

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDER GROUP

Immediately upon Listing, our Controlling Shareholders will own 701,784,000 Shares (representing approximately 54.4% of the Shares then in issue without taking account of any shares which may be issued upon the conversion of the Convertible Bonds or upon the exercise of the options which have been granted under the Existing Share Option Scheme or which may be granted under the Share Option Scheme). Other than their interest in us, as of the Latest Practicable Date, our Controlling Shareholders and their associates were also interested in the following entities engaged in the water and wastewater treatment business:

- *The BSE Group* — comprising Beijing Sound Enviro and a number of private companies which are directly and indirectly controlled by it. As Beijing Sound Enviro is indirectly wholly-owned by Mr. Wen and his wife, members of the BSE Group are therefore associates of our ultimate Controlling Shareholder, Mr. Wen; and
- *Sound Environmental Resources* — a company listed on the Shenzhen Stock Exchange in which Beijing Sound Enviro holds a 44.9% shareholding interest. Sound Environmental Resources is therefore an associate of our ultimate Controlling Shareholder, Mr. Wen.

BUSINESS OF THE BSE GROUP

The BSE Group comprises a number of private companies indirectly controlled by Mr. Wen, including Beijing Sound Enviro and its subsidiaries. Beijing Sound Enviro is held by Beijing Sanghua (70%), Mr. Wen (29%) and Hu Xinling (a director of Sound Environmental Resources) (1%). Beijing Sanghua is in turn owned by Mr. Wen (22.2%) and his spouse, Zhang Huiming (77.8%). Members of the BSE Group are therefore associates of our ultimate Controlling Shareholder, Mr. Wen. Hu Xinling is unrelated to our Group, Directors and substantial shareholders of our Group. As of December 31, 2008, based on the audited consolidated accounts of Beijing Sound Enviro prepared in accordance with PRC GAAP, the BSE Group (taking into account Beijing Sound Enviro's interest in Sound Environmental Resources) had a consolidated net asset value of approximately RMB1,655 million and for the year ended December 31, 2008, it recorded consolidated revenue of approximately RMB1,148 million and a consolidated net profit of approximately RMB200 million.

The BSE Group engages in the businesses of water and wastewater treatment and solid waste treatment. Historically, our Controlling Shareholder's water and wastewater treatment businesses were carried out through the BSE Group. However, following the establishment of Beijing Sound in 1999, the BSE Group ceased to carry out any further water and wastewater EPC projects, which were solely carried out by our Group thereafter. In September 2007, we expanded our businesses in water and wastewater treatment to include BOT projects by investing in minority interests in two BOT projects in Xi'an, the PRC and subsequently became interested in BOT projects with controlling stakes since July 2008. We had interests in eleven BOT projects as of the Latest Practicable Date. The BSE Group has a longer track record in the BOT project business than us and is more established in the BOT project business. Some of the BSE Group's BOT projects have larger treatment capacities than our BOT projects, and most of their projects are already operational.

Following the expansion of our business to include BOT projects, the BSE Group transferred many of its staff with expertise in operating water and wastewater facilities to our Group. In 2009, we have further expanded our water and wastewater treatment business to include O&M projects.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDER GROUP

Pursuant to the Non-Competition Deed entered into by Beijing Sound Enviro, Beijing Sound Enviro has undertaken to us that it and its associates (except for our Group and Sound Environmental Resources and its subsidiaries) will not engage in any new water or wastewater businesses going forward save as provided therein. Please refer to the paragraph headed “The Non-Competition Deeds” below for further details.

However, the BSE Group will continue to operate the water and wastewater projects which it had interests in as of the Latest Practicable Date and, on completion of their construction, those BOT projects that we are constructing for the BSE Group as of the Latest Practicable Date. Construction of most of these projects commenced prior to 2008. Our Group also provided engineering and construction services in the form of EPC services to all of the BSE Group’s current water and wastewater treatment BOT projects during their construction phase, for which we were appointed through a tender process in some cases. In certain cases, we were appointed as a sub-contractor through a public tender process by an independent contractor appointed by the BSE Group. We have therefore generated and received revenue during the construction phase of those BOT projects under the EPC contracts we entered into. Therefore, even if the BSE Group were to sell the projects to us at its own cost, this would represent an amount in excess of the construction costs of the projects (as it would represent the costs of construction together with our profit margin on construction and, in certain cases, the Independent Third Party contractor’s profit margin). We would have to pay a substantial amount for such projects in a short period of time. In addition, following any acquisition of the BSE Group’s existing BOT projects, we would only be able to obtain additional revenue in respect of the operational phase of the project, while for new BOT projects, we aim to earn revenue from both the construction phase and the operational phase of the project. Therefore, the Directors consider that the acquisition of the BSE Group’s existing projects may not be financially beneficial to our Company when compared to investments in new BOT projects.

Pursuant to the Option Agreement we have entered into with Beijing Sound Enviro, Beijing Sound Enviro has granted to our Group an option to acquire the BSE Group’s water and wastewater treatment projects in the PRC and a right of first refusal in the event that any member of the BSE Group decides to divest any of such projects, at a reasonable and mutually agreeable price, subject to the necessary governmental approvals, board approvals and shareholder approvals (as required under the Listing Rules).

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDER GROUP

We set out below further details of the existing water and wastewater projects of the BSE Group outside of Hubei Province, the PRC:

<u>Project Name</u>	<u>Nature of Investment</u>	<u>Equity interest in the project</u>	<u>Stage of Operation / Construction</u>	<u>Capacity (tonnes/day)</u>	<u>Concession Period (in years)</u>	<u>Service provided by our Group (directly or indirectly)</u>
Zhejiang Huzhou Water Treatment Project (浙江湖州自來水項目)	Water treatment BOT	90.2%	Operation	200,000	25.5	EPC ⁽¹⁾
Beijing Xiaojiahe Wastewater Treatment Project (北京肖家河污水處理項目)	Wastewater treatment BOT	64%	Operation	20,000	23.3	EPC
Inner Mongolia Tongliao Wastewater Treatment Project (內蒙古通遼市污水處理項目)	Wastewater treatment BOT	97.8%	Operation	100,000	25	EPC

We set out below, further details of the existing water and wastewater projects of the BSE Group within Hubei Province, the PRC:

<u>Project Name</u>	<u>Nature of Investment</u>	<u>Equity interest in the project</u>	<u>Stage of Operation / Construction</u>	<u>Capacity (tonnes/day)</u>	<u>Concession Period (in years)</u>	<u>Service provided by our Group (directly or indirectly)</u>
Hubei Zhushan Wastewater Treatment plant (湖北竹山縣污水處理廠)	Wastewater treatment BOT	84%	Operation	30,000	25	EPC ⁽¹⁾
Hubei Danjiangkou Wastewater Treatment Project (湖北丹江口市污水處理項目)	Wastewater treatment BOT	16%	Operation	10,000	25	EPC ⁽¹⁾
Hubei Tianmen Golden Wastewater Treatment Project (湖北天門市黃金污水處理項目)	Wastewater treatment BOT	24%	Construction	Short Term – 50,000 Long Term – 160,000	30	EPC ⁽¹⁾

Note:

- (1) The BSE Group appointed an Independent Third Party as contractor for this project. We were appointed by such independent contractor to act as its sub-contractor for the EPC portion of the project pursuant to a tender process conducted by the independent contractor.

Our Directors are of the view that the existing water and wastewater projects of the BSE Group will not compete with our business because such projects will supply water or process wastewater in a designated area in the PRC and the end-users ultimately served by such facilities will not be able to choose any other service provider in such designated area. Our Directors are also of the view that there will not be any competition between the BSE Group and us with respect to any future new projects. Pursuant to the Non-Competition Deed entered into by Beijing Sound Enviro, Beijing Sound Enviro has undertaken to us that it will not and will procure that its associates (other than Sound Environmental Resources and its subsidiaries) will not engage in any new water or wastewater businesses going forward save for their existing projects.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDER GROUP

The BSE Group also engages in solid waste treatment and disposal, including urban household garbage disposal and hazardous industrial waste, medical waste, electronic waste disposal and recycling. Our Directors are of the view that such businesses will not compete with our business because our Group does not engage in solid waste treatment and disposal. Further, pursuant to the Strategic Development Memorandum discussed below, we and the BSE Group have agreed not to engage in, directly or indirectly, any onshore or offshore business identical or similar to the system integration business and equipment manufacturing business relating to solid waste treatment (“Solid Waste Equipment Business”); save for the existing solid waste treatment projects, we and the BSE Group have agreed not to engage, directly or indirectly, in any other onshore or offshore new solid waste treatment projects without the prior written consent of Sound Environmental Resources. Please also refer to the paragraphs headed “The Strategic Development Memorandum” below for further details.

BUSINESS OF SOUND ENVIRONMENTAL RESOURCES

Sound Environmental Resources is an environmental company listed on the Shenzhen Stock Exchange in the PRC and is held by Beijing Sound Enviro as to 44.9%, with the remaining 55.1% owned by Independent Third Parties. Mr. Wen is a director of Sound Environmental Resources. Sound Environmental Resources is therefore an associate of our ultimate Controlling Shareholder, Mr. Wen. As of December 31, 2008, based on the audited consolidated accounts of Sound Environmental Resources prepared in accordance with PRC GAAP, Sound Environmental Resources had a consolidated net asset value of RMB941.0 million and for the year ended December 31, 2008, it recorded consolidated revenue of RMB523.2 million and a consolidated net profit of RMB111.3 million.

Sound Environmental Resources engages primarily in solid waste treatment in the PRC and water and wastewater treatment BOT projects mainly within Hubei Province, the PRC. Sound Environmental Resources has a longer track record in the water and wastewater BOT project business than us and is more established in the BOT project business. Some of Sound Environmental Resources’ water and wastewater BOT projects have a larger treatment capacity than our BOT projects, and most of them are already operational. Sound Environmental Resources also has acquired four water and wastewater treatment BOT projects outside of Hubei Province, the PRC from the BSE Group. Sound Environmental Resources was operating these projects as of the Latest Practicable Date. Sound Environmental Resources does not operate any EPC projects in the water and wastewater treatment business. Sound Environmental Resources also does not currently operate any O&M projects in the water and wastewater treatment business other than its BOT projects. We have provided EPC services to Sound Environmental Resources and its subsidiaries within Hubei Province, the PRC and outside of Hubei Province, the PRC in respect of its water and wastewater treatment BOT projects, either directly or indirectly as a sub-contractor appointed, in certain cases through a public tender process, by independent contractors appointed by Sound Environmental Resources.

When Beijing Sound Enviro acquired its shareholding interest in Sound Environmental Resources in 2003, Sound Environmental Resources was already an established company with water and wastewater treatment businesses in Hubei Province, the PRC. As of the Latest Practicable Date, Sound Environmental Resources’ water and wastewater BOT projects included projects within Hubei Province, the PRC and four projects outside of Hubei Province, the PRC. On April 7, 2010, we entered

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDER GROUP

into a Strategic Development Memorandum with Sound Environmental Resources in respect of our respective businesses and strategy with respect to solid waste treatment and water and wastewater treatment businesses. Pursuant to the Strategic Development Memorandum, discussed below, and in respect of water and wastewater treatment projects, save for the existing water and wastewater treatment projects in which Sound Environmental Resources is engaged, Sound Environmental Resources will only engage in BOT and TOT projects within the Designated Locations. Further, pursuant to the Strategic Development Memorandum, we will engage in onshore and offshore water and wastewater treatment projects except BOT and TOT projects within the Designated Locations. Other than our Hubei Daye Chengxibei wastewater treatment plant in Hubei Province, the PRC (which is not a BOT project), our Company currently does not have any BOT or TOT projects, and does not plan to engage in any other new BOT or TOT projects in the Designated Locations. Based on the size of the population of some of the Designated Locations and our current understanding of the market in those locations, our Directors are of the view that there is no significant difference in terms of development potential and profitability of the water and wastewater treatment projects in the Designated Locations when compared to other locations that our Group is permitted under the Strategic Development Memorandum to operate in. Our Company assesses potential projects on a case by case basis usually without reference to geographic location. Please refer to the paragraphs headed “The Strategic Development Memorandum” below for further details of the terms of the Strategic Development Memorandum.

Sound Environmental Resources will continue to operate its existing water and wastewater BOT projects as of the Latest Practicable Date. Sound Environmental Resources has not granted any option to us over any of its existing BOT projects. As a company listed on the Shenzhen Stock Exchange, Sound Environmental Resources has its own business strategies and obligations to act in the best interest of its shareholders, including public investors and minority shareholders. Any decision by Sound Environmental Resources to grant an option to our Company over its existing BOT projects would have to be made by the management of Sound Environmental Resources in the best interest of its shareholders taken as a whole. Sound Environmental Resources would be required to comply with all applicable legal and regulatory requirements in respect of any such grant of an option. Based on the advice of our PRC legal advisers, we understand that under the rules of the Shenzhen Stock Exchange and the articles of association of Sound Environmental Resources, any sale of Sound Environmental Resources’ existing BOT projects or the granting of such option to us would require the approval of the independent directors of Sound Environmental Resources and would also require the approval of the independent shareholders and/or the board of directors or the chairman of the board of directors or general manager of Sound Environmental Resources. Beijing Sound Enviro would be required under the rules of the Shenzhen Stock Exchange to abstain from voting on any such resolution (at shareholder level) and Mr. Wen would be required to abstain from voting on such resolution at board level. Our Directors therefore consider that neither our Company nor Mr. Wen is in a position to require Sound Environmental Resources to sell its existing water and wastewater projects to us or to grant an option to our Company over its existing BOT projects. In addition, out of the 13 water and wastewater BOT projects operated or under construction by Sound Environmental Resources, we provided engineering and construction services in the form of EPC services during the construction phase for all of those projects. We have therefore generated and received revenue at the construction phase of those BOT projects under EPC contracts. Therefore, the Directors consider that the acquisition of these projects may not be financially beneficial to us when compared to investments in new BOT projects.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDER GROUP
--

We set out below further details of Sound Environmental Resources' existing water and wastewater BOT projects outside of Hubei Province, the PRC:

<u>Project Name</u>	<u>Nature of Investment</u>	<u>Equity interest in the project</u>	<u>Stage of Operation / Construction</u>	<u>Capacity (tonnes/day)</u>	<u>Concession Period (in years)</u>	<u>Service provided by our Group (directly or indirectly)</u>
Zhejiang Fuchun Water Treatment Project (浙江富春自來水項目)	Water treatment BOT	92.3%	Operation	10,000	30	EPC
Jiangsu Shuyuan Water Treatment Project (江蘇沭源自來水項目)	Water supply BOT	80%	Operation	Phase I - 50,000; Phase II - 50,000	23	EPC ⁽¹⁾
Jiangxi Nanchang Xianghu Wastewater Treatment Plant (江西南昌市象湖污水處理廠)	Wastewater treatment BOT	90.5%	Operation	200,000	21.5	EPC ⁽¹⁾
Inner Mongolia Baotou Lucheng Wastewater Treatment Plant (內蒙古包頭鹿城污水處理廠)	Wastewater treatment BOT	90%	Operation	Phase I - 100,000, 55,000 for recycled water; Phase II - 100,000	30	EPC ⁽²⁾

Notes:

- (1) Sound Environmental Resources appointed an Independent Third Party as contractor for this project. We were appointed by such independent contractor to act as its sub-contractor for the EPC portion of the project pursuant to a tender process conducted by the independent contractor.
- (2) We were appointed as joint sub-contractor together with an Independent Third Party.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDER GROUP

We set out below further details of Sound Environmental Resources' existing water and wastewater BOT projects within Hubei Province, the PRC:

Project Name	Nature of Investment	Equity interest in the project	Stage of Operation/ Construction	Capacity (tonnes/day)	Concession Period (in years)	Service provided by our Group (directly or indirectly)
Hubei Yichang Water Treatment Project (湖北宜昌自來水項目)	Water treatment BOT	70%	Operation	200,000	30	EPC
Hubei Yichang Linjiangxi Wastewater Treatment Plant (湖北宜昌臨江溪污水處理廠)	Wastewater treatment BOT	70%	Operation	200,000; 300,000 in Year 2020	30	EPC ⁽¹⁾
Hubei Jinmen Xiajiawan Wastewater Treatment Plant (湖北荊門夏家灣污水處理廠)	Wastewater treatment BOT	95%	Operation	Phase I: 50,000 Phase II: 50,000	25	EPC
Hubei Xiangfan Guanying Wastewater Treatment Plant (湖北襄樊觀音閣污水處理項目)	Wastewater treatment BOT	97%	Operation	100,000	25	EPC ⁽¹⁾
Hubei Jingzhou Wastewater Treatment Plant (湖北荊州污水處理項目)	Wastewater treatment BOT	60%	Operation	Chengnan: 50,000 Caoshi: 30,000	25	EPC
Hubei Zhijiang Wastewater Treatment Plant (湖北枝江污水處理項目)	Wastewater treatment BOT	80%	Operation	35,000	25	EPC ⁽¹⁾
Hubei Daye Wastewater Treatment Plant (湖北大冶污水處理項目)	Wastewater treatment BOT	80%	Operation	30,000	25	EPC ⁽²⁾
Hubei Xianning Wastewater Treatment Plant (湖北咸寧溫泉污水處理項目)	Wastewater treatment BOT	85%	Operation	Short Term – 30,000 Long Term – 60,000	25	EPC
Hubei Jiayu Wastewater Treatment Plant (湖北嘉魚污水處理項目)	Wastewater treatment BOT	80%	Operation	Short Term – 40,000 Long Term – 80,000	30	EPC ⁽²⁾

Notes:

- (1) Sound Environmental Resources appointed an Independent Third Party as contractor for this project. We were appointed by such independent contractor to act as its sub-contractor for the EPC portion of the project pursuant to a tender process conducted by the independent contractor.
- (2) We were appointed as joint sub-contractor together with an Independent Third Party.

Our Directors are of the view that the existing water and wastewater projects of Sound Environmental Resources will not compete with our business because such projects will supply water or process wastewater in designated areas and the end-users ultimately served by such facilities will not be able to choose any other service provider in such designated area. Our Directors are also of the view that there will be no competition between Sound Environmental Resources and our business with respect to any future new water and wastewater projects based on the terms and conditions of the Strategic Development Memorandum, further details of which are set out below.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDER GROUP

Sound Environmental Resources also engages in solid waste treatment and disposal, including urban household garbage disposal and hazardous industrial waste, medical waste, electronic waste disposal and recycling. The Directors are of the view that such business will not compete with our business because our Group does not engage in solid waste treatment and disposal. Further, pursuant to the Strategic Development Memorandum, we and the BSE Group have agreed not to engage in, directly or indirectly, any onshore or offshore business identical or similar to the Solid Waste Equipment Business. In addition, save for the existing solid waste treatment projects conducted by BSE Group, neither we nor the BSE Group will engage in, directly or indirectly, any other onshore or offshore new solid waste treatment projects without the prior written consent of Sound Environmental Resources.

Sound Environmental Resources also engages in the design and manufacture of customized solid waste treatment equipment for use in its own projects and for sale to external customers. The Directors are of the view that such business will not compete with the business of Hi-Standard because Hi-Standard only manufactures water and wastewater treatment equipment. The equipment manufactured by Hi-Standard is not compatible with and cannot be substituted by those manufactured by Sound Environmental Resources. Pursuant to the Strategic Development Memorandum, our Group will continue to conduct the business of manufacturing water and wastewater treatment equipment while Sound Environmental Resources will not conduct the manufacture of water and wastewater treatment equipment (including but not limited to the manufacture of nanofiltration membranes and ultra-filtration membranes in relation to water and wastewater treatment).

Please also refer to the paragraph headed “Strategic Development Memorandum” below for details of the arrangements with respect to the solid waste treatment and equipment manufacturing businesses.

BUSINESS DELINEATION

In order to further delineate the businesses of, and to minimize competition among, our Group, the BSE Group and Sound Environmental Resources and its subsidiaries, in April 7, 2010, our Company, Sound Environmental Resources and Beijing Sound Enviro entered into the Strategic Development Memorandum in relation to the parties’ businesses and strategy with respect to the solid waste treatment, water and wastewater treatment and equipment manufacturing businesses. Further, each of Beijing Sound Enviro, Mr. Wen and Mr. Wen’s Family has entered into a Non-Competition Deed with our Company.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDER GROUP

Set out below is a brief summary of the delineation of the business and operational locations for (i) our Group, (ii) the BSE Group and (iii) Sound Environmental Resources and its subsidiaries:

	Entities entitled to undertake the projects/business		
	Our Group	BSE Group	Sound Environmental Resources and its subsidiaries
A. Water and wastewater treatment			
(i) New water and wastewater treatment projects outside Designated Locations (including, without limitation, BOT, TOT, O&M or EPC projects)	✓	X ⁽²⁾	X
(ii) New BOT and TOT water and wastewater treatment projects in Designated Locations	X	X	✓
(iii) New EPC, O&M, other non-BOT and non-TOT water and wastewater treatment projects in Designated Locations	✓	X	X
(iv) Existing water and wastewater treatment projects operated by the relevant entity inside and outside Designated Locations	✓ ⁽¹⁾	✓ ⁽³⁾	✓ ⁽⁴⁾
(v) Water and wastewater treatment equipment manufacture for sale inside and outside Designated Locations	✓	X	X
B. Solid waste treatment			
(i) Solid waste treatment projects	X	X	✓
(ii) Solid waste treatment equipment manufacture	X	X	✓

Note 1: Please refer to the sections entitled “Business — Our Water and Wastewater Treatment Business — Our EPC Business” and “Business — Our Water and Wastewater Treatment Business — Our BOT Business” of this Listing Document for further details about the existing water and wastewater projects of our Group.

Note 2: Pursuant to the Non-Competition Deed, our Group may invite the BSE Group to jointly or singly bid or submit tenders for any water and wastewater treatment projects. Furthermore, the BSE Group will procure that the relevant project company undertaking the project will be a wholly-owned subsidiary of our Company and that the rights and obligations under the relevant project will rest with our Group.

Note 3: Please refer to the paragraphs headed “Business of the BSE Group” in this section of the Listing Document for further details of the existing water and wastewater projects of the BSE Group. Pursuant to the Option Agreement, Beijing Sound Enviro has granted to our Group an option to acquire the BSE Group’s water and wastewater treatment projects in the PRC. See the paragraph headed “The Option Agreement” below for further details.

Note 4: Please refer to the paragraphs headed “Business of Sound Environmental Resources” of this section of the Listing Document for further details of the existing water and wastewater projects of Sound Environmental Resources.

NON-COMPETITION ARRANGEMENT

Our Company, Sound Environmental Resources, Beijing Sound Enviro, Beijing Sound Environmental Technology Development Co., Ltd., Mr. Wen and members of Mr. Wen’s Family, have entered into the 2006 Undertakings, the 2007 Undertakings, the Strategic Development Memorandum and the Non-Competition Deeds (as the case may be) to delineate our respective businesses and to minimize competition among (i) our Group, (ii) the BSE Group and (iii) Sound Environmental Resources and its subsidiaries. We set out below the details of these arrangements.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDER GROUP

The 2006 Undertakings

For the purpose of our listing in Singapore in 2006, each of Beijing Sound Enviro, Mr. Wen, our executive Director and Chairman and our ultimate Controlling Shareholder (who is also a director of Beijing Sound Enviro and Sound Environmental Resources, and together with his wife are the ultimate controlling shareholders of the BSE Group and Sound Environmental Resources), and members of Mr. Wen's Family entered into deeds of non-competition with our Company (collectively, the "2006 Undertakings") in June 2006.

Pursuant to the 2006 Undertaking entered into by Beijing Sound Enviro, Beijing Sound Enviro has undertaken to our Company that it shall not, directly or indirectly (through its subsidiaries or otherwise), engage in any water and wastewater treatment business which will compete with the business of our Group.

Pursuant to the 2006 Undertaking entered into by Mr. Wen, Mr. Wen has undertaken to our Company that for as long as he is a Director and/or he has an interest of 5% or more in the voting shares of our Company:

- (a) he will not be involved in any decision making in the BSE Group or any of its related companies that will put him in a conflict of interests position with respect to his duties and responsibilities in our Group;
- (b) he will procure that each of the BSE Group members will not, directly or indirectly, conduct any business, including but not limited to water and wastewater treatment projects, which will compete directly or indirectly with the business of our Group;
- (c) in the event that any resolution is proposed which could result in a potential conflict of interests arising between our Group and any companies of the BSE Group, he will, subject to applicable laws, exercise his voting rights (if any) in the relevant companies in the BSE Group to vote against such resolution and take such steps as may be in his power so as to give full effect to the matters described under (a) and (b) above; and
- (d) he will not have any interest, directly or indirectly, in any entity whose business competes directly or indirectly with the business of our Group, except that he shall be permitted to have an interest not exceeding 5% in any securities of any corporation listed or quoted on any stock exchange notwithstanding that such corporation may be engaging in a business which may compete directly or indirectly with the business of our Group.

Each of the members of Mr. Wen's Family has given an undertaking to our Company substantially in the same form as the 2006 Undertaking given by Mr. Wen as described above.

Our Directors (including our independent non-executive Directors) consider that the 2006 Undertakings only covered the then existing business of our Group in June 2006, namely EPC projects in the field of turnkey water and wastewater treatment, and did not contemplate the subsequent expansion of our business to include BOT, O&M and equipment manufacturing businesses.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDER GROUP

As a result of the evolution of our Group's business over the years to include, among others, BOT projects, our Company, Sound Environmental Resources and Beijing Sound Enviro have entered into the Strategic Development Memorandum to clearly delineate the business between the parties. Please refer to the paragraphs headed "The Strategic Development Memorandum" below for further details.

The 2007 Undertakings

In connection with Sound Environmental Resources's secondary share offering in 2007, in order to minimize competition with or dependence on its controlling shareholder in terms of its business operations as required under the Administrative Measures for the Issuance of Securities by Listed Companies promulgated by the China Securities Regulatory Commission of the PRC, each of Mr. Wen and Beijing Sound Enviro gave an undertaking to Sound Environmental Resources dated October 10, 2007 (collectively, the "2007 Undertakings"). Our PRC legal adviser has advised that, while the 2007 Undertakings were given in favor of Sound Environmental Resources, the China Securities Regulatory Commission of the PRC, as a regulator, has the general regulatory authority to supervise and/or oversee matters relating to companies listed in the PRC, including, without limitation, the 2007 Undertakings.

Pursuant to the 2007 Undertaking given by Mr. Wen, Mr. Wen has undertaken to Sound Environmental Resources in relation to the water and wastewater treatment business that, for so long as the shares of Sound Environmental Resources are listed on the Shenzhen Stock Exchange and Beijing Sound Enviro remains the controlling shareholder of Sound Environmental Resources, amongst other things:

- (a) neither Mr. Wen nor any company beneficially controlled by him would set up any new water service company in Hubei Province, the PRC and was not, and would not be, engaged in any investment in or operation of water service business in the places where the water service companies owned by Sound Environmental Resources would be located;
- (b) in the event that Sound Environmental Resources makes any investment or carries out any operation relating to water services outside of Hubei Province, the PRC due to any change of its development strategy, and that Sound Environmental Resources and any company beneficially controlled by Mr. Wen are presented with the same business opportunity, Mr. Wen and any company beneficially controlled by him would give up such business opportunity; and
- (c) no interests of Sound Environmental Resources or its shareholders, particularly its minority shareholders, would be jeopardized by Mr. Wen due to his capacity as a beneficial controller of Sound Environmental Resources.

Beijing Sound Enviro has also given similar undertakings to Sound Environmental Resources pursuant to the 2007 Undertaking given by it.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDER GROUP

The Strategic Development Memorandum

On April 7, 2010, our Company, Sound Environmental Resources and Beijing Sound Enviro entered into the Strategic Development Memorandum in relation to the parties' business and strategy with respect to solid waste treatment, water and wastewater treatment, and equipment manufacturing businesses as follows:

Solid Waste Treatment

Pursuant to the Strategic Development Memorandum, Sound Environmental Resources and its directly or indirectly controlled companies shall continue to engage mainly in the development and operation of the onshore and offshore business of solid waste treatment, including but not limited to the investment and operation, construction design, technical consultation, contract works and equipment businesses (including but not limited to the integration, manufacturing, sales and installation and testing of equipment) of solid waste treatment projects. Neither we nor the BSE Group will, directly or indirectly, engage in any onshore or offshore business identical or similar to the Solid Waste Equipment Business. In addition, save for the existing business of solid waste treatment projects conducted by the BSE Group, neither we nor the BSE Group will, directly or indirectly, engage in any other onshore or offshore new solid waste treatment project without the prior written consent of Sound Environmental Resources.

Water and Wastewater Treatment and equipment manufacturing

Pursuant to the Strategic Development Memorandum, our Group shall continue to engage mainly in the development and operation of the onshore and offshore business of water and wastewater treatment projects, including but not limited to the investment and operation, construction design, technical consultation, equipment integration and installation and testing of water and wastewater treatment projects. However, our Group shall not engage in any water and wastewater treatment projects in the Designated Locations in BOT or TOT formats. Save for any existing water and wastewater treatment projects, Sound Environmental Resources and its directly or indirectly controlled companies shall only participate or engage in water and wastewater treatment projects in the Designated Locations in BOT or TOT format.

Furthermore, our Group shall continue to engage in the water and wastewater treatment equipment business, including but not limited to the manufacture, sales, installation and testing of water and wastewater treatment equipment. Sound Environmental Resources and its directly or indirectly controlled companies shall not engage in any water and wastewater treatment equipment business (including but not limited to the manufacture of nanofiltration membranes and ultrafiltration membranes).

The BOT and TOT projects in which Sound Environmental Resources and its subsidiaries are engaged in the Designated Locations are carved-out from the business to be undertaken by our Group under the terms of the Strategic Development Memorandum based on the arm's length commercial negotiations among the parties to the Strategic Development Memorandum. Sound Environmental Resources was an established company with water and wastewater treatment businesses in Hubei

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDER GROUP

Province, the PRC when Beijing Sound Enviro acquired its shareholding interest in Sound Environmental Resources in 2003. Sound Environmental Resources also acquired four water and wastewater treatment BOT projects outside of Hubei Province, the PRC from the BSE Group which Sound Environmental Resources was operating as of the Latest Practicable Date. As a company listed on the Shenzhen Stock Exchange, Sound Environmental Resources has its own business strategies. Our Directors are of the view that it is reasonable to exclude the BOT and TOT projects in which Sound Environmental Resources and its subsidiaries are engaged in the Designated Locations under the terms of the Strategic Development Memorandum.

The intention of the parties to the Strategic Development Memorandum is to clarify the businesses and strategies of (i) our Company, (ii) the BSE Group and (iii) Sound Environmental Resources and its subsidiaries. The entry into the Strategic Development Memorandum by Sound Environmental Resources has been approved by the board of directors of Sound Environmental Resources (Mr. Wen and Mr. Hu Xinling, both of whom are directors of the BSE Group, abstained from voting). Our Company understands from Sound Environmental Resources that it has consulted with the relevant authorities in the PRC regarding the Strategic Development Memorandum after which Sound Environmental Resources held a shareholders' meeting on April 2, 2010, whereby the shareholders of Sound Environmental Resources (the BSE Group as a connected shareholder abstained from voting) resolved to approve the same. Furthermore, Sound Environmental Resources has issued a confirmation letter dated April 7, 2010 confirming that the content and performance of the Strategic Development Memorandum would not contravene the 2007 Undertakings. After reviewing the relevant documents, our PRC legal advisers are of the view that, based on the information provided by our Company and Sound Environmental Resources' current business strategy as stated in Sound Environmental Resources' announcement published in March 2010: (i) the Strategic Development Memorandum does not breach the 2007 Undertakings; (ii) the Strategic Development Memorandum does not supersede the 2007 Undertakings; (iii) the Strategic Development Memorandum is in compliance with the currently applicable PRC laws and regulations and is legally binding on the parties thereto; and (iv) there is no explicit regulation requiring approvals from PRC regulatory authorities for the signing of the Strategic Development Memorandum.

The Non-Competition Deeds

Each of Beijing Sound Enviro, Beijing Sound Environmental Technology Development Co., Ltd., Mr. Wen and members of Mr. Wen's Family has entered into a Non-Competition Deed with our Company to clarify and update the undertakings as set out in the 2006 Undertakings. Pursuant to the Non-Competition Deed, each of Beijing Sound Enviro and Mr. Wen has undertaken for itself/himself and on behalf of its/his associates (excluding Sound Environmental Resources and its associates) that for as long as (1) the Shares of our Company remain listed on the Stock Exchange and/or the SGX-ST; and (2) Mr. Wen remains a Director of our Company; and (i) the single largest shareholder of our Company holding an interest of 5% or more (whether direct or indirect) in the voting shares of our Company; or (ii) a shareholder of our Company holding an interest of 30% or more (whether direct or indirect) in the voting shares of our Company, that:

- (a) it/he will not and will procure its/his associates (except any members of our Group and Sound Environmental Resources and its subsidiaries) not to, directly or indirectly, either on its/his or their own account or in conjunction with or on behalf of any person, firm or company, among other things, carry on, participate or be interested or engaged in or

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDER GROUP

acquire or hold (in each case whether as a shareholder, partner, agent, employee or otherwise) any business which competes or may compete, directly or indirectly, with the business of our Group from time to time, 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;

- (b) it/he will not, and will procure its/his associates (except any members of our Group and Sound Environmental Resources and its subsidiaries) not to, bid for any water and wastewater treatment projects;
- (c) it/he will not, and will procure its/his associates (except any members of our Group and Sound Environmental Resources and its subsidiaries) not to, design or manufacture water and wastewater treatment equipment;
- (d) to the extent permitted under applicable laws and regulations, our Group may invite it/him or its/his associates to jointly or singly bid or submit tenders for any water and wastewater treatment projects provided that it/he will ensure and will procure its/his associates to ensure that the relevant project company undertaking the relevant project will be a wholly-owned subsidiary of our Company and shall further procure that the rights and obligations under the relevant project will rest with our Group. If our Group cannot undertake the relevant project, it/he shall not and will procure that its/his associates (except any members of our Group and Sound Environmental Resources and its subsidiaries) will not participate in such project;
- (e) where applicable, it/he will abstain from voting on any resolution of the board of directors (in the case of Mr. Wen's undertakings only) and any resolution of the shareholders of each of our Group, the BSE Group and Sound Environmental Resources and any of the associates of such companies (including any members of our Group) in the event of any conflict of interest;
- (f) save for its/his interest in the BSE Group and Sound Environmental Resources, it/he will not have any interest, directly or indirectly, in any entity whose business competes or may compete directly or indirectly with the business of our Group from time to time, except that it/he shall be permitted to have interest not exceeding 5% in any securities of any corporation listed or quoted on any stock exchange notwithstanding that such corporation may from time to time be engaged in business which competes or may compete directly or indirectly with the business of our Group; and
- (g) it/he will provide an annual confirmation to our Company and our independent non-executive Directors (the "**Independent Board Committee**") for inclusion in our Company's annual report confirming that it/he has not breached the terms of the Non-Competition Deed and will provide all information necessary for annual review by our Independent Board Committee and shall allow, subject to customary confidentiality restrictions, our Company, our representatives and an internationally renowned accounting firm to be appointed by our Company to have access to its/his financial records and those of its/his associates (except any members of our Group and Sound Environmental Resources and its subsidiaries) for the purpose of our Independent Board Committee's determination whether the Non-Competition Deed has been complied with by it/him and

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDER GROUP

its/his associates (except any members of our Group and Sound Environmental Resources and its subsidiaries).

In addition to the above, Mr. Wen has undertaken that he will not cause or procure any party to the Strategic Development Memorandum to act in any way which would constitute a breach of any of the terms of the Strategic Development Memorandum.

Each of the members of Mr. Wen's Family has given undertakings to our Company substantially in the same form as Mr. Wen's undertakings pursuant to the Non-Competition Deed as described above.

We will disclose matters reviewed by our Independent Board Committee relating to the enforcement of the Non-Competition Deed in our annual report or, where we consider appropriate, by way of an announcement in compliance with the Listing Rules.

Any decision made by us as to the enforcement of the Non-Competition Deed in the event of any alleged breach of its terms shall be made by the Independent Board Committee and, if it requires, independent advisers will be appointed to advise the Independent Board Committee.

Two out of three of our independent non-executive Directors ("INEDs") have been serving on the Board since 2006. The INEDs will have access to the expertise of our senior management team other than Mr. Wen and are also entitled to engage external consultants with relevant experience to assist them in making any such decisions if the INEDs consider it necessary and appropriate to do so in the context of the relevant matters before them.

The Option Agreement

Pursuant to the Option Agreement, Beijing Sound Enviro has granted to our Group an option to acquire the BSE Group's water and wastewater treatment projects in the PRC, and a right of first refusal in the event that any member of the BSE Group decides to divest any such projects, at a reasonable and mutually agreeable price, subject to the necessary governmental approvals, board approvals and shareholder approvals.

INDEPENDENCE FROM THE CONTROLLING SHAREHOLDERS

Having considered the following factors, we believe that our Group is capable of carrying on our business independently of the Controlling Shareholders and their associates after the Listing.

Management Independence

Our Board comprises four executive Directors and three independent non-executive Directors. Mr. Wen, our executive Director and ultimate Controlling Shareholder, is the Chairman of our Board.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDER GROUP

Except for Mr. Wen, who is also a director of Beijing Sound Enviro and Sound Environmental Resources, none of our Directors is currently holding or has held a position with the BSE Group or Sound Environmental Resources during the Track Record Period.

Each of our Directors is aware of his fiduciary duties as a Director of our Company which requires, among other things, that he acts for the benefit and in the best interests of our Company and does not allow any conflict between his duties as a Director and his personal interest. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective associates, the interested Director(s) shall abstain from voting at the relevant board meetings of our Company in respect of such transactions and shall not be counted in the quorum. In addition, we have an independent senior management team which carries out the business decisions of our Board. Our Directors are satisfied that our senior management team is able to perform its role in our Company independently from the Controlling Shareholders, and our Directors are of the view that our Group is capable of managing our business independently from the Controlling Shareholders after the Listing.

Operational Independence

We have established our own organizational structure comprising individual departments, each with specific areas of responsibilities. Save as disclosed in the sections headed “Business” and “Risk Factors” of this Listing Document, we have also obtained all necessary qualifications for us to operate our current businesses. Our Group has established independent accounting and financial reporting systems. Our Group has independent access to sources of supplies or raw materials and also to customers. We have also established various internal control procedures to facilitate the effective operation of our business. We have our own investment committee which assesses business opportunities and makes investment decisions. Though we have obtained a license to use the trademark of the BSE Group, we do not use and have not used such trademark except for the logo and the names of Sound Global Ltd., Beijing Sound Environmental Engineering Co., Ltd. and Beijing Epure Sound Environmental Engineering Technology Co., Ltd.. Based on the terms of the relevant trademark licence agreement, the agreement cannot be terminated unilaterally by Beijing Sound Enviro. Going forward, our own trademark will also be notably distinguishable from the trademark of the BSE Group after we adopted the logo “Sound Global” in March 2010. We are in the process of registering the logo “Sound Global” as our trademark in Hong Kong and Singapore. Other than the transactions described in the section headed “Connected Transactions” of this Listing Document, our Group has not entered into any other transactions with our connected persons which will continue after the Listing. We expect that the transaction amounts of connected transactions between (i) us and (ii) the BSE Group and Sound Environmental Resources as a percentage of our revenue will continue to reduce in the future as the BSE Group will not engage in any new water or wastewater projects, and Sound Environmental Resources will not engage in any new BOT or TOT projects outside the Designated Locations going forward.

Though our Group has been using the brand name of “Sound” since 1999, we believe that our customers understand and recognize that our Company is an independent entity from the BSE Group and Sound Environmental Resources and value our Company on the basis of its own management team and financial performance.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDER GROUP

Furthermore, we consider that our Group is capable of sourcing and tendering for new business without undue reliance on our Controlling Shareholder as we were awarded the Shandong Yantai City Wastewater Treatment Project, the Fushun Hancheng Wastewater Treatment BOT Project and the Xi'an Gangwu District Wastewater Treatment Project using our team and under our own name.

Financial Independence

Our Group can finance our operations independently and make financial decisions according to our own business needs. Our revenue from the BSE Group and Sound Environmental Resources and its subsidiaries for the years ended December 31, 2008 and 2009 and the three months ended March 31, 2010, respectively, were declining, amounting to RMB340.1 million, RMB85.4 million and RMB22.2 million, and accounting for 33.2%, 6.6% and 9.5% of our total revenue for the relevant periods, respectively. Going forward, we expect that our reliance on revenue contributed by our business dealings with the BSE Group and Sound Environmental Resources will be significantly reduced as, pursuant to the terms of the Non-Competition Deed, Beijing Sound Enviro has undertaken not to engage in any new water and wastewater projects going forward. The connected transactions between our Group, the BSE Group and Sound Environmental Resources during the Track Record Period were conducted on normal commercial terms.

Our Directors confirm that as of the Latest Practicable Date, our Controlling Shareholders have not provided any other financial assistance, including amounts due from and loans to our Group. Therefore, our Directors are of the view that our Company is financially independent from our Controlling Shareholders.