,004,299
NON-CURRENT LIABILITIES			
Borrowings — due after one year	26	**391,652**	215,096
Convertible loan notes	32	**—**	784,878
Warrants	33	**7,953**	—
		399,605	999,974
TOTAL ASSETS LESS TOTAL LIABILITIES		**1,017,063**	1,004,325
CAPITAL AND RESERVES			
Issued capital	27	**833,368**	833,368
Reserves		**183,695**	170,957
		1,017,063	1,004,325

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2011

	Group										
	Issued capital	Merger reserve	Capital reserve	Translation reserve	Share options reserve	Convertible loan notes reserve	Statutory surplus reserve	Retained earnings	Attributable to owners of the Company	Non-controlling interests	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Note 27)	*(Note 28)*	*(Note 29)*		*(Note 31)*	*(Note 32)*	*(Note 30)*				
Balance at January 1, 2010	833,368	(88,296)	34,010	—	—	—	60,529	733,435	1,573,046	18,898	1,591,944
Profit for the year	—	—	—	—	—	—	—	289,104	289,104	86	289,190
Other comprehensive income for the year	—	—	—	366	—	—	—	—	366	—	366
Total comprehensive income for the year	—	—	—	366	—	—	—	289,104	289,470	86	289,556
Transfer to reserve fund	—	—	—	—	—	—	3,208	(3,208)	—	—	—
Recognition of equity component of convertible loan notes	—	—	—	—	—	79,676	—	—	79,676	—	79,676
Recognition of equity-settled share based payments	—	—	—	—	12,479	—	—	—	12,479	—	12,479
Contribution from non-controlling interest	—	—	—	—	—	—	—	—	—	7,600	7,600
Acquisition of additional interest in a subsidiary	—	—	984	—	—	—	—	—	984	(18,984)	(18,000)
Deemed distribution to the ultimate holding company	—	—	(27,000)	—	—	—	—	—	(27,000)	—	(27,000)
Balance at December 31, 2010	833,368	(88,296)	7,994	366	12,479	79,676	63,737	1,019,331	1,928,655	7,600	1,936,255
Profit for the year	—	—	—	—	—	—	—	413,825	413,825	—	413,825
Other comprehensive income for the year	—	—	—	641	—	—	—	—	641	—	641
Total comprehensive income for the year	—	—	—	641	—	—	—	413,825	414,466	—	414,466
Transfer to reserve fund	—	—	—	—	—	—	75,758	(75,758)	—	—	—
Recognition of equity-settled share based payments	—	—	—	—	17,882	—	—	—	17,882	—	17,882
Acquisition of a subsidiary (Note 34)	—	—	—	—	—	—	—	—	—	3,000	3,000
Dividends paid (Note 12)	—	—	—	—	—	—	—	(66,934)	(66,934)	—	(66,934)
Balance at December 31, 2011	833,368	(88,296)	7,994	1,007	30,361	79,676	139,495	1,290,464	2,294,069	10,600	2,304,669

	Company					
	Issued capital	Capital reserve	Share option reserve	Convertible loan notes reserve	Retained earnings	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Note 27)		*(Note 31)*	*(Note 32)*		
Balance at January 1, 2010	833,368	7,010	—	—	6,608	846,986
Total comprehensive income for the year	—	—	—	—	65,184	65,184
Recognition of equity component of convertible loan notes	—	—	—	79,676	—	79,676
Recognition of equity-settled share-based payments	—	—	12,479	—	—	12,479
Balance at December 31, 2010	833,368	7,010	12,479	79,676	71,792	1,004,325
Total comprehensive income for the year	—	—	—	—	61,790	61,790
Dividend (Note 12)	—	—	—	—	(66,934)	(66,934)
Recognition of equity-settled share-based payments	—	—	17,882	—	—	17,882
Balance at December 31, 2011	833,368	7,010	30,361	79,676	66,648	1,017,063

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2011

	NOTE	2011	2010
		RMB'000	RMB'000
OPERATING ACTIVITIES			
Profit before income tax		**481,208**	349,067
Adjustments for:			
Depreciation of property, plant and equipment		**3,975**	3,149
Amortization of land use rights		**1,160**	1,158
Amortization of intangible assets		**10,000**	10,000
Interest income		**(31,378)**	(23,254)
Finance costs		**108,197**	36,815
Allowance for doubtful debts		**83**	—
Foreign exchange gain and loss		**8,745**	(4,062)
Loss on disposal of property, plant and equipment		**80**	8
Share-based payment expenses		**17,882**	12,479
Gain on disposal of an associate		**(85)**	—
Share of result of an associate		**81**	14
Operating cash flows before movements in working capital		**599,948**	385,374
Increase in inventories		**(9,531)**	(513)
Increase in trade and other receivables		**(310,220)**	(389,667)
Increase in service concession receivables		**(395,969)**	(231,399)
Increase in amounts due from customers for contract work		**(89,989)**	(110,562)
(Decrease) increase in trade and other payables		**(2,105)**	164,965
Decrease in amounts due to customers for contract work		**(1,802)**	(14,653)
Cash used in operations		**(209,668)**	(196,455)
Income taxes paid		**(35,213)**	(32,449)
Income taxes refunded		**—**	309
Net cash used in operating activities		**(244,881)**	(228,595)
INVESTING ACTIVITIES			
Interest received		**10,006**	5,282
Purchases of property, plant and equipment		**(4,869)**	(2,309)
Proceeds from disposal of property, plant and equipment		**2**	44
Proceeds from disposal of an associate		**2,046**	—
Dividend received from an associate		**505**	—
Deemed acquisition of a subsidiary	34	**459**	—
Disposal of available for sale investment		**—**	2,700
Increase in restricted bank balances		**(20,308)**	(245,789)
Decrease in restricted bank balances		**269,490**	—
Net cash from (used in) investing activities		**257,331**	(240,072)

	NOTE	2011	2010
		RMB'000	RMB'000
FINANCING ACTIVITIES			
Interest paid		**(87,886)**	(15,845)
Payment of dividends		**(66,934)**	—
Payment for combination of Anyang Mingbo		**—**	(45,000)
Proceeds on issue of convertible loan notes		**—**	859,565
Capital contribution from non-controlling interests		**—**	7,600
Borrowings raised		**649,847**	694,350
Repayments of borrowings		**(451,791)**	(238,700)
Net cash from financing activities		**43,236**	1,261,970
Net increase in cash and cash equivalents		**55,686**	793,303
Cash and cash equivalents at beginning of year		**2,027,352**	1,237,698
Effect of foreign exchange rate changes		**(8,612)**	(3,649)
Cash and cash equivalents at end of year represented by bank balances and cash		**2,074,426**	2,027,352

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2011

1. GENERAL INFORMATION

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

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

The principal activities of its subsidiaries and associate are detailed in Notes 39 and 18 to the financial statements respectively. The principal places of business for its main subsidiaries are at the National Environmental Protection Industry Zone, Tongzhou district, Beijing PRC.

The consolidated financial statements of the Group and statement of financial position and statement of changes in equity of the Company for the year ended December 31, 2011 were authorised for issue by the Board of Directors on March 8, 2012.

2. APPLICATION OF NEW AND REVISED FINANCIAL REPORTING STANDARDS

In the current financial year, the Group has adopted all the new and revised FRSs and Interpretations of FRS ("INT FRS") that are relevant to its operations and effective for annual periods beginning on or after January 1, 2011. The adoption of these new/revised FRSs and INT FRSs does not result in changes to the Group's and Company's accounting policies and has no material effect on the amounts reported for the current or prior years.

At the date of authorisation of these financial statements, the following new/revised FRSs, INT FRSs and amendments to FRS that are relevant to the Group and the Company were issued but not effective:

- Amendments to FRS 1 *Presentation of Financial Statements — Amendments relating to Presentation of Items of Other Comprehensive Income*
- Amendments to FRS 12 *Income Taxes — Deferred Taxes: Recovery of Underlying Assets*
- Amendments to FRS 19 *Employee Benefits*
- FRS 27 (Revised) *Separate Financial Statements*
- FRS 28 (Revised) *Investments in Associates and Joint Ventures*
- Amendments to FRS 107 *Financial Instrument: Disclosures — Transfer of Financial Assets*
- FRS 110 *Consolidated Financial Statements*
- FRS 111 *Joint Arrangements*
- FRS 112 *Disclosure of Interests in Other Entities*
- FRS 113 *Fair Value Measurement*

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

The management anticipates that the adoption of the above FRSs, INT FRSs and amendments to FRS in future periods will not have a material impact on the financial statements of the Group and of the Company in the period of their initial adoption.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

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

Basis of consolidation

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

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Business combinations

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

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

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

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments

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

Effective interest method

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

Financial assets

Cash and cash equivalents

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

Loans and receivables

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

Impairment of financial assets

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

The objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial reorganisation.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Financial assets (Cont'd)

Impairment of financial assets (Cont'd)

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

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

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

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

Derecognition of financial assets

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

Financial liabilities and equity instruments

Classification as debt or equity

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

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Financial liabilities and equity instruments (Cont'd)

Equity instruments

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

Other financial liabilities

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

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

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

Financial guarantee contracts

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

Derecognition of financial liabilities

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

Leases

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Leases (Cont'd)

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

Inventories

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

Land use rights

Land use rights are stated at cost and amortized on a straight-line basis over the lease terms to statement of comprehensive income. Land use rights which are to be amortized in the next twelve months or less are classified as current assets.

Property, plant and equipment

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Property, plant and equipment (Cont'd)

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

Associate

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

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

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

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

Intangible assets

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

Intangible assets acquired in a business combination

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Intangible assets (Cont'd)

Intangible assets acquired in a business combination (Cont'd)

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

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

Patents	—	6.5 years

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

Goodwill

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

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

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

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

Impairment of tangible and intangible assets excluding goodwill

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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

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

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

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

Research and development expenditures

Expenditure on research activities is recognised as an expense in the period in which it is incurred. An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial operation. The resultant asset is amortised on a straight-line basis over its useful life, and carried at cost less accumulated amortisation and any accumulated impairment losses.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred. Subsequent to initial recognition, internally-generated intangible asset is reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

Provisions

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Share-based payments

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

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

Convertible loan notes

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

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

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

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

Government grants

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

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Service concession arrangements

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

Financial asset — service concession receivables

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

Revenue recognition

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

Construction contracts

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Revenue recognition (Cont'd)

Sale of goods

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

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

Rendering of services

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

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

Interest and finance income

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

Borrowing costs

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Retirement benefit costs

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

Employee leave entitlement

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

Income tax

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Income tax (Cont'd)

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

Foreign currency transactions and translation

The individual financial statements of each group entity are measured and presented in the currency of the primary economic environment in which the entity operates (its functional currency). The consolidated financial statements of the Group and the statement of financial position and statement of changes in equity of the Company are presented in Renminbi, which is the functional currency of the Company and the presentation currency for the consolidated financial statements.

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

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

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

Exchange differences on transactions entered into in order to hedge certain foreign currency risks are described in the hedge accounting policies above.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Foreign currency transactions and translation (Cont'd)

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

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

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

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

Reserves

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

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

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3 to the financial statements, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

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

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

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

ii. Key sources of estimation uncertainty

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

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

The Group makes allowances for bad and doubtful debts based on an assessment of the recoverability of trade and other receivables. Allowances are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts requires the exercise of judgement and the use of estimates. Where the expectation is different from the original estimate, such difference will impact carrying value of trade and other receivables and doubtful debts expenses in the period in which such estimate has been changed. The carrying amount of the trade and other receivables, and amount due from contract customers are disclosed in Notes 23 and 22 to the financial statements respectively.

Revenue recognition

The Group recognises contract revenue based on the stage of completion method. The stage of completion is measured in accordance with the accounting policy stated in Note 3 to the financial statements. Significant assumptions are required in determining the stage of completion, the extent of the contract cost incurred, the estimated total contract revenue and contract cost and the recoverability of the costs. In making the assumptions, the Group evaluates by relying on past experience and the work of specialists. Revenue from construction contracts is disclosed in Note 6 to the financial statements.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating operating unit and a suitable discount rate in order to calculate present value. The carrying amount of goodwill is disclosed in Note 17 to the financial statements.

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

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

Impairment of intangible assets

Determining whether the intangible assets are impaired requires an estimation of the value in use of the cash-generating units to which such intangible asset has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected from the cash-generating units and an appropriate discount rate in order to calculate the present value of the future cash flows. Management has evaluated that the carrying amount of the intangible assets based on third-party specialists' valuation and is confident that the carrying amount of such intangible assets will be recovered in full. The carrying amount of the intangible assets at the end of the reporting period is disclosed in Note 15 to the financial statements.

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

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

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

The carrying amount of the service concession receivables at the end of the reporting period is disclosed in Note 19 to the financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2011

5. SEGMENT INFORMATION

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

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

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

The accounting policies of the operating segments are the same as the Group's accounting policies describe in Note 3. Segment results represent the profits earned by each segment without allocation of central administration costs, directors' remuneration, share of result of an associate, gain on disposal of an associate, interest income, foreign exchange gains and losses, finance costs at corporate level.

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

5. SEGMENT INFORMATION (Cont'd)

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

	Turnkey projects and services	Equipment Fabrications	O&M	Elimination	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
2011					
Revenue					
External sales	**2,169,608**	**58,191**	**59,776**	**—**	**2,287,575**
Inter-segment sales	**—**	**181,050**	**—**	**(181,050)**	**—**
Total revenue	**2,169,608**	**239,241**	**59,776**	**(181,050)**	**2,287,575**
Segment results	**528,211**	**52,019**	**27,077**	**—**	**607,307**
Unallocated income					**1,248**
Unallocated expenses					**(127,351)**
Share of result of an associate					**(81)**
Gain on disposal of an associate					**85**
Profit before income tax					**481,208**
2010					
Revenue					
External sales	1,610,619	124,406	30,647	—	1,765,672
Inter-segment sales	—	52,193	—	(52,193)	—
Total revenue	1,610,619	176,599	30,647	(52,193)	1,765,672
Segment results	413,381	27,656	21,921	—	462,958
Unallocated expenses					(113,877)
Share of result of an associate					(14)
Profit before income tax					349,067

Inter-segment sales are charged at prevailing market prices. These transfers are eliminated on consolidation.

Segment assets represent property, plant and equipment, land use rights, intangible assets, goodwill, service concession receivables, deferred tax assets, inventories, trade and other receivables, amounts due from customers for contract work, restricted bank balances and bank balances and cash, which are attributable to each operating segment. Segment liabilities represent trade and other payables, tax payables, borrowings, amounts due to customers for contract work and deferred tax liabilities except for those arisen from undistributed profits of the PRC subsidiaries and fair value adjustment on business combination, which are attributable to each operating segment. In the internal reports regularly reviewed by the CODM, tax payables and deferred tax assets/liabilities are allocated to each segment, if applicable without allocating the related income tax expenses to relevant segments results.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

5. SEGMENT INFORMATION (Cont'd)

As of December 31, 2011

	Turnkey projects and services	Equipment Fabrications	O&M	Elimination	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Assets and Liabilities					
Segment assets	3,547,502	551,453	1,641,784	(846,522)	4,894,217
Unallocated corporate assets *(note a)*					61,967
Consolidated assets					4,956,184
Segment liabilities	1,415,234	217,062	593,119	(846,522)	1,378,893
Deferred tax liabilities					26,008
Unallocated corporate liabilities *(note b)*					1,246,614
Consolidated liabilities					2,651,515

As of December 31, 2010

	Turnkey projects and services	Equipment Fabrications	O&M	Elimination	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Assets and Liabilities					
Segment assets	3,192,166	521,309	939,067	(684,208)	3,968,334
Interest in an associate					2,547
Unallocated corporate assets *(note a)*					379,417
Consolidated assets					4,350,298
Segment liabilities	1,438,904	229,466	405,224	(684,208)	1,389,386
Deferred tax liabilities					24,104
Unallocated corporate liabilities *(note b)*					1,000,553
Consolidated liabilities					2,414,043

Notes:

(a) Unallocated corporate assets mainly represent bank balances and cash, restricted bank balances, other receivable and property, plant and equipment at corporate level.

(b) Unallocated corporate liabilities represent borrowings, convertible loan notes, tax payable, warrants and other payable at corporate level.

5. SEGMENT INFORMATION (Cont'd)

Other information

For the year ended December 31, 2011

	Turnkey projects and services	Equipment Fabrications	O&M	Elimination	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Additions to non-current assets excluding financial instruments and deferred tax assets	**1,704**	**754**	**2,314**	**97**	**4,869**
Depreciation and amortization	**1,499**	**12,802**	**748**	**86**	**15,135**
Interest income	**8,194**	**497**	**67**	**1,248**	**10,006**
Imputed interest income on service concession receivables	**—**	**—**	**21,372**	**—**	**21,372**
Loss on disposal of property, plant and equipment	**80**	**—**	**—**	**—**	**80**
Finance costs	**12,218**	**1,203**	**11,804**	**82,972**	**108,197**

For the year ended December 31, 2010

	Turnkey projects and services	Equipment Fabrications	O&M	Elimination	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Additions to non-current assets excluding financial instruments and deferred tax assets	858	269	1,120	62	2,309
Depreciation and amortization	1,314	12,739	223	31	14,307
Interest income	5,071	202	9	—	5,282
Imputed interest income on service concession receivables	—	—	17,972	—	17,972
Loss on disposal of property, plant and equipment	2	6	—	—	8
Finance costs	7,409	232	5,386	23,788	36,815

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

5. SEGMENT INFORMATION (Cont'd)

Geographical information

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

	2011	2010
	RMB'000	RMB'000
Revenue from external customers		
The PRC	**1,957,120**	1,597,803
Saudi Arabia	**330,455**	167,869
	2,287,575	1,765,672
Non-current assets		
The PRC	**162,890**	175,826
Saudi Arabia	**326**	289
	163,216	176,115

Revenue from Power & Water Utility Company for Jubail & Yanbu (Marafiq) in turnkey projects and services segment contributed 14.45% of the Group's total revenue for the year ended December 31, 2011. No revenue from a single external customer amounted to 10% or more of the Group's revenue for the year ended December 31, 2010.

6. REVENUE

	2011	2010
	RMB'000	RMB'000
Revenue from construction contracts (including turnkey services and sales of equipments related to construction contracts)	**2,115,751**	1,563,258
Revenue from sale of goods	**58,191**	124,406
Operating and maintenance income	**59,776**	30,647
Design service	**53,857**	47,361
	2,287,575	1,765,672

7. OTHER INCOME

	2011	2010
	RMB'000	RMB'000
Interest income	**10,006**	5,282
Imputed interest income on service concession receivables	**21,372**	17,972
Government grant	**2,621**	—
Sundry income	**106**	147
	34,105	23,401

8. OTHER EXPENSES

	2011	2010
	RMB'000	RMB'000
Expenses related to listing on the SEHK	—	59,156
Net foreign exchange losses	**10,805**	17,597
Allowance for doubtful debts	**83**	—
	10,888	76,753

9. FINANCE COSTS

	2011	2010
	RMB'000	RMB'000
Interest expenses on borrowings	**37,212**	16,338
Interest expenses on convertible loan notes	**70,985**	20,477
	108,197	36,815

10. INCOME TAX EXPENSES

	2011	2010
	RMB'000	RMB'000
The charge comprises:		
Current tax		
PRC income tax	**59,906**	48,111
Over provision in prior year		
PRC income tax	**(4)**	—
Singapore income tax	—	(309)
	(4)	(309)
Deferred tax *(Note 20)*	**7,481**	12,075
	67,383	59,877

The Singapore income tax represents income tax in Singapore which is calculated at the prevailing tax rate on the taxable income of companies established in Singapore. For the years ended December 31, 2010 and 2011, the tax rate was 17%.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the statutory tax rate of the PRC subsidiaries is 25%.

The EIT Law provides that qualified dividend income between two "resident enterprises" that have a direct investment relationship is exempted from income tax. Otherwise, such dividends will be subject to a withholding tax under the tax treaty or the domestic law.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

10. INCOME TAX EXPENSES (Cont'd)

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

	2011	2010
	%	%
Beijing Sound *(note i)*	**15**	15
Beijing Epure International Water Co., Ltd ("Beijing Epure") *(note ii)*	**7.5**	7.5
Beijing Hi-Standard Water Treatment Equipment Co., Ltd ("Hi-standard Equipment") *(notes iii)*	**15**	15
Xi'an Huqing Water Co., Ltd ("Xi'an Huqing") *(note iv)*	**Exempted**	Exempted
Xi'an Qinqing Water Co., Ltd ("Xi'an Qinqing") *(note iv)*	**Exempted**	Exempted
Guangxi Liqing Water Co., Ltd ("Guangxi Liqing") *(note iv)*	**Exempted**	Exempted
Shangluo Wastewater Treatment Co., Ltd ("Shangluo Wasterwater") *(note iv)*	**Exempted**	25
Yulin City Jingzhou Water Co., Ltd ("Yulin Jingzhou") *(note iv)*	**Exempted**	25
Hainan Baichuan Water Co., Ltd ("Hainan Baichuan") *(note iv)*	**Exempted**	Exempted
Jiangyan Jiangyuan Wastewater Treatment Co., Ltd ("Jiangyan Jiangyuan") *(note iv)*	**Exempted**	Exempted

Notes:

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

According to the EIT Law and Circular of State Administration of Taxation on Issues Concerning Implementation of Preferential Income Tax Enjoyed by High-and-new-tech Enterprises (Guo Shui Han 2009 No. 203), high-and-new-tech enterprises are levied enterprise income tax at 15%. Beijing Sound was entitled to enjoy a preferential tax rate at 15% from 2008 to 2013 and as it has successfully applied as a high-and-new-tech enterprise in 2008 for a period from 2008 to 2011 and further successfully applied in 2011 for a period from 2011 to 2013.

The effective income tax rate of Beijing Sound Environmental Engineering Co., Ltd for the financial year is 15% (2010: 15%) per annum.

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

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

The effective income tax rate of Beijing Epure International Water Co., Ltd for the financial year is 7.5% (2010: 7.5%) per annum.

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

According to Guo Shui Han 2009 No. 203, Hi-Standard Equipment was entitled to enjoy a preferential tax rate at 15% from year 2008 to year 2011 as it has successfully applied as a high-and-new-tech enterprise in 2008 from 2008 to 2011. It further successfully applied in 2011 for an effective period from 2011 to 2013.

10. INCOME TAX EXPENSES (Cont'd)

Notes: (Cont'd)

(iv) According to No.88 provision of the Implementation Rules on the EIT Law of the PRC and the third item in No.27 provision of the EIT Law of the PRC, the income of companies engaged in environmental protection projects, or energy and water saving projects, which meet relevant requirements, shall be exempted from enterprise income tax for three years commencing from the first revenue-generating year of operations and thereafter, be entitled to a 50% reduction from enterprise income tax for the next three years. The specific conditions and scope of projects shall be jointly formulated by the competent department of finance and taxation of the State Council in collaboration with other relevant departments of the State Council and shall be publicized and implemented after being approved by the State Council. Xi'an Huqing, Xi'an Qinqing, Guangxi Liqing, Hainan Baichuan and Jiangyan Jiangyuan have obtained the approval and are entitled to exempt from enterprise income tax in 2010, 2011 and 2012 and enjoy 12.5% preferential enterprise income tax rate in the following three years. Shangluo Wasterwater and Yulin Jingzhou have obtained the approval and are entitled to exempt from enterprise income tax in 2011, 2012 and 2013 and enjoy 12.5% preferential enterprise income tax rate in the following three years.

(v) Other PRC entities

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

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

(vi) Other non-PRC entities

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

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

	2011	2010
	RMB'000	RMB'000
Profit before income tax	**481,208**	349,067
Tax at the applicable income tax rate 25%	**120,302**	87,267
Tax effect of expenses not deductible for tax purpose	**30,308**	25,998
Tax effect of share of result of an associate	**20**	4
Tax effect of preferential tax rate and different tax rates of subsidiaries	**(90,186)**	(66,075)
Effect of tax exemption	**(3,902)**	(1,713)
Tax effect of unrecognised deductible temporary differences	**447**	117
Tax effect of tax losses not recognised	**6,898**	5,963
Deferred tax liabilities arising on undistributed profits in the PRC subsidiaries from January 1, 2008 onwards	**3,500**	8,625
Over provision in prior year	**(4)**	(309)
Income tax expense	**67,383**	59,877

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

11. PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging:

	2011	2010
	RMB'000	RMB'000
Amortization of intangible assets, included in cost of sales	10,000	10,000
Amortization of land use rights	1,160	1,158
Audit fee		
— to auditors of the Company	605	500
— to other auditors	3,162	2,300
Non-audit fees:		
— to auditors of the Company	176	110
Cost of inventories recognised as expenses	302,599	178,609
Depreciation for property, plant and equipment	3,975	3,149
Loss on disposal of property, plant and equipment	80	8
Staff cost		
Director's remuneration	4,242	1,919
Other staff costs		
Staff cost excluded retirement benefit costs	52,613	35,120
Contribution to defined contribution plans	6,652	4,330
Share-based payments	15,034	11,700
Total staff cost	78,541	53,069

12. DIVIDENDS

	2011	2010
	RMB'000	RMB'000
Dividends recognized as distributions during the year	66,934	—

During the current year, a final tax-exempt one tier dividend of S\$0.01 (RMB0.05) per share in respect of the year ended December 31, 2010 (2010: Nil) was declared and paid to the shareholders of the Company. The aggregated amount of the final dividend declared and paid in the current year amounted to S\$12,900,000 (RMB66,934,000) (2010: Nil).

The final dividend of S\$0.01 (RMB0.05) per share in respect of the year ended December 31, 2011 per share totaling S\$12,900,000 (RMB 63,173,000) has been proposed by the directors and is subject to approval by the shareholders in general meeting. This has not been accrued at the end of the reporting period.

13. EARNINGS PER SHARE

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

	2011	2010
	RMB'000	RMB'000
Earnings for the purpose of basic earnings per share	**413,825**	289,104
Effect of dilutive potential ordinary shares:		
Interest on convertible loan notes	**70,985**	—
Earnings for the purpose of diluted earnings per share	**484,810**	289,104
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,290,000**	1,290,000
Effect of dilutive potential ordinary shares from:		
Convertible loan notes	**257,690**	—
Weighted average number of shares	**1,547,690**	1,290,000
Earnings per share (in RMB cents)		
Basic	**32.08**	22.41
Diluted	**31.32**	22.41

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

14. PROPERTY, PLANT AND EQUIPMENT

Group Level

	Buildings	Plant and machinery	Transportation vehicles	Fixtures and equipments	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost					
At January 1, 2010	44,446	8,136	2,751	4,330	59,663
Additions	—	24	1,121	1,164	2,309
Disposal	—	(113)	—	(9)	(122)
Translation difference	—	—	(11)	(2)	(13)
At December 31, 2010	44,446	8,047	3,861	5,483	61,837
Additions	—	1,227	1,774	1,868	4,869
Disposal	—	—	—	(791)	(791)
Translation difference	—	—	(19)	(4)	(23)
At December 31, 2011	**44,446**	**9,274**	**5,616**	**6,556**	**65,892**
Accumulated depreciation					
At January 1, 2010	5,632	1,287	2,442	2,685	12,046
Charge for the year	1,438	816	343	552	3,149
Disposal	—	(66)	—	(4)	(70)
Translation difference	—	—	(6)	(1)	(7)
At December 31, 2010	7,070	2,037	2,779	3,232	15,118
Charge for the year	1,419	880	737	939	3,975
Disposal	—	—	—	(709)	(709)
Translation difference	—	—	(13)	(6)	(19)
At December 31, 2011	**8,489**	**2,917**	**3,503**	**3,456**	**18,365**
Carrying amount					
At December 31, 2011	**35,957**	**6,357**	**2,113**	**3,100**	**47,527**
At December 31, 2010	37,376	6,010	1,082	2,251	46,719

As of December 31, 2011 the Group has pledged buildings with carrying amount of approximately RMB31,448,000 (2010: RMB33,278,000) to secure general banking facilities granted to the Group.

14. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

Company Level

	Office Equipment RMB'000	Office Renovation RMB'000	Total RMB'000
Cost			
At January 1, 2010	583	—	583
Additions	36	26	62
At December 31, 2010	619	26	645
Additions	65	32	97
At December 31, 2011	**684**	**58**	**742**
Accumulated depreciation			
At January 1, 2010	545	—	545
Charge for the year	31	*	31
At December 31, 2010	576	*	576
Charge for the year	58	28	86
At December 31, 2011	**634**	**28**	**662**
Carrying amount			
At December 31, 2011	**50**	**30**	**80**
At December 31, 2010	43	26	69

* Amount less than RMB1,000

15. INTANGIBLE ASSETS

	RMB'000
Cost	
At January 1, 2010, December 31, 2010 and 2011	67,199
Accumulated amortization	
At January 1, 2010	17,199
Amortization for the year	10,000
At December 31, 2010	27,199
Amortization for the year	10,000
At December 31, 2011	**37,199**
Carrying amounts	
At December 31, 2011	**30,000**
At December 31, 2010	40,000

The intangible assets represent various patents which protect the design and specification in the manufacturing of wastewater treatment equipment. Amortization for the patents is provided on a straight-line basis over their estimated useful lives ranging from 4.5 to 9.5 years. The average remaining period for the patents is 3 years (2010: 4 years).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2011

16. LAND USE RIGHTS

	RMB'000
Cost	
At January 1, 2010, December 31, 2010 and 2011	49,921
Accumulated amortization	
At January 1, 2010	2,151
Charge for the year	1,158
At December 31, 2010	3,309
Charge for the year	1,160
At December 31, 2011	**4,469**
Carrying amounts	
At December 31, 2011	**45,452**
At December 31, 2010	46,612

	2011	2010
	RMB'000	RMB'000
Analyzed for reporting purpose as:		
— Current asset	**1,158**	1,158
— Non-current asset	**44,294**	45,454
	45,452	46,612

The amount represents the prepayment of rentals for 3 (2010: 3) pieces of land situated in the PRC on which the buildings of subsidiaries are erected. The leasehold land has lease terms ranging from 43 to 47 years. None of the leases include contingent rentals.

As of December 31, 2011, the Group has pledged land use rights with carrying amount of approximately RMB2,327,000(2010: RMB2,391,000) to secure general banking facilities granted to the Group.

17. GOODWILL

	RMB'000
Cost	
Balance as at January 1, 2010, December 31, 2010 and 2011	41,395

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

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

The value in use calculation uses cash flow forecasts derived from the most recent financial forecasts approved by the management for the next five years, and discount rate of 8% (2010: 8%) as of December 31, 2011. No growth rate is extrapolated beyond the 5-year forecasted period.

17. GOODWILL (Cont'd)

During the years ended December 31, 2010 and 2011, management of the Group determines that there is no impairment of the goodwill. Management believes that any reasonably possible change in any of these assumptions would not cause the carrying amount of the goodwill to exceed its recoverable amount.

18. INTEREST IN AN ASSOCIATE

	2011	2010
	RMB'000	RMB'000
Unquoted equity investments, at cost	—	2,000
Share of post-establishment profits	—	547
	—	2,547

Information in table about the associate

Name of associate	Country of establishment and operation	The Group's equity interest and voting power held 2011	2010	Principal activity
		%	%	
Shanghai Chenghuan Water Operation Co., Ltd	The PRC	—	20	Management and operations of wastewater treatment plants

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

	Group 2011	2010
	RMB'000	RMB'000
Statement of Financial Position		
Total assets	—	13,857
Total liabilities	—	(1,123)
Net assets	—	12,734
Group's share of associate's net assets	—	2,547

The summarized financial information of the associate is set out below:

	Group 2011	2010
	RMB'000	RMB'000
Revenue	**1,972**	5,453
Loss for the year	**(401)**	(70)
The Group's share of an associate's loss	**(81)**	(14)

The Group disposed of its entire interest in the associate in July 2011 for a consideration of RMB2,046,000. Gain of RMB85,000 is recognized in profit or loss for the year ended December 31, 2011.

19. SERVICE CONCESSION RECEIVABLES

	Group	
	2011	2010
	RMB'000	RMB'000
Service concession receivables	**1,121,874**	674,538
Less: Amounts due within one year shown under current assets *(Note 23)*	**(38,215)**	(9,420)
Service concession receivables	**1,083,659**	665,118

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

Service concession receivables arose from the following:

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

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

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

(d) a 24-year contract in Hancheng City to build and operate a waste water treatment plant. The plant started operations in 2011.

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

(f) a 20-year contract in Yulin City to build and operate a waste water treatment plant. The plant started operations in 2011.

(g) a 35-year contract in Jiangyan to build and operate a waste water treatment plant. The plant started operations in 2010.

(h) a 30-year contract in Fushun to build and operate a waste water treatment plant. The plant started operations in 2011.

(i) a 25-year contract in Anyang to build and operate a waste water treatment plant. The plant started operations in 2011.

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

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

19. SERVICE CONCESSION RECEIVABLES (Cont'd)

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

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

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

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

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

20. DEFERRED TAXATION

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

	Allowance for doubtful debt	Undistributed profits of the PRC subsidiaries	Fair value adjustment arising from acquisition of a subsidiary	Service concession receivables	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2010	7,199	(4,500)	(12,575)	(2,434)	173	(12,137)
Credit (charge) to profit or loss	—	(8,625)	1,596	(5,046)	—	(12,075)
At December 31, 2010	7,199	(13,125)	(10,979)	(7,480)	173	(24,212)
Credit (charge) to profit or loss	—	(3,500)	1,596	(5,577)	—	(7,481)
At December 31, 2011	**7,199**	**(16,625)**	**(9,383)**	**(13,057)**	**173**	**(31,693)**

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20. DEFERRED TAXATION (Cont'd)

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

	2011	2010
	RMB'000	RMB'000
Deferred tax assets	**7,372**	7,372
Deferred tax liabilities	**(39,065)**	(31,584)
	(31,693)	(24,212)

As at December 31, 2011, the Group has unused tax losses of RMB53,615,000 (2010: RMB26,024,000) available for offset against future profits. No deferred tax asset has been recognized in respect of those tax losses due to the unpredictability of future profit streams. The tax losses of RMB35,948,000 (2010: RMB20,072,000) at December 31, 2011 has no expiry date and the remainder will be expired as follows:

	2011	2010
	RMB'000	RMB'000
2013	**1,224**	1,224
2014	**948**	948
2015	**3,780**	3,780
2016	**11,715**	—
	17,667	5,952

Under the EIT Law, withholding tax is imposed at 5% on dividends declared to foreign investors in respect of profit earned by PRC subsidiaries from January 1, 2008 onward, deferred taxation has been provided for in the consolidated financial statements in respect of profits of relevant PRC subsidiaries to be distributed estimated by the directors of the Company. Meanwhile, deferred tax liabilities on the undistributed profits of the PRC subsidiaries of approximately RMB1,036,533,000 (2010: RMB614,043,000) which was earned after January 1, 2008, have not been recognized as of December 31, 2011, because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

21. INVENTORIES

	2011	2010
	RMB'000	RMB'000
Raw materials	**19,405**	9,638
Work in progress	**136**	2,418
Finished goods	**2,046**	—
	21,587	12,056

22. AMOUNTS DUE FROM/TO CUSTOMERS FOR CONTRACT WORK

	2011 RMB'000	2010 RMB'000
Contracts in progress at reporting date:		
Amounts due from customers for contract work	**427,640**	337,651
Amounts due to customers for contract work	**(7,809)**	(9,611)
	419,831	328,040
Contract costs incurred plus recognized profits less recognized losses	**2,818,844**	2,276,370
Less: Progress billings	**(2,399,013)**	(1,948,330)
	419,831	328,040

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

23. TRADE AND OTHER RECEIVABLES

The following is an analysis of trade and other receivables at the end of reporting period:

	Group	
	2011 RMB'000	2010 RMB'000
Trade receivables	**961,838**	701,477
Allowance for doubtful debts	**(48,038)**	(47,995)
	913,800	653,482
Bills receivables	**22,446**	51,506
Bid and compliance deposits	**20,780**	19,694
Advance payments to suppliers and subcontractors	**82,593**	45,389
Other receivables	**42,445**	29,259
Service concession receivables	**38,215**	9,420
Total	**1,120,279**	808,750

The table below is an analysis of trade receivables net of allowance for doubtful debts and bills receivables based on invoice issuance date:

	2011 RMB'000	2010 RMB'000
Trade receivables:		
Within 90 days	**269,887**	310,288
91–180 days	**284,507**	128,149
181 days–1 year	**245,520**	195,470
1 to 2 years	**113,886**	19,575
	913,800	653,482
Bills receivables:		
Within 180 days	**22,446**	51,506

23. TRADE AND OTHER RECEIVABLES (Cont'd)

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

Included in the Group's trade receivables are debtors with a carrying amount of RMB119,160,000 (2010: RMB89,183,000) as of December 31, 2011 which were overdue for which the Group has not provided for impairment loss as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances.

	2011	2010
	RMB'000	RMB'000
Aging of trade receivables past due but not impaired		
91 to 180 days	—	8,816
181 days–1 year	5,274	60,792
1 to 2 years	113,886	19,575
	119,160	89,183

As of December 31, 2011, trade receivables with carrying amount of approximately RMB120,695,000 (2010: RMB136,460,000) have been pledged as collateral for the short-term borrowings of RMB60,000,000 (2010: RMB60,000,000).

As of December 31, 2011, no bills receivables (2010: RMB11,818,000) have been pledged as collateral for the bills payables.

Movement in allowance for doubtful debts:

	2011	2010
	RMB'000	RMB'000
Balance at beginning of year	47,995	47,995
Charge to profit or loss	83	—
Amounts written off as uncollectable	(40)	—
Balance at end of year	48,038	47,995

In determining the recoverability of trade receivables, the Group and Company considers any change in the credit quality of the trade receivables from the date credit was initially granted up to the reporting date. The above allowance was mainly provided for based on estimated irrecoverable amounts arising from construction contracts, determined by reference to past default experience. The Group reviews the recoverable amount of each individually significant debt at each reporting date to ensure that adequate impairment losses are made for irrecoverable amounts. Accordingly, the management believe that there is no further credit provision required in excess of the allowance for doubtful debts.

23. TRADE AND OTHER RECEIVABLES (Cont'd)

The following is an analysis of trade and other receivables of the Company at the end of reporting period:

	Company	
	2011	2010
	RMB'000	RMB'000
Trade receivables	**24,103**	8,987
Dividend receivables from subsidiaries	**447,000**	252,000
Due from subsidiaries — non trade	**940,915**	593,707
Other receivables	**707**	1,283
Total	**1,412,725**	855,977

The table below is an analysis of trade receivables net of allowance for doubtful debts based on invoice issuance date:

	2011	2010
	RMB'000	RMB'000
Trade receivables:		
Within 90 days	**12,088**	—
91 to 180 days	**3,150**	8,987
181 days to 1 year	**—**	—
1 to 2 years	**8,865**	—
	24,103	8,987
Aging of trade receivables past due but not impaired:		
91 to 180 days	**3,150**	8,987
181 days to 1 year	**—**	—
1 to 2 years	**8,865**	—
	12,015	8,987

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

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

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24. BANK BALANCES AND CASH

	Group	
	2011	2010
	RMB'000	RMB'000
Cash & cash equivalents	**2,074,426**	2,027,352

Bank balances and cash comprise cash and short-term deposits with an original maturity of three months or less which are held with financial institutions and carry interest at prevailing market rate from 0.36% to 0.50% (2010: 0.36%) per annum as of December 31, 2011.

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

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

	Group	
	2011	2010
	RMB'000	RMB'000
Singapore Dollar ("S$")	**1,440**	766
United States Dollar ("US$")	**64,025**	247,046
Bangladeshi Taka ("BDT")	**4,439**	—

Restricted bank balances

As of December 31, 2011, bank balances of certain subsidiaries of RMB56,847,000 (2010: RMB92,446,000) have been pledged to financial institutions in respect of letters of guarantees issued to certain subsidiaries to secure construction contracts. The bank balances bear prevailing interest rate ranging from 0.36% to 0.5% (2010: 0.36%) per annum as of December 31, 2011. The restricted bank balances will be released upon the settlement of relevant contracts.

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

	Group	
	2011	2010
	RMB'000	RMB'000
S$	**22,037**	23,054
US$	**23,197**	286,785

	Company	
	2011	2010
	RMB'000	RMB'000
Cash and cash equivalents	**60,246**	145,075

24. BANK BALANCES AND CASH (Cont'd)

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

	2011 RMB'000	2010 RMB'000
Hong Kong Dollar ("HK$")	**57**	53
United States Dollar ("US$")	**58,811**	366,559
Singapore Dollar ("S$")	**1,378**	742

Restricted bank balances

Restricted bank balances of the Company amounting to RMB Nil (2010: RMB222,280,000) were pledge to a financial institution in respect of banking facilities provided to a subsidiary (Note 39). These pledged deposits bore interest at rates ranging at approximately Nil (2010: 0.36) per annum.

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

	2011 RMB'000	2010 RMB'000
S$	**—**	—
US$	**—**	222,280

25. TRADE AND OTHER PAYABLES

	Group	
	2011 RMB'000	2010 RMB'000
Trade payables		
Within 90 days	**223,035**	254,660
91 days to 180 days	**166,285**	147,593
181 days to 1 year	**74,385**	81,784
1 to 2 years	**78,496**	48,242
2 to 3 years	**17,457**	40,473
More than 3 years	**28,675**	8,459
	588,333	581,211

25. TRADE AND OTHER PAYABLES (Cont'd)

	2011	2010
	RMB'000	RMB'000
Bills payables within 180 days	10,595	11,818
Other payables	30,870	33,186
Interest payables	4,196	17,259
Bid and compliance deposits	10,626	13,034
Advance from customers	64,641	77,402
Value added tax payables	66,055	57,544
Business tax payables	92,065	91,468
Other tax payables	3,916	3,492
Total	871,297	886,414

The average credit period on purchases of goods is 120 days (2010: 120 days).

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

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

	Company	
	2011	2010
	RMB'000	RMB'000
Trade payables		
Within 90 days	2,000	—
91 days to 180 days	600	1,620
181 days to 1 year	—	—
1 to 2 years	1,620	—
	4,220	1,620
Other payables	4,676	2,708
Interest payables	1,194	15,488
Due to subsidiaries *(Note 39)*	1,834	1,837
	11,924	21,653

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

26. BORROWINGS

	Group 2011 RMB'000	2010 RMB'000
Secured bank borrowings *(note i)*	**273,000**	332,000
Unsecured bank borrowings	**158,780**	124,200
Other borrowings *(note ii)*	**420,410**	215,096
	852,190	671,296
Carrying amount repayable:		
Within one year	**311,838**	430,200
More than one year, but not exceeding two years	**97,427**	36,793
More than two years but not exceeding than five years	**239,854**	99,103
More than five years	**203,071**	105,200
	852,190	671,296
Less: Amounts due within one year shown under current liabilities	**(311,838)**	(430,200)
	540,352	241,096
The borrowings comprise:		
Fixed-rate borrowings	**30,000**	100,000
Variable-rate borrowings *(note iii)*	**822,190**	571,296
	852,190	671,296

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

	2011	2010
Borrowings	**4.838%–8.160%**	4.374–7.680%

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26. BORROWINGS (Cont'd)

	Company	
	2011	2010
	RMB'000	RMB'000
Other borrowings *(note ii)*	**420,410**	215,096
Carrying amount repayable:		
Within one year	**28,758**	—
More than one year, but not exceeding two years	**59,207**	—
More than two years but not exceeding five years	**153,534**	114,603
More than five years	**178,911**	100,493
	420,410	215,096
Less: Amounts due within one year shown under current liabilities	**(28,758)**	—
	391,652	215,096
The borrowings comprise:		
Variable-rate borrowings *(note iii)*	**420,410**	215,096

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

	2011	2010
Borrowings	**4.838%–8.160%**	4.374–7.680%

Note:

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

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

(ii) Other borrowings of approximately RMB420,410,000 (2010: RMB215,096,000) denominated in US$ as at December 31, 2011 were advanced from International Finance Corporation ("IFC") which were secured by the equity interest in certain subsidiaries. The interest rate was 3.5% above the relevant London Interbank Offered Rate ("LIBOR") interest rate.

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

27. ISSUED CAPITAL

Issued and fully paid	Group and Company Number of shares	RMB'000
At January 1, 2010, December 31, 2010 and 2011	**1,290,000,000**	833,368

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

28. MERGER RESERVE

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

29. CAPITAL RESERVE

This reflects the following which arose in the financial year ended December 31, 2010:

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

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

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

There is no movement between 2011 and 2010.

30. STATUTORY SURPLUS RESERVES

	Group 2011 RMB'000	2010 RMB'000
Statutory reserve fund		
At beginning of the year	**63,737**	60,529
Transfer from retained earnings	**75,758**	3,208
At end of year	**139,495**	63,737

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31. SHARE OPTION RESERVES

The share options have a fair value of S$5,962,000 as at December 31, 2011 (equivalent to RMB30,361,000) [2010: S$14,564,000 (equivalent to RMB71,885,000)].

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

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

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

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

The Group recognised the total expense of RMB17,882,000 (2010: RMB12,479,000) for the year ended December 31, 2011 in relation to the share options granted by the Company.

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

Date of grant	Balance at January 1, 2011	Granted	Forfeited	Balance at December 31, 2011	Exercise price per share	Exercisable period	Vesting period
July 23, 2010	58,304,000	—	(15,314,800)	42,989,200	S$0.745	July 23, 2011 to July 22, 2015	July 23, 2011 to July 22, 2014

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

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

32. CONVERTIBLE LOAN NOTES

The Company issued RMB885 million, 6% convertible loan notes on September 15, 2010. The convertible loan notes entitle the holders to convert them into ordinary shares of the Company (unless previously redeemed, converted or purchased and cancelled) at any time on or after October 25, 2010 up to the close of business on September 8, 2015 at a conversion price (subject to adjustments) fixed in RMB. In the current year, the conversion price was adjusted to RMB3.434 per share according to the terms of the convertible loan notes agreement. Unless previously redeemed, purchased or cancelled, the convertible loan notes will be redeemed on September 15, 2015. Interest of 6% will be paid semi-annually with the first interest payment date falling on March 15, 2011.

On or at any time after September 15, 2013, the Company may redeem all but not some of the convertible loan notes at a redemption price equivalent to RMB principal amount together with interest accrued on that date on some conditions (as defined in the Terms and Conditions of the Bonds in the Offering Circular dated September 10, 2010 (the "Offering Circular")). Meanwhile, the holders will have a right to require the Company to redeem the convertible loan notes on September 15, 2012 or following the occurrence of relevant event (as defined in the Offering Circular) at a redemption price equivalent to RMB principal amount together with interest accrued on that date. The entire balance of convertible loan notes is classified as current liabilities as at December 31, 2011 as the Company does not have an unconditional right to defer settlement in the coming year.

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

	Group and Company	
	2011	**2010**
	RMB'000	**RMB'000**
Carrying amount as at January 1	**800,366**	—
Issuance of convertible loan notes	**—**	779,889
Interest charge *(Note 9)*	**70,985**	20,477
Interest paid	**(53,099)**	—
Carrying amount at December 31	**818,252**	800,366
Less: Interest payables included in other payables	**—**	(15,488)
	818,252	784,878

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33. WARRANTS

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

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

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

34. ACQUISITION OF A SUBSIDIARY

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

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

35. FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISK MANAGEMENT

a) Capital risk management policies and objectives

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

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

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

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

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

35. FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISK MANAGEMENT (Cont'd)

b) Categories of financial instruments

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

	Group	
	2011	2010
	RMB'000	RMB'000
Financial assets		
Loans and receivables		
Service concession receivables	**1,121,874**	674,538
Trade receivables	**913,800**	653,482
Bills receivables	**22,446**	51,506
Bid and compliance deposits	**20,780**	19,694
Other receivables	**42,445**	29,259
Restricted bank balances	**56,847**	314,726
Bank balances and cash	**2,074,426**	2,027,352
Total	**4,252,618**	3,770,557
Financial liabilities		
Financial liabilities at amortized cost		
Trade payables	**588,333**	581,211
Bills payables	**10,595**	11,818
Other payables	**30,870**	33,186
Interest payables	**4,196**	17,259
Bid and compliance deposits	**10,626**	13,034
Borrowings	**852,190**	671,296
Convertible loan notes	**818,252**	784,878
	2,315,062	2,112,682
Fair value through profit or loss		
Held for trading — warrants	**7,953**	—
Total	**2,323,015**	2,112,682

35. FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISK MANAGEMENT (Cont'd)

b) Categories of financial instruments (Cont'd)

	Company	
	2011	2010
	RMB'000	RMB'000
Financial assets		
Loans and receivables		
Trade receivables	**24,103**	8,987
Dividend receivables from subsidiaries	**447,000**	252,000
Due from subsidiaries — non trade	**940,915**	593,707
Other receivables	**707**	1,283
Restricted bank balances	**—**	222,280
Bank balances and cash	**60,246**	145,075
Total	**1,472,971**	1,223,332
Financial liabilities		
Financial liabilities at amortized cost		
Trade payables	**4,220**	1,620
Due to subsidiaries	**1,834**	1,837
Other payables	**5,870**	2,708
Interest payables	**—**	15,488
Borrowings	**420,410**	215,096
Convertible loan notes	**818,252**	784,878
	1,250,586	1,021,627
Fair value through profit or loss		
Held for trading — warrants	**7,953**	—
Total	**1,258,539**	1,021,627

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

c) Financial risk management objectives and policies

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

The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner. The Group's objectives, policies and processes managing the risk and the methods used to measure the risk remains unchanged from prior year.

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35. FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISK MANAGEMENT (Cont'd)

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

(i) Market risk

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

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

(ii) Foreign currency risk management

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

The carrying amounts of foreign currency denominated monetary assets of restricted bank balances and bank balances and cash and monetary liabilities of borrowings at the reporting date are as follows:

	Group			
	Liabilities		Assets	
	2011	2010	2011	2010
	RMB'000	RMB'000	RMB'000	RMB'000
S$	**—**	—	**23,477**	23,820
US$	**420,410**	215,096	**87,222**	533,831
BDT	**—**	—	**4,439**	—

	Company			
	Liabilities		Assets	
	2011	2010	2011	2010
	RMB'000	RMB'000	RMB'000	RMB'000
S$	**—**	—	**1,378**	742
US$	**420,410**	215,096	**59,811**	366,559

35. FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISK MANAGEMENT (Cont'd)

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

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

Foreign currency sensitivity

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

	Group					
	S$		US$		BDT	
	2011	2010	2011	2010	2011	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Profit for the year	**(2,348)**	(2,382)	**33,319**	(31,874)	**(444)**	—

	Company			
	S$		US$	
	2011	2010	2011	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Profit for the year	**(138)**	(74)	**36,060**	(15,146)

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the reporting period.

(iii) Interest rate risks management

The Group are mainly exposed to fair value interest rate risk in relation to its fixed-rate borrowings and convertible loan notes (see Note 26 and Note 32 for details). The Group is also exposed to cash flow interest rate risk in relation to its variable-rate borrowing and bank balances which carry prevailing market interest rates.

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

35. FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISK MANAGEMENT (Cont'd)

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

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

Interest rate sensitivity analysis

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

If interest rates increased/decreased by 50 basis points and all other variables were held constant, the Group's profit for the year would decrease/increase by approximately RMB3,171,000 (2010: RMB2,363,000) for the year ended December 31, 2011.

(iv) Credit risk management

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

The Group's credit risk primarily relates to the Group's trade and other receivables, advance payments to suppliers and subcontractors and pledged bank deposits. There is significant concentration of credit risk as the top five biggest customers account for approximately 18% (2010: 26%) of the carrying amounts of trade receivables as at the end of the reporting period. The management of the Group generally grants credit only to customers with good credit ratings and also closely monitors overdue trade debts. The recoverable amount of each individual trade debt is reviewed at the end of each reporting period and adequate impairment for doubtful debts has been made for irrecoverable amounts. In this regard, the management of the Group considers that the credit risk associated with the Group's trade receivable and advance payments to suppliers and subcontractors is significantly reduced.

35. FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISK MANAGEMENT (Cont'd)

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

(iv) Credit risk management (Cont'd)

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

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

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

Further details of credit risks on trade and other receivables are disclosed in Note 23 to the financial statements.

(v) Liquidity risk management

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

Liquidity and interest risk analyses

Non-derivative financial liabilities

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

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35. FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISK MANAGEMENT (Cont'd)

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

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

Liquidity and interest risk analyses (Cont'd)

Non-derivative financial liabilities (Cont'd)

Group	Weighted average interest rate	Within one year	1 to 5 years	Over 5 years	Total undiscounted cash flow	Carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As of December 31, 2011						
Trade payables		588,333	–	–	588,333	588,333
Other payables		30,870	–	–	30,870	30,870
Interest payables		4,196	–	–	4,196	4,196
Convertible loan notes	6.00	938,100	–	–	938,100	818,252
Bid and compliance deposits		10,626	–	–	10,626	10,626
Bill payables		10,595	–	–	10,595	10,595
Borrowings						
Fixed-rate	6.71	31,011	–	–	31,011	30,000
Variable-rate	6.10	321,636	432,469	215,614	969,719	822,190
Total		1,935,367	432,469	215,614	2,583,450	2,315,062

Group	Weighted average interest rate	Within one year	1 to 5 years	Over 5 years	Total undiscounted cash flow	Carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As of December 31, 2010						
Trade payables		581,211	–	–	581,211	581,211
Other payables		33,186	–	–	33,186	33,186
Interest payables		17,259	–	–	17,259	17,259
Convertible loan notes	6.00	37,613	938,100	–	975,713	784,878
Bid and compliance deposits		13,034	–	–	13,034	13,034
Bill payables		11,818	–	–	11,818	11,818
Borrowings						
Fixed-rate	5.15	102,564	–	–	102,564	100,000
Variable-rate	5.40	350,954	176,332	113,267	640,553	571,296
Total		1,147,639	1,114,432	113,267	2,375,338	2,112,682

35. FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISK MANAGEMENT (Cont'd)

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

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

Liquidity and interest risk analyses (Cont'd)

Non-derivative financial liabilities (Cont'd)

Company	Weighted average interest rate	Within one year	1 to 5 years	Over 5 years	Total undiscounted cash flow	Carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As of December 31, 2011						
Trade payables		4,220	—	—	4,220	4,220
Other payables		5,870	—	—	5,870	5,870
Due to subsidiaries		1,834	—	—	1,834	1,834
Convertible loan notes	6.00	938,100	—	—	938,100	818,252
Borrowings						
Variable-rate	5.84	42,021	282,036	189,654	513,711	420,410
Total		992,045	282,036	189,654	1,466,735	1,250,586

Company	Weighted average interest rate	Within one year	1 to 5 years	Over 5 years	Total undiscounted cash flow	Carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As of December 31, 2010						
Trade payables		1,620	—	—	1,620	1,620
Other payables		18,195	—	—	18,195	18,195
Due to subsidiaries		1,837	—	—	1,837	1,837
Convertible loan notes	9.00	37,613	1,097,400	—	1,135,013	784,878
Borrowings						
Variable-rate	4.84	8,624	146,627	113,627	268,318	215,096
Total		67,889	1,243,827	113,627	1,424,983	1,021,626

The amounts included above for convertible loan notes assume the bond holders request redemption on September 15, 2012.

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

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35. FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISK MANAGEMENT (Cont'd)

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

(vi) Fair value of financial assets and financial liabilities

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

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

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

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

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

	2011		2010	
	Carrying amount	Fair value	Carrying amount	Fair value
	RMB'000	RMB'000	RMB'000	RMB'000
Financial liabilities				
Convertible loan notes				
(Liability component)	**818,252**	**916,425**	784,878	806,784

Fair value measurements recognized in the consolidated statement of financial position

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

35. FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISK MANAGEMENT (Cont'd)

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

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

Fair value measurements recognized in the consolidated statement of financial position (Cont'd)

As detailed in Note 33, the warrants issued by the Company to IFC are classified as financial liabilities at FVTPL. The fair value of those warrants was measured by Level 3 fair value measurements. No gains or losses were recognized during the year related to the warrants.

(vii) Other price risk

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

36. OPERATING LEASES COMMITMENTS

The Company as lessee

Lease payment recognized as an expense:

	2011	2010
	RMB'000	RMB'000
Minimum lease payments paid under operating recognized as an expense in the year	**2,799**	2,396

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

	2011	2010
	RMB'000	RMB'000
Within one year	**2,183**	1,419
In the second to fifth years inclusive	**3,575**	1,421
	5,758	2,840

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for lease terms of one to two years and rentals are fixed for lease terms of one to two years.

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37. RETIREMENT BENEFIT PLANS

The Group's full-time employees in the PRC and Singapore are respectively covered by a government-sponsored defined contribution pension scheme and a comprehensive social security savings plan, which includes a retirement scheme. The employees are entitled to a monthly pension from their retirement dates. The PRC Government and Singapore Government are responsible for the pension liability to these retired employees. The Group is required to make annual contributions to the retirement plans of a prescribed amount of employees' salaries, which are charged as an expense when the employees have rendered services entitling them to the contributions.

During the year ended December 31, 2011, the total amounts contributed by the Group to the schemes and charged to profit or loss represent contributions payable to the schemes by the Group at rates specified in the rules of the schemes and are as follows:

	2011	2010
	RMB'000	RMB'000
Contribution to defined contribution plan	6,772	4,446

As of December 31, 2011, the contribution due in respect of the year that had not been paid to the schemes is RMB3,000 (2010: RMB93,000).

38. (A) HOLDING COMPANY AND RELATED COMPANY TRANSACTIONS

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

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

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

(B) RELATED PARTY TRANSACTIONS

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

38. (B) RELATED PARTY TRANSACTIONS (Cont'd)

(a) During the year, the Group entered into the following significant transactions with related parties except for those already disclosed in other notes:

	2011 RMB'000	2010 RMB'000
Revenue from construction contracts		
Fellow subsidiaries:		
Baotou Lucheng Water Co., Ltd. ("Baotou Lucheng")	**31**	16,447
Beijing Guozhong Biology Technology Co., Ltd. ("Beijing Guozhong Biology Technology")	**36,746**	—
Daye Qingbo Water Co., Ltd. ("Daye Qingbo")	**—**	264
Jiayu Jiaqing Water Co., Ltd. ("Jiayu Jiaqing")	**9,447**	25,516
Jingmen Xiajiawan Water Co., Ltd. ("Jingmen Xiajiawan")	**714**	1,372
Jingzhou Jingqing Water Co., Ltd. ("Jingzhou Jingqing")	**—**	2,753
Tongliao Bibo Water Co., Ltd. ("Tongliao Bibo")	**—**	15,713
Xianning Ganyuan Water Co., Ltd. ("Xianning Ganyuan")	**—**	3,554
Associate of a fellow subsidiary:		
Tianmen HuangjinWastewater Treatment Co. Ltd ("Tianmen Huangjin")	**—**	34,685
	46,938	100,304
Revenue from sales of goods		
Fellow subsidiaries:		
Baotou Lucheng	**43**	—
Beijing Xiaojiahe Wastewater Treatment Engineering Co., Ltd. ("Beijing Xiaojiahe")	**1,902**	—
Jiayu Jiaqing	**171**	—
Xianning Ganyuan	**—**	69
Tongliao Bibo	**—**	38
	2,116	107
Revenue from design service		
Fellow subsidiaries:		
Beijing Guozhang Biology Technology	**1,800**	—
Jiayu Jiaqing	**165**	—
Jingmen Xiajiawan	**—**	2,124
	1,965	2,124

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

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38. (B) RELATED PARTY TRANSACTIONS (Cont'd)

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

	2011	2010
	RMB'000	RMB'000
Trade receivables		
Fellow subsidiaries:		
Baotou Lucheng	**5,503**	5,134
Beijing Guozhong Biology Technology	**1,722**	—
Jiayu Jiaqing	**2,050**	—
Xianning Ganyuan	**2,040**	2,040
Daye Qingbo	**468**	—
Jingmen Xiajiawan	**1,267**	—
Hubei Jichu Water Co. Ltd.	**—**	2,727
Jingzhou Jingqing	**7,734**	15,634
Nanchang Xianghu Water Co., Ltd.	**98**	98
Tongliao Bibo	**44**	44
Beijing Xiaojiahe	**—**	56
Associate of a fellow subsidiary:		
Tianmen Huangjin	**—**	20,340
	20,926	46,035
Trade payables		
Fellow Subsidiary:		
Sound Group	**—**	2
Amounts due from customers for contract work		
Fellow subsidiaries:		
Beijing Guozhong Biology Technology	**11,024**	—
Jiayu Jiaqing	**3,349**	6,753
Baotou Lucheng	**150**	438
Daye Qingbo	**—**	984
Jingmen Xiajiawan	**—**	938
Associate of a fellow subsidiary:		
Tianmen Huangjin	**—**	3,469
	14,523	12,582

38. (B) RELATED PARTY TRANSACTIONS (Cont'd)

(c) Compensation of key management personnel

The emoluments of key management during the year including the directors are disclosed as follows:

	2011	2010
	RMB'000	RMB'000
Wages and salaries	**1,717**	2,296
Performance related incentive payments	**96**	—
Contributions to defined contribution plan	**135**	230
Share-based payments	**4,268**	2,967
	6,216	5,493

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

	2011	2010	Maximum balances during the year
	RMB'000	RMB'000	RMB'000
Other receivables			
Directors			
Wen Yibo	**—**	50	50
Luo Liyang	**17**	—	151
	17	50	201

	2011	2010
	RMB'000	RMB'000
Immediate holding company		
Sound Water (BVI) Limited	**—**	1,440
Fellow subsidiaries		
Shanghai Guoqing Biology Technology Co., Ltd. ("Shanghai Guoqing Biology Technology")	**100**	—

38. (B) RELATED PARTY TRANSACTIONS (Cont'd)

(d) At the reporting date, the Group had the following balances with related parties: (Cont'd)

Other payables

	2011	2010
	RMB'000	RMB'000
Immediate holding company		
Sound Water (BVI) Limited	—	388
Fellow subsidiaries		
Tongliao Bibo	**3,076**	368

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

(e) Others

1) *Licensing of trademarks*

Since 2002, the Group (previously being registered owner of certain trademarks) uses its trademarks for its water and wastewater treatment business. These trademarks are also used by Sound Group for its investments in environmental protection and its subsidiary, by Beijing Sound Water Technology Co., Ltd. for the processing of purified drinking water at no consideration before March 2006.

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

38. (B) RELATED PARTY TRANSACTIONS (Cont'd)

(e) Others (Cont'd)

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

Name of main contractor	The project related to the sub-contract (the "Project")	Name of operator of the Project (the "Operator")	Relationship with the Operator
Hubei Gongye Construction Group Co., Ltd. ("Hubei Gongye Construction Group")	Hubei Zhushan Wastewater Treatment Plant Construction Project	Hubei Jichu Water Co. Ltd..	Fellow Subsidiary
Xiangfan Shizheng Engineering Group Co., Ltd. ("Xiangfan Shizheng")	Xiangfan Guanyinge Wastewater Treatment Plant Construction Project	Xiangfan Hanshui Qingyi Water Co., Ltd..	Fellow Subsidiary
Jingzhou City Construction Group Co., Ltd. ("Jingzhou City Construction")	Zhijiang and Hubei Jingzhou Wastewater Treatment Plant Construction Project	Jingzhou Jingqing and Zhijiang Zhiqing Water Co., Ltd..	Fellow Subsidiary

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

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

	2011	2010
	RMB'000	RMB'000
Revenue from construction contracts		
Hubei Gongye Construction Group	—	2,584
Xiangfan Shizheng	—	17,047
China Chemical	—	27,977
SINOPEC Construction	—	15,355
Hebei Metallurgical	—	18,414
	—	81,377

38. (B) RELATED PARTY TRANSACTIONS (Cont'd)

(e) Others (Cont'd)

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

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

	2011	2010
	RMB'000	RMB'000
Trade receivables		
Hubei Gongye Construction Group	—	1,642
Xiangfan Shizheng	—	2,740
Jingzhou City Construction	258	258
Xiangfan Shizheng	—	2,740
SINOPEC Construction	—	14,111
China Chemical	—	14,153
Hebei Metallurgica	—	11,739
	258	44,643
Trade payables		
Hubei Gongye Construction Group	767	767
Amounts due from customers for contract work		
Hubei Gongye Construction Group	—	1,410
Other receivables		
Jingzhou City Construction	—	50
Other payables		
Jingzhou City Construction	2	—

The above mentioned other receivables are interest-free, unsecured and repayable on demand.

39. INVESTMENT IN SUBSIDIARIES

	Company	
	2011	2010
	RMB'000	RMB'000
Unquoted equity shares, at cost	666,108	666,108
Deemed investment	136,443	136,443
Total	802,551	802,551

39. INVESTMENT IN SUBSIDIARIES (Cont'd)

Name of subsidiary	Place of incorporation	Issued and fully paid-up Issued capital/ registered capital	Equity interest attributable to the Company as at December 31, 2011		December 31, 2010		Principal activities
			Direct %	Indirect %	Direct %	Indirect %	
Beijing Sound (1) 北京桑德環境工程有限公司	The PRC	RMB500,000,000	75	25	75	25	Environmental construction related to water treatment
Beijing Epure (1) 北京伊普國際水務有限公司	The PRC	US$20,000,000	100	—	100	—	Research and development of water treatment technologies and provision of services of technology consultation
Sound International Investment Holdings Limited ("Sound Investment") (3)	The BVI	US$1	100	—	100	—	Investment holding
Sound International Engineering Ltd. (3) ("Sound International Engineering")	The BVI	US$1	100	—	100	—	Investment holding
Epure International Engineering Pte. Ltd. (2) ("Epure International Engineering ")	Singapore	S$1	100	—	100	—	Investment holding
Epure Sound Technology (1) 北京伊普桑德環境工程技術有限公司	The PRC	RMB15,000,000	—	100	—	100	Research and development of water treatment technologies and provision of services of technology consultation
Hi-Standard Equipment (1) 北京海斯頓水處理設備有限公司	The PRC	RMB66,000,000	—	100	—	100	Manufacture of wastewater treatment equipment
Xi'an Huqing (1) 西安户清水務有限公司	The PRC	RMB24,000,000	—	100	—	100	Construction, management and operation of the municipal wastewater projects, and sales of treated water

39. INVESTMENT IN SUBSIDIARIES (Cont'd)

Name of subsidiary	Place of incorporation	Issued and fully paid-up Issued capital/ registered capital	Equity interest attributable to the Company as at December 31, 2011 Direct %	December 31, 2011 Indirect %	December 31, 2010 Direct %	December 31, 2010 Indirect %	Principal activities
Xi'an Qinqing (1) 西安秦清水務有限公司	The PRC	RMB25,000,000	—	100	—	100	Construction, management and operation of the municipal wastewater projects
Guangxi Liqing (1) 廣西漓清水務有限公司	The PRC	US$5,000,000	—	100	—	100	Construction, management and operation of the municipal wastewater projects
Yiqing Water (1) 韓城市頤清水務有限公司	The PRC	RMB14,200,000	—	100	—	100	Construction, management and operation of the municipal wastewater projects
Shangluo Wastewater *(note i)* (1) 商洛污水處理有限公司	The PRC	RMB13,800,000	—	100	—	100	Construction, management and operation of the municipal wastewater projects
Yulin Jingzhou *(note ii)* (1) 榆林市靖州水務有限公司	The PRC	RMB11,400,000	—	100	—	100	Construction, management and operation of the municipal wastewater projects
Jiangyan Jiangyuan (1) 姜堰姜源污水處理有限公司	The PRC	RMB145,800,000	—	76.8 *(note ii)*	—	76.8 *(note ii)*	Construction, management and operation of the municipal wastewater projects
Fushun Qingxi *(note iii)* (1) 撫順清溪水務有限公司	The PRC	US$13,000,000	—	100	—	100	Construction, management and operation of the municipal wastewater projects
Hainan Baichuan (1) 海南百川水務有限公司	The PRC	RMB5,000,000	—	100	—	100	Construction, management and operation of the municipal wastewater projects

39. INVESTMENT IN SUBSIDIARIES (Cont'd)

Name of subsidiary	Place of incorporation	Issued and fully paid-up Issued capital/ registered capital	Equity interest attributable to the Company as at December 31, 2011 Direct %	December 31, 2011 Indirect %	December 31, 2010 Direct %	December 31, 2010 Indirect %	Principal activities
Anyang Mingbo (1) 安陽明波水務有限公司	The PRC	RMB45,000,000	—	100	—	100	Construction, management and operation of the municipal wastewater projects
Yantai Bihai (1) 煙台碧海水務有限公司	The PRC	RMB38,000,000	—	80	—	80	Construction, management and operation of the municipal wastewater projects
Daye Honglian (1) 大冶鴻漣水務有限公司 *(note vi)*	The PRC	RMB18,000,000	—	100	—	100	Construction, management and operation of the municipal wastewater projects
Fushun Sangyuan (1) 撫順桑遠環境工程有限公司	The PRC	RMB2,000,000	—	100	—	100	Construction, management and operation of the municipal wastewater projects
Changsha City Xianghai Water Co., Ltd. (1) *(note vii)* 長沙縣湘海水務有限公司	The PRC	RMB43,524,000	—	100	N/A	N/A	Construction, management and operation of the municipal wastewater projects
Hongze Zeqing Water Co., Ltd. (1) *(note vii)* 洪澤澤清水務有限公司	The PRC	US$12,000,000	—	100	N/A	N/A	Construction, management and operation of the municipal wastewater projects
Xi'an Weiqing Water Co., Ltd. (1) *(note vii)* 西安渭清水務有限公司	The PRC	US$3,000,000	—	100	N/A	N/A	Construction, management and operation of the municipal wastewater projects
Hanzhong Hanyuan Water Co., Ltd. (1) *(note vii)* 漢中漢源水務有限公司	The PRC	US$7,280,000	—	100	N/A	N/A	Construction, management and operation of the municipal wastewater projects

39. INVESTMENT IN SUBSIDIARIES (Cont'd)

Name of subsidiary	Place of incorporation	Issued and fully paid-up Issued capital/ registered capital	Equity interest attributable to the Company as at December 31, 2011 Direct %	December 31, 2011 Indirect %	December 31, 2010 Direct %	December 31, 2010 Indirect %	Principal activities
Anyang Taiyuan Water Co., Ltd. (1) *(note viii)* 安陽泰元水務有限公司	The PRC	RMB30,000,000	—	90	—	—	Construction, management and operation of the municipal wastewater projects
Hunan Epure Environmental Engineering Co., Ltd. 湖南伊普環境工程有限公司 ("Hunan Epure") (1) *(note iv & vii)*	The PRC	RMB6,000,000	—	100	N/A	N/A	Construction, management and operation of the municipal wastewater projects
Fushun Qingxu Environment Co., Ltd. 撫順清旭環保有限公司 ("Fushun Qingxu") (1) *(note v & vii)*	The PRC	US$1,000,100	—	100	N/A	N/A	Construction, management and operation of the municipal wastewater projects

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

Notes:

(i) The registered capital of Shangluo Wastewater is RMB17,800,000, of which RMB13,800,000 has been paid up as at December 31, 2011.

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

(iii) The registered capital of Fushun Qingxi is US$16,250,000, of which US$13,000,000 has been paid as at December 31, 2011.

(iv) The registered capital of Hunan Epure is RMB30,000,000, of which RMB6,000,000 has been paid as at December 31, 2011.

(v) The registered capital of Fushun Qingxu is US$5,000,000, of which US$1,000,100 has been paid as at December 31, 2011.

(vi) The registered capital of Daye Honglian is RMB18,000,000, which has been fully paid up as at December 31, 2011. RMB15,000,000 was paid in the current year.

(vii) Those entities are newly incorporated in the current year.

(viii) The entity is acquired in the current year.

(1) Audited by overseas practices of Deloitte Touch Tohmatsu Ltd.

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

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

FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSS)

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF SOUND GLOBAL LTD.

(incorporated in Republic of Singapore with limited liability)

We have audited the consolidated financial statements of Sound Global Ltd. (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 158 to 227, which comprise the consolidated statement of financial position as at December 31, 2011, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at December 31, 2011 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

March 8, 2012

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2011

	NOTES	2011	2010
		RMB'000	RMB'000
Revenue	6	2,287,575	1,765,672
Cost of sales		(1,565,523)	(1,229,527)
Gross profit		722,052	536,145
Other income	7	34,105	23,401
Other expenses	8	(10,888)	(76,753)
Distribution and selling expenses		(24,590)	(12,815)
Research and development expenses		(12,766)	(4,863)
Administrative expenses		(118,512)	(79,219)
Share of result of an associate		(81)	(14)
Gain on disposal of an associate		85	—
Finance costs	9	(108,197)	(36,815)
Profit before income tax		481,208	349,067
Income tax expenses	10	(67,383)	(59,877)
Profit for the year	11	413,825	289,190
Other comprehensive income			
Exchange difference arising on translation and total other comprehensive income for the year		641	366
Total comprehensive income for the year		414,466	289,556
Profit for the year attributable to:			
Owners of the Company		413,825	289,104
Non-controlling interests		—	86
		413,825	289,190
Total comprehensive income attributable to:			
Owners of the Company		414,466	289,470
Non-controlling interests		—	86
		414,466	289,556
Earnings per share (in RMB cents)			
Basic	15	32.08	22.41
Diluted	15	31.32	22.41

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT DECEMBER 31, 2011

	NOTES	December 31, 2011 RMB'000	December 31, 2010 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	16	**47,527**	46,719
Interest in an associate	20	**—**	2,547
Land use rights	18	**44,294**	45,454
Intangible assets	17	**30,000**	40,000
Goodwill	19	**41,395**	41,395
Service concession receivables	21	**1,083,659**	665,118
Deferred tax assets	22	**7,372**	7,372
		1,254,247	848,605
CURRENT ASSETS			
Inventories	23	**21,587**	12,056
Trade and other receivables	25	**1,120,279**	808,750
Land use rights	18	**1,158**	1,158
Amounts due from customers for contract work	24	**427,640**	337,651
Restricted bank balances	26	**56,847**	314,726
Bank balances and cash	26	**2,074,426**	2,027,352
		3,701,937	3,501,693
CURRENT LIABILITIES			
Trade and other payables	27	**871,297**	886,414
Tax payables		**54,949**	30,260
Borrowings — due within one year	28	**311,838**	430,200
Amounts due to customers for contract work	24	**7,809**	9,611
Convertible loan notes	30	**818,252**	—
		2,064,145	1,356,485
NET CURRENT ASSETS		**1,637,792**	2,145,208
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,892,039**	2,993,813

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT DECEMBER 31, 2011

	NOTES	December 31, 2011	December 31, 2010
		RMB'000	RMB'000
NON-CURRENT LIABILITIES			
Deferred tax liabilities	22	**39,065**	31,584
Borrowings — due after one year	28	**540,352**	241,096
Convertible loan notes	30	**—**	784,878
Warrants	31	**7,953**	—
		587,370	1,057,558
TOTAL ASSETS LESS TOTAL LIABILITIES		**2,304,669**	1,936,255
CAPITAL AND RESERVES			
Issued capital	29	**833,368**	833,368
Reserves		**1,460,701**	1,095,287
Equity attributable to owners of the Company		**2,294,069**	1,928,655
Non-controlling interests		**10,600**	7,600
		2,304,669	1,936,255

The consolidated financial statements on pages 158 to 227 were approved and authorized for issue by the board of directors on March 8, 2012, and are signed on its behalf by:

Wen Yibo
Director

Luo Liyang
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2011

	Issued capital	Merger reserve	Capital reserve	Translation reserve	Share options reserve	Convertible loan notes reserve	Statutory surplus reserve	Retained earnings	Attributable to owners of the Company	Non-controlling interests	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		(note i)	*(note ii)*				*(note iii)*				
Balance at January 1, 2010	833,368	(88,296)	34,010	—	—	—	60,529	733,435	1,573,046	18,898	1,591,944
Profit for the year	—	—	—	—	—	—	—	289,104	289,104	86	289,190
Other comprehensive income for the year	—	—	—	366	—	—	—	—	366	—	366
Total comprehensive income for the year	—	—	—	366	—	—	—	289,104	289,470	86	289,556
Transfer to reserve fund	—	—	—	—	—	—	3,208	(3,208)	—	—	—
Recognition of equity component of convertible loan notes	—	—	—	—	—	79,676	—	—	79,676	—	79,676
Recognition of equity-settled share based payments	—	—	—	—	12,479	—	—	—	12,479	—	12,479
Contribution from non-controlling interest	—	—	—	—	—	—	—	—	—	7,600	7,600
Acquisition of additional interest in a subsidiary	—	—	984	—	—	—	—	—	984	(18,984)	(18,000)
Deemed distribution to the ultimate holding company	—	—	(27,000)	—	—	—	—	—	(27,000)	—	(27,000)
Balance at December 31, 2010	833,368	(88,296)	7,994	366	12,479	79,676	63,737	1,019,331	1,928,655	7,600	1,936,255
Profit for the year	—	—	—	—	—	—	—	413,825	413,825	—	413,825
Other comprehensive income for the year	—	—	—	641	—	—	—	—	641	—	641
Total comprehensive income for the year	—	—	—	641	—	—	—	413,825	414,466	—	414,466
Transfer to reserve fund	—	—	—	—	—	—	75,758	(75,758)	—	—	—
Recognition of equity-settled share based payments	—	—	—	—	17,882	—	—	—	17,882	—	17,882
Acquisition of a subsidiary *(Note 32)*	—	—	—	—	—	—	—	—	—	3,000	3,000
Dividends paid *(Note 14)*	—	—	—	—	—	—	—	(66,934)	(66,934)	—	(66,934)
Balance at December 31, 2011	833,368	(88,296)	7,994	1,007	30,361	79,676	139,495	1,290,464	2,294,069	10,600	2,304,669

Notes:

(i) The merger reserve arose, pursuant to the reorganization in 2006, from the use of the whole proceeds of the interest free loan granted by the Company's immediate holding company, Sound Water (BVI) Limited ("Sound Water"), a company incorporated in the British Virgin Islands (the "BVI"), to finance the acquisition of a subsidiary, Beijing Sound Environmental Engineering Co., Ltd. ("Beijing Sound"). The amount was calculated as the difference between the loan amount of US$18.8 million (equivalent to RMB150,896,000) and the issued capital of the subsidiary acquired of RMB62,600,000.

(ii) The balance as at December 31, 2010 and 2011 reflects (a) the fair value of the 2,157,000 shares of the Company transferred to an initial public offering consultant at a nominal value of S$1.00 during the listing on Singapore Exchange Securities Trading Limited (the "SGX") in 2006; (b) the difference between the consideration of RMB18,000,000 in relation to the acquisition of 40% interest in Anyang Mingbo Water Co., Ltd. ("Anyang Mingbo"), a subsidiary, by the Group and the carrying value on the non-controlling interest and (c) the deemed distribution to the ultimate holding company arose upon the acquisition of Anyang Mingbo in January 2010, with 60% interest acquired from Sound Group Limited ("Sound Group", formerly known as Beijing Sound Environment Group Co., Ltd.), a fellow subsidiary of the Company, for consideration of RMB27,000,000 by the Group.

(iii) In accordance with the Articles of Association of certain subsidiaries established in the People's Republic of China (the "PRC"), those subsidiaries are required to transfer 10% of the profit after taxation to the statutory surplus reserve until the reserve reaches 50% of the registered capital. Transfer to this reserve must be made before distributing dividends to equity owners. The statutory surplus reserve can be used to make up for previous year's losses, expand the existing operations or convert into additional capital of the subsidiaries.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2011

	NOTE	2011	2010
		RMB'000	RMB'000
OPERATING ACTIVITIES			
Profit before income tax		**481,208**	349,067
Adjustments for:			
Depreciation of property, plant and equipment		**3,975**	3,149
Amortization of land use rights		**1,160**	1,158
Amortization of intangible assets		**10,000**	10,000
Interest income		**(31,378)**	(23,254)
Finance costs		**108,197**	36,815
Allowance for doubtful debt		**83**	—
Foreign exchange gain and loss		**8,745**	(4,062)
Loss on disposal of property, plant and equipment		**80**	8
Share-based payment expenses		**17,882**	12,479
Gain on disposal of an associate		**(85)**	—
Share of result of an associate		**81**	14
Operating cash flows before movements in working capital		**599,948**	385,374
Increase in inventories		**(9,531)**	(513)
Increase in trade and other receivables		**(310,220)**	(389,667)
Increase in service concession receivables		**(395,969)**	(231,399)
Increase in amounts due from customers for contract work		**(89,989)**	(110,562)
(Decrease) increase in trade and other payables		**(2,105)**	164,965
Decrease in amounts due to customers for contract work		**(1,802)**	(14,653)
Cash used in operations		**(209,668)**	(196,455)
Income taxes paid		**(35,213)**	(32,449)
Income taxes refunded		**—**	309
Net cash used in operating activities		**(244,881)**	(228,595)
INVESTING ACTIVITIES			
Interest received		**10,006**	5,282
Purchases of property, plant and equipment		**(4,869)**	(2,309)
Proceeds from disposal of property, plant and equipment		**2**	44
Proceeds from disposal of an associate		**2,046**	—
Dividend received from an associate		**505**	—
Deemed acquisition of a subsidiary	32	**459**	—
Disposal of available for sale investment		**—**	2,700
Increase in restricted bank balances		**(20,308)**	(245,789)
Decrease in restricted bank balances		**269,490**	—
Net cash from (used in) investing activities		**257,331**	(240,072)

	NOTE	2011	2010
		RMB'000	RMB'000
FINANCING ACTIVITIES			
Interest paid		**(87,886)**	(15,845)
Payment of dividends		**(66,934)**	—
Payment for combination of Anyang Mingbo		**—**	(45,000)
Proceeds on issue of convertible loan notes		**—**	859,565
Capital contribution from non-controlling interests		**—**	7,600
Borrowings raised		**649,847**	694,350
Repayments of borrowings		**(451,791)**	(238,700)
Net cash from financing activities		**43,236**	1,261,970
Net increase in cash and cash equivalents		**55,686**	793,303
Cash and cash equivalents at beginning of year		**2,027,352**	1,237,698
Effect of foreign exchange rate changes		**(8,612)**	(3,649)
Cash and cash equivalents at end of year represented by bank balances and cash		**2,074,426**	2,027,352

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

1. GENERAL INFORMATION

The Company was a limited liability company incorporated in Republic of Singapore ("Singapore") on November 7, 2005 under the Singapore Companies Act and its shares are listed on the SGX and the Main Board of the Stock Exchange of Hong Kong Limited (the "SEHK"). The registered office of the Company is at 1 Robinson Road, #17-00 AIA Tower, Singapore 048542. Its principal place of business is at 460 Alexandra Road, #14-04 PSA Building, Singapore 119963.

The Company is an investment holding company which is also engaged in environmental construction related design services. Its subsidiaries (together with the Company, collectively referred as the "Group") are mainly engaged in environmental construction related to water treatment, research and development of water treatment technologies and provision of services for technology consultation and construction, management and operation of the municipal wastewater projects and sale of treated water.

The consolidated financial statements are presented in Renminbi ("RMB"), the currency of the primary economic environment in which the principal subsidiaries of the Company operate. The functional currency of the Company is RMB.

The Company's immediate and ultimate parent company is Sound Water.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied the following new and revised standards, interpretations and amendments issued by the International Accounting Standards Board.

IFRSs (Amendments)	Improvements to IFRSs issued in 2010
IAS 24 (as revised in 2009)	Related Party Disclosures
IAS 32 (Amendments)	Classification of Rights Issues
IFRIC 14 (Amendments)	Prepayments of a Minimum Funding Requirement
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments

The application of the new and revised standards, interpretations and amendments in the current year has had no material effect on the amounts reported in these consolidated financial statements and/or disclosures set out in these consolidated financial statements.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (Cont'd)

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

IFRS 1 (Amendments)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters[1]
IFRS 7 (Amendments)	Disclosures — Transfers of Financial Assets[1]
IFRS 7 (Amendments)	Disclosures — Offsetting Financial Assets and Financial Liabilities[2]
IFRS 9	Financial Instruments[3]
IFRS 9 and IFRS 7 (Amendments)	Mandatory Effective Date of IFRS 9 and Transition Disclosures[3]
IFRS 10	Consolidated Financial Statements[2]
IFRS 11	Joint Arrangements[2]
IFRS 12	Disclosure of Interests in Other Entities[2]
IFRS 13	Fair Value Measurement[2]
IAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income[5]
IAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[4]
IAS 19 (as revised in 2011)	Employee Benefits[2]
IAS 27 (as revised in 2011)	Separate Financial Statements[2]
IAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[2]
IAS 32 (Amendments)	Offsetting Financial Assets and Financial Liabilities[6]
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine[2]

1 Effective for annual periods beginning on or after July 1, 2011
2 Effective for annual periods beginning on or after January 1, 2013
3 Effective for annual periods beginning on or after January 1, 2015
4 Effective for annual periods beginning on or after January 1, 2012
5 Effective for annual periods beginning on or after July 1, 2012
6 Effective for annual periods beginning on or after January 1, 2014

The directors of the Company anticipate that the application of the new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared under the historical cost basis except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with the following accounting policies which conform with International Financial Reporting Standards. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the SEHK and by the Hong Kong Companies Ordinance.

Basis of consolidation

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

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

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

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the equity of the owners of the Company.

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's ownership interests in existing subsidiaries

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

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Basis of consolidation (Cont'd)

Changes in the Group's ownership interests in existing subsidiaries (Cont'd)

When the Group loses control of a subsidiary, it (i) derecognizes the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost, (ii) derecognizes the carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them), and (iii) recognizes the aggregate of the fair value of the consideration received and the fair value of any retained interest, with any resulting difference being recognize as a gain or loss in profit or loss attributable to the Group. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition related costs are generally recognized in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value, except that:

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

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or sharebased payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 Share-based Payment at the acquisition date (see the accounting policy below); and

- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquire (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

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3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Business combinations (Cont'd)

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

Merger accounting for business combination involving entities under common control

The consolidated financial statements incorporate the financial statements items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are consolidated using the existing book values from the controlling party's perspective. No amount is recognized in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated statement of comprehensive income includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the consolidated financial statements are presented as if the entities or businesses had been combined at the end of the previous reporting period or when they first came under common control, whichever is shorter.

Goodwill

Capitalized goodwill arising on an acquisition of a business is presented separately in the consolidated statement of financial position. Such goodwill is carried at cost less any accumulated impairment losses.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in profit or loss. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of the relevant cash-generating unit, the attributable amount of goodwill capitalized is included in the determination of the amount of profit or loss on disposal.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Investments in associates

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

The results and assets and liabilities of associates are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associates, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognizing its share of further losses. An additional share of losses is provided for and a liability is recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

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

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable.

Construction contracts

When the outcome of a construction contract including construction services of the infrastructure under a service concession arrangement (which include turnkey services) can be estimated reliably, revenue and costs are recognized by reference to the stage of completion of the contract activity at the end of the reporting period, as measured by the proportion that contract costs incurred for work performed to date relative to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably, its receipt is considered probable and they have been agreed with the customer.

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Revenue recognition (Cont'd)

Sale of goods

Revenue from the sale of goods is recognized when the goods are delivered and the title has passed.

Rendering of services

Service income including that from operating service provided under service concession arrangements is recognized when services are provided. Revenue from a contract to provide services is recognized by reference to the stage of completion of the contract.

Interest income

Interest income from a financial asset (excluding financial assets through profit or loss) is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Leasing

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

The Group as lessee

Operating lease payments are recognized as an expense on a straight-line basis over the term of the relevant lease. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred. Benefits received and receivable as an incentive to enter into an operating lease are recognized as a reduction of rental expenses on a straight-line basis over the lease term.

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account of their estimated residual values, using the straight-line method.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the period in which the item is derecognized.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Foreign currencies

In preparing the financial statements of the Company and individual entities, transactions in currencies other than the entity's functional currency (the currency of the primary economic environment in which the entity operates) are recorded in the respective functional currency at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that day. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on retranslation of monetary items are recognized in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. RMB) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity (the translation reserve).

Borrowing costs

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

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

Government grants

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

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

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognized in profit or loss in the period in which they become receivable.

Retirement benefit costs

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

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Taxation

Income tax expenses represent the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

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

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries and an associate, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realized, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Current and deferred tax is recognized in profit or loss, except when it relates to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax is also recognized in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Land use rights

Land use rights are stated at cost and amortized on a straight-line basis over the lease terms. Land use rights which are to be amortized in the next twelve months or less are classified as current assets.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Intangible assets

Intangible assets acquired separately

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortization and any accumulated impairment losses. Amortization for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss in the period when the asset is derecognized.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognized separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date. Subsequent to initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortization and any accumulated impairment losses.

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

Research and development expenditures

Expenditure on research activities is recognized as an expense in the period in which it is incurred. An internally-generated intangible asset arising from development expenditure is recognized only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial operation. The resultant asset is amortized on a straight-line basis over its useful life, and carried at cost less accumulated amortization and any accumulated impairment losses.

The amount initially recognized for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria. Where no internally-generated intangible asset can be recognized, development expenditure is charged to profit or loss in the period in which it is incurred. Subsequent to initial recognition, internally-generated intangible asset is reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets acquired separately.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Impairment of tangible assets and intangible assets other than goodwill

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

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is calculated using weighted average method.

Financial instruments

Financial assets and financial liabilities are recognized on the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Financial assets

The Group's financial assets are mainly loans and receivables.

Effective interest method

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

Interest income is recognized on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each reporting date subsequent to initial recognition, loans and receivables (including service concession receivables, trade and other receivables, restricted bank balances and bank balances and cash) are carried at amortized cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Impairment of financial assets

Loans and receivables are assessed for indicators of impairment at each reporting date. Loans and receivables are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after its initial recognition, the estimated future cash flows have been affected.

Objective evidence of impairment could include:

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

For financial assets carried at amortised cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

For certain categories of loans and receivables, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments and observable changes in national or local economic conditions that are correlated with default on receivables.

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3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Financial assets (Cont'd)

Impairment of financial assets (Cont'd)

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

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

Equity instruments

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

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognized on an effective interest basis.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Financial liabilities and equity instruments (Cont'd)

Financial liabilities at fair value through profit or loss

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

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

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

Other financial liabilities

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

Derivative financial instruments

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

Derecognition

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognize the asset to the extent of its continuing involvement and recognizes an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralised borrowing for the proceeds received.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Share-based payment transactions

Equity-settled share-based payment transactions

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve). At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share options reserve.

At the time when the share options are exercised, the amount previously recognized in share options reserve will be transferred to capital reserve. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognized in share options reserve will be transferred to retained earnings.

Convertible loan notes

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

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

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

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

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

Estimated impairment of trade and other receivables

The Group makes allowances for bad and doubtful debts based on an assessment of the recoverability of trade and other receivables. Allowances are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts requires the use of judgment and estimates. Where the expectation is different from the original estimate, such difference will impact carrying amount of trade and other receivables and doubtful debts expenses in the period in which such estimate has been changed. The carrying amount of the trade and other receivables are disclosed in Note 25.

Revenue recognition

The Group recognizes contract revenue based on the stage of completion method. The stage of completion is measured in accordance with the accounting policy stated in Note 3. Significant estimation is required in determining the stage of completion, including the extent of the contract cost incurred, the estimated total contract revenue and the estimated total contract cost and the recoverability of the costs. In assessing the estimation, the Group relies on past experience and the work of the project management team. Changes in estimate of contract revenue or contract costs, or changes in the estimated outcome of a contract could impact the amounts of revenue and expenses recognized in profit or loss in the period in which the change is made and in subsequent periods. Such impact could potentially be significant.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (Cont'd)

Accounting for IFRIC 12 Service Concession Arrangements

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

The segregation of the consideration for a service concession arrangement between the financial asset component and the intangible asset component, if any, requires the Group to make an estimate of a number of factors, which include, inter alia, fair value of the construction services, expected future wastewater treatment volume of the relevant sewage treatment plant over its service concession period, future guaranteed receipts and unguaranteed receipts, and also to choose a suitable discount rate in order to calculate the present value of those cash flows. No intangible assets have been recognized regarding to service concession arrangements as the management considers the chance to exceed the guaranteed tonnage is low. These estimates are determined by the Group's management based on their experience and assessment on current and future market condition. Changes in these estimates could impact the amounts of construction revenue and deemed interest income and expenses recognized in profit or loss in the period in which the change is made and in subsequent periods. Such impact could potentially be significant.

5. SEGMENT INFORMATION

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

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

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

The accounting policies of the operating segments are the same as the Group's accounting policies describe in Note 3. Segment results represent the profits earned by each segment without allocation of central administration costs, directors' remuneration, share of result of an associate, gain on disposal of an associate, interest income, foreign exchange gains and losses, finance costs at corporate level.

5. SEGMENT INFORMATION (Cont'd)

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

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

	Turnkey projects and services RMB'000	Equipment Fabrications RMB'000	O&M RMB'000	Elimination RMB'000	Total RMB'000
2010					
Revenue					
External sales	1,610,619	124,406	30,647	—	1,765,672
Inter-segment sales	—	52,193	—	(52,193)	—
Total revenue	1,610,619	176,599	30,647	(52,193)	1,765,672
Segment results	413,381	27,656	21,921	—	462,958
Unallocated expenses					(113,877)
Share of result of an associate					(14)
Profit before income tax					349,067

Inter-segment sales are charged at prices agreed between the group entities.

Segment assets represent property, plant and equipment, land use rights, intangible assets, goodwill, service concession receivables, deferred tax assets, inventories, trade and other receivables, amounts due from customers for contract work, restricted bank balances and bank balances and cash, which are attributable to each operating segments. Segment liabilities represent trade and other payables, tax payables, borrowings, amounts due to customers for contract work and deferred tax liabilities except for those arisen from undistributed profits of the PRC subsidiaries and fair value adjustment on business combination, which are attributable to each operating segments. In the internal reports regularly reviewed by the CODM, tax payables and deferred tax assets/liabilities are allocated to each segment, if applicable without allocating the related income tax expenses to relevant segments results.

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5. SEGMENT INFORMATION (Cont'd)

As of December 31, 2011

	Turnkey projects and services	Equipment Fabrications	O&M	Elimination	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Assets and Liabilities					
Segment assets	**3,547,502**	**551,453**	**1,641,784**	**(846,522)**	**4,894,217**
Unallocated corporate assets *(note a)*					**61,967**
Consolidated assets					**4,956,184**
Segment liabilities	**1,415,234**	**217,062**	**593,119**	**(846,522)**	**1,378,893**
Deferred tax liabilities					**26,008**
Unallocated corporate liabilities *(note b)*					**1,246,614**
Consolidated liabilities					**2,651,515**

As of December 31, 2010

	Turnkey projects and services	Equipment Fabrications	O&M	Elimination	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Assets and Liabilities					
Segment assets	3,192,166	521,309	939,067	(684,208)	3,968,334
Interest in an associate					2,547
Unallocated corporate assets *(note a)*					379,417
Consolidated assets					4,350,298
Segment liabilities	1,438,904	229,466	405,224	(684,208)	1,389,386
Deferred tax liabilities					24,104
Unallocated corporate liabilities *(note b)*					1,000,553
Consolidated liabilities					2,414,043

Notes:

(a) Unallocated corporate assets mainly represent bank balances and cash, restricted bank balances, other receivable and property, plant and equipment at corporate level.

(b) Unallocated corporate liabilities represent borrowings, convertible loan notes, tax payable, warrants and other payable at corporate level.

5. SEGMENT INFORMATION (Cont'd)

Other information

For the year ended December 31, 2011

	Turnkey projects and services	Equipment Fabrications	O&M	Unallocated	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Additions to non-current assets excluding financial instruments and deferred tax assets	**1,704**	**754**	**2,314**	**97**	**4,869**
Depreciation and amortization	**1,499**	**12,802**	**748**	**86**	**15,135**
Interest income	**8,194**	**497**	**67**	**1,248**	**10,006**
Imputed interest income on service concession receivables	**—**	**—**	**21,372**	**—**	**21,372**
Loss on disposal of property, plant and equipment	**80**	**—**	**—**	**—**	**80**
Finance costs	**12,218**	**1,203**	**11,804**	**82,972**	**108,197**

For the year ended December 31, 2010

	Turnkey projects and services	Equipment Fabrications	O&M	Unallocated	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Additions to non-current assets excluding financial instruments and deferred tax assets	858	269	1,120	62	2,309
Depreciation and amortization	1,314	12,739	223	31	14,307
Interest income	5,071	202	9	—	5,282
Imputed interest income on service concession receivables	—	—	17,972	—	17,972
Loss on disposal of property, plant and equipment	2	6	—	—	8
Finance costs	7,409	232	5,386	23,788	36,815

5. SEGMENT INFORMATION (Cont'd)

Geographical information

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

	2011 RMB'000	2010 RMB'000
Revenue from external customers		
The PRC	**1,957,120**	1,597,803
Saudi Arabia	**330,455**	167,869
	2,287,575	1,765,672

	December 31, 2011 RMB'000	December 31, 2010 RMB'000
Non-current assets		
The PRC	**162,890**	175,826
Saudi Arabia	**326**	289
	163,216	176,115

Revenue from Power & Water Utility Company For Jubail & Yanbu (Marafiq) in turnkey projects and services segment contributed 14.45% of the Group's total revenue for the year ended December 31, 2011. No revenue from a single external customer amount to 10% or more of the Group's revenue for the year ended December 31, 2010.

6. REVENUE

	2011 RMB'000	2010 RMB'000
Revenue from construction contracts (including turnkey services and sales of equipments related to construction contracts)	**2,115,751**	1,563,258
Revenue from sale of goods	**58,191**	124,406
Operating and maintenance income	**59,776**	30,647
Design service	**53,857**	47,361
	2,287,575	1,765,672

7. OTHER INCOME

	2011 RMB'000	2010 RMB'000
Interest income	**10,006**	5,282
Imputed interest income on service concession receivables	**21,372**	17,972
Government grant	**2,621**	—
Sundry income	**106**	147
	34,105	23,401

8. OTHER EXPENSES

	2011 RMB'000	2010 RMB'000
Expenses related to listing on the SEHK	**—**	59,156
Net foreign exchange losses	**10,805**	17,597
Allowance for doubtful debts	**83**	—
	10,888	76,753

9. FINANCE COSTS

	2011 RMB'000	2010 RMB'000
Interest expenses on borrowings		
— wholly repayable within five years	**21,856**	13,027
— not wholly repayable within five years	**15,356**	3,311
Effective interest expenses on convertible loan notes	**70,985**	20,477
	108,197	36,815

10. INCOME TAX EXPENSES

	2011 RMB'000	2010 RMB'000
The charge comprises:		
Current tax		
PRC income tax	**59,906**	48,111
Over provision in prior year		
PRC income tax	**(4)**	—
Singapore income tax	**—**	(309)
	(4)	(309)
Deferred tax *(Note 22)*	**7,481**	12,075
	67,383	59,877

The Singapore income tax represents income tax in Singapore which is calculated at the prevailing tax rate on the taxable income of companies established in Singapore. For the years ended December 31, 2010 and 2011, the tax rate was 17%.

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10. INCOME TAX EXPENSES (Cont'd)

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the statutory tax rate of the PRC subsidiaries is 25%.

The EIT Law provides that qualified dividend income between two "resident enterprises" that have a direct investment relationship is exempted from income tax. Otherwise, such dividends will be subject to a withholding tax under the tax treaty or the domestic law.

Under the EIT Law, withholding tax is imposed at 5% on dividends declared to foreign investors in respect of profit earned by PRC subsidiaries from January 1, 2008 onward, deferred taxation has been provided for in the consolidated financial statements in respect of profits of relevant PRC subsidiaries to be distributed estimated by the directors of the Company. Meanwhile, deferred tax liabilities on the undistributed profits of the PRC subsidiaries of approximately RMB1,036,533,000 (2010: RMB614,043,000) which was earned after January 1, 2008, have not been recognized as of December 31, 2011, because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

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

	2011	**2010**
	%	**%**
Beijing Sound *(note i)*	**15**	15
Beijing Epure International Water Co., Ltd ("Beijing Epure") *(note ii)*	**7.5**	7.5
Beijing Hi-Standard Water Treatment Equipment Co., Ltd ("Hi-Standard Equipment") *(note iii)*	**15**	15
Xi'an Huqing Water Co., Ltd ("Xi'an Huqing") *(note iv)*	**Exempted**	Exempted
Xi'an Qinqing Water Co., Ltd ("Xi'an Qinqing") *(note iv)*	**Exempted**	Exempted
Guangxi Liqing Water Co., Ltd ("Guangxi Liqing") *(note iv)*	**Exempted**	Exempted
Shangluo Wastewater Treatment Co., Ltd ("Shangluo Wasterwater") *(note iv)*	**Exempted**	25
Yulin City Jingzhou Water Co., Ltd ("Yulin Jingzhou") *(note iv)*	**Exempted**	25
Hainan Baichuan Water Co., Ltd ("Hainan Baichuan") *(note iv)*	**Exempted**	Exempted
Jiangyan Jiangyuan Wastewater Treatment Co., Ltd ("Jiangyan Jiangyuan") *(note iv)*	**Exempted**	Exempted

Notes:

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

According to the EIT Law and Circular of State Administration of Taxation on Issues Concerning Implementation of Preferential Income Tax Enjoyed by High-and-new-tech Enterprises (Guo Shui Han 2009 No. 203), high-and-new-tech enterprises are levied enterprise income tax at 15%. Beijing Sound was entitled to enjoy a preferential tax rate at 15% from 2008 to 2013 and as it has successfully applied as a high-and-new-tech enterprise in 2008 for a period from 2008 to 2011 and further successfully applied in 2011 for a period from 2011 to 2013.

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

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

10. INCOME TAX EXPENSES (Cont'd)

Notes: (Cont'd)

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

According to Guo Shui Han 2009 No. 203, Hi-Standard Equipment was entitled to enjoy a preferential tax rate at 15% from year 2008 to year 2011 as it has successfully applied as a high-and-new-tech enterprise in 2008 from 2008 to 2011. It further successfully applied in 2011 for an effective period from 2011 to 2013.

(iv) According to No.88 provision of the Implementation Rules on the EIT Law of the PRC and the third item in No.27 provision of the EIT Law of the PRC, the income of companies engaged in environmental protection projects, or energy and water saving projects, which meet relevant requirements, shall be exempted from enterprise income tax for three years commencing from the first revenue-generating year of operations and thereafter, be entitled to a 50% reduction from enterprise income tax for the next three years. The specific conditions and scope of projects shall be jointly formulated by the competent department of finance and taxation of the State Council in collaboration with other relevant departments of the State Council and shall be publicized and implemented after being approved by the State Council. Xi'an Huqing, Xi'an Qinqing, Guangxi Liqing, Hainan Baichuan and Jiangyan Jiangyuan have obtained the approval and are entitled to exempt from enterprise income tax in 2010, 2011 and 2012 and enjoy 12.5% preferential enterprise income tax rate in the following three years. Shangluo Wasterwater and Yulin Jingzhou have obtained the approval and are entitled to exempt from enterprise income tax in 2011, 2012 and 2013 and enjoy 12.5% preferential enterprise income tax rate in the following three years.

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

	2011	2010
	RMB'000	RMB'000
Profit before income tax	**481,208**	349,067
Tax at the applicable income tax rate 25%	**120,302**	87,267
Tax effect of expenses not deductible for tax purpose	**30,308**	25,998
Tax effect of share of result of an associate	**20**	4
Tax effect of preferential tax rate and different tax rates of subsidiaries	**(90,186)**	(66,075)
Effect of tax exemption	**(3,902)**	(1,713)
Tax effect of unrecognized deductible temporary differences	**447**	117
Tax effect of tax losses not recognized	**6,898**	5,963
Deferred tax liabilities arising on undistributed profits in the PRC subsidiaries from January 1, 2008 onwards	**3,500**	8,625
Over provision in prior year	**(4)**	(309)
Income tax expense	**67,383**	59,877

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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11. PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging:

	2011	2010
	RMB'000	RMB'000
Amortization of intangible assets, included in cost of sales	10,000	10,000
Amortization of land use rights	1,160	1,158
Auditors' remuneration	3,767	2,800
Cost of inventories recognized as expenses	302,599	178,609
Depreciation for property, plant and equipment	3,975	3,149
Loss on disposal of property, plant and equipment	80	8
Staff cost		
Director's remuneration	4,242	1,919
Other staff costs		
Staff cost excluded retirement benefit costs	52,613	35,120
Contribution to defined contribution plans	6,652	4,330
Share-based payments	15,034	11,700
Total staff cost	78,541	53,069

12. DIRECTORS' EMOLUMENTS

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

	2011	2010
	RMB'000	RMB'000
Directors' fees	625	447
Directors' emoluments:		
— Basic salaries and allowances	595	577
— Bonus	54	—
— Contribution to defined contribution plans	120	116
— Share-based payments	2,848	779
	3,617	1,472
Total	4,242	1,919

12. DIRECTORS' EMOLUMENTS (Cont'd)

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

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

	Directors' fee	Salaries and other benefit	Contribution to defined contribution plans	Share-based payments	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended December 31, 2010					
Name of director					
WEN Yibo	—	152	29	—	181
LI Li	—	165	29	—	194
ZHANG Baolin (appointed on March 12, 2010)	—	133	29	745	907
YAN Xiaolei (retired on December 24, 2010)	—	125	28	—	153
WANG Kai (appointed on December 24, 2010)	—	2	1	34	37
WONG See Meng	220	—	—	—	220
FU Tao	60	—	—	—	60
SEOW Han Chiang	167	—	—	—	167
	447	577	116	779	1,919

13. EMOLUMENTS OF THE FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals included two (2010: nil) directors for the year ended December 31, 2011. The emoluments of the directors are included in the disclosure in Note 12 above. The emoluments of the remaining three (2010: five) highest paid individuals for the year ended December 31, 2011 are as follows:

	2011	2010
	RMB'000	RMB'000
Salaries and other benefits	**1,461**	2,805
Performance related incentive payments *(note)*	**2,228**	2,521
Contribution to defined contributions plan	**129**	380
Share-based payments	**918**	294
	4,736	6,000

Note: The performance related incentive payment is determined based on evaluation of each individual annually.

No emoluments were paid by the Group to the directors or the five highest paid individuals as inducement to join or upon joining the Group or as compensation for loss of office. None of the directors of the Company has waived any emoluments during the years ended December 31, 2010 and 2011.

Their emoluments were within the following band:

	Number of individuals	
	2011	2010
Nil to HK$1,000,000	**2**	3
HK$1,000,001 to HK$1,500,000	**—**	1
HK$3,000,001 to HK$3,500,000	**—**	1
HK$3,500,001 to HK$4,000,000	**1**	—

14. DIVIDENDS

	2011	2010
	RMB'000	RMB'000
Dividends recognized as distributions during the year	**66,934**	—

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

The final dividend of S$0.01 per share in respect of the year ended December 31, 2011 totaling S$12,900,000 (2010: final dividend of S$0.01 per share in respect of the year ended December 31, 2010 totaling S$12,900,000) has been proposed by the directors and is subject to approval by the shareholders in general meeting.

15. EARNINGS PER SHARE

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

	2011	2010
	RMB'000	RMB'000
Earnings for the purpose of basic earnings per share	**413,825**	289,104
Effect of dilutive potential ordinary shares:		
Interest on convertible loan notes	**70,985**	—
Earnings for the purpose of diluted earnings per share	**484,810**	289,104

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

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

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

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16. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and machinery	Transportation vehicles	Fixtures and equipments	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost					
At January 1, 2010	44,446	8,136	2,751	4,330	59,663
Additions	—	24	1,121	1,164	2,309
Disposal	—	(113)	—	(9)	(122)
Translation difference	—	—	(11)	(2)	(13)
At December 31, 2010	44,446	8,047	3,861	5,483	61,837
Additions	—	1,227	1,774	1,868	4,869
Disposal	—	—	—	(791)	(791)
Translation difference	—	—	(19)	(4)	(23)
At December 31, 2011	**44,446**	**9,274**	**5,616**	**6,556**	**65,892**
Accumulated Depreciation					
At January 1, 2010	5,632	1,287	2,442	2,685	12,046
Charge for the year	1,438	816	343	552	3,149
Disposal	—	(66)	—	(4)	(70)
Translation difference	—	—	(6)	(1)	(7)
At December 31, 2010	7,070	2,037	2,779	3,232	15,118
Charge for the year	1,419	880	737	939	3,975
Disposal	—	—	—	(709)	(709)
Translation difference	—	—	(13)	(6)	(19)
At December 31, 2011	**8,489**	**2,917**	**3,503**	**3,456**	**18,365**
Carrying amount					
At December 31, 2011	**35,957**	**6,357**	**2,113**	**3,100**	**47,527**
At December 31, 2010	37,376	6,010	1,082	2,251	46,719

Depreciation is charged so as to write off the cost of assets over their estimated useful lives, using the straight-line method, on the following rate per annum:

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

As of December 31, 2011 the Group has pledged buildings with carrying amount of approximately RMB31,448,000 (2010: RMB33,278,000) to secure general banking facilities granted to the Group.

17. INTANGIBLE ASSETS

	RMB'000
Cost	
At January 1, 2010, December 31, 2010 and 2011	67,199
Accumulated amortization	
At January 1, 2010	17,199
Amortization for the year	10,000
At December 31, 2010	27,199
Amortization for the year	10,000
At December 31, 2011	**37,199**
Carrying amounts	
At December 31, 2011	**30,000**
At December 31, 2010	40,000

The intangible assets represent various patents which protect the design and specification in the manufacturing of wastewater treatment equipment. Amortization for the patents is provided on a straight-line basis over their estimated useful lives ranging from 4.5 to 9.5 years.

18. LAND USE RIGHTS

	RMB'000
Cost	
At January 1, 2010, December 31, 2010 and 2011	49,921
Accumulated amortization	
At January 1, 2010	2,151
Charge for the year	1,158
At December 31, 2010	3,309
Charge for the year	1,160
At December 31, 2011	**4,469**
Carrying amounts	
At December 31, 2011	**45,452**
At December 31, 2010	46,612

18. LAND USE RIGHTS (Cont'd)

	December 31, 2011	December 31, 2010
	RMB'000	RMB'000
Analyzed for reporting purpose as:		
— Current asset	**1,158**	1,158
— Non-current asset	**44,294**	45,454
	45,452	46,612

The amount represents the prepayment of rentals for land use rights situated in the PRC. The leasehold land has lease terms ranging from 43 to 47 years.

As of December 31, 2011, the Group has pledged land use rights with carrying amount of approximately RMB2,327,000 (2010: RMB2,391,000) to secure general banking facilities granted to the Group.

19. GOODWILL

	RMB'000
Cost	
Balance as at January 1, 2010, December 31, 2010 and 2011	41,395

Goodwill has been allocated to the cash-generating unit of Hi-Standard Equipment in equipment fabrications segment.

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

The value in use calculation uses cash flow forecasts derived from the most recent financial forecasts approved by the management for the next five years, and discount rate of 8% (2010: 8%) as of December 31, 2011. No growth rate is extrapolated beyond the 5-year forecasted period.

During the years ended December 31, 2010 and 2011, management of the Group determines that there are no impairments of Hi-Standard Equipment. Management believes that any reasonably possible change in any of these assumptions would not cause the carrying amount of Hi-Standard Equipment to exceed its recoverable amount.

20. INTEREST IN AN ASSOCIATE

	December 31, 2011	December 31, 2010
	RMB'000	RMB'000
Unquoted equity investments, at cost	—	2,000
Share of post-establishment profits	—	547
	—	2,547

Information in table about the associate

Name of associate	Country of establishment and operation	The Group's equity interest and voting power held 2011	2010	Principal activity
		%	%	
Shanghai Chenghuan Water Operation Co., Ltd	The PRC	—	20	Management and operations of wastewater treatment plants

The summarized financial information of the associate is set out below:

	2011	2010
	RMB'000	RMB'000
Revenue	**1,972**	5,453
Loss for the year	**(401)**	(70)
The Group's share of an associate's loss	**(81)**	(14)

The Group disposed of its entire interest in the associate in July 2011 for a consideration of RMB2,046,000. Gain of RMB85,000 is recognized in profit or loss for the year ended December 31, 2011.

21. SERVICE CONCESSION RECEIVABLES

	December 31, 2011	December 31, 2010
	RMB'000	RMB'000
Service concession receivables	**1,121,874**	674,538
Less: Amounts due within one year shown under current assets *(Note 25)*	**(38,215)**	(9,420)
Service concession receivables	**1,083,659**	665,118

Service concession receivables arose from the service concession contracts to build and operate wastewater treatment and recycling water plants. The Group is the operator under certain build-operate-transfer ("BOT") arrangements. With respect to the contracts, the Group has evaluated and assessed that such contracts fall into the scope of IFRIC 12 *Service Concession Arrangements*. Service concession receivables were recognized to the extent that the Group has an unconditional contractual right to receive cash from or at the direction of the grantor for the construction services.

The Group has 15 BOT projects in progress, among which 8 (2010: 5) BOT projects were in the operation period during the year ended December 31, 2011. Those arrangements entitle the Group concession rights for periods ranging from 20 to 30 years with minimum guaranteed tonnage and tariff per ton defined in the agreements.

22. DEFERRED TAXATION

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

	Allowance for doubtful debt	Undistributed profits of the PRC subsidiaries	Fair value adjustment arising from acquisition of a subsidiary	Service concession receivables	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2010	7,199	(4,500)	(12,575)	(2,434)	173	(12,137)
Credit (charge) to profit or loss	—	(8,625)	1,596	(5,046)	—	(12,075)
At December 31, 2010	7,199	(13,125)	(10,979)	(7,480)	173	(24,212)
Credit (charge) to profit or loss	—	(3,500)	1,596	(5,577)	—	(7,481)
At December 31, 2011	**7,199**	**(16,625)**	**(9,383)**	**(13,057)**	**173**	**(31,693)**

22. DEFERRED TAXATION (Cont'd)

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

	December 31, 2011	December 31, 2010
	RMB'000	RMB'000
Deferred tax assets	**7,372**	7,372
Deferred tax liabilities	**(39,065)**	(31,584)
	(31,693)	(24,212)

As at December 31, 2011, the Group has unused tax losses of RMB53,615,000 (2010: RMB26,024,000) available for offset against future profits. No deferred tax asset has been recognized in respect of those tax losses due to the unpredictability of future profit streams. The tax losses of RMB35,948,000 (2010: RMB20,072,000) at December 31, 2011 has no expiry date and the remainder will be expired as follows:

	2011	2010
	RMB'000	RMB'000
2013	**1,224**	1,224
2014	**948**	948
2015	**3,780**	3,780
2016	**11,715**	—
	17,667	5,952

23. INVENTORIES

	December 31, 2011	December 31, 2010
	RMB'000	RMB'000
Raw materials	**19,405**	9,638
Work in progress	**136**	2,418
Finished goods	**2,046**	—
	21,587	12,056

24. AMOUNTS DUE FROM/TO CUSTOMERS FOR CONTRACT WORK

	December 31, 2011	December 31, 2010
	RMB'000	RMB'000
Contracts in progress at reporting date:		
Amounts due from customers for contract work	**427,640**	337,651
Amounts due to customers for contract work	**(7,809)**	(9,611)
	419,831	328,040
Contract costs incurred plus recognized profits less recognized losses	**2,818,844**	2,276,370
Less: Progress billings	**(2,399,013)**	(1,948,330)
	419,831	328,040

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

25. TRADE AND OTHER RECEIVABLES

The following is an analysis of trade and other receivables at the end of reporting period:

	December 31, 2011	December 31, 2010
	RMB'000	RMB'000
Trade receivables	**961,838**	701,477
Allowance for doubtful debts	**(48,038)**	(47,995)
	913,800	653,482
Bills receivables	**22,446**	51,506
Bid and compliance deposits	**20,780**	19,694
Advance payments to suppliers and subcontractors	**82,593**	45,389
Other receivables	**42,445**	29,259
Service concession receivables	**38,215**	9,420
Total	**1,120,279**	808,750

The table below is an analysis of trade receivables net of allowance for doubtful debts and bills receivables based on invoice issuance date:

	2011	2010
	RMB'000	RMB'000
Trade receivables:		
Within 90 days	**269,887**	310,288
91–180 days	**284,507**	128,149
181 days–1 year	**245,520**	195,470
1 to 2 years	**113,886**	19,575
	913,800	653,482
Bills receivables:		
Within 180 days	**22,446**	51,506

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

25. TRADE AND OTHER RECEIVABLES (Cont'd)

Included in the Group's trade receivables are debtors with a carrying amount of RMB119,160,000 (2010: RMB89,183,000) as of December 31, 2011 which were overdue for which the Group has not provided for impairment loss as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances.

Aging of trade receivables past due but not impaired

	2011	2010
	RMB'000	RMB'000
91–180 days	—	8,816
181 days–1 year	5,274	60,792
1 to 2 years	113,886	19,575
	119,160	89,183

As of December 31, 2011, trade receivables with carrying amount of approximately RMB120,695,000 (2010: RMB136,460,000) have been pledged as collateral for the short-term borrowings of RMB60,000,000 (2010: RMB60,000,000).

As of December 31, 2011, no bills receivables (2010: RMB11,818,000) have been pledged as collateral for the bills payables.

Movement in allowance for doubtful debts:

	2011	2010
	RMB'000	RMB'000
Balance at beginning of year	47,995	47,995
Charge to profit or loss	83	—
Amounts written off as uncollectable	(40)	—
Balance at end of year	48,038	47,995

In determining the recoverability of trade receivables, the Group considers any change in the credit quality of the trade receivables from the date credit was initially granted up to the reporting date. The above allowance was mainly provided for based on estimated irrecoverable amounts arising from construction contracts, determined by reference to past default experience. The Group reviews the recoverable amount of each individually significant debt at each reporting date to ensure that adequate impairment losses are made for irrecoverable amounts.

26. BANK BALANCES AND CASH

Bank balances and cash comprise cash and short-term deposits with an original maturity of three months or less which are held with financial institutions and carry interest at prevailing market rate from 0.36% to 0.50% (2010: 0.36%) per annum as of December 31, 2011.

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

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

	December 31, 2011	December 31, 2010
	RMB'000	RMB'000
Singapore Dollar ("S$")	1,440	766
United States Dollar ("US$")	64,025	247,046
Bangladeshi Taka ("BDT")	4,439	—

Restricted bank balances

As of December 31, 2011, bank balances of certain subsidiaries of RMB56,847,000 (2010: RMB92,446,000) have been pledged to financial institutions in respect of letters of guarantees issued to certain subsidiaries to secure construction contracts. The bank balances bear prevailing interest rate ranging from 0.36% to 0.5% (2010: 0.36%) per annum as of December 31, 2011. The restricted bank balances will be released upon the settlement of relevant contracts.

As of December 31, 2011, no bank balances of the Company (2010: RMB222,280,000) were pledged to financial institutions in respect of banking facilities provided to the Group.

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

	December 31, 2011	December 31, 2010
	RMB'000	RMB'000
S$	22,037	23,054
US$	23,197	286,785

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27. TRADE AND OTHER PAYABLES

The credit terms of trade payables vary according to the terms agreed with different suppliers. The following is an aged analysis of trade payables based on invoice issuance date at the respective reporting dates:

	December 31, 2011	December 31, 2010
	RMB'000	RMB'000
Trade payables		
Within 90 days	**223,035**	254,660
91 days to 180 days	**166,285**	147,593
181 days to 1 year	**74,385**	81,784
1 to 2 years	**78,496**	48,242
2 to 3 years	**17,457**	40,473
More than 3 years	**28,675**	8,459
	588,333	581,211
Bills payables within 180 days	**10,595**	11,818
Other payables	**30,870**	33,186
Interest payables	**4,196**	17,259
Bid and compliance deposits	**10,626**	13,034
Advance from customers	**64,641**	77,402
Value added tax payables	**66,055**	57,544
Business tax payables	**92,065**	91,468
Other tax payables	**3,916**	3,492
	871,297	886,414

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

28. BORROWINGS

	December 31, 2011	December 31, 2010
	RMB'000	RMB'000
Secured bank borrowings *(note i)*	**273,000**	332,000
Unsecured bank borrowings	**158,780**	124,200
Other borrowings *(note ii)*	**420,410**	215,096
	852,190	671,296
Carrying amount repayable:		
Within one year	**311,838**	430,200
More than one year, but not exceeding two years	**97,427**	36,793
More than two years but not exceeding five years	**239,854**	99,103
More than five years	**203,071**	105,200
	852,190	671,296
Less: Amounts due within one year shown under current liabilities	**(311,838)**	(430,200)
	540,352	241,096

The borrowings comprise:

	2011	2010
	RMB'000	RMB'000
Fixed-rate borrowings	**30,000**	100,000
Variable-rate borrowings *(note iii)*	**822,190**	571,296
	852,190	671,296

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

	2011	2010
Borrowings	**4.8387%~ 8.160%**	4.374~ 7.680%

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28. BORROWINGS (Cont'd)

Note:

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

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

(ii) Other borrowings of approximately RMB420,410,000 (2010: RMB215,096,000) denominated in US$ as at December 31, 2011 were advanced from International Finance Corporation ("IFC") which were secured by the equity interest in certain subsidiaries. The interest rate was 3.5% above the relevant London Interbank Offered Rate ("LIBOR") interest rate.

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

29. ISSUED CAPITAL

Issued and fully paid	Number of shares	RMB'000
At January 1, 2010, December 31, 2010 and 2011	**1,290,000,000**	833,368

The Company has one class of ordinary shares with no par value and carry no right to fixed income.

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

30. CONVERTIBLE LOAN NOTES

The Company issued RMB885 million, 6% convertible loan notes on September 15, 2010. The convertible loan notes entitle the holders to convert them into ordinary shares of the Company (unless previously redeemed, converted or purchased and cancelled) at any time on or after October 25, 2010 up to the close of business on September 8, 2015 at a conversion price (subject to adjustments) fixed in RMB. In the current year, the conversion price was adjusted to RMB3.434 per share according to the terms of the convertible loan notes agreement. Unless previously redeemed, purchased or cancelled, the convertible loan notes will be redeemed on September 15, 2015. Interest of 6% will be paid semi-annually with the first interest payment date falling on March 15, 2011.

30. CONVERTIBLE LOAN NOTES (Cont'd)

On or at any time after September 15, 2013, the Company may redeem all but not some of the convertible loan notes at a redemption price equivalent to RMB principal amount together with interest accrued on that date on some conditions (as defined in the Terms and Conditions of the Bonds in the Offering Circular dated September 10, 2010 (the "Offering Circular")). Meanwhile, the holders will have a right to require the Company to redeem the convertible loan notes on September 15, 2012 or following the occurrence of relevant event (as defined in the Offering Circular) at a redemption price equivalent to RMB principal amount together with interest accrued on that date. The entire balance of convertible loan notes is classified as current liabilities as at December 31, 2011 as the Company does not have an unconditional right to defer settlement in the coming year.

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

	2011	2010
	RMB'000	RMB'000
Carrying amount as at January 1	**800,366**	—
Issuance of convertible loan notes	**—**	779,889
Interest charge *(Note 9)*	**70,985**	20,477
Interest paid	**(53,099)**	—
Carrying amount at December 31	**818,252**	800,366
Less: Interest payables included in other payables	**—**	(15,488)
	818,252	784,878

31. WARRANTS

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

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

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

32. ACQUISITION OF A SUBSIDIARY

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

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

33. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

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

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

34. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2011	2010
	RMB'000	RMB'000
Financial assets		
Loans and receivables		
Service concession receivables	**1,121,874**	674,538
Trade receivables	**913,800**	653,482
Bills receivables	**22,446**	51,506
Bid and compliance deposits	**20,780**	19,694
Other receivables	**42,445**	29,259
Restricted bank balances	**56,847**	314,726
Bank balances and cash	**2,074,426**	2,027,352
Total	**4,252,618**	3,770,557
Financial liabilities		
Financial liabilities at amortized cost		
Trade payables	**588,333**	581,211
Bills payables	**10,595**	11,818
Other payables	**30,870**	33,186
Interest payables	**4,196**	17,259
Bid and compliance deposits	**10,626**	13,034
Borrowings	**852,190**	671,296
Convertible loan notes	**818,252**	784,878
	2,315,062	2,112,682
Fair value through profit or loss		
Held for trading — warrants	**7,953**	—
Total	**2,323,015**	2,112,682

Financial risk management objectives and polices

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

The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner. The Group's objectives, policies and processes managing the risk and the methods used to measure the risk remains unchanged from prior year.

34. FINANCIAL INSTRUMENTS (Cont'd)

Credit risk

The Group's maximum exposure to credit risk which will cause a financial loss due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognized financial assets as stated in the consolidated statement of financial position at the respective reporting dates.

In order to minimize the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. The amounts presented in the statements of financial position are net of allowances for doubtful receivables, if any, estimated by the Company's management based on prior experience and the current economic environment. The Group reviews the recoverable amount of each individual debt at each reporting date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group's credit risk primarily relates to the Group's trade and other receivables, service concession receivables and bank balances. There is no significant concentration of credit risk as the top five biggest customers account for approximately 18% (2010: 26%) of the carrying amounts of trade receivables as of December 31, 2011. The management of the Group generally grants credit only to customers with good credit ratings and also closely monitors overdue trade debts. The recoverable amount of each individual trade receivables is reviewed at each reporting date and adequate impairment for doubtful debts has been made for irrecoverable amounts. In this regard, the management of the Group considers that the credit risk associated with the Group's trade receivable is significantly reduced.

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

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

34. FINANCIAL INSTRUMENTS (Cont'd)

Market risk

The Group's activities expose primarily to the financial risks of changes in foreign currency exchange rates, interest rates and price risk of the Company's shares. The Group currently does not have a foreign currency or interest rate hedging policy. Management monitors risks associated with changes in foreign currency exchange rates and interest rates and will consider hedging significant foreign currency exchange rates or interest rates exposure should the need arises.

Foreign currency risk management

The Group undertakes certain financing and treasury transactions in foreign currencies. Hence, exposures to exchange rate fluctuations arise.

The carrying amounts of foreign currency denominated monetary assets of restricted bank balances and bank balances and cash and monetary liabilities of borrowings at the reporting date are as follows:

	Liabilities		Assets	
	2011	2010	2011	2010
	RMB'000	RMB'000	RMB'000	RMB'000
S$	**—**	—	**23,477**	23,820
US$	**420,410**	215,096	**87,222**	533,831
BDT	**—**	—	**4,439**	—

Sensitivity analysis

The following table details the sensitivity to a 10% increase and decrease in functional currency against the relevant foreign currency. 10% is the sensitivity rate used and represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. A negative number below indicates a decrease in profit where functional currency strengthens 10% against the relevant currency. For a 10% weakening of the functional currency against the relevant currency, there would be an equal and opposite impact on the profit or loss.

	S$		US$		BDT	
	2011	2010	2011	2010	2011	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Profit for the year	**(2,348)**	(2,382)	**33,319**	(31,874)	**(444)**	—

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the reporting period.

34. FINANCIAL INSTRUMENTS (Cont'd)

Market risk (Cont'd)

Interest rate risk

The Group are mainly exposed to fair value interest rate risk in relation to its fixed-rate borrowings and convertible loan notes (see Note 28 and Note 30 for details). The Group is also exposed to cash flow interest rate risk in relation to its variable-rate borrowing and bank balances which carry prevailing market interest rates.

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

Sensitivity analysis

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

If interest rates had been increased/decreased by 50 basis points and all other variables were held constant, the Group's profit for the year would decrease/increase by approximately RMB3,171,000 (2010: RMB2,363,000) for the year ended December 31, 2011.

Other price risk

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

34. FINANCIAL INSTRUMENTS (Cont'd)

Liquidity risk

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

The following table details the remaining contractual maturity for non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. To the extent that interest flows are variable-rate, the undiscounted amount is derived from interest rate at the end of reporting period.

	Weighted average interest rate	Within one year	1–5 years	Over 5 years	Total undiscounted cash flow	Carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As of December 31, 2011						
Trade payables		**588,333**	**—**	**—**	**588,333**	**588,333**
Other payables		**30,870**	**—**	**—**	**30,870**	**30,870**
Interest payables		**4,196**	**—**	**—**	**4,196**	**4,196**
Convertible loan notes	**6.00**	**938,100**	**—**	**—**	**938,100**	**818,252**
Bid and compliance deposits		**10,626**	**—**	**—**	**10,626**	**10,626**
Bill payables		**10,595**	**—**	**—**	**10,595**	**10,595**
Borrowings						
Fixed-rate	**6.71**	**31,011**	**—**	**—**	**31,011**	**30,000**
Variable-rate	**6.10**	**321,636**	**432,469**	**215,614**	**969,719**	**822,190**
Total		**1,935,367**	**432,469**	**215,614**	**2,583,450**	**2,315,062**

	Weighted average interest rate	Within one year	1-5 years	Over 5 years	Total undiscounted cash flow	Carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As of December 31, 2010						
Trade payables		581,211	—	—	581,211	581,211
Other payables		33,186	—	—	33,186	33,186
Interest payables		17,259	—	—	17,259	17,259
Convertible loan notes	6.00	37,613	938,100	—	975,713	784,878
Bid and compliance deposits		13,034	—	—	13,034	13,034
Bill payables		11,818	—	—	11,818	11,818
Borrowings						
Fixed-rate	5.15	102,564	—	—	102,564	100,000
Variable-rate	5.40	350,954	176,332	113,267	640,553	571,296
Total		1,147,639	1,114,432	113,267	2,375,338	2,112,682

The amounts included above for convertible loan notes assume the bond holders request redemption on September 15, 2012.

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

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34. FINANCIAL INSTRUMENTS (Cont'd)

Fair value

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

- The fair value of financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis;

- The fair value of derivative instruments (warrants) is determined by applying option pricing model using rates from observable current market transactions as input, to the extent possible.

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

	2011		2010	
	Carrying amount	Fair value	Carrying amount	Fair value
	RMB'000	RMB'000	RMB'000	RMB'000
Financial liabilities				
Convertible loan notes				
(Liability component)	**818,252**	**916,425**	784,878	806,784

Fair value measurements recognized in the consolidated statement of financial position

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

As detailed in Note 31, the warrants issued by the Company to IFC are classified as financial liabilities at FVTPL. The fair value of those warrants was measured by Level 3 fair value measurements. No gains or losses were recognized during the year related to the warrants.

35. OPERATING LEASES COMMITMENTS

The Company as lessee

Lease payment recognized as an expense:

	2011	2010
	RMB'000	RMB'000
Minimum lease payments paid under operating recognized as an expense in the year	**2,799**	2,396

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

	2011	2010
	RMB'000	RMB'000
Within one year	**2,183**	1,419
In the second to fifth years inclusive	**3,575**	1,421
	5,758	2,840

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for lease terms of one to two years and rentals are fixed for lease terms of one to two years.

36. RETIREMENT BENEFIT PLANS

The Group's full-time employees in the PRC and Singapore are respectively covered by a government-sponsored defined contribution pension scheme and a comprehensive social security savings plan, which includes a retirement scheme. The employees are entitled to a monthly pension from their retirement dates. The PRC Government and Singapore Government are responsible for the pension liability to these retired employees. The Group is required to make annual contributions to the retirement plans of a prescribed amount of employees' salaries, which are charged as an expense when the employees have rendered services entitling them to the contributions.

During the year ended December 31, 2011, the total amounts contributed by the Group to the schemes and charged to profit or loss represent contributions payable to the schemes by the Group at rates specified in the rules of the schemes and are as follows:

	2011	2010
	RMB'000	RMB'000
Contribution to defined contribution plan	**6,772**	4,446

As of December 31, 2011, the contribution due in respect of the year that had not been paid to the schemes is RMB3,000 (2010: RMB93,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2011

37. SHARE-BASED PAYMENT TRANSACTIONS

Existing Share Option Scheme

The Company's existing share option scheme (the "Existing Share Option Scheme"), was adopted pursuant to a resolution passed on April 30, 2010 for the primary purpose of providing an opportunity for employees and directors (including non-executive and independent directors) of the Group to participate in the equity of the Company so as to motivate them to greater dedication and higher standards of performance, and to give recognition to past contribution and services. Under the Existing Share Option Scheme, the Board of Directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company. At December 31, 2011, the number of shares in respect of which options had been granted under the Existing Share Option Scheme was 64,500,000 (2010: 64,500,000), representing 5% (2010: 5%) of the shares of the Company in issue at that date. The total number of shares in respect of which options may be granted under the Existing Share Option Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Persons who are controlling shareholders (being persons who directly or indirectly have an interest of 15% of the Company's issued capital) or their associates shall not participate in the Existing Share Option Scheme unless their participation and the actual number of shares to be issued to them and the terms of any options to be granted to them, have been approved by independent shareholders of the Company in general meeting by way of a separate resolution for each such person.

All the options under the Existing Share Option Scheme were granted on July 23, 2010 at a consideration of S$1 paid by each grantee and will be valid for 5 years from the date of grant. The options may be exercised after the first anniversary of the offering date of that option, provided always that the options shall be exercised before the fifth anniversary of the relevant offering date or such earlier date as may be determined by the committee appointed by the Board to administer the Existing Share Option Scheme. The exercise price for each share in respect of which a market price option is exercisable shall be fixed by the committee as the price equal to the average of the last dealt price(s) for a share, for the last five market days immediately preceding the offering date of that option ("Market Price"). The exercise price for each share in respect of which a discount price option is exercisable shall be determined by the committee at its absolute discretion, and fixed by the committee at a price which is set at a discount to the Market Price, provided that the maximum discount shall not exceed 20% of the Market Price (or such other percentage or amount as may be prescribed or permitted for the time being by the SGX).

37. SHARE-BASED PAYMENT TRANSACTIONS (Cont'd)

Existing Share Option Scheme (Cont'd)

Details of the options are as follows:

	Date of grant	Vesting period	Exercise period	Exercise price
July 2010	July 23, 2010	July 23, 2010 to July 22, 2014	July 23, 2011 to July 22, 2015	S$ 0.745

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

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

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

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

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

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

Movements in the share option in the year ended December 31, 2010 are as follows:

	Outstanding at January 1, 2010	Granted during 2010	Forfeited during 2010	Outstanding at December 31, 2010
Options granted as at July 23, 2010	—	64,500,000	(6,196,000)	58,304,000
Exercisable at the end of the year				nil
Weighted average exercise price	—	S$ 0.745	S$ 0.745	S$ 0.745

37. SHARE-BASED PAYMENT TRANSACTIONS (Cont'd)

Existing Share Option Scheme (Cont'd)

During the year ended December 31, 2010, the estimated fair value of options granted on July 23, 2010 was approximately S$14,564,000 (equivalent to RMB71,885,000).

The fair value of those options granted on July 23, 2010 was calculated using the Binominal model. The inputs into the model were as follows:

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

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

The Group recognized the total expense of RMB17,882,000 for the year ended December 31, 2011 (2010: RMB12,479,000) in relation to the share option granted by the Company.

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

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

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

38. COMPANY'S FINANCIAL INFORMATION

	December 31, 2011 RMB'000	December 31, 2010 RMB'000
NON-CURRENT ASSETS		
Property, plant and equipment	**80**	69
Investment in subsidiaries	**802,551**	802,551
	802,631	802,620
CURRENT ASSETS		
Trade and other receivables	**965,725**	603,977
Restricted bank balances	**—**	222,280
Bank balances and cash	**60,246**	145,075
Dividend receivable	**447,000**	252,000
	1,472,971	1,223,332
CURRENT LIABILITIES		
Trade and other payables	**11,924**	21,653
Borrowings — due within one year	**28,758**	—
Convertible loan notes	**818,252**	—
	858,934	21,653
NET CURRENT ASSETS	**614,037**	1,201,679
TOTAL ASSETS LESS CURRENT LIABILITIES	**1,416,668**	2,004,299
NON-CURRENT LIABILITIES		
Borrowings — due after one year	**391,652**	215,096
Convertible loan notes	**—**	784,878
Warrants	**7,953**	—
	399,605	999,974
TOTAL ASSETS LESS TOTAL LIABILITIES	**1,017,063**	1,004,325
CAPITAL AND RESERVES		
Issued capital	**833,368**	833,368
Reserves	**183,695**	170,957
	1,017,063	1,004,325

39. RELATED PARTY TRANSACTIONS

(a) During the year, the Group entered into the following significant transactions with related parties except for those already disclosed in other notes:

	2011 RMB'000	2010 RMB'000
Revenue from construction contracts		
Fellow subsidiaries:		
Baotou Lucheng Water Co., Ltd. ("Baotou Lucheng")	31	16,447
Beijing Guozhong Biology Technology Co., Ltd. ("Beijing Guozhong Biology Technology")	36,746	—
Daye Qingbo Water Co., Ltd. ("Daye Qingbo")	—	264
Jiayu Jiaqing Water Co., Ltd. ("Jiayu Jiaqing")	9,447	25,516
Jingmen Xiajiawan Water Co., Ltd. ("Jingmen Xiajiawan")	714	1,372
Jingzhou Jingqing Water Co., Ltd. ("Jingzhou Jingqing")	—	2,753
Tongliao Bibo Water Co., Ltd. ("Tongliao Bibo")	—	15,713
Xianning Ganyuan Water Co., Ltd. ("Xianning Ganyuan")	—	3,554
	46,938	65,619
Associate of a fellow subsidiary:		
Tianmen Huangjin Wastewater Treatment Co., Ltd. ("Tianmen Huangjin")	—	34,685
Revenue from sales of goods		
Fellow subsidiaries:		
Baotou Lucheng	43	—
Beijing Xiaojiahe Wastewater Treatment Engineering Co., Ltd. ("Beijing Xiaojiahe")	1,902	—
Jiayu Jiaqing	171	—
Xianning Ganyuan	—	69
Tongliao Bibo	—	38
	2,116	107
Revenue from design service		
Fellow subsidiary:		
Beijing Guozhong Biology Technology	1,800	—
Jiayu Jiaqing	165	—
Jingmen Xiajiawan	—	2,124
	1,965	2,124

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

39. RELATED PARTY TRANSACTIONS (Cont'd)

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

	2011 RMB'000	2010 RMB'000
Trade receivables		
Fellow subsidiaries:		
Baotou Lucheng	**5,503**	5,134
Beijing Guozhong Biology Technology	**1,722**	—
Jiayu Jiaqing	**2,050**	—
Xianning Ganyuan	**2,040**	2,040
Daye Qingbo	**468**	—
Jingmen Xiajiawan	**1,267**	—
Hubei Jichu Water Co. Ltd.	**—**	2,727
Jingzhou Jingqing	**7,734**	15,634
Nanchang Xianghu Water Co., Ltd.	**98**	98
Tongliao Bibo	**44**	44
Beijing Xiaojiahe	**—**	56
	20,926	25,733
Associate of a fellow subsidiary:		
Tianmen Huangjin	**—**	20,340
Trade payables		
Fellow Subsidiary:		
Sound Group	**—**	2
Amounts due from customers for contract work		
Fellow subsidiaries:		
Beijing Guozhong Biology Technology	**11,024**	—
Jiayu Jiaqing	**3,349**	6,753
Baotou Lucheng	**150**	438
Daye Qingbo	**—**	984
Jingmen Xiajiawan	**—**	938
	14,523	9,113
Associate of a fellow subsidiary:		
Tianmen Huangjin	**—**	3,469

39. RELATED PARTY TRANSACTIONS (Cont'd)

(c) Compensation of key management personnel

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

	2011 RMB'000	2010 RMB'000
Wages and salaries	**1,717**	2,296
Performance related incentive payments	**96**	—
Contributions to defined contribution plan	**135**	230
Share-based payments	**4,268**	2,967
	6,216	5,493

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

	2011 RMB'000	2010 RMB'000	Maximum balances during the year RMB'000
Other receivables			
Directors			
Wen Yibo	**—**	50	**50**
Luo Liyang	**17**	—	**151**
	17	50	**151**

	2011 RMB'000	2010 RMB'000
Immediate holding company		
Sound Water	**—**	1,440
	—	1,440

	2011 RMB'000	2010 RMB'000
Fellow subsidiaries		
Shanghai Guoqing Biology Technology Co., Ltd. ("Shanghai Guoqing Biology Technology")	**100**	—
	100	—

	2011 RMB'000	2010 RMB'000
Other payables		
Immediate holding company		
Sound Water	—	388
	—	388
Fellow subsidiaries		
Tongliao Bibo	**3,076**	368
	3,076	368

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

39. RELATED PARTY TRANSACTIONS (Cont'd)

(e) Others

1) Licensing of trademarks

Since 2002, the Group (previously being registered owner of certain trademarks) uses its trademarks for its water and wastewater treatment business. These trademarks are also used by Sound Group for its investments in environmental protection and its subsidiary, by Beijing Sound Water Technology Co., Ltd. for the processing of purified drinking water at no consideration before March 2006.

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

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

Name of main contractor	The project related to the sub-contract (the "Project")	Name of operator of the Project (the "Operator")	Relationship with the Operator
Hubei Gongye Construction Group Co., Ltd. ("Hubei Gongye Construction Group")	Hubei Zhushan Wastewater Treatment Plant Construction Project	Hubei Jichu Water Co. Ltd..	Fellow Subsidiary
Xiangfan Shizheng Engineering Group Co., Ltd. ("Xiangfan Shizheng")	Xiangfan Guanyinge Wastewater Treatment Plant Construction Project	Xiangfan Hanshui Qingyi Water Co., Ltd..	Fellow Subsidiary
Jingzhou City Construction Group Co., Ltd. ("Jingzhou City Construction")	Zhijiang and Hubei Jingzhou Wastewater Treatment Plant Construction Project	Jingzhou Jingqing and Zhijiang Zhiqing Water Co., Ltd..	Fellow Subsidiary

39. RELATED PARTY TRANSACTIONS (Cont'd)

(e) Others (Cont'd)

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

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

	2011 RMB'000	2010 RMB'000
Revenue from construction contracts		
Hubei Gongye Construction Group	—	2,584
Xiangfan Shizheng	—	17,047
	—	19,631

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

	2011 RMB'000	2010 RMB'000
Trade receivables		
Hubei Gongye Construction Group	—	1,642
Xiangfan Shizheng	—	2,740
Jingzhou City Construction	258	258
	258	4,640
Trade payables		
Hubei Gongye Construction Group	767	767
Amounts due from customers for contract work		
Hubei Gongye Construction Group	—	1,410
	—	1,410
Other receivables		
Jingzhou City Construction	—	50
Other payables		
Jingzhou City Construction	2	—

The above mentioned other receivables are interest-free, unsecured and repayable on demand.

40. PARTICULARS OF SUBSIDIARIES

Name of subsidiary	Place of incorporation	Issued and fully paid-up Issued capital/ registered capital	Equity interest attributable to the Company as at December 31, 2011		Equity interest attributable to the Company as at December 31, 2010		Principal activities
			Direct %	Indirect %	Direct %	Indirect %	
Beijing Sound 北京桑德環境工程有限公司	The PRC	RMB500,000,000	75	25	75	25	Environmental construction related to water treatment
Beijing Epure 北京伊普國際水務有限公司	The PRC	US$20,000,000	100	—	100	—	Research and development of water treatment technologies and provision of services of technology consultation
Sound International Investment Holdings Limited ("Sound Investment")	The BVI	US$1	100	—	100	—	Investment holding
Sound International Engineering Ltd. ("Sound International Engineering")	The BVI	US$1	100	—	100	—	Investment holding
Epure International Engineering Pte. Ltd. ("Epure International Engineering ")	Singapore	S$1	100	—	100	—	Investment holding
Epure Sound Technology 北京伊普桑德環境工程技術有限公司	The PRC	RMB15,000,000	—	100	—	100	Research and development of water treatment technologies and provision of services of technology consultation
Hi-Standard Equipment 北京海斯頓水處理設備有限公司	The PRC	RMB66,000,000	—	100	—	100	Manufacture of wastewater treatment equipment
Xi'an Huqing 西安户清水務有限公司	The PRC	RMB24,000,000	—	100	—	100	Construction, management and operation of the municipal wastewater projects, and sales of treated water

40. PARTICULARS OF SUBSIDIARIES (Cont'd)

Name of subsidiary	Place of incorporation	Issued and fully paid-up Issued capital/ registered capital	Equity interest attributable to the Company as at December 31, 2011		Equity interest attributable to the Company as at December 31, 2010		Principal activities
			Direct %	Indirect %	Direct %	Indirect %	
Xi'an Qinqing 西安秦清水務有限公司	The PRC	RMB25,000,000	—	100	—	100	Construction, management and operation of the municipal wastewater projects
Guangxi Liqing 廣西漓清水務有限公司	The PRC	US$5,000,000	—	100	—	100	Construction, management and operation of the municipal wastewater projects
Yiqing Water 韓城市頤清水務有限公司	The PRC	RMB14,200,000	—	100	—	100	Construction, management and operation of the municipal wastewater projects
Shangluo Wastewater *(note i)* 商洛污水處理有限公司	The PRC	RMB13,800,000	—	100	—	100	Construction, management and operation of the municipal wastewater projects
Yulin Jingzhou *(note ii)* 榆林市靖州水務有限公司	The PRC	RMB11,400,000	—	100	—	100	Construction, management and operation of the municipal wastewater projects
Jiangyan Jiangyuan 姜堰姜源污水處理有限公司	The PRC	RMB145,800,000	—	76.8 *(note ii)*	—	76.8 *(note ii)*	Construction, management and operation of the municipal wastewater projects
Fushun Qingxi (note iii) 撫順清溪水務有限公司	The PRC	US$13,000,000	—	100	—	100	Construction, management and operation of the municipal wastewater projects

40. PARTICULARS OF SUBSIDIARIES (Cont'd)

Name of subsidiary	Place of incorporation	Issued and fully paid-up Issued capital/ registered capital	Equity interest attributable to the Company as at December 31, 2011 Direct %	Indirect %	December 31, 2010 Direct %	Indirect %	Principal activities
Hainan Baichuan 海南百川水務有限公司	The PRC	RMB5,000,000	—	100	—	100	Construction, management and operation of the municipal wastewater projects
Anyang Mingbo 安陽明波水務有限公司	The PRC	RMB45,000,000	—	100	—	100	Construction, management and operation of the municipal wastewater projects
Yantai Bihai 煙台碧海水務有限公司	The PRC	RMB38,000,000	—	80	—	80	Construction, management and operation of the municipal wastewater projects
Daye Honglian 大冶鴻漣水務有限公司 *(note vi)*	The PRC	RMB18,000,000	—	100	—	100	Construction, management and operation of the municipal wastewater projects
Fushun Sangyuan 撫順桑遠環境工程有限公司	The PRC	RMB2,000,000	—	100	—	100	Construction, management and operation of the municipal wastewater projects
Changsha City Xianghai Water Co., Ltd. *(note vii)* 長沙縣湘海水務有限公司	The PRC	RMB43,524,000	—	100	N/A	N/A	Construction, management and operation of the municipal wastewater projects
Hongze Zeqing Water Co., Ltd. *(note vii)* 洪澤澤清水務有限公司	The PRC	US$12,000,000	—	100	N/A	N/A	Construction, management and operation of the municipal wastewater projects
Xi'an Weiqing Water Co., Ltd. *(note vii)* 西安渭清水務有限公司	The PRC	US$3,000,000	—	100	N/A	N/A	Construction, management and operation of the municipal wastewater projects

40. PARTICULARS OF SUBSIDIARIES (Cont'd)

Name of subsidiary	Place of incorporation	Issued and fully paid-up Issued capital/ registered capital	Equity interest attributable to the Company as at December 31, 2011		December 31, 2010		Principal activities
			Direct %	Indirect %	Direct %	Indirect %	
Hanzhong Hanyuan Water Co., Ltd. *(note vii)* 漢中漢源水務有限公司	The PRC	US$7,280,000	—	100	N/A	N/A	Construction, management and operation of the municipal wastewater projects
Anyang Taiyuan Water Co., Ltd. *(note viii)* 安陽泰元水務有限公司	The PRC	RMB30,000,000	—	90	—	—	Construction, management and operation of the municipal wastewater projects
Hunan Epure Environmental Engineering Co., Ltd. 湖南伊普環境工程有限公司 ("Hunan Epure") *(note iv & vii)*	The PRC	RMB6,000,000	—	100	N/A	N/A	Construction, management and operation of the municipal wastewater projects
Fushun Qingxu Environment Co., Ltd. 撫順清旭環保有限公司 ("Fushun Qingxu") *(note v & vii)*	The PRC	US$1,000,100	—	100	N/A	N/A	Construction, management and operation of the municipal wastewater projects

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

Notes:

(i) The registered capital of Shangluo Wastewater is RMB17,800,000, of which RMB13,800,000 has been paid up as at December 31, 2011.

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

(iii) The registered capital of Fushun Qingxi is US$16,250,000, of which US$13,000,000 has been paid as at December 31, 2011.

(iv) The registered capital of Hunan Epure is RMB30,000,000, of which RMB6,000,000 has been paid as at December 31, 2011.

(v) The registered capital of Fushun Qingxu is US$5,000,000, of which US$1,000,100 has been paid as at December 31, 2011.

(vi) The registered capital of Daye Honglian is RMB18,000,000, which has been fully paid up as at December 31, 2011. RMB15,000,000 was paid in the current year.

(vii) Those entities are newly incorporated in the current year.

(viii) The entity is acquired in the current year.

FIVE-YEAR FINANCIAL SUMMARY

CONSOLIDATED RESULTS

	For the year ended December 31,				
	2011	2010	2009	2008	2007
	RMB'000	RMB'000	RMB'000 (restated)	RMB'000 (restated)	RMB'000 (restated)
Revenue	**2,287,575**	1,765,672	1,293,476	1,024,808	697,341
Profit before tax	**481,208**	349,067	292,989	232,013	191,081
Income tax expense	**(67,383)**	(59,877)	(10,236)	(28,313)	(28,680)
Profit for the year	**413,825**	289,190	282,753	203,700	162,401
Attributable to					
Owners of the Company	**413,825**	289,104	281,869	203,686	161,173
Non-controlling interests	**—**	86	884	14	1,228
	413,825	289,190	282,753	203,700	162,401

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	December 31,				
	2011	2010	2009	2008	2007
	RMB'000	RMB'000	RMB'000 (restated)	RMB'000 (restated)	RMB'000 (restated)
Total assets	**4,956,184**	4,350,298	2,582,783	2,343,707	1,804,379
Total liabilities	**2,651,515**	2,414,043	990,839	987,147	652,683
Net assets	**2,304,669**	1,936,255	1,591,944	1,356,560	1,151,696

SHAREHOLDERS' INFORMATION

Number of shares issued	**:**	**1,290,000,000**
Issued and fully paid-up capital	**:**	**SGD175,944,790.22**
Class of shares	**:**	**ordinary shares**
Voting rights	**:**	**one vote per share**

As at February 29, 2012, the Company did not hold any treasury shares.

SUBSTANTIAL SHAREHOLDERS (as recorded in the Register of Substantial Shareholders as at February 29, 2012)

Name of Substantial Shareholders	Direct Interest No. of Shares	%	Deemed Interest No. of Shares	%
Wen Yibo[1]	1,907,000	0.15	713,289,000	55.29
Sound Water (BVI) Limited[1]	572,784,000	44.40	129,000,000[2]	10.00
Zhang Huiming[1]	—	—	715,196,000	55.44
Tang Lianfang[1]	—	—	713,289,000	55.29
Zhang Linmao[1]	—	—	713,289,000	55.29
International Finance Corporation[3]	103,950,000	8.06	—	—
Norges Bank	77,751,000	6.03	—	—

Notes:

1. (a) Green Capital Holdings Limited is a company incorporated in BVI and is a registered holder of 11,505,000 shares in the capital of the Company. Its shareholders are Tang Lianfang (50%) and Zhang Linmao (50%), who are respectively the mother-in-law and father-in-law of Wen Yibo, the Company's Executive Chairman.

   (b) Sound Water (BVI) Limited is a company incorporated in BVI. Its shareholders are Wen Yibo (90%) and his wife, Zhang Huiming (10%).

   (c) Wen Yibo, Zhang Huiming, Tang Lianfang and Zhang Linmao are deemed to have an interest in the shares held by Green Capital Holdings Limited and Sound Water (BVI) Limited.

2. This relates to the 129,000,000 shares transferred t0 Morgan Stanley & Co. International plc on August 24, 2010 pursuant to the securities lending agreement dated August 19, 2010.

3. International Finance Corporation ("IFC") is the private sector arm of the World Bank Group and is owned by its 178 member countries. IFC is involved in promoting private businesses in developing countries by making loans and equity investments, helping companies mobilize financing in the international financial markets, and providing advice and technical assistance to businesses and governments. This excludes 28,154,545 warrant shares.

FREE FLOAT

As at February 29, 2012, approximately 30.47% of the shareholding in the Company was held in the hands of the public (on the basis of information available to the Company).

Accordingly, the Company has complied with Rule 723 of the Listing Manual of the Singapore Exchange Securities Trading Limited.

STATISTICS OF SHAREHOLDINGS
(AS AT FEBRUARY 29, 2012)

DISTRIBUTION OF SHAREHOLDINGS

Size Of Shareholdings	No. of Shareholders	%	No. of Shares	%
1–999	10	0.41	1,603	0.00
1,000–10,000	1,365	55.53	9,172,778	0.71
10,001–1,000,000	1,068	43.45	46,637,188	3.62
1,000,001 and above	15	0.61	1,234,188,431	95.67
Total	**2,458**	**100.00**	**1,290,000,000**	**100.00**

TWENTY LARGEST SHAREHOLDERS

No.	Name	No. of Shares	%
1	HKSCC Nominees Limited	296,957,000	23.02
2	DBS Nominees Pte Ltd	216,584,890	16.79
3	HSBC (Singapore) Nominees Pte Ltd	190,198,373	14.74
4	Citibank Nominees Singapore Pte Ltd	160,410,029	12.43
5	DBSN Services Pte Ltd	117,291,969	9.09
6	Morgan Stanley Asia (Singapore) Securities Pte Ltd	107,723,774	8.35
7	DBS Vickers Securities (S) Pte Ltd	69,860,000	5.42
8	DB Nominees (S) Pte Ltd	19,560,175	1.52
9	BNP Paribas Securities Services	19,364,000	1.50
10	Raffles Nominees (Pte) Ltd	14,671,904	1.14
11	United Overseas Bank Nominees Pte Ltd	12,362,000	0.96
12	Merrill Lynch (Singapore) Pte Ltd	3,400,288	0.26
13	OCBC Securities Private Ltd	3,335,029	0.26
14	Phillip Securities Pte Ltd	1,258,000	0.10
15	UOB Kay Hian Pte Ltd	1,211,000	0.09
16	Maybank Kim Eng Securities Pte Ltd	957,037	0.07
17	Yeo Seck Kan	870,000	0.07
18	OCBC Nominees Singapore Pte Ltd	645,000	0.05
19	CIMB Securities (Singapore) Pte Ltd	619,000	0.05
20	Citigroup Global Markets Singapore Securities Pte. Ltd.	592,059	0.05
	Total	**1,237,871,527**	**95.96**

STATISTICS OF BONDHOLDING
(AS AT FEBRUARY 29, 2012)

BONDHOLDER OF 6% CONVERTIBLE BONDS DUE 2015

Maturity Date: September 15, 2015

Conversion Price: With effect from September 15, 2011, the Conversion Price has been reset to the Conversion Price Reset Floor of S$0.684 per Share. Initial Conversion Price was S$0.924 per Share.

Conversion Premium: 20% above reference share price i.e. S$0.77

Redemption Price: 100% of principal amount on maturity date in USD equivalent

Conversion Period: At any time on or after October 25, 2010 to September 8, 2015

The RMB885 million 6% convertible bond due 2015 issued by Sound Global Ltd. on September 15, 2010 (the "2010 CBs") are represented by a Global Certificate registered in name of HSBC Nominees (Hong Kong) Limited, which is a nominee of a Common Depository and holding the bonds on behalf for, Euroclear Bank S.A./ N.V. and Clearstream Banking, société anonyme.

As at February 29, 2012, HSBC Nominees (Hong Kong) Limited, is entered in the register of holders as the holder of the RMB885 million 2010 CBs. The identity of the holders of the beneficial interests in the 2010 CBs is not currently known.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the annual general meeting of **SOUND GLOBAL LTD.** (the "Company") will be held at 333 Orchard Road, Mandarin Orchard Singapore, Main Tower, Level 6 Mandarin Ballroom 1, Singapore 238867 on Friday, 27 April 2012 at 10.00 a.m. (the "Annual General Meeting") for the following purposes:

AS ORDINARY BUSINESS

1. To receive and adopt the Directors' Report and Audited Accounts of the Company for the year ended 31 December 2011 together with the Auditors' Report thereon. **(Ordinary Resolution 1)**

2. To declare a first and final (one-tier tax exempt) dividend of S$0.01 per ordinary share for the year ended 31 December 2011. **(Ordinary Resolution 2)**

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

   Mr. Jiang Anping as Executive Director (Article 88) **(Ordinary Resolution 3)**
   Mr. Wong See Meng as Independent Non-Executive Director (Article 89) **(Ordinary Resolution 4)**
   Mr. Seow Han Chiang Winston as Independent Non-Executive Director (Article 89) *[See Explanatory Note (i)]* **(Ordinary Resolution 5)**

4. To approve the payment of Directors' fees of S$122,000/– for the year ended 31 December 2011 (2010: S$104,500/–). **(Ordinary Resolution 6)**

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

6. To transact any other ordinary business which may properly be transacted at an annual general meeting.

AS SPECIAL BUSINESS

To consider and if thought fit, to pass the following resolutions as Ordinary Resolutions, with or without any modifications:

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

   "That, pursuant to Section 161 of the Companies Act, Chapter 50 of Singapore (the "Companies Act") and Rule 806 of the Listing Manual (the "Listing Manual") of the Singapore Exchange Securities Trading Limited (the "SGX-ST") and the Rules Governing the Listing of Securities (the "Listing Rules") of The Stock Exchange of Hong Kong Limited (the "SEHK"), the Directors of the Company be authorised and empowered to:

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

   (ii) make or grant offers, agreements or options (collectively, "Instruments") that might or would require Shares to be issued, including but not limited to the creation and issue of (as well as adjustments to) options, warrants, debentures or other instruments convertible into Shares,

   at any time and upon such terms and conditions and for such purposes and to such persons as the Directors of the Company shall in their absolute discretion deem fit; and

NOTICE OF ANNUAL GENERAL MEETING

(B) (notwithstanding the authority conferred by this Resolution may have ceased to be in force) issue Shares in pursuance of any Instrument made or granted by the Directors while this Resolution was in force,

provided that:

(i) the aggregate number of Shares (including Shares to be issued in pursuance of the Instruments, made or granted pursuant to this Resolution) and convertible securities to be issued pursuant to this Resolution shall not exceed 50.0% of the total number of issued Shares (excluding treasury shares) in the capital of the Company (as calculated in accordance with sub-section (ii) below), of which the aggregate number of Shares and convertible securities to be issued other than on a pro-rata basis to the shareholders of the Company shall not exceed 20.0% of the total number of issued Shares (excluding treasury shares) in the capital of the Company (as at the time of passing of this Resolution);

(ii) (subject to such calculation as may be prescribed by the SGX-ST) for the purpose of determining the aggregate number of Shares and convertible securities that may be issued under sub-section (i) above on a pro-rata basis, the total number of issued Shares (excluding treasury shares) in the capital of the Company shall be based on the total number of issued Shares (excluding treasury shares) in the capital of the Company at the time of the passing of this Resolution, after adjusting for:

(a) new Shares arising from the conversion or exercise of convertible securities;

(b) new Shares arising from exercising share options or vesting of share awards outstanding or subsisting at the time of the passing of this Resolution, provided the options or awards were granted in compliance with the rules of the Listing Manual of the SGX-ST; and

(c) any subsequent bonus issue, consolidation or subdivision of Shares;

(iii) in exercising the authority conferred by this Resolution, the Company shall comply with the provisions of the Listing Manual of the SGX-ST as amended from time to time (unless such compliance has been waived by the SGX-ST), the Listing Rules as amended from time to time (unless such compliance has been waived by the SEHK) and the Articles; and

(iv) unless revoked or varied by the Company in a general meeting, such authority shall continue in force until the conclusion of the next annual general meeting of the Company or the date by which the next annual general meeting is required by law to be held, whichever is the earlier."
[See Explanatory Note (ii)] **(Ordinary Resolution 8)**

8. Authority to grant options and issue Shares under the Sound Global Share Option Scheme

"That, pursuant to Section 161 of the Companies Act, the Directors be and are hereby empowered to grant options, and to allot and issue from time to time such number of Shares as may be required to be issued pursuant to the exercise of options granted under the Sound Global Share Option Scheme (the "Scheme") provided always that the aggregate number of Shares in respect of which such options may be granted and which may be issued pursuant to the Scheme shall not exceed 15.0% of the issued share capital of the Company from time to time." *[See Explanatory Note (iii)]* **(Ordinary Resolution 9)**

9. Authority to renew the mandate for interested person transactions (the "Shareholders' Mandate")

"That:

(A) approval be and is hereby given for the purposes of Rule 920 of the Listing Manual of the SGX-ST for the Company, its subsidiaries and associated companies or any of them to enter into transactions falling within the categories of interested person transactions, set out in the Circular dated 23 March 2012 (the "Circular"), with Sound Group Limited, its subsidiaries and associated companies, provided that such transactions are transacted on normal commercial terms and on terms or conditions that would not be prejudicial to the interests of the Company and/or its minority shareholders and in accordance with the guidelines and procedures for interested person transactions as set out in the Circular;

(B) the Shareholders' Mandate shall, unless revoked or varied by the Company in a general meeting, continue in force until the conclusion of the next annual general meeting of the Company; and

(C) the Directors of the Company be and are hereby authorised to complete and do all such acts and things (including executing all such documents as may be required) as they may consider expedient or necessary or in the interests of the Company to give effect to the Shareholders' Mandate and/or this Resolution as they may think fit."
[See Explanatory Note (iv)] **(Ordinary Resolution 10)**

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

"That:

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

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

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

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

NOTICE OF ANNUAL GENERAL MEETING

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

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

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

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

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

whichever is the earliest;

(C) in this Resolution:

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

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

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

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

where:

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

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

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

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

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

(D) the Directors and/or any of them be and are hereby authorised to complete and do all such acts and things (including executing such documents as may be required) as they and/or he may consider necessary, expedient, incidental or in the interests of the Company to give effect to the transactions contemplated and/or authorised by this Resolution."
[See Explanatory Note (v)] **(Ordinary Resolution 11)**

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

Singapore, 23 March 2012

Explanatory Notes:

(i) Mr. Wong See Meng and Mr. Seow Han Chiang Winston will, upon re-election as an Independent Non-Executive Directors of the Company, remain as Members of the Audit Committee; Nomination Committee and Remuneration Committee. They will be considered independent for the purposes of Rule 704(8) of the Listing Manual and Rule 3.13 of the Listing Rules.

(ii) The Ordinary Resolution 8 proposed in item 7 above, if passed, will empower the Directors of the Company to issue Shares, make or grant instruments convertible into Shares and to issue Shares pursuant to such instruments, up to a number not exceeding, in total, 50.0% of the total number of issued Shares (excluding treasury shares) in the capital of the Company, of which up to 20.0% may be issued other than on a pro-rata basis to shareholders.

For determining the aggregate number of Shares that may be issued on a pro-rata basis, the total number of issued Shares (excluding treasury shares) will be calculated based on the total number of issued Shares (excluding treasury shares) in the capital of the Company at the time this Ordinary Resolution is passed after adjusting for new Shares arising from the conversion or exercise of any convertible securities or share options or vesting of share awards which are outstanding or subsisting at the time when this Ordinary Resolution is passed and any subsequent bonus issue, consolidation or subdivision of Shares. In determining the 20.0% which may be issued other than on a pro-rata basis, the total number of issued Shares (excluding treasury shares) will be calculated based on the total number of issued Shares (excluding treasury shares) in the capital of the Company at the time the Ordinary Resolution 8 is passed.

(iii) The Ordinary Resolution 9 proposed in item 8 above, if passed, will empower the Directors of the Company to grant options and to allot and issue Shares upon the exercise of such options in accordance with the Scheme.

(iv) The Ordinary Resolution 10 proposed in item 9 above, if passed, will empower the Directors of the Company to exercise all powers of the Company to enter into certain types of recurrent transactions of a revenue or trading nature or those necessary for its day-to-day operations with the specified classes of persons who are considered to be "interested persons" for the purposes of Chapter 9 of the Listing Manual, subject to and in accordance with the terms of the Shareholders' Mandate set out in the Circular.

(v) The Ordinary Resolution 11 proposed in item 10 above, if passed, will empower the Directors of the Company to exercise all powers of the Company to purchase or acquire Shares not exceeding in aggregate the Maximum Limit, at such price(s) as may be determined by the Directors from time to time up to the Maximum Price subject to and in accordance with the terms of the Share Purchase Mandate set out in the Circular.

NOTICE OF ANNUAL GENERAL MEETING

Notes:

1. A Member entitled to attend and vote at the Annual General Meeting is entitled to appoint more than one proxy to attend and vote in his/her stead. A proxy need not be a Member of the Company.

2. If the appointor is a corporation, the proxy must be executed under seal or the hand of its duly authorised officer or attorney.

3. The instrument appointing a proxy must be deposited at the registered office of the Company at 1 Robinson Road, #17-00 AIA Tower, Singapore 048542 (for Singapore Shareholders), or at the office of the Company's Hong Kong branch share registrar, Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong (for Hong Kong Shareholders), not less than forty-eight (48) hours before the time appointed for the Annual General Meeting, or any adjournment thereof.

NOTICE OF BOOKS CLOSURE DATE AND DIVIDEND PAYMENT DATE

NOTICE IS HEREBY GIVEN that the Singapore Principal Share Transfer Books and Singapore Register of Members of the Company in Singapore will be closed from 17 May 2012 after 5:00 p.m. to 18 May 2012 for the purpose of determining the Members' entitlements to the first and final dividend to be proposed at the Annual General Meeting of the Company to be held on 27 April 2012. Duly completed transfers in respect of Shares in the Company received up to close of the business at 5:00 p.m. on 17 May 2012 by the Company's Singapore Principal Registrar, Boardroom Corporate & Advisory Services Pte. Ltd., 50 Raffles Place, #32-01 Singapore Land Tower, Singapore 048623, will be registered to determine Members' entitlements to such dividend. Members whose Securities Accounts with The Central Depository (Pte) Limited are credited with shares of the Company as at 5:00 p.m. on 17 May 2012 will be entitled to such proposed dividend. The Hong Kong Branch Share Register will be closed on 18 May 2012 for the purpose of determining the Members' entitlements to the dividend to be proposed at the Annual General Meeting. In order to qualify for the proposed first and final dividend for Hong Kong Shareholders, all transfers, accompanied by the relevant share certificates, must be lodged with the Hong Kong Branch Share Registrar of the Company, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, not later than 4:00 p.m. on 17 May 2012. The dividend, if approved at the Annual General Meeting, will be paid on 31 May 2012.

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

Singapore, 23 March 2012

Designed by: TREESOMECOMMUNICATIONS

CORPORATE INFORMATION

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

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

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

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

Nomination Committee
Wong See Meng (Chairman)
Wen Yibo
Seow Han Chiang Winston

AUTHORISED REPRESENTATIVES (SGX)
Wen Yibo
Tan Wei Shyan

AUTHORISED REPRESENTATIVES (SEHK)
Wen Yibo
Wong Tak Yee

JOINT COMPANY SECRETARIES
Tan Wei Shyan, LLB
Wong Tak Yee (FCIS, FCS (PE))
Yu Man To Gerald, FCPA,CPA (AUST.)

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PRINCIPAL BANKERS
Industrial and Commercial Bank of China
The Hong Kong and Shanghai Banking Corporation Limited
DBS Bank Ltd.
The Bank of East Asia, Limited

AUDITORS
Deloitte & Touche LLP
Certified Public Accountants
6 Shenton Way #32-00
DBS Building Tower Two
Singapore 068809
Partner-in-charge: Chua How Kiat
Date of appointment: November 12, 2010

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Certified Public Accountants
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