

## OUR CONVERTIBLE BONDS

On September 15, 2010, we issued an aggregate principal amount of RMB885 million US dollar settled convertible bonds (the “**Firm Bonds**”), including an upsize option of RMB205 million US dollar settled convertible bonds (the “**Optional Bonds**”), to professional and institutional investors. The exercise of the upsize option is at the discretion of Morgan Stanley Asia (Singapore) Pte. Our Convertible Bonds bear interest at the rate of six per cent. per annum, payable semi-annually in arrear in March and September of each year. Our Convertible Bonds are convertible at the option of the bondholders, at any time, during the period beginning on and including the date which is the 40<sup>th</sup> day after the date of issue of our Convertible Bonds (the “**Bonds Issue Date**”), being October 25, 2010, until the close of business on the date which is the 7<sup>th</sup> day prior to the date falling five years from the Bonds Issue Date (both days inclusive), unless previously redeemed or purchased and cancelled. The number of conversion shares to be allotted and issued by our Company, pursuant to the full conversion of our Convertible Bonds (assuming no adjustment and conversion price resets, details of which are set out below), is approximately 190,757,261 Shares (based on the initial conversion price of S\$0.924 per Share (equivalent to approximately HK\$5.31) (representing a 20 per cent. premium over the initial reference price, namely the closing price of the Shares quoted on the SGX-ST on August 19, 2010 of S\$0.77) and assuming no further adjustments to the conversion price), representing approximately 14.79% of the existing issued Shares. The conversion Shares, when issued upon the conversion of our Convertible Bonds, will be fully paid and in all respects rank pari passu with the Shares in issue on the relevant registration date. Notwithstanding the conversion right of bondholders in respect of our Convertible Bonds, our Company has the option to pay to the relevant bondholders an amount of cash in US dollars to satisfy such conversion right in full or in part (in which case the other part shall be satisfied by the delivery of Shares). Application has been made to the SGX-ST for the listing and quotation of our Convertible Bonds and the Shares to be issued upon conversion of our Convertible Bonds on the SGX-ST.

## PRINCIPAL TERMS OF OUR CONVERTIBLE BONDS

### Conversion

The initial conversion ratio is 21,554.4928 conversion shares per RMB100,000 in principal amount of our Conversion Bonds at the conversion price of S\$0.924, representing a 20 per cent. premium over the initial reference price, namely the closing price of the Shares quoted on the SGX-ST on August 19, 2010 of S\$0.77. Our Convertible Bonds are convertible at the option of the bondholders, at any time, during the period beginning on and including the date which is the 40<sup>th</sup> day after the Bonds Issue Date, until the close of business on the date which is 7<sup>th</sup> day prior to the date falling five years from the Bonds Issue Date (both days inclusive), unless previously redeemed or purchased and cancelled.

The number of Shares to be issued on conversion will be determined by dividing the RMB principal amount of our Convertible Bonds to be converted (translated into S\$ at the fixed exchange rate of S\$1.00 = RMB5.021) by the conversion price in effect on the conversion date. The conversion price is subject to certain resets mechanisms as provided in the terms and conditions of our Convertible Bonds.

**Conversion Price Resets***One-year reset*

If the average of the closing prices of the Shares for the period of 20 consecutive trading days ending on the trading day immediately prior to the date falling one year from the Bonds Issue Date of the Firm Bonds (the “**Reset Date**”) is less than the conversion price on the Reset Date (taking into account any anti-dilution adjustments as described in the terms and conditions of the Convertible Bonds which may have occurred prior to the Reset Date), the conversion price shall be adjusted on the relevant Reset Date so that the average market price of the Shares will become the adjusted conversion price with effect from the relevant Reset Date.

Such adjusted conversion price shall be rounded upwards, if necessary, to the nearest Singapore cent, provided that:

- (i) any such adjustment to the conversion price shall be limited such that the adjusted conversion price shall in no event be less than S\$0.694 (the “**Floor Price**”) (as adjusted pursuant to any anti-dilution adjustments as described in the terms and conditions of the Convertible Bonds which may have occurred prior to the Reset Date);
- (ii) any such adjustment to the conversion price shall only be a downward adjustment.

*Change of Control ratchet*

If a Change of Control (as defined below) shall occur and upon any exercise of conversion rights such that the relevant conversion date falls within 30 days following a Change of Control, or, if later, 30 days following the date on which the notice of Change of Control is given to bondholders, the conversion price shall be adjusted by multiplying the conversion price in force immediately before such issue by the following fraction:

$$1 \div (1 + (CP \times c/t))$$

Where:

“CP” means 20 per cent. expressed as a fraction;

“c” means the number of days from and including the date the Change of Control occurs to but excluding the Maturity Date

“t” means the number of days from and including the Bonds Issue Date of the Firm Bonds to but excluding the Maturity Date.

*Issue of new securities*

If and whenever the Company shall issue any Shares (other than Shares issued on the exercise of conversion rights or on the exercise of any other rights of conversion into, or exchange or

subscription for, the Shares) or if the Company or any of its subsidiaries shall issue or grant options, warrants or other rights to subscribe for, purchase or otherwise acquire any Shares in each case at a price per Share (the “**Offer Price**”) which is less than the conversion price prevailing at the date of such issue or grant, the conversion price shall be adjusted to the Offer Price with effect from the date of such issue or grant, provided that:

- (i) any such adjustments shall be limited such that the adjusted conversion price in no event shall be less than the Floor Price (as adjusted pursuant to any anti-dilution adjustments as described in the terms and conditions of the Convertible Bonds which may have occurred prior to the date of the relevant issue or grant);
- (ii) if the issue or grant may give rise to an adjustment pursuant to this reset feature as well as any anti-dilution adjustment pursuant to the terms and conditions of the Convertible Bonds, then the conversion price shall be adjusted pursuant to whichever condition would result in the greater adjustment; and
- (iii) for the avoidance of doubt, any adjustment to the Conversion Price shall only be a downward adjustment.

### **Maturity**

Our Convertible Bonds will mature on the date falling five years from the Bonds Issue Date (the “**Maturity Date**”).

### **Final redemption**

Unless previously redeemed, converted or purchased and cancelled, our Convertible Bonds will be redeemed at 100 per cent. of their principal amount on the Maturity Date including any unpaid accrued interest.

### **Bondholders put option**

The bondholders will have the right to require our Company to redeem all or some of the Convertible Bonds at 100 per cent. of their principal amount including any unpaid accrued interest on the date falling two years from the Bonds Issue Date.

### **Relevant event put right**

Following the occurrence of a Relevant Event (as defined below), each bondholder has the right to require our Company to redeem some or all of their Convertible Bonds at 100 per cent. of their principal amount including any unpaid accrued interest.

A “Relevant Event” occurs when:

- (a) the Shares cease to be listed or admitted to trading on the SGX-ST or, if applicable, the principal stock exchange or securities market on which the Shares are then listed or quoted or dealt in if not listed on the SGX-ST (the “Alternative Stock Exchange”);

- (b) trading in the Shares on the Relevant Stock Exchange (as defined below) or if applicable, the Alternative Stock Exchange, has been suspended for a continuous period of 30 days or more; or
- (c) when there is a Change of Control.

A “Change of Control” occurs when Mr. Wen Yibo, the Executive Director and Chairman of the Company ceases to control, directly or indirectly, at least 33 per cent. of the voting rights of the issued share capital of the Company. For the purposes of this definition, any shares lent by, or on behalf of, Mr. Wen Yibo to Morgan Stanley & Co. International plc or any of its affiliates shall be deemed to be controlled by Mr. Wen Yibo notwithstanding the provisions of the relevant stock lending agreement.

If the Shares are at any time dual primary listed and traded on the SGX-ST and an additional stock exchange, (i) in respect of the one-year period commencing on the Bonds Issue Date, the “Relevant Stock Exchange” means the SGX-ST; and (ii) in respect of any subsequent one year period commencing on each anniversary of the Bonds Issue Date, the “Relevant Stock Exchange” means the stock exchange on which the average daily trading volume of the Shares for the preceding one-year period (or, if relevant, where the Shares became dual primary listed on an additional stock exchange during such one year period, the period from the date of such listing until the end of such one-year period) has been higher (or if the average daily trading volumes have been the same, then the Relevant Stock Exchange for the preceding one-year period). Where the Shares are only listed on the SGX-ST, the “Relevant Stock Exchange” means the SGX-ST.

### **Redemption at the option of the Company**

All (and not some) of our Convertible Bonds may be redeemed by the Company at 100 per cent. of their principal amount including any unpaid accrued interest at any time on or after three years from the Bonds Issue Date, if the closing price of the Shares (as quoted on the Relevant Stock Exchange over each 20 consecutive trading days, prior to the date upon which notice of such redemption is given, is at least 130 per cent. of the conversion price in effect on each such trading day.

### **Redemption for taxation reasons**

Our Convertible Bonds may be redeemed at the option of our Company in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days’ notice to the bondholders at 100 per cent. of their principal amount including any unpaid accrued interest if (a) our Company satisfies the notes trustee immediately prior to the giving of such notice that the Company has or will become obliged to pay additional amounts as referred to in condition 9 of the terms and conditions of the Convertible Bonds as a result of any change in, or amendment to, the laws or regulations of Singapore or any political subdivision or any authority thereof or therein having power to tax, or any change in the general application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after August 19, 2010, and (b) such obligation cannot be avoided by the Company taking reasonable measures available to it, provided that no tax redemption notice shall be given earlier than 90 days prior to the earliest date on which the Company would be obliged to pay such additional tax amounts were a payment in respect of the Convertible Bonds then due. Bondholders have the right to elect for their Convertible Bonds not to be redeemed but with no entitlement to any additional amounts.

**Clean up call option right of the Company**

If at any time the aggregate principal amount of our Convertible Bonds outstanding is less than 10 per cent. or less of the aggregate principal amount originally issued, the Company shall have the option to redeem such outstanding Convertible Bonds in whole but not in part at 100 per cent. of their principal amount including any unpaid accrued interest.

**Anti-dilution protection**

The conversion price shall be adjusted in certain circumstances affecting the Company which shall include but not limited to rights issue, cash or shares dividend distributions, stock splits, bonus issue, asset distribution or the occurrence of certain other dilutive events.

**Negative Pledge**

So long as any of the Convertible Bonds remains outstanding, the Company will not, and will procure that none of its principal subsidiaries (as defined in the terms and conditions of the Convertible Bonds) will, create or permit to subsist or arise any encumbrance upon the whole or any part of their respective present or future undertakings, assets or revenues (including any uncalled capital) to secure any Relevant Indebtedness or any guarantee of or indemnity in respect of any such Relevant Indebtedness, unless, at the same time or prior thereto the Company's obligations under the Convertible Bonds are secured equally and rateably therewith or by such other encumbrance, guarantee, indemnity or such other security as (i) the bondholders by extraordinary resolution may approve or (ii) the notes trustee may approve if it deems in its absolute discretion that such arrangements are not materially less beneficial to the interest of bondholders.

"Relevant Indebtedness" means any future and present indebtedness in the form of or represented by debentures, loan stock, bonds, notes, bearer participation certificates, depository receipts, certificates of deposit or other similar securities or instruments or by bills of exchange drawn or accepted for the purpose of raising money which are, or are issued with the intention that they should be, quoted, listed, ordinarily dealt in or traded on any stock exchange or over the counter or on any other securities market (whether or not initially distributed by way of private placement).

**USE OF PROCEEDS**

The gross proceeds from the issue of the Convertible Bonds is RMB885 million (or approximately US\$130 million). The Company proposes to use the proceeds, after deduction of relevant fees and expenses, primarily for expansion of production capacity, working capital and general corporate purposes.

Our Company intends to allocate the net proceeds in the following manner:

- (a) approximately 60 per cent. for investing in prospective BOT projects and water and wastewater treatment projects in other investment project formats and the acquisition of BOT projects with attractive return profiles from local enterprises and municipal governments;

- (b) approximately 10 per cent. for the repayment of certain existing bank borrowings;
- (c) approximately 5 per cent. for research and development; and
- (d) approximately 25 per cent. for working capital and other general corporate purposes.

#### SHARE LENDING ARRANGEMENT

In connection with the issue of our Convertible Bonds, a securities lending agreement dated August 19, 2010 (the “**Securities Lending Agreement**”) was entered into between Sound Water and Morgan Stanley & Co. International plc (“**MSIP**”). Upon the terms and subject to the conditions of the Securities Lending Agreement, Sound Water has agreed to lend MSIP up to an aggregate of 129 million Shares (the “**Loan Securities**”). 77.4 million Loan Securities may be returned by MSIP to Sound Water at any time and the balance Loan Securities may only be returned by MSIP to Sound Water upon the terms and subject to the conditions of the Securities Lending Agreement.

A borrowing fee will be paid by MSIP to Sound Water each time the Loan Securities are returned to Sound Water.

Sound Water, the controlling shareholder of the Company, is 90% owned by Mr. Wen, Executive Chairman of the Company and 10% owned by Mr. Wen’s wife, Ms. Zhang Huiming.