

RISK FACTORS

Investing in the Shares involves certain risks. You should carefully consider each of the following factors and uncertainties and all of the other information set forth in this Listing Document, including the Accountants' Report included in Appendix I and our unaudited interim financial information as set out in Appendix II to this Listing Document, before deciding to invest in the Shares. If any of the following factors and uncertainties develops into actual events, our business, financial condition or results of operations could be materially and adversely affected. Additional risks and uncertainties not presently known to us, or not expressed or implied below, or that we deem immaterial, could also harm our business, financial condition and results of operations. In such case, the trading price of our Shares could decline due to any of these factors and uncertainties, and you may lose all or part of your investment.

RISKS RELATING TO OUR DUAL PRIMARY LISTING

The Singapore stock market and the Hong Kong stock market have different characteristics and investors should not place undue reliance on the prior trading history of the Singapore Shares

The Shares have been listed since, and commenced dealing on the SGX-ST on October 6, 2006 (the “**Singapore Shares**”). Following the Introduction, it is our current intention that the Singapore Shares will continue to be traded on the SGX-ST, and the Shares to be registered by the Hong Kong Branch Registrar (the “**Hong Kong Shares**”) will be traded on the Stock Exchange. As there is no direct trading or settlement between the stock markets of Singapore and Hong Kong, time required to shunt Shares between CDP and the Hong Kong Branch Register may vary and there is no certainty of when shunted Shares will be available for trading or settlement. We cannot predict the extent to which shareholders will shunt Shares from the Singapore Principal Share Register to the Hong Kong Branch Share Register or whether investor interest in our Company will lead to the development of an active trading market in our Shares or how liquid that market might become. If an active public market does not develop or is not sustained on the Stock Exchange, it may be difficult for you to sell your Shares at a price that is attractive to you.

The SGX-ST and the Stock Exchange have different trading hours, trading characteristics (including trading volume and liquidity), trading and listing rules and investor bases (including different levels of retail and institutional participation). As a result of these differences, the trading price of the Singapore Shares and the Hong Kong Shares may not be the same. Furthermore, fluctuations in the Singapore Share price could materially and adversely affect the Hong Kong Share price and vice versa. Moreover, fluctuations in the exchange rate between Singapore dollars and Hong Kong dollars could materially and adversely affect the prices of the Singapore Shares and the Hong Kong Shares. Due to the different characteristics of the stock markets of Singapore and Hong Kong, the historical prices of the Singapore Shares may not be indicative of the performance of the Hong Kong Shares after the Listing. Investors should therefore not place undue reliance on the prior trading history of the Singapore Shares when evaluating an investment in the Shares.

Furthermore, there is no direct trading or settlement between the stock exchanges of Singapore and Hong Kong, and time is required to migrate Shares between the CDP and CCASS before such

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Shares are available for trading or settlement. Investors should be aware that the level of liquidity on the SGX-ST and the Stock Exchange for the Shares may differ following the Introduction. Whereas arbitrage activities carried out by the Bridging Dealer on its own account during the Bridging Period (as described in section headed “Listings, Registration, Dealings and Settlement – Bridging Arrangements” in this Listing Document) are expected to contribute to liquidity on the Hong Kong market, with an aim of facilitating the migration of Shares to the Hong Kong Branch Share Register in order for an open market in Shares to develop in Hong Kong following the Introduction, there is no assurance that the bridging arrangements will attain and/or maintain liquidity in the Shares at any particular level, nor is there assurance that such an open market will in fact develop. In any event, the bridging arrangements will terminate and cease to continue beyond the Bridging Period.

Shareholders and potential investors should make their own assessment of the bridging arrangements (inclusive of the procedures and implications related thereto) before investing in our Company, and if in doubt, consult and seek independent advice from professional advisers including but not limited to their licensed securities dealer, bank manager, financial adviser, tax adviser, solicitor or professional accountant.

As a company incorporated in Singapore and listed on the SGX-ST, we are concurrently subject to Singapore laws and regulations

Being a company incorporated in Singapore and listed on the SGX-ST, our Company is required to comply with, among others, the Singapore Companies Act, the Listing Manual and the SFA in addition to the Listing Rules and other applicable Hong Kong laws and regulations. In the event of any conflict between the applicable rules and regulations in Singapore and those under Hong Kong law and the Listing Rules, our Company would have to comply with the more onerous rules. In this respect, additional costs and resources could possibly be incurred as we will have to comply with the listing rules in two jurisdictions. In addition, being a listed company in Singapore, our Company is also subject to the relevant provisions of the Singapore Companies Act and the Singapore Code that are applicable to any person who would like to conduct a future takeover or change in control of our Company. Please refer to “Summary of Salient Provisions of the Laws of Singapore — Principal differences between the continuing obligations applicable to listed companies under the Listing Rules and the Listing Manual” in Appendix V to this Listing Document for details of the principal differences between the continuing obligations applicable to listed companies under the Listing Rules and the Listing Manual.

There may be limited liquidity in the Shares and volatility in the price of the Shares on the Stock Exchange

The Shares have not been traded on the Stock Exchange before the Introduction and there may be limited liquidity in the Shares on the Stock Exchange. Whilst Shareholders will be able to transfer their Shares from Singapore to Hong Kong before and after the Introduction (and vice versa following the Introduction), there is no certainty as to the number of Shares that Shareholders may elect to transfer to Hong Kong. This may adversely affect investors’ ability to purchase or liquidate Shares on

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the Stock Exchange. Accordingly, there is no guarantee that the price at which Shares are traded on the Stock Exchange will be substantially the same as or similar to the price at which Shares are traded on the SGX-ST or that any particular volume of Shares will trade on the Stock Exchange.

Whereas arbitrage activities carried out by the Bridging Dealer during the Bridging Period (as described in section headed “Listings, Registration, Dealings and Settlement – Bridging Arrangements” in this Listing Document) are expected to contribute to liquidity on the Hong Kong market, with an aim of facilitating the migration of Shares to the Hong Kong Branch Share Register in order for an open market in Shares to develop in Hong Kong following the Introduction, there is no assurance that the bridging arrangements will attain and/or maintain liquidity in the Shares at any particular level, nor is there assurance that such an open market will in fact develop. In any event, the bridging arrangements will terminate and cease to continue beyond the Bridging Period.

Investors should also be aware that the market price of the Shares may be volatile and may go down as well as up and investors may therefore not be able to recover their original investment, especially as the Shares may have limited liquidity. In addition, the price at which investors may dispose of their Shares may be influenced by a number of factors some of which may pertain to our Company, while others are extraneous to it.

The time lag for the Shares to be transferred between the Hong Kong and Singapore markets may be longer than expected, and Shareholders may not be able to settle or effect any sales of their Shares during this period

There is no direct trading or settlement between the stock exchanges of Singapore and Hong Kong. To enable the migration of Shares between the two stock exchanges, Shareholders are required to comply with specific procedures and bear necessary costs. Under normal circumstances and assuming that there are no deviations from the usual Share transfer procedures, Shareholders can expect a normal transfer to complete within 14 business days from the Singapore Principal Share Register to the Hong Kong Branch Share Register and 15 business days from the Hong Kong Branch Share Register to the Singapore Principal Share Register depending on whether the Shares are held in CCASS or in the name of the Shareholders (as set out in section headed “Listings, Registration, Dealings and Settlements – Transfer of Shares between the Singapore Principal Share Register and the Hong Kong Branch Share Register” in this Listing Document). However, there is no assurance that the transfer of Shares will complete in accordance with the timeline set out in the aforementioned section in this Listing Document. There may be unforeseen market circumstances or other factors which delay the transfer, thereby preventing the Shareholders from settling or effecting the sale of their Shares.

The number of Shares available for future sale could adversely affect the market price of the Shares and the effectiveness of the bridging arrangements is subject to potential limitations

No prediction can be made as to the effect, if any, that future sales of the Shares, or the availability of the Shares for future sale, will have on the market price of the Shares. Sales of substantial amounts of Shares in the public market following the Introduction, or the perception that such sales could occur, could adversely affect prevailing market prices for the Shares. Also, there may

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be limited liquidity in the Shares on the Stock Exchange following the Introduction, which may materially affect the market price of the Shares and may permit the price to exhibit great volatility.

Throughout the Bridging Period, the Bridging Dealer intends to carry out arbitrage activities between the Singapore and Hong Kong markets (as set out in section headed “Listings, Registration, Dealings and Settlement — Bridging Arrangements” in this Listing Document). Whilst such arbitrage activities are expected to contribute towards liquidity on the Hong Kong market, with an aim of facilitating the migration of Shares to the Hong Kong Branch Shares Register in order for an open market in the Shares to develop in Hong Kong following the Introduction, investors should be aware that the bridging arrangements are subject to the Bridging Dealer’s ability to sell the Shares or obtain sufficient number of Shares for settlement on the Hong Kong market, as well as the existence of adequate price differentials between the Hong Kong and Singapore markets. There is no guarantee that the bridging arrangements will attain and/or maintain liquidity in the Shares at any particular level on the Stock Exchange, nor is there any assurance that an open market will in fact develop. The bridging arrangements will also terminate and cease to continue beyond the Bridging Period.

The bridging arrangements do not create any obligation on the Bridging Dealer to undertake any arbitrage or other transactions in the Shares. Accordingly, there is no guarantee that the price at which the Shares are traded on the Stock Exchange will be substantially the same as or similar to the price at which the Shares are traded on the SGX-ST or that any particular volume of the Shares will trade on the Stock Exchange. The bridging arrangements being implemented in connection with the Introduction are not equivalent to the price stabilization activities which may be undertaken in connection with an initial public offering. In addition, the Bridging Dealer is not acting as market maker and does not undertake to create or make a market in the Shares on the Stock Exchange.

RISKS RELATING TO OUR BUSINESS

Our business model has undergone significant changes during the Track Record Period and will continue to undergo changes in the future and our historical results of operations may not be indicative of our future performance

During the Track Record Period, our business model changed significantly both in terms of the types of projects we undertook and the markets or lines of business we conducted. We derived most of our revenue during the Track Record Period from our EPC projects in the PRC, which accounted for approximately 100.0%, 84.1%, 79.2% and 83.4% of our revenue for the years ended December 31, 2007, 2008 and 2009 and the three months ended March 31, 2010, respectively (without taking into account the revenue we recorded in respect of the engineering and construction work for our BOT projects). We receive payment from our customers for these projects in accordance with the progress of construction and such projects typically take between six and 18 months to complete.

We started to undertake capital intensive projects on a BOT basis in 2007 and had acquired the full interest in nine BOT projects and a majority interest in two BOT projects as of the Latest Practicable Date. These BOT projects differ significantly from our EPC projects in terms of their substantially higher capital investment requirements, risk profile and longer payback period. Under BOT project arrangements, we are responsible for the costs of construction of the water or wastewater

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treatment facilities, and the operation of the facilities during the concession period, which may be up to 30 years, during which period we also bear all the costs of maintenance and repair of the facilities. Our estimated remaining investment for our existing BOT projects varies between approximately RMB36.1 million and RMB151.0 million per project. As of the Latest Practicable Date, four of our eleven BOT projects had commenced commercial operation. For the years ended December 31, 2008 and 2009 and the three months ended March 31, 2010, the total costs of the EPC construction work for our BOT projects were RMB98.2 million (which included our costs for acting as EPC contractor for the Xi'an City Chang'an District Wastewater Treatment Project, the Xi'an City Hu County Wastewater Treatment Project and the Anyang City Wastewater Treatment project prior to the acquisition of the relevant project companies by our Group), RMB99.4 million and RMB9.0 million, respectively. We recognized total revenue of approximately RMB66.4 million (which excluded the RMB103.4 million of revenue we recognized under EPC services for the construction work we performed as EPC contractor for the projects referred to above prior to the acquisition by our Group of the relevant project companies), RMB169.5 million and RMB16.0 million in connection with our BOT projects for the years ended December 31, 2008 and 2009 and the three months ended March 31, 2010, respectively, accounting for approximately 6.5%, 13.1% and 6.8% of our revenue during the same periods, respectively. The service concession receivables recognized in connection with our BOT projects as of December 31, 2008 and 2009 and March 31, 2010 were RMB230.2 million, RMB415.7 million and RMB438.2 million, respectively. The cash tariff payments we received with respect to these projects during the same periods were nil, RMB3.5 million and RMB0.9 million, respectively.

After our acquisition of Hi-Standard in July 2008, we also derived revenue from manufacturing customized environmental protection equipment, which accounted for 10.0%, 9.7% and 14.4% of our revenue in 2008 and 2009 and the three months ended March 31, 2010, respectively.

In late 2009, we started to undertake a wastewater treatment EPC and upgrade project in Saudi Arabia, which accounted for approximately 64% of our total order book for our EPC projects (excluding the engineering and construction work for our BOT projects and BT project) as of June 30, 2010. We also entered into a bundled O&M project in Hainan Province, the PRC, from which we recognized a revenue of RMB0.7 million during the Track Record Period as a result of the commencement of commercial operations of one of the wastewater facilities in the Hainan O&M project in 2010.

Our business model will continue to undergo changes in the future. As part of our growth strategy, we plan to significantly increase the number of our BOT projects, expand our O&M business, enter into other international water and wastewater treatment projects and build an advanced production line to manufacture reverse osmosis membranes, nanofiltration membranes and modules for use in water and wastewater treatment. As we undertake new types of and larger projects or enter into new geographic and product/service markets or lines of business, we may become subject to risks that are significantly different to those related to our EPC projects in the PRC.

For example, we had no prior experience in undertaking overseas projects before undertaking our EPC and upgrade project in Saudi Arabia. If we are unable to successfully complete this project, which alone accounted for approximately 64% of our order book for EPC projects (excluding the engineering and construction work for our BOT projects and BT project) as of June 30, 2010, as planned as a result of our lack of experience outside the PRC, or due to the very large size of the

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project or for any other reason, our financial results may be materially and adversely affected. Due to our limited experience in BOT projects, our assumptions and judgments related to the costs of these projects and the profitability of these projects are yet to be tested and could prove to be incorrect. For example, we may not be able to claim higher fees from governments to compensate for higher operation costs of the BOT projects. In addition, the costs of project financing of BOT projects may fluctuate as a result of changes in interest rates resulting from bank loans. Furthermore, we do not receive cash flow from tariff payments until the operational phase of the projects, which is much later than we recognize revenue for the construction phase of the BOT projects and make substantial capital investments in the project. We may encounter difficulties in financing these BOT projects, which typically require significantly higher capital outlays than our EPC projects. We recognized revenue of RMB0.7 million from one of the wastewater facilities in the Hainan O&M project during the Track Record Period due to the commencement of commercial operations only in 2010, and the revenue contribution from our O&M project business in the future may not be as we currently predict. The membrane manufacturing business represents a new business for us, and we may not have the necessary technology, experience, capital or other resources for manufacturing the reverse osmosis membranes, nanofiltration membranes or modules and we have no experience selling such products in any market.

There is no assurance that our experience in undertaking EPC projects in the PRC may be applied successfully or at all to our EPC projects overseas or to any other types of project we may undertake or any other business we are conducting or plan to conduct. We may not have the necessary experience, technology, capital or other resources to reach our business targets or compete effectively for new projects or in new markets or businesses. Our past performance in undertaking EPC projects in the PRC will not be representative of the future results of our BOT projects, O&M projects, EPC projects overseas or of our equipment and membrane manufacturing business. There is no assurance that our revenue and profit will continue to increase or that our profit margin will increase or remain at a level comparable to our historical level or that we will not experience losses in our new business lines and new projects, including our international projects. Our costs may increase significantly due to the change of the mix of our projects, our transition to new markets, increased borrowings due to the larger capital outlays required for BOT projects and construction of plants or production lines for our equipment and membrane manufacturing business. Please refer to the other risk factors in this section for more information about the specific risks related to our changing business model.

You should not rely on the EPC orders we have received in the past, which are typically non-recurring in nature, or the value of our order book in the past as an indication of our future growth or results of operations

We have benefited in the past from the increasing awareness of environmental protection and the heightened water and wastewater treatment standards in the PRC and the recent PRC economic stimulus plan to increase government spending on infrastructure, including water and wastewater treatment facilities. We cannot assure you that we will continue to benefit from these PRC standards and the PRC stimulus plan in the future. We experienced significant growth in the total value of the contracts for our turnkey projects and services in the year ended December 31, 2009, as compared to the previous year.

Our continued growth, however, will depend on a number of factors, many of which are beyond our control, including global and local economic conditions, policies and regulatory requirements in

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the areas where we conduct business or in our target markets, the level of competition in the water and wastewater treatment industry, market demand, rate of population growth, level of industrialization and urbanization, prices of raw materials and feasibility of our expansion plans. The global capital and credit markets recently experienced extreme volatility and disruption due to a combination of factors including a global recession. In addition, various economic factors such as energy costs, volatile oil prices, the availability and cost of credit, a declining residential real estate market in the US and elsewhere, declining business activities and consumer confidence and increased unemployment rate have also affected the global economy. These factors were believed to have led to a slowdown in the Chinese economy in late 2008 and early 2009, which, in turn, resulted in a slowdown in our order flows in late 2008 and early 2009. Furthermore, orders placed by our customers for turnkey projects and services are typically non-recurring in nature.

As a result of the foregoing, we cannot assure you that we will receive the same number of orders as, or more orders than, we have received in the past or that the value of the order book will remain the same or increase.

Furthermore, in this Listing Document, we have provided the contract backlog amounts, which represent our estimate of the contract value of work that remains to be completed under our existing contracts. The value of a contract for a project or other transaction in our order book represents the amount we expect to receive in respect of such potential project or transaction as of June 30, 2010, assuming our performance is in accordance with the terms of the contract and is therefore subjective. Contracts are subject to termination by customers. The termination of any one or more sizeable contracts or the addition of other contracts may have a substantial and immediate effect on our backlog. As of June 30, 2010, we had entered into contracts with external customers for 24 EPC projects, which represent an order book of approximately RMB964.6 million (excluding the engineering and construction work for our BOT projects and BT project), of which our SAR342 million (equivalent to approximately RMB620 million) upgrade and construction project in Saudi Arabia accounted for approximately 64%. We cannot assure you that we will not be subject to any material modifications, terminations or cancellations of our contracts by our customers which would have a material and adverse effect on our backlog and our business and results of operations. There also can be no assurance that we can perform our contracts in full in accordance with their terms without any delay or defect due to reasons beyond our control. Additionally, we cannot guarantee that the revenue projected in our order book will be realized in a timely fashion, or at all, or that, even if the revenue is realized, that it will result in profits. As a result, you should not take the number of orders we have received or the value of our order book in the past as an indication of our revenue or profitability in the future.

We may not be able to secure new water and wastewater treatment projects or obtain new orders for our standard and customized products and equipment

A substantial part of our revenue is generated from our water and wastewater treatment EPC projects. For the years ended December 31, 2007, 2008 and 2009 and the three months ended March 31, 2010, our construction work for our EPC and BOT projects, equipment procurement contracts and design service contracts accounted for approximately 100.0%, 90.0%, 89.9% and 84.5% of our revenue, respectively. However, many of our major customers for our EPC projects are

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non-recurring customers. After our Group completes an EPC project for a customer, there is no assurance that the customer will retain us for maintenance work or use our services again in the future. A customer that accounts for a significant portion of our revenue in a given period may not generate a similar amount of revenue, if any, in subsequent periods. During the Track Record Period, we entered into EPC contracts with members of the BSE Group and Sound Environmental Resources and its subsidiaries in connection with their water and wastewater treatment BOT projects. The percentage of our Group's revenue attributable to projects carried out for the BSE Group and Sound Environmental Resources and its subsidiaries (including EPC services and equipment manufacturing) for the years ended December 31, 2007, 2008 and 2009 and the three months ended March 31, 2010, was 43.1%, 33.2%, 6.6% and 9.5%, respectively. The BSE Group and Sound Environmental Resources together were therefore our largest customer in each of 2007, 2008 and 2009 and were among our five largest customers for the first quarter of 2010. We were also appointed as a sub-contractor by Independent Third Party contractors who were retained by the BSE Group or Sound Environmental Resources or its subsidiaries in respect of the construction portion of certain of their BOT water and wastewater projects. Going forward, pursuant to the Non-Competition Deeds, save for specific circumstances, each of Mr. Wen and Beijing Sound Enviro has agreed that he/it will not, and will procure his/its associates (except any members of our Group and Sound Environmental Resources and its subsidiaries) not to, directly or indirectly, either (i) on his/its or their own account, carry on, participate or (ii) be interested or engaged in or acquire or hold any business which competes or may compete, directly or indirectly, with the business of our Group, save and except the existing water and wastewater treatment BOT projects owned or controlled by the BSE Group and Sound Environmental Resources and its subsidiaries as of the date of the Non-Competition Deed. We therefore expect revenue from the BSE Group and Sound Environmental Resources as a percentage of our revenue to decrease in the future. To maintain and increase our revenue and profitability, we thus need to secure additional projects from other customers and we may not be successful in doing so. As indicated in the industry report prepared by Ernst & Young, municipal sewage treatment capacity in the first-tier and second-tier cities in the PRC are approaching saturation, as a result it may be more difficult for us to bid for BOT projects in those cities. Sewage fees paid by counties and prefecture cities are usually lower than that in the first-tier and second-tier cities. Even if we successfully bid for projects in counties and prefecture cities, we may encounter difficulties in controlling construction and operations costs of these projects and we may fail to maintain our profitability.

Similarly, our sales of standard and customized equipment manufactured by Hi-Standard are generally non-recurring in nature. Our end customers in one financial year may not repeat their orders or may vary their order levels significantly in subsequent years. As customers for our standard and customized equipment are typically one-off customers, we therefore have to continuously and consistently secure new customers and contracts. If we fail to secure new water and wastewater treatment projects or new orders for our standard and customized products and equipment, our revenues will decline and our business, prospects, financial condition and results of operations would be materially and adversely affected.

The recent global economic slowdown and tightening of credit contributed to the financial difficulties experienced by some of our customers and slowdown of our order flows in late 2008 and early 2009. Under the PRC Government's RMB4 trillion stimulus plan, massive capital was injected into the PRC's economic system to help restore stability to the PRC business environment. According

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to the China Daily, the NDRC announced in June 2009 that approximately RMB210 billion was intended to be spent on environmental protection industries. Further, the economic situation in some of our targeted regions outside the PRC also started to improve in 2009. As a result, demand for our project services both in and outside of the PRC and for our facilities management services in the PRC started to grow in the second half of 2009. However, we still expect uncertainties in the development of our industry because of the recent drastic changes in capital markets and the general weakness in the global economy. Although the PRC Government has stated its intention to increase spending on the environmental protection industry going forward, there is no assurance that it will end up spending such amount, or how much will be spent on the water and water treatment industry. You should not regard the PRC Government's intentions or announcements as an indication of the future prospects of our industry or our future performance. A significant slowdown in the PRC economy or a continuation of the general economic slowdown and any tightening of liquidity will harm our ability to start or invest in new projects or obtain new project or equipment orders, slow our growth and thus have a material adverse effect on our business, financial condition and results of operations.

Our customers may make claims against us and/or terminate our services in whole or in part prematurely should we breach the terms of our agreements with them or fail to implement projects which fully satisfy their requirements and expectations or should our customers take legal action against us for our historic failure to provide performance bonds

As of June 30, 2010, we had entered into contracts with external customers for 24 EPC projects which were under construction or which we currently project to commence construction in 2010. We have also expanded our business into BOT projects and O&M services during the Track Record Period. There is no assurance that the construction of the EPC projects will not be delayed or that these projects will be completed to the requirements and expectations of our customers. Failure to complete projects on time or fully in compliance with the requirements and expectations of our customers, or the delivery by us of defective systems or products, may lead to claims being brought against us by our customers and/or termination of our services in whole or in part by our customers prematurely and/or calls by our customers for payment of the performance bonds we provided to them. Unsatisfactory design or workmanship, staff turnover, human errors, failure to deliver services on time, default by our sub-contractors or misinterpretation of or failure to adhere to regulations and procedures could result in delays or failures in the construction, testing or commissioning of any plant. As a result, we could experience delays in the recognition of our revenue from such projects and we may not receive payments from the relevant customer, which could affect our cashflow. This in turn could have a material adverse effect on our business, financial condition and results of operations. In addition, our reputation may be negatively affected which could negatively affect our ability to obtain new projects.

Pursuant to the terms of the concession agreements for our BOT projects, our customers may require us to provide a performance bond for a contractually agreed amount, typically between RMB1 million and RMB10 million, issued by a recognized bank. In practice, we had not provided any of our customers for our existing BOT projects with such performance bonds as of the Latest Practicable Date. The obligation to provide such performance bond ends upon the completion of the construction work. None of our customers of these projects had requested us to provide such performance bonds or taken any legal action against us in respect of our failure to provide such performance bonds as of the Latest Practicable Date, and such term of our concession agreements is therefore not customarily

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enforced by our customers. There can be no assurance that we will not be required by our customers to provide such performance bonds in the future or that our customers will not take legal action against us for our failure to provide such performance bonds in accordance with the terms of the concession agreements. As of the Latest Practicable Date, the aggregate amount of construction performance bonds which we were required, under the terms of our concession agreements, to provide for our BOT projects was RMB18.1 million, which will be payable should our customers request it. We may also be liable for additional penalty payments if our customers take legal action against us for our historic failure to provide the relevant performance bonds, though the concession agreements usually do not include any specific penalty provision for any failure to issue a performance bond. Some concession agreements also require us to provide a maintenance performance bond upon the commencement of operation of the BOT project. Only two of our existing BOT projects require us to provide such maintenance performance bond upon commencement of the commercial operation of the treatment plants and the aggregate amount of the performance bonds we are required to provide in this regard is approximately RMB2.3 million. One of these two BOT projects was in commercial operation as of the Latest Practicable Date but as at that date, we had not been asked to provide such maintenance performance bond. Any penalties we may be required to pay for failure to provide performance bonds could be material.

Our customers have certain rights to terminate our contracts unilaterally under certain circumstances and are still entitled to damages or compensation as prescribed in the contract. In the event that our contracts for any of our projects are terminated including due to our unsatisfactory performance or we are involved in any legal dispute, court proceedings or arbitration with our customers, our reputation may be negatively affected and this may adversely affect our ability to secure new projects. In addition, in the event we are found liable for the delays or failure to complete projects to the satisfaction of our customers, we may be required to compensate our customers for their losses, which could be material amounts and this could materially and adversely affect our business, financial condition and results of operations. Please refer to the section headed “Business” for more information on termination of our contracts.

BOT projects are capital intensive with long payback periods and we may require additional funding for these and our other investment projects

Our BOT projects typically require significant initial cash outlays and have long payback periods. These projects require us to make substantial financial investments during the construction phase of the projects, which typically lasts approximately six to 24 months. We are responsible for the costs of construction of the water or wastewater facilities, and the operation of the facilities during the concession period, which may be up to 30 years, during which period we also bear all the costs of maintenance and repair of the facilities. We typically receive no tariff payment from our municipal government customers before or during the construction phase when we make substantial capital investments. After the construction is completed and commercial operations of the relevant facilities have commenced, we receive regular, typically monthly, tariff payments from our customers during the concession term. For example, we may need to invest up to RMB151.0 million in the Liaoning Fushun City Wastewater Treatment Project and the concession term of this project is 30 years. As of the Latest Practical Date, we had made significant investments in or were in the course of constructing or are yet to commence construction of eleven BOT projects, including nine that we wholly own, one in which we have an 80% equity interest and one in which we have a 50.2% equity interest but in respect of which we maintain management and financial control. We are responsible for all of the costs of

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construction. Of these projects, four projects had commenced commercial operation, two had started trial operation, two were under construction and three were yet to start construction as of the Latest Practicable Date. Our estimated remaining investment for our existing BOT projects varies between RMB36.1 million and RMB151.0 million per project. We recognized revenue of RMB66.4 million, RMB163.8 million and RMB14.1 million from the construction phase of our BOT projects in the years ended December 31, 2008 and 2009 and the three months ended March 31, 2010, respectively, which accounted for approximately 6.5%, 12.7% and 6.0% of our total revenue during the above periods, respectively. Save as discussed below, we did not receive any cash inflows in respect of our BOT projects in 2007 and 2008 and only received minimal cash inflows in 2009 and the first quarter of 2010 in respect of the operation of one BOT project. However, for two of our BOT project companies, Shangluo Wastewater and Yulin Jingzhou, we received government prepayments during the construction phase.

We plan to significantly expand our BOT business in the future. The development of new BOT projects may require a significant amount of capital investment and our future growth will depend, to a large extent, on our ability to secure external funding in addition to the proceeds from the issue of the Convertible Bonds. In order to obtain additional capital to develop these projects, we may incur additional debt or issue additional Shares or securities. We expect our external borrowings to increase substantially in the future against levels recorded in the Track Record Period in order to fund our expanding BOT project business. If new Shares are issued, they may be priced at a discount to the then prevailing market price of our Shares, in which case, existing shareholders' equity interests may be diluted. If we fail to utilize such new equity to generate a commensurate increase in earnings, our earnings per Share will be diluted. Any additional debt financing may, apart from increasing our interest expense, contain restrictive covenants with respect to dividends, future fund-raising exercises and other financial and operational matters.

Furthermore, our ability to obtain project financing is subject to a number of uncertainties, including, among other things:

- regulatory approvals to raise financing in the domestic or international markets;
- our financial condition, results of operations, cash flows and credit history;
- the condition of the global and domestic financial markets; and
- changes in PRC monetary policy with respect to bank lending practices and conditions.

Due to the capital intensive and long term nature of BOT projects and other project formats requiring capital investment, there is no assurance that we will be able to secure adequate funding or refinancing for these projects on terms that are acceptable to us or at all or that these projects will be profitable and achieve their initial expected returns. Furthermore, we may have difficulties in obtaining RMB funding, the costs of such funding may also be higher than the rate of return of our BOT projects during the concession period and may result in us incurring losses with respect to such BOT projects. If we fail to obtain project financing or refinancing for our BOT projects and other such projects in the amount budgeted or at all, we may need to finance these projects from our internal resources, which may strain our resources for developing or acquiring other projects and other corporate purposes. For example, under our credit facility agreement with HSBC for RMB54.2 million, the bank can

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unilaterally revoke the credit facility or ask for immediate repayment at any time. The bank may also change the agreement terms in its discretion.

Pursuant to applicable regulations, we are required to contribute at least 20% of total project investment amount. Therefore, we may obtain at most 80% of the total project investment amount from external sources such as bank borrowings. Our existing loan terms have amortization schedules of five to six years, which is less than the concession period of our BOT projects. There is no assurance that we may roll over the loans for our BOT projects in the amount we need or at the time we need upon the expiry of the current term of the loans. If we incorrectly forecast the amount of our internally-generated funds, we may not have sufficient funds to finance the operating needs of our BOT projects not met by the loans.

Any failure by us to properly perform our obligations in respect of these projects may lead to a reduction in our returns and may even lead to the loss of all or part of our initial capital investments. As a result, we may not be able to undertake or acquire new projects as we planned and our business, financial condition and results of operations may be materially and adversely affected. Please refer to the section of this Listing Document headed “Business — Our Water and Wastewater Treatment Business — Our BOT Business — Business Process for our BOT Projects — Project Financing” for further details.

Our indebtedness or an inability to borrow additional amounts or refinance our debt could adversely affect our results of operations and financial condition and prevent us from fulfilling our financial obligations and business objectives

As of June 30, 2010, we had approximately RMB239.7 million of outstanding borrowings. Approximately RMB190.7 million of borrowings was due and payable within one year. In addition, we have entered into loan agreements for a significant amount of debt since March 31, 2010 and we expect to borrow significant amounts in the future to finance our BOT projects. On September 15, 2010, we issued an aggregate principal amount of RMB885 million US dollar settled convertible bonds, including an upsize option of RMB205 million US dollar settled convertible bonds. Our Convertible Bonds, details of which are set out in Appendix VII to this Listing Document, bear interest at the rate of six per cent. per annum, payable semi-annually in arrear in March and September of each year. Our existing and future indebtedness and related obligations could have important future consequences for us, such as:

- potentially limiting our ability to obtain additional financing to fund growth, working capital, and capital expenditures or to meet debt service or other cash requirements;
- exposing us to the risk of increased interest costs if the underlying interest rates rise significantly;
- potential restrictions on our ability to make distributions to our Shareholders;
- potentially limiting our ability to invest operating cash flow in our business due to debt service requirements; or

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- increasing our vulnerability to economic downturns and changing market conditions.

Our ability to meet our debt service obligations, borrow additional funds or refinance our debt will depend on many factors, including prevailing financial or economic conditions, our past performance and our financial and operational outlook. If we do not have enough cash to satisfy our debt service obligations, we may be required to refinance all or part of our debt, sell assets or reduce our spending. At any given time, we may not be able to refinance our debt or sell assets on terms acceptable to us or at all. In such case, if we were to default, our results of operations and financial condition could be materially adversely affected.

If we are unable to comply with the covenants or restrictions contained in our bank loans or Convertible Bonds, amounts outstanding under these loans or bonds may be declared due and payable, which could materially adversely affect our business, financial condition and results of operations

Our bank loans contain covenants that, among other things, restrict our and our subsidiaries' ability to dispose of material assets, create liens on assets, incur guarantee obligations, enter into contracts with significant impact on our business and financial position, make acquisitions, engage in mergers or consolidations, restrictions on payment of dividends and engage in certain transactions with affiliates. In addition, the loan agreement which we entered into with IFC on May 28, 2010 contains significant negative, affirmative and financial covenants, including change in control provisions, and restrictions on payment of dividends. Our future bank loans may also contain such covenants. Furthermore, pursuant to the terms and conditions of the Convertible Bonds, our Company and its principal subsidiaries have pledged not to create or permit any security interest or any guarantee or indemnity with respect to our undertakings, assets or revenues so long as any of the Convertible Bonds are outstanding unless certain conditions are met. We may not be able to comply with these covenants in the future, which could cause all amounts outstanding under such loan agreements or bonds to become due and payable, and which could limit our ability to meet ongoing or future capital needs. Our ability to comply with the covenants and restrictions contained in our bank loans and bonds may be adversely affected by economic, financial, industry or other conditions, some of which may be beyond our control. Any breach of any of the covenants or restrictions contained in certain of our bank loans or bonds could result in a default under these bank loans or bonds that would permit the banks, the trustee or the bondholders to declare all amounts outstanding to be due and payable. Some loan agreements may also contain cross default provisions including, without limitation, the IFC loan agreement. Furthermore, any default in paying indebtedness of RMB10 million or more may cause the outstanding principal amount of the Convertible Bonds, together with any accrued interest, to become immediately due and payable. In such an event, we may not have sufficient funds or assets to repay such indebtedness. The lenders may proceed against any collateral securing the debt. We cannot assure you that these covenants will not adversely affect our ability to finance our future operations or capital needs, to pursue available business opportunities or react to changes in our business and the industry in which we operate. In addition, we may not have access to all the amounts under our banking facilities as some of our facilities require further approvals upon borrowing and others are revocable. Please refer to the section headed "Financial Information — Indebtedness" for more information. As a result, any default could have material adverse consequences for our business, financial condition and results of operations.

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We are exposed to the credit risk of and payment delays by our customers

We are subject to the credit risks of our customers and our profitability is dependent on our customers making prompt payment on billings for work done by us. Our construction and service contracts provide for payments by installment according to the progress of each project. We normally make advance payments to procure equipment and then collect such amounts from customers subsequently. We also typically provide a one-year warranty for most of our projects, during which usually an amount of up to 5% and, in some circumstances, up to 10% of the contract price would be retained by the relevant customers as retention monies for any required repairs or replacements during the period. The retention monies are paid to us upon the expiration of the warranty period subject to our successful resolution of any defects covered by the warranty. If there is any delay in payment by our customers, our working capital, profitability and cash flow may be adversely affected.

Historically, our outstanding trade receivables and the turnover days of our trade receivables have been relatively high. Our average net trade receivables turnover days for 2007, 2008 and 2009 and the first quarter of 2010 were 210 days, 151 days, 103 days and 144 days, respectively. As of December 31, 2007, 2008 and 2009 and March 31, 2010, our outstanding trade receivables less allowance for doubtful debts were RMB401.1 million, RMB422.7 million, RMB365.1 million and RMB368.8 million, respectively. Our allowance for doubtful debts provided were nil, RMB11.3 million, RMB28.4 million and nil for 2007, 2008 and 2009 and the first quarter of 2010, respectively. Trade receivables overdue but unimpaired were RMB65.4 million, RMB39.9 million, RMB128.5 million and RMB120.5 million as of December 31, 2007, 2008 and 2009 and March 31, 2010, respectively. The credit periods we grant to our customers vary significantly depending on the terms we negotiate with our customers for the relevant projects and contracts. In practice, we normally allow the customers purchasing the equipment manufactured by Hi-Standard a credit period of 90 days. For our other customers, including those for our turnkey and O&M projects and services, the credit period is based on the terms specified in the contracts governing the relevant transactions, subject to subsequent review. For those customers that are government authorities or large enterprises with good credit history, we are usually willing to grant longer credit periods. The credit periods thus granted would normally range from 90 days to one year depending on the negotiated terms and subsequent review. We do not have a uniform credit policy. As of December 31, 2007, 2008 and 2009 and March 31, 2010, the net trade receivables between 181 days and one year constituted approximately 19.7%, 15.8%, 12.7% and 10.8% of our total net trade receivables, respectively. As of December 31, 2007, 2008 and 2009 and March 31, 2010, the net trade receivables between one and two years constituted approximately 15.2%, 9.2%, 25.4% and 15.7% of our total net trade receivables, respectively. As of December 31, 2007, 2008 and 2009 and March 31, 2010, the net trade receivables between two and three years constituted approximately 1.1%, nil, 4.5% and 0.3% of our total net trade receivables, respectively. Please refer to the sections entitled “Financial Information — Trade and Other Receivables” and “Financial Information — Credit Risk” of this Listing Document for further details about the age of our trade receivables.

There is no assurance that we will be able to collect all or any part of our trade receivables within the credit terms granted by us to the relevant customer or at all. This will thus severely negatively affect our cash flow and financial performance. Our customers may also default on their obligations to us. For example, they may delay final acceptance tests. Defaults and delays by our customers may be difficult to detect, anticipate or prevent. In particular, if any of our customers were

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to go into liquidation or bankruptcy, we may not be able to receive full or any payment of uncollected sums due to us or enforce any judgment debts against such customers. We made provision for doubtful debts in 2008 and 2009 primarily due to the allowance made for the receivables owed by our industrial customers who faced financial difficulties as a result of the recent economic downturn, including customers in the steel and steel-related industries. There is no assurance that these provisions are sufficient. With the global economic downturn, customers' defaults may increase and we may need to make greater provisions for receivables, particularly for receivables from our industrial customers who may be more significantly impacted by the downturn. Non-payment or delay in payments by our customers may materially and adversely affect our level of profitability. Please refer to the section entitled "Business — Our Credit Policy" of this Listing Document for further details.

We are exposed to risks associated with entering into contracts with PRC and foreign governmental and other public organizations, and our performance may be significantly affected by government spending on infrastructure and other projects

Our customers include agencies or entities owned or otherwise controlled by the PRC Government. To the extent that our projects are funded by the PRC Government, they may be subject to delays or changes as a result of the changes in the PRC Government's budgets or for other policy considerations. The PRC Government's spending on infrastructure and other construction projects has historically been, and will continue to be, cyclical in nature and vulnerable to fluctuations in China's economy and changes in the PRC Government's policies. Also, we have entered into a major contract in Saudi Arabia and intend to continue to enter into major contracts or other arrangements with foreign governments or their controlled entities in connection with our overseas investments and business operations. The revenue contributed by our government and government controlled customers accounted for the majority of our total revenue for 2007, 2008 and 2009 and the first quarter of 2010. We therefore have significant exposure to the risks associated with contracting with public organizations.

In addition, any disputes with governmental entities and other public organizations could potentially lead to contract termination if unresolved or may take a considerably longer period of time to resolve than disputes with counterparties in the private sector, and payments due to us from these entities and organizations may be delayed as a result. Such entities and organizations may claim sovereign immunity as a defense to any claims we may make against them. In some circumstances, they may also require us to change our construction methods, equipment or other performance terms or direct us to reconfigure our designs or purchase specific equipment for the relevant project in connection with our engineering and construction projects or undertake additional obligations or change other contractual terms, thereby subjecting us to additional costs. Resolution of any disagreement with them with respect to such changes may be time-consuming and may cause us to incur additional costs. Changes in governmental budgets and policies relating to our projects could also result in delays in project commencement or completion, adverse changes to such projects or a withholding of, or delay in, payment to us. If a government entity or other public organization terminates a contract with us, our order book could be reduced, our business plans may be adversely affected and our business and financial performance may be materially and adversely affected as a result.

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Failure to accurately estimate the overall risks or costs of our contracts may lead to cost overruns, lower profitability or even losses on such contracts

We currently generate, and expect to continue to generate, a substantial portion of our revenue from contracts with a pre-agreed price relating to our engineering and construction business and equipment manufacturing business. The terms of these contracts require us to complete a project or manufacture equipment for a pre-agreed price and therefore if we fail to price the projects appropriately, we may be exposed to the risk of any cost overruns. Cost overruns, whether due to inflation, inefficiency, fluctuations in foreign exchange or interest rates, inaccurate estimates or other factors, may result in us recording a lower profit or even a loss on a project or the supply of manufactured equipment. As a result, we will only realize profits on these contracts if we successfully estimate our project or equipment manufacturing costs and avoid cost overruns. Our cost estimates are subject to a number of assumptions, including those about future economic conditions, the cost and availability of labor and materials, sub-contractors' performance, facility utilization rates, estimated time to complete projects, and the construction and technical standards to be applied for a subject project. However, these assumptions may prove to be inaccurate. In addition, other variations and risks inherent in the performance of contracts with a pre-agreed price, such as delays caused by inclement weather, technical issues and any inability to obtain the requisite permits and approvals, may cause our actual overall risks and costs to substantially differ from our original estimates despite any buffer we may have built into our bids for increases in labor, materials and other costs. Some of our construction contracts contain price adjustment clauses, which allow us to reclaim additional costs incurred as a result of certain unexpected circumstances, such as abnormal geographical conditions at the sites of the relevant facilities. We may also negotiate with our customers to request that they agree to pay additional costs if we experience a substantial and unexpected increase in the price of our raw materials. However, we may be required to bear a portion of the increased costs or we may not be able to successfully negotiate any price adjustment and therefore have to bear the full amount of such cost increases. We therefore cannot guarantee that we will not encounter cost overruns or delays in our current and future construction projects or equipment manufacturing contracts. If such cost overruns or delays occur, our costs could exceed our budget or we could be required to pay liquidated damages in accordance with the terms of our contracts in the event of significant delays. We could suffer a consequent reduction in, or elimination of, any profits on our contracts and we may even suffer a loss from such projects or contracts due to significant cost overruns or delays.

From time to time, we may need to perform extra or "variation order" work in connection with our contracts. This may result in disputes over whether the work performed is beyond the scope of work included in the original project specifications, or over what price the customer is willing to pay for the extra work. Even when the customer agrees to pay for the extra work, we may be required to fund the cost of such work for a lengthy period of time until the "variation order" is approved and paid for by the customer. In addition, any delay caused by the extra work may impact the progress of our projects and our ability to meet specific contract milestone dates. We may also incur additional costs due to unapproved construction "variation orders" or contract disputes. We cannot assure you that we will be able to recover the cost of the extra or "variation order" work in full or at all, which may lead to business disputes, or may otherwise adversely affect our business, financial condition, results of operations and prospects. Moreover, the performance of extra work on one project may cause delays in our other project commitments and may have a negative impact on our ability to meet the specified deadlines of our other projects.

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Furthermore, we have in the past undertaken and expect to continue to undertake projects on a BOT or other investment project-type basis requiring us to make investments in the project. BOT projects expose us, among other risks, to the risks of incorrect forecasts, at the bidding stage, of the cost of construction of the project, the construction period, the costs of maintenance and repair of the project during the contract term and the revenue to be derived from the operation of the constructed facility. In addition, such projects result in the risk of extended exposure to fluctuating economic conditions given their long concession terms, of up to 30 years. Any cost overruns at either the construction or operational phase will impact the profitability of the projects. We make our decisions to undertake BOT projects in part based on our estimate of capacity utilization. However, the actual utilization of the facilities when they commence operations may be different from the level of utilization we had forecast at the time we entered into the project. If the actual utilization of our facilities falls significantly below our estimated level, our overall revenue for a BOT project may be materially and adversely affected. However, our BOT concession agreements usually provide for a minimum payment amount based on a guaranteed treatment volume, which shall be paid by the customer regardless of the actual capacity utilization of the treatment facilities. For our BOT projects, we are responsible for all repairs and maintenance of the facilities. However, if our facilities fail to operate for as long or as efficiently as we have estimated, we may need to pay more for repairs and maintenance of the facilities than we have originally budgeted and may experience longer shut-down periods than we initially budgeted while we implement necessary repairs and maintenance. As a result, we may experience reduced profitability or losses from BOT projects that do not perform as forecast, which could have a material and adverse effect on our results of operations.

We are dependent on the performance of our sub-contractors

In our construction projects we are generally responsible for the overall management of the project and are accountable to customers for meeting the construction and operational requirements and timely delivery of the constructed facilities. We typically retain sub-contractors to carry out civil engineering work and the installation of equipment for our projects. The duration of the contracts we enter into with our sub-contractors typically range from six to twelve months. For 2007, 2008 and 2009 and the first quarter of 2010, our sub-contracting costs constituted approximately 97.5%, 98.0%, 97.4% and 98.6% of our total construction and installation cost, respectively. During the Track Record Period, we engaged approximately 37 sub-contractors in total for our EPC and BOT projects. If we are unable to secure competitive rates from our subcontractors, our profitability may be reduced.

We face the risk of unreliable work performed by our sub-contractors. They may (i) have economic or other interests or goals that are inconsistent with ours, (ii) take actions contrary to our instructions or requests, or (iii) be unable or unwilling to fulfill their obligations. For example, in the past we have experienced delays in completing some of our projects due to delays by our sub-contractors, for reasons such as disputes over requested price adjustments as a result of increases in the price of steel and cement used in construction. There is no assurance that similar events will not occur in the future. We had not experienced any loss or delay due to the quality of work of the sub-contractors during the Track Record Period, but we cannot assure you that we will not experience these types of losses or delays in the future. Should our sub-contractors cause delays or otherwise default on their contractual obligations and work specifications, our ability to deliver the project in accordance with our customers' quality and/or timing specifications may, in turn, be severely compromised.

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Furthermore, the projects we undertake and operate vary in size, location and technical requirements and the sub-contractors we appointed for projects in the past may not be suitable for our future projects. In some circumstances, our choices of sub-contractors may be limited due to factors such as customers' preferences, cost concerns, regulatory requirements or geographical limitations. These sub-contractors may not be familiar with the relevant industry standards, our standard practices or have sufficient human and technical resources to complete the sub-contracting work on time or at all. In addition, as we expand our business internationally, we may need to retain sub-contractors with whom we have no previous working relationship which may lead to additional risks.

In the event that any sub-contractor has to be replaced, it may be difficult to find another sub-contractor with the necessary experience and/or expertise required to construct and/or install the plants in a manner that will enable us to comply with our obligations under the relevant construction contract, concession agreement and/or wastewater treatment services agreement. This may result in a breach of the agreements by us and render us liable to our customers for damages arising from such delays or failures. We may also suffer cost overruns due to the delays or defaults caused by our sub-contractors. Furthermore, even if a suitable replacement sub-contractor is retained, we may have to engage such sub-contractor at a higher cost or on terms that are less favorable to us. There is no assurance that we will be able to recover any such additional costs and other damages from the defaulting sub-contractors. As such, our business, financial condition and results of operations may be adversely affected if we are unable to retain sub-contractors with sufficient resources, experience and track record at competitive prices.

Our expansion into BOT, O&M and other new businesses may impose new challenges on us, and we may lack the necessary experience to deal with these new challenges

We have developed from a turnkey projects and services provider to an integrated water solutions provider that combines technical design and consulting, product design and manufacturing as well as project investment and operation. We are expanding our business into the BOT format, which is more capital-intensive, as well as providing facilities management services to operate and manage multiple water and wastewater treatment plants for periods of up to 30 years. As of the Latest Practicable Date, we had eleven BOT projects, including nine that we wholly own, one in which we have an 80% equity interest and one in which we have a 50.2% equity interest but over which we maintain the management and financial control. As of the Latest Practicable Date, we had a bundled O&M project in the PRC to manage and operate eight wastewater treatment plants in Hainan Province, the PRC. We have also expanded our business outside China for the first time, with our entry into an EPC contract, with an estimated contract value of SAR342 million (equivalent to approximately RMB620 million), to undertake an EPC and upgrade project in Saudi Arabia. We also acquired Hi-Standard in July 2008 and commenced the manufacture of water and wastewater treatment equipment. We plan to significantly expand our BOT and O&M businesses and also commence the manufacture of membranes in the future.

The diversification of our business within a short period of time has imposed on us new operational, management and planning demands, which are significantly different from those we encountered in operating our EPC projects and for which we may require different expertise and experience. BOT and other similar project formats in the water and wastewater industry have only been

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conducted in China relatively recently. We commenced construction of our first BOT project in July 2008 and have limited experience in assessing and addressing risks particular to BOT and other similar projects. We have limited experience in BOT projects, accordingly, our assumptions and judgments relating to the costs of these projects and the general undertaking of these projects are yet to be tested and could prove to be incorrect.

The membrane manufacturing business represents a new business for us, and we may not have the necessary technology, experience, capital or other resources in manufacturing reverse osmosis membranes, nanofiltration membranes or modules and have no experience in selling such products in any market. We may need to quickly develop new technologies, acquire new skills, train new personnel and substantially change the way we run our business to properly and effectively execute our business strategies. There is no assurance that our expertise and experience in operating EPC projects in the PRC can be transferred to the operation and maintenance of water and wastewater facilities under BOT or O&M project arrangements or the production of equipment or can be applied successfully or at all to our EPC projects overseas or to any other types of projects we undertake or any other business we are conducting or plan to conduct. We may not have the necessary experience, technology, capital or other resources to achieve our business targets or compete effectively for new projects or in new markets or businesses. The BSE Group has been involved in winning many of our existing BOT projects as we establish our reputation in this project format. However, there is no guarantee that we will be successful when we try to win more of these projects on our own going forward.

If we fail to meet the challenges posed by the operation of our new businesses and project formats or win projects in such formats on our own, our business, financial condition and results of operations may be materially and adversely affected.

We may not be able to manage future rapid growth, which could put significant strain on our managerial, operational and financial resources

Our business and operations have grown rapidly over the Track Record Period. Our revenue increased by approximately 47.0% from RMB697.3 million in 2007 to RMB1,024.8 million in 2008, and further increased by 26.2% to RMB1,293.5 million in 2009. We recorded revenue of RMB234.0 million for the three months ended March 31, 2010, representing approximately a 72.9% increase for the same period in 2009. Our fast business growth could put significant strain on our managerial, operational and financial resources. Our ability to manage future growth will depend on our ability to effectively implement and improve management, operational and financial information systems on a timely basis and to expand, train, motivate and manage our workforce. There is no assurance that our personnel, systems, procedures and controls will be adequate to support our future growth. Failure to manage our expansion effectively may lead to increased costs, a decline in sales and reduced profitability, which in turn will affect our business, financial condition and results of operations.

Our efforts to enter into new markets outside of the PRC may not be successful

We intend to continue to introduce our services and products into international markets and increase the proportion of our revenue generated outside the PRC. In 2008, we participated in both

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Singapore International Water Week and the Saudi Water and Power Forum (SWPF) Exhibition in Saudi Arabia as part of an initiative to expand our operations into the Southeast Asia and Middle East markets, respectively. In 2009, we entered into an EPC and upgrade contract with Marafiq, a state-linked power and water utility provider in Saudi Arabia, at an estimated value of SAR342 million (equivalent to approximately RMB620 million). The value of this contract accounted for approximately 64% of the total value of our order book for EPC projects (excluding the engineering and construction work for our BOT projects and BT project) as of June 30, 2010. We currently expect to complete this project in the fourth quarter of 2011. We are also actively seeking new opportunities to undertake other EPC projects in other jurisdictions outside the PRC, including Taiwan, Vietnam and Bangladesh. While we have no current intention to pursue projects in BOT or other investment formats outside the PRC, we may in future consider undertaking such projects outside the PRC if presented with suitable opportunities. As of the Latest Practicable Date, we had not entered into any binding agreements in respect of any other projects outside the PRC.

We do not have any experience of operating internationally and could face considerable challenges and risks in our expansion into international markets, including:

- a lack of local presence and familiarity with cultural differences, local business practices and conventions and the local regulatory environment;
- shortages of personnel with both necessary language skills and technical capabilities;
- a lack of familiarity with international sub-contractors and suppliers;
- burden or cost of complying with foreign laws and regulations, including unexpected changes in laws and regulatory requirements;
- inherent difficulties and delays in contract enforcement through the use of foreign legal systems;
- changes in political, regulatory or economic conditions or political, social and economic instability, war and acts of terrorism;
- market demand for our services and products;
- volatility in currency exchange rates;
- potentially adverse tax consequences;
- foreign exchange controls or regulatory restrictions that could prevent us from repatriating income earned in such countries;
- difficulties in obtaining permits, licenses, approvals or authorizations for our business and operations.
- longer payment cycles and problems in collecting accounts receivables; and
- potential seizure, expropriation or nationalization of assets.

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In addition, operations in developing countries can be subject to legal systems which are not as predictable as those in more developed countries, which can lead to greater risks and uncertainty in legal matters and proceedings.

We cannot assure you that our efforts to enter into any markets outside the PRC will be successful. Any of the foregoing risks could have a material and negative impact on our efforts to introduce our services and products in international markets, which in turn would materially and adversely affect our business, financial condition and results of operations.

We are exposed to risks associated with our EPC project in Saudi Arabia

In 2009, we entered into our first major EPC contract for a customer outside the PRC — an upgrade and construction contract in Saudi Arabia with a state-linked power and water utility provider in Saudi Arabia, Marafiq, with an estimated value of SAR342 million (equivalent to approximately RMB620 million). The value of this contract accounted for approximately 64% of the total value of our order book for EPC projects (excluding the engineering and construction work for our BOT projects and BT project) as of June 30, 2010. As of the Latest Practicable Date, we had commenced the construction of the project and we expect to complete the project in the fourth quarter of 2011. Pursuant to the project agreement, we will receive payment based on the percentage of completion of the project.

Our performance of the EPC contract in Saudi Arabia would be affected, directly and indirectly, by the economic, political and regulatory conditions of Saudi Arabia. Conditions such as the uncertainties associated with war, terrorist activities, epidemics, pandemics or political instability in Saudi Arabia could affect us by causing delays or difficulties in performing the EPC contract, as well as increasing security costs and other expenses. Moreover, changes in laws or regulations, such as unexpected changes in regulatory requirements, could increase the cost of doing business in Saudi Arabia. We cannot assure you that we will be able to maintain the required permits, licenses, approvals or authorizations to undertake our project in Saudi Arabia. If we are not successful in performing our obligations under the contract for our project in Saudi Arabia or if we fail to manage our costs effectively or experience unforeseen costs, for example, as a result of our lack of international experience, or due to the very large size of the project, we may not be able to recover our costs incurred for the project, the value of our order book and revenue could be reduced significantly and our profitability could be materially and adversely affected.

We entered into the EPC contract with a state-linked entity in Saudi Arabia. It is uncertain whether such entity may successfully claim sovereign immunity as a defense to any claims we may have against them under the Saudi Arabian legal and regulatory framework. We may have no recourse for any breach of contract by such entity. Consequently, we may not be able to recover any loss or expenses that we incur in the project in Saudi Arabia. Our business and financial performance may be materially and adversely affected as a result.

We will become subject to Saudi Arabia tax at the rate of 20% on any profits derived from providing services and selling our products in Saudi Arabia. Changes in the taxes applicable to our business in Saudi Arabia in the future may have an impact on our tax expenses and our profitability. Furthermore, if our Company is deemed to be a PRC resident enterprise under the Enterprise Income

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Tax Law, we may be subject to PRC enterprise income tax at a rate of 25% on our worldwide income, including the revenue generated from our Saudi Arabia project.

Due to our entry into this EPC contract in Saudi Arabia, which is denominated in Saudi Riyal, and our increased use of US dollars or other currencies to enter into contracts to provide services or products to international customers, we expect our exposure to foreign currency risks to increase in the future. The value of the RMB, our operating currency, against Saudi Riyal fluctuates and is affected by, among other things, changes of the political and economic conditions in the PRC and Saudi Arabia. Significant fluctuations in exchange rates may in the future materially and adversely affect the profitability of the project.

We are subject to risks associated with technological changes

We are an established water and wastewater treatment solutions provider, and in order to maintain our market share, we must ensure that we are able to continually provide relevant solutions to our customers that meet their needs. However, there are rapid technological changes and improvements in water and wastewater treatment technology and equipment. Our products and technologies must pass rigorous testing and field trials, which can be time-consuming and expensive. The commencement and completion of the tests and field trials are subject to many factors such as delays in producing or failure to produce test results, data or analysis, inadequate or inconclusive results, changes in regulatory policies or industry standards or delays by government or regulatory authorities.

Changes in regulations or standards for water and wastewater treatment in the regions where we conduct our business may also necessitate the use of new technologies or the improvement of our existing technologies. For example, after the outbreak of SARS in 2003, higher standards for treatment of wastewater discharged by hospitals and clinics were imposed by the then State Environmental Protection Administration, currently the Ministry of Environmental Protection of the PRC, to prevent the spread of communicable diseases. On July 1, 2007, the Ministry of Health of the PRC (the "MOH") and Standardization Administration of the PRC further adopted 106 standards for drinking water. Under the relevant regulations, immediate compliance with 42 standards was required and compliance with the remaining 64 standards will become mandatory by July 1, 2012. We may need to develop new technologies or upgrade existing technologies, or upgrade existing facilities to meet the standards imposed by the MOH or other regulatory authorities.

In the event that we are unable to develop or source new and enhanced water and wastewater treatment solutions to keep up with such technological changes or changes in regulatory requirements, our market share, results of operations and profitability may be materially and adversely affected.

If we fail to obtain or maintain the permits, licenses and certificates required for our operations, our business, financial condition and results of operations may be materially and adversely affected

It is a pre-requisite for us to obtain certain permits, licenses and certificates from various governmental authorities in order to carry out our business in the PRC. Details of the permits, licenses

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and certificates we are required to maintain are set out in the section headed “Regulation of Our Industry” of this Listing Document. Some of these permits, licenses and certificates are subject to periodic review and renewal by the relevant PRC Government authorities and the standards of compliance required in relation thereto may from time to time be subject to changes.

We are in the process of obtaining certain permits, licenses and certificates for our projects and properties for our project companies, including Certificates of Real Estate Ownership, State-owned Land Use Rights Certificates, Construction Land Use Planning Permits, Construction Work Planning Permits, Construction Work Commencement Permits and Inspection and Acceptance on construction completion. We have obtained or are seeking confirmations from the relevant governmental authorities that we may continue the operations conducted or to be conducted by our project companies on the relevant properties where such permits, licenses and certificates have not been granted to us directly or at all before the Listing. According to our PRC legal advisor, Commerce and Finance Law Offices, pursuant to confirmations issued by relevant governmental authorities, the relevant governmental authorities have allowed our project companies which have obtained such confirmations to continue their operations with respect to these projects and to occupy and use the relevant properties. The government may impose penalties on us as a result of our failure to obtain the aforementioned permits, licenses and certificates. Please refer to the section headed “Business — Properties — Properties occupied by us under concession agreements” for further information.

We are required under PRC law to obtain the Pollutants Discharge Permit for the operation of water and wastewater treatment facilities. We have not yet obtained the Pollutants Discharge Permit for four of our BOT projects and the four treatment plants under our Hainan O&M project. We may be subject to a fine of RMB300 to RMB5,000 per entity for the lack of the Pollutants Discharge Permit for the four BOT projects. We may be subject to a fine of between RMB10,000 and RMB50,000 per plant for the lack of relevant Pollutants Discharge Permits for the six treatment plants under the Hainan O&M projects.

We are also required by relevant PRC regulations to apply for the checking and acceptance of our facilities on the completion of environmental protection facilities within three months after the commencement of trial operation of the relevant treatment facilities. As of the Latest Practicable Date, we have not passed such checking and acceptance for four of our treatment plants under the Hainan O&M projects, all of which have been under trial operation for more than three months. We may be ordered by the competent authorities to conduct such procedure within a prescribed time limit. If we fail to do so in such time limit, we may be ordered to terminate the trial operation and may be subject to a fine of not more than RMB50,000 per treatment plant.

There is no assurance that all these required permits, licenses or certificates can be obtained in a timely manner or at all. If we conduct business without the required permits, licenses and certificates, our subsidiaries may be fined in amounts that are based on contract prices and the severity of the relevant violations and these amounts may be material. In addition, our assets may be seized to satisfy our obligations and any structures we constructed without relevant permits, licenses or certificates may be removed at our cost or may be confiscated by the competent authorities. All or any of these consequences could have a material adverse effect on our business, results of operations and financial condition.

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In addition, there may be circumstances under which a permit, license or certificate granted by a governmental agency is subject to change without substantial advance notice. It is possible that we may fail to obtain the permits, licenses or certificates that are required to expand our business as we intend. We may be required by the PRC Government to meet other conditions before we are granted relevant approvals. If we fail to obtain or maintain such permits, licenses or certificates, or if the approvals or renewals are granted subject to onerous conditions, we may be subject to fines and other penalties which could be material and our ability to carry out our business in the PRC or elsewhere could be limited. As a result, our business, financial condition and results of operations could be materially and adversely affected.

Inaccurate estimates in applying percentage-of-completion accounting may result in a reduction of previously reported profits and have a significant impact on our period-to-period results of operations

We use the percentage-of-completion method to recognize and account for the revenue derived from our construction contracts in process, including the construction of our BOT projects. Under this accounting method, we recognize revenue as a percentage of the contract price in proportion to the actual costs incurred as a percentage of the total estimated costs. The timing of our recognition of revenue may differ materially from the timing of our actual receipt of contract payments. The timing of our recognition of revenue and the amount of revenue recognized are affected by our ability to reliably measure the percentage of completion, total estimated costs and actual costs incurred. Inaccuracies or flaws in our measurements for any given project or in our estimation methodology as a whole could have a material and adverse effect on the timing of our recognition of revenue and the amount of revenue recognized. Where our expectation related to revenue recognition is different from our previous estimation, the differences will be charged to our profit or loss account in the period when such estimate has been changed. To the extent that changes in such estimate result in a reduction of previously reported profits for a project, we must recognize a charge against current earnings in the period when such estimate is changed. These charges may significantly reduce our earnings, depending on the size of the adjustment. In addition, because many of these contracts are completed over a period of several months or years, the timing of our recognition of the related revenue may adversely affect our results of operations.

We typically only receive payment in connection with the revenue recognized from the construction of our BOT projects on receipt of cash tariff payments during the operational phase of these BOT projects and we may not have the cash inflow matching the revenue recognized during the construction phase

For each of our BOT projects, we receive regular, usually monthly, cash payments from the relevant customer once the facility is operational based on the contractually agreed tariff and the volume of wastewater treated, subject to a guaranteed minimum payment. We usually do not receive payment from our customers during the construction phase of these projects. However, in accordance with IFRS, we recognize revenue from these projects during both the construction phase and the operational phase. We record revenue during the construction phase on the percentage of completion basis, based on the cost of construction incurred. The revenue recognized from the construction phase of a BOT project is also recognized as a service concession receivable to be offset against the allocated

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amount after receipt of the cash tariff and other payments received related to the relevant project. Unlike trade receivables for EPC projects, service concession receivables for BOT projects are settled during the concession periods of the relevant BOT projects, which can be up to 30 years. There is no assurance that the service concession receivables will be fully settled before the expiry of the relevant concession period, which may cause an impairment of our financial assets and adversely affect our results of operation. As of March 31, 2010, the balance of service concession receivables we had recorded was RMB438.2 million, reflecting primarily (i) RMB98.7 million upon the acquisition of Shaanxi Xi'an City Chang'an District Wastewater Treatment Project and Shaanxi Xi'an City Hu County Wastewater Treatment Project from Beijing Sound Enviro in 2008 and RMB50.6 million upon the acquisition of the Anyang City Wastewater Treatment Project in 2010; (ii) RMB66.4 million, RMB163.8 million and RMB14.1 million of revenue recognized from the construction phase of our BOT projects in 2008, 2009 and the first quarter of 2010, respectively; (iii) RMB14.2 million for the imputed interest on service concession receivables; and (iv) RMB44.3 million for miscellaneous payments, including RMB18.8 million for land costs and value added taxes. The above amounts were partially offset by RMB13.7 million of advance payments received from the local governments. As of June 30, 2010, the amount allocated from the tariff payments we received to settle against such service concession receivables was RMB0.8 million.

As we continue to undertake more BOT projects in the future, our cash flow requirements and funding needs will change significantly. We will rely increasingly on our internally generated funds and external borrowings for the construction of these projects. We expect more of our cash reserves will be used as we undertake more construction work for our BOT projects. Generally, the matching cash inflow for our construction revenue will only be received in the form of tariff payments during the concession periods of the relevant BOT projects. As we receive payments only after the constructed facilities become commercially operational, our cash flow will not match the revenue recognized during the construction phase. As a result, an increase in our revenue and profit for a financial period may not be matched by a corresponding increase in our cash flow generated from operating activities. As a result, our liquidity may be drained, which may materially and adversely affect our business, financial condition and results of operations.

Failure to achieve the projected utilization of the facilities we operate may adversely affect our earnings

Each of our BOT and O&M projects has been or will be built to a specified design capacity in accordance with the terms of the relevant concession agreement. Depending on the growth in the population and level of industrialization in the area serviced by the relevant facilities, there is no assurance that the facilities we operate will be able to achieve the forecast utilization of their design capacity, which may adversely affect our results of operations. If the facilities we operate are not utilized to their designed capacity, we may not generate the revenue and profit we had expected from the relevant projects and our business, financial condition and results of operations may be adversely affected.

The results of our operations are subject to seasonality

Our business and operations are subject to seasonality. Both our turnkey projects and services and our BOT projects include construction and installation work, which is generally slower during the

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first half of each year mainly due to the festive seasons and the winter weather. We typically record lower revenue in the first half of the year than in the second half and therefore, our revenue recognized in the first half of the year may not be representative of our performance for the entire year. The progress of the construction work is also subject to general climate changes. We cannot assure you that the actual climate conditions at any particular project site will conform to the assumptions that we made during the project development phase. If the seasonal variations do not conform to our historical observations or do not match our assumptions, it may result in unexpected fluctuations in our results of operations. Similarly, if our construction is delayed due to unexpected seasonal fluctuations, our business, financial conditions and results of operations could be materially and adversely affected.

Adjustments to tariffs for our BOT and O&M projects are subject to regulatory approvals and any failure to obtain approval for tariff increases or any reduction of tariffs by the PRC Government may significantly impact our profits

As of the Latest Practicable Date, we had a total of eleven BOT projects, of which four had commenced commercial operation and two had commenced trial operation. We also had a bundled O&M project to operate and manage eight municipal wastewater treatment plants in Hainan Province, the PRC, of which two had commenced commercial operation and six had commenced trial operation as of the Latest Practicable Date. Revenues derived from our operational and investment projects consist primarily of tariff payments under the relevant concession agreements. The tariffs for such projects are generally linked to certain local benchmark prices or key cost indices such as the consumer price index, labor costs, electricity charges and, in the case of our BOT projects, the amount of our initial capital investment. Adjustments to tariffs are generally subject to regulation by various government authorities in the PRC and applications for adjustments may usually be made once every two to three years, depending on the terms of the relevant concession agreement. There is no assurance that the relevant government authorities will approve our applications to increase the tariffs. There is also no assurance that the relevant government authorities will not reduce the tariffs correspondingly should the relevant benchmark prices or key cost indices decrease. Furthermore, even if the PRC Government agrees to an adjustment to the tariff, there is no assurance that such adjustment will fully reflect any increase in our actual costs. If we incur significantly higher operating costs without a corresponding increase in the tariffs or in the event of a reduction in tariffs, we may not be able to sustain our profitability or we may even incur a loss, and our financial condition and results of operations may be materially and adversely affected.

If we default on any of the obligations contained in the agreements for any of our BOT or O&M projects, the relevant concession agreement may be terminated

The majority of the concession agreements for our BOT and O&M projects are executed with the applicable municipal governments, or the entities or government authorities authorized by the relevant governments (the “**authorized entities**”). Under the relevant concession and service agreements, or where we are not a party to the relevant agreements, based on the written confirmations of the municipal government customers or the authorized entities, we are entitled to operate and manage the water and wastewater treatment facilities for our customers and in return receive payments based on an agreed tariff and the volume of water or wastewater treated. These agreements may have terms of up to 30 years. During the concession periods, our operation and management of the facilities

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may be subject to various technological, management and regulatory changes, some of which we may never have encountered before. If we fail to meet the governments' or customers' standards or to respond effectively to various technological, management or regulatory changes during the concession period, or if we fail to adequately staff our projects, or if we mismanage these facilities, or otherwise default under the relevant agreements, our municipal government customers or their authorized entities may terminate the relevant agreements with us prior to their expiration dates. In addition, our reputation may be negatively affected which could negatively affect our ability to obtain new projects. The agreements for our BOT projects further impose various obligations on us, which include funding the construction of the relevant facility, arranging sufficient financing, submitting appropriate development plans for the project, complying with applicable regulatory requirements, meeting construction deadlines and fulfilling production targets. If we default or allow our applicable project company for any of the investment projects to default on our or their obligations under any of these concessions, the relevant governments or the authorized entities may terminate the concession agreement. In these situations, there is no assurance that we will be able to maintain our interest in the relevant project or earn the amount of revenue from the project that we had originally expected. We may also risk losing part or the whole of our investment in a BOT project in the event of the termination of the relevant concession agreement. Our business, financial condition and results of operations may be materially and adversely affected as a result of any such termination.

Our inability to maintain our competitiveness would adversely affect our financial performance

Competition in the market for water and wastewater treatment solutions and equipment is intense. We expect to face more intense competition from existing competitors and new market entrants in the future. We compete with a variety of companies, some of which may have longer operating histories, more established reputations for the type of project, better technical expertise, better customer service, better pricing, stronger relationships with municipal governments and industrial companies, greater familiarity with local market conditions, larger clientele, larger teams of professional staff and greater financial, technical, marketing and other resources and may be in a better position to develop and expand their range of services and market share. For example, the successful bidding for BOT and O&M projects may depend on relationships with the local governments. Our competitors may, from time to time, engage in aggressive pricing to gain market share and we may be under pressure to offer comparable pricing to maintain our competitiveness. In addition, companies which currently do not compete directly with us may expand their business to offer competing water and wastewater treatment solutions and we cannot give any assurance that they will not compete with us in the future. In particular, during the Track Record Period, we were establishing our reputation for BOT water and wastewater projects and leveraged the name and reputation of the BSE Group in winning many of our current BOT projects. There is no assurance that we will be able to effectively compete with our competitors in winning such projects in the future. If we fail to compete successfully against existing or future competitors, our business, financial condition and operating results will be materially and adversely affected.

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Our non-compliance with certain social insurance and housing provident fund contribution regulations in the PRC could lead to the imposition of fines or penalties

During the Track Record Period, certain of our subsidiaries failed to register for, have not paid, or have been unable to pay, certain past social security and housing provident fund contributions for and on behalf of our employees in accordance with the relevant rules and regulations of the PRC.

We have subsequently taken rectification measures in respect of many of our non-compliant subsidiaries. For those of our subsidiaries which had previously failed to register for social security and housing provident fund contributions and which either previously made such contributions through other members of our Group or failed to make such contributions previously, some of such subsidiaries have, in certain cases, now completed relevant registration procedures or the establishment of the necessary housing provident funds and have commenced payment of relevant contributions themselves or are otherwise in the course of applying for such registration. In other cases, subsidiaries which previously paid relevant housing provident fund contributions directly to their respective employees, have now completed the relevant housing provident fund registration and began making relevant contributions to the fund for their employees in accordance with relevant laws and regulations.

Notwithstanding these rectification measures, our relevant subsidiaries may be subject to penalties or be required to pay the outstanding amount of social security or housing provident fund contributions previously due. As of March 31, 2010, we had an outstanding provision of approximately RMB1.23 million in respect of the social security and housing provident fund contributions for the Track Record Period.

For entities which fail to complete the necessary social security registration procedures or otherwise fail to report the amount of social security premiums payable, they may be required by the relevant administrative division of the Labor and Social Security Department to pay relevant outstanding premiums within a designated time limit. For entities which fail to pay their own social security contributions due or otherwise fail to withhold and pay relevant contributions payable by their employees in accordance with applicable regulations, the administrative division of the Labor and Social Security Department or the tax authority may order the relevant entity to pay outstanding amounts within a designated time limit. If the entity fails to do so, in addition to the requirement to make such back-payments, the entity may also be subjected to a late payment penalty of 0.2% of the outstanding amount per day calculated from the date on which such payment became due.

Where an entity fails to complete registration of the housing provident fund or fails to open a housing provident fund account for its employees, it may be required by the Housing Provident Fund Management Center to complete the relevant registration or account opening procedures within a prescribed time limit; if it fails to do so within such time limit, it may be subject to a fine of between RMB10,000 and RMB50,000. Where an entity fails to pay the full outstanding amount of housing provident fund contributions within the time limit or underpays such housing fund contributions, it may be required by the Housing Provident Fund Management Center to pay the outstanding housing fund contributions within a prescribed time limit; if it fails to do so within such time limit, it may be subject to enforcement by the court.

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As confirmed by our PRC counsel, penalties may be imposed on certain of our subsidiaries as a result of their failure to complete necessary social security and/or housing provident fund registration procedures for their employees or to pay relevant contributions to such funds. Our Controlling Shareholder, Mr. Wen, has agreed to provide an indemnity in favor of our Group in respect of any liabilities, damages, fines, penalties, costs, losses or expenses which might be payable by our Group as a result of the above non-compliance with relevant PRC regulations. However, any judgment or decision against us in respect of outstanding social security or housing provident fund contributions could have an adverse effect on our reputation. In addition, if our Controlling Shareholder is unable to indemnify our Group for whatever reason and we are required to pay these fines or penalties, our cash flow and results of operations could be materially and adversely affected.

We are dependent on our key management team and technical personnel

We attribute our success to the leadership and contribution of our senior management team comprising our Directors and officers, including our executive Director and Chairman, Mr. Wen and our Chief Executive Officer, Mr. Li Li. We not only rely on their expertise and experience but also depend on their relationships with customers and suppliers. Our continued success is therefore dependent to a large extent on our ability to retain the services of these key management personnel. The loss of their services without timely and suitable replacement will materially and adversely affect our operations and hence, our revenue and profits.

Owing to the specialized nature of our work, there is a limited supply of adequately skilled engineers and technical personnel. Our continued success also depends largely on our ability to attract and retain skilled technical personnel. Their qualifications, project experience and technical know how are essential to our success as a provider of effective designs and customized solutions to customers with various needs and requirements. If we are unable to attract and retain a sufficient number of suitably skilled and qualified personnel, our business would be materially and adversely affected.

We may fail to integrate future acquired businesses successfully into our existing operations

As part of our expansion strategy, we intend to enhance our market position through the acquisition of companies with complementary product offerings, research and development capabilities and access to new markets and relationships which complement our existing business operations. The implementation of such expansion strategy is subject to a number of risks, including:

- the failure to identify material risks or liabilities associated with the acquired business prior to our acquisition;
- the failure to integrate the acquired business, its personnel or products into our existing business;
- higher costs of integration than we may anticipate;
- any delay or failure in realizing the expected benefits of the acquired business or its products;

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- difficulties in obtaining regulatory approvals;
- changes in market circumstances and demands;
- diversion of our management's time and attention from other business concerns; and
- difficulties in retaining key employees of the acquired business who are necessary to manage the acquired business.

Our ability to grow through acquisitions further depends upon our ability to identify, negotiate and complete suitable acquisitions, to adequately integrate the businesses we acquire and to obtain any necessary financing for such acquisitions. There can be no assurance that we will be able to implement our strategy successfully or that we will be able to make acquisitions or investments on favorable terms or within a desired time frame. Even if we are able to successfully acquire suitable businesses or make such investments, there can be no assurance that we will achieve our expected returns on such acquisitions or investments. If we fail to successfully integrate any acquired businesses into our existing operations, our business, financial condition and results of operations may be materially and adversely affected.

The preferential tax treatment we currently enjoy may be changed or discontinued

Our subsidiary, Beijing Epure, is a high-and-new-tech enterprise established in 2006. In accordance with the Interim Measures of Beijing New Tech Industry Development Test Zone (《北京市新技術產業開發試驗區暫行條例》) approved by the State Council on May 10, 1988 and promulgated by the People's Government of Beijing on May 20, 1988, newly established high-and-new-tech enterprises within the Test Zone shall be entitled to an exemption from enterprise income tax for the three years commencing from the date of their establishment, and thereafter, are entitled to 50% relief from the aforementioned income tax for the next three years, subject to the approval from the relevant authority. According to the approval from the relevant tax authorities, Beijing Epure was entitled to an exemption from enterprise income tax from 2007 to 2009. Beijing Epure's tax exemption expired at the end of 2009. Its applicable income tax rate for each of the years ended December 31, 2007, 2008 and 2009 was nil. For the year ending December 31, 2010, its applicable income tax rate will be 7.5% according to the approval from the relevant tax authorities. For each of the years ending December 31, 2011 and December 31, 2012, its applicable income tax rate is expected to be 7.5%, subject to the approval from competent authorities.

On January 1, 2008, the new Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》) (the "**New Enterprise Income Tax Law**") became effective. According to the Enterprise Income Tax Law, a unified enterprise income tax rate of 25% was applied to both domestic enterprises and foreign-invested enterprises. According to the New Enterprise Income Tax Law and relevant regulations, the enterprise income tax on important high-and-new-tech enterprises which require State support shall be levied at the reduced tax rate of 15%. Beijing Sound successfully applied for and received approval to enjoy a preferential tax rate of 15% for the three years beginning 2008 under the New Enterprise Tax Law, as a high-and-new-tech enterprise. Hi-Standard also successfully applied for and received an approval to enjoy a preferential tax rate of 15% from 2008 to 2010.

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Beijing Epure, Beijing Sound and Hi-Standard are required to file re-examination applications three months prior to the expiration of the valid period of their current respective high-and-new-tech enterprise qualifications. They are allowed to apply for the renewal of the preferential tax treatment if they pass the re-examination and obtain the updated high-and-new-tech enterprise qualifications. If such approvals are granted, Beijing Epure, Beijing Sound and Hi-Standard will be entitled to the reduced tax rates for three more years from the date of expiration of their current preferential tax treatment. However, there is no assurance that such approvals will be granted or that the PRC Government will continue to offer the same preferential tax treatment to Beijing Epure, Beijing Sound and Hi-Standard. If such approvals are not granted, our Company's subsidiaries may be subject to the normal PRC enterprise income tax rate of 25%.

Our effective tax rates for the years ended December 31, 2007, 2008 and 2009 were 15.0%, 12.2% and 3.5%, respectively. The decrease in our effective tax rates in 2008 and 2009 was primarily due to the preferential tax treatment enjoyed by Beijing Epure and Beijing Sound and the increase in the profits contributed by these subsidiaries in 2008 and 2009. Our low effective tax rate in 2009 was further due to the reversal of a provision for the tax liability of Hi-Standard in 2008 as a result of the approval in 2009 of our application for the reduced income tax rate for Hi-Standard for the period from 2008 to 2010. Please refer to the section entitled "Financial Information — Description of Selected Line Items of Statements of Comprehensive Income — Income Tax Expenses" of this Listing Document for further details about our effective tax rate during the Track Record Period.

There is no assurance that the PRC policies on preferential tax treatment will not change or that the current preferential tax treatment we enjoy will not be cancelled. If any such change or cancellation occurs or if and when the preferential tax treatment of any of our subsidiaries is terminated or not renewed, the resulting increase in our tax liability would have a material and adverse effect on our net profits and cash flow.

In addition, in order to encourage the construction of environmental protection projects, entities carrying out environmental protection projects, or energy and water saving projects, which meet relevant requirements are entitled to an exemption from PRC enterprise income tax on the income earned from such projects for the three years commencing from the first income-making year of operations, and thereafter, are entitled to a 50% reduction in PRC enterprise income tax for the next three years in respect of such income. However, no detailed requirements for the recognition of such environmental protection projects or energy and water saving projects have been promulgated. As of the Latest Practicable Date, Shangluo Wastewater, Xi'an Qinqing, Guangxi Liqing and Xi'an Huqing were in the process of applying for such preferential tax treatment according to the New Enterprise Income Tax Law. Therefore, it is not certain if or when such requirements may be promulgated and we cannot assure you that we will meet such requirements if they are promulgated. Furthermore, no assurance can be given that the current policies in the PRC with respect to the preferential tax treatment we currently enjoy will not be abolished or unfavorably amended, or that the approval for renewal of such preferential tax treatment will be granted to our PRC project companies in a timely manner, or at all.

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Our use of the “Sound” and “桑德” trademarks is subject to the license agreement with Beijing Sound Enviro and such trademarks may be adversely affected by their use by the BSE Group

A large portion of our business is marketed under the brand names of “Sound” and “桑德” (the “Trademarks”). Beijing Sound Enviro is the registered owner of the Trademarks and pursuant to a Trademark License Agreement dated April 22, 2006 (as supplemented by a Supplemental Trademark License Agreement dated August 10, 2006), our subsidiary, Beijing Sound has been licensed to use the Trademarks in the course of its business for a period of up to 50 years at nil consideration. These Trademarks are also used by affiliates of Beijing Sound Enviro for their investments in the environmental protection business and by its subsidiary, Beijing Sound Water Technology Co., Ltd., for the processing of purified drinking water and Sound Environmental Resources, for its solid waste treatment business. Please refer to the sections entitled “Business — Intellectual Property” and “Connected Transactions” of this Listing Document for further details.

Since our establishment, we have built up goodwill in the Trademarks. Hence, if there is any negative publicity in respect of these brand names arising from our water and wastewater treatment services, the goodwill in the Trademarks will be adversely affected. In addition, Beijing Sound Enviro, Sound Water Tech and Sound Environmental Resources also use these Trademarks in the course of their business. Even though they are not part of our Group, in the event that there is any negative publicity or customer confusion arising from their use of the Trademarks or any litigation claims that may be brought against them that are not related to our operations, the image and reputation of Beijing Sound and our Group may be adversely affected. We may also have to incur litigation expenses and devote time and effort to enforce our rights pertaining to the Trademarks in the event of any infringement of the Trademarks by third parties. Beijing Sound may also require the assistance and cooperation of Beijing Sound Enviro in order to bring or defend a claim related to the Trademarks in the event of any infringement of the Trademarks by third parties or alleged claim that our use of the Trademarks infringes third parties’ intellectual property rights. In the event that Beijing Sound Enviro does not cooperate in the conduct of such claims, our business, financial condition and results of operations may be materially and adversely affected as a result.

Fluctuation in the value of the RMB and foreign currencies we use in our business may have a material adverse effect on our business, financial condition and results of operations

We currently conduct most of our business in Renminbi. However, our Company holds an amount of financial assets denominated in Singapore dollars and US dollars as a result of the financing activities conducted by our Company and the provision of consultation services from Singapore. In December 2009, we entered into an EPC and upgrade contract with Marafiq, a state-linked power and water utility provider in Saudi Arabia, at an estimated value of SAR342 million (equivalent to approximately RMB620 million). We expect to transact our business in Saudi Arabia in the local currency, the Saudi riyal. Furthermore, we may use US dollars, Euros or other currencies when we enter into contracts with other international customers or purchase certain goods or services from overseas suppliers during the regular course of our business in the future or we may borrow in currencies other than the RMB. Certain of our loans, including the US\$34 million loan from IFC, are denominated in US\$. The value of the RMB against these currencies fluctuates and is affected by, among other things, changes in the political and economic conditions in the PRC and the countries that issue the currencies used in our business. The conversion of the RMB into these foreign currencies has

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been based on PBOC exchange rates. On July 21, 2005, the PRC Government changed its policy of pegging the value of the RMB to the US dollar. Under the new policy, the RMB is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. On September 23, 2005, the PRC Government widened the daily trading band for RMB against non-US dollar currencies from 1.5% to 3.0% to improve the flexibility of the new exchange system. Between July 21, 2005 and July 21, 2009, the RMB appreciated approximately 18.7% against the US dollar. Recently, there has been increased international pressure on the PRC Government to adopt an even more flexible currency policy. In particular, recent statements by officials of The People's Bank of China, the central bank in China, have suggested willingness of the PRC government to allow increasing flexibility in band within which the RMB is permitted to fluctuate. The PRC may decide to permit the RMB to fluctuate more widely against the U.S. dollar in the future which could result in the gradual appreciation of the RMB against the dollar. Due to the fluctuations in the value of the RMB against the other currencies we used during the Track Record Period, we had exchange losses of RMB3.3 million, RMB28.0 million, RMB0.2 million and a gain of RMB93,000 in 2007, 2008 and 2009 and the first quarter of 2010, respectively. Fluctuations in exchange rates thus may in the future adversely affect the value of our net assets, earnings or any declared dividends. Also, any unfavorable movement in exchange rates may lead to an increase in our costs or liabilities or a decline in revenue, which could materially and adversely affect our business, financial condition and results of operations.

We may be unable to adequately safeguard our intellectual property or face claims that may be costly to resolve or limit our ability to use such intellectual property in the future

Our business is reliant on a combination of patents and proprietary technical know-how described in the sections entitled “Business — Research and Development” and “Business — Intellectual Property” of this Listing Document. Our intellectual property has enabled us to improve the efficiency of the water and wastewater facilities we construct, the quality of our equipment and assisted us in securing new projects and purchase orders. However, we cannot guarantee that the measures we have taken to protect our intellectual property will be sufficient to prevent any misappropriation of our intellectual property, or that our competitors will not independently develop, or obtain through licensing, alternative technologies that are substantially equivalent or superior to ours. Enforcement of our intellectual property rights could be costly and we may not be able to immediately detect the unauthorized use of our intellectual property and take necessary steps to enforce our rights in such property.

Our technical know-how is the result of our research and development efforts and we believe it to be proprietary and unique. However, we are unable to assure you that third parties will not assert infringement claims against us in respect of our proprietary technical know-how or that such claims will not be successful. It may be difficult for us to establish or protect our proprietary technical know-how against such third parties and we could incur substantial costs and the diversion of management resources in defending any claims relating to proprietary rights. If any party succeeds in asserting a claim against us relating to the disputed proprietary technical know-how, we may need to obtain licenses to continue to use the same or be legally required to expend significant resources to redevelop our technical know-how so that it does not infringe upon third-parties' rights. There is no assurance that we will be able to obtain these licenses on commercially reasonable terms, if at all. Any failure to obtain the necessary licenses or other rights could cause our business results to suffer. Furthermore, we have not applied for patents for a number of our core technologies and rely upon a

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combination of non-disclosure and other contractual agreements with our employees as well as limitation of access to and distribution of our proprietary technical know-how in our efforts to protect our proprietary technical know-how. However, our efforts in this regard may be inadequate to deter the misappropriation of our proprietary information or we may be unable to detect unauthorized use and take appropriate steps to enforce our rights. Policing unauthorized use of our proprietary technical know-how is difficult and there can be no assurance that the steps taken by us will prevent misappropriation of our proprietary technical know-how.

Where litigation is necessary to safeguard our intellectual property, or to determine the validity and scope of the proprietary rights of others, this could result in us incurring substantial costs and the diversion of our resources. Adverse rulings in any litigation or proceedings could result in the loss of our proprietary rights and subject us to substantial liabilities, which could have a material adverse effect on our business, financial condition, operating results or future prospects. We may also need to enter into licenses to use such technologies and we may not be able to do so on favorable terms or at all.

Any material dispute with or default of Beijing Hi-Standard Equipment Company may materially adversely affect our results of operations

We acquired Hi-Standard in July 2008. As one of our wholly-owned subsidiaries, it manufactures standard and customized environmental protection equipment used in various water and wastewater treatment projects and/or facilities, including those we construct. In 2008 and 2009 and the first quarter of 2010, its sales to customers other than members of our Group amounted to RMB102.7 million, RMB125.4 million and RMB33.6 million and the value of the equipment supplied to the companies within our Group amounted to RMB41.9 million, RMB47.8 million and RMB0.2 million, respectively.

Hi-Standard was incorporated in April, 2007 by Shanghai Jingke Investment Management Company, an Independent Third Party, Beijing Sound Water Technology Development Co., Ltd., a PRC company owned by Beijing Sound Enviro (90%) and a relative of Mr. Wen, Wen Shuangfei (10%), and Beijing Hi-Standard Equipment Company, then an established PRC environmental protection equipment manufacturer. According to the articles of association of Hi-Standard at the time of its incorporation on April 6, 2007, Beijing Hi-Standard Equipment Company contributed its assets, including its facilities, buildings and land use rights valued at RMB31,000,000 as its portion of 46.97% of the registered capital in Hi-Standard, and thus held a 47.0% equity interest in Hi-Standard. After its establishment, Hi-Standard conducted the water and wastewater equipment manufacturing business previously conducted by Beijing Hi-Standard Equipment Company. Certain potential customers offering tenders for equipment supply contracts typically require suppliers tendering for their contracts to demonstrate three years' track record before considering their tender. Due to the limited operating history of Hi-Standard, it therefore entered into an agreement with Beijing Hi-Standard Equipment Company in 2008, pursuant to which Beijing Hi-Standard Equipment Company agreed to tender for equipment supply projects and enter into sales agreements with the relevant customers where Hi-Standard is not eligible to do so itself. Hi-Standard then manufactures the equipment pursuant to the specifications in these agreements and sells such equipment to Beijing Hi-Standard Equipment Company, which in turn sells the finished equipment to the relevant customers. The price at which Hi-

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Standard sells to Beijing Hi-Standard Equipment Company represents a discount of one per cent to the price agreed by Beijing Hi-Standard Equipment Company with the end customer, such discount representing Beijing Hi-Standard Equipment Company's fee for its involvement in this arrangement. The total amount of sales under this arrangement amounted to RMB96.5 million, RMB94.8 million and RMB25.0 million in 2008 and 2009 and the first quarter of 2010, respectively, accounting for approximately 93.9%, 75.6% and 74.4% of our revenue from our equipment manufacturing business for the same periods, respectively. Beijing Hi-Standard Equipment Company was therefore our third largest customer for 2008 and our second largest customer for 2009 and the first quarter of 2010 in terms of our Group's total revenue.

Hi-Standard will meet the customary three-year track record requirement by the end of 2010. Before then, however, it may continue to rely on Beijing Hi-Standard Equipment Company to win many of its equipment supply projects where it is ineligible to tender for such projects itself. Our arrangement with Beijing Hi-Standard Equipment Company may involve risks, including:

- disputes with Beijing Hi-Standard Equipment Company in connection with its agreement with Hi-Standard with respect, for example, to the price, terms of payment and other material terms and conditions;
- financial difficulties encountered by Beijing Hi-Standard Equipment Company affecting its ability to perform its obligations under its agreement with Hi-Standard or sales agreements with end customers; and
- Beijing Hi-Standard Equipment Company having economic or business interests inconsistent with ours.

If any material dispute occurs and cannot be resolved successfully, or Beijing Hi-Standard Equipment Company breaches the terms of its agreement with Hi-Standard and/or sales agreements with end customers, or otherwise experiences financial difficulties which affect its ability to perform these arrangements, the business and operations of Hi-Standard may suffer, which in turn may materially and adversely affect the business, financial condition and results of operations of our Group.

Our insurance coverage does not cover the risks related to our business and operations

We maintain insurance policies covering properties, fixed assets, vehicles that we own as well as accidental injuries and social security. However, we do not usually maintain insurance for our EPC, BOT or O&M projects. Natural disasters, epidemics, acts of war or terrorism or other factors beyond our control may result in significant loss or damage to our projects. In the event that we or our sub-contractors are unable to obtain timely repair or replacement of such damage or loss, major disruptions to our business may arise which would have a significant adverse effect on our financial condition and results of operations. For example, if any of the above events were to occur and disrupt our BOT projects, the projected revenue stream from these projects could be materially and adversely affected. We may bear the risk of loss of raw materials or finished products in transit. We may also face the risk of loss or damage to our properties, machinery and inventories due to the occurrence of any of the above events. Furthermore, we are subject to hazards and risks that are normally associated with our operations, which are subject to interruption or damage by fire, power failure and power shortages, hardware and software failure, floods, natural disasters and other events beyond our control.

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We may also face exposure to product liability claims in the event that any of our products is alleged to have resulted in harmful adverse effects.

In addition, we are not required under PRC law to maintain, and we do not maintain any product liability, third-party liability or business interruption insurance. However we entered into a loan agreement with IFC on May 28, 2010 for an amortization loan of US\$34 million under which we are required to insure and keep insured all assets and businesses of four of our BOT project companies, being Anyang Mingbo, Guangxi Liqing, Hancheng Yiqing and Fushun Qingxi. We are in the process of seeking insurance for these projects. Failure to comply with this obligation will constitute a breach of such loan agreement entitling IFC to require the repayment of the outstanding amount under the loan. We are also required under the EPC contract for our EPC project in Saudi Arabia, which constituted approximately 64% of our total order book for our EPC projects (excluding the engineering and construction work for our BOT projects and BT project) as of June 30, 2010, to obtain and maintain certain insurance in relation to such EPC project. Failure to do so would constitute a breach of such EPC contract. Our business, financial condition and results of operations would be materially adversely affected if we were required to repay the full amount of the loan from IFC or if our EPC contract for our EPC project in Saudi Arabia were terminated as a result of our failure to maintain the required insurance. Furthermore, losses incurred for liabilities not covered by our insurance policies may have a material and adverse effect on our business, financial condition and results of operations.

The termination of our shareholders agreement with IFC does not include a waiver of our potential antecedent breaches of such agreement

Pursuant to a shareholders' agreement entered into with IFC on July 20, 2006, we were required to comply with certain covenants related to our business including, among other things, the obligation to maintain certain insurance in respect of our water and wastewater treatment projects. Our Controlling Shareholders were also required to comply with certain covenants. For further details of the shareholders' agreement and the relevant covenants, please refer to the section headed "History, Development and Corporate Structure". We entered into a termination letter with IFC on June 10, 2010 which has terminated such shareholders' agreement but has not waived any potential antecedent breach including, among other things, requirements to maintain certain insurance and other covenants referred to in the section headed "History, Development and Corporate Structure". We may be liable for damages under the shareholders' agreement if we are found to have committed antecedent breaches and such liability could materially and adversely affect our financial condition and results of operation. Our Controlling Shareholder, Mr Wen, has given an indemnity to us in respect of any loss which we may suffer in connection with any such potential antecedent breaches.

Our historical dividends do not indicate our future dividend policy

Our Company paid dividends of S\$8.6 million (RMB43.8 million) and S\$10.3 million (RMB47.4 million) in the years ended December 31, 2008 and 2009 and did not declare any dividends for the three months ended March 31, 2010. In the future, the amount of dividends we may declare and pay will be subject to, among other things, the full discretion of our Directors, and will depend upon our future operations and earnings, capital requirements and surplus, general financial condition and any other factors which our Directors may consider relevant. Accordingly, the amounts of dividends

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that we have declared and paid in the past do not provide any indication as to the dividends that we may pay in the future.

Natural disasters, epidemics, acts of war or terrorism, inclement weather or other factors beyond our control may cause damage, loss or disruption to our business

Natural disasters, epidemics, acts of war or terrorism, inclement weather or other factors beyond our control may adversely affect the economy, infrastructure and livelihood of the people in the regions where we conduct our business. These regions may be under the threat of flood, earthquake, sandstorm, snowstorm, fire or drought, power shortages or failures, or are susceptible to epidemics, such as Severe Acute Respiratory Syndrome (“SARS”), avian or H1N1 influenza, or potential wars or terrorist attacks. Serious natural disasters may result in tremendous loss of lives and injury and destruction of assets and disrupt our business and operations. Severe communicable disease outbreaks could cause the shutdown of our worksites and quarantine of our staff. Acts of war or terrorism may also injure our employees, cause loss of lives, damage our facilities, disrupt our sales network and destroy our markets. Any of these factors and other factors beyond our control could have an adverse effect on the overall business sentiment and environment, cause uncertainties in the regions where we conduct business, cause our business to suffer in ways that we cannot predict and materially and adversely impact our sales, costs, overall financial condition and results of operations.

RISKS RELATING TO THE WATER AND WASTEWATER TREATMENT INDUSTRY

We are subject to a wide variety of environmental regulations, and any failure to comply with these regulations or to control the associated costs could harm our business

We are engaged in an industry where regulatory standards play a critical role in influencing the demand for our services. Any changes in legislative, regulatory or industrial requirements in places where we operate in and outside the PRC may render certain of our water and wastewater treatment solutions obsolete. Acceptance of new solutions may also be affected by the adoption of new government regulations requiring stricter standards. Our ability to anticipate changes in regulatory standards and to develop and introduce water and wastewater treatment processes to keep up with such new regulatory standards will be significant factors in our ability to grow and to remain competitive.

In the PRC, each project we invest in or provide services to and many of the equipment and other products we manufacture and distribute are required to meet environmental regulations imposed by the relevant PRC, provincial or municipal environmental protection agencies (“EPAs”) and other government authorities. In particular, our water and wastewater treatment service and asset investment projects are required to meet effluent emission standards imposed by the relevant EPAs. The relevant EPAs may impose more stringent effluent standards on such water and wastewater treatment projects and products in the future. In Saudi Arabia, we are required to meet the environmental regulations applicable to our projects.

If we fail to comply with these laws and regulations, we may be exposed to penalties, fines, suspension or revocation of our licenses or permits to conduct business, administrative proceedings and litigation. Given the magnitude and complexity of these laws and regulations, compliance with

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them or the establishment of effective monitoring systems may be onerous or require a significant amount of financial and other resources. As these laws and regulations continue to evolve, we cannot give assurance that the PRC Government or the governments of other overseas jurisdictions in which we may have current or future operations will not impose additional or more onerous laws or regulations, compliance with which may cause us to incur significantly increased costs, which we may not be able to pass on to our customers. Such events could materially and adversely affect our business, financial condition and results of operations.

Environmental risks may adversely affect our business, profitability or financial condition

We are exposed to environmental risks due to the nature of our operations. Challenging environmental situations could arise and affect our profits and ability to pay dividends. Water supplies may be exposed to pollution, including pollution from the development of naturally occurring compounds, or contamination resulting from man-made sources. Furthermore, the types and amounts of pollutants in the water or wastewater we treat may increase unexpectedly due to a number of factors, including the occurrence of natural disasters or industrial accidents, increases in levels of manufacturing activities or consumption and shortage of water supplies. Should any such pollution or contamination occur in respect of the water supplies or types or amounts of pollutants in the water or wastewater increase significantly and we are unable to adequately and efficiently treat the contaminated water or remove pollutants from wastewater, our business, financial condition and results of operations may be materially and adversely affected. In addition, we could be held liable for human exposure to dangerous substances in our water supplies or wastewater we treated and discharged or other environmental damage which may be sustained. Any of the foregoing could subject us to liability and this liability could materially and adversely affect our business, financial condition and results of operations.

RISKS RELATING TO CONDUCTING BUSINESS IN THE PRC

We are dependent on the state of the PRC economy as our business is primarily conducted in the PRC

Substantially all of our assets are currently located in the PRC. A substantial part of our revenue is generated from services and products sold in the PRC and we expect this situation to continue in the near future. As a result, our results of operations and prospects are and will continue to be subject to political, social, economic and legal developments in the PRC to a significant degree and any changes could adversely affect our business. Unfavorable changes in government policies, political unrest and economic developments may also have a negative impact on our operations. The PRC economy differs from the economies of most developed countries in many respects, including the extent of government involvement, allocation of government grants, capital reinvestment, levels of development, growth rate, and control of foreign exchange.

Historically, the PRC economy was centrally-planned, with a series of economic plans promulgated and implemented by the PRC Government. Since 1978, the PRC Government has been promoting economic and political reforms. The PRC has gradually shifted from a planned economy toward a market-oriented economy. However, continued governmental control of the economy may

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adversely affect us. We cannot give any assurance that the PRC Government will continue to pursue economic reforms. A variety of policies and measures that could be taken by the PRC Government to regulate the economy, including the introduction of measures to control inflation, deflation, or reduce growth, changes in the rates or methods of taxation, or the imposition of additional restrictions on currency conversions and remittances abroad, changes in foreign exchange regulations, taxation and import and export restrictions could materially and adversely affect our business, financial condition and results of operations.

The Chinese legal system has inherent uncertainties that could negatively impact our business

Our business is operated through, and our revenues are generated by, our EPC, BOT, O&M and other similar projects and from sales of our water and wastewater treatment equipment to external customers. Currently, substantially all of our assets are located in the PRC. The PRC legal system is based on written statutes. Prior court decisions may be cited for reference but have limited precedent value. Since 1979, the PRC Government has promulgated laws and regulations dealing with economic matters such as foreign investment, corporate organization and governance, commerce, taxation, trade, utility regulation and public health and safety. However, because these laws and regulations are relatively new, and due to the limited volume of published cases and their non-binding nature, interpretation and enforcement of these laws and regulations involve uncertainties and these laws and regulations are still evolving. In addition, as the legal system in China develops, changes in such laws and regulations, their interpretation or their enforcement may have a negative effect on our business, results of operations and financial condition.

Changes in the PRC Governmental rules and regulations will have a significant impact on our business

Currently, our business and operations in the PRC entail the procurement of licenses and permits from the relevant authorities. Thus, our business and operations in the PRC are subject to PRC Government rules and regulations. From time to time, changes in the rules and regulations or the implementation thereof may require us to obtain additional approvals and licenses from the PRC authorities for the conduct of our operations in the PRC. In such event, we may need to incur additional expenses in order to comply with such requirements. This will in turn affect our financial performance as our business cost will increase. Furthermore, there can be no assurance that such approvals or licenses will be granted to us promptly or at all. If we experience delay in or are unable to obtain such required approvals or licenses, our operations and business in the PRC, and hence our overall financial performance will be adversely affected. Please refer to the section entitled “Regulation of our Industry” of this Listing Document for details.

As the legal system in the PRC is still evolving, laws and regulations or the interpretation of the same may be subject to further changes. For example, the PRC Government may impose restrictions on the amount of tariff that may be payable by municipal governments to water and wastewater treatment service providers like us. Also, more stringent environmental regulations may also affect our ability to comply with, or our costs to comply with, such regulations. Such changes, if implemented, may adversely affect our business operations and may reduce our profitability.

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The PRC's foreign exchange control may significantly limit our ability to utilize our revenue to pay our expenses and conduct our business and affect our ability to receive dividends and other payments from Beijing Sound and Beijing Epure and our other PRC subsidiaries

We transact business mainly in Renminbi, with some transactions in Singapore dollars and United States dollars. Any changes in exchange rates could have an impact on our financial condition, results of operations and our financial prospects. In the future we will also have transactions in Saudi Riyal given our contract with Marafiq. We may also conduct transactions in other currencies in the future as we expand our business.

Our PRC-incorporated subsidiaries are subject to the PRC rules and regulations on currency conversion. In the PRC, the State Administration for Foreign Exchange (“SAFE”) regulates the conversion of the RMB into foreign currencies. Currently, foreign investment enterprises (“FIEs”) are required to apply to SAFE for “Foreign Exchange Registration Certificates for FIEs”. With such registration certifications (qualifications for which shall be subject to annual examination), FIEs are allowed to open foreign currency accounts including the “current account” and “capital account”. Currently, conversion within the scope of the “current account” (e.g. remittance of foreign currencies for payment of dividends, etc.) can be effected without requiring the approval of SAFE. However, conversion of currency in the “capital account” (e.g. for capital items such as direct investments, loans, securities, etc.) still requires the approval of SAFE.

The applicable law in respect of the conversion of RMB into other currencies is the Regulation on the Administration of Foreign Exchange of the PRC (《中華人民共和國外匯管理條例》) (“SAFE Regulation”) which came into effect on April 1, 1996 and was amended on January 14, 1997 and August 1, 2008. Under the SAFE Regulation and the relevant rules:

- (a) Conversion of RMB into foreign currencies for current account transactions, including the distribution of dividends and profits to foreign investors of FIEs is permissible and the approval of SAFE is not required, and FIEs are permitted to remit foreign currencies from their foreign currency bank accounts in the PRC upon presentation to the banks of board resolutions which authorize the distribution of profits or dividends and subject to other requirements being satisfied.
- (b) However, conversion of RMB into foreign currencies for capital account transactions, such as repatriation of capital, repayment of loans and for securities investment, is still under control and needs the approval of SAFE.

Our operations and business may be adversely affected if conversion of currency in the “capital account” is not approved by the SAFE. We have bank loans denominated in foreign currencies such as the US\$34 million loan from IFC and may have future loans denominated in foreign currencies and would need approval to convert our RMB funds into the foreign currency and remit into the PRC to repay those loans.

In addition, the Notice on Issues concerning Foreign Exchange Management in Financing by PRC Residents by Overseas Special Purpose Vehicle (“SPV”) and Return-investments (《關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知》) (“Notice 75”) promulgated

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by SAFE which came into force on November 1, 2005 would also apply to the repatriation of revenues by Beijing Sound, Beijing Epure, Beijing Epure Sound Environmental Engineering Technology Co., Ltd., Guangxi Liqing, Fushun Qingxi, Yantai Bihai and Jiangyan Jiangyuan, to our Company in the form of dividend income or otherwise. Pursuant to Notice 75, SPVs are foreign companies that are established by or controlled by PRC residents for raising financing outside of the PRC by way of equity issue or convertible debt. Such PRC residents (“**Relevant PRC Residents**”) are required to file an “overseas investment foreign exchange registration” before the establishment of such an SPV and subsequently, to update such registration on the occurrence of specified events (“**Specified Events**”) such as (i) the injection of assets or shares of a PRC domestic company into the SPV; (ii) subsequent equity financing by such SPV outside of the PRC; (iii) capital reduction; and (iv) share transfers or share swaps. Subject to completion of the aforesaid registration, payment of dividends, profits and other payments to such SPV will be permitted.

Our Company is deemed to be a SPV and Mr. Wen, Zhang Huiming, Tang Lianfang and Zhang Linmao, who are PRC-resident Shareholders and who have direct control over our Company and indirect control over Sound International Investment Holdings Ltd., a SPV incorporated in the British Virgin Islands, are deemed Relevant PRC Residents under Notice 75. They are therefore required to complete the aforesaid registration with the local SAFE with regard to their ownership of our Company and indirect control over Sound International Investment Holdings Ltd. as well as changes in their ownership of our Company. They completed the overseas investment foreign exchange registration in accordance with the Notice 75 at the time of our Company’s listing in Singapore. They are in the process of registering with the local SAFE regarding the establishment of Yantai Bihai. Except the aforesaid, they have completed the registration on the occurrence of other Specified Events under the Notice 75 with the local SAFE.

Notice 75 also requires a Relevant PRC Resident to repatriate, within 180 days, distributed dividends or profits which such Relevant PRC Resident receives from a SPV and/or income deriving from changes in their shareholding in such SPV. Failure by such Relevant PRC residents to effect repatriation in accordance with Notice 75, which constitutes violation of foreign exchange laws and regulations, would be punishable under the SAFE Regulation. Mr. Wen, Zhang Huiming, Tang Lianfang and Zhang Linmao are therefore required to repatriate, within 180 days, distributed dividends or profits they receive from our Company and/or income deriving from changes in their shareholdings in our Company. The failure by our shareholders who are PRC residents to make any required applications and filings and abide by these regulations may prevent us from being able to distribute profits and could expose us and our PRC resident shareholders to liability under PRC law.

There is no assurance that the PRC regulatory authorities will not impose further restrictions on the convertibility of the RMB, including for “basic accounts”. As a substantial portion of our revenue is currently derived from our subsidiaries in the PRC and these revenues are denominated mainly in RMB, any further restriction on currency exchange may limit the ability of our PRC subsidiaries/affiliates, such as Beijing Sound and Beijing Epure, to repatriate such revenues to our Company in the form of dividend income or otherwise and we may not be able to pay certain of our expenses as they become due or generally conduct our business with these restrictions. As our Company is an investment holding company with no business operation, in the absence of such dividend income from our PRC subsidiaries/affiliates, such as Beijing Sound, Beijing Epure, Guangxi Liqing, Fushun Qingxi and Jiangyan Jiangyuan, our Company will not be able to distribute dividends to Shareholders even if

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our Group, on a consolidated basis, is profitable or to deploy cash on deposit in banks in the PRC for purposes outside of the PRC.

Our PRC subsidiaries are subject to restrictions on the payment of dividends to us under PRC law, which can negatively affect our ability to pay our expenses and other liabilities and conduct our business, and the tax exemptions on dividends received by our Company and our Shareholders may be affected by the newly enacted Enterprise Income Tax Law

Under PRC laws, dividends may be paid only out of distributable profits. Distributable profits with regard to the subsidiaries of our Company incorporated in the PRC means their after tax profits as determined under PRC GAAP, less any recovery of accumulated losses and allocations to statutory funds that they are required to make. Any distributable profits that are not distributed in a given year are retained and available for distribution in subsequent years. The calculation of distributable profits under PRC GAAP differs in many aspects from the calculation under IFRS. As a result, a subsidiary of our Company incorporated in the PRC may not be able to pay any dividend in a given year to our Company if it does not have distributable profits as determined under PRC GAAP, even if it has profits for that year as determined under IFRS. This may significantly affect our ability to pay our expenses and other liabilities and conduct our business. In addition, since our Company derives substantially all of its profits from its subsidiaries, we may not have sufficient distributable profits to pay dividends to our Shareholders, even if there is such an amount as shown in its accounts prepared under IFRS. Our subsidiaries in the PRC are also required to set aside a portion of their after-tax profits according to PRC accounting standards and regulations to fund certain reserve funds.

In addition, our Company was incorporated under the laws of Singapore and it holds interests in its subsidiaries in the PRC. The newly enacted Enterprise Income Tax Law and its implementation rules stipulate that if an entity is deemed to be a non-PRC resident enterprise without office premises in the PRC, withholding tax at the rate of 10% will be applicable to any dividends paid to it by its PRC subsidiaries, unless it is entitled to a reduction or elimination of such tax, including by tax treaties. Under the Treaty between Singapore and the PRC for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income (《新加坡共和國政府和中華人民共和國政府關於對所得避免雙重徵稅和防止偷漏稅的協定》) implemented on January 1, 2008 (“**Tax Treaty**”), the withholding tax rate for dividends paid by a PRC resident enterprise to a Singapore resident enterprise is 5% if the Singapore enterprise directly owns at least 25% of the PRC enterprise; otherwise, the dividend withholding tax rate is 10%. According to the Notice of the State Administration of Taxation on issues regarding the administration of the dividend provision in tax treaties (《國家稅務總局關於執行稅收協定股息條款有關問題的通知》) (“**Notice 81**”) promulgated on February 20, 2009, in order for the Tax Treaty to apply, certain requirements shall be satisfied, among which: (1) the taxpayer shall be the Beneficiary Owner of relevant dividends; (2) for corporate recipients that enjoy the tax treatment under the Tax Treaty as direct owners of a certain proportion of the share capital of a PRC enterprise (usually such certain proportion shall be 25% or 10%, and under the Tax Treaty, 25%), such corporate recipients must satisfy the direct ownership thresholds at all times during the 12 consecutive months preceding the receipt of the dividends. Further, State Administration of Taxation promulgated the Notice on How to Understand and Recognize the “Beneficiary Owner” in Tax Treaties (《國家稅務總局關於如何理解和認定稅收協定中“受益所有人”的通知》) on October 27, 2009, which limited the “Beneficiary Owner” as individuals, enterprises or other organizations normally engaged in substantive operations, and set forth certain factors to be taken into account in recognizing such

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“Beneficiary Owner”. On August 24, 2009, the State Administration of Taxation issued the Administrative Measures for Non-resident Enterprises to Enjoy Treatments under Tax Treaties (For Trial Implementation) (《非居民享受稅收協定待遇管理辦法（試行）》) (the “**Administrative Measures**”), which became effective on October 1, 2009 and require non-resident enterprises to obtain approval for enjoying the treatments under tax treaties from the competent tax authority. No assurance can be given that we can satisfy all the requirements set forth by aforementioned laws and regulations and obtain the necessary approval in order to be able to enjoy the preferential treatment of the Tax Treaty. If we do not enjoy preferential treatment under the Tax Treaty, the increase in our tax liabilities may materially and adversely affect our results of operations and the financial condition of our Company.

Moreover, the Enterprise Income Tax Law provides that, if an enterprise incorporated outside the PRC has its “de facto management organization” located within the PRC, the enterprise may be recognized as a PRC resident enterprise and thus may be subject to enterprise income tax at the rate of 25% on its worldwide income. Currently, most of our Group’s management team members reside in the PRC. Accordingly, our Company may be deemed a PRC resident enterprise and therefore we would be subject to PRC enterprise income tax at a rate of 25% on our worldwide income, including income from our Saudi Arabia and other international projects. This would materially and adversely affect our results of operations and profitability.

In addition, dividend payments between certain “qualified PRC-resident enterprises” shall be exempted from income tax under the New Enterprise Income Tax Law, and its Implementation Rules define such dividend payments between “qualified PRC-resident enterprises” as equity income generated from “direct investments” between PRC-resident enterprises. However, we have been advised by our PRC legal advisor that it remains unclear what the detailed qualification requirements for such exemption are, and whether dividends distributed by our PRC subsidiaries to our Company and to our overseas members will meet such requirements to qualify for tax exemption even if our Company and our overseas members are considered PRC-resident enterprises for tax purposes. If the exemption is not available, our Company’s distributable profits will be adversely affected.

Dividends payable by us to our investors and gains on the sale of our Shares may become subject to withholding taxes under PRC tax laws

Under the New Enterprise Income Tax Law and its implementation regulations issued by the State Council, withholding tax at the rate of 10% is applicable to dividends payable to investors that are “non-resident enterprises” (and that do not have an establishment or place of business in the PRC, or that have an establishment or place of business but the relevant income is not effectively connected with the establishment or place of business) to the extent such dividends are deemed to have their source within the PRC. Similarly, any gain realized on the transfer of shares by such investors is also subject to 10% withholding tax if the gain is regarded as income derived from sources within the PRC. If we are required under the New Enterprise Income Tax Law to withhold this withholding tax on our dividends payable to our foreign Shareholders, or if investors are required to pay this withholding tax on the transfer of their Shares, the value of their investment in our Shares may be materially and adversely affected.

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PRC regulation of direct investment and loans by offshore holdings companies to PRC entities may delay or limit us from using the proceeds of the issue of the Convertible Bonds or offshore loans to make additional contributions or loans to our PRC subsidiaries

Any capital contribution or loans that our Company, as an offshore entity, makes to our PRC subsidiaries including from the proceeds of the issue of the Convertible Bonds or offshore loans, such as our loan from IFC in the amount of US\$34 million, are subject to PRC laws and regulations. For example, any of our loans to our PRC foreign-invested subsidiaries cannot exceed the difference between the total amount of investment that our PRC foreign-invested subsidiaries are approved to make under relevant PRC laws and the registered capital of these PRC foreign-invested subsidiaries, and any such loans must be registered with the local branch of SAFE. In addition, our additional direct capital contributions to our PRC subsidiaries must be approved by the PRC Ministry of Commerce or its local counterpart. We cannot give any assurance that we will be able to obtain these approvals on a timely basis, or at all. If we fail to obtain such approvals, our ability to make equity contributions or provide loans to our PRC subsidiaries or to fund their operations may be adversely affected, which could harm our PRC subsidiaries' liquidity and their ability to fund their working capital and expansion projects and meet their obligations and commitments, and in turn affect our Company as a whole.

It may be difficult to effect service of process upon us or our Directors who live in the PRC or to enforce against us or them judgments obtained from non-PRC courts

We are incorporated in Singapore. The majority of our Directors reside in the PRC. Almost all of our assets and some of the assets of those Directors are located within the PRC. On July 14, 2006, Hong Kong and the PRC entered into the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements Between Parties Concerned (the "**Arrangement**"), which was implemented on August 1, 2008 pursuant to which a party with a final court judgment rendered by a Hong Kong court requiring payment of money in a civil and commercial case according to a choice of court agreement in writing may apply for recognition and enforcement of the judgment in the PRC. Similarly, a party with a final judgment rendered by a PRC court requiring payment of money in a civil and commercial case pursuant to a choice of court agreement in writing may apply for recognition and enforcement of such judgment in Hong Kong. A choice of court agreement in writing is defined as any agreement in writing entered into between parties after the effective date of the Arrangement in which a Hong Kong court or a PRC court is expressly designated as the court having sole jurisdiction for the dispute. Therefore, it is not possible to enforce a judgment rendered by a Hong Kong court in China if the parties in dispute do not agree to enter into a choice of court agreement in writing. As a result, it may be difficult or impossible for investors to effect service of process against our assets or Directors in China in order to seek recognition and enforcement for foreign judgments in China.

Furthermore, the PRC does not provide for the reciprocal recognition and enforcement of judgments awarded by courts of Singapore, the United States, the United Kingdom, or most other western countries or Japan. Hence, the recognition and enforcement in the PRC of judgments of a court in any of these jurisdictions in relation to any matter not subject to a binding arbitration provision may be difficult or even impossible.

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The enforcement of the Labor Contract Law and other labor-related regulations in the PRC may adversely affect our business and our results of operations

On June 29, 2007, the National People's Congress of China enacted the Labor Contract Law (《勞動合同法》), which became effective on January 1, 2008. Compared to the Labor Law (《勞動法》), the Labor Contract Law establishes more restrictions and increases the cost to employers upon termination of employment, including specific provisions related to employment contracts, temporary employment, probation, consultation with the labor union and employee general assembly, employment without a contract, dismissal of employees, compensation upon termination and overtime work, and collective bargaining.

According to the Labor Contract Law, an employer is obligated to sign a non-fixed term labor contract with an employee if the employer continues to employ the employee after two consecutive fixed-term labor contracts except for certain situations specified in the Labor Contract Law. The employer also has to pay compensation to employees if the employer terminates a non-fixed term labor contract unless otherwise specified in the Labor Contract Law. Unless an employee refuses to extend an expired labor contract, compensation is also required when the labor contract expires and the employer does not extend the labor contract with the employee under the same terms or better terms than those in the original contract. Further, under the Regulations on Paid Annual Leave for Employees (《職工帶薪年假條例》), which became effective on January 1, 2008, employees who have served more than one year with an employer are entitled to a paid vacation ranging from five to 15 days, depending on their length of service. Employees who waive such vacation time at the request of employers shall be compensated at three times their normal salaries for each waived vacation day.

As a result of these protective labor measures, our labor costs may increase and we cannot give assurance that any disputes, work stoppages or strikes will not arise in the future.

RISKS RELATING TO REGULATION IN SINGAPORE

Certain provisions of the Singapore Code could have the effect of discouraging, delaying or preventing a merger or acquisition

We are subject to the Singapore Code, which contains provisions that may possibly delay, deter or prevent a future take-over or change in control of us. For example, under the Singapore Code, any person acquiring an interest, either individually or together with parties acting in concert, in 30.0% or more of our voting shares may be required to extend a take-over offer for our remaining voting shares in accordance with the Singapore Code. A take-over offer is also required to be made if a person holding between 30.0% and 50.0% (both inclusive) of the voting rights in us, either individually or in concert, acquires more than 1.0% of our voting shares in any six-month period. We will also be subject to the Hong Kong Code on Takeovers and Mergers and Code on Share Repurchase after Listing. While the Singapore Code seeks to ensure the equality of treatment among shareholders, its provisions could substantially impede the ability of the shareholders to benefit from a change of control and, as a result, may adversely affect the market price of our Shares and the ability to realize any benefits from a potential change of control.

RISK FACTORS

RISKS RELATING TO OUR SHARES

Our Share price and trading volume may be volatile in the future which could result in substantial losses for investors

The trading price and trading volume of our Shares may fluctuate significantly and rapidly after the Listing as a result of, among others, the following factors, some of which are beyond our control:

- variations in our operating results;
- changes in securities analysts' estimates of our financial performance;
- announcements by us of significant acquisitions, strategic alliances or joint ventures;
- additions or departures of key personnel;
- fluctuations in stock market prices and trading volumes;
- local interest rates and exchange rates;
- involvement in litigation;
- changes in general economic and stock market conditions; and
- government, taxation and other policy changes.

Future sale or issuance of a substantial amount of Shares in the public market could materially and adversely affect the prevailing market price of our Shares

Any future sale, availability or issuance of substantial amount of Shares can have a downward pressure on our Share price. Our Convertible Bonds are convertible at the option of the bondholders, at any time, during the period beginning on and including the date which is the 40th day after the date of issue of our Convertible Bonds (the “**Bonds Issue Date**”), being October 25, 2010, until the close of business on the date which is 7th day prior to the date falling five years from the Bonds Issue Date (both days inclusive), unless previously redeemed or purchased and cancelled. We are not in a position to give any assurance that any bondholders will not dispose of any Shares they may come to own in the future upon conversion of their Convertible Bonds. The sale of a significant amount of Shares, including the conversion Shares, in the Hong Kong public market, or sale of a significant amount of Singapore Shares after the Listing, or the perception that such sales may occur, could materially and adversely affect the market price of our Shares. These factors also affect our ability to sell additional equity securities. There will be no restriction on the ability of our existing Shareholders to sell their Shares either on the SGX-ST or the Stock Exchange.

In addition, our Controlling Shareholder, Sound Water has entered into (i) a share pledge of up to 129,000,000 Shares (with the number of Shares subject to the pledge depending on our Share price from time to time) in favor of DBS Bank Ltd., a Singapore commercial bank which is an Independent Third Party, as collateral for an underlying facility of US\$10 million in respect of the private investments of our executive Director and Chairman, Mr. Wen (the “**DBS Pledge**”) and (ii) a share charge of 40,000,000 Shares (and any other Shares that may from time to time be deposited in the

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margin trading account) in favor of certain Morgan Stanley entities (“MS”) in respect of a margin securities trading account held with MS’s private wealth management function for the purposes of Mr. Wen’s private investments (the “MS Charge”). The Shares subject to the DBS Pledge and the MS Charge represent up to approximately 10% and 3.1%, respectively, of our issued share capital after the Listing (without taking into account any Shares which may be issued upon the conversion of the Convertible Bonds or the exercise of options which have been granted under the Existing Share Option Scheme or options which may be granted under the Share Option Scheme). Based on the trading price of our Shares on SGX-ST as of the Latest Practicable Date, approximately 60,000,000 Shares, representing approximately 4.65% of our issued share capital on the above basis, were subject to the DBS Pledge.

As of the Latest Practicable Date, there has been no indication that the DBS Pledge or the MS Charge will be, or are likely to be, enforced. Mr. Wen has provided confirmations and undertakings in favor of our Company and the Sponsor that he has been making timely payments of the principal amount and interest payments through the term of the facility under the DSB Pledge and that he is able to, and will, make (i) timely payments to DBS Bank Ltd. and (ii) margin payments in the event of any margin call by MS and deposit and maintain sufficient assets in his margin trading account to avoid enforcement of the DBS Pledge or the MS Charge. Our Directors consider that it is unlikely that the DBS Pledge or the MS Charge will be enforced for so long as Mr. Wen makes timely payments. Any enforcement of the DBS Pledge or the MS Charge could have a material and adverse effect on the market price of our Shares.

The costs of share options which may be granted under the Share Option Scheme will adversely affect our earnings and any exercise of the options granted under the Existing Share Option Scheme or options which may be granted under the Share Option Scheme and any conversion of our Convertible Bonds may result in dilution to our Shareholders

As of the Latest Practicable Date, we had granted 64,500,000 options under our Existing Share Option Scheme. Such options, if exercised in full, represent approximately 5% of the existing issued share capital of our Company (without taking into account any Shares which are issued upon the exercise of the Convertible Bonds or the options granted under the Existing Share Option Scheme or which may be granted under the Share Option Scheme). The value of the options granted under the Existing Share Option Scheme will be recognized as an expense and amortized on a straight line basis over the vesting period and hence may materially and adversely affect our results of operations. We have also adopted the Share Option Scheme in order to grant to our employees and directors options to subscribe for Shares. After the Listing, such options if exercised in full will represent up to 5% of the issued share capital of our Company at the time of amendment of the terms of the Share Option Scheme. The fair value of the options at the date on which they are granted with reference to the valuer’s valuation is charged as share-based compensation which may have a negative effect on our results of operations. Our Convertible Bonds are convertible at the option of the bondholders, at any time, during the period beginning on and including the date which is the 40th day after the date of issue of our Convertible Bonds (the “Bonds Issue Date”), being October 25, 2010, until the close of business on the date which is 7th day prior to the date falling five years from the Bonds Issue Date (both days inclusive), unless previously redeemed or purchased and cancelled. The number of conversion Shares to be allotted and issued by our Company, pursuant to the full conversion of our Convertible Bonds (assuming no adjustment and conversion price resets, details of which are set out in Appendix VII to this Listing Document), is approximately 190,757,261 Shares (based on the initial

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conversion price of S\$0.924 per Share (equivalent to approximately HK\$5.31) (representing a 20 per cent. premium over the initial reference price, namely the closing price of the Shares quoted on the SGX-ST on August 19, 2010 of S\$0.77) and assuming no further adjustments to the conversion price), representing approximately 14.79% of the existing issued Shares. Issuance of Shares for the purpose of satisfying awards under the Existing Share Option Scheme or the Share Option Scheme or upon conversion of our Convertible Bonds will increase the number of Shares in issue after such issuance, and may thus result in the dilution to the percentage of ownership of the Shareholders, the earnings per Share and the net asset value per Share. Details of the Existing Share Option Scheme and the Share Option Scheme are set out in the sections headed “Existing Share Option Scheme” and “Share Option Scheme” in Appendix VI to this Listing Document and details of the terms of our Convertible Bonds are set out in Appendix VII to this Listing Document.

Our existing Controlling Shareholders’ control can significantly influence the outcome of corporate actions and we have entered into a number of contracts with our Controlling Shareholders and their associates

Immediately after the Listing, our Controlling Shareholders, Mr. Wen, Sound Water and Ms. Zhang Huiming, will beneficially own in aggregate approximately 54.4% of our share capital. As a result, Mr. Wen, Sound Water and Ms. Zhang Huiming will be able to significantly influence all matters requiring approval by our Shareholders. Such concentration of ownership will place them in a position to affect significantly our corporate actions such as mergers or takeover attempts (notwithstanding that the same may be synergistic or beneficial to our Group) in a manner that could conflict with the interests of our public Shareholders.

In addition, we have also entered into the Strategic Development Memorandum with our Controlling Shareholders and their associates with respect to our business. Please refer to the section of this Listing Document headed “Relationship with our Controlling Shareholder Group”. The validity and enforceability of the Strategic Development Memorandum is governed by PRC law. If we are unable to enforce the Strategic Development Memorandum, or if it is not complied with in any material respect, our business may be adversely affected.

Investors may face difficulties in protecting their interests because we are incorporated under Singapore laws, which may provide different remedies to minority shareholders when compared with the laws of Hong Kong and other jurisdictions

Our corporate affairs are governed by our Memorandum and Articles of Association and by Singapore laws and regulations. The Singapore laws relating to the protection of the interests of minority shareholders differ in some respects from those established under statutes or judicial precedents in Hong Kong, the United States and other jurisdictions. Such differences may mean that the remedies available to our minority Shareholders may be different from those they would have under the laws of Hong Kong, the United States or other jurisdictions. Please refer to “Appendix IV — Summary of the Articles of Association” and “Appendix V — Summary of Salient Provisions of the Laws of Singapore” for further information.

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Investors should not place undue reliance on industry and market information, forecasts and statistics derived from the Ernst & Young report or official government publications contained in this Listing Document

This Listing Document contains information and statistics, including but not limited to information and statistics relating to the PRC and our industry and markets. The information and statistics related to our industry and markets are derived from official government publications and a report we commissioned from Ernst & Young (China) Advisory Limited (“**Ernst & Young**”). None of the information or statistics derived from official government publications or the Ernst & Young report have been independently verified by us, or any of our affiliates or advisors, or by the Sponsor, any other party involved in the Introduction, or their respective affiliates or advisors. We cannot assure you that the information, forecasts and statistics derived from official government publications or the Ernst & Young report, are accurate or that the information and statistics derived from official government publications are consistent with other information publicly available or available from other sources. Prospective investors should not place undue reliance on any information, forecasts and statistics derived from the Ernst & Young report or official government publications contained in this Listing Document. In addition, the forecasts for our industry are based on certain assumptions that may prove to be inaccurate and the industry and market may not grow as forecasted by the Ernst & Young report and government publications for a variety of reasons.