

## **OVERVIEW**

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

We started our business as a provider of turnkey water and wastewater treatment project design and construction services in the PRC in the Engineering, Procurement and Construction (EPC) project format. For these projects, we design and construct water and wastewater facilities for operation by our customers upon completion. Our customers are responsible for the construction costs and pay us for our services in installments in accordance with the progress of the construction. We are not required to make any capital investment in these projects. During the Track Record Period, we carried out all of our EPC projects for customers located in the PRC.

While our water and wastewater EPC project business in the PRC accounted for the majority of our revenue in the years ended December 31, 2007, 2008 and 2009 and the three months ended March 31, 2010, we have expanded our business significantly both in terms of scope and geographical coverage during the Track Record Period. In 2007, we diversified our business to undertake water and wastewater projects in the Build, Operate and Transfer (BOT) project format, initially commencing this business by way of minority investments with the BSE Group and, since 2008, through wholly or majority-owned project companies. The BOT project business model differs from our EPC project business model in terms of risk profile and the operational and financial requirements it places on us. Under BOT project arrangements, we are responsible for the costs of construction of the water or wastewater treatment facilities and the operation of the facilities during the concession period, which may be up to 30 years. During such period we receive tariff payments based on the volume of water or wastewater treated (with a guaranteed minimum treatment amount). We are also responsible for the costs of maintenance and repair of the treatment facilities under our management.

Dovetailing with our expansion into the BOT project business, we have also expanded into the operation and maintenance (O&M) project business. In December 2006, we expanded our business into O&M services by taking a minority interest in an O&M project company in Shanghai. In late 2009, we began to undertake O&M projects on a wholly-owned basis and entered into O&M contracts with eight local governments in Hainan Province, the PRC.

We also expanded our business by diversifying into equipment manufacturing. In July 2008, we acquired Hi-Standard, a manufacturer of standard and customized equipment for water and wastewater treatment.

## BUSINESS

Moreover, we are also expanding our business internationally. In 2009, we entered into our first major EPC contract for a customer outside the PRC — a SAR342 million (equivalent to approximately RMB620 million) upgrade and construction contract with Marafiq, a state-linked power and water utility provider in Saudi Arabia. We had commenced the construction of the project as of the Latest Practicable Date, and we currently expect to complete this contract by the end of 2011.

We plan to continue to expand our BOT project business and international EPC project business in the future, and also plan to further develop our equipment manufacturing business by commencing the manufacture of reverse osmosis membranes, nanofiltration membranes and modules for use in water and wastewater treatment facilities. Currently, we do not have any concrete plans for the construction of the membrane production facilities. We cannot give you any assurance that we will commence the construction of such production facilities or as to when such production facilities will commence operation.

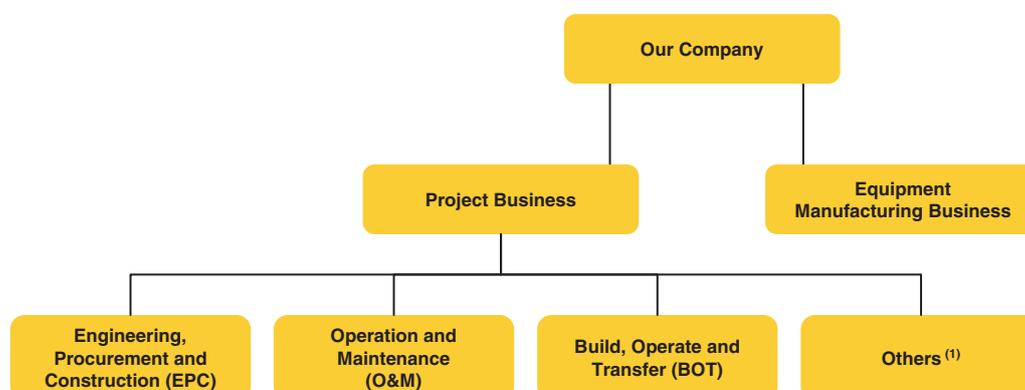
We have grown rapidly during the Track Record Period. Our total revenue grew from RMB697.3 million for the year ended December 31, 2007 to RMB1,024.8 million in 2008, representing an increase of approximately 47.0%, and we recorded revenue of RMB1,293.5 million for the year ended December 31, 2009, representing a 26.2% increase from 2008. We recorded revenue of RMB234.0 million for the three months ended March 31, 2010, representing approximately a 72.9% increase against the same period in 2009. Our profit for the year and total comprehensive income attributable to owners of our Company also grew from RMB161.2 million in 2007 to RMB203.7 million in 2008, representing a 26.4% increase, and was RMB281.9 million in the year ended December 31, 2009, representing a 38.4% increase from 2008, and was RMB45.5 million for the three months ended March 31, 2010, representing a 150.7% increase against the same period in 2009. As a result of the significant development of our business during the Track Record Period and the expected further expansion and diversification of our business, our historical financial performance may not be indicative of our future performance. Please refer to the section headed “Risk Factors” for more information on the risks associated with our future development.

We were incorporated in Singapore as a holding company with our main business operations in the PRC. We were listed on the SGX-ST in October 2006 under the symbol E6E.SI. We believe that at that time, we were the only company in the water industry in the PRC to have IFC as a shareholder. IFC invested US\$10 million in our Company in 2006. The IFC held an approximately 8.1% shareholding in our Company as of the Latest Practicable Date (without taking into account Shares which may be allotted and issued upon conversion of the Convertible Bonds or exercise of options which have been granted under the Existing Share Option Scheme or which may be granted under the Share Option Scheme).

## BUSINESS

### Core businesses

Our businesses can be divided into two business lines with four principal business units — EPC projects, O&M projects, BOT projects and equipment manufacturing:



Note:

Others include projects in other commercial formats, which are variations of our EPC, BOT and O&M projects, and also include the provision of equipment procurement and design consultation services.

We set out further details of these business units below:

### Engineering, procurement and construction project business (EPC)

We provide turnkey services on a contract basis for the design, construction and installation of water or wastewater treatment facilities and pipeline networks for our customers at a fixed contract price (subject to agreed variation orders). Upon completion, we deliver the project to our customers for their operation and bear no further responsibility for the maintenance or repair of the facilities upon the expiry of our warranty period, which is typically one year.

Our EPC Project business does not require us to make significant capital investments. We typically fund these projects with (i) up-front payments we receive from our customers, which usually range from 15% to 25% of the total contract price, (ii) payments we receive from our customers during construction based on the percentage of completion of the project, and (iii) from our internal resources.

Our EPC projects typically take between six and eighteen months to complete. We recognize revenue from our EPC projects on the basis of the percentage of completion of the projects, commencing when a legally binding contract is executed and when the total construction costs of the facilities under development can be reliably estimated.

During the Track Record Period, we completed more than 100 EPC projects, with contract values between RMB12,200 and RMB330,000,000, the vast majority of which were wastewater EPC projects. Our completed EPC projects had wastewater treatment capacities of up to 200,000 tonnes per day for municipal projects and up to 198,500 tonnes per day for industrial projects. Our EPC project business (excluding the engineering and construction work for our BOT projects) accounted for 100.0%, 84.1%, 79.2% and 83.4% of our revenue in the years ended December 31, 2007, 2008 and 2009 and the three months ended March 31, 2010, respectively.

## BUSINESS

As of June 30, 2010, we had entered contracts with external customers for 24 EPC projects. Our total order book for our EPC projects as of that date was approximately RMB964.6 million (which excludes the engineering and construction work for our BOT projects and BT project), of which our new EPC project in Saudi Arabia accounted for approximately 64%.

### **Operation and maintenance project business (O&M)**

In December 2006, we expanded our business into O&M services by taking a minority interest in an O&M project company in Shanghai. In late 2009, we entered into O&M contracts with eight local governments in Hainan Province, the PRC, on a bundled basis to manage and operate eight municipal wastewater treatment plants with a combined treatment capacity of 142,000 tonnes per day under five year concession terms.

Under an O&M services contract, we operate and maintain existing water or wastewater treatment facilities in exchange for a monthly fee. The fee we receive for the provision of O&M services typically includes a guaranteed tariff based on a guaranteed minimum treatment volume together with an additional tariff for water or wastewater treated in excess of the minimum volume. We are therefore entitled to receive payment for the minimum volume stipulated in the O&M service contract even if the volume of water or wastewater actually treated by us is less than the minimum volume and the contractual tariff. An O&M operator is usually appointed for an agreed period and may be reappointed upon the expiry of the agreed contractual term. During the term of our appointment, we are responsible for all of the costs of repair and maintenance of the treatment facilities. We are not required to make any capital investment in the water and wastewater treatment facilities under our O&M contract arrangements.

We had commenced operations of one of our O&M projects in Hainan as of March 31, 2010 and therefore recorded revenue of RMB0.7 million in our operation and maintenance segment attributable to our O&M projects only for the first quarter of 2010 and did not record any revenue in that segment attributable to our O&M projects for the three years ended December 31, 2009. As of June 30, 2010, the remaining seven of the wastewater treatment plants of the Hainan O&M project were in trial operation.

### **Build, operate and transfer project business (BOT)**

Leveraging our EPC project expertise and the extensive experience of the BSE Group, a member of the Controlling Shareholder Group, in water and wastewater BOT projects and facilities management, we have diversified our business into the BOT project business to increase the proportion of our recurring revenue. This diversification has occurred in stages. Initially, we commenced this business by way of minority investments with the BSE Group in 2007 and, since 2008, through wholly or majority-owned project companies. We also believe that the long term relationship we establish with local governments during the term of the concession period of our BOT projects will position us well to identify and tender for new potential projects offered by relevant local governments in the future.

We undertake BOT projects by investing in, designing, constructing and installing water or wastewater treatment facilities and thereafter operating the facilities for a term of up to 30 years upon

## BUSINESS

completion. We are responsible for the costs of repair and maintenance of the treatment facilities during the term of our concession. Upon the expiry of our appointment, we are required to transfer the facility to our customer for nil consideration, but we may be reappointed under a bidding process to continue the operation and maintenance of the facility at the end of the term of the concession.

As of June 30, 2010, we had eleven BOT projects, with budgeted investment amounts ranging from RMB36.1 million to RMB151.0 million per project. As at the same date, the total budgeted investment amount for our existing BOT projects was RMB1,060.1 million and the total outstanding budgeted investment amount (i.e. the unfunded total budgeted investment amount) was approximately RMB572.1 million, to be funded over the next two years. We typically fund the construction of our BOT project facilities from a combination of internal resources and external borrowings. We therefore expect our external borrowings to increase substantially in the future when compared to levels recorded during the Track Record Period in order to fund our expanding BOT projects business. We also plan to use proceeds from the issue of the Convertible Bonds to fund our BOT project business expansion. As of June 30, 2010, we had unrestricted bank balances and cash of approximately RMB1,357.0 million. As of July 31, 2010, we had entered into long term amortization loans with PRC banks for two of our BOT projects for an aggregate amount of approximately RMB55.0 million, with amortization schedules of five and six years. On May 28, 2010, we entered into an amortization loan of US\$34 million with a term up to 2019 with IFC for the purpose of funding the four BOT projects carried out by Anyang Mingbo, Guangxi Liqing, Hancheng Yiqing and Fushun Qingxi. The loan is secured by the revenue payable to those project companies and our equity interests in those project companies. The loan carries an interest rate of six months LIBOR +3.5% per annum. Please refer to the section headed “Financial Information — Indebtedness” for more information on the IFC loan.

We separate our BOT project into two phases, the construction phase and the operational phase, for the purposes of recording the revenue from these projects. Revenue from the construction phase is included in the turnkey projects and services segment in our accounts, while revenue from the operational phase and relevant assets in the BOT project companies are included in the operation and maintenance segment in our accounts. Based on our existing BOT projects, the construction phase accounts for approximately 12% to 42% of our total revenue for our BOT projects, while the operational phase accounts for the remainder of the total revenue from these projects.

BOT projects are significantly more capital intensive and have a different risk profile compared to EPC projects, as we have to make substantial capital investment for the construction of the water and wastewater treatment facility but typically only receive payment from our customer during the operational phase of the BOT project. Based on our internal forecast, we expect that we will need to operate the treatment facilities for a typical BOT project for approximately ten years before we can recover the cash outflow incurred for the construction of the project treatment facilities. In accordance with IFRS, we recognize revenue during the construction phase of our BOT projects on a percentage of completion basis, in the same way as we recognize revenue for our EPC projects. We recognized revenue from the construction phase of a BOT project based on our experience from comparable EPC construction contracts. The determination of our revenue recorded for these projects during the construction phase requires subjective judgments by our management based on their experience. The amount of revenue recognized from the construction phase of a BOT project is also accounted for as a service concession receivable to be settled during the term of the concession of the BOT project, which can be up to 30 years. As a result, the revenue we record during the construction phase of our BOT

## BUSINESS

projects is not matched by cash inflow during the same period. We recognize revenue from the operational phase of a BOT project based on tariff payments in the same way as we recognize revenue for our O&M projects.

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 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 total revenue during the same periods, respectively. However, the cash tariff payments we received from our customers for our BOT projects during the same periods were nil, RMB3.5 million and RMB0.9 million, respectively. For more information on our recognition of revenue for our BOT projects and the associated risks, please refer to the sections headed "Financial Information — Description of Selected Line Items of Statements of Comprehensive Income — Revenue — Turnkey projects and services — BOT Projects" and "Risk Factors — We typically only receive payment in connection with the revenue recognized from the construction of our BOT projects on receipt of cash tariff payments during the operational phase of these BOT projects and we may not have the cash inflow matching the revenue recognized during the construction phase".

Of our BOT projects, four had commenced commercial operation, two were in trial operation, two were under construction and three had not yet commenced construction as of the Latest Practicable Date.

### **Other businesses**

We also provide equipment procurement and design consultation services and undertake projects in other formats.

### **Equipment Manufacturing Business**

We also manufacture standard and customized water and wastewater treatment equipment for use in our projects and for sale to external PRC customers, and also sell a small quantity of such equipment to overseas customers. In July 2008, we acquired a 100% equity interest in Hi-Standard, through which we conduct our equipment manufacturing business. Hi-Standard's key products include grit removers, sludge scrapers, sludge dehydrators, oxidation ditches and SBR equipment. Hi-Standard owns 19 patented technologies, including high-efficiency sedimentation tank technology, vortex flow mixer and electrophoresis dehydration technologies.

Hi-Standard owns an approximately 46,700 square meter environmental equipment factory and office premises in Beijing, China. The factory is outfitted with modern manufacturing equipment. We

## BUSINESS

generated revenue from external sales of equipment produced by Hi-Standard of RMB102.7 million, RMB125.4 million and RMB33.6 million in the years ended December 31, 2008 (for the period after our acquisition of Hi-Standard in July 2008) and December 31, 2009, and the three months ended March 31, 2010, respectively.

### **Future development of our business**

We are actively pursuing international expansion opportunities for our EPC project business outside of the PRC. We expect international EPC projects to contribute a greater percentage of our revenue in the future. We entered into our first international EPC contract in 2009 with Marafiq, a state-linked power and water utility provider, in Saudi Arabia, which we currently expect to complete at the end of 2011. We are currently also considering a number of other potential EPC projects in Taiwan, Bangladesh and Vietnam. 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. During the Track Record Period we have not recorded any revenue from international EPC or other projects outside the PRC.

We expect BOT projects to become an increasingly important part of our business and to constitute a greater portion of our revenue in the future. We intend to utilize approximately 60% of the net proceeds from the issue of the Convertible Bonds to invest in existing and prospective BOT projects. As at the Latest Practicable Date, other than the eleven BOT projects in which we are currently engaged, we had not entered into any binding agreements for BOT projects. Details of our eleven BOT projects are set out in “Business — Our Water and Wastewater Treatment Business — Our BOT Business”.

We believe that there are a limited number of suppliers of high quality membranes for water and wastewater treatment in the PRC. We use membranes, nanofiltration membranes and modules in the construction of our water and wastewater treatment facilities. Such membranes and modules are used at various stages in the water and wastewater treatment process and we believe this presents an opportunity for us to expand our operations to manufacture high quality membranes for use in the water and wastewater treatment facilities we construct and also for external sale. In the future, we plan to build an advanced production line in Beijing to manufacture reverse osmosis membranes, nanofiltration membranes and modules for use in water and wastewater treatment as well as sea water desalination. Currently, we do not have any concrete plans for the construction of the membrane production facilities. We cannot give you any assurance as to when we will commence the construction of such production facilities or as to when such production facilities will commence operation.

We may also pursue acquisition opportunities that are consistent with our business strategy and that we believe will create value for our Shareholders.

For information on the risks associated with the future development of our business, please refer to the sections headed “Risk factors — 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” and “Risk factors — We may fail to integrate future acquired businesses successfully into our existing operations”.

## **OUR COMPETITIVE STRENGTHS**

We believe that the following competitive strengths differentiate us from our competitors as we aim to capture a leading position in the fast growing water and wastewater treatment industry in China.

### **Provision of integrated water treatment solutions**

We are a comprehensive integrated water and wastewater treatment solutions provider with strong in-house capabilities in design, equipment manufacturing, procurement, capital investment, project management and facilities management. We provide differentiated solutions for municipal and industrial customers and seek to distinguish ourselves from our competitors by offering a one-stop service covering each step of the value chain in-house. Our systematic approach enables us to combine both design and technical expertise and practical execution experience to provide integrated solutions to our customers reducing construction time and cost and enhancing the operating efficiency of our facilities.

Our extensive expertise across the entire industry value chain has enabled us to offer innovative solutions to customers and pioneer the application of new project models to the PRC water and wastewater treatment industry. We have been in the wastewater treatment industry in the PRC for over a decade. We commenced construction of our first BOT project in 2008. We believe we were among the first privately-owned China water and wastewater treatment solution providers to enter markets outside the PRC with our contract for the SAR342 million (equivalent to approximately RMB620 million) EPC and upgrade contract in Saudi Arabia with Marafiq, a state-linked power and water utility provider. We believe our Hainan project to operate and maintain eight municipal wastewater treatment plants was one of the first O&M projects in the PRC to be offered on a bundled basis, and that we were therefore among the first in the industry in the PRC to enter the O&M business on a bundled basis. We believe our track record, design capability, relationships, understanding of the market and regulatory environment in the PRC and reputation have allowed us to stay at the forefront of our industry.

### **Strong In-House Design and Technical Capabilities**

We believe that the expertise and experience of our in-house design team has been a key factor in our success. We are adept at producing practical, realizable designs which apply our technological expertise and our extensive experience accumulated from previous projects. We develop designs using our innovative technologies adapted to the specific project constraints after we investigate and research the background of our projects. For example, in our project for Jilin Iron & Steel, we constructed an integrated solution for industrial water treatment, wastewater collection and treatment, polluted water treatment and recycling, and sludge treatment. The project was carried out in six different integrated modules. We believe our strong design capability and ability to implement design changes was one of the key value-add portions of the project.

## BUSINESS

Leveraging the experience of our design and R&D teams, we are able to customize and adapt our existing technologies to the differing challenges posed by wastewater treatment in diverse industries and a variety of pollutants. Our R&D department has helped us to expand into new markets by developing customized, cost-effective and practical solutions specific for each new market or region. We believe our commercially driven approach to research and development helps to increase our profitability by focusing on technology commercialization and enhancing process design and operating efficiency. For example, our water and wastewater treatment facilities are designed such that the usage of electricity can be adjusted automatically according to the volume of water or wastewater treated to take advantage of the change in electricity rates, which we expect will typically account for the largest portion of our operating costs once our BOT projects are operational.

Our dedicated in-house design and R&D teams consisted of 59 design engineers and 16 research professionals, respectively, as of June 30, 2010. We also collaborate with leading universities and institutes such as Tongji University and Lanzhou Jiaotong University in water treatment related research activities. Our emphasis on research and innovation enabled us to earn the “2008 Top Ten Most Innovative Companies in Environmental Protection” award by China Water (中國水網).

### **Well-known Brand Recognition**

We believe that we are widely recognized in the PRC as a leading integrated water and wastewater treatment solution provider and as a highly reputable name in the sector as evidenced by our numerous awards and accolades, including being ranked first in the “Top Ten Outstanding Engineering Companies” in 2009 by China Water (中國水網), and “Best Under A Billion Top 200 Companies” and “2009 Forbes China Potential Enterprises” by Forbes Asia. We believe that IFC’s US\$10 million equity investment in us in August 2006, which we believe was its only investment in a company in the China water industry at the time, was influenced by our management’s execution ability, brand name and technical expertise.

### **Focus on Delivering Shareholder Returns through Strong Project Sourcing Capability and Value-Driven Business Model**

We have an extensive sales and marketing network in the PRC, covering all major provinces and cities with 18 sales teams located throughout the country. Our sales and marketing team has developed long-term local relationships and an in-depth understanding of local market conditions. We have recently established a sales office in Singapore to focus on securing international projects. Based on the customers’ specific needs and feedback, our sales and marketing team markets different solutions in different local markets including new project formats, technologies and equipment. Our extensive sales and marketing network comprised 55 sales and marketing personnel as of June 30, 2010, whose ability to source projects and develop and maintain client relationships has been a key component of our success. By actively managing our sales and marketing network, we aim to maximize local market penetration and increase new project opportunities. In 2009, we took our first step outside China with the signing of a SAR342 million (equivalent to approximately RMB620 million) EPC and upgrade contract in Saudi Arabia. Our Singapore sales office will continue to seek to build our presence in international markets.

## BUSINESS

We use a set of stringent criteria, such as scale, technical requirements, customer specific requirements, credit quality of customers, availability of project financing (particularly for BOT projects), projected internal rate of return and payback period of the project (in the case of BOT projects), in screening the projects we source through this extensive network to assess risk and reward and to determine where best to deploy our resources to our benefit. We also maintain a disciplined approach to our cost structure to deliver bottom line results. For example, we intend to strive to minimize our overhead cost by maintaining an efficient staffing level for the construction and/or operation of each of our BOT and O&M facilities. We believe this was mainly due to our focus on return and cost management. We achieved a net profit margin of approximately 21.9% and 19.5% during the year ended December 31, 2009 and the three months ended March 31, 2010, respectively.

### **Experienced Management Team with Proven Execution Capability Supported by a Skilled Workforce**

Our management team has an average of over 15 years of experience in the water and wastewater industry with a proven track record in water and wastewater treatment. Our founder, executive Director and Chairman, Mr. Wen, has approximately 20 years of experience in the environmental protection industry. Mr. Wen was awarded the “Ten Most Influential People in the China Water Industry” award from Beijing Huichong International Information Company Ltd. in 2006 and was nominated for the “2006 Green China Personality of the Year” award. Our Chief Executive Officer, Mr. Li Li has more than 20 years of management experience in the water and wastewater industry.

The majority of our core management team have been working together for more than eight years and have provided the guidance and execution leadership underlying our profitability and rapid growth. Under the leadership of our core management team, we have successfully completed over 100 EPC projects in the PRC, including municipal projects and projects across various industries with contract values of between RMB12,200 and RMB330 million and the construction of six BOT projects as of the Latest Practicable Date. As of June 30, 2010, we had entered into contracts with external customers for 24 EPC projects, with contract values of between approximately RMB0.7 million and RMB620 million. We also had two BOT projects under construction as of the Latest Practicable Date. Many of the EPC projects that we have undertaken are large-scale and complex with wastewater treatment capacities of up to 200,000 tonnes per day for municipal projects and up to 198,500 tonnes per day for industrial projects.

Our core team benefits significantly from the accumulated expertise and hands-on experience of our project managers and employees. We believe that these individuals enable us to continue to improve the efficiency of our operations, the quality of our product offerings and our ability to satisfy our customers’ requirements. We believe that our strong management and execution capacity is evidenced by our strong revenue and profit growth. Our total revenue grew from RMB697.3 million for the year ended December 31, 2007 to RMB1,024.8 million in 2008, representing an increase of approximately 47.0%, and we recorded revenue of RMB1,293.5 million for the year ended December 31, 2009, representing a 26.2% increase from 2008. We recorded revenue of RMB234.0 million for the three months ended March 31, 2010, representing approximately a 72.9% increase against the same period in 2009. Our profit and total comprehensive income attributable to owners of

## BUSINESS

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### OUR STRATEGIES

Our vision is to maintain our leading position in the PRC water and wastewater treatment industry and to become a leading integrated global water and wastewater treatment solutions provider. We intend to capitalize on our competitive strengths to expand our current market position and to benefit from the anticipated rapid growth in China's water and wastewater treatment industry, as well as growth in international markets. We had unrestricted bank balances and cash of RMB1,357.0 million as of June 30, 2010. We believe that our strong balance sheet positions us well to capture future growth by pursuing the following strategies.

#### **Expand our BOT and O&M project business to increase the Proportion of Our Recurring Revenues**

We intend to expand our recurring revenues by significantly growing our BOT portfolio and O&M business:

*Significant growth of our BOT Portfolio:* We plan to leverage our project management experience and technical expertise to significantly expand our BOT business in the PRC. We intend to allocate approximately 60% of the net proceeds of the issue of the Convertible Bonds to investments in our existing and new BOT projects. We intend to achieve this expansion through selectively bidding for and investing in new projects which we consider offer attractive returns, buying additional projects from the BSE Group, and strategically acquiring projects from local enterprises and/or municipal governments. As of the Latest Practicable Date, we had not identified any specific acquisition targets. Our BOT services are provided under long-term contracts that are expected to generate recurring income. Given the increasing regulatory focus on environmental standards in China, we anticipate increasing opportunities for us to selectively expand our BOT portfolio by focusing our investment in projects located in areas with favorable economic conditions where customers tend to have stronger credit quality or in areas where opportunities exist for us to regionalize water and/or wastewater treatment for surrounding towns or cities and where we anticipate project financing is more readily available. We will continue to focus on markets where service requirements are linked to growing urbanization, increased standards of living, and rising environmental and wastewater management requirements. We believe that building long term relationships with governments, through our operation of their water and wastewater facilities under BOT arrangements, will position us well to tender for their future water and wastewater projects.

*Expanding our O&M Business:* As we continue to build up our portfolio of BOT projects, we also intend to expand our O&M operations to grow our recurring earnings stream. We expect more municipal wastewater treatment operating contracts to become available in the market on a 'bundled' contract basis. We anticipate that our recent five-year contracts to manage and operate eight municipal wastewater treatment plants in Hainan Province, the PRC, with an estimated total value of RMB124

## BUSINESS

million, and our track record and expertise as a fully-integrated water solutions provider will position us well in bidding for future packaged O&M contracts. O&M projects provide us with an opportunity to generate stable recurring revenue streams without the significant capital investment we are required to make under BOT project arrangements. We also anticipate growth in the number of industrial enterprises offering similar contracts in the future for the operation of their wastewater treatment facilities as a result of increasing government focus on the effective operation of wastewater treatment facilities for industry by suitably qualified contractors. We consider that our track record of working closely with major industry players in designing and constructing their water and wastewater facilities has enabled us to build close working relationships with them and will provide us with a competitive edge in capitalizing on such opportunities when tendering for the operation of their facilities.

### **Increase EPC Market Share in China**

We plan to continue to leverage our strong track record, ability to mobilize local teams, and existing relationships to capitalize on the increased focus on environmental protection in the PRC to develop our successful EPC business and increase our market share in the PRC. In the near term, we will continue to execute our strong EPC pipeline with an order book of RMB964.6 million as of June 30, 2010, of which approximately RMB344.6 million was attributable to EPC projects in the PRC, while looking for suitable opportunities to expand our project portfolio. Moreover, we have an extensive sales and marketing network in the PRC and plan to continue to expand this network domestically. We intend to establish additional sales teams in the PRC to increase our market penetration in provinces where we anticipate a particular demand for the provision of our water and wastewater services or equipment. Our goal is to eventually have sales coverage in each provincial center across China as well as in important international markets. With an enhanced sales and marketing network, we aim to gain additional market information and more rapidly expand our share of the PRC water and wastewater treatment project market.

### **Pursue International Expansion in Water and Wastewater Treatment EPC Projects and Equipment Sales**

We plan to capitalize on our strong track record in project management in the PRC and technical capability by expanding into international markets, in particular in Asia and the Middle East, where we anticipate that there is significant potential demand for water and wastewater treatment services. We are also exploring opportunities in developed markets such as the US and Europe where we believe there may be opportunities to upgrade existing equipment and installations. We plan to focus on large scale, high quality EPC projects abroad in countries with strong credit quality where growing urbanization and rising environmental standards are increasing the demand for water and wastewater treatment solutions tailored for rapidly developing economies. We plan to increase our sales coverage by establishing new overseas offices in countries such as Saudi Arabia, Vietnam, Taiwan, the United States and Canada, where we expect more upcoming water and wastewater treatment projects or opportunities to sell our equipment. We also plan to actively participate in exhibitions and conventions to continue to invest in our brand and help familiarize key international markets with our project and equipment capability. In equipment sales, we plan to utilize agents as a channel to reach broader markets and to conduct targeted sales in select markets focusing on key international wastewater players. We intend to leverage local Chinese business associations, chambers

## BUSINESS

of commerce, and government outreach organizations to increase our equipment sales and project sourcing capability abroad.

### **Continue to Strengthen our R&D Capability**

We will continue to commit resources to technical development and research. Maintaining our competitive strength based on our comprehensive technical ability is a key focus area for us. Through our extensive experience in the industry, we believe we have developed an in-depth understanding of how to incorporate these technological advancements into our projects to fit the realities of the changing landscape for water and wastewater treatment in China. For example, the Ministry of Health increased the number of standards for drinking water quality from 35 to 106 in 2007. Although compliance with all of the new standards is not mandatory until July 1, 2012, we have already developed a new treatment process using membrane technology to comply with the new standards with the aim of obtaining an early-mover advantage once these requirements are implemented. As a result of our proactive approach towards research and development, we believe we are well placed to take advantage of the opportunities presented by continually increasing water and wastewater treatment requirements.

### **Pursue Selective Strategic Acquisitions**

While we have experienced substantial organic growth over the last few years, we intend to pursue a disciplined and targeted acquisition strategy to strengthen our market position and enhance our competitiveness in the water and wastewater treatment industry. Our acquisition strategy will focus on obtaining complementary product offerings, product line extensions, research and development capacity, and access to new markets and local relationships which will complement our existing business operations. As of the Latest Practicable Date, we had not entered into any letter of intent or agreement for such acquisition nor identified any definite acquisition target for expansion purposes.

## **OUR CORE BUSINESSES**

Our businesses can be divided into: (i) water and wastewater treatment projects and (ii) water and wastewater treatment equipment manufacturing. Our water and wastewater treatment project business offers services covering the full value chain of the water and wastewater treatment industry mainly in the form of EPC, O&M, BOT and other project formats. We also provide equipment procurement and design consultation services to our customers. Our equipment manufacturing business is comprised of the design, manufacture and sale of standard and customized equipment for water and wastewater treatment through our wholly-owned subsidiary, Hi-Standard.

## **WATER AND WASTEWATER TREATMENT PROCESSES**

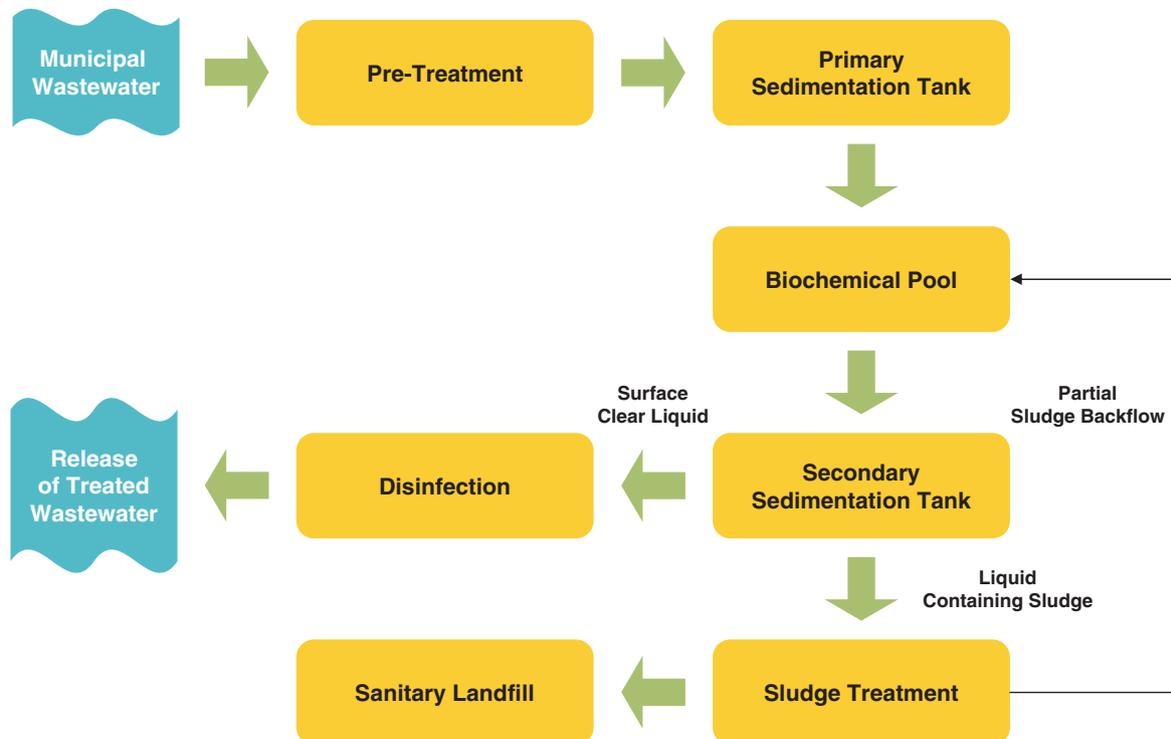
The facilities we design and construct remove pollutants from water and wastewater using multiple processes, including the application of chemicals and biological agents and the use of physical processes. We have developed several proprietary technologies that enhance existing technologies for the treatment of water and wastewater from different sources and across industries. We adapt and

## BUSINESS

deploy these technologies in combination according to the specific requirements of our customer and the type of project. For example, we developed SDN technology, for which we have registered a patent, for the treatment of coking coal wastewater, which contains toxic materials and has a high concentration of ammonia nitrogen and tar. This technology is highly effective and cost efficient in removing sulphur oxide, oil, ammonia nitrogen and organic materials from industrial wastewater.

While specific processes and technologies deployed in water and wastewater treatment vary for municipal projects and by industry and in accordance with the specific requirements of each of our customers, we set out below an overview of the key steps involved in each of the typical municipal wastewater, industrial wastewater and tap water treatment processes, which we use in our EPC, O&M and BOT projects.

### *Municipal wastewater treatment process*



Municipal wastewater treatment projects are a significant part of our business. Pollutants in municipal wastewater mainly consist of organic matter. Thus, the composition of municipal wastewater is relatively stable as compared to industrial wastewater and the treatment process is generally simpler.

The wastewater treatment process begins with the pre-treatment of the wastewater to remove large solid materials in the raw wastewater. Wastewater is then transferred to a sedimentation tank where smaller solid waste and sludge are separated from the wastewater by sedimentation. After that, the wastewater is discharged into biochemical pools where oxidation ditches are used to introduce an optimal level of oxygen to increase the growth of micro-organisms that consume organic pollutants in the wastewater. Separation of sludge from wastewater is then conducted at a secondary sedimentation

stage. Afterwards, the treated wastewater is disinfected to kill any harmful micro-organisms before being reintroduced into the environment or otherwise reused. Some of the separated sludge flows back into the biochemical pool to maintain a sufficient level of micro-organisms in the biochemical pool, while the residual sludge by-product from the treatment process is then sent to sludge landfill sites for disposal.

### ***Industrial wastewater treatment process***

Industrial wastewater treatment projects are also a significant part of our business. The pollutants in industrial wastewater typically include organic and inorganic pollutants as well as disease-causing bacteria. Due to the varying nature and quantity of pollutants found in industrial wastewater, the technologies and processes used in its treatment differ from those used in the treatment of municipal wastewater and also vary by industry. We customize and adapt the technologies we use, some of which are our proprietary technologies and know-how, for the treatment of industrial wastewater for different industries based on our analysis of (i) the composition of the wastewater; (ii) the stipulated discharge standards (which vary by industry); (iii) our customer's desired specifications; and (iv) the quantity of wastewater to be treated.

We set out below an overview of the specific processes and technologies we deploy to treat wastewater from some of the key industries we serve:

- (i) *Coal industry* — We deploy our proprietary SDN technology to treat coking wastewater. Coking wastewater contains toxic materials and a high concentration of ammonia nitrogen and tar. Our SDN technology is effective in removing sulphur oxide, oil, ammonia nitrogen and organic materials from such wastewater.
- (ii) *Steel plant water and wastewater integrated treatment* — Wastewater from steel plants contains a complex range of chemical substances and is high in acidity. We use a high density purifying reactor which is able to remove most of the pollutants from the wastewater so that the water may be reused in the steel production process.
- (iii) *Petrochemical industry* — Processes used for wastewater from oilfields and refineries differ:
  - Oilfields — We use a combination of technologies to effectively treat wastewater extracted from oilfields, which contains crude oil, salts, organic and inorganic materials, micro-organisms and chemical additives. For example, we use a nutshell filter which has a strong absorption capacity and a longer life span than normal filters.
  - Refineries — We use an integrated A/O membrane biological reactor which is effective in removing pollutants from petroleum refining wastewater.
- (iv) *Dyeing and printing industry* — We deploy a combined treatment technology approach in treating dyeing and printing wastewater. Dyeing and printing processes generate a large quantity of wastewater with a high concentration of organic pollutants, deep coloring and high alkalinity and the wastewater is one of the most difficult types of industrial wastewater to treat. To meet this challenge we combine our proprietary know-how to achieve effective treatment of dyeing and printing wastewater.

## BUSINESS

### *Tap water treatment process*



We also undertake a small number of water treatment projects. The water treatment process begins with the collection of raw water from a local river or other natural source. The raw water is first treated using a biological pre-treatment process which uses micro-organisms to remove organic pollutants, ammonia nitrogen, nitrates and inorganic materials in the water. It is then combined with chemical reagents to agglomerate solid particles that are suspended in the water. The water is then discharged into a flocculation tank, where the agglomerated solids are accelerated to increase their density. Afterwards, the water enters the sedimentation tank where most of the solid and suspended organic compounds are removed. Remaining smaller and lighter solid particles are then removed through a filtration process. The water is then disinfected by adding a small amount of chlorine. Finally, the water is pumped into the municipal water pipeline for use and consumption.

### **OUR WATER AND WASTEWATER TREATMENT BUSINESS**

Our water and wastewater treatment business principally comprises (i) the provision of turnkey water and wastewater treatment facilities to municipal governments and industrial customers under EPC contract arrangements, (ii) the construction and operation of municipal water and wastewater treatment facilities under BOT contract arrangements and (iii) the operation and maintenance of municipal water and wastewater treatment facilities under O&M contract arrangements. We also provide equipment procurement and design consultancy services to customers including municipal governments, industrial enterprises, and companies engaged in the water and water treatment industry and engage in projects in other commercial formats. Projects under EPC contract arrangements (excluding the engineering and construction work for our BOT projects) accounted for approximately 100.0%, 84.1%, 79.2% and 83.4%, of our total revenue for the three years ended December 31, 2007, 2008 and 2009 and the three months ended March 31, 2010, respectively. We entered into projects in BOT and O&M project formats with controlling stakes in 2008 and 2009, respectively. While our customers for O&M projects to date have been municipal governments, we intend to diversify our customer base to include industrial customers in the future. Our water and wastewater treatment business customers can be broadly categorized into municipal governments and industrial customers.

## BUSINESS

The drought in south-western China in March and April 2010 had a limited effect on our operations. Our EPC business was not affected by the drought as we were only acting as contractor to construct relevant treatment facilities. None of our BOT projects are located within the drought area and our BOT business has therefore been largely unaffected by the drought. The drought has had a slight impact on our O&M projects in Hainan as a result of a decrease in the volume of wastewater being treated but we expect the impact to be limited, as the majority of our fee income from such projects was based on a guaranteed minimum treatment volume. We do not expect the drought to have any material effect on our revenue or profit for the year ending December 31, 2010 based on the geographical area currently affected.

### **Our EPC Business**

Our EPC business was our principal revenue contributor during the Track Record period. Our EPC projects encompass the design, procurement, engineering and construction of turnkey facilities for the treatment of municipal wastewater, or sewage, and industrial wastewater from all major industries, including coking plants, pharmaceutical factories, steel plants, chemical plants, food-processing factories, petrochemical factories, paper mills and textile mills, for release into the environment and also facilities for the treatment of tap water. Our EPC business also includes the construction of water and wastewater facilities for our BOT projects and our BT project.

Our EPC business does not require us to make significant capital investments in the construction of these projects. We typically fund these projects from the up-front payments we receive from our customer, which usually range from 15% to 25% of the total contract value, installment payments we receive from our customer during the construction phase based on the percentage of completion of the project and from our internal resources.

Our EPC projects typically take between six and eighteen months to complete. We recognize revenue from our EPC projects on the basis of the percentage of completion of the projects, commencing when a legally binding contract is executed and when the total construction costs of the facilities under development can be reliably estimated.

During the Track Record Period, we completed more than 100 EPC projects, including 98 wastewater treatment projects and two water treatment projects. Wastewater treatment projects therefore accounted for the majority of our completed EPC projects in terms of number and revenue contribution during the Track Record Period. Our completed EPC projects had wastewater treatment capacities of up to 200,000 tonnes of output per day for municipal projects and up to 198,500 tonnes of output per day for industrial projects and had contract values of between RMB12,200 and RMB330 million. As of June 30, 2010, we had entered into contracts with external customers for 24 EPC projects, with contract values of between approximately RMB0.7 million and approximately RMB620 million. Our total order book for EPC projects as of that date was approximately RMB964.6 million, representing projects for which we had signed contract agreements but had not yet completed the construction work, but does not include the engineering and construction work for our BOT projects and our BT project.

In 2009, we entered into our first major EPC contract for a customer outside the PRC — a SAR342 million (equivalent to approximately RMB620 million) upgrade and construction contract

## BUSINESS

with a state-linked power and water utility provider in Saudi Arabia, Marafiq. We were appointed as the EPC contractor to undertake the design, fabrication, installation and construction, as well as the testing and commissioning, of the wastewater treatment facilities of Jubail Industrial City, Saudi Arabia. The project involves the design and construction, as well as supply of equipment, for a wastewater treatment plant with an initial treatment capacity of 55,000 tonnes per day, and a potential maximum treatment capacity of 72,000 tonnes per day. As of the Latest Practicable Date, we had commenced construction of the project and we expect to complete the project by the end of 2011. This project 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. Pursuant to the project agreement, we will receive payment based on the percentage of completion of the project. As of the Latest Practicable Date, we had not received any notice or information that our customer in Saudi Arabia has any financial difficulty due to the financial crisis in Dubai. Accordingly, we believe the impact of the financial crisis in Dubai on this EPC contract is likely to be minimal (if any).

During the Track Record Period, we were retained by the BSE Group and Sound Environmental Resources to carry out the construction portion of their BOT water and wastewater treatment projects on an EPC contract basis, which accounted for approximately 43.1%, 32.9%, 6.6% and 9.5% of our revenue for the years ended December 31, 2007, 2008 and 2009 and the three months ended March 31, 2010, respectively. The BSE Group and Sound Environmental Resources together were therefore our largest customer in 2007, 2008 and 2009 and were among our five largest customers for the first quarter of 2010.

We also were appointed as a sub-contractor by Independent Third Party contractors who were retained by the BSE Group or Sound Environmental Resources in respect of the construction portion of certain of their BOT water and wastewater projects. We were retained by such Independent Third Party contractors as a result of a public tender process in certain cases. Revenue from such sub-contracting arrangements accounted for approximately 16.2%, 2.7%, 0.5% and nil, respectively, of our total revenue during the years ended December 31, 2007, 2008 and 2009 and the three months ended March 31, 2010, respectively. Going forward, we will be the sole entity controlled by the Controlling Shareholders to carry out new water and wastewater BOT and TOT projects outside of the Designated Locations.

## BUSINESS

We set out below the details of some of the most significant EPC projects we have carried out (being the EPC projects which were the top three contributors to our revenue during the three years ended December 31, 2007, 2008 and 2009), all of which were carried out in the PRC. Please refer to the paragraph headed “Business Process for EPC Projects — Procurement and Sub-Contractors” of this section for details of our role in our EPC projects:

### Top three projects in 2007

#### Yichang City Water Treatment Plant and Wastewater Treatment Plant



The project involved the design and construction of a 440,000 tonnes/day water treatment facility, a 200,000 tonnes/day wastewater treatment facility and laying part of the pipeline network system of Yichang City, Hubei Province. The water treatment plant provides tap water for the entire city of Yichang, which has a population of more than 4 million.

<b><i>Project Location</i></b>	Yichang City, Hubei Province, the PRC
<b><i>Plant Type</i></b>	Water Treatment Plant for drinking water. Wastewater treatment plant for sewage
<b><i>Contract Value</i></b>	RMB330 million
<b><i>Completion Date</i></b>	Third quarter of 2007
<b><i>Highlights</i></b>	This is an integrated water and wastewater treatment plant and city pipeline project. Its successful completion demonstrates our ability to provide integrated water solutions to municipal governments and execute large scale projects effectively.
<b><i>Design capacity</i></b>	<ul style="list-style-type: none"><li>● The project's four tap water treatment plants have a total treatment capacity of 440,000 tonnes per day</li><li>● Yichang wastewater treatment plant has a treatment capacity of 200,000 tonnes per day</li></ul>

**Tongliao Wastewater Treatment and Recycling Plant**



The project involved the design and construction of a wastewater treatment facility with a wastewater treatment capacity of 100,000 tonnes per day and a recycling facility which can further process the treated wastewater into moderate grade water for industrial use. The recycling facility has a water treatment capacity of 20,000 tonnes per day. The project, together with the existing wastewater treatment plants, provides wastewater treatment for the entire city of Tongliao, Inner Mongolia Autonomous Region, which has a population of more than 3,000,000.

<b><i>Project Location</i></b>	Tongliao City, Inner Mongolia Autonomous Region, the PRC
<b><i>Plant Type</i></b>	Wastewater treatment plant for wastewater and intermediate water
<b><i>Contract Value</i></b>	RMB124 million
<b><i>Completion Date</i></b>	Fourth quarter of 2008
<b><i>Highlights</i></b>	This is a project for wastewater treatment and recycling of treated wastewater into moderate grade water for industrial use. Its successful completion demonstrates our ability to provide water solutions to municipal governments and execute large scale projects effectively.
<b><i>Design capacity</i></b>	Wastewater treatment capacity of 100,000 tonnes per day; moderate grade water treatment capacity of 20,000 tonnes per day

**Guangyinge, Xiangfan City Wastewater Treatment Plant**



The project, located in Xiangcheng District of Xiangfan City, Hubei Province, involved the design and construction of a wastewater treatment facility with a wastewater treatment capacity of 100,000 tonnes per day. The treatment process adopts the A<sup>2</sup>/O pre-denitrification technique.

<b><i>Project Location</i></b>	Xiangfan City, Hubei Province, the PRC*
<b><i>Plant Type</i></b>	Wastewater treatment plant for municipal wastewater
<b><i>Contract Value</i></b>	RMB52.5 million
<b><i>Completion Date</i></b>	Fourth quarter of 2008
<b><i>Highlights</i></b>	This is a project which adopts the A <sup>2</sup> /O pre-denitrification technique in the treatment process, which improves the water quality.
<b><i>Design Capacity</i></b>	Wastewater treatment capacity of 100,000 tonnes per day

\* We carried out the EPC work for this project for Sound Environmental Resources.

**Top three projects in 2008**

**Jilin Iron & Steel Group Co. Ltd Industrial Water Treatment System Solution Project**



The water and wastewater treatment project for Jilin Iron & Steel Group is a comprehensive, integrated solution for a large-scale industrial steel factory. The project represents a prime example of our ability to deliver an integrated one-stop solution for industrial water and wastewater treatment. The project involved the design and construction of an industrial water treatment facility with a water treatment capacity of 80,000 tonnes per day, a water softening treatment capacity of 11,000 tonnes per day, an industrial wastewater treatment capacity of 20,000 tonnes per day, a residential wastewater treatment capacity of 2,500 tonnes per day, a sludge treatment system and a coking wastewater treatment plant.

<b><i>Project Location</i></b>	Jilin City, Jilin Province, the PRC
<b><i>Plant Type</i></b>	Water Treatment Plant, Water Softening Plant and Wastewater Treatment Plants
<b><i>Contract Value</i></b>	RMB102.8 million
<b><i>Completion Date</i></b>	Third quarter of 2009
<b><i>Highlights</i></b>	Comprehensive, integrated one-stop solution for industrial water treatment, wastewater collection and treatment, residential wastewater treatment and recycling and sludge treatment. The project was carried out in six different integrated modules and adopted various advanced technologies. Our integrated solutions were tailored to economically meet project standards for each module.
<b><i>Design capacity</i></b>	<ul style="list-style-type: none"> <li>● Water treatment system (80,000 tonnes per day)</li> <li>● Water softening treatment system (11,000 tonnes per day)</li> <li>● Industrial wastewater treatment system (20,000 tonnes per day)</li> <li>● Residential wastewater treatment system (2,500 tonnes per day)</li> <li>● Sludge treatment system</li> <li>● Coking wastewater treatment plant (45 tonnes per hour)</li> </ul>

**Jingzhou City Pipe Network System**



The project was designed to connect with the pipe systems established for the wastewater treatment plants in the south of Jingzhou City, Hubei Province, and in the business district. The project mainly included the installation of wastewater pipes, rain pipes, road construction and connecting with pumping plants on Caojiao Road, Jingli Road and Ren Min Road South, Jingzhou City, Hubei Province, the PRC.

<b><i>Project Location</i></b>	Jingzhou City, Hubei Province, the PRC
<b><i>Plant Type</i></b>	Wastewater treatment pipe network system for municipal wastewater
<b><i>Contract Value</i></b>	RMB70 million
<b><i>Completion Date</i></b>	First quarter of 2009
<b><i>Highlights</i></b>	This is an integrated water and wastewater treatment plant and city pipeline project.

## Jingzhou Wastewater Treatment Project



The project involved the wastewater treatment plants in the south of Jingzhou City, Hubei Province, the PRC and in the business district. The treatment process adopts the improved oxidation ditch technique.

<b><i>Project Location</i></b>	Jingzhou City, Hubei Province, the PRC*
<b><i>Plant Type</i></b>	Wastewater treatment plants for municipal wastewater
<b><i>Contract Value</i></b>	RMB90.65 million
<b><i>Completion Date</i></b>	Second quarter of 2010
<b><i>Highlights</i></b>	This is a project which adopts the improved oxidation ditch technique in treatment process, therefore greatly improving the water quality.
<b><i>Design Capacity</i></b>	Wastewater treatment capacity of 50,000 tonnes per day by the wastewater treatment plant in the south of the City; wastewater treatment capacity of 30,000 tonnes per day by the wastewater treatment plant in the business district

\* We carried out the EPC work for this project for Sound Environmental Resources.

**Top three projects in 2009**

**Pipe Network System for Chenggong Luolong River Wastewater Project**



The project was designed to match with the wastewater treatment plant in Dounan Village, Dounan Town, Chenggong City, Kunming, Yunnan Province. The pipeline installed has a length of 45.3 kilometers.

<b><i>Project Location</i></b>	Chenggong City, Yunnan Province, the PRC
<b><i>Plant Type</i></b>	Wastewater treatment pipe network system for municipal wastewater
<b><i>Contract Value</i></b>	RMB47 million
<b><i>Completion Date</i></b>	First quarter of 2010
<b><i>Highlights</i></b>	This is an integrated water and wastewater treatment plant and city pipeline project.

### Handan Comprehensive Wastewater Treatment Project



The industrial wastewater project in Handan City, Hebei Province, adopts the physical-chemical treatment technique utilizing a high efficiency settling pond with mud external enhanced flocculation functions, tube settling technology and mud concentration, a high efficiency lime-softening settling pond and a V-shape filtering pond. The project has a treatment capacity of 3,000 tonnes per hour.

<b><i>Project Location</i></b>	Handan City, Hebei Province, the PRC
<b><i>Plant Type</i></b>	Industrial wastewater treatment plant
<b><i>Contract Value</i></b>	RMB55 million
<b><i>Completion Date</i></b>	Third quarter of 2009
<b><i>Highlights</i></b>	This is a project which adopts the physical-chemical treatment technique in the wastewater treatment process.
<b><i>Design Capacity</i></b>	Industrial wastewater treatment capacity of 3,000 tonnes per hour

### Putian City Wastewater Treatment Plant



The project is located in Dongdun Village and Xianying Village, the combined area of Chengxiang District and Hanjiang District of Putian City, Fujian Province, the PRC. It involved the design and construction of a wastewater treatment facility with a wastewater treatment capacity of 80,000 tonnes per day in the short term and 160,000 tonnes per day in the long term. The treatment process adopts the improved oxidation ditch technique.

<b><i>Project Location</i></b>	Putian City, Fujian Province, the PRC
<b><i>Plant Type</i></b>	Wastewater treatment plant for municipal wastewater
<b><i>Contract Value</i></b>	RMB76.4 million
<b><i>Completion Date</i></b>	Fourth quarter of 2009
<b><i>Highlights</i></b>	This is a project which adopts the improved oxidation ditch technique in the wastewater treatment process, therefore greatly improving the water quality.

***Key contract terms for our EPC projects***

While the specific contractual terms vary from one project to another, the following summarizes the typical contractual terms found in our EPC projects contracts:

*Construction schedule.* Our EPC contracts stipulate the construction schedule for the project specifying target dates for project milestones, such as the date of commencement of construction and the final project completion date. Typically, our EPC projects require approximately six to eighteen months to complete.

*Technical and equipment specifications.* The agreement generally contains the technical and equipment specifications and operational requirements of the treatment facility.

*Water quality.* Our contracts typically stipulate the quality of the wastewater for treatment and the output treated water or wastewater by reference to the maximum level of specific pollutants.

*Procurement and supplies.* Our agreements stipulate which party shall be responsible for the selection and procurement of key equipment for the treatment facilities. All equipment is procured in accordance with a list of equipment set out in the agreement.

*Payment terms.* We usually require our customers to make an advance payment of approximately 15% to 25% of the total contract value upon the execution of the agreement. The balance of the contract amount is paid by installments according to the progress of the project. We therefore fund the construction of our EPC projects from a combination of up-front payments received from our customers, installment payments we receive from our customers during the construction of the facility based on the percentage of completion of the project and from our internal resources.

*Warranty.* We usually provide a warranty period of 12 months after the date of delivery of the facilities to our customer, which covers defects in equipment and construction quality of the civil engineering works. Where any defects are identified during the warranty period for which we are responsible, we will rectify those defects at our cost. Our customers generally retain 5% to 10% of the total contract amount as retention monies, which, provided we have rectified any defects identified during the warranty period, is payable to us in full upon the expiry of the warranty period. During the Track Record Period, we have not experienced any material deductions from such retention amounts. Upon completion of the warranty period, we have no further contractual obligations to bear the costs of maintenance or repair of the facilities.

*Penalty payment.* If a project is delayed through no fault of ours, for example, due to inclement weather, substantial changes in the design of the facility requested by the customer or the unavailability of key utilities such as electricity and gas, we are usually granted an extension. If the delay caused by the customer is substantial, we may seek compensation from the customer for any resulting increase in our costs. However, if we are responsible for the delay, we are usually required to make penalty payments to our customer, typically at a contractually agreed daily rate.

## BUSINESS

*Design Changes.* In circumstances where the customer modifies the agreed scope of work of a project during construction due to a change in design, we negotiate adjustments to the contract sum or construction timetables with the customer in accordance with the change in scope of work.

*Termination.* Our EPC contracts typically stipulate that the contract can be terminated in circumstances such as (i) the parties agreeing to do so, or (ii) unilaterally by one party if such party is unable to perform the contract due to force majeure events or a material breach on the part of the other party or, (iii) unilaterally by us if our customer defaults in payment and both parties fail to reach an agreement in relation to the delay in payment, for a stipulated period, or (iv) unilaterally by our customers if we breach the terms of the contract by assigning our rights and obligations under the contract to a third party. Where the contract is unilaterally terminated by one party due to the other party's breach of the terms of the contract, the terminating party is still entitled to damages or compensation as prescribed in the contract.

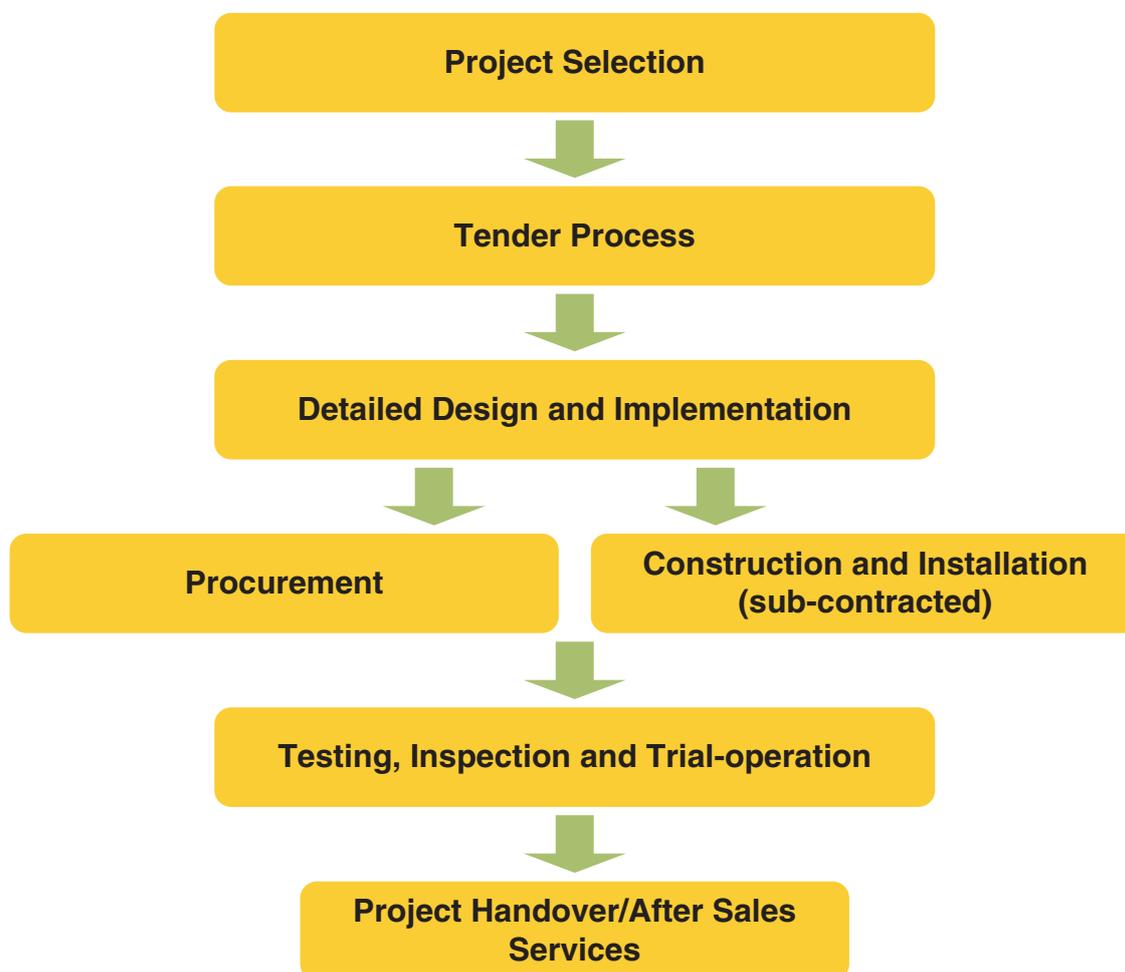
### **Business Process for EPC Projects**

We believe one of our key strengths is our ability to effectively combine design and technical expertise with practical execution experience to provide integrated solutions and after-delivery services to our customers.

We have six functional departments to support the development and management of our projects, including our design, engineering, sales & marketing, procurement, technology & commercial and operations departments. These functional departments work closely with our on-site project team during the course of each project.

## BUSINESS

We set out below a summary of our typical project management process for our EPC projects:



### *Project Selection*

We consider our ability to choose the right projects to be a cornerstone of our operational success and profitability. We adopt a commercially driven approach to the selection of our projects, conducting a thorough analysis of a potential project's prospective profitability before submitting a tender.

Our sales and marketing department actively tracks and sources potential projects throughout the PRC and, through our sales office in Singapore, outside the PRC. Our sales team monitors information from local government authorities such as local news and the latest development in the local water and wastewater industry and utilizes local connections to identify new business opportunities. Our profile in the industry in the PRC and extensive track record of successfully completed projects also results in referrals from our existing or previous customers and invitations from local and municipal governments and industrial enterprises to bid for projects.

## BUSINESS

Prospective projects are first screened by our sales and marketing department using a set of market driven and return focused criteria. In evaluating opportunities, we take into account a variety of factors depending on the project, including the following:

- the prospective profitability of the project; we generally focus on projects with a contract value and projected return in excess of internally determined minimum thresholds;
- the credit-worthiness of the potential customer and the customer's source of funding for the project;
- the composition of the wastewater and the resulting technical demands of the project;
- the specific requirements of the customer;
- the available treatment technologies;
- the competition for the project and the identity of our competitors in the bidding process;
- the projected cost of building the facilities; and
- the applicable regulatory standards.

Our sales and marketing team provides details of those projects which it considers merit further investigation to our technology and commercial department at our head office in Beijing. The core members of our technology and commercial department, which include senior members of our marketing department, senior technical staff and project managers, decide which projects warrant further examination. We maintain a running list of projects which we review on a regular basis to monitor their status and development. The technology and commercial department assigns priority to various projects and allocates resources to those we will pursue. We then gather further information on these potential projects, such as laboratory analyses of the wastewater, and further consider the project's suitability. Once sufficient information has been compiled for our technology and commercial department's consideration, we will decide which projects we will actively pursue and submit a tender for.

### ***Tender Process***

At the end of 2008, we established our technology and commercial department to enhance the effectiveness of our tender process. The tender process for our EPC projects is conducted by our Group. Our technology and commercial department now leads the tendering process for all of our potential projects. As of the Latest Practicable Date, the department comprised 19 personnel from our design and marketing departments, each of whom has extensive experience in project pricing in the water and wastewater treatment industry. By having a specialized team of technicians and sales staff focused on the tender process, we are able to increase the consistency and efficiency of our tender process, thereby elevating our competitiveness.

Based on the information collected by our sales and marketing department, our technology and commercial department coordinates the preparation of all relevant tender documents. This process includes careful consideration of the treatment options available, discussions with the prospective customer to understand its needs, project budgeting and preparation of a preliminary project design. We intend to establish a centralized technical database, containing documentation from our previous

## BUSINESS

tenders, which our technology and commercial department can utilize to estimate project costs more accurately, standardize our project pricing and leverage upon our extensive technical expertise and accumulated experience.

Our design, operations and investment departments work closely together to formulate our initial tender price based on our estimate of the project costs, and the target profitability of the project. For large projects, our CEO, deputy general manager and our chief engineer review and approve the final tender price while for smaller projects, senior members in our sales and marketing department determine the final tender price.

The factors that a customer considers in assessing a tender vary from one project to another, but generally include the credentials and qualifications of the applicant, the tender price, the technical design and the experience of the proposed project team. Generally, we are required to pay a deposit or provide a letter of guarantee issued by a bank in order to participate in the tender process. Any deposit we pay will be returned to us after the tender process, but any letter of guarantee will be applied as a performance bond if we are successful in the tender. Once we successfully secure the tender, we will enter into a formal contract with our customer and require our customer to make the initial up-front payment.

### *Design*

We consider that the expertise and experience of our in-house design team has been a key factor in our success. When we prepare a tender, our technology and commercial department, assisted by our design department, prepares a project plan which outlines the proposed treatment process, taking into account the customer's specifications and the relevant laws and regulations. We develop innovative designs adapted to the specific project constraints after we investigate and research the background of each project. After securing the project, our design department will prepare a detailed design plan for the construction of the treatment facilities based on the project plan.

### *Procurement and Sub-Contractors*

After the design and implementation plans have been finalized, we purchase the water treatment equipment and parts required for the project directly from our suppliers, including Hi-Standard, and appoint appropriate sub-contractors to carry out certain parts of the project. We usually approach several potential suppliers or sub-contractors for contracts whose value exceeds internally determined thresholds, though in certain cases, for example where there are limited potential suppliers or the timing of the contract does not permit, we engage and negotiate with specific suppliers or sub-contractors directly.

We are typically responsible for the overall project management and equipment procurement portion for our projects. We retain sub-contractors to carry out the civil engineering work for the treatment facilities and the installation of equipment. For the years ended December 31, 2007, 2008 and 2009 and the three months ended March 31, 2010, our sub-contracting costs were RMB325.4 million, RMB485.3 million, RMB707.9 million and RMB129.6 million, representing approximately 68.6%, 70.2%, 77.1% and 79.0% of our costs of sales for the same periods, respectively.

## BUSINESS

### *Equipment*

We procure most of our standard and customized equipment through an open tender process. Our objective is to procure the best equipment for our customers at the most competitive price. While we do not give any preference to Hi-Standard in selecting our supplier, we would choose Hi-Standard over other suppliers where the relevant terms offered by Hi-Standard, in terms of product quality and price, are equivalent to those offered by other suppliers.

We conduct due diligence on our suppliers and choose them based on their reputation, technical qualifications, track record and feedback from their customers. We maintain a list of those suppliers that meet our criteria, which we review annually, removing any suppliers that fail to meet our standards and adding new qualified suppliers to our list. We purchase our equipment from these approved suppliers where possible. In the event that we need to obtain equipment from suppliers who are not on our approved list, we will evaluate the reliability of the supplier by checking its certifications, product samples and track record. We conduct random spot checks on our new suppliers and carry out regular examinations of our existing suppliers. Our quality control staff inspect and check equipment supplied to us to ensure conformity with our customers' specifications and compliance with industry standards upon receipt at each facility, upon installation and again during testing of the operation of the facility.

Our payment arrangements with our suppliers vary, but generally we pay an initial deposit of 5% to 10% of the total contract value, with further payments in installments upon delivery of the equipment, equipment installation, successful testing and successful commencement of operation of the facility. We typically retain 5% of the contract value until the end of our warranty period with our customers and release this amount to our suppliers at the end of the warranty period subject to any necessary deductions.

Where practicable, we seek to take advantage of centralized purchasing to reduce our costs by purchasing common equipment for concurrent projects in bulk or by entering into long-term supply arrangements.

### *Sub-contractors*

We select sub-contractors based on the location and technical requirements of our projects. We choose our sub-contractors mainly through a tender process but we generally give preference to sub-contractors which we have previously engaged. We follow applicable laws and regulations on bidding and we seek to engage reputable sub-contractors. We conduct due diligence on potential sub-contractors before their appointment and typically examine factors including their track record, technical qualifications and certification. During the Track Record Period, we have engaged a total of approximately 37 sub-contractors for our EPC and BOT projects.

Our standard sub-contractor construction contracts typically provide for a fixed price payable by us and include a construction schedule based on the construction schedule set out in our master agreement with our customer. We pay our sub-contractors based on the percentage of work done. The sub-contractors provide warranties in respect of the quality and timely completion of their work scope in their construction contracts. In the event of any delay or poor quality of work, the sub-contractor is

## BUSINESS

required to repair the defective works and may be required to pay damages to us under the relevant construction contract, but we have not experienced any significant delay during the Track Record Period.

Generally, our construction contracts require our sub-contractors to supply basic construction materials, including steel and cement, and for them to bear the risk of any increase in raw material prices. We may agree to increase our sub-contractor's contract price if there is a substantial increase in raw material prices where our customer agrees to a corresponding increase in our contract sum. We require our sub-contractors to comply with PRC laws and regulations in respect of the quality of construction, as well as our own standards and specifications. The sub-contractors are also subject to our quality control procedures, including examination of materials and supplies, on-site inspection of construction work and production of progress reports.

### ***Construction and Installation***

We sub-contract our construction and installation work to our sub-contractors. During construction and installation, our on-site project management team will monitor the progress of our sub-contractors to ensure that our sub-contractors comply with our quality control standards. For each project, we have an on-site project management team consisting of administrative and technical representatives from various operations departments. The team can draw on the resources of each of our operations departments during any stage of a project, giving it full access to the extensive knowledge and experience of our various departments. The project manager is primarily responsible for the implementation of the project, and is required to provide feedback and report on the progress of the project and any issues his team encounters to the senior management of our engineering department on a weekly basis or otherwise as required. Our municipal customers also employ external supervisory companies to monitor the quality of the raw materials and the construction progress of the project in accordance with regulatory requirements.

### ***Testing***

Upon the completion of the construction of the water or wastewater treatment facilities and the installation of equipment, we conduct trial operations of the facilities to examine their operational efficiency and whether the treated wastewater meets the customer's specifications. If the test results are satisfactory, our project management team will submit the completion report to the customer and/or its supervisory company for approval. The project management team will then arrange a site visit for all relevant parties, including our design department and construction team and the customer, to inspect the facility and identify any issues raised by the customer requiring rectification.

### ***Project Hand-over / After Sales Services***

Once the customer has confirmed that the facilities are in working order and comply with the relevant specifications and has made the completion payment to us, we will hand over the treatment facility to our customer for its operation. We provide our customer's staff with training on the operation of the facilities. We also provide a detailed operation manual to our customers at handover.

## BUSINESS

Upon handover, the defects liability period (which is usually 12 months) commences and during this period we will attend to any defects in the equipment or systems for which we are responsible at our cost. Upon the expiry of our warranty period, we may continue to provide such maintenance services to our customer for a fee but are not otherwise responsible for carrying out such maintenance or repairs.

### *Quality Control*

We devote significant efforts to ensure the provision of quality services to our customers. We conduct training and education on quality assurance standards for our staff every year to ensure that our staff are familiar with our quality control procedures.

Beijing Sound, our wholly-owned subsidiary, was certified by Beijing New Century Certification Co., Ltd (北京新世紀認證有限公司) in August 2002 and April 2008 as compliant with ISO9001:2000 standards in respect of the design, construction, commission and operation of environmental projects.

### **Our O&M Business**

Our O&M business involves the provision of professional operation and maintenance services to local or municipal governments, whereby we are appointed to operate and maintain their water and wastewater treatment facilities for specified terms.

Under O&M contract arrangements, we will manage the treatment facilities built by third parties for our customers.

In December 2006, we made a minority 20% investment in Shanghai Chenghuan to carry out O&M related projects in Shanghai. As this represented our first step into the O&M business at the time, we utilized a joint venture structure for this project. Shanghai Chenghuan is held as to 70% by Shanghai Chengtuo Environmental Investment Ltd., a State-owned enterprise with established operations in water and wastewater O&M project business in Shanghai, and as to 10% by Shanghai Yuhe Chemicals Ltd. Both Shanghai Chengtuo Environmental Investment Ltd. and Shanghai Yuhe Chemicals Ltd. are unrelated to our Company, our Directors or our substantial shareholders. We understand that Shanghai Chengtuo Environmental Investment Ltd., has recently changed its business strategy and deviated from its original strategy of being a water and wastewater treatment operation and maintenance services provider based in Shanghai. As a result, we are currently planning to dispose of our interest in Shanghai Chenghuan. As at the Latest Practicable Date, we had not signed any binding agreements or memoranda of understanding with respect to our disposal of our interest in Shanghai Chenghuan.

In late 2009, we entered into O&M contracts with eight local governments in Hainan Province, the PRC to manage and operate eight municipal wastewater treatment plants with a combined treatment capacity of 142,000 tonnes per day under five year concession terms.

## BUSINESS

In light of our commencement of O&M business through our wholly-owned subsidiaries pursuant to the O&M contracts which we entered with eight local governments in Hainan Province, the PRC referred to above, we do not have any current intention to make additional passive investments in water and wastewater projects in O&M project format.

We anticipate growth in the number of industrial enterprises offering O&M contracts for the operation of their water and wastewater treatment facilities in the future as a result of increasing government focus on the effective operation of water and wastewater treatment facilities for industry by suitably qualified contractors. We consider that our track record of working closely with major industry players in designing and constructing their water and wastewater facilities has enabled us to build close working relationships with them and we believe this will provide us with a competitive edge in capitalizing on such opportunities when tendering for the operation and maintenance of their water and wastewater facilities.

### ***Key contract terms for our O&M project***

The following summarizes the key contractual terms for our O&M project in Hainan:

*Services.* We are appointed for a period of five years during which we are paid a management fee to operate existing facilities. We bear the costs of routine maintenance and repairs of the treatment facilities. We do not hold the title to the relevant treatment facilities, and we are not responsible for the construction of the treatment facilities.

*Management fee.* We receive monthly fee payments from our customers based on an agreed tariff pricing formula and the volume of water or wastewater treated by the facility. The agreement provides for a guaranteed minimum volume of wastewater to be treated and we are entitled to receive payment for such minimum volume even if the volume of water actually treated by us is less than the minimum volume. The tariff pricing formula takes into account factors such as the consumer price index, electricity charges and labor costs. We may apply for an adjustment to the tariff rate after two years by reference to changes in these factors.

*Termination.* The agreement can be terminated by either party due to force majeure events or events of default. In the event that there is an event of default, the party terminating the contract shall notify the other party about its intent to terminate and if no agreement is reached within a certain period of time, such notice of intent to terminate shall serve as a notice to terminate and the agreement shall be terminated. The events of default that typically entitle our customers to unilaterally terminate the agreement include: any material breach of representations and warranties or suspension of the project facility's operation on our part; bankruptcy or dissolution of the project company; and any material breach of the terms of the contract and failure to cure within sixty days. The events of default that entitle us to unilaterally terminate the agreement include: failure to pay the management fee on the part of our customers; material impairment to our interests due to changes in PRC laws; expropriation of the project facility; and our customer's material breach of the contract and failure to cure within sixty days. Where the contract is unilaterally terminated by one party due to the other party's breach of the terms of the contract, the terminating party is still entitled to damages or compensation as prescribed in the contract.

## BUSINESS

In 2010, we commenced commercial operation of two of the eight water and wastewater facilities in Hainan Province, the PRC under O&M contract arrangements in the first quarter and the third quarter and therefore recorded revenue of RMB0.7 million from such facility for the first quarter of 2010. The revenue recorded under our operation and maintenance business segment in our financial statements for 2009 was attributable to the operation of our BOT facilities in Shaanxi Province. As of the Latest Practicable Date, the remaining six wastewater facilities in the Hainan O&M project had commenced trial operation.

### **Our BOT Business**

Leveraging our EPC project expertise and the extensive experience of the BSE Group, a member of the Controlling Shareholder Group, in water and wastewater BOT projects and facilities management, we diversified our business into water and wastewater BOT projects in 2007 with a view to increasing the proportion of our recurring revenue. We also believe that such projects would enable us to develop long term relationships with relevant local governments and therefore position us well to tender for their future water and wastewater projects.

For BOT projects, we invest in, design and construct water and wastewater treatment facilities which we operate for a contractually agreed period of up to 30 years following completion. We bear all relevant design, construction and operating costs of the treatment facilities and do not typically receive payments from our customers during the construction stage of the project. Upon commencement of the operation of the facilities, we receive regular, typically monthly, payments from the local government based on a contractually agreed tariff and the volume of water treated. We are also responsible for all of the costs of repair and maintenance of the treatment facilities during the term of the concession. At the end of the agreed concession period, we will be required to transfer the treatment facilities to the government for nil consideration, but we may be reappointed under a bidding process to continue to operate the facilities on an O&M basis at the end of the term of the concession.

BOT projects are significantly more capital intensive than our EPC projects, requiring us to make substantial investments for the construction of the treatment facilities, and have long payback periods. As of the Latest Practicable Date, we had eleven BOT projects of which four had commenced operation, two were in trial operation, two were under construction and three had not yet commenced construction. Our estimated investment for our existing BOT projects varies between RMB36.1 million and RMB151.0 million per project and the total outstanding investment required for the completion of these projects as of June 30, 2010 was estimated to be approximately RMB572.1 million, to be funded over the next two years. We fund our BOT projects through a combination of internal resources and external borrowings. We expect our borrowings and our financing expenses to significantly increase in the future compared to levels during the Track Record Period as a result of the expansion of our BOT project business. Please refer to the paragraph "Our BOT projects" below for more information on the financing arrangements for each of our BOT projects.

### ***Our BOT Projects***

As of the Latest Practicable Date, our BOT portfolio consisted of eleven projects, of which we had a 100% interest in nine projects, an 80% interest in one project and a 50.2% interest in the

## **BUSINESS**

remaining project, but in respect of which we maintain the management and financial control and are responsible for all of the costs of construction. Our operational BOT project commenced commercial operations in the second half of 2009. Therefore, we did not record any revenue from the operation of our BOT projects in 2007 or 2008 and only recorded minimal revenue of approximately RMB5.7 million and RMB1.9 million from the operation of our BOT projects in 2009 and the first quarter of 2010, respectively. Our projects have planned treatment capacities of between 15,000 tonnes per day and 100,000 tonnes per day. We set out further details of our BOT projects below.

**BUSINESS**

Project Name	Nature of Investment	Our Equity interest in the project	Commencement of operations	Capacity/ planned capacity (tonnes/day)	Concession Period (years)	Estimated total amount of investment required to be made by our Group in the project (RMB million)	Estimated amount of outstanding investment as of June 30, 2010 (RMB million)	The value of our EPC Contract for BOT project (including value added tax) (RMB million)	Cumulative revenue recognized from the construction phase of the project on an EPC basis before our Group's acquisition (excluding value added tax) (RMB million)	Our Group's cumulative revenue recognized from the construction phase of the project as of June 30, 2010 (excluding tax) (RMB million)	Estimated amount of backlog from the outstanding portion of the construction phase value added (excluding tax) (RMB million)	Financing arrangement	Utilized borrowing by the project company as of June 30, 2010 (RMB million)
Henan Anyang City Wastewater Treatment Project <sup>(1)</sup> (河南安陽市污水處理項目)	Wastewater Treatment	100%	Trial Operation estimated to commence in late 2010	100,000	25	137.2	—	116.9	49.4	63.7	—	IFC loan: approximately RMB84.5 million The balance from internal resources	—
Shaanxi Xi'an City Chang'an District Wastewater Treatment Project (陝西西安市長安區污水處理項目)	Wastewater Treatment	100%	Phase I – Operational Phase II – Not yet determined	Phase I: 50,000 Phase II: 50,000	30	134.0	50.6	75.0	59.7	18.8	—	Bank loan: RMB35 million (of which RMB1 million has been repaid) The balance from internal resources	35
Guangxi Chongzuo City Wastewater Treatment Project <sup>(2)</sup> (廣西崇左市污水處理項目)	Wastewater Treatment	100%	Operation	30,000 <sup>(7)</sup>	26	68.2	—	57.0	—	56.1	—	Bank loan: RMB20 million, IFC loan: approximately RMB34.8 million. The balance from internal resources	20
Shaanxi Hancheng City Wastewater Treatment Project (陝西韓城市污水處理項目)	Wastewater Treatment	100%	Phase I – Trial Operation Phase II – Not yet determined	Phase I: 25,000 Phase II: 25,000	27	77.4	38.8	42.4	—	38.9	5.3	IFC loan: approximately RMB29.0 million. The balance from internal resources	—
Shaanxi Xi'an City Hu County Wastewater Treatment Project (陝西西安戶縣污水處理項目)	Wastewater Treatment + sale of recycled water	100%	Operation	30,000 (wastewater) & 20,000 (recycled water)	30 <sup>(4)</sup>	97.8	44.8	45.0	23.3	13.4	7.5	Proposed bank loan: RMB40 million <sup>(5)</sup> The rest by internal resources	—

## BUSINESS

Project Name	Nature of Investment	Our Equity interest in the project	Commencement of operations	Capacity/planned capacity (tonnes/day)	Concession Period (years)	Estimated total amount of investment required to be by our Group in the project (RMB million)	Estimated amount outstanding as of June 30, 2010 (RMB million)	The value of our EPC contract for the BOT project (including value added (RMB million) tax)	Cumulative revenue recognized from the construction phase of the project on an EPC basis before our Group's acquisition (excluding value added tax)	Our Group's cumulative recognized revenue from the construction phase of the project as of June 30, 2010 (excluding value added tax) (RMB million)	Estimated amount of backlog from the outstanding portion of the construction phase (excluding added tax) (RMB million)	Financing arrangement	Utilized by the project company as of June 30, 2010
Jiangsu Jiangyan City Wastewater Treatment Project (江蘇姜堰市污水處理項目)	Wastewater Treatment	50.2% <sup>(2)</sup>	Operation estimated to commence in November 2010 Qinhu – 4Q2014	Downtown Phase I – 30,000 Phase II – 30,000 Qinhu Phase I – 10,000 Phase II – 10,000	25	128.0	94.4	81.8	—	31.5	46.1	Bank loan: RMB54.2 million The balance from internal resources	—
Shaanxi Yulin City Jingbian County Wastewater Treatment Project (陝西榆林市靖邊縣污水處理項目)	Wastewater Treatment	100%	Trial Operation	15,000	20	36.1	—	35.6	—	35.1	—	Internal resources	—
Shaanxi Shangluo City Wastewater Treatment Project (陝西商洛市污水處理項目)	Wastewater Treatment	100%	Phase I – Operation Phase II – Not yet determined	Phase I: 30,000 Phase II: 30,000	25	Phase I: 40.5 Phase II: 55.3	57.8	Phase I: 33.1	—	32.8	1.0	Internal resources	—
Shandong Yantai City Wastewater Treatment Project (山東煙台市污水處理項目)	Wastewater Treatment	80% <sup>(3)</sup>	1Q, 2011	50,000	20	95.0	95.0	85.0	—	—	81.3	Internal resources and contribution from joint venture partner	—
Liaoning Fushun City Wastewater Treatment Project (遼寧撫順市污水處理項目)	Wastewater Treatment	100%	Construction estimated to commence in late 2010	100,000	30	151.0	151.0	133.4	—	—	128.6	IFC loan: approximately RMB83.8 million	—
Shaanxi Xi'an International Gangwu District Wastewater Treatment Project <sup>(6)</sup> (陝西西安國際港務區污水處理項目)	(Wastewater Treatment)	100%	Construction estimated to commence in late 2010	25,000	27	39.6	39.6	28.0	—	—	24.6	—	—
<b>Total</b>						<b>1,060.1</b>	<b>572.1</b>	<b>733.2</b>	<b>132.4</b>	<b>290.3</b>	<b>294.4</b>		

## BUSINESS

**Estimated amount of investment by our Group in the project** = the estimated investment amount as stipulated in the relevant concession agreement or government project approval x the percentage of equity interest we have in the project (for the Jiangsu Jiangyan City Wastewater Treatment Project, we are responsible for the entire estimated investment amount but we only have a 50.2% equity interest in the project. Please refer to note (2) below for further details about this project)

**Estimated outstanding amount of investment** = the estimated outstanding investment amount that needs to be made by the relevant project company

**Cumulative revenue recognized from the construction phase of the project on an EPC basis before our Group's acquisition** = cumulative revenue that we recognized from carrying out the construction work of the projects as an EPC contractor before such projects were acquired by us and became our own BOT projects

**Cumulative recognized revenue from the construction phase of the project** = cumulative revenue that we recognized from carrying out the construction work of the BOT project (excluding value added tax)

**Estimated amount of backlog from the outstanding portion of the construction phase** = the estimated contract value of construction work that remains to be completed for the BOT project (excluding value added tax)

- (1) We undertook this project initially on an EPC basis. In 2009, Beijing Epure, a wholly-owned subsidiary of our Company, purchased the entire equity interests in the relevant project company from the then existing shareholders, Shanghai Jingke, an Independent Third Party which held a 40% interest, and Beijing Sound Enviro, an associate of our Company, which held a 60% interest, for a total consideration of RMB45 million determined by reference to the net asset value of the project company holding the concession right to this project.
- (2) The remaining 49.8% interest of this project is held by Jiangyan Municipal Wastewater Treatment Company, a PRC company which, save for its 49.8% interest in the joint venture company, is an Independent Third Party. Pursuant to the BOT concession agreement and the sino-foreign cooperative joint venture agreement in relation to this project, both dated September 5, 2009, the registered capital of the project company was RMB67,700,000 and Jiangyan Municipal Wastewater Treatment Company contributed its share of the registered capital by injecting the wastewater treatment plant assets it owned into the project company. Following the establishment of the project company, the joint venture company paid a sum of RMB35,000,000 to the Construction Bureau of Jiangyan City. In consideration for such payment, Jiangyan Municipal Wastewater Treatment Company agreed to assign to us its rights to receive revenue from this project company and we will retain all the revenue or bear all the loss from the project while we are responsible for all the costs of construction. Accordingly, we account for the revenue from this project on a 100% basis. Jiangyan Municipal Wastewater Treatment Company decided to remain as a shareholder in the joint venture company to enjoy certain shareholder rights in accordance with the Articles of Association of the project company including the right of first refusal upon any transfer by us of our equity interest in the project company and the right to appoint one director out of five directors on the board of directors of the project company, although the candidate for such director position is to be recommended by us. Any proposal to increase or reduce the registered capital, to wind up the project company, or to amend the articles of association of this project company requires the unanimous consent of the directors of the project company. Our PRC legal advisers have confirmed, to the best of their knowledge, there are no explicit legal requirements requiring a wastewater treatment project company to be in the form of a sino-foreign joint venture and there are no legal impediments in respect of the transfer of the 49.8% equity interest from Jiangyan Municipal Wastewater Treatment Company to Sound International Investment Holdings Limited if the approval and consent of the Construction Bureau of Jiangyan City, our Company and Jiangyan Municipal Wastewater Treatment Company and other relevant consents, permissions or approvals in relation to such transfer are obtained as required by the Jiangyan City Wastewater Treatment Project BOT Concession Agreement and the Articles of Association of Jiangyan Jianguyuan and relevant PRC laws.
- (3) The remaining 20% interest of this project is held by Shandong Rendeya Environmental Engineering Company (山東仁德亞環保工程有限公司), a PRC company and an Independent Third Party.
- (4) The concession period includes the construction period.
- (5) As of the Latest Practicable Date, we were negotiating a 5 year term loan with the Agricultural Bank of China (the "ABC"). The credit committee of the ABC was reviewing the material terms of the proposed loan transaction. There is no assurance we will enter into this loan.
- (6) We entered into a preliminary concession agreement with the Management Committee of the Xi'an International Gangwu District for the wastewater treatment project on June 28, 2010. We will set up a new project company to enter into the concession agreement with the Management Committee of the Xi'an International Gangwu District. It is currently intended that the project will be funded from our internal cash reserves and external loan financing.
- (7) The planned capacity of the Guangxi Chongzuo City Wastewater Treatment Project is 30,000 tonnes/day while the actual capacity is 5,000 tonnes/day.

### Development of our BOT project business

The BSE Group has been engaged in the BOT project business since 1999 and has accumulated substantial experience in the business. In 2007, we decided to leverage the BSE Group's experience and enter the BOT project business with a view to increasing the proportion of our recurring revenue and developing long term relationships with relevant local governments which, we believe, will position us well to bid for their future water and wastewater projects.

## BUSINESS

The Shaanxi Xi'an City Wastewater Treatment Project and the Shaanxi Xi'an City Hu County Wastewater Treatment Project represented our first entry into BOT wastewater projects, by way of minority investments with the BSE Group. We decided at the time to adopt a measured approach to our entry into what was then a new market for us, initially investing in these projects in September 2007 as a minority investor holding an 18% interest in each project, with the BSE Group owning the remaining 82% interest in each case. As we accumulated more experience in executing these projects, we acquired the remaining interests in each of the project companies, namely Xi'an Qinqing and Xi'an Huqing, from the BSE Group in July 2008 for consideration of RMB4,100,000 and RMB12,300,000, respectively. The projects were under construction at the relevant time. In each case, such consideration was agreed on an arm's length basis based on the then current net tangible asset value of the project companies. We entered into EPC contracts with these two project companies and recognized revenue of RMB27.6 million and RMB55.4 million in 2007 and 2008, respectively before we acquired the remaining interest in these companies from the BSE Group. We did not receive any other income in relation to our minority investment in these projects in 2007 and 2008. After the acquisitions, we continued the construction work of the projects and recorded revenue in the same way as our other BOT projects. Please refer to the paragraph headed "Revenue recognition for our BOT project business" below for further details.

During the Track Record Period, the BSE Group bid for and was awarded seven of our BOT projects and purchased Henan Anyang City Wastewater Treatment project from an Independent Third Party and entered into the relevant agreements with the appointing municipal government or the entities authorized by the relevant government. The relevant customers under these agreements subsequently approved the appointment of our project companies to carry out the projects and agreed that the concession under the relevant agreements were granted to our project companies. As confirmed by our PRC counsel, these arrangements do not violate PRC law and our project companies have legally obtained the relevant concessions and are entitled to construct and operate the relevant wastewater treatment facilities according to the relevant concession agreements.

Our Group did not purchase or bid for these eight BOT projects in its own name because, at the relevant time, we lacked a sufficient track record in carrying out BOT projects or otherwise we preferred to initially hold only a minority interest in the projects as set out above. Usually, in our experience, potential customers offering such projects for tender require applicants for the tender to demonstrate an established track record in carrying out other BOT projects before considering their tenders. As we only began undertaking water and wastewater projects in BOT project format on a wholly-owned basis in 2008, we did not initially have a sufficient track record to tender for such projects in our own name. Therefore, the BSE Group, which has an established track record in carrying out water and wastewater projects in BOT project format, tendered for the relevant projects in its name.

As we build our track record in the BOT projects that we have undertaken, we are of the view that we do not face any material limitation in bidding for new BOT projects. We bid for and were awarded the Yantai City Wastewater Treatment BOT project under our own name and we also secured the Fushun Haicheng Wastewater Treatment BOT project under our own name. We also bid for and were awarded the Xi'an International Gangwu District Wastewater Treatment BOT project under our own name in June 2010. The BSE Group has also transferred many of its BOT project business staff to our Group to assist us in establishing our track record and operating our BOT projects. We believe that we have sufficient experience and expertise to develop our BOT business independently without

## BUSINESS

relying on the BSE Group. However, there may be circumstances in the future where the BSE Group's track record, relationship with local governments and brand name may assist us in securing potential BOT projects. In particular the BSE Group's track record for building and operating wastewater treatment facilities with daily treatment capacities greater than those of our existing projects or the BSE Group's relationships with relevant local governments may be helpful to us. In such circumstances, we may invite the BSE Group to undertake joint tenders with us in order to make our bid more competitive. We believe that this arrangement gives us the flexibility to bid for a broader spectrum of projects while we continue to build up our brand name and track record in BOT projects. As of the Latest Practicable Date, out of the eleven potential BOT projects for which we were considering bidding, we planned to bid for all eleven of these potential BOT projects under our own name.

Although BOT projects require substantial capital investment and involve a long payback period and have a different risk profile than our EPC projects, we expect the long operational period of such projects to provide us with a stable recurring revenue stream and therefore alleviate potential fluctuations in our revenue and earnings due to the non-recurring nature of EPC project revenue. Moreover, we believe that undertaking BOT projects would enable us to develop long term relationships with relevant local governments and therefore position us well to bid for their future water and wastewater treatment projects.

Going forward, pursuant to the Non-Competition Deeds, save for specific circumstances mentioned above, 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 on his/its or their own account, carry on, participate or be interested or engage 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 businesses of 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 or if they bid for projects together with us at our request. Please refer to the section headed "Relationship with our Controlling Shareholder Group — The Non-Competition Deeds".

We plan to significantly expand our BOT project business in the future and intend to allocate approximately 60% of the net proceeds from the issue of the Convertible Bonds for investing in existing and prospective BOT projects. We plan to seek opportunities to expand our BOT portfolio through selectively bidding for and investing in new projects which we consider offer attractive returns, buying additional projects from the BSE Group, and strategically acquiring projects with attractive return profiles from local enterprises and/or municipal governments. 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 at the Latest Practicable Date, we were reviewing a number of potential water and wastewater BOT projects in the PRC, but we are unable to predict whether we will be able to secure such projects. In August 2010, our Company entered into an investment agreement for a BOT project in Lianyungang City, Jiangsu Province, PRC with the management committee of Xuwei Area from Lianyungang City. The investment agreement is a non-binding commitment to undertake the project but does not constitute a formal binding contract. We are required to go through the relevant applicable procedures (including bidding or tendering for the project) and we cannot give any assurance that we will be able to obtain the project. If we are able to obtain the project, our Company will build and operate a

## BUSINESS

wastewater treatment plant with an expected treatment capacity of up to 300,000 tonnes of wastewater per day and a water supply plant with the capacity to supply up to 300,000 tonnes of water per day. Our Company will also design and lay the network of pipes for the collection of wastewater and the supply of water which will span approximately 20 kilometers. The total investment is estimated to be around RMB1.38 billion with a concession period of 30 years.

### **Revenue recognition for our BOT project business**

Typically, we only receive payment from our customers during the operational phase of our BOT projects. However, we recognize revenue during both the construction phase and the operational phase of the project. Based on our existing BOT projects, the construction phase accounts for approximately 12% to 42% of our total revenue for our BOT projects, while the operational phase accounts for the remainder of the total revenue from these projects.

We separate our BOT projects into two phases, the construction phase and the operational phase, for the purposes of recording the revenue from these projects. Revenue from the construction phase is included in the turnkey projects and services segment in our accounts, while revenue from the operational phase and relevant assets in the BOT project companies are included in the operation and maintenance segment in our accounts. In accordance with IFRS, we recognize revenue during the construction phase of our BOT projects on the percentage of completion basis, in the same way as we recognize revenue for our EPC projects. During the construction phase, we recognize revenue based on our experience from comparable EPC construction contracts. The determination of our revenue recorded for these projects during the construction phase requires subjective judgments by our management based on their experience. The amount of revenue recognized from the construction phase of a BOT project is also accounted for as a service concession receivable to be settled during the term of the concession of the BOT project, which can be up to 30 years. As a result, the revenue we record during the construction phase of our BOT projects is not matched by cash inflow during the same period.

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 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 from construction of 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 total revenue during the same periods, respectively. However, the cash tariff payments we received from our customers for our BOT projects during the same periods were nil, RMB3.5 million and RMB0.9 million, respectively.

## BUSINESS

Furthermore, since BOT projects have a contract period of up to 30 years, we have a longer credit risk exposure period for our BOT projects when compared to our EPC projects. For more information on revenue recognition for our BOT projects and the associated risks, please refer to the section headed “Financial Information — Description of Selected Line Items of Statements of Comprehensive Income — Revenue — Turnkey projects and services — BOT projects” and the section headed “Risk Factors — We typically only receive payment in connection with the revenue recognized from the construction of our BOT projects on receipt of cash tariff payments during the operational phase of these BOT projects and we may not have the cash inflow matching the revenue recognized during the construction phase.”

### *Key contract terms for our BOT projects*

We typically form a new project company for each BOT project.

Project documentation for our BOT projects usually comprises two principal agreements: (i) a concession agreement, which stipulates the terms upon which the concession is granted, and (ii) a wastewater treatment services agreement, which stipulates our respective rights and obligations and those of the local water or wastewater authority with regard to our provision of wastewater treatment services during the concession period.

While the specific contractual terms vary from one project to another, the following summarizes the typical contractual terms found in our concession agreements and wastewater treatment services agreements.

#### *The concession agreement*

*Concession period.* The agreement will stipulate the concession period for which we are appointed to operate the treatment facilities, which is typically between 20 and 30 years.

*Construction schedule.* The BOT concession agreement sets out the construction schedule for the project, specifying target dates for key construction milestones, such as the commencement of construction and the final project completion date.

*Testing and acceptance.* The agreement sets out the procedures for testing and acceptance of the treatment facilities by our customers and the conditions upon which we may commence operation of the facilities and receive payment.

*Performance bond.* Under the terms of the contract, we are often required to provide a performance bond in respect of the project construction work, typically of between RMB1 million and RMB10 million, issued by a recognized bank. In practice, we had not provided any such performance bonds to our customers in respect of any of our BOT projects as of the Latest Practicable Date. The obligation to provide such performance bond falls away upon the completion of the construction work. None of our customers had requested us to provide such performance bonds or taken any legal action

## BUSINESS

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 enforced by our customers. However, there can be no assurance that our customers will not request us to provide performance bonds or take legal action against us in the future. 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 by us should our customers so request. 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 with respect to 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.

Our Controlling Shareholder, Mr. Wen, has agreed to provide an indemnity in favor of our Group in respect of any liabilities, costs, losses or expenses which may be payable by our Group as a result of our failure to provide such performance bonds to our customers in respect of our BOT projects. Please refer to the section of this Listing Document headed “Risk Factors — 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.”

*Transfer.* We are required to transfer the treatment facilities to our customer for nil consideration upon the expiry of the term of our concession. Our concession agreements typically require us to carry out comprehensive repair works in the last year of the concession period to ensure that the treatment facilities operate properly after the transfer. In some cases, we are required to provide a warranty period of 12 to 18 months following the transfer. In addition, under some of our concession agreements, our customer could retain 1% of the water treatment service fees in the last five years of the concession period or 5% of the water treatment service fees in the last year of the concession period as retention money for the warranty period. In some other cases, we are required to provide performance bonds in the amount of RMB0.8 million to RMB2 million for the warranty period.

*Force Majeure.* Upon the occurrence of force majeure events, such as flooding, earthquake, war or epidemics, both parties to the agreement may elect to terminate the concession agreement. Once the agreement is terminated, the treatment facility shall be taken over by our customer and we would be released from all of our obligations under the agreement. Pursuant to the terms of some agreements, we are entitled to recover our construction and financing costs from our customer upon any such termination. Pursuant to the terms of other agreements, we are required to endeavor to seek compensation from our insurance, which we usually do not obtain, to recover our construction and financing costs and our customer is required to compensate us for the rest of our costs.

## BUSINESS

*Termination.* Our concession agreements can be terminated by either party due to force majeure events or events of default. If there is any event of default, the terminating party shall notify the other party about its intent to terminate and if no agreement is reached within certain period of time, such notice of intent to terminate shall serve as a notice to terminate and the contract shall be terminated. The events of default that typically entitle our customers to unilaterally terminate a contract include: our false representations which materially impairs our ability to perform the contract; our inability to operate or maintain the project facilities; any significant quality or safety accident due to our improper management; bankruptcy or dissolution of the project company; and our material breach of the contract and failure to cure within sixty days. The events of default that entitle us to unilaterally terminate a contract include: the customer's false representations which materially impairs its ability to perform the contract; material impairment to our interests due to our customer's reorganization; revocation of our concession right; the customer's material breach of the contract and failure to cure within sixty days. Where the contract is unilaterally terminated by one party due to the other party's breach of the terms of the contract, the terminating party is still entitled to damages or compensation as prescribed in the contract.

### *The wastewater treatment services agreement*

*Water quality.* We are obliged under the terms of our water treatment services agreements to treat a specified volume of wastewater to a specified standard. The agreement also sets out the minimum quality of the treated wastewater. We will be required to make penalty payments to our customer if the quality of the treated water does not meet the minimum standard specified in the agreement. If we fail to rectify the water quality problem after receiving a notice requiring rectification from the relevant customer, our customer has the right to terminate the wastewater treatment services agreement as discussed below. The water treatment services agreement also sets out how the residual waste resulting from the treatment process should be handled. While specific provisions on compliance with licensing and environmental requirements are not usually included in the agreement, such factors are usually set out in the selection criteria during the tender process. During the Track Record Period, we were not notified by relevant government authorities of any failure to meet stipulated water quality requirements for any of our operational BOT projects.

*Repair and maintenance.* We are responsible for the repair and maintenance of the treatment facility during the concession period and bear all related costs. Major equipment upgrades of the treatment facilities such as substantial increases in treatment standards, are outside the scope of the service contract and the fees for such upgrades would be negotiated with customers separately.

*Payment.* We usually do not receive any payment from our customers, who are usually local government entities or government related investment entities, prior to the commencement of operation of the treatment facilities, though we do recognize revenue in our financial statements during the construction phase. Please refer to the sub-paragraph above headed "Revenue recognition for our BOT project business". However, in the case of our BOT projects in Shangluo City and Yulin City Jingbian County in Shaanxi Province, the PRC, our customers separately agreed to make prepayments to us during the construction phase of the projects. Please refer to the section headed "Financial Information — Description of Selected Line Items of Statements of Comprehensive Income — Revenue —

## BUSINESS

Turnkey projects and services — BOT Projects” of this Listing Document for details of the basis of our recognition of revenue from our BOT projects.

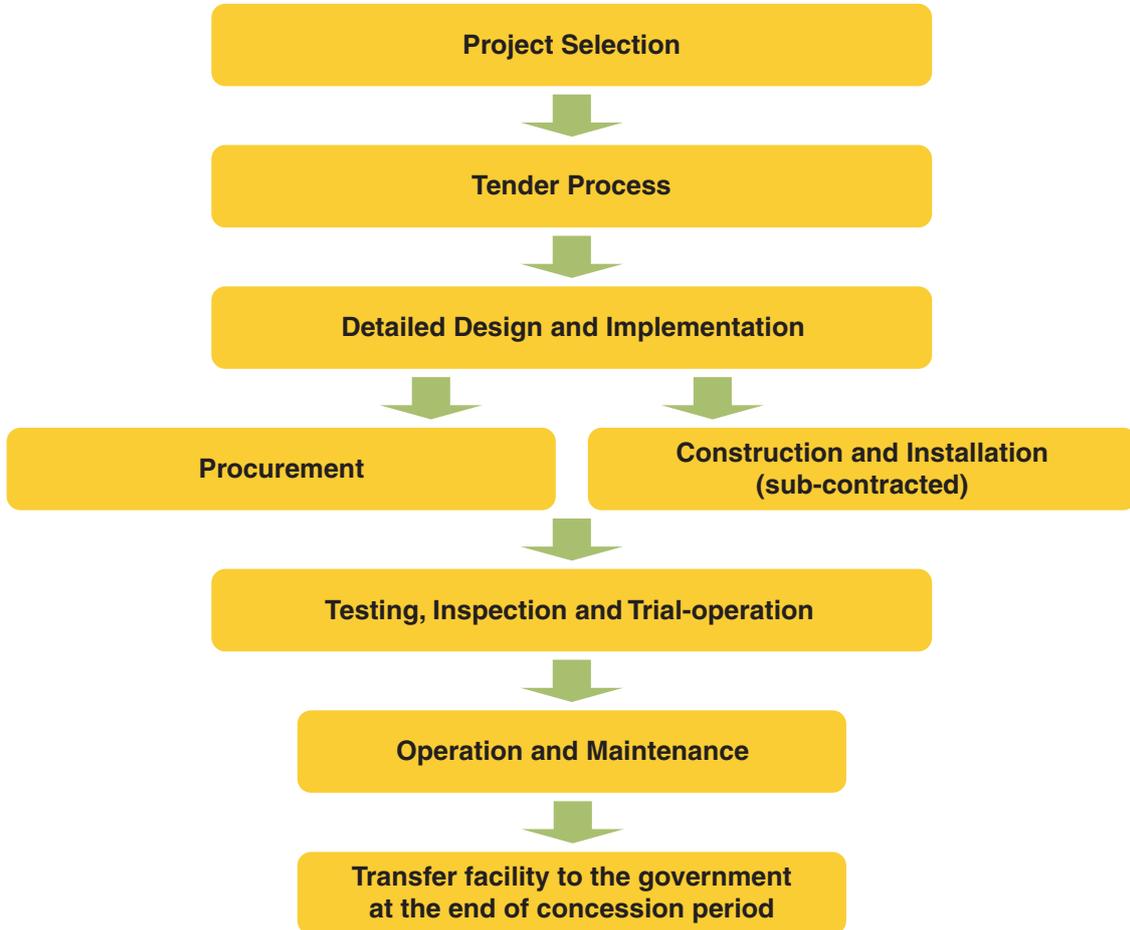
Following successful completion of the testing and trial-operation of the facilities, we commence operation of the treatment facilities. Upon the commencement of the operation of the facility, we receive regular, usually monthly, fee payments from our customer based on an agreed tariff pricing formula and the volume of water or wastewater treated by the facility. We are not responsible for sourcing retail customers or for collecting tariff payments from retail customers directly.

*Tariff.* The water treatment services agreement usually provides for a guaranteed minimum volume of wastewater to be treated and we are entitled to receive payment for such minimum volume even if the volume of water actually treated by us is less than the minimum volume. The tariff pricing formula will usually take into account factors such as the consumer price index, labor costs and electricity charges. The tariff is usually adjusted annually or biannually by reference to changes in these factors such as any increase (or decrease) in labor costs and the consumer price index.

*Termination.* The wastewater treatment service agreement can be terminated by either party due to force majeure events or events of default. In the event that there is any event of default, the terminating party shall notify the other party of its intent to terminate the agreement and if no agreement is reached between the parties within a specified period of time, such notice of intent to terminate shall serve as a notice to terminate and the water treatment services agreement shall be terminated. The events of default that typically entitle our customers to unilaterally terminate a contract include: our suspension of the project facility’s operation; bankruptcy of the project company; any significant quality or safety accident due to our improper management; failure to meet the post-treatment water quality standard; our false representations which materially impair our ability to perform the contract; and our material breach of the contract and failure to cure within ninety days. The events of default that entitle us to unilaterally terminate a contract include: the customer’s false representations which materially impair its ability to perform the contract; and failure to make payment within sixty days from the due date. Where the contract is unilaterally terminated by one party due to the other party’s breach of the terms of the contract, the terminating party is still entitled to damages or compensation as prescribed in the contract.

**Business process for our BOT Projects**

We set out below a summary of our typical project management process for our BOT projects:



The project management process for the construction phase of our BOT projects is substantially similar to that for our EPC projects, details of which are set out in the paragraph headed “Business Process for EPC Projects” above. The construction phase of our BOT projects usually lasts between six months and 24 months. However, due to the substantial investment required for our BOT projects, we have put in place additional measures in respect of our project selection and financing requirements to mitigate the different risk profile associated with such projects. We set out below the key aspects in which our business process for our BOT projects differs from that for our EPC projects.

## **Project Selection**

Our sales and marketing team sources potential BOT projects from a wide range of channels, including local news, information from local governments and new developments in the industry. Prospective projects are also screened by our sales and marketing department using a set of market driven and return focused criteria similar to those used in assessing potential EPC projects. To safeguard our investment and mitigate the risks involved in BOT projects, we pay additional attention to the following factors:

### *Creditworthiness of the local government and maturity of the locality*

We give consideration to the financial position of the relevant local government customer to ensure that it is able to meet its payment obligations throughout the concession period. We also look at the water tariff charged to end users by the local government and the local economy to determine whether the tariff rate is sustainable and consider the expected future urban development and the potential for tariff increases in the future. Generally, we focus on selecting projects located in provincial capital cities or developed second-tier cities.

### *Availability of financing*

Before tendering for a BOT project, we assess the availability and terms of the financing for the project. We will only tender for projects located in areas where we consider project financing is generally more readily available from banks. The availability of financing on commercially acceptable terms is an important factor in our assessment of a potential BOT project. The contractual terms of such funding are usually similar to normal bank borrowings, but our project loans generally have a longer repayment period, typically of between five to six years. Please also refer to the section of this Listing Document headed “Risk Factors — BOT projects are capital intensive with long payback periods and we may require additional funding for these and our other investment projects” for more information on the financial risk of our BOT projects.

### *Profitability of the project*

We look carefully at the technical requirements, the estimated investment amount, the tariff rate and the concession term of the project to assess the likely profitability of the project. We only tender for projects that we anticipate, based on our assessment, will meet our internal profitability requirements.

Due to the substantial capital investment required, we have a more stringent selection process for BOT projects than that used to select our EPC projects. The decision to pursue a BOT project is taken by a specially formed investment committee selected from a panel comprising of our executive Directors and senior personnel with expertise in marketing, engineering and project management. This investment committee includes our Chief Executive Officer, Li Li, our Chief Financial Officer, Choo Beng Lor, our Director, Yan Xiaolei, our chief engineer and Director, Zhang Baolin, our vice president of production, our head of sales systems, our operation planning manager, our finance manager who is

## BUSINESS

responsible for coordinating the financing of BOT projects, a senior member from our technology department and a senior member from our production department. The investment committee carries out a detailed risk-benefit analysis of the prospective BOT project. If the investment committee is satisfied with the result of the evaluation and approves the project, we will prepare relevant tender documents for submission.

### *Tender Process*

Our BOT investment department leads the negotiation of our BOT concession agreements and wastewater treatment service agreements. We seek to mitigate our risk in BOT projects by carefully negotiating the terms of the relevant agreements. We have our own in-house template concession agreement and wastewater treatment service agreement drafted by our in-house counsel that seeks to protect our rights and provide for various contingencies. The rights and obligations of us and the government are defined in the agreements.

Notwithstanding the fact that our Group has in the past invited and, where appropriate, expects to continue to invite the BSE Group to jointly or singly tender for any water or wastewater treatment projects to be undertaken by our Group, we are responsible for sourcing relevant project opportunities and conducting the tender process. Please refer to the paragraph headed “Development of our BOT project business” above for further details of our relationship with the BSE Group in this regard.

### *Project Financing*

For our BOT projects, we are responsible for funding the construction of the water and wastewater treatment facilities. The total estimated investment required for our eleven existing BOT projects varies from RMB36.1 million to RMB151.0 million per project. As at June 30, 2010, the total budgeted investment amount for our existing BOT projects was RMB1,060.1 million and the total outstanding unfunded budgeted investment amount was RMB572.1 million. During the Track Record Period, we funded the cost of construction of most of our BOT projects through internal cash reserves. Going forward, we intend to utilize project financing from commercial banks and loans from IFC and other third party financing sources to the maximum extent possible to finance our BOT projects. However, there is no assurance that external financing sources will be available to us at all or on acceptable terms.

As at June 30, 2010, we had unrestricted bank balances and cash of approximately RMB1,357 million. As at July 31, 2010, being the latest practicable date for the purposes of our indebtedness statement contained in this Listing Document, we had entered into long term bank loans with PRC banks for two of our BOT projects for an aggregate amount of approximately RMB55 million, with amortization schedules of five and six years, respectively. The lending terms of these long term project loans are similar to those of our other bank borrowings and the interest rate charged by the banks is usually fixed by reference to the long term lending rate published by the People’s Bank of China, plus a margin. As at July 31, 2010, the current People’s Bank of China five year lending rate was 5.94% per annum. The availability and costs of financing are important factors in our assessment of potential BOT project

## BUSINESS

business opportunities. We only tender for projects which we estimate will provide a return on investment which is higher than our estimated cost of financing based on typical financing terms available in the market.

In March 2010, we also entered into a strategic cooperation agreement with the China Merchants Bank for an indicative credit line of US\$600 million for a term of three years, which shall be extended automatically if neither party serves a termination notice within three days prior to the expiry of the term. The actual loan amount under the strategic cooperation agreement will be determined on a case by case basis, and each application made by us for a loan pursuant to the strategic cooperation agreement will require separate lending approval from China Merchants Bank. On May 28, 2010, we entered into an amortization loan of US\$34 million with a term up to 2019 with IFC for the purpose of funding the four BOT projects carried out by Anyang Mingbo, Guangxi Liqing, Hancheng Yiqing and Fushun Qingxi. The loan is secured by the revenue payable to those project companies and our equity interests in those project companies. The loan carries an interest rate of six months LIBOR +3.5% per annum. We also entered into a non legally-binding memorandum of understanding with IFC in respect of a possible further loan of up to US\$36 million. Any such further loan would be subject to relevant credit approvals being obtained and the entering of legally binding documentation. There is no assurance that we will be able to secure any such additional loan from IFC. Please also refer to the section of this Listing Document headed “Risk Factors — BOT projects are capital intensive with long payback periods and we may require additional funding for these and our other investment projects”.

Pursuant to applicable regulations, we are required to contribute at least 20% of the total project investment amount. Therefore, we may only fund up to 80% of the total project investment amount from external sources, such as bank borrowings.

We expect that where we enter into loan financing for our BOT projects, the relevant loan documentation will be executed by our project company established for the purpose of the project. However, such financing is generally required to be guaranteed by the shareholders of the relevant project company during the construction phase of the project and to be secured by the revenue payable to us under the relevant concession agreement during the operational phase of the project.

Although our BOT projects have concession terms of up to 30 years, the project loans generally only have a term of 10 years or less. We expect to be able to repay such project loans from the cash generated from the operation of the BOT project within eight to ten years based on our internal forecasts. After the repayment of the loan, we intend to rely on the tariffs received from our customer for the purpose of funding the ongoing working capital requirements of the relevant project for the rest of the concession period. For projects which we are only able to obtain long term loans of less than the period required to recover our initial investment, we intend to seek refinancing towards the end of the loan term. However, we do not anticipate that the further financing requirements at that stage will be as substantial as the amount initially borrowed upon commencement of the project as we would expect to have been able to repay a proportion of the initial financing amount by that stage.

The availability of financing is important to our BOT project business. During the global economic crisis in 2008, we slowed down the expansion of our BOT project business and tendered for

fewer projects due to the reduced availability of credit. We intend to allocate 60% of the net proceeds from the issue of the Convertible Bonds to finance the future expansion of our BOT project business.

### **Construction and Testing**

We have different project teams for the construction and operation of our BOT projects. The construction team is responsible for the construction of the treatment facilities and is accountable to the operations team for the quality and schedule of the construction. Upon completion of the construction of the treatment facilities, the construction team will submit a completion report to our BOT operation team for its approval. The construction team will then arrange a site visit for our relevant departments, including our design department, construction team and the operation team, to inspect the facility and identify any issues requiring rectification.

### ***Operation and maintenance of treatment facilities***

Once construction of the treatment facilities has been completed, the government will examine the treated water quality and perform its acceptance procedures to determine whether the treatment facility can commence formal operation.

The staffing requirement for the operation of each of our BOT projects varies depending on the volume of water to be treated by the facilities. We conduct on-site training for our staff members to ensure that they have the necessary knowledge to operate the facilities and are made aware of our safety guidelines. During the term of the concession, we are responsible for the maintenance and repair of the treatment facilities, including the costs involved in repairing or replacing the equipment. To ensure the smooth operation of the facilities, we carry out regular inspections, maintenance and repair of the facilities.

During the operational stage of our BOT projects, we receive regular payments from our customers, who are usually local government authorities or government related investment entities. The wastewater treatment services agreement usually provides for a contractually guaranteed minimum volume of wastewater to be treated by us and we are entitled to receive payment for such minimum volume even if the volume of water actually treated by us is lower than the minimum. The guaranteed minimum treatment volume is intended to provide a minimum rate of return on our investment and our treatment facilities' capacity is designed with reference to such guaranteed minimum treatment volume to mitigate risks of under-utilization. The amount of payment we receive is also dependent on the quantity of water or wastewater treated by our treatment plants above the minimum guaranteed treatment volume and the relevant tariff.

We design our water and wastewater treatment facilities to minimize losses arising from non-revenue water, such as leakage, inaccuracy in measurement, etc. During the Track Record Period, we have not experienced any material loss arising from such non-revenue water issues but we cannot assure you that we will not experience such losses in the future.

## BUSINESS

The quality of the water after treatment is specified in the relevant wastewater treatment services agreement and is subject to monitoring by the local environmental authorities. We also maintain our own stringent water quality monitoring systems, including on-site laboratory and testing facilities, to ensure the quality of the treated water released into the environment meets relevant regulatory and contractual requirements.

### **Other Businesses**

In July 2010, our Company entered into a framework agreement to undertake a build, transfer and operate (“**BTO**”) project in Luohe City in Henan Province, the PRC. The framework agreement is similar in nature to a memorandum of understanding and does not constitute a formal binding contract. We are required to go through the relevant applicable procedures (including bidding or tendering for the project) and we cannot give any assurance that we will be able to obtain the project. If we are able to obtain the project, our Company will build and operate a wastewater treatment plant with an expected treatment capacity of up to 40,000 tonnes of wastewater per day and a water supply plant with the capacity to supply up to 50,000 tonnes of recycled water per day.

Our subsidiary, Daye Honglian Water Co. Ltd., entered into a framework agreement on March 1, 2010 and a confirmatory agreement on August 13, 2010 to undertake a build-transfer (“**BT**”) project in Daye City in Hubei Province, the PRC. Such wastewater treatment BT project has a contract value of RMB58 million, with an expected treatment capacity of up to 50,000 tonnes of wastewater per day and a total treatment capacity of up to 150,000 tonnes per day.

We also provide equipment procurement services to our customers. Leveraging our experience in project design and construction and equipment procurement accumulated in the course of our EPC projects, we offer one-stop equipment procurement services to our customers. We provide technical advice and assistance to customers on the equipment that they need for their treatment facilities and we procure the equipment for them from Hi-Standard and third party equipment manufacturers based on our customer’s specified budget and technical requirements. We may also install the equipment for the customer if requested.

We also provide technical and design services to customers, including municipal governments, industrial enterprises and other water and wastewater treatment facilities contractors. The services we provide include the preparation of initial design plans based on the customer’s requirements, technical advice on issues arising from the treatment of water and wastewater and the implementation of treatment facilities projects and the preparation of detailed project plans for construction purposes.

### **Order Book**

#### *EPC projects*

Our order book comprises our estimate of the value of our backlog and our new projects.

#### *Backlog*

Backlog represents our estimate of the contract value (excluding value added taxes) of work that remains to be completed and retention money which we expect to receive upon the expiry of the warranty period as of June 30, 2010 under our existing EPC contracts. The contract value of a project represents the amount that, as of the relevant date, we expect to receive under the terms of the contract if the contract is performed in accordance with its terms. Backlog is not a measure defined under IFRS, and our methodology for determining backlog may not be comparable to the methodology used by

## BUSINESS

other companies in determining their backlog. Backlog may not be indicative of future operating results. We cannot guarantee that our backlog will be realized or will not change. Contracts are subject to termination by the customer. 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. See “Risk Factors — You should not rely on the EPC orders we have received in the past, which are typically non-recurring in nature, or the value of our order book in the past as an indication of our future growth or results of operations”.

### *New Project Value*

New project value represents the aggregate value (excluding value added taxes) of the contracts we entered into as of June 30, 2010, but which we had not commenced construction as of that date. The value of a contract is the amount that as of the relevant date we expect to receive under the terms of the contract if the contract is performed in accordance with its terms.

### *BOT Projects*

We do not specify in the relevant agreements with our customers for our BOT projects the amount we are required to invest in the construction of the project. Upon our entry into contracts in respect of a BOT project, our relevant project company undertaking the project will enter into an EPC contract with our wholly-owned subsidiary, Beijing Sound, pursuant to which our project company will appoint Beijing Sound Engineering to carry out the engineering and construction work of the project. Based on the price agreed under such contracts and the revenue recognized from such projects to date, we had a total outstanding “EPC order book” of RMB294.4 million for our existing BOT projects as of June 30, 2010. Please refer to the paragraph headed “Our BOT Projects” above for further details of our BOT projects, and the estimated amount of revenue recognized to date and backlog for each of our BOT projects.

## BUSINESS

We set out below information of our EPC project order book as of June 30, 2010 and the “order book” for the engineering and construction work of our BOT projects as of June 30, 2010:

### *EPC project order book (existing and new projects)*

<u>Location</u>	<u>City / Country</u>	<u>Estimated Final Payment Date</u>	<u>Contract Value (including value added tax) (RMB million)</u>	<u>Cumulative revenue recognized as of June 30, 2010 (excluding value added tax) (RMB million)</u>	<u>Order book as of June 30, 2010 (excluding value added tax) (RMB million)</u>
Anhui .....	Huainan	3Q 2010	117.0	110.9	6.1
	Huainan	3Q 2010	104.0	88.6	15.4
Hebei .....	Tangshan	3Q 2010	17.0	14.6	1.5
Hubei .....	Xianning	3Q 2010	67.0	52.5	12.6
	Tianmen	3Q 2010	42.8	36.3	6.5
	Tianmen	3Q 2010	27.9	19.4	8.5
	Tianmen	4Q 2010	34.7	11.2	23.4
Hunan .....	Tianmen	1Q 2011	15.4	2.2	13.1
	Hualing	3Q 2010	0.7	0.3	0.4
	Changde	1Q 2011	120.0	17.4	99.2
	Xiangtan	1Q 2011	101.5	8.4	87.8
Inner Mongolia .....	Wulanchabu	1Q 2011	15.3	0.0	15.3
Jiangsu .....	Suyuan	3Q 2010	1.5	1.1	0.4
Jilin .....	Tonghua	3Q 2010	110.2	101.9	1.3
	Tonghua	3Q 2010	16.5	15.1	0.4
	Da'an	3Q 2010	8.4	7.2	0.2
Tianjin .....	Tianjin	3Q 2010	5.0	3.7	0.7
Sichuan .....	Panzhuhua	4Q 2011	6.8	—	6.2
Shanxi .....	Jingbian	3Q 2010	22.6	9.4	13.2
	Hancheng	3Q 2010	20.3	8.3	12.0
	Longmen	3Q 2010	0.9	0.0	0.9
	Xi'an	2Q 2011	3.8	—	2.8
Shandong .....	Yantai	3Q 2010	27.6	11.1	16.5
Saudi Arabia .....	Jubail & Yanbu	4Q 2011	620.0	0.0	620.0
<b>Total</b> .....			<b>1,506.9</b>	<b>519.6</b>	<b>964.6</b>

Notes:

- (1) The cumulative revenue recognized may in certain cases differ from the total contract value recognized due to differences between the value of a contract and the total revenue we recognize. The differences usually result from variation orders resulting in adjustment of the contract price and value added tax payable on sales of equipment.
- (2) This does not include “order book” information on the engineering and construction work of our BOT projects (which will be shown in the table below) and “order book” information on the engineering and construction work of our BT project in Daye City in Hubei Province, the PRC, details of which are set out in the paragraph headed “Other Businesses” above. As of June 30, 2010, the engineering and construction work for such BT project carried an order book value of approximately RMB51.3 million.

## BUSINESS

*Engineering and construction work order book for our BOT projects*

<u>Project Name</u>	<u>The Value of our Group's EPC Contract for the BOT Project (including value added tax) (RMB million)</u>	<u>Cumulative revenue recognized from the construction phase of the project on an EPC basis before our Group's acquisition (excluding value added tax) (RMB million)</u>	<u>Our Group's cumulative recognized revenue from the construction phase of the project as of June 30, 2010 (excluding value added tax) (RMB million)</u>	<u>Estimated amount of backlog from the outstanding portion of the construction phase (excluding value added tax) (RMB million)</u>
Shaanxi Hancheng City Wastewater Treatment Project (陝西韓城市污水處理項目) .....	42.4	—	38.9	5.3
Shaanxi Xi'an City Hu County Wastewater Treatment Project (陝西西安市戶縣污水處理項目) .....	45.0	23.3	13.4	7.5
Jiangsu Jiangyan City Wastewater Treatment Project (江蘇姜堰市污水處理項目) .....	81.8	—	31.5	46.1
Shaanxi Shangluo City Wastewater Treatment Project (陝西商洛市污水處理項目) .....	33.1	—	32.8	1.0
Shandong Yantai City Wastewater Treatment Project (山東煙台市污水處理項目) .....	85.0	—	—	81.3
Fushun Haicheng Wastewater Treatment Project (撫順海城污水處理項目) .....	133.4	—	—	128.6
Shaanxi Xi'an International Gangwu District Wastewater Treatment Project (西安港務區污水處理項目) .....	28.0	—	—	24.6
<b>Total</b> .....	<b>448.7</b>	<b>23.3</b>	<b>116.6</b>	<b>294.4</b>

Note: The cumulative construction phase revenue recognized may in certain cases differ from the total construction contract value recognized due to differences between the value of a contract and the total revenue we recognize. The differences usually result from variation orders resulting in adjustment of the contract price and value added tax payable on sales of equipment.

For the 24 EPC projects in our EPC order book as of June 30, 2010, 16 of them are wastewater treatment projects, one is a water treatment project and seven are pipeline network projects.

We currently anticipate that we will complete most of our existing EPC projects under construction by the end of 2010.

The total contract value of our EPC projects included a contract with an estimated value of SAR342 million (equivalent to approximately RMB620 million), for our EPC and upgrade contract with Marafiq, a state-linked power and water utility provider in Saudi Arabia, accounting 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 of the Latest Practicable Date, we had commenced the construction of our EPC project in Saudi Arabia.

### OUR ENVIRONMENTAL EQUIPMENT MANUFACTURING BUSINESS

We conduct our environmental equipment manufacturing business through our wholly-owned subsidiary, Hi-Standard, which we acquired in July 2008 from an Independent Third Party and paid a

## BUSINESS

consideration of RMB208,000,000. The consideration for our acquisition of Hi-Standard was determined based on an independent valuation report of Hi-Standard dated June 24, 2008. Hi-Standard specializes in the design and manufacture of standard customized water and wastewater treatment equipment. It has 19 patented technologies. Hi-Standard provides standard and customized product offerings and product design services to us for our water and wastewater treatment projects. It also sells its products to external customers, including industrial and municipal customers, under the “Hi-Standard” brand.

Hi-Standard owns an approximately 46,700 square meter environmental equipment factory and office premises in Beijing, China. The factory is outfitted with modern manufacturing equipment and managed by professional managers and engineers. We have adopted stringent quality control measures, together with advanced product testing facilities for product quality.

### **Products (產品)**

We specialize in the production of customized equipment for water and wastewater treatment. The following describes our core product lines and the key features and competitive strengths of our water and wastewater treatment equipment:

*Grit removers.* We offer a series of grit removers that can separate a wide range of solid waste from municipal and industrial wastewater. The grit removers can remove grit of as small as 0.2mm diameter.

*Sludge scrapers.* Sludge is a by-product of the wastewater treatment process and must be removed from the treatment tanks regularly. We offer a wide range of sludge scrapers for use in treatment tanks of different sizes.

*Sludge dehydrators.* The sludge removed from wastewater treatment tanks contains a large amount of water and needs to be dehydrated before disposal or recycling. Our sludge dehydrators offer a broad range of sludge dehydration solutions for various treatment and engineering processes.

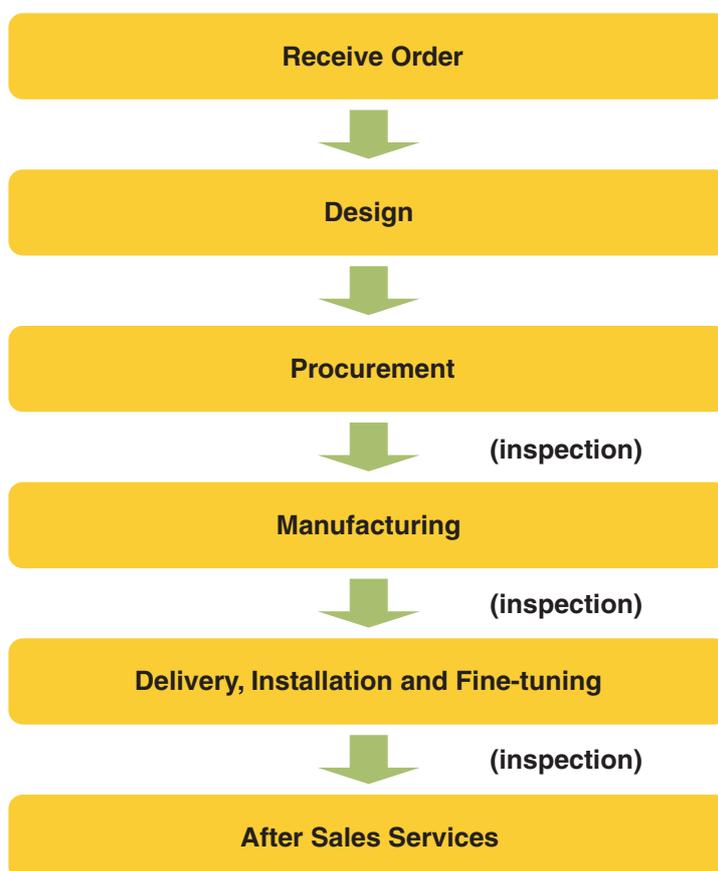
*Oxidation ditches and SBR equipment.* Wastewater needs to be oxidized in order to increase growth and activity of micro-organisms to enhance the decomposition of pollutants in wastewater. Our oxidation ditches are machinery which increase the oxygen level in wastewater to enhance this process whereas our sequencing batch reactors, or SBR equipment, use activated sludge to treat wastewater.

*Sludge scrapers for tap water treatment plants.* Sedimentary sludge resulting from water treatment needs to be removed. We offer different clean water sludge scrapers that remove sludge from sedimentary tanks, with a maximum treatment capacity of up to 1800m<sup>3</sup>/h.

## BUSINESS

### Our Manufacturing Process

The following diagram provides an overview of our manufacturing process for our water and wastewater treatment equipment:



### Order generation

We have 18 sales teams in the PRC and one international sales office in Singapore. We also use export agents and overseas agents for the sale of our equipment to international markets. Our sales teams are responsible for promoting our products and securing orders. A majority of the orders are for the purchase of our pre-designed or standard equipment, but we also receive orders for customized equipment that we specially design for customers in order to cater for their specific needs. We sell our products primarily within the PRC, but we also sell some of our products overseas through sales to export agents in the PRC, sales to overseas import agents, and, in respect of a small quantity of products, by direct sales to a customer in Canada.

### Equipment design

Our equipment design, research and development department has 15 persons as of June 30, 2010. The department is responsible for preparing the design and quality control procedures for our

## BUSINESS

products. It also prepares manufacturing plans for the production of customized equipment, together with detailed testing and inspection plans for our finished products.

### **Procurement**

Raw materials account for approximately 50% to 60% of the production costs of our equipment and steel is our key raw material. We have three regular steel suppliers and we enter into framework purchase agreements with each of them at the beginning of each year in which we agree a fixed price range to better control our costs.

We have an approved list of suppliers which we select using procedures similar to those we use to select suppliers for our project business. When sourcing raw materials or components, we give priority to our approved suppliers. We conduct annual reviews of our approved suppliers and those who fail our annual review will be removed from our list. For new suppliers, we request them to first provide us with samples for examination and we review their performance based on smaller initial orders.

### ***Manufacturing***

Our manufacturing and assembly operations involve the coordination of raw materials and components, some of which are sourced from third parties, and internal production processes in accordance with the equipment design. We manufacture, assemble and test our products at our manufacturing facility in Beijing, China. We had a production team of approximately 145 persons as of June 30, 2010 to whom we provide regular training to improve their technical skills.

We have been accredited with ISO9001 certification and have implemented a rigid quality control system. We devote significant attention to quality control procedures at each stage of our manufacturing process and have implemented acceptance procedures for raw materials and components. We conduct performance and reliability testing for our products to meet our customer's expectations.

### ***Delivery, Installation and Fine-tuning***

Upon the delivery and installation of our equipment at our customer's premises, our staff will conduct a trial-run of the equipment and carry out a final inspection. Any defects identified will be repaired or the relevant equipment replaced.

### **Customer support and services**

We provide comprehensive and professional support services to our customers from pre-sales to post-sale support. At the pre-sale stage, our engineers provide technical advice to our customers to assist them in incorporating our equipment into their facilities. During installation, our engineers will assist them in fine-tuning the equipment and provide technical support for the operation of the

## BUSINESS

equipment. We also provide technical manuals and training to our customers on routine operation and maintenance of our equipment.

We intend to establish a customer service management database which records the specification, sales data, installation and technical parameters and repair information of the equipment sold to our customers. This is expected to enable us to keep track of the status of the equipment we sell and to provide proactive support services to our customers by providing advance notification of their maintenance schedule. We generally supply our equipment with a warranty period of 12 months. During the warranty period, we are responsible for the repair of the equipment except for damages caused by the customers due to misuse.

### **Customers**

We sell our equipment products in China and have also sold small quantities of our equipment products, through agents, to an end-user in Canada. Our customers range from government departments to industrial clients. We also supply equipment to other enterprises engaged in the water and wastewater treatment industry.

We also make use of Hi-Standard's strong equipment development and customization capabilities for our own EPC and BOT projects. Approximately 29.0%, 27.6% and 0.4% of Hi-Standard's revenue was attributable to inter-company sales in the years ended December 31, 2008 and 2009 and the three months ended March 31, 2010, respectively and was therefore eliminated in our consolidated accounts in Appendix I to this Listing Document.

Beijing Hi-Standard Equipment Company was Hi-Standard's largest customer since 2008. Hi-Standard was incorporated in April 2007 by Shanghai Jingke Investment Management Company, an Independent Third Party, Beijing Sound Water Technology (a PRC company owned by Beijing Sound Enviro (as to 90%) and a relative of Mr. Wen, Wen Shuangfei (as to 10%)), and Beijing Hi-Standard Equipment Company, then an established PRC environmental protection equipment manufacturer in which the BSE Group held a 15% equity interest. 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 equipment manufacturing facilities, building and land use rights valued at RMB31,000,000 as its portion of 47.0% of the registered capital in Hi-Standard, and thus held a 47.0% equity interest in Hi-Standard. So far as we are aware, prior to this contribution, Beijing Hi-Standard Equipment Company was primarily engaged in the research and development, manufacturing and installation of environmental equipment. After its establishment, Hi-Standard conducted the water and wastewater equipment manufacturing business previously conducted by Beijing Hi-Standard Equipment Company and started to establish its own reputation and track record as a manufacturer of equipment for water and wastewater treatment. However, in many cases, potential customers require businesses tendering for equipment supply contracts to demonstrate that they have three years' track record before considering their tenders for their equipment supply contracts. In order to be able to tender for such projects, Hi-Standard entered into an agreement with Beijing Hi-Standard Equipment Company on July 5, 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 ineligible to do so. Hi-Standard then manufactures the equipment

## BUSINESS

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-Standard sells equipment to Beijing Hi-Standard Equipment Company represents a discount of one per cent to the price agreed 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 approximately RMB96.5 million, RMB94.8 million and RMB25.0 million in 2008, 2009 and the three months ended March 31, 2010, respectively. Insofar as we are aware, other than such arrangement with Hi-Standard and other than the maintenance of the building located in Majuqiao Town, Tongzhou District, Beijing, PRC, which is partly leased by Beijing Hi-Standard Equipment Company to Beijing Sound as office premises, Beijing Hi-Standard Equipment Company did not carry on any other business activities as of the Latest Practicable Date. Please refer to the section headed "Risk Factors — Any material dispute with or default of Beijing Hi-Standard Equipment Company may materially adversely effect our results of operations" for details of the risks associated with this arrangement.

### **Development of new membrane manufacturing business**

We believe that there are a limited number of suppliers of high quality membranes for water and wastewater treatment in the PRC. We use membranes, nanofiltration membranes and modules in the construction of our water and wastewater treatment facilities. Such membranes and modules are used at various stages in the water and wastewater treatment process and we believe this presents an opportunity for us to expand our operations to manufacture high quality membranes for use in the water and wastewater treatment facilities we construct and also for external sale. In the future, we plan to build an advanced production line in Beijing to manufacture reverse osmosis membranes, nanofiltration membranes and modules for use in water and wastewater treatment, as well as sea water desalination. We intend to target potential customers such as municipal water treatment plants, electricity plants and water desalination plants as customers for the membranes we will manufacture. Currently, we do not have any concrete plans for the construction of the membrane production facilities. We cannot give you any assurance that we will commence the construction of such production facilities or as to when such production facilities will commence operation.

### **RESEARCH AND DEVELOPMENT**

One of our key competitive strengths is our ability to customize and adapt existing technologies to the differing challenges posed by wastewater from diverse industries and pollutants and the treatment of water for municipal and industrial use. We divide our research and development activities between (i) the development and application of technologies for our water and wastewater treatment projects and (ii) the development and customization of equipment by Hi-Standard. Our dedicated in-house design and R&D teams consisted of 59 design engineers and 16 research professionals, respectively as of June 30, 2010.

## **Research and development for our water and wastewater projects**

We adopt a commercially driven approach in selecting our research and development projects. Our research and development efforts focus on (i) improving and adapting our existing technologies and treatment techniques to meet the specific requirements of our projects on hand, so as to increase the operational efficiency of our treatment facilities; and (ii) developing and commercializing new technologies in areas where we believe there is a strong potential for growth in the near to medium term. By investing in the development of technologies and techniques that we believe will be widely applicable in the future and by participating in the process of setting new industry standards, we seek to solidify our competitive position and gain an early-mover advantage in developing new markets. For example, the Ministry of Health increased the number of standards for drinking water quality from 35 to 106 in 2007. Although compliance with all the new standards is not mandatory until July 1, 2012, we have already developed a new treatment process using membrane technology to comply with the new standards with the aim of obtaining an early-mover advantage once these requirements are implemented.

We maintain close contact with municipal governments and industrial players from major industries to monitor changes in their technological needs and develop techniques and technologies designed to assist them in meeting those objectives. As a testimony to our capabilities in water and wastewater treatment technologies, we were ranked as one of the “2008 Top Ten Most Innovative Companies in Environmental Protection” by China Water (中國水網). Our Lanzhou New Western Weililun Company Fibre Factory Wastewater Treatment Project was awarded the “2009 State Focus Environmental Protection Application Technology Demonstration Project” in 2009 by the China Environmental Protection Industry Association.

### ***Collaboration with academic institutions***

#### *Lanzhou Jiaotong University*

We have established a joint master program with Lanzhou Jiaotong University pursuant to which certain members of our senior management tutor master students at the university. We assign students research projects based on our needs and research focuses. More than ten master students have graduated from this program and we have retained three of them in our design department and one in our operational department upon their graduation. This program contributed to the development of our high ammonia nitrogen wastewater biochemical treatment technology.

#### *Tongji University*

We have established a joint post-doctorate program with Tongji University, whereby with the assistance of Tongji University, we sponsor post-doctorate candidates who agree to undertake research in areas on which we focus. We fund the research projects and pay for the expenses of the post-doctorate candidate. In return, we retain all rights to the technology and research developed by the post-doctorate candidates. Through this program, we seek to nurture talent that can meet our strategic technological needs in the future and enhance our technological expertise.

### *Notable technologies and techniques*

Some of the notable technologies and techniques we own registered patents for include:

#### *SDN Coking Coal Wastewater Treatment Technology*

Coking coal wastewater contains a high concentration of ammonia nitrogen and tar, making it difficult to treat. Our proprietary SDN technology can remove a higher percentage of ammonia nitrogen in coking coal wastewater in a cost-efficient manner.

#### *Double Membrane Coking Coal Wastewater Recycling Treatment Process*

Our Double Membrane Coking Coal Wastewater Recycling Treatment Process uses advanced hyper-filtration and nano-filtration membranes to remove the suspended particles, mineral oils and organic substances in coking coal wastewater. When used together with our SDN Coking Coal Wastewater Treatment Technology, the wastewater treated can be reused as cooling water for the relevant coking coal factory, minimizing wastewater emission.

#### *High Concentration Ammonia Nitrate Wastewater Treatment Technology*

Our High Concentration Ammonia Nitrate Wastewater Treatment Technology utilizes micro-organisms in the sludge to treat wastewater that contains a high concentration of ammonia nitrate. This technology can achieve a more stable removal rate of ammonia nitrate than conventional methods.

#### *Hyper-membrane for water treatment*

We have developed our hyper-membrane for drinking water treatment which utilizes advanced membrane filtration technology to treat raw water. The treated water is able to meet the new drinking water quality standards issued by the Ministry of Health which are expected to be fully implemented in 2012.

### **Research and development for our equipment manufacturing business**

We have a special purpose technology center in Beijing for the research and development of new equipment. Our technology center has a full range of technological tools and software to assist our research personnel to develop and test new and customized products.

In addition to improving our existing product offerings, our research and development efforts focus on the development of new equipment products and tailor-made equipment products designed in accordance with customers' specifications. We have established a set of project selection procedures, including the use of detailed market and technological analyses. All new equipment products are subject to rigorous testing prior to production and we often conduct trial operation of the sample equipment products in our Group's EPC projects. We begin manufacturing new equipment products

## BUSINESS

only after the sample product passes internal inspection and achieves customer satisfaction. This integrated approach allows us to identify potential difficulties in commercializing our products and make adjustments as necessary to develop cost-efficient manufacturing processes prior to mass production. We recognize the importance of customer satisfaction for our newly-developed products and continue to seek feedback from our end-user customers.

As of the Latest Practicable Date, Hi-Standard held 19 patents and was in the process of applying for two additional patents in the PRC.

### **Our research and development expenses**

Our research and development expenses for the years ended December 31, 2007, 2008 and 2009 and the three months ended March 31, 2010 were approximately RMB4.7 million, RMB6.0 million, RMB5.3 million and RMB1.1 million, respectively.

### **MARKETING AND SALES**

Our project business and equipment manufacturing business each have their own marketing strategy. Each has different target customers, but they both share the same sales network.

Our marketing team is responsible for gathering and analyzing regional market information, developing target markets through technical promotions and advertisements and establishing and maintaining public and customer relations. Our sales team is responsible for gathering information about business opportunities, identifying tender opportunities and new customers, business negotiations and customer development.

We have an extensive sales and marketing network covering most major provinces and cities in the PRC with 18 sales teams as of June 30, 2010. We also have an overseas sales office in Singapore, which is responsible for our overseas sales and marketing activities. We had 55 sales and marketing personnel as of June 30, 2010. Our customers range from municipal governments to industrial enterprises and are spread across a broad range of industries. Our sales teams focus on building long term relationships with customers in their region. We believe that this network raises our Company's market profile and increases customer awareness of our services and products.

Our main marketing channels include:

- *Direct Marketing*

Our sales offices maintain communication with government departments and monitor industry news to identify prospective projects. We then contact potential customers directly to tender for prospective projects.

- *Trade Shows and Exhibitions*

We participate in trade shows and exhibitions in the PRC. We also participate in international trade shows to raise our international profile including Singapore

## BUSINESS

International Water Week, WEFTEC in the United States and Saudi Water and Power Forum (SWPF) Exhibition in Saudi Arabia.

- *Seminars and Forums*

We also actively participate in road shows, seminars and forums relating to the environmental protection industry such as the China Environmental Protection Industry Summit Forum and Strategic Forum on Urban Water Sector. Such seminars and forums provide us with a platform to showcase our range of products, services and technologies, and enable us to establish contact with potential and existing customers and gather information on the latest technological trends.

- *Advertisements*

From time to time, we advertize through the media, primarily through trade magazines, as well as newspapers and the internet to promote our brand name.

- *International sales*

We have established a sales office in Singapore to focus on securing international projects and international equipment sales and building up our international network. We have recruited international sales representatives to spearhead our expansion into international markets. We intend to leverage our EPC project expertise in the PRC to expand into international markets, with a particular focus on developing economies, where we consider that our experience is most relevant. In 2009, we entered into a contract with Marafiq, a state-linked power and water provider in Saudi Arabia in respect of a SAR342 million (equivalent to approximately RMB620 million) EPC and upgrade contract in Saudi Arabia.

We also work with exporters in the PRC and overseas agents in Canada, United States, Sweden and Saudi Arabia to promote and sell our environmental equipment overseas and promote our project capabilities.

### OUR CREDIT POLICY

Payment terms for our turnkey projects vary from customer to customer, depending on factors such as customer profile, their creditworthiness and the size of the project.

Upon the execution of a contract, we usually require an initial payment of 15% to 25% of the total contract value for our water and wastewater treatment EPC projects to cover the initial costs of equipment and construction. Thereafter, we invoice our customers based on the progress of construction of the projects. Our customers usually retain 5% to 10% of the project sum for a warranty period of 12 months after acceptance of the completed facility before releasing such retention monies to us.

We are responsible for the design, construction and commissioning costs for our BOT projects. Following commencement of operation of our BOT facilities, we issue regular, usually monthly, invoices for our services.

## BUSINESS

We regularly monitor the payment status of each customer and conduct monthly internal meetings which are attended by the heads of our finance, sales and operations departments to review the payment status of our customers and projects. In certain cases, we may hold weekly meetings to review and monitor the payment status.

We do not have a uniform standard credit period which we grant to our customers. In addition, certain customers of our EPC business stipulate their requested credit periods in their tender documents. Accordingly, the credit periods are, to a certain extent, influenced by the requirements of our customers. We therefore consider the credit periods we grant to individual customers on a case-by-case basis. For those customers that are government authorities or large enterprises with a good credit history, we generally agree to grant a longer credit period.

As of December 31, 2007, 2008 and 2009 and March 31, 2010, net trade receivables within one year constituted approximately 83.7%, 90.8%, 70.1% and 84.0% of our total net trade receivables, respectively.

### **OUR MAJOR CUSTOMERS AND SUPPLIERS**

#### **Major customers**

Since our EPC services business is primarily project-based, our customers tend to vary from period to period, except for our largest customer during the Track Record Period, the BSE Group (including Sound Environmental Resources and its subsidiaries). Although we expect our BOT and O&M projects to provide an increasing proportion of recurring revenue in the future, only one of our BOT projects was operational as of March 31, 2010. The operation of these facilities did not make any contribution to our revenue during the two years ended December 31, 2007 and 2008. We recognized RMB5.7 million and RMB1.9 million of revenue in 2009 and the first quarter of 2010, respectively, from the operational phase of one BOT project, which commenced operations in the second half of 2009. Please refer to the section headed “Financial Information — Description of selected line items of statements of comprehensive income” for details of our revenue recognition policies for our projects and, in particular, for our BOT projects.

During the Track Record Period, we entered into EPC contracts with members of the BSE Group and Sound Environmental Resources in connection with their BOT water and wastewater treatment projects and also supplied them with small quantities of equipment. The percentage of our Group’s total revenue attributable to the BSE Group and Sound Environmental Resources (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 approximately 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.

Going forward, we will be the sole entity controlled by our Controlling Shareholders to engage in BOT and TOT water and wastewater treatment projects outside of the Designated Locations. We

## BUSINESS

therefore expect revenue from sales to the BSE Group and Sound Environmental Resources to continue to decrease as a percentage of our total revenue in the future. Please refer to the sections headed “Relationship with our Controlling Shareholder Group” and “Connected Transactions” for further details of our sales to the BSE Group and Sound Environmental Resources.

For our EPC project business, the percentage of our Group’s total revenue attributable to our top five customers (including the BSE Group and Sound Environmental Resources and its subsidiaries) in this business line for the years ended December 31, 2007, 2008 and 2009 and the three months ended March 31, 2010 was approximately 71.3%, 55.0%, 23.6% and 68.8%, respectively. The BSE Group and Sound Environmental Resources and its subsidiaries were together the largest customer of our EPC project business for the years ended December 31, 2007, 2008 and 2009 and accounted for approximately 43.1%, 32.9% and 6.6% of our revenue, respectively, and were among our five largest customers for the first quarter of 2010, accounting for approximately 9.5% of our revenue for such period.

For our BOT project business, the percentage of our Group’s total revenue attributable to our top five projects in this business line for the years ended December 31, 2008 and 2009 and the three months ended March 31, 2010 was approximately 11.3%, 8.2% and 1.1%, respectively. We did not record any revenue from our BOT project business in the financial year ended December 31, 2007. For the years ended December 31, 2008 and 2009 and the three months ended March 31, 2010, our largest BOT project was the Xi’an City Chang’an District Wastewater Treatment Project, Hancheng City Wastewater Treatment Project and Jiangyan City Wastewater Treatment Project, respectively, accounting for approximately 3.9%, 2.1% and 0.9% of our revenue, respectively.

For our equipment manufacturing business, the percentage of our Group’s total revenue attributable to our top five customers in this business line for the years ended December 31, 2008 and 2009 and the three months ended March 31, 2010 was approximately 10.0%, 8.5% and 14.3%, respectively; our top customer in this business line, Beijing Hi-Standard Equipment Company, accounted for approximately 9.4%, 7.3% and 10.7% of our Group’s total revenue in the same periods, respectively. We did not record any revenue from our equipment manufacturing business in the financial year ended December 31, 2007.

Beijing Hi-Standard Equipment Company was our largest customer in our equipment manufacturing business. In the years ended December 31, 2008 and 2009 and the three months ended March 31, 2010, sales to Beijing Hi-Standard Equipment Company accounted for RMB96.5 million, RMB94.8 million and RMB25.0 million, accounting for approximately 93.9%, 75.6% and 74.4%, of our revenue from our equipment manufacturing business for the periods, respectively. It is also our third and second largest customer in terms of our Group’s total revenue for the same periods, respectively. Please refer to the section headed “Our Environmental Equipment Manufacturing Business — Customers” for details of our arrangement with Beijing Hi-Standard Equipment Company.

Other than the BSE Group, Sound Environmental Resources and Beijing Hi-Standard Equipment Company, our top five customers and the percentage of turnover attributable to them have varied from year to year during the Track Record Period due to the project based nature of our EPC business.

## BUSINESS

For the years ended December 31, 2007, 2008 and 2009 and the three months ended March 31, 2010, approximately 48.4%, 51.7%, 58.5% and 65.4%, respectively, of our revenue was attributable to our governmental customers (including state-owned enterprises), and approximately 51.6%, 48.3%, 41.5% and 34.6%, respectively, of our revenue was contributed by non-governmental customers. Our governmental customers are typically engaged in municipal wastewater treatment business while our non-governmental customers are typically primarily engaged in the iron and steel, chemical and coking industries.

Please refer to the section headed “Risk Factors — 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”.

Save as disclosed above, none of the Directors, their associates or any Shareholder (which to the knowledge of the Directors owns more than 5% of our Company’s share capital) has any interest in any of our five largest customers during the Track Record Period.

### **Major suppliers**

Our principal suppliers during the Track Record Period were sub-contractors retained by us to construct and install our projects. Please refer to the section headed “Business Process for EPC Projects — Procurement and sub-contractors” above for details of our typical arrangements with our sub-contractors.

The percentage of our total purchases from our largest supplier for the years ended December 31, 2007, 2008 and 2009 and the three months ended March 31, 2010 was approximately 10.3%, 16.5%, 19.7% and 19.8% of our total purchases, respectively. The percentage of our total purchases from our top five suppliers for the years ended December 31, 2007, 2008 and 2009 and the three months ended March 31, 2010 was approximately 45.0%, 39.2%, 52.9% and 65.1%, respectively.

Beijing Hi-Standard Equipment Company was our third largest supplier for the years ended December 31, 2007 and 2008 and accounted for approximately 9.1% and 4.9% of our total purchases, supplying us with water and wastewater treatment equipment. Beijing Hi-Standard Equipment Company is 15% owned by Beijing Sound Enviro. Beijing Sound Enviro is a member of our Controlling Shareholder Group. After Hi-Standard’s acquisition of Beijing Hi-Standard Equipment Company’s equipment manufacturing business, and our subsequent acquisition of Hi-Standard, Beijing Hi-Standard Equipment Company became one of our top five customers for the years ended December 31, 2008 and 2009 and the three months ended March 31, 2010, as disclosed in the section headed “Our Environmental Equipment Manufacturing Business — Customers” above.

Save as disclosed, none of the Directors, their associates or any Shareholder (which to the knowledge of the Directors owns more than 5% of our Company’s share capital) had any interest in any of our five largest suppliers during the Track Record Period.

## BUSINESS

### AWARDS

Our commitment to excellence is evidenced by our numerous awards:

<u>Date of award</u>	<u>Award</u>	<u>Awarding Organization</u>
January 2010	No. 1 of the Top Ten Outstanding Engineering Companies	China Water
April 2009	Proprietary innovation in Beijing Municipality — Design and construction of SDN coking coal treatment process	The Science and Technology Committee of Beijing Municipality
January 2009	2009 Forbes China Potential Companies	Forbes Asia Enterprise
December 2008	Best Under a Billion Top 200 Companies	Forbes Asia
March 2008	2008 Forbes China Potential Companies	Forbes Asia Enterprise
January 2008	2007 Outstanding Environmental Engineering Company	China Water (中國水網), China Association of Environmental Protection Industry (中國環境保護產業協會), China Securities Journal (中國證券報)
April 2007	Top Ten Influential Water Industry Engineering Companies	Beijing Huicong International Information Company Limited (北京慧聰國際資訊有限公司)
December 2003	Top 100 Brand Recognition (2002)	People's Government of Haidian District
December 2003	China Environment Industry Backbone Company	China Environmental Industry Protection Association

### COMPETITION

The water and wastewater treatment market in the PRC has evolved significantly over the past decade. The market is highly competitive and fragmented. Our existing and potential competitors include major State-owned and private water and wastewater solutions providers and equipment manufacturers and a number of international environmental services companies. We consider that our major competitors include Hyflux Ltd (SGX Stock Code: HY FL.51), Beijing Capital (Shanghai Stock Code: 6000.8) and China Everbright International Ltd. (Hong Kong Stock Code: 257). Our competitors compete with us in terms of technology, quality, price, brand recognition, project execution capability, marketing and customer services. Some of our competitors have greater financial, marketing or other resources and some have more advanced technologies. Certain competitors may also have greater brand recognition, economies of scale, or longer track records and more established relationships in certain markets in which we operate. However, we believe that we can compete effectively by virtue of (i) our extensive project execution capabilities; (ii) our cost-effective treatment solutions; (iii) our familiarity with PRC regulations and the needs of local customers; (iv) our technology; and (v) our reputation for quality and customer service. For more information on competition, please refer to the section headed "Risk Factors — Our inability to maintain our competitiveness would adversely affect our financial performance".

## **INTELLECTUAL PROPERTY**

Our proprietary technologies and techniques are one of our key competitive strengths, and form an integral basis for our brand recognition and are important to our profitability. Given that any application for the registration of a patent for our research and development results would entail the publication of details of the relevant technology or technique we therefore have in many cases decided not to apply for patents for our core technologies and techniques and rely instead on keeping those core technologies and techniques as proprietary know-how and trade secrets.

In order to protect the confidentiality of the results of our research and development, we require those employees involved in the critical parts of the research and development process to sign confidentiality agreements with us pursuant to which the employees agree not to divulge any confidential information obtained during the course of their employment with us. In addition, there is a strict segregation of duties among personnel involved at the different stages of our engineering process. This helps to minimize the risk of any one staff member coming into possession of comprehensive technical know-how related to the entire engineering process.

Please refer to the section headed “Risk Factors — 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”.

We own and use a number of patents and domain names in connection with our business. We have registered certain trademarks and have applied for the registration of certain other trademarks, in Singapore. We intend to maintain the trademark registrations so long as they remain valuable to our business. We hold 36 patents in China, and intend to maintain the patents during their respective terms.

The BSE Group has also licensed certain trademarks to us, including the “Sound” and “桑德” trademarks, for nil consideration for a period of 50 years starting from 2006. We market most of our water and wastewater treatment project business under the “Sound” and “桑德” trademarks. Details of our Group’s use of the BSE Group’s trademark and intellectual property rights are set out in the section of this Listing Document headed “Connected Transactions” and “Further information about the business of our Company — Our intellectual property rights” in Appendix VI to this Listing Document.

## **PROPERTIES**

### **Properties owned by us**

Our head office is located in Beijing, PRC. As of July 31, 2010, we owned 3 parcels of land located in Tongzhou District, Beijing with an aggregate site area of approximately 62,410.99 square meters and four buildings with an aggregate gross floor area of approximately 20,774 square meters. We have obtained the legal title to the land and the buildings.

### **Certificates, permits and licenses**

For our BOT projects, once we have entered into the relevant concession agreement, we begin applying for the various certificates and permits that we need in order to begin construction of the treatment facilities:

- **construction land use planning permit** (建設用地規劃許可證). A permit authorizing an entity to begin the surveying, planning and design of a parcel of land. It allows the entity to apply for the land use rights certificate;
- **land use rights certificate** (國有土地使用權證). A certification of the right of a party to use a parcel of land. It allows the entity to apply for the construction work planning permit;
- **construction work planning permit** (建設工程規劃許可證). A certificate indicating government approval for an entity's overall planning and design of the project. It allows the entity to apply for a commencement of construction work permit;
- **construction work commencement permit** (建築工程施工許可證). A permit required for the commencement of construction. It allows the entity to apply for the building ownership certificate which is subject to other conditions including passing the acceptance check on completion of construction; and
- **building ownership certificate** (房產證). A certificate evidencing the right of the entity to use and occupy the properties.

### **Properties occupied by us under concession agreements**

As of July 31, 2010, we occupied ten parcels of land in connection with our BOT business with an aggregate site area of approximately 424,434.15 square meters. Our BOT project companies occupied these parcels of land for the construction and operation of wastewater treatment facilities pursuant to the relevant concession agreements. Our independent property valuer, Jones Lang LaSalle Sallmanns Limited, has attributed no commercial value to these properties as we occupy these properties pursuant to the relevant concession agreements and we cannot freely transfer the relevant properties.

As of the Latest Practicable Date, we had not obtained the land use right certificates or building ownership certificates for any of the parcels of land or buildings thereon for our current BOT projects. In addition, so far as we are aware, our customers do not own the relevant title to such properties. In addition, we do not have the construction land use planning permit, construction work planning permit or construction work commencement permit for certain of our BOT projects. The reasons why we have not obtained the relevant certificates required are that (1) for the land use right certificates for six of our BOT projects, the relevant government authorities are undergoing their internal process in respect of issuing the relevant certificates, (2) for Henan Anyang Wastewater Treatment Project and Guangxi Chongzuo City Wastewater Treatment Project, the relevant land use right certificates are held by Anyang Water Group Co., Ltd. and Chongzuo Construction and Investment Co., Ltd., respectively, each of which is an Independent Third Party, and (3) for building ownership certificates, six of our project companies have completed the construction work and have not obtained building ownership certificates due to the lack of land use right certificates and other permits. Our other project companies

<b>BUSINESS</b>
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that have not completed the construction work are not required to obtain building ownership certificates currently.

We have taken steps to obtain the relevant permits and certificates by writing to the relevant local government, (who are usually under an obligation under the terms of our concession agreements to assist us in obtaining the property permits and certificates) and relevant local environmental bureau to urge them to arrange for the relevant certificates and permits to be issued to us. The timing of obtaining the relevant certificates and/or permits required depends on when the relevant government authorities will complete their internal process. However, we have obtained confirmation from the third parties holding the land use right certificates indicated above that the relevant project company may use and occupy the land within the period stipulated in the respective concession agreement. We have also obtained confirmation from relevant government authorities that no penalty will be levied on us in respect of our lack of relevant land use certificates, building certificates, acceptance checks on completion of construction and the relevant permits in connection with the land, the buildings and construction work on such land for all of our BOT projects (where applicable). The relevant government authorities have also confirmed that our project companies may continue to use and occupy the land and buildings and carry out construction work on such land and they will issue the relevant land use right certificates and/or other permits to the relevant project companies in due course. Based on such confirmations, although we are considered to be responsible for the lack of title certificate and permits, we consider that the possibility of forced relocation due to lack of proper title or construction permits is remote. Our PRC legal adviser has advised that, based on the relevant confirmations received from the government authorities, they consider that the risk of the relevant government authorities imposing any penalty on us in respect of the project companies which have obtained such confirmation issued by relevant government authorities is remote. Our PRC legal advisers are also of the view that the relevant government authorities set out in the table below have the authority to give the relevant confirmations.

**BUSINESS**

Details of the non-compliance for our BOT projects and confirmations obtained by our project companies for the non-compliance are as follows:

Project	Land Use Rights Certificate	Authority issuing the confirmation for use of land	Building Ownership Certificate	Acceptance check on completion of construction	Authority issuing the confirmation for occupation and use of the building	Construction Land Use Planning Permit	Construction Work Planning Permit	Construction Work Commencement Permit	Authority issuing the confirmation for continuation of construction work
Henan Anyang City Wastewater Treatment Project (河南安陽市污水處理項目) <sup>(1)</sup>	Held by Anyang Water Group Co., Ltd.	Land and Resources Bureau of Anyang City (安陽市國土資源局)	Construction not yet completed	n/a	n/a	Held by Anyang Water Group Co., Ltd.	No	No	Construction Committee of Anyang City (安陽市建設委員會) and City Planning Management Bureau of Anyang City (安陽市城市規劃管理局)
Shaanxi Xi'an City Chang'an District Wastewater Treatment Project (陝西西安市長安區污水處理項目) <sup>(2)</sup>	No	Land and Resources Bureau of Xi'an City (西安市國土資源局)	No	No	Building Management Bureau of Xi'an City (西安市房屋管理局)	Yes	No	No	Construction Bureau of Chang'an District Xi'an City (西安市長安區建設局) and Planning Bureau of Xi'an City (西安市規劃局)
Guangxi Chongzuo City Wastewater Treatment Project (廣西崇左市污水處理項目) <sup>(3)</sup>	Held by Chongzuo Construction and Investment Co., Ltd.	Land and Resource Bureau of Chongzuo City (崇左市國土資源局)	No	No	Building Management Bureau of Chongzuo City (崇左市房產管理局)	Held by Chongzuo Construction and Investment Co., Ltd.	Held by Chongzuo Construction and Investment Co., Ltd.	Yes	Construction and City Management Committee of Chongzuo City (崇左市建設與市政管理委員會) and Planning Management and Planning Bureau of Chongzuo City (崇左市規劃管理局)
Shaanxi Hancheng City Wastewater Treatment Project (陝西韓城市污水處理項目) <sup>(4)</sup>	No	Land and Resources Bureau of Hancheng City (韓城市國土資源局)	No	Yes	Building Ownership Regulatory Department of Hancheng City (韓城市房地產產權監理處)	No	No	No	Urban and Rural Development Bureau of Hancheng City (韓城市城鄉建設局)
Shaanxi Xi'an City Hu County Wastewater Treatment Project (陝西西安市戶縣污水處理項目) <sup>(5)</sup>	No	Land and Resources Bureau of Hu County (戶縣國土資源局)	No	Yes	Building Management Bureau of Hu County (戶縣房地產管理所)	Yes	Yes	Yes	n/a

Notes:

- Anyang Water Group Co., Ltd. has applied for the Construction Work Planning Permit on March 4, 2009. The reason such permit has still not been issued to us is that the Land Use Rights Certificate was not issued until August 3, 2009. Anyang Water Group Co., Ltd. is an Independent Third Party.
- On February 22, 2010, we sent a letter to the People's Government of Chang'an District, Xi'an City to urge it to assist us to obtain the Land Use Rights Certificate.
- The acceptance check on completion of construction meeting was held on March 26, 2010, and we are now undergoing the relevant process to obtain the completion of construction certificate. Chongzuo Construction and Investment Co., Ltd. is an Independent Third Party.
- According to the Construction Work Planning Permit Notice issued by the Urban and Rural Development Bureau of Hancheng City dated October 14, 2009, the Construction Work Planning Permit will be issued to us after we pass the acceptance check on completion of construction.
- On March 10, 2009, we sent a letter to the People's Government of Hu County to urge it to assist us to obtain the Land Use Rights Certificate.

## BUSINESS

Project	Land Use Rights Certificate	Authority issuing the confirmation for use of land	Building Ownership Certificate	Acceptance check on completion of construction	Authority issuing the confirmation for occupation and use of the building	Construction Land Use Planning Permit	Construction Work Planning Permit	Construction Work Commencement Permit	Authority issuing the confirmation of construction work
Jiangsu Jiangyan City Wastewater Treatment Project (江蘇姜堰市污水處理項目) <sup>(6)</sup>	No	Land and Resources Bureau of Jiangyan City (姜堰市國土資源局)	Construction not yet completed	n/a	n/a	No	No	No	Construction Bureau of Jiangyan City (姜堰市建設局) and Planning Bureau of Jiangyan City (姜堰市規劃局)
Shaanxi Yulin City Jingbian County Wastewater Treatment Project (陝西榆林市靖邊縣污水處理項目) <sup>(7)</sup>	No	Land and Resources Bureau of Jingbian County (靖邊縣國土資源局)	No	Yes	Building Management Bureau of Jingbian County (靖邊縣房產管理所)	Held by Environmental Bureau of Jingbian County (靖邊縣環保局)	Held by Environmental Bureau of Jingbian County (靖邊縣環保局)	No	Construction Bureau of Jingbian County (靖邊縣建設局)
Shaanxi Shangluo City Wastewater Treatment Project (陝西商洛市污水處理項目) <sup>(8)</sup>	No	Land and Resources Bureau of Shangluo City (商洛市國土資源局)	No	No	Register Office for Building Ownership Rights of Shangzhou District Shangluo City (商洛市商州區房產權登記發證辦公室)	No	No	No	Urban and Rural Development Bureau of Shangluo City (商洛市城鄉建設局)
Liaoning Fushun City Wastewater Treatment Project (遼寧撫順市污水處理項目)	Construction not yet commenced	n/a	Construction not yet commenced	n/a	n/a	Construction not yet commenced	Construction not yet commenced	Construction not yet commenced	n/a
Shandong Yantai City Wastewater Treatment Project (山東煙台市污水處理項目)	Construction not yet commenced	n/a	Construction not yet commenced	n/a	n/a	Construction not yet commenced	Construction not yet commenced	Construction not yet commenced	n/a
Shaanxi Xi'an International Gangwu District Wastewater Treatment Project (陝西西安國際港務區污水處理項目)	Construction not yet commenced	n/a	Construction not yet commenced	n/a	n/a	Construction not yet commenced	Construction not yet commenced	Construction not yet commenced	n/a

**Notes:**

- (6) On December 15, 2009, we sent a letter to the Construction Bureau of Jiangyan City to urge it to issue us the Construction Land Use Planning Permit, Construction Work Planning Permit, Construction Work Commencement Permit, and Land Use Rights Certificate.
- (7) On August 11, 2009, we sent a letter to the Environmental Bureau of Jingbian County to ask it to provide us the Construction Land Use Planning Permit, Construction Work Commencement Permit, Land Use Rights Certificate and other relevant documents.
- (8) On December 15, 2009, we sent a letter to the People's Government of Shangluo City to urge it to assist us to obtain the Land Use Rights Certificate and Construction Work Commencement Permit.

## BUSINESS

Our PRC legal adviser, Commerce and Finance Law Office has advised us as follows:

*Construction Land Use Planning Permit* — If a construction entity which was authorized to use the land for construction failed to obtain a Construction Land Use Planning Permit, the People's Government at or above the county level may withdraw such authorization and seize the land. Furthermore, the construction entity may be obliged to pay compensation for any damages caused to parties concerned.

*Land Use Rights Certificate* — According to the relevant PRC laws and regulations, in cases where agricultural land is occupied for construction use without authorization in violation of the General Plans for the Utilization of Land, the Land Administrative Department of the People's Government at or above the county level may order the seizure of the land and demolish, within a prescribed time limit, the buildings and other structures constructed on the land. In other cases where the General Plans for the Utilization of Land have not been violated the relevant government may confiscate the newly constructed buildings and other structures and impose a fine of not more than RMB30 per square meter.

*Construction Work Planning Permit* — For construction work carried out without a Construction Work Planning Permit, the Urban and Rural Planning Administrative Department at or above the county level may order the construction to cease. If the impact on the planning caused by such construction can be eliminated, the Urban and Rural Planning Administrative Department may order the construction entity to rectify such impact; an additional fine of not less than 5% but not more than 10% of the construction cost may be imposed. If such impact cannot be eliminated, the Urban and Rural Planning Administrative Department may order the construction entity to demolish such buildings or structures, or, for construction work that cannot be demolished, it may confiscate such buildings or structures or any income illegally earned from such property, and a further fine of not more than 10% of the construction cost may be imposed.

*Construction Work Commencement Permit* — If a construction entity carries out construction work without a Construction Work Commencement Permit, it may be ordered to cease construction and to make rectification within a certain time limit. A fine of not less than 1% but not more than 2% of the contractual project price may be imposed.

*Acceptance Check on Completion of Construction* — If a construction entity delivers a construction project for use without passing relevant completion inspections, it may be ordered to make rectification and may be obliged to pay compensation where any loss has been caused. A fine of not less than 2% but not more than 4% of the contractual project price may also be imposed.

Our PRC legal adviser, Commerce and Finance Law Office, has further advised us that, based on the relevant confirmations received from the government authorities, they consider that the risk of the relevant government authorities imposing any penalty on us in respect of the project companies which have obtained such confirmation issued by relevant government authorities that lack of land use right certificate, building ownership certificate and/or the relevant permits or procedures (as appropriate) are remote. 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

## BUSINESS

which might be payable by our Group as a result of the above-mentioned non-compliance with relevant PRC regulations.

Although our PRC legal advisers have advised that, based on the relevant confirmations received from the government authorities, the risk of the relevant government authorities imposing any penalty on us in respect of the project companies which have obtained confirmation issued by relevant government authorities is remote, in the event that the relevant government authorities decide to take action against us despite the confirmations they have given, (i) for BOT projects for which we do not possess the relevant land use right certificate, the relevant government authorities may order us to return the land, (ii) if we used agricultural land for construction uses without authorization in violation of the General Plans for the Utilization of Land, the newly constructed buildings and other structures on such land may be ordered to be demolished, and we may be required to restore such land to its original condition. If we did not violate the General Plans for the Utilization of Land, the relevant government authorities may confiscate the newly constructed buildings and other structures on such land, and may impose a fine of not more than RMB30 per square meter of land we illegally occupy. In such circumstances, we may lose all our investment in the relevant BOT projects and may be required to write off all the service concession receivables in our accounts, which amounted to approximately RMB438.2 million in aggregate as of March 31, 2010. Furthermore, we may also be subject to a total maximum penalty of approximately RMB58,688,000 imposed by relevant government authorities for the lack of various permits and procedures as set out above.

Going forward, our Group intends to obtain proper construction permits / land titles before commencement of construction on any future projects. We will adopt the following measures to avoid any future recurrence of such non-compliance: (i) we will use our best endeavors to tighten the provisions in our BOT contracts such that our customers are obliged to obtain (as opposed to assisting us to obtain) the land title certificates which shall be registered under the names of the relevant project company within our Group; (ii) the person-in-charge of the relevant project company shall procure that our customers perform such obligations under the BOT contracts and the project company shall commence the application for such other certificates and/or permits as soon as the land title certificates are obtained; and (iii) in any event, if our customers fail to obtain the land title certificates, the relevant project company shall obtain assistance from its customers for the purposes of obtaining confirmations from relevant governmental authorities to the effect that such governmental authorities will confirm that no penalty will be levied on the relevant project companies within our Group in respect of the lack of land title certificate.

Details of the properties occupied by us in connection with our BOT projects are set out in valuation certificate no. 3 to 11 in the valuation report set out in Appendix III.

### **Property interests leased by us**

In addition, as of July 31, 2010, we leased seven buildings with a total gross floor area of approximately 2,638.5 square meters, all of which were located in the PRC. We also leased one office premises in Singapore with a gross floor area of approximately 238 square meters.

## **BUSINESS**

Jones Lang LaSalle Sallmanns Limited, an independent property valuer, valued the capital value of our property interests at approximately RMB72.85 million as of July 31, 2010. The letter, summary of values and the valuation certificates issued by Jones Lang LaSalle Sallmanns Limited in connection with its valuation are set out in “Appendix III — Property Valuation” to this Listing Document.

### **STAFF TRAINING**

We place significant emphasis on staff development and selective recruitment. We have detailed recruitment procedures in place and seek to recruit and retain the best talent. We also use a fixed set of criteria in staff evaluation. We continually seek to improve our staff remuneration and benefits programs, fine-tuning career-planning initiatives for our staff and upgrading the quality of our workforce through a combination of on-the-job training and formal courses to increase the competitiveness of our Company. Our Directors believe in maintaining and increasing the competency of our staff in order to enable them to utilize the latest technologies and achieve best market practices. We want to ensure that our staff remains equipped with the necessary skills to stay relevant in their respective areas of work as this in turn helps our Group to maintain our level of competitiveness.

New employees are required to participate in a three-day orientation program whilst existing staff are given annual training courses relevant to their area of work to upgrade their skills and increase their productivity. Our staff training is either conducted internally by our management and various heads of department or conducted by external trainers hired by our Company. Over the years, we have also conducted training courses in relation to advanced water treatment technology, sales and marketing skills, enterprise management, human resource training, project budgeting, new standards for environmental engineering and automatic electrical control and municipal piping systems design.

We also provide extensive training for staff involved in the operation and maintenance of treatment facilities pursuant to our BOT and O&M projects. When they commence their employment with us, they first undergo a three month induction period to familiarize themselves with the operation of equipment within the treatment facilities and relevant safety procedures. We also have a supervision system at the facilities whereby new staff will receive supervision and guidance from more experienced staff and learn on the job.

### **INSURANCE**

Based on the level of our operating risks, we maintain insurance policies covering properties, fixed assets, the vehicles that we own as well as accidental injuries and social security. We generally do not maintain insurance for most of our BOT, EPC or O&M projects, except when it is required under the terms of the relevant contracts or financing agreements.

Our Directors believe that the coverage from these insurance policies is adequate for our present operations. Most of our project contracts do not impose an obligation on us or our customers to take out additional insurance. Where we sub-contract certain parts of our projects to sub-contractors,

## BUSINESS

our sub-contracting agreement provides that the sub-contractor shall bear all liabilities and losses arising from the part of the project for which it is responsible.

Pursuant to the loan agreement with the IFC dated May 28, 2010, we are required to insure and keep insured all the assets and businesses of our four 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, should we fail to obtain the relevant insurance within 30 days of notice from the IFC, to require the repayment of the outstanding amount under the loan. Any breach of this loan agreement may cause a cross default under the terms and conditions of the Convertible Bonds.

### **ENVIRONMENT AND SAFETY**

We are subject to, among other PRC laws and regulations promulgated by the central and local governments, the Environmental Protection Law of the PRC, the Law of the PRC on Appraising Environment Impact and the Law of the PRC on the Prevention and Control of Water Pollution. For further details of these requirements, please refer to the section headed “Regulation of our Industry” of this Listing Document. We are generally required to comply with all applicable laws and regulations, but specific requirements to do so are usually not incorporated into the relevant contracts for our projects or equipment supply. During the Track Record Period, we have not received any claims from our customers for failing to comply with the relevant licensing and environmental requirements.

For effective environmental protection and safety control, we have adopted two sets of internal measures, one governing environmental management and the other governing production safety management. Our environmental measures regulate different aspects of our operations, from the design and construction of treatment facilities, selection of sub-contractors and operation of treatment facilities. Our safety measures, on the other hand, set forth procedures and requirements to prevent the occurrence of safety related accidents. In order to comply with relevant regulations, we have adopted certain measures including but not limited to: (1) choosing techniques, equipment and materials that cause less environmental pollution; (2) using techniques and processes which ensure that the outflow water quality of our wastewater treatment facilities meets relevant standards and requirements; (3) using landfill and comprehensive utilization methods for the treatment of solid waste produced during the wastewater treatment processes; (4) controlling the effect of air pollutants, developing processes that discharge air pollutants underground or sealing such processes, and planting vegetation that can absorb relevant air pollutants; (5) choosing equipment that produces less noise; and (6) setting up relevant procedures that effectively identify and control the important environmental factors and major hazards to fulfill our environmental and safety targets and policies. In August 2002 and May 2008, Beijing Sound and Hi-Standard received certification by Beijing New Century Certification Co., Ltd. that their environment management systems complied with ISO14001:2004 standards. On June 6, 2010 we have also passed a board resolution which adopts certain environmental protection and safety control policies and undertakes that we operate in compliance with such requirements. According to such board resolution, we will also produce a monitoring report in relation to the implementation of these environmental protection and safety control policies annually which will be available for inspection by our Shareholders. Please refer to the section headed “Risk Factors — 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”.

## **BUSINESS**

For 2007, 2008 and 2009 and the first quarter of 2010, our expenditures on compliance with applicable PRC environmental and safety laws and regulations were RMB120,000, RMB273,000, RMB1,003,000 and RMB8,000, respectively. We currently estimate that our expenditures for environmental compliance for 2010 will be approximately RMB1,957,000. However, the actual expenditures for environmental compliance may be higher than our estimate.

We are required by applicable PRC laws to obtain the Qualification Certificate for the Operation of Environmental Pollution Treatment Facilities for the operation of wastewater treatment plants. As of the Latest Practicable Date, Beijing Epure was in the process of updating the Qualification Certificate for Operation of Environmental Pollution Treatment Facilities, Beijing Sound was in the process of updating its Qualification Certificate for the Operation of Environmental Pollution Treatment Facilities in respect of industrial wastewater treatment and Beijing Sound had obtained the Qualification Certificate for Operation of Environmental Pollution Treatment Facilities in respect of residential wastewater treatment.

We are required under PRC law to obtain the Pollutants Discharge Permit for the operation of water and wastewater treatment facilities. Of the eight treatment plants under our Hainan O&M project, we have applied for the Pollutants Discharge Permits for all eight treatment plants but had not yet obtained the Pollutants Discharge Permit for four of them as of the Latest Practicable Date. We had applied but had not yet obtained the Pollutants Discharge Permit for four of our BOT projects — the Shaanxi Shangluo City Wastewater Treatment Project, the Shaanxi Xi'an Hu County Wastewater Treatment Project, the Shaanxi Hancheng City Wastewater Treatment Project and Shaanxi Yulin City Jingbian County Wastewater Treatment Project. We may be subject to a fine of RMB300 to RMB5,000 per entity for the lack of the Pollutants Discharge Permit for such 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 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.

Save as disclosed in this Listing Document, to the best of our knowledge, we have obtained all material environmental licenses and certificates for each of our projects based on their respective stage of development and have complied in all material respects with the relevant environmental protection laws and regulations during the Track Record Period and up to the Latest Practicable Date.

### **REGULATORY COMPLIANCE**

Our operations are subject to various national and local laws and regulations governing environmental protection, workplace safety and product quality, among others. Please refer to the section headed "Regulation of our Industry" in this Listing Document for further details.

## BUSINESS

In our compliance measures we aim to meet regulatory and industrial standards of relevant central and local government authorities and our industry associations. Except as otherwise disclosed in this Listing Document, our PRC legal advisers have advised that we are in compliance with all applicable laws and regulations of the PRC in all material respects, and have obtained all necessary permits and licenses required for our operation in all material respects.

Pursuant to the Rules of Acquisition of Domestic Enterprises by Foreign Investors (“the M&A Rules”) promulgated by six government authorities within the PRC, including the MOFCOM, on August 8, 2006, a foreign investor is required to obtain necessary approvals when it (i) acquires the equity of a domestic enterprise or subscribes for the increased capital of a domestic enterprise so as to convert the domestic enterprise into a foreign-invested enterprise; or (ii) establishes a foreign-invested enterprise through which it purchases the assets of a domestic enterprise and operates these assets or purchases the assets of a domestic enterprise and then invests such assets to establish a foreign-invested enterprise (the “**Regulated Activities**”). After the effective date of the M&A Rules, we did not conduct any Regulated Activities except for the acquisition of Beijing Epure Sound Environmental Engineering and Technology Co., Ltd. by Sound International Investment Holdings Limited which was approved by and registered with the relevant government authorities in March 2010. As confirmed by our PRC legal advisers, such acquisition of Beijing Epure Sound Environmental Engineering and Technology Co., Ltd. has been approved by the relevant government authorities according to the relevant regulations, including the M&A Rules.

Save as disclosed in this Listing Document, we have obtained all material licenses and permits for our business activities and complied in all material respects with all relevant PRC, Saudi Arabia and Singapore laws and regulations during the Track Record Period up to the Latest Practicable Date. As confirmed by our PRC legal advisers, the listing of our Company does not require the approval of the China Securities Regulatory Commission.

Our Shares are listed on the SGX-ST and as such, we are subject to the Listing Manual and other applicable laws and regulations of Singapore. As of the Latest Practicable Date, we are not aware of and have not received any notice from the relevant authorities in Singapore regarding any breaches of the Listing Manual or relevant regulations since our listing on SGX-ST.

## LEGAL PROCEEDINGS

As of the Latest Practicable Date, we were not engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance is known to our Directors to be pending or threatened by or against us, that would have a material adverse effect on our operating results or financial condition.