

# Who Can Make A Difference?



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# Statement of Financial Position

	Dec 31,2009	Dec 31,2008	Variance
	RMB' 000	RMB' 000	RMB' 000
<b>ASSETS</b>			
		(restated)	
<b>Current assets</b>			
<b>Cash and bank balances</b>	1,237,196	772,987	464,209
Increase is driven by higher profits and better working capital management			
<b>Restricted bank balances</b>	72,208	369,481	(297,273)
Pledged deposits decrease as short term bank loans reduces.			
<b>Trade and other receivables</b>	461,852	515,275	(53,423)
Decrease mainly as a result of management continuing efforts in debts collection.			
<b>Amount due from contract customers</b>	233,791	257,028	(23,237)
<b>Inventories</b>	11,543	21,863	(10,320)
Decrease as goods are completed and delivered by year end.			
<b>Land use rights</b>	1,158	1,158	-
<b>Total current assets</b>	<u>2,017,748</u>	<u>1,937,792</u>	<u>79,956</u>
<b>Non-current assets</b>			
<b>Land use rights</b>	46,612	47,770	(1,158)
Decrease due to amortization during the year			
<b>Property, plant and equipment</b>	47,550	49,927	(2,377)
Decrease due to depreciation during the year.			
<b>Associate</b>	2,561	2,540	21
<b>Intangible assets</b>	50,000	60,000	(10,000)
Decrease due to amortization during the year.			
<b>Goodwill</b>	41,395	41,395	-
<b>Service concession receivables</b>	295,132	153,140	141,992
Increase as the Group continues to invest in BOT projects.			
<b>Deferred tax assets</b>	7,372	2,935	4,437
<b>Total non-current assets</b>	<u>490,622</u>	<u>357,707</u>	<u>132,915</u>
<b>Total assets</b>	<u>2,508,370</u>	<u>2,295,499</u>	<u>212,871</u>
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities</b>			
<b>Bank loans</b>	176,700	391,662	(214,962)
Short term bank loans are repaid during the year.			
<b>Trade and other payables</b>	681,056	541,809	139,247
Increase due to increase in business operations.			
<b>Amount due to contract customers</b>	24,264	24,311	(47)
<b>Income tax payable</b>	14,598	9,970	4,628
<b>Total current liabilities</b>	<u>896,618</u>	<u>967,752</u>	<u>(71,134)</u>
<b>Non-current liabilities</b>			
<b>Bank loans</b>	48,300	-	48,300
Long term bank loans are obtained to fund the Group's BOT projects.			
<b>Deferred tax liabilities</b>	18,752	16,222	2,530
<b>Total non-current liabilities</b>	<u>67,052</u>	<u>16,222</u>	<u>50,830</u>
<b>Capital and reserves</b>			
<b>Share capital</b>	833,368	833,368	-
<b>Reserves</b>	711,332	478,157	233,175
<b>Total equity</b>	<u>1,544,700</u>	<u>1,311,525</u>	<u>233,175</u>
<b>Total liabilities and equity</b>	<u>2,508,370</u>	<u>2,295,499</u>	<u>212,871</u>

# Results at a Glance

## Consolidated Statement of Comprehensive Income

	2009 RMB' 000	2008 RMB' 000 (restated)	Variance RMB' 000
<b>Revenue</b>	<b>1,293,476</b>	<b>1,024,808</b>	<b>268,668</b>
<b>Cost of sales</b>	<b>(917,963)</b>	<b>(691,220)</b>	<b>(226,743)</b>
<b>Gross profit</b>	<b>375,513</b>	<b>333,588</b>	<b>41,925</b>
<b>Other operating income</b>	<b>10,914</b>	<b>10,092</b>	<b>822</b>
<b>Other expenses</b>	<b>(28,576)</b>	<b>(39,225)</b>	<b>10,649</b>
<b>Distribution expenses</b>	<b>(10,892)</b>	<b>(11,784)</b>	<b>892</b>
<b>Research and development expenses</b>	<b>(5,256)</b>	<b>(6,000)</b>	<b>744</b>
<b>Administrative expenses</b>	<b>(38,051)</b>	<b>(30,088)</b>	<b>(7,963)</b>
<b>Share of net profit of associate</b>	<b>21</b>	<b>525</b>	<b>(504)</b>
<b>Finance costs</b>	<b>(13,630)</b>	<b>(25,141)</b>	<b>11,511</b>
<b>Profit before income tax</b>	<b>290,043</b>	<b>231,967</b>	<b>58,076</b>
<b>Income tax expense</b>	<b>(9,499)</b>	<b>(28,302)</b>	<b>18,803</b>
<b>Profit for the year</b>	<b>280,544</b>	<b>203,665</b>	<b>76,879</b>
<b>Other comprehensive income:</b>			
<b>Exchange differences on translation</b>	<b>*</b>	<b>-</b>	<b>-</b>
<b>Total comprehensive income for the year</b>	<b>280,544</b>	<b>203,665</b>	<b>76,879</b>
<b>* Amount less than RMB1,000</b>			

### Earnings per share (RMB cents)

<b>-Basic</b>	<b>21.75</b>	<b>15.79</b>	<b>5.96</b>
<b>-Diluted</b>	<b>21.75</b>	<b>15.79</b>	<b>5.96</b>

**Revenue** — Increase due to (1) Beijing Hi-Standard Water Equipment Co., Ltd. ("Hi-Standard") full year's contribution since its acquisition in 2008 (2) contribution by one of the BOT projects, Xi'an Qinqing Water Co., Ltd ("Xi'an Qinqing") since operations started in 4Q2009 (3) Group continue to expand its business in EPC segment.

**Other expenses** — Decrease due to exchange losses recorded in FY2008 when RMB strengthened against SGD, net off by more allowances for trade receivables in FY2009.

**Administrative expenses** — Increase mainly due to (1) full year's expenses from Hi-Standard since its acquisition in 2008 (2) operating expenses from Xi'an Qinqing since it started operation in 4Q2009.

**Finance costs** — Decrease as loans were repaid during the year.

**Income tax expense** — Decrease as (1) reversal of income tax expenses provided for in FY2008 following the confirmation of a tax incentive for Hi-Standard (2) Profits arising from another subsidiary, Beijing Epure International Water Co., Ltd, are tax exempt.





## You • I • We

Some statistics to consider:

The weight of water that women in Africa and Asia carry on their heads is commonly 20kg, the same as the average weight of luggage allowance in Singapore.

On average, it takes 150 gallons of water to manufacture one newspaper; 1,000 gallons to manufacture one litre of petrol; 2,500 gallons to manufacture one pound of beef and 40,000 gallons to manufacture one new car.

In the United Kingdom, the average person uses more than 50 litres of water a day flushing toilets whereas the average person in the developing world uses 10 litres of water per day for drinking, washing and cooking needs.

So who can make a difference?

(Source: [www.un.org/News/Press/docs/2009/Jan/20090109.unreport.shtml](http://www.un.org/News/Press/docs/2009/Jan/20090109.unreport.shtml); [www.un.org/News/Press/docs/2009/Jan/20090109.unreport.shtml](http://www.un.org/News/Press/docs/2009/Jan/20090109.unreport.shtml); [www.un.org/News/Press/docs/2009/Jan/20090109.unreport.shtml](http://www.un.org/News/Press/docs/2009/Jan/20090109.unreport.shtml))

A tall, clear glass bottle and a shorter, wider glass, both containing liquid, are positioned side-by-side. The bottle is on the left and the glass is on the right. Both are filled with a dark liquid. The bottle has a long neck and a wider body. The glass is shorter and wider at the top. The text 'Company Profile' is overlaid on the bottle, and a paragraph of text is overlaid on the glass. The background is a light gray gradient.

## **Company Profile**

**Sound Global Ltd.**  
(formerly known as  
Epure International  
Ltd.) is one of China's  
leading turnkey  
water & wastewater  
treatment solutions  
providers. Backed by  
extensive R&D and  
technical expertise,  
it has successfully  
completed many  
award-winning  
projects.



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

The Group develops proprietary technologies and customises them into effective turnkey solutions for industrial and municipal projects. It has a strong marketing network in China, where it is much sought after for its strong design and engineering project management capabilities.



Water for Health



400 million children (one in five from the developing world) have no access to safe drinking water.

1.4 million children die each year from preventable diarrhoeal diseases associated with drinking unclean water and inadequate sanitation.

South Korea sunk in huge investments in water and sanitation during the 1960s, when its per capita income was the same as Ghana's, and during that decade, under-five mortality more than halved, while the number of medical staff remained virtually the same.

So who can make a difference?

(Source: The United Nations Millennium Development Report 3, [wateraid.org](http://wateraid.org); [globalissues.org](http://globalissues.org))



# Chairman's Statement

Dear shareholders,

On behalf of the board of directors, I am honoured to express my sincerest thanks to all the shareholders for their unwavering support of the company.

## Year in Review

It has been nearly seven years since China's water treatment industry began to commercialise. In this span, the number of commercial projects has increased, and competition for projects and funding has become keener. This has created a higher profile for the industry as a whole.

In the past year, with the onset of the worldwide financial meltdown, China has faced its most challenging period of economic development since the millennium began. Yet, despite the uncertain international and domestic environment, it managed to increase its gross domestic product (GDP) to more than RMB33.5 trillion in 2009, up 8.7% from the previous year. During this period, the government rolled out a RMB4 trillion package to stimulate the economy, bringing hope to the environment-protection industry, but unfortunately, industry players did not benefit significantly. The package benefited mostly government-linked companies (GLCs), which has led to even more intense competition with these units, and the operating environment has become more challenging than ever as a result.

Nevertheless, despite this harsh operating environment, Sound Global has managed to survive and has even blossomed – thanks to the hard work, determination and dedication of all its staff and management. We uncovered opportunities even in the midst of the crisis, discovered solutions that allowed us to overcome impossible scenarios and staunchly endured the cold winter. After much perseverance, we believe that we became the first Chinese environment-protection company to enter the international arena when we broke into the Middle East market. The clinching of the Zhegui-Hainan operations and management project was another milestone that gave us cause to celebrate last year and has laid a foundation that will enable Sound Global to surmount new challenges in the coming year.

## Looking Ahead

The new year has ushered in a new chapter – one filled with fresh hope and fresh promise. According to the World Bank, the global environment-protection industry has ballooned, growing from US\$250 billion in 1992 to US\$600 billion in 2005 to account for more than 1.5% of total global GDP. This translates into an average growth rate of 8% per annum, beating the average global economic growth. The environment-protection industry – along with telecommunication, bio-technology and green alternative energy – has become one of the latest economic growth engines worldwide.

With the migration of more value-added manufacturing facilities to third-world countries, problems pertaining to pollution in these areas have also worsened correspondingly. These problems affect not only the local populace but also the international community. As a result, all governments are starting to pay greater attention to pollution issues.

These conditions have combined to create excellent international investment opportunities for China's developing environment-protection enterprises. Sound Global has been quick to identify these opportunities and has swiftly



capitalised on them – we believe that we became the first environment-protection company from China to enter the international market when we took up the project in Jubail, Saudi Arabia. We believe Sound Global will be able to build on this excellent start to further flex its muscles in the international arena.

Under the 11th Five-Year Plan laid out in 2005, which set targets for 2006 to 2010, the goal was to reduce pollution and waste in China by 10% by the end of this year. To ensure that this target will be achieved, the People's Congress recently passed the "Blueprint for Saving Energy and Cutting Waste", setting clear initiatives and targets for the remainder of this year. Specifically, a comprehensive system of assessment, reward and punishment will be implemented to ensure that the various government agencies meet their targets. Under the new blueprint, the plan for 2010 is to reduce overall energy consumption by 20%, the use of fresh water for industrial purposes by 30% and chemical oxygen demand (COD) by 10%. Other targets include achieving a municipal wastewater treatment rate of not less than 70%, implementing stricter regulations to protect sources of potable water, intensifying efforts to prevent pollution and increase industrial wastewater treatment, expediting the development and building of wastewater treatment projects, increasing the supervision of municipal wastewater treatment projects, and boosting the recycling of solid industrial waste to more than 60%.

In the future, the government will encourage and lead private investment in concerted efforts to accelerate the development of the environment-protection industry in China. This will translate into rapid changes in wastewater treatment, solid waste recycling and the professional management of environment-protection infrastructure.

Since the financial crisis began, alongside the injection of funds from the government's stimulus package, there has been a dramatic rise in the number of entrepreneurs entering the fray as well as local bond issuance. These developments have prompted financial institutions to take a far keener interest in the wastewater treatment industry. As a result, prospects for the operating environment throughout the industry have become more sanguine. As the industry continues to commercialise, it will enjoy increased margins and earnings, and Sound Global is set to reap tremendous rewards from this growth.

Since 2009, the government has been slowly raising the price of potable water in various cities. This upward price adjustment will have a positive impact on the earnings of related listed companies. Industry insiders have noted that, in 2008, the rise in operating expenses caused the wastewater treatment industry as a whole to suffer a loss, which prompted the government to implement changes in its pricing policy on the basis that it was reasonable for water-usage fees to make up 2% of household income. Based on this figure, the price of municipal water could rise 100% in the future. With such potential for high returns, water treatment projects have been touted as a major investment play for 2010.

### Gratitude

After weathering the fierce storms that racked the world in 2009, Sound Global has emerged stronger and more mature. We are now a completely revitalised commercial entity that is moving to meet international standards and regulations, spearheading the Chinese environment-protection industry as we become a pioneer in the international arena.

Last but not least, I would like to extend my appreciation and gratitude to all our staff and management for their commitment and dedicated efforts, and to all our shareholders for their continued support over the past year. I wish all shareholders and staff a happy and prosperous year ahead.



## 主席致词



尊敬的列位股东：

非常荣幸代表董事局向各位对本公司长期以来的关心和支持表示衷心的感谢。

### 回顾

纵观水务行业的发展史，水业市场的完全市场化改革已进行了近七年，市场化项目越来越多，竞争也越来越激烈，越来越多的市场化项目引起了业界的共同关注。

面对新世纪以来中国经济发展最为困难的一年，在百年不遇的国际金融危机严重冲击和极其复杂的国内外形势下，全年国内生产总值仍然实现335,353亿元，比上年增长8.7%。期间，为拉动产业经济，国家出台了4万亿资金刺激经济政策，也给环保业带来了一丝利好消息。然而事实上，我们从此政策中获益甚少，在与带有天然优势的国字头环保企业激烈竞争中，我们生存环境受到了前所未有的严峻挑战。

桑德国际的2009年正是在这样的艰难环境下度过，夹缝中生存。尽管大环境不容乐观，但在全体同仁上下一心的积极努力下，还是在危机中寻求机遇，克服了种种复杂的不利因素，坚强度过了寒冬，并成功开拓了海外市场、成为首个走出国门、走向国际、承接国际水务大单的中国环保企业；折桂海南污水运营项目，实现了托管运营的历史性突破等等，为迎接2010年应对新挑战做好了准备、奠定了基础。

### 展望

新的一年孕育新的希望，新的征程谱写新的辉煌。据世界银行的统计资料显示，全球环保产业的市场规模已从1992年的2500亿美元增至2005年6000亿美元，占全球GDP的1.5%以上，年均复合增长率8%，远远超过全球经济增长率。特别是金融危机之后，环保产业已同电子信息、新医药与生物工程、新能源等产业一道成为新的经济增长点。

随着国际加工制造业往第三世界国家转移，环境污染问题在发展中国家日渐凸显加剧，出于环境问题的全球性和本国民众的觉醒，发展中各国政府





都开始致力于治理本国环境污染问题。而这正是发展中的中国环保产业进军国际市场的良好机会。桑德国际是中国第一家进入国际市场的环保企业，相信桑德国际可以借此良机，在国际舞台上充分展示自己。

2010年是实施“十一五”规划的收官之年，为确保实现主要污染物排放总量减少10%目标，国务院新近颁布《节能减排综合性工作方案》，明确了2010年实现节能减排的目标任务和总体要求。即：建立科学的各级政府节能减排目标责任和评价考核制度，实行节奖超罚。相比2005年，国内万元GDP能耗降低20%左右，单位工业增加值用水量降低30%，化学需氧量(COD)降低10%左右；2010年全国设城市污水处理率不低于70%，并严格饮用水水源保护和供水水质，加大污染防治和工业废水治理力度，加快水污染治理工程建设和城市污水处理配套管网建设和改造；加大工业固体废物综合利用率达到60%以上。未来中国将鼓励和引导民间投资环保产业快速发展，中国将迎来水务、固体废弃物处置投资建设和推动环保设施专业化运营市场发展的高峰期。

金融危机过后，国家配套资金的投入、创业板的开启和地方债券的试点，越来越多的金融机构关注并投身于水业领域，使得中国水业市场投资环境有所改善，随着水务市场化改革的进一步深入，水务行业将进入盈利回升周期，桑德国际借此也将受益匪浅。


2009年以来，全国各城市自来水价格相继上调，水价上调将推动行业内相关上市公司盈利回升。业内人士认为，“成本上升导致水行业2008年整体亏损，促使政府启动价格改革：按用水费用占可支配收入合理比重2%测算，我国城市水价有100%上涨空间”，因此水务板块将成为2010年市场的投资主题。

### 致谢

经过2009年风雨的洗礼，如今的桑德国际已经催开出自己的商业奇葩，脱胎换骨，开始适应国际规则 and 标准，成为中国环保业走向国际市场的领军人物。最后，感谢全体员工为公司这一年来的发展所做出的努力，感谢列位股东对公司这一年来的发展所给予的支持，预祝各位股东、各位员工在新的一年里家庭幸福、事业蒸蒸日上！



## **Water for Wealth**



Two in three people lacking access to safe drinking water survive on less than \$2 a day and one in three on less than \$1 a day.

For every dollar invested on infrastructures to provide safe drinking water and sanitation, the World Health Organisation estimates economic returns of \$3 – \$4.

12% of the world's population uses 85% of its water, and these 12% do not live in the Third World.

So who can make a difference?

(Source: The United Nations World Water Development Report 3; [wateraid.org](http://wateraid.org); [globalissues.org](http://globalissues.org))



# Financial Highlights

## Revenue (RMB '000)

505,620

697,341

1,024,808

1,293,476

2006

2007

2008

2009

## Gross Profit (RMB '000)

161,231

223,084

333,588

375,513

2006

2007

2008

2009

## Profit Before Income Tax (RMB '000)

137,804

194,337

231,967

290,043

2006

2007

2008

2009

## Profit Attributable to Shareholders (RMB '000)

110,549

164,429

203,665

280,544

2006

2007

2008

2009

**Profit and Loss (RMB'000)**

	<b>FY 2009</b>	<b>FY 2008</b>	<b>FY 2007</b>	<b>FY 2006</b>
Revenue	1,293,476	1,024,808	697,341	505,620
Gross profit	375,513	333,588	223,084	161,231
Profit before income tax	290,043	231,967	194,337	137,804
Income tax expense	(9,499)	(28,302)	(28,680)	(21,527)
Profit for the year	280,544	203,665	165,657	116,277

**Attributable to:**

Equity holders of the Company	280,544	203,665	164,429	110,549
Minority interests	-	-	1,228	5,728
	280,544	203,665	165,657	116,277

**Earnings per share (RMB cents) <sup>(1)</sup>**

	21.75	15.79	13.23	11.38
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**Balance Sheets (RMB'000)**

Current assets	2,017,748	1,937,792	1,771,776	1,244,255
Non-current assets	490,622	357,707	32,603	19,672
Total assets	2,508,370	2,295,499	1,804,379	1,263,927

Current liabilities	896,618	967,752	652,683	565,057
Non-current liabilities	67,052	16,222	-	-
Equity attributable to equity holders of the company	1,544,700	1,311,525	1,151,696	672,907
Minority interests	-	-	-	25,963
Total liabilities and equity	2,508,370	2,295,499	1,804,379	1,263,927

**Net assets per share (RMB cents) <sup>(2)</sup>**

	119.74	101.67	89.28	56.08
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(1) Calculated based on net profit attributable to Company's equity holders

(2) Calculated based on net assets attributable to Company's equity holders



# Financial Highlights

## Highlights of Group's Financial Performance

### Revenue

The Group's revenue increased by approximately RMB268.7 million or 26.2% from approximately RMB1,024.8 million in FY2008 to approximately RMB1,293.5 million in FY2009.

The increase was attributed to (1) the contribution by Beijing Hi-Standard Water Equipment Co., Ltd ("Hi-Standard") of approximately RMB125.4 million in FY2009, which arose from the sale of customised environmental water and wastewater treatment equipment to external customers, (2) contribution from a BOT project, Xi'an Qingqing Water Co., Ltd, of approximately RMB5.7 million as its operation started in 4Q2009, and (3) higher revenue recognised from major turnkey projects including Futian City Wastewater Treatment Plant (莆田市城市污水处理厂), Hangang Wastewater Treatment Project (邯钢新区综合污水处理工程), Leihe Shabei Wastewater Project (漯河沙北污水项目), Chenggong Luolong River Wastewater Project (呈贡新城洛龙河污水项目), Fushun Reservoir Pollution Control Project (抚顺大伙房水库污染治理项目).

### Gross Profit and Gross Profit Margin

Gross profit increased by approximately RMB41.9 million or 12.6% from approximately RMB333.6 million in FY2008 to approximately RMB375.5 million in FY2009. This increase is in line with the higher revenue.

The gross profit margin decreased by 3.6 percentage points from approximately 32.6% for FY2008 to approximately 29.0% for FY2009. Given the nature of the turnkey projects, where revenue is recognised based on the percentage of completion, the gross profit margin for engineering works would fluctuate from quarter to quarter depending on the amount of revenue recognised for the relevant projects during the relevant quarters. On a year-to-year basis, the gross profit margin remains relatively stable at around 30%.

### Income Tax Expense

The income tax expense decreased by approximately RMB18.8 million or 66.4% from approximately RMB28.3 million in FY2008 to approximately RMB9.5 million in FY2009. This arises from the reversal of income tax expenses provided for in year 2008 following the confirmation of a tax incentive for Hi-Standard. In addition, the profits arising from another subsidiary, Beijing Epure International Water Co., Ltd, are tax exempt.

### Profit Attributable to Equity Holders of the Company

Profit attributable to equity holders of the Company increased by approximately RMB76.8 million or 37.7% from approximately RMB203.7 million in FY2008 to approximately RMB280.5 million in FY2009.



## Highlights of Group's Financial Position:

### Current Assets

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

Trade receivables, stated at net of allowance for doubtful debts, amounted to approximately RMB406.3 million. The cumulative allowance for doubtful debts was approximately RMB48.0 million.

Other receivables were made up mainly of bid and compliance deposits and bills receivables of approximately RMB25.7 million, advance payments to suppliers and subcontractors of approximately RMB16.3 million as well as other receivables of approximately RMB13.6million.

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

Inventories referred to equipment components and parts. As at 31 December 2009, the inventories were attributable mainly to Hi-Standard. Inventories from turnkey business were not expected to be material as most of the civil engineering works were subcontracted to third parties.

The increase in current assets arose mainly from cash and bank balances due to the increase in revenue and business operations and better working capital management.

### Non-Current Assets

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

Property, plant and equipment comprised mainly building, plant and machinery, transportation vehicles, and fixtures and equipment. We depreciated our property, plant and equipment using the straight-line method over their estimated useful lives, at rates ranging between 3% and 33% per annum. The decrease in property, plant and equipment was due mainly to depreciation.

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

Investment in an associate pertained to the 20% stake in Shanghai Chenghuan Co., Ltd. During the year, the Group invested for a 15% stake in Lanzhou Guyuan Water Co., Ltd at RMB2.7 million, which was subsequently disposed at cost.

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

Service concession receivables arose from BOT projects in subsidiaries, which included Hancheng City Yiqing Water Co., Ltd, Shangluo Wastewater Treatment Co., Ltd, Yulin City Jingzhou Water Co., Ltd, Jiangyan Jiangyuan Wastewater Treatment Co., Ltd and Fushun Qingxi Water Co., Ltd, newly incorporated in 2009.

Deferred tax assets arose mainly from the allowance for doubtful debts. The increase corresponds with the increase in allowance for doubtful debts.

# Financial Highlights

## Current Liabilities

The Group's current liabilities were made up mainly of bank loans, trade and other payables, amounts due to contract customers and income tax payable.

Bank loans were obtained to fund our working capital.

Trade and other payables were made up of amounts outstanding for trade purchases of approximately RMB491.8 million, notes payable of approximately RMB28.3 million, other taxes payable (including value added tax and sales tax) of approximately RMB124.4 million, bid and compliance deposits received from sub-contractors and advances received from customers of approximately RMB15.5 million as well as accruals and other payables of approximately RMB21.1 million.

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

Income tax payable increased as business operation increased.

The decrease in current liabilities was due mainly to the repayment of loans offset by the increased trade and other payables as a result of higher costs incurred with increased business operations.

## Non-Current Liabilities

Long term bank loans were obtained to fund our BOT projects.

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

## Capital and Reserves

Capital and reserves increased by approximately RMB233.2 million or 17.8% from approximately RMB1,311.5 million as at 31 December 2008 to approximately RMB1,544.7 million as at 31 December 2009. This increase was due mainly to retained profits of approximately RMB280.5 million, offset partly by dividends paid of RMB47.3 million.



# CEO's Operations Review

To all of our esteemed shareholders,

First, I would like to express my gratitude for your continued interest and support. In 2009, the water industry in China went through a series of ups and downs under the influence of various factors, including the financial crisis, movements in money supply, and trends in energy savings and emission reductions, as well as the adjustment of water tariffs. These factors led to an extraordinary year for Sound Global, creating an environment filled with both opportunities and challenges.

Throughout the year, Sound Global upheld its pioneering spirit and renewed its emphasis on continuous innovation, which allowed it to make significant achievements in various aspects of the business. These achievements have been driven by (1) our vision of transforming ourselves into a first-class global integrated water solutions provider; (2) our pursuit of goals that will enable us to maximise shareholder returns and uphold our commitment to environmental protection; (3) our carefully crafted strategies and business objectives; and (4) our deeply entrenched corporate culture as well as our well-designed performance evaluation and incentive system.

## Record-setting Operating Performance

Following its rapid expansion last year, Sound Global once again achieved a record-setting operating performance for 2009, posting a net attributable profit of RMB280.5 million on revenue of RMB1.29 billion, a surge of 37.7% and 26.2% respectively when compared with 2008. Since its listing in 2006, Sound Global has consistently delivered outstanding growth in both its topline and bottomline.

## Significant Milestones in Market Development

In August 2009, Sound Global embarked on its first overseas venture as the Group bagged an engineering, procurement and construction (EPC) project to extend and upgrade the SWTP-9 wastewater treatment plant for Marafiq, a water and utility provider in Jubail, Saudi Arabia. This contract represents a major milestone for China's water industry as well as it is the first overseas EPC water project to be secured by us. Landing this project has established a strong foundation that will greatly aid Sound Global's efforts to penetrate international markets.

In November 2009, Sound Global clinched a high-profile landmark contract to manage and operate eight municipal wastewater treatment plants in Hainan province. More than 20 reputable players vied for the contract, which is the first of its kind in China to offer bundled operating contracts for multiple municipal plants to private bidders. With other provincial governments expected to adopt this model in future, this contract has paved the way for Sound Global to swiftly expand its operation and management business.

# CEO's Operations Review



## Continuous Progress in R&D

Sound Global is an environmental-protection enterprise with numerous patents and proprietary techniques in its armoury, and it has always been an industry pioneer in researching and developing environmental-protection technologies. The Group's R&D engagement is exemplified by a technology development centre, a design institute, the R&D department of wholly owned equipment manufacturer Hi-Standard, as well as research programmes for postdoctoral and master's students.

In 2009, Sound Global applied for a total of seven patents and proprietary rights for its technological processes, with its SDN coking wastewater treatment technique and its circumferential feeding sedimentation (2L) municipal wastewater treatment technique both being conferred the status of "2009 National Key Environmental Protection Practical Technique"; the Vinylon sewage treatment and recycling project being conferred the status of "2009 National Key Environmental Protection Practical Technique Demonstration Project"; and the design and construction of the coking wastewater treatment project being identified as a new product innovated independently within Beijing.

## Relentless Improvement in Management

As a listed company, Sound Global is committed to managing its operating risks vigilantly and to ensuring the quality of its growth for its shareholders and the investing community. In 2009, we made ample progress in strengthening our operating procedures and internal control systems, which are crucial elements for both risk management and scientific development.

Meanwhile, Sound Global has also made solid advancements in its human resource management. In 2009, we recruited a larger pool of high-calibre specialists with global exposure, consisting of industry experts, foreign professionals and returning expatriates.

At the same time, Sound Global is continually improving its remuneration and benefits programme, fine-tuning career-planning initiatives for its employees, and upgrading the overall quality of its workforce through a combination of on-the-job training and formal courses to strengthen the core competencies and competitiveness of the Group.





### Awards & Accolades

Sound Global received several awards and accolades from various organisations as well as the public in 2009. These include being nominated as (1) the leader of the “Top 10 Engineering Companies in the Water Industry” by various media organisations such as China Water Net and China Environmental Newspaper; and (2) being among the “2009 Reputable Water Companies” and being the “2009 Most Growth Potential Water Brand” by various organisations such as the China Water Expo Organising Committee, the Chinese Hydraulic Engineering Society and the China Water Resources News Agency.

In addition, our Chairman, Mr Wen Yibo, was elected as the “2009 China Environmental Protection Industry Outstanding Entrepreneur of the Year” by the China Environmental Protection Association. This award aims to commend entrepreneurs who have made significant contributions to the growth and progress of the industry.

In February 2009, Mr Liu Qi, a member of the CPC Central Committee Political Bureau and the Secretary of the Beijing Municipal Committee, together with several high-ranking officials and leaders, made a company visit to Sound Global and endorsed our growth results and R&D progress in recent years.

In 2010, Sound Global will continue to perfect all aspects of our operations. We will reinforce our position in the local market while speeding up the pace of our overseas expansion; we will accelerate our R&D efforts and improve our processes so as to meet and satisfy the needs of our clients and the market; we will enhance the synergy between our business segments to provide one-stop integrated solutions; we will strengthen our capital management so as to achieve robust growth; we will actively uphold our social responsibility and create greater value for our shareholders.

I would like to thank the management and staff for the many significant contributions they have made towards the expansion of Sound Global. The outstanding results we have achieved would not have been possible without their diligence and unwavering support. We will spare no effort in the coming years to ensure that we meet the expectations of our shareholders, clients, staff and business partners, as we move ever closer to realising our dream of building a world-class water enterprise!



## 首席执行官致辞

尊敬的股东们：

首先感谢在2009年里诸位股东给予的支持和关心！2009年中国水业市场受到金融危机、投资拉动、节能减排、水价调整等诸多因素的影响，行业发展有喜有忧。桑德国际经历了不同寻常的一年，面临着许多机遇与挑战。

在这一年里，公司坚持以建设一流的专业化、国际化的综合性水务环境企业为目标，以股东利益最大化和承担基本社会责任为追求，以企业目标和核心战略为驱动，以先进企业文化和绩效制度为激励，开拓进取、持续创新，各项工作取得了新的成绩。

### 一、经营业绩连创新高

桑德国际继去年快速发展之后，2009年全年实现销售收入人民币12.9亿元，净利润人民币2.8亿元，分别同比增长26.2%和37.7%，再创历史新高。上市三年来，桑德国际销售收入和净利润持续保持较高速增长，令人鼓舞。

### 二、市场开拓成果显著

2009年市场开拓值得一提的是：

沙特阿拉伯SWTP-9总承包项目的获得，开创了中国公司作为总包方承揽海外水务EPC大单先河，在中国环保发展历程中留下了浓墨重彩的一笔，奠定了我们拓展海外市场的基础。

在海南省打捆托管运营项目的市场激烈博弈中，最终获得了八个区县市政污水的托管运营权，实现了水务运营市场的历史性突破。不仅在国内水务托管运营领域产生了深远影响，更为今后大规模拓展运营市场打下了良好基础。

### 三、技术创新不断进步

桑德国际是技术密集型环保企业，环保技术的研究和开发在行业内一直处于引领地位。桑德国际的技术研发体系共有四个部分组成：技术研发中心、设计研究院、子公司海斯顿的研发部以及两个博士后流动站。

2009年，桑德国际共取得7项专利；SDN焦化废水处理技术以及周进周出二沉池成套技术荣获2009年国家重点环境保护实用技术；维尼纶污水处理及回用工程被评为2009年国家重点环境保护实用技术示范工程；焦化废水处理工程设计建造被认定为北京市自主创新产品。

#### 四、管理改进持续开展

桑德国际作为上市公司，管控经营风险、保证发展质量是企业对资本市场和股东做出的承诺。不断完善包括内控管理在内的制度建设，是风险管控和科学发展的重要内容，2009年我们加强了此项工作，取得了一定的成果。

另一方面，公司在人力资源管理方面有一些新的突破。我们不断完善薪酬福利制度和员工职业发展规划，通过企业内训和外训相结合的方式，提高员工的综合素质，增强企业的核心竞争力。同时，2009年我们加大专业化、国际化人才的引进力度，新进一批包括国内资深专家、外籍和台湾地区的专业人士、海外归国人员等高素质员工。

#### 五、荣誉与奖励

2009年桑德国际得到来自社会和公众的肯定和赞许。被《中国水网》、《中国环境报》等机构联合评为“2009年度水业十大工程公司”之首；被《中国水博览会组委会》、《中国水利学会》、《中国水利报社》共同评选为“2009知名水务企业”和“2009最具成长力水业品牌”；为了表彰为环保产业发展做出突出贡献的企业家，进一步推动我国环保事业的发展，中国环境保护协会在全国范围内组织评选“2009年度中国环境保护产业优秀企业家”，文一波先生成功当选。2009年2月中共中央政治局委员北京市市委书记刘淇等领导亲临公司视察工作，对公司近年来的发展以及研发取得的成果给予了充分肯定。

2010年，桑德国际将继续致力于完善公司各项经营管理工作。在巩固深化国内市场的同时，大力开拓海外业务，同时加快推进公司国际化进程；积极满足市场和客户需求，进一步加快科技成果的转化；继续优化全产业链节的能力，提高一体化服务水平，推动公司持续快速发展；努力加强资本运作，力争实现跨越式发展；积极承担社会责任，为股东创造更大的价值。

在此，感谢一年来为桑德国际事业发展做出贡献的海内外人士，正是由于你们的努力和支持，桑德国际才取得了今天的成绩。在新的一年里，我们将继续开拓进取、持续创新，为更好地实现股东、客户、员工和合作伙伴的共赢的目标，为建设国际一流的水务环境企业而努力奋斗！



# Water for Food





Between 2000 and 2050, the world's population is projected to grow from six billion to nine billion. Consequently demand for food will increase significantly. At this rate of growth, demand for freshwater is projected to increase by 64 billion cubic metres a year.

Agriculture accounts for 70% of freshwater withdrawals from rivers, lakes and aquifers; in some developing countries, this can go up to more than 90%.

Part of the current pressure on water resources results from increasing demands for animal feed. Meat production requires eight to ten times more water than cereal production.

So who can make a difference?

(Source: The United Nations World Water Development Report 3; [wateraid.org](http://wateraid.org); [globalissues.org](http://globalissues.org))



# Board of Directors



Wen Yibo



Li Li



Yan Xiaolei



## Wen Yibo Non-Executive Chairman

Wen Yibo is a non-executive Director and chairman of our Company and a founder of our Group. He was appointed to our Board on 7 November 2005 and is responsible for chartering our Group's strategic direction.

Mr. Wen graduated with a bachelor of environmental engineering from the Lanzhou Railway College (兰州铁道学院) in July 1986. In December 1989, he graduated from Tsinghua University (清华大学) with a master degree in environmental engineering. Mr. Wen has accumulated more than 16 years of experience in the environmental protection industry. Between 1989 and 1990, Mr. Wen worked as a lecturer in the environmental engineering department of Tsinghua University. From 1990 to 1993, he was a senior engineer at the engineering division of the Planning and Design Institute of the Ministry of Chemical Engineering. In November 1993, Wen Yibo and his wife, Zhang Huiming, co-founded Beijing Sound Environmental Technology Development Company and served as its chairman since then.

In recognition of the contributions made by Wen Yibo for the development of the environmental protection industry in the PRC, he was awarded the "China Environmental Protection Industry (Enterprises) Development Contribution Award (中国环境保护产业(企业)发展贡献奖)" by the China Environmental Protection Industry Association (中国环境保护产业协会) in 2005. He is currently the legal representative of Beijing Sound Environmental Engineering Co., Ltd and is also a director and legal representative of several companies including Beijing Sound Environment Group Co., Ltd and Eguard Resources Development Co., Ltd, a company listed on the Shenzhen Stock Exchange.

Mr. Wen qualified as a senior engineer in September 1998 and was accorded the professor engineer in September 2003. Mr. Wen is also retained as a part-time professor in Tongji University (同济大学) and Lanzhou Jiaotong University (兰州交通大学).

## Li Li Chief Executive Officer and Executive Director

Li Li is the chief executive officer and an executive Director of our Company. Mr. Li was appointed to our Board on 6 June 2008. Mr. Li graduated with a bachelor's degree in mechanical engineering from Xi'an Jiaotong University (西安交通大学) in 1988. He has been a qualified senior engineer since 1997.

Mr. Li was our general manager (operations) and has more than 20 years of experience in mechanical engineering. Prior to his appointment to the Company's Board in June 2008, he was the general manager (operations) at Beijing Sound Environmental Engineering Co., Ltd. From 1988 to 1997, Mr. Li was an engineer of cold processing and welding. From 1997 to 2001, he worked as the deputy dean and deputy general manager of the First Design Institute of the Department of Mechanical Engineering. From 2001 to 2007, he was the general manager at Beijing Sound Environmental Engineering Co., Ltd.

Mr. Li is qualified as a senior engineer. In January 2008, Mr. Li was accorded the senior engineering project manager status jointly conferred by the Ministry of Construction and the China Exploration and Design Association.

## Yan Xiaolei Executive Director

Yan Xiaolei is an executive Director and was appointed to our Board on 18 May 2006. He is responsible for corporate development, focusing on new business ventures, mergers and acquisitions, special projects and feasibility studies for our Group.

Mr. Yan obtained a bachelor of engineering, majoring in management information systems, from Qingdao University (青岛大学) in 1997. He graduated from Northern Jiaotong University (北方交通大学) with a master degree in management in 2000. In 2007, he obtained a PhD in accounting with the Research Institute for Fiscal Science of the Ministry of Finance, PRC. Mr. Yan joined Beijing Sound Environmental Engineering Co., Ltd in 2000 and was made the manager of the corporate finance department, responsible for the company's financing. In 2002, he was also appointed as secretary to the board of directors. Between January 2003 and June 2005, Mr. Yan was the finance head and secretary to the board of directors of Beijing Sound Environmental Engineering Co., Ltd. In July 2005, he was appointed a deputy general manager, in charge of financing activities. Subsequently, in 2006, our management decided to transfer our Group's financing activities to and place them under the purview of the finance department and Mr. Yan was put in charge of corporate development.

Mr. Yan qualified as a certified public accountant (CPA) of the PRC in December 2002. He was also qualified as a senior economist on 25 October 2008.

## **Zhang Baolin Executive Director**

Zhang Baolin is an executive Director and was appointed to our Board on 12 March 2010. He is the dean of the design department of Beijing Sound Environmental Engineering Co., Ltd. and is responsible for design proposal of projects, value-added technology (standardization of design, optimization of design etc.) and design innovation.

Mr. Zhang graduated with a bachelor's degree in water treatment and drainage from Lanzhou Railway College (兰州铁道学院) in July 1993. Between 1983 and 1987, he was an assistant engineer of Lanzhou Xining Railway Bureau (兰州铁路局西宁铁路分局). From 1988 to 2000, he worked at Lanzhou Coal Mining Design Institute (兰州煤矿设计院) as an engineer. Since August 2000, he has worked as the dean of the design department of Beijing Sound Environmental Engineering Co., Ltd.. Mr. Zhang is qualified as a senior engineer. He was also accorded as registered supervisory engineer in 1998 and passed the examination of registered public utilities engineer held by the Ministry of Construction of the PRC in 2007 and passed the examination of registered environmental engineer held by the Ministry of Environmental Protection of the PRC in 2008.

## **Wong See Meng Lead Independent Director**

Wong See Meng is an independent non-executive Director and was appointed to our Board on 18 May 2009. Mr. Wong graduated from the University of Singapore in Business Administration with honors in 1971 and was admitted as Associate of the Chartered Institute of Management Accountants (U.K.) in 1983. He also holds the membership of the Singapore Institute of Directors and the Singapore Institute of Management.

Between 1971 and 1972, he worked in ESSO ("EXXON") Singapore Pte. Ltd.. He joined ESSO ("EXXON") Singapore Pte. Ltd. as Finance Trainee in 1971 and was appointed Refinery Accountant and Head of Refinery Accounting Department in 1972. Between 1972 and 1973, he worked as Project Analyst in Singapore Petroleum Co., Pte. Ltd.. He worked as Assistant Manager in Orient Leasing Singapore Ltd. from 1973 and worked as Manager from 1976 to 1978. He joined GATX Leasing (Pacific) Ltd. as Personal Assistant to the General Manager in 1978 and became Assistant Vice President and General Manager in 1980. From 1978 to 1981, he worked in GATX Leasing (Pacific) Ltd.. He joined Forward Overseas Credit Ltd. as the General Manager in 1981 and became the Chief General Manager in 1983 until 1987. He joined the Development Bank of Singapore Ltd. as the General Manager in 1987 and became The Senior Vice President in 1993 and The Managing Director in 1997. From 1987 to 2001, he worked in Development Bank of Singapore Ltd.. He was the General Manager of Raffles Medical Group (Hong Kong) between 2001 and 2002 and the Business Development Manager of Sino Land Group (Hong Kong) between 2002 and 2003. From 2003 to 2007, he was the Managing Director of ORIX Leasing Singapore Ltd.. Currently Mr. Wong provides training on banking and finance for senior management staff from various Chinese banks.

## **Fu Tao Independent Director**

Fu Tao is an independent non-executive Director and was appointed to our Board on 24 August 2006. Mr. Fu graduated from the Peking University (北京大学) in 1990 with a bachelor of science in applied chemistry. He obtained a master degree in environmental engineering from Tsinghua University (清华大学) in 1993 and also obtained a doctorate in civil engineering from the Harbin University of Civil Engineering and Architecture (哈尔滨建筑大学) in 1999.

Between 1994 and 1999, Mr. Fu worked in the department of science and technology at the Ministry of Construction ("MOC") (建设部住宅产业化促进中心) as a project officer in charge of urban construction projects. From 1999 to 2001, he was the director of the information division at the Center of Promoting Housing Industrialisation, MOC. Between 2001 and 2002, Mr. Fu was the chief secretary of the China Housing Industry Association (全国住宅商会). He is a senior engineer and has held the position of director of the water policy research center at Tsinghua University (清华大学水业政策研究中心) since 2003. Over the years, Mr. Fu has been involved in many government research projects and study programs relating to the PRC water industry. These include, amongst others, the pilot study on benchmarking system for urban water treatment conducted by the MOC and the North China Water Quality Study program conducted jointly by the World Bank and the MOC.

## **Seow Han Chiang Winston Independent Director**

Seow Han Chiang Winston is an independent non-executive Director and was appointed to our Board on 24 August 2006. He holds a bachelor of law (honours) degree from the National University of Singapore. He was admitted as an Advocate and Solicitor of the Supreme Court of Singapore in 1995. From 1995 to 2006, he was a corporate partner of Madhavan Partnership, a Singapore law firm. Seow Han Chiang Winston joined Madhavan Partnership as an associate in May 1995 and became a partner of the corporate department in January 1998. From 2006 to 2007, he was a corporate partner of KS Chia Gurdeep & Param, a Singapore law firm. He is currently a corporate partner of KhatterWong, a Singapore law firm.



## Board of Directors



Zhang Baolin



Wong See Meng



Fu Tao



Seow Han Chiang Winston



## Key Executives



Choo Beng Lor



Zhou Hao



Luo Liyang

## **Choo Beng Lor** Chief Financial Officer

Choo Beng Lor joined our Group as chief financial officer in February 2006. He oversees and coordinates the operation of our Group's finance department as well as managing all the financial, accounting and taxation functions and financing activities of our Group.

Mr. Choo graduated with a bachelor of accountancy (honours) from the Nanyang Technological University in 1996. He is a certified public accountant and a non-practising member of the Institute of Certified Public Accountants of Singapore. Mr. Choo worked for Deloitte & Touche, Singapore for six years from 1996 to 2002. While with Deloitte & Touche, he managed a portfolio of clients which included public listed companies and multi-national corporations. His responsibilities included audit work, as well as assignments such as initial public offerings, limited reviews and due diligence. From 2002 to 2005, Mr. Choo served as the financial controller and company secretary of Sinomem Technology Limited, where he was in charge of its listing on the SGX-ST and oversaw all financial and accounting matters of the Sinomem group in Singapore and the PRC. He also ensured Sinomem group's compliance with all ongoing obligations as a listed company and was actively involved in post-listing investor and public relations and mergers and acquisitions matters. From 2005 to 2006, Mr. Choo was the chief financial officer of Sino Chemical Holdings Pte. Ltd.

## **Zhou Hao** Deputy General Manager

Zhou Hao has been the deputy general manager (operations) of our Company since 12 March 2010 and the deputy general manager of Beijing Sound Environmental Engineering Co., Ltd. since he joined our Group in March 1998. He is responsible for management of EPC business, project management and engineering debug and delivery.

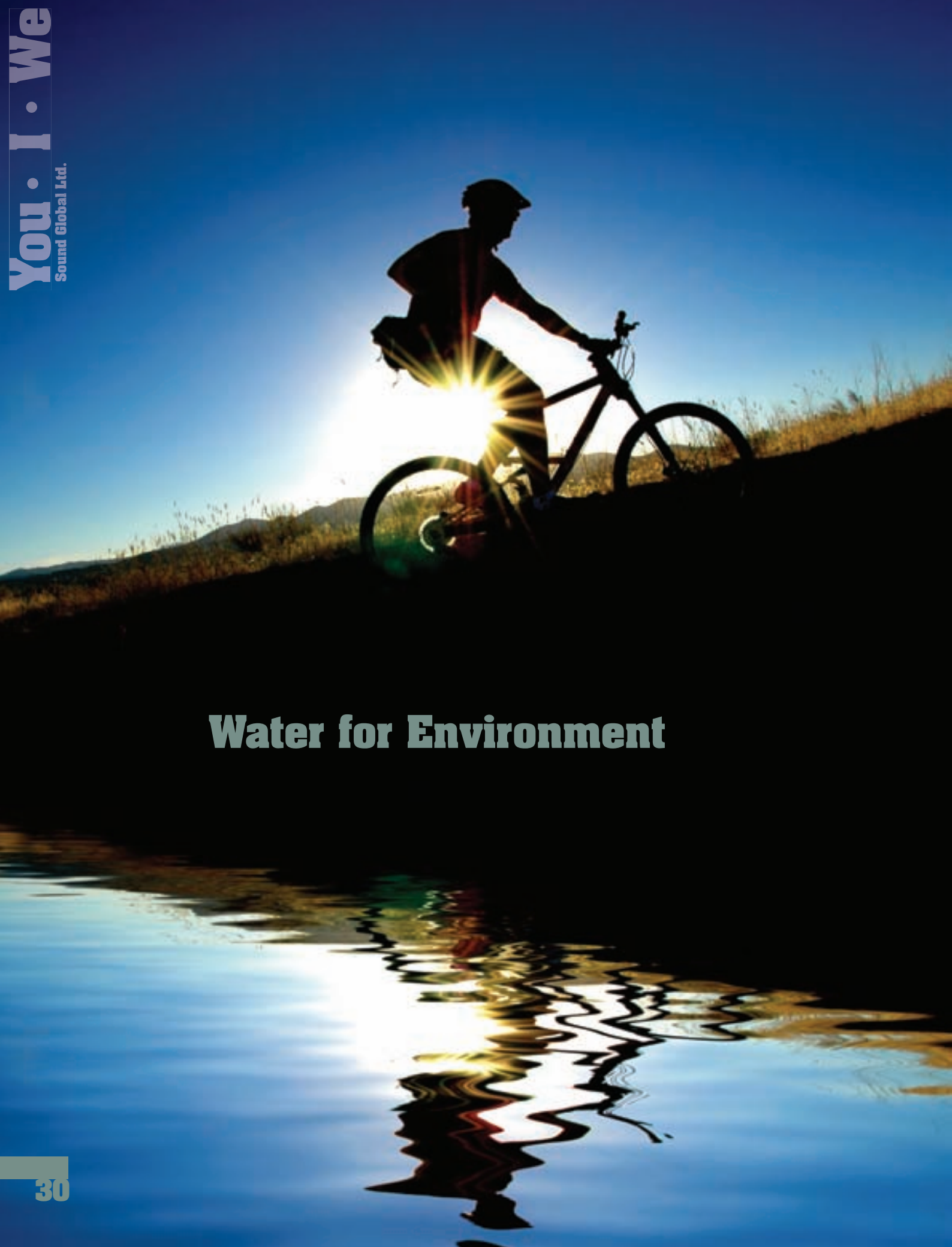
Mr. Zhou obtained a bachelor's degree of water treatment and drainage from the environmental engineering department of Xi'an Metallurgy and Architecture College (西安冶金建筑学院) in July 1993. From August 1993 to March 1998, he worked as an assistant director of the design office of the mechanical power department of Ningxia Hengli Steel Group (宁夏恒力钢铁集团).

## **Luo Liyang** Deputy General Manager

Luo Liyang has been the deputy general manager (marketing) of our Company since 12 March 2010 and the deputy general manager and manager of the marketing department in Beijing Sound Environmental Engineering Co., Ltd since he joined our Group in May 2000. He is responsible for market planning and channel exploitation, construction and management of product platform and establishment of sales network.


Mr. Luo graduated with a bachelor's degree in environmental monitoring from Henan Normal University (河南师范大学) in July 1997. From July 1997 to March 1998, he was the vice manager of the environmental protection department of Henan Xuchang Biochemical Co., Ltd. (河南许昌生化有限责任公司). From March 1998 to May 2000, he was the vice manager of the business department of Henan Luohe Huanhaiqing Environmental Protection Co., Ltd. (河南漯河寰海清环保集团公司). Mr. Luo is qualified as an engineer.





## **Water for Environment**





**With rapid population growth, water withdrawals have tripled over the last 50 years. More than 80% of sewage in developing countries is discharged untreated, polluting rivers, lakes and coastal areas.**

**Globally, the most prevalent water quality problem is eutrophication, a result of high-nutrient loads (mainly phosphorus and nitrogen) which substantially impairs beneficial use of water.**

**On average, freshwater species population were reduced by half between 1970 and 2005.**

**So who can make a difference?**

(Source: The United Nations World Water Development Report 3; [wateraid.org](http://wateraid.org); [globalissues.org](http://globalissues.org))

# Corporate Calendar

## 2009 JAN

## FEB

### Extraordinary General Meeting

An Extraordinary General Meeting was held on 11 Feb to propose a Share Buyback Mandate. It was approved by shareholders.

### Full year results announced

FY2008 results was announced on 27 Feb.

## MAR

## APR

### FY2008 Annual General Meeting

FY2008 Annual General Meeting was held on 27 Apr.

### Establishment of wholly-owned subsidiary, Hancheng City Yiqing Water Co., Ltd, in the PRC

On 15 April, Sound Global incorporated a wholly-owned subsidiary, Hancheng City Yiqing Water Co., Ltd in Shaanxi Province, Hancheng City, to invest in a BOT project which is expected to have a treatment capacity of up to 50,000 tonnes of wastewater per day with a concession period of 25 years. First phase investment is approximately RMB47 million.

## MAY

### First quarter results announcement

1QFY2009 results was announced on 13 May.

### Establishment of wholly-owned subsidiary, Shangluo Wastewater Treatment Co., Ltd, in the PRC

On 12 May, Sound Global incorporated a wholly-owned subsidiary, Shangluo Wastewater Treatment Co., Ltd in Shaanxi Province, Shangluo City, to invest in a BOT project which is expected to have a treatment capacity of up to 30,000 tonnes of wastewater per day with a concession period of 25 years. Investment for the project is approximately RMB46 million.

## JUN

### Incorporation of a wholly-owned subsidiary in Singapore

Sound Global incorporated a wholly-owned subsidiary, Epure International Engineering Pte. Ltd., in Singapore on 26 June. Its principal activity is environmental construction related to water treatment.

## JUL

### Establishment of a wholly-owned subsidiary, Yulin City Jingzhou Water Co., Ltd, in the PRC

On 7 July, Sound Global incorporated a wholly-owned subsidiary, Yulin City Jingzhou Water Co., Ltd in Shaanxi Province, Yulin City, to invest in a BOT project which is expected to have a treatment capacity of up to 15,000 tonnes of wastewater per day. The investment is approximately RMB38million. The concession period is 25 years.

### Signing of Letter of Intent for first overseas EPC Contract, worth RMB562 million, with Marafiq

On 29 July, Sound Global signed the Letter of Intent for its first overseas deal: an approximately RMB562 million (SAR308 million) EPC contract to be signed with government-linked Marafiq, the power and water utility company for Saudi Arabia's two rapidly growing industrial cities of Jubail and Yanbu, to design and construct a wastewater treatment plant with a maximum treatment capacity of up to 72,000 tonnes per day.

### Establishment of a wholly-owned subsidiary in British Virgin Islands

On 30 July, Sound Global incorporated a wholly-owned subsidiary, Sound International Engineering Ltd, in British Virgin Islands. Its principal activity is that of investments holding.

## AUG

### Second quarter results and dividend announcement

2QFY2009 results was announced on 13 Aug.

## SEP



## OCT

### Establishment of Joint Venture for a BOT project in Jiangyan City

Sound Global entered into a joint venture with Jiangyan City Area Wastewater Treatment Co., Ltd to undertake a BOT project in Jiangyan City. The project is expected to have a treatment capacity of up to 80,000 tonnes of wastewater per day. The total investment is approximately RMB56 million with a concession period of 25 years.

### Establishment of wholly-owned subsidiary, Fushun Qingxi Water Co., Ltd, in the PRC

On 20 Oct, Sound Global incorporated a wholly-owned subsidiary, Fushun Qingxi Water Co., Ltd in Liaoning Province, Fushun City, to invest in a BOT project expected to have a treatment capacity of up to 100,000 tonnes of wastewater per day. The investment is approximately RMB151 million with a concession period of 30 years.

### Sound Global took 100% stake in BOT company, Anyang Mingbo Water Co., Ltd

Sound Global acquired a 100% stake in Anyang Mingbo Water Co., Ltd, to undertake a BOT project in Anyang city. The project has a treatment capacity of 100,000 tonnes of wastewater per day and has a concession period of 25 years.

## NOV

### Won landmark contract to run 8 wastewater treatment plants in Hainan

Sound Global clinched a high-profile deal to manage and operate eight municipal wastewater treatment plants in Hainan province, with a total maximum treatment capacity of up to 142,000 tonnes a day. The contract is worth approximately RMB124 million, based on tonnage of wastewater treated, and is expected to contribute to the Group's earnings from 2010.

### Third quarter results announcement 3QFY2009 results was announced on 13 Nov.

### Establishment of branch in Kingdom of Saudi Arabia

Wholly owned subsidiary, Epure International Engineering Pte. Ltd., established a branch in the Kingdom of Saudi Arabia on 18 Nov.

### Establishment of wholly-owned subsidiary, Hainan Baichun Water Co., Ltd, in the PRC

On 19 Nov, Sound Global incorporated a wholly-owned subsidiary, Hainan Baichuan Water Co., Ltd in Hainan Province, Haikou City, to operate and manage eight municipal wastewater treatment plants in Hainan under a five-year contract.

## DEC

**First overseas wastewater deal formally signed**  
Sound Global formally inked its first overseas contract in Saudi Arabia, after signing a Letter of Intent in July 2009. The deal with Marafiq, a government-linked power and water utility provider, is worth approximately RMB620 million.

## 2010 JAN

### Proposed dual primary listing on the Main Board of The Stock Exchange of Hong Kong Limited

Sound Global proposed to seek a dual primary listing of its ordinary shares on the Main Board of The Stock Exchange of Hong Kong Limited and undertake a global offering of new ordinary shares in the capital of the Company.

## FEB

### Secured BOT project in Yantai City

On 4 Feb, Sound Global secured a BOT project in Yantai City, Shandong Province. The project is expected to have a treatment capacity of up to 50,000 tonnes of wastewater per day. The total investment is estimated to be about RMB120 million. The concession period is 25 years.

### Establishment of joint venture company for a BOT project in Yantai City

A joint venture company was incorporated in Yantai City, Shandong Province, by Shandong Rendeya Environmental Engineering Co., Ltd (20%) and Sound Global (80%).

## MAR

### Full year results announcement FY2009 results was announced on 1 Mar.

### Renames as Sound Global Ltd.

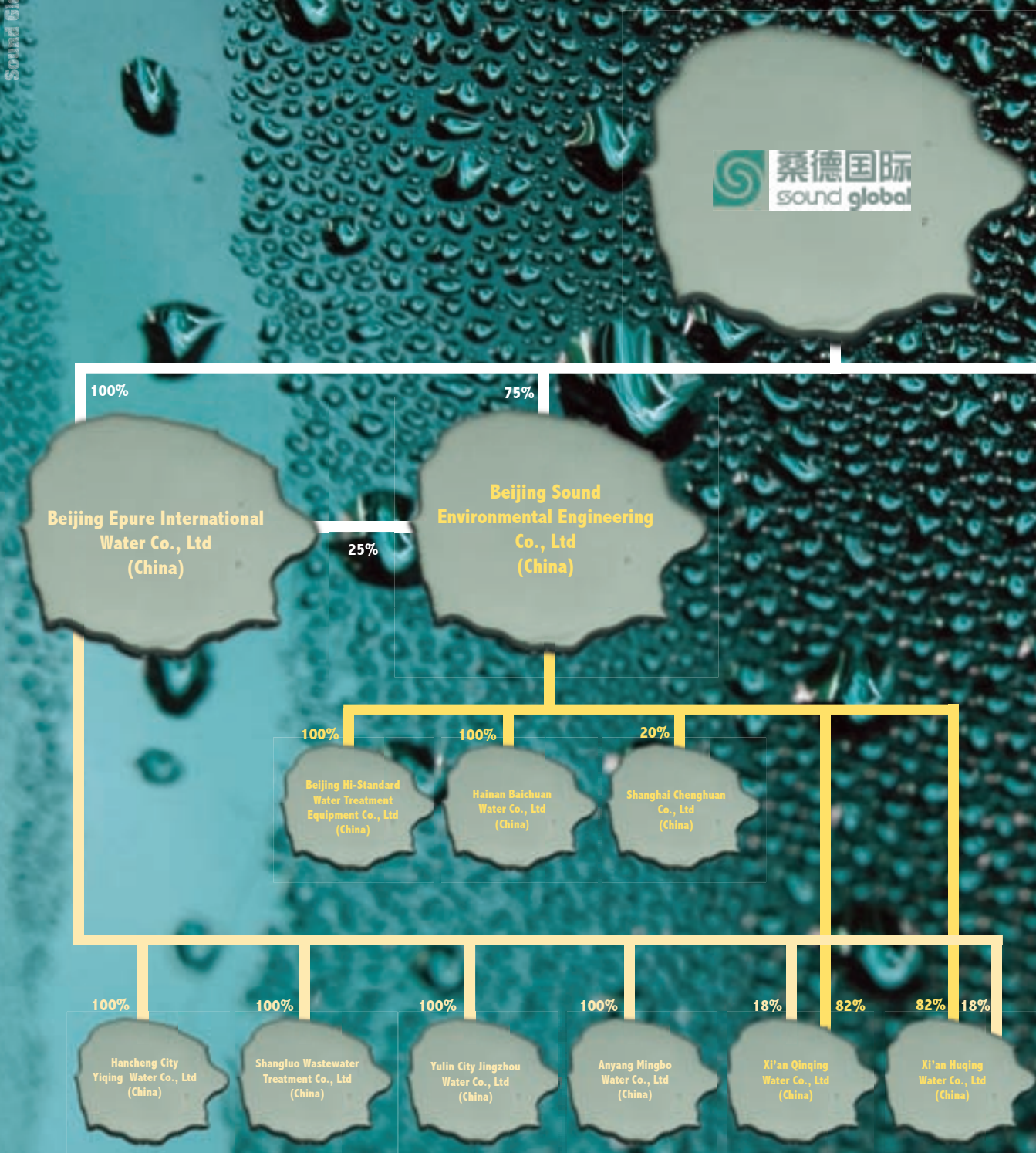
The group renames as Sound Global Ltd. with effect from 5 March 2010

### Secured Indicative Credit line from China Merchants Bank

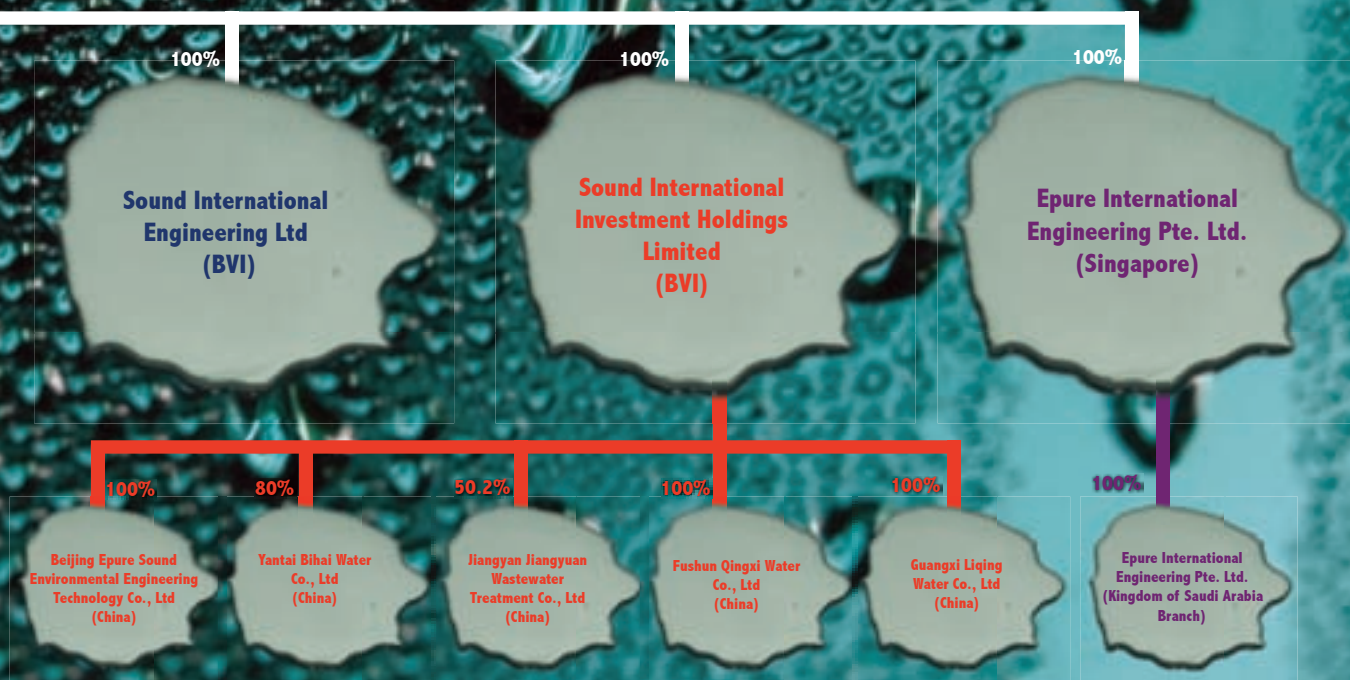
On 16 March, Sound Global secured US\$600m indicative credit line from China Merchants Bank. The Group intends to use this major credit facility to finance the Group's working capital requirements for the wastewater treatment projects undertaken both locally and abroad.

# Corporate Structure

As at 18 March 2010









# Corporate Information

## Board of Directors

Wen Yibo (Non-Executive Chairman)  
Li Li (CEO and Executive Director)  
Yan Xiaolei (Executive Director)  
Zhang Baolin (Executive Director)  
Wong See Meng (Lead Independent Director)  
Fu Tao (Independent Director)  
Seow Han Chiang Winston (Independent Director)

## Joint Company Secretaries

Choo Beng Lor, CPA  
Tan Wei Shyan, LLB

## Registered Office

1 Robinson Road #17-00  
AIA Tower  
Singapore 048542  
Telephone: +65 6535 1944  
Facsimile: +65 6535 8577

## Our Principal Office and Contact Details

National Environmental Protection Industry Zone,  
Tongzhou District, Beijing, 101102, PRC  
Telephone: +8610 6050 4718  
Facsimile: +8610 6050 4766  
Website: [www.epure.com.sg](http://www.epure.com.sg)

## Our Singapore Office and Contact Details

460 Alexandra Road  
PSA Building #14-04  
Singapore 119963  
Telephone: +65 6272 6678  
Facsimile: +65 6272 1658

## Share Registrar

Boardroom Corporate & Advisory Services Pte. Ltd.  
50 Raffles Place #32-01  
Singapore Land Tower  
Singapore 048623

## Auditors

Deloitte & Touche LLP  
Certified Public Accountants  
6 Shenton Way #32-00  
DBS Building Tower Two  
Singapore 068809  
Partner-in-charge: Lim Kuan Meng  
Date of appointment: 1 June 2007

Deloitte Touche Tohmatsu CPA Ltd,  
Beijing Branch  
8/F Office Tower W2, The Towers  
Oriental Plaza, 1 East Chang An Avenue  
Beijing 100738, PRC

## Solicitors

Shook Lin & Bok LLP  
1 Robinson Road #18-00  
AIA Tower  
Singapore 048542

WongPartnership LLP  
20 One George Street #20-01  
Singapore 049145



## **Corporate Governance Report, Financial Statements and Other Information**

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# CORPORATE GOVERNANCE REPORT

The Board of Directors (the “**Board**”) of Sound Global Ltd. (the “**Company**” or “**Sound Global**”) and its subsidiaries (collectively referred as the “**Group**”) are committed to the principles set out and has adopted the corporate governance practices contained in the Code of Corporate Governance (the “**Code**”). In so doing the Company endeavours to set the stage for greater transparency and protection of shareholders’ interests.

This report describes Sound Global’s main corporate governance practices that were in place with reference to the Code. Sound Global believes that it is in compliance with the principles of the Code.

## Board Matters

**Principle 1: Board’s Conduct of its Affairs**

**Principle 2: Board Composition and Balance**

### 1.1 Role of Board of Directors

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

### 1.2 The Board of Directors

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

Name of Director	Age	Date of first appointment	Date of last re-election	Position	Current Occupation
Wen Yibo	44	7 November 2005	25 April 2008	Non-executive Chairman	Non-executive Chairman
Li Li	44	6 June 2008	27 April 2009	CEO & Executive Director	CEO & Executive Director
Yan Xiaolei	34	18 May 2006	27 April 2009	Executive Director & Head of Corporate Development	Executive Director & Head of Corporate Development
Zhang Baolin	47	12 March 2010	NA	Executive Director & Dean of Design Department	Executive Director & Dean of Design Department
Wong See Meng	60	18 May 2009	NA	Independent Director	Lecturer
Fu Tao	42	24 August 2006	30 April 2007	Independent Director	Director of the Water Policy Research Center, Tsinghua University
Seow Han Chiang Winston	41	24 August 2006	30 April 2007	Independent Director	Corporate Partner, Khattar Wong

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

### 1.3 Board Processes

To assist in the execution of its responsibilities as a listed company, the Board has established an Audit Committee (“**AC**”), a Remuneration Committee (“**RC**”) and a Nominating Committee (“**NC**”). These Committees function within clearly defined terms of references and operating procedures, which are reviewed on a regular basis.



# CORPORATE GOVERNANCE REPORT

The Board meets at least quarterly, to coincide with the announcements of the Group's quarterly results and as warranted by circumstances. The Company's Articles of Association allow a Board meeting to be conducted by way of teleconference or video conference. Advice and guidance are also given through the use of teleconferencing, emails and faxes as and when required. Board approval for less critical matters may be obtained via written resolutions by circulation.

The number of Board and Committee meetings held during the period from 1 January 2009 to 31 December 2009 and the attendance of each Director where relevant is as follows:

	Board		Audit Committee		Nominating Committee		Remuneration Committee	
Name of Director	No. of Meetings Held	No. of Meetings Attended	No. of Meetings Held	No. of Meetings Attended	No. of Meetings Held	No. of Meetings Attended	No. of Meetings Held	No. of Meetings Attended
Wen Yibo	4	3 *	5	3 ^ *	1	1 *	1	1 ^ *
Li Li	4	3 *	5	3 ^ *	1	-	1	-
Wang Zhili	4	-	5	-	1	-	1	-
Yan Xiaolei	4	4 *	5	4 ^ *	1	-	1	-
Ho Yew Mun (Retired on 27 April 2009)	4	1	5	1	1	1	1	1
Wong See Meng (Appointed on 18 May 2009)	4	2	5	3	1	-	1	-
Fu Tao	4	1 *	5	1 *	1	-	1	-
Seow Han Chiang Winston	4	4	5	5	1	1	1	1

^ : by invitation

\* : via conference call

## 1.4 Training

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

## 1.5 Independent Directors

The Board has 3 Directors who are independent members. The NC reviews the independence of each Director on an annual basis based on the Code's definition of what constitutes an independent Director. The NC considers an "independent" Director as one who has no relationship with the Company, its related companies or its officers that could interfere, or be reasonably perceived to interfere, with the exercise of the Directors' independent judgment of the Group's affairs. The NC is satisfied that a majority of its members are independent Directors.

Certain functions have been delegated to the various Board Committees. These Committees are set up in accordance to the requirements of the Code and are accordingly made up of predominantly non-executive and independent Directors and are each chaired by an independent Director.

# CORPORATE GOVERNANCE REPORT

The details of the membership in the Committees are set out as follows:

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

## 1.6 Matters Requiring Board Approval

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

The Board is also responsible for the following corporate matters:

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

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

## 1.7 Interested Person Transactions

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

On 15 August 2007, shareholders approved a general mandate for the Group to provide EPC and management services to Beijing Sound Environment Group Co., Ltd, its subsidiaries and associated companies. This general mandate was renewed on 27 April 2009 and will be renewed at an extraordinary general meeting.

There were no interested person transactions during the financial year under review.

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

## Principle 3: Chairman and CEO

### 1.8 Non-executive Chairman and CEO

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

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



# CORPORATE GOVERNANCE REPORT

## Principle 6: Access to Information

### 1.9 Access to Information

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

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

## 2. Board Committees

### Principle 4: Board Membership

### Principle 5: Board Performance

#### 2.1 Nominating Committee

The NC was formed in October 2006.

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

Wong See Meng	(Chairman and Independent Director)
Wen Yibo	(Non-executive Chairman)
Seow Han Chiang Winston	(Independent Director)

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

- to make recommendations to the Board on all board appointments and re-nomination having regard to the Director's contribution and performance (e.g. attendance, preparedness, participation, candour, and any other salient factors);
- to ensure that all Directors would be required to submit themselves for re-nomination and re-election at regular intervals and at least once in every three years, as required by the Articles of Association of the Company;
- to determine annually whether a Director is independent, in accordance with the independence guidelines contained in the Code;
- to review and recommend on the Board structure, size, composition and core competencies, taking into account the balance between executive and non-executive Directors and between independent and non-independent Directors, and having regard at all times to the principles of corporate governance and the Code;
- to review whether a Director is able to and has adequately carried out his duties as a Director of the Company in particular where the Director concerned has multiple board representations; and
- to consider how the Board's performance may be evaluated and to propose objective performance criteria.

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

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

# CORPORATE GOVERNANCE REPORT

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

Name of Director	Present Directorships	Past Directorships for the past 3 years
Wen Yibo	Beijing Sound Environmental Engineering Co., Ltd Beijing Laifujia Science and Technology Co., Ltd Beijing Lümeng Investment Co., Ltd Beijing Sanghua Environmental Technology Development Co., Ltd Beijing Xiaojiahe Wastewater Treatment Co., Ltd Beijing Sound Environment Group Co., Ltd. Eguard Resources Development Co., Ltd Green Capital Holdings Limited Sound Water (BVI) Limited Sound Water (Hong Kong) Limited Beijing Sound Water Technology Co., Ltd Beijing Epure International Water Co., Ltd Beijing Epure Sound Environmental Engineering Technology Co., Ltd Sound International Investment Holdings Limited Sound International Engineering Ltd.	Beijing Hi-standard Environmental Equipment Co., Ltd
Li Li	Beijing Sound Environmental Engineering Co., Ltd	NIL
Yan Xiaolei	Beijing Sound Environmental Engineering Co., Ltd	NIL
Zhang Baolin	NIL	NIL
Wong See Meng	Lion Asiapac Ltd	Orient Leasing Singapore Pte Ltd
Fu Tao	Beijing Jincheng Property and Technology Development Co. Ltd Beijing Capital Co., Ltd Interchina Holdings Company Limited	NIL
Seow Han Chiang Winston	Eucon Holding Limited Link Hi Holdings Limited Dragon Palace International Limited Boulder Group Pte Ltd Cosmo Aviation (S) Pte Ltd D&W Corporate & Consultancy Services Pte Ltd GMT Alpha Pte Ltd Intellectual Product Protection Pte Ltd Nanjia Monjya Wisma Pte Ltd Oceanexplor Logistics Pte Ltd Offshoreworks (Singapore) Pte Ltd Oils Overseas (Asia Pacific) Pte Ltd Petchem International Pte Ltd Petchem International Trading & Shipping Pte Ltd Sanwa F&B Pte Ltd Sanwa Group Pte Ltd Sigma-Two Pte Ltd Superiorcoat Pte Ltd	Oculus Limited @Source Investments Pte Ltd Aircentral Asia Pte Ltd DMS Video Game Technologies Pte Ltd Frexon Engrg. Pte Ltd Genesys Telecommunications Laboratories Asia Pte Ltd MP Corporate Secretarial Services Pte Ltd Primary Enterprises (S) Pte Ltd



# CORPORATE GOVERNANCE REPORT

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

Pursuant to the Company's Articles of Association, all Directors shall submit themselves for re-election at least once every three years. Under the Company's Articles of Association, any new Director so appointed by the Board shall hold office only until the next following AGM of the Company and shall be then eligible for re-election at the meeting. Mr Zhang Baolin, Mr Wong See Meng, Mr Fu Tao and Mr Seow Han Chiang Winston will retire at the forthcoming AGM. The Nominating Committee recommended that they be nominated for re-appointment at the forthcoming AGM.

Each member of the NC had abstained from the deliberation in respect of his re-nomination as a Director.

**Principle 7: Procedures for Developing Remuneration Policies**

**Principle 8: Level and Mix of Remuneration**

**Principle 9: Disclosure on Remuneration**

## 2.2 Remuneration Committee

Our RC was formed in October 2006.

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

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

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

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

### Remuneration Matters

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

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

# CORPORATE GOVERNANCE REPORT

A breakdown showing the level and mix of each individual Director's remuneration for financial year ended 31 December 2009 is as follows:

No. of Directors in remuneration bands

	FY2009	FY2008
Below \$250,000	8	8
<b>Total</b>	<b>8</b>	<b>8</b>

Name	Remuneration Band	Salary	Benefits In Kind	Fees	Total
		%	%	%	%
Wen Yibo	<\$250k	-	-	100	100
Li Li	<\$250k	69	31	-	100
Yan Xiaolei	<\$250k	61	39	-	100
Wang Zhili	<\$250k	68	32	-	100
Zhang Baolin *	<\$250k	62	38	-	100
Ho Yew Mun	<\$250k	-	-	100	100
Wong See Meng	<\$250k	-	-	100	100
Fu Tao	<\$250k	-	-	100	100
Seow Han Chiang Winston	<\$250k	-	-	100	100

\* Zhang Baolin is appointed on 12 March 2010.

**No. of key executives in remuneration bands**

	FY2009
Below S\$250,000	5
<b>Total</b>	<b>5</b>

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

## Immediate Family Member of Directors/Substantial Shareholders

The Group does not have any employee who is an immediate family member of a Director or CEO.

**Principle 11: Audit Committee**

**Principle 12: Internal Controls**

**Principle 13: Internal Audit**

## 2.3 Audit Committee

Our AC was formed in October 2006.

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

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



# CORPORATE GOVERNANCE REPORT

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

The functions of the AC are as follows:

- a. review with the external auditors the audit plan, their evaluation of the system of internal accounting controls, their audit report, their management letter and the management's response;
- b. review the quarterly and annual financial statements, and announcements before submission to the Board for approval;
- c. review internal control and procedures, including review of the internal auditor's internal audit plan and internal audit findings;
- d. to ensure that the internal audit function is adequately resourced;
- e. review the co-ordination between the external auditors and the management, the assistance given by management to the auditors and addressing any issues arising from the audits, and any matters raised by the auditors, including meeting with the auditors in the absence of management;
- f. consider and make recommendation on the appointment or re-appointment of the external auditors, the audit fee, and matters relating to the resignation or dismissal of the auditors; and
- g. review Interested Person Transactions.

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

The AC supports the recommendation of the Code as regards to the putting in place of arrangements for employees of the Group to raise concerns about the possible improprieties in matters of financial reporting or other matters in confidence.

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

The Company, all its subsidiaries and significant associates are audited by DT. Accordingly, Rule 716 of the Listing Manual of the Singapore Exchange Securities Trading Limited is not applicable.

## Internal Audit and Internal Controls

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

The external auditors, DT, have during the course of their audit, carried out a limited review of the Company's system of internal controls. Any internal control weaknesses identified by the auditors, together with their recommendations to address such weaknesses, were reported to and reviewed by the AC.

# CORPORATE GOVERNANCE REPORT

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

## Use of Proceeds from IPO and Placement

### IPO Proceeds

As at 31 December 2009, the net IPO proceeds of approximately S\$58.0 million have been deployed in the following manner:

Use of Proceeds (S\$'000)	Amount allocated	Amount deployed as at 31 Dec 2009
To undertake new large-scale and complex turnkey projects	20,000	20,000
To expand our sales and marketing network	4,000	4,000
For R&D	4,000	3,539
To repay certain short-term bank loans	18,000	18,000
As general working capital – injected into subsidiaries as capital for acquisition and working capital purposes	11,994	11,994
<b>Total</b>	<b>57,994</b>	<b>57,533</b>

### Placement Proceeds

Approximately RMB208.0 million (approximately S\$43.9 million) out of the net placement proceeds of approximately S\$63.6 million was utilised for the acquisition of Beijing Hi-Standard Water Treatment Equipment Co., Ltd.

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

**Principle 10: Accountability and Audit Accountability**

**Principle 14: Communication with Shareholders**

**Principle 15: Greater Shareholder Participation**

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

Information is disseminated to the shareholders via the SGXNET announcements. Annual report is prepared and issued to the shareholders. The Company is open to meetings with investors and analysts, and in conducting such meetings, the Company is mindful of the need to ensure fair disclosure. Shareholders and investors can also access information about the Group on its website.

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

Shareholders can vote in person or by proxy.



# CORPORATE GOVERNANCE REPORT

## Dealings in Securities

The Group has procedures in place prohibiting dealings in the Company's shares by its officers while in possession of price sensitive information and during the period commencing two weeks before the announcement of the Company's quarterly results or one month before the announcement of the Company's full-year results, and ending on the date of the announcement of the relevant results. Internal memorandums are sent to remind Directors and officers on the period where dealings are prohibited. Directors and officers are also expected to observe insider-trading laws at all times, even when dealing in securities within the permitted trading period. An officer should not deal in the Company's shares on short-term considerations.

## Risk Management

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

## Material Contracts

There were no material contracts entered into by the Company or any of its subsidiaries involving the interest of the CEO, any Director or controlling shareholder during the financial year under review.

# REPORT OF THE DIRECTORS

The directors present their report together with the audited consolidated financial statements of the Group and the statement of financial position and statement of changes in equity of the Company for the financial year ended December 31, 2009.

On March 5, 2010, the shareholders of the Group approved the change in name from Epure International Ltd to Sound Global Ltd. This change allows the Company to align and expand its overseas business operations with the established trademarks which the Group has been using.

## 1 DIRECTORS

The directors of the Company in office at the date of this report are:

Wen Yibo	(Non-Executive Chairman)
Li Li	
Yan Xiaolei	
Zhang Baolin	(Appointed on March 12, 2010)
Wong See Meng	(Appointed on May 18, 2009)
Seow Han Chiang Winston	
Fu Tao	

## 2 ARRANGEMENTS TO ENABLE DIRECTORS TO ACQUIRE BENEFITS BY MEANS OF THE ACQUISITION OF SHARES AND DEBENTURES

Neither at the end of the financial year nor at any time during the financial year did there subsist any arrangement whose object is to enable the directors of the Company to acquire benefits by means of the acquisition of shares or debentures in the Company or any other body corporate except for the options mentioned in paragraph 5 of the Report of the Directors.

## 3 DIRECTORS' INTERESTS IN SHARES AND DEBENTURES

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

Name of directors and companies in which interest are held	Shareholdings registered in name of director and immediate family		Shareholdings in which directors are deemed to have an interest	
	At January 1, 2009	At December 31, 2009	At January 1, 2009	At December 31, 2009
	<hr/>			
	Number of ordinary shares			
<hr/>				
The ultimate holding company				
<u>- Ordinary shares of US\$1.00 each</u>				
Wen Yibo	631,605,600	631,605,600	70,178,400	70,178,400
<u>The Company</u>				
Wen Yibo	-	-	713,289,000	713,289,000



# REPORT OF THE DIRECTORS

## 3 DIRECTORS' INTERESTS IN SHARES AND DEBENTURES (Cont'd)

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

The directors' interests in the shares and options of the Company at January 21, 2010 were the same as those as at December 31, 2009.

## 4 DIRECTORS' RECEIPT AND ENTITLEMENT TO CONTRACTUAL BENEFITS

Since the beginning of the financial year, no director has received or become entitled to receive a benefit which is required to be disclosed under Section 201(8) of the Singapore Companies Act, by reason of a contract made by the Company or a related corporation with the director or with a firm of which he is a member, or with a company in which he has a substantial financial interest except for salaries, bonuses and other benefits as disclosed in the financial statements. Certain directors received remuneration from related corporations in their capacity as directors and/or executives of those related corporations.

## 5 SHARE OPTIONS

- (a) The Epure Share Option Scheme ("the Scheme") is administered by a committee (the "Committee") comprising Directors of the Company duly authorised and appointed by the Board of Directors to administer the Scheme.

Under the Scheme, an option entitles the option holder to subscribe for a specific number of new ordinary shares in the Company. The option has an exercise price per share determined with reference to the price equal to the average of the last dealt price(s) for the last five market days immediately preceding the offering date of that Option ("Market Price"). The Committee may at its discretion, fix that exercise price at a discount of up to 20% off Market Price but not lower than the par value of the shares ("Discount Price"). The consideration for the grant of an option is S\$1.00. Options granted with the exercise price set at the Market Price shall only be exercised after the first anniversary but before the fifth anniversary of the date of grant of that option. Options granted with at the Discount Price, shall only be exercised after the second anniversary but before the fifth anniversary of the date of grant of that option. The shares under option may be exercised in whole or in part on the payment of the relevant exercise price (provided that an option may be exercised in part only in respect of 1,000 shares or any multiple thereof). Options granted will lapse when the option holder ceases to be a full-time employee of the Company or any company of the Group subject to certain exceptions at the discretion of the Remuneration Committee.

As at the date of this report, the Committee has not been appointed.

- (b) During the financial year, no options to take up unissued shares of the Company or any subsidiary were granted and there were no shares of the Company or any subsidiary issued by virtue of the exercise of an option to take up unissued shares.
- (c) At the end of the financial year, there were no unissued shares of the Company or any subsidiary under option.

# REPORT OF THE DIRECTORS

## 6 AUDIT COMMITTEE

The Audit Committee ("AC") comprises three Independent Directors. At the date of this Report, the AC comprises the following members:

Wong See Meng	(Chairman – appointed on May 18, 2009)
Seow Han Chiang Winston	
Fu Tao	

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

The functions of the AC are as follows:

- a) to review the Group's financial and operating results and accounting policies;
- b) to review the annual financial statements, and quarterly and annual announcements before submission to the Board of Directors for approval;
- c) reviewing the audit plans of the external auditors and their audit reports;
- d) to review internal control and procedures, including review of the internal auditor's internal audit plan and internal audit findings;
- e) to ensure that the internal audit function is adequately resourced;
- f) to review the co-ordination between the external auditors and management, the assistance given by management to the auditors and addressing any issues arising from the audits, and any matters raised by the auditors;
- g) to consider and make recommendation on the appointment or re-appointment of the external auditors; and
- h) to review Interested Person Transactions falling within the scope of the AC's term of reference.

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

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



# REPORT OF THE DIRECTORS

## 7 AUDITORS

The auditors, Deloitte & Touche LLP, have expressed their willingness to accept re-appointment.

ON BEHALF OF THE DIRECTORS

.....  
Wen Yibo

.....  
Li Li

March 31, 2010

# STATEMENT OF DIRECTORS

In the opinion of the directors, the consolidated financial statements of the Group and the statement of financial position and statement of changes in equity of the Company as set out on pages 55 to 120 are drawn up so as to give a true and fair view of the state of affairs of the Group and of the Company as at December 31, 2009 and of the results, changes in equity and cash flows of the Group and changes in equity of the Company for the financial year ended on that date, there are reasonable grounds to believe that the Company will be able to pay its debts when they fall due.

ON BEHALF OF THE DIRECTORS

.....  
Wen Yibo

.....  
Li Li

March 31, 2010



# INDEPENDENT AUDITORS' REPORT

## TO THE MEMBERS OF SOUND GLOBAL LTD

We have audited the accompanying financial statements of Sound Global Ltd. (the "Company") and its subsidiaries (the "Group") which comprise the statements of financial position of the Group and the Company as at December 31, 2009, the statement of comprehensive income, statement of changes in equity and statement of cash flow of the Group and the statement of changes in equity of the Company for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 55 to 120.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the provisions of the Singapore Companies Act, Cap. 50 (the "Act") and Singapore Financial Reporting Standards. This responsibility includes: devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair balance sheets and profit and loss accounts and to maintain accountability of assets; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### Auditors' Responsibility

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

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

# INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SOUND GLOBAL LTD

## Opinion

In our opinion,

- (a) the consolidated financial statements of the Group and the statement of financial position and statement of changes in equity of the Company are properly drawn up in accordance with the provisions of the Act and Singapore Financial Reporting Standards so as to give a true and fair view of the state of affairs of the Group and of the Company as at December 31, 2009 and of the results, changes in equity and cash flows of the Group and changes in equity of the Company for the year ended on that date; and
- (b) the accounting and other records required by the Act to be kept by the Company and the subsidiary incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

Deloitte & Touche LLP  
Public Accountants and  
Certified Public Accountants  
Singapore

Lim Kuan Meng  
Partner  
Appointed on June 1, 2007

March 31, 2010

# STATEMENT OF FINANCIAL POSITION

## December 31, 2009

		Group		
	Note	December 31, 2009 RMB'000	December 31, 2008 RMB'000 (restated)	January 1, 2008 RMB'000 (restated)
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and bank balances	6	1,237,196	772,987	761,405
Restricted bank balances	6	72,208	369,481	418,647
Trade and other receivables	7	461,852	515,275	470,337
Amount due from contract customers	8	233,791	257,028	120,846
Inventories	9	11,543	21,863	478
Land use rights	10	1,158	1,158	63
Total current assets		2,017,748	1,937,792	1,771,776
<b>Non-current assets</b>				
Land use rights	10	46,612	47,770	2,517
Property, plant and equipment	11	47,550	49,927	18,471
Subsidiaries	12	-	-	-
Associate	13	2,561	2,540	2,015
Available-for-sale investment		-	-	9,600
Intangible assets	14	50,000	60,000	-
Goodwill	15	41,395	41,395	-
Service concession receivables	16	295,132	153,140	-
Deferred tax assets	17	7,372	2,935	-
Total non-current assets		490,622	357,707	32,603
<b>Total assets</b>		2,508,370	2,295,499	1,804,379
<b>LIABILITIES AND EQUITY</b>				
<b>Current liabilities</b>				
Bank loans	18	176,700	391,662	347,920
Trade and other payables	19	681,056	541,809	289,628
Amount due to contract customers	8	24,264	24,311	6,310
Income tax payable		14,598	9,970	8,825
Total current liabilities		896,618	967,752	652,683
<b>Non-current liabilities</b>				
Bank loans	18	48,300	-	-
Deferred tax liabilities	17	18,752	16,222	-
Total non-current liabilities		67,052	16,222	-
<b>Capital and reserves</b>				
Share capital	20	833,368	833,368	833,368
Reserves		711,332	478,157	318,328
Total equity		1,544,700	1,311,525	1,151,696
<b>Total liabilities and equity</b>		2,508,370	2,295,499	1,804,379

See accompanying notes to financial statements.



# STATEMENT OF FINANCIAL POSITION

## December 31, 2009

		Company		
	Note	December 31, 2009 RMB'000	December 31, 2008 RMB'000	January 1, 2008 RMB'000
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and bank balances	6	2,236	2,637	1,565
Restricted bank balances	6	35,923	367,793	412,209
Trade and other receivables	7	86,791	109,915	51,177
Amount due from contract customers	8	-	-	-
Inventories	9	-	-	-
Land use rights	10	-	-	-
Total current assets		124,950	480,345	464,951
<b>Non-current assets</b>				
Land use rights	10	-	-	-
Property, plant and equipment	11	38	77	335
Subsidiaries	12	724,503	431,000	431,000
Associate	13	-	-	-
Available-for-sale investment		-	-	-
Intangible assets	14	-	-	-
Goodwill	15	-	-	-
Service concession receivables	16	-	-	-
Deferred tax assets	17	-	-	-
Total non-current assets		724,541	431,077	431,335
<b>Total assets</b>		849,491	911,422	896,286
<b>LIABILITIES AND EQUITY</b>				
<b>Current liabilities</b>				
Bank loans	18	-	40,047	-
Trade and other payables	19	2,398	3,074	3,412
Amount due to contract customers	8	-	-	-
Income tax payable		107	622	2,066
Total current liabilities		2,505	43,743	5,478
<b>Non-current liabilities</b>				
Bank loans	18	-	-	-
Deferred tax liabilities	17	-	-	-
Total non-current liabilities		-	-	-
<b>Capital and reserves</b>				
Share capital	20	833,368	833,368	833,368
Reserves		13,618	34,311	57,440
Total equity		846,986	867,679	890,808
<b>Total liabilities and equity</b>		849,491	911,422	896,286

See accompanying notes to financial statements.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended December 31, 2009

		Group	
	Note	2009 RMB'000	2008 RMB'000 (restated)
<b>Revenue</b>	21	1,293,476	1,024,808
Cost of sales		(917,963)	(691,220)
<b>Gross profit</b>		375,513	333,588
Other operating income	22	10,914	10,092
Other expenses	23	(28,576)	(39,225)
Distribution expenses		(10,892)	(11,784)
Research and development expenses		(5,256)	(6,000)
Administrative expenses		(38,051)	(30,088)
Share of net profit of associate	13	21	525
Finance costs	24	(13,630)	(25,141)
<b>Profit before income tax</b>		290,043	231,967
Income tax expense	25	(9,499)	(28,302)
<b>Profit for the year</b>	26	280,544	203,665
Other comprehensive income:			
Exchange differences on translation		*	-
<b>Total comprehensive income for the year</b>		280,544	203,665
<i>* Amount less than RMB1,000</i>			
Earnings per share (RMB cents):			
- Basic	27	21.75	15.79
- Diluted	27	21.75	15.79

See accompanying notes to financial statements.

# STATEMENTS OF CHANGES IN EQUITY

Year ended December 31, 2009

Group	Share capital (Note 20) RMB'000	Merger reserve (Note 29) RMB'000	Capital reserve (Note 30) RMB'000	General reserves (Note 31) RMB'000	Currency translation reserves RMB'000	Retained earnings RMB'000	Attributable to equity holders of the Company RMB'000
<b>Balance at January 1, 2008, as previously reported</b>	833,368	(88,296)	7,010	29,970	(3,256)	372,900	1,151,696
Adjustment (Note 36)	-	-	-	-	3,256	(3,256)	-
<b>As restated</b>	833,368	(88,296)	7,010	29,970	-	369,644	1,151,696
Total comprehensive income for the year	-	-	-	-	-	203,665	203,665
Transfer to reserve fund	-	-	-	3,036	-	(3,036)	-
Dividends paid (Note 28)	-	-	-	-	-	(43,836)	(43,836)
<b>Balance at December 31, 2008</b>	833,368	(88,296)	7,010	33,006	-	526,437	1,311,525
Total comprehensive income for the year	-	-	-	-	*	280,544	280,544
Transfer to reserve fund	-	-	-	27,523	-	(27,523)	-
Dividends paid (Note 28)	-	-	-	-	-	(47,369)	(47,369)
<b>Balance at December 31, 2009</b>	833,368	(88,296)	7,010	60,529	*	732,089	1,544,700

\* Amount less than RMB 1,000

See accompanying notes to financial statements.



# STATEMENTS OF CHANGES IN EQUITY

Year ended December 31, 2009

<u>Company</u>	Share capital (Note 20) RMB'000	Capital reserve (Note 30) RMB'000	Currency translation deficit RMB'000	Retained earnings RMB'000	Total RMB'000
<b>Balance at January 1, 2008</b>	833,368	7,010	(3,256)	53,686	890,808
Adjustment (Note 36)	-	-	3,256	(3,256)	-
As restated	833,368	7,010	-	50,430	890,808
Total comprehensive income for year	-	-	-	20,707	20,707
Dividends paid (Note 28)	-	-	-	(43,836)	(43,836)
<b>Balance at December 31, 2008</b>	833,368	7,010	-	27,301	867,679
Total comprehensive income for the year	-	-	-	26,676	26,676
Dividends paid (Note 28)	-	-	-	(47,369)	(47,369)
<b>Balance at December 31, 2009</b>	833,368	7,010	-	6,608	846,986

See accompanying notes to financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended December 31, 2009

	Group	
	2009	2008
	RMB'000	RMB'000 (restated)
<b>Cash flows from operating activities</b>		
Profit before income tax	290,043	231,967
Adjustments for:		
Allowances for doubtful trade and other receivables	28,426	11,254
Finance costs	13,630	25,141
Amortisation of intangible assets	10,000	7,199
Deemed interest income	(6,702)	-
Depreciation expense	2,923	2,305
Amortisation of land-use rights	1,158	573
Loss on disposal of property, plant and equipment	5	-
Share of net profit of associate	(21)	(525)
Interest income	(3,791)	(10,031)
Unrealised foreign currency adjustment gain	(884)	21,514
Operating profit before working capital changes	334,787	289,397
Inventories	10,320	2,813
Amounts due from contract customers	23,237	(136,182)
Trade and other receivables	27,697	(42,416)
Amounts due to contract customers	(47)	18,001
Service concession receivables	(133,290)	(54,472)
Trade and other payables	137,247	139,071
Cash generated from operations	399,951	216,212
Income taxes paid	(6,778)	(28,152)
Net cash from operating activities	393,173	188,060
<b>Cash flows from investing activities</b>		
Decrease in pledged deposits	297,273	26,717
Interest received	3,791	10,031
Proceeds from disposal of property, plant and equipment	2	-
Proceeds from disposal of available for sales investment	-	1,500
Purchase of property, plant and equipment	(553)	(1,124)
Acquisition of available-for-sale investment (Note A)	(2,700)	-
Acquisition of subsidiaries, net of cash acquired (Note 35)	-	(189,302)
Net cash from (used in) investing activities	297,813	(152,178)
<b>Cash flows from financing activities</b>		
Dividends paid	(47,369)	(43,836)
Repayment of borrowings	(730,285)	(1,042,435)
Proceeds from bank loans	563,623	1,087,143
Finance costs paid	(13,630)	(25,141)
Net cash used in financing activities	(227,661)	(24,269)
Net increase in cash and cash equivalents	463,325	11,613
Effect on translation of foreign exchange rate changes	884	(31)
Cash and cash equivalents at beginning of year	772,987	761,405
<b>Cash and cash equivalents at end of year (Note 6)</b>	<b>1,237,196</b>	<b>772,987</b>

Note to consolidated statement of cash flows:

- A) During the year ended December 31, 2009, Lanzhou Guyuan Water Co., Ltd ("Lanzhou Guyuan") was established by the Group and BJ Sound Enviro. The Group held 15% equity interest and paid the initial capital injection of RMB2,700,000 in cash. The Group's interest in Lanzhou Guyuan was subsequently disposed at cost to a third party in 2009. As at December 31, 2009, the consideration was still not yet settled and included in trade and other receivables.

See accompanying notes to financial statements.

# NOTES TO FINANCIAL STATEMENTS

## December 31, 2009

### 1 GENERAL

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

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

The principal activities of its subsidiaries and associate are detailed in Notes 12 and 13 to the financial statements respectively. The principal places of business for its main subsidiaries are at National Environmental Protection Industry Zone, Tongzhou district, Beijing PRC.

The consolidated financial statements of the Group and statement of financial position and statement of changes in equity of the Company for the year ended December 31, 2009 were authorised for issue by the Board of Directors on March 31, 2010.

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**BASIS OF ACCOUNTING** - The financial statements are prepared in accordance with the historical cost convention, except as disclosed in the accounting policies below, and are drawn up in accordance with the provisions of the Singapore Financial Reporting Standards and the Singapore Companies Act.

**ADOPTION OF NEW AND REVISED FINANCIAL REPORTING STANDARDS** - In the current financial year, the Group has adopted all the new and revised FRSs and Interpretations of FRS ("INT FRS") that are relevant to its operations and effective for annual periods beginning on or after January 1, 2009. The adoption of these new/revised FRSs and INT FRSs does not result in changes to the Group's and Company's accounting policies and has no material effect on the amounts reported for the current or prior years except as follows:

*FRS 1 – Presentation of Financial Statements (Revised)* - The Group and the Company adopted FRS 1 (Revised) with effect from annual periods beginning on or after January 1, 2009. FRS 1 (Revised) has resulted in changes to the basis of presentation and structure of the financial statements, specifically on the following main areas:

- The previous version of FRS 1 used the titles "balance sheet", "profit and loss statement" and "cash flow statement" to describe three of the primary statements within the financial statements. With the adoption of FRS 1 (Revised), the Company now uses the titles "statement of financial position", "statement of comprehensive income" and "statement of cash flows" for those statements respectively.
- FRS 1 (Revised) requires all changes in equity arising from transactions with owners in their capacity as owners to be presented separately from non-owner changes in equity. The Group is not permitted to present components of non-owner changes in equity (i.e. comprehensive income) in the statement of changes in equity.
- For non-owner changes in equity, the Group presents components of income and expenses in one statement - statement of comprehensive income - separately from owner changes in equity.
- In addition, the Group and the Company are required to include restated statements of financial position as at the beginning of the earliest comparative period whenever the Group and the Company retrospectively apply an accounting policy or make a retrospective restatement of items in the financial statements, or when there is a reclassification of items in the financial statements.



# NOTES TO FINANCIAL STATEMENTS

## December 31, 2009

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

#### *FRS 108 – Operating Segments*

The Group adopted FRS 108 with effect from January 1, 2009. FRS 108 requires operating segments to be identified on the basis of internal reports about components of the group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. In contrast, the predecessor Standard (*FRS 14 Segment Reporting*) required an entity to identify two sets of segments (Business and Geographical), using a risks and rewards approach, with the entity's 'system of internal financial reporting to key management personnel' serving only as the starting point for the identification of such segments. As a result, following the adoption of FRS 108, the identification of the Group's reportable segments has changed (Note 32).

The comparatives for 2008 have been restated to conform to the requirements of FRS 1 (Revised) and FRS 108, where applicable.

At the date of authorisation of these financial statements, the management anticipates that the adoption of the FRS, INT FRS and amendment to FRS that were issued but not effective until future periods will have no material impact on the financial statements of the Group and the Company in the year of their initial adoption, except as follows:

#### FRS 27 (Revised) Consolidated and Separate Financial Statements and FRS 103 (Revised) Business Combinations

FRS 27 (Revised) is effective for annual periods beginning on or after July 1, 2009. FRS 103 (Revised) is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after July 1, 2009.

Apart from matters of presentation, the principal amendments to FRS 27 that will impact the Group concern the accounting treatment for transactions that result in changes in a parent's interest in a subsidiary. It is likely that these amendments will significantly affect the accounting for such transactions in future accounting periods, but the extent of such impact will depend on the detail of the transactions, which cannot be anticipated. The changes will be adopted prospectively for transactions after the date of adoption of the revised Standard and, therefore, no restatements will be required in respect of transactions prior to the date of adoption.

Similarly, FRS 103 is concerned with accounting for business combination transactions. The changes to the Standard are significant, but their impact can only be determined once the detail of future business combination transactions is known. The amendments to FRS 103 will be adopted prospectively for transactions after the date of adoption of the revised Standard and, therefore, no restatements will be required in respect of transactions prior to the date of adoption.

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

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

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

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

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

# NOTES TO FINANCIAL STATEMENTS

December 31, 2009

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

**BUSINESS COMBINATIONS** - The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under *FRS 103 Business Combinations* are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with *FRS 105 Non-Current Assets Held for Sale and Discontinued Operations*, which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

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

### Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial instrument and of allocating interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument, or where appropriate, a shorter period. Income is recognised on an effective interest rate basis for debt instruments other than those financial instruments "at fair value through profit or loss".

### **Financial assets**

Investments are recognised and de-recognised on a trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs except for those financial assets classified as at fair value through profit or loss which are initially measured at fair value.

Financial assets are classified into the following specified categories: "available-for-sale" financial assets and "loans and receivables". The classification depends on the nature and purpose of financial assets and is determined at the time of initial recognition.

### Cash and cash equivalents

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

### Loans and receivables

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

# NOTES TO FINANCIAL STATEMENTS

## December 31, 2009

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

#### Available-for-sale financial assets

Certain shares and debt securities held by the Group are classified as being available-for-sale and are stated at fair value. Fair value is determined in the manner described in Note 4 to the financial statements. Gains and losses arising from changes in fair value are recognised directly in the revaluation reserve with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets which are recognised directly in statement of comprehensive income. Where the investment is disposed off or is determined to be impaired, the cumulative gain or loss previously recognised in the revaluation reserve is included in statement of comprehensive income for the period. Dividends on available-for-sale equity instruments are recognised in statement of comprehensive income when the Group's right to receive payments is established. The fair value of available-for-sale monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at reporting date. The change in fair value attributable to translation differences that result from a change in amortised cost of the asset is recognised in profit or loss, and other changes are recognised in other comprehensive income.

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost less any identified impairment losses at the end of each reporting period subsequent to initial recognition.

#### Impairment of financial assets

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

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty; or
- Default or delinquency in interest or principal payments; or
- It becoming probable that the borrower will enter bankruptcy or financial reorganisation.

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

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

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



# NOTES TO FINANCIAL STATEMENTS

## December 31, 2009

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

With the exception of available-for-sale instruments, if, in a subsequent year, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through the profit or loss to the extent the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment had not been recognised.

In respect of available-for-sale equity instruments, any subsequent increase in fair value after an impairment loss is recognised directly in other comprehensive income.

### Derecognition of financial assets

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

## **Financial liabilities and equity instruments**

### Classification as debt or equity

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

### Equity instruments

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

### Other financial liabilities

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

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

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

# NOTES TO FINANCIAL STATEMENTS

## December 31, 2009

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

#### Financial guarantee contracts

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

#### Derecognition of financial liabilities

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

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

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

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

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

**LAND USE RIGHTS** - Land use rights are stated at costs and are amortised, over the period of the lease, on a straight-line basis to the statement of comprehensive income. The lease periods for the 3 lands are approximately 47 years and 43 years respectively.

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

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

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

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

# NOTES TO FINANCIAL STATEMENTS

## December 31, 2009

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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

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

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

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

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

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

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

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

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

#### Intangible assets acquired in a business combination

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



# NOTES TO FINANCIAL STATEMENTS

December 31, 2009

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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

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

Patents - 6.5 years

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

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

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

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

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

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

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

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

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

# NOTES TO FINANCIAL STATEMENTS

## December 31, 2009

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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

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

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

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

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

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

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

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

#### Construction contracts

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

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

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

# NOTES TO FINANCIAL STATEMENTS

December 31, 2009

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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

### Sale of goods

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

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

### Rendering of services

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

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

### Interest and finance income

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

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

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

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



# NOTES TO FINANCIAL STATEMENTS

## December 31, 2009

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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

**INCOME TAX** - Income tax expense represents the sum of the tax currently payable and deferred tax.

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

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

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

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised based on the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is charged or credited to statement of comprehensive income, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

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

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

**FOREIGN CURRENCY TRANSACTIONS** - The individual financial statements of each Group entity are measured and presented in the currency of the primary economic environment in which the entity operates (its functional currency). The consolidated financial statements of the Group and the statement of financial position and statement of changes in equity of the Company are presented in Renminbi, which is the functional currency of the principal entities in the People's Republic of China ("PRC") and the presentation currency of the consolidated financial statements. The choice of presentation currency is to better reflect the currency that mainly determines economic effects of transactions, events and conditions of the Group.

# NOTES TO FINANCIAL STATEMENTS

## December 31, 2009

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

In 2008, the functional currency of the Company was Singapore dollars. In conjunction with the dual listing of the Company's shares on The Stock Exchange of Hong Kong Limited and the global offering of new ordinary shares in the capital of the Company, couple with the adoption of International Financial Reporting Standards in its application, the management has re-assessed and re-evaluated the functional currency of the Company to be that of Chinese Renminbi. The Company has accordingly adopted the *FRS 21 The Effects of Changes in Foreign Exchange Rates* and applied the change retrospectively. The effect of this change has been disclosed in Note 36 to the financial statements.

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

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

For the purpose of presenting financial statements, the assets and liabilities are expressed in Renminbi using exchange rates prevailing on the end of the reporting period. Income and expense items (including comparatives) are translated at the average exchange rates for the year, unless exchange rates fluctuated significantly during that year, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in a separate component of equity. Such translation differences are recognised in the statement of comprehensive income in the year in which the foreign operation is disposed.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities (including monetary items that, in substance, form part of the net investment in foreign entities), and of borrowings and other currency instruments designated as hedges of such investments, are taken to the foreign currency translation reserve.

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

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

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

# NOTES TO FINANCIAL STATEMENTS

## December 31, 2009

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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

### 3 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 2 to the financial statements, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

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

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

ii) Key sources of estimation uncertainty

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

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

The Group makes allowances for bad and doubtful debts based on an assessment of the recoverability of trade and other receivables. Allowances are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts requires the exercise of judgement and the use of estimates. Where the expectation is different from the original estimate, such difference will impact carrying value of trade and other receivables and doubtful debts expenses in the period in which such estimate has been changed. The carrying amount of the trade and other receivables, and amount due from contract customers are disclosed in Notes 7 and 8 to the financial statements respectively.

Revenue recognition

The Group recognises contract revenue based on the stage of completion method. The stage of completion is measured in accordance with the accounting policy stated in Note 2 to the financial statements. Significant assumption is required in determining the stage of completion, the extent of the contract cost incurred, the estimated total contract revenue and contract cost and the recoverability of the costs. In making the assumption, the Group evaluates by relying on past experience and the work of specialists. Revenue from construction contracts is disclosed in Note 21 to the financial statements.



# NOTES TO FINANCIAL STATEMENTS

December 31, 2009

## 3 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Cont'd)

### Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating operating unit and a suitable discount rate in order to calculate present value. The carrying amount of goodwill is disclosed in Note 15 to the financial statements.

### Impairment of intangible assets

Determining whether the intangible assets are impaired requires an estimation of the value in use of the cash-generating units to which such intangible asset has been allocated. The value in use calculation requires the group to estimate the future cash flows expected from the cash-generating units and an appropriate discount rate in order to calculate the present value of the future cash flows. Management has evaluated that the carrying amount of the intangible assets based on third-party specialists' valuation and is confident that the carrying amount of such intangible assets will be recovered in full. The carrying amount of the intangible assets at the end of the reporting period is disclosed in Note 14 to the financial statements.

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

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

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

The carrying amount of the service concession receivables at the end of the reporting period is disclosed in Note 16 to the financial statements.

# NOTES TO FINANCIAL STATEMENTS

## December 31, 2009

### 4 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT

#### (a) Capital risk management policies and objectives

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

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

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

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

#### (b) Categories of financial instruments

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

Group	December 31, 2009 RMB'000	December 31, 2008 RMB'000	January 1, 2008 RMB'000
<b>Financial assets:</b>			
Loans and receivables			
Service concession receivables	305,632	153,140	-
Trade receivables	406,339	443,336	401,147
Bills receivable	20,962	32,530	30,383
Bid and compliance deposits	4,777	21,267	34,891
Other receivables	13,481	3,002	1,734
Restricted bank balances	72,208	369,481	418,647
Bank balances and cash	1,237,196	772,987	761,405
Available for sale financial assets	-	-	9,600
Total	2,060,595	1,795,743	1,657,807
<b>Financial liabilities at amortised cost:</b>			
Trade payables	491,794	426,087	225,466
Other payables	31,565	15,008	11,260
Bid and compliance deposits	12,468	13,490	11,876
Notes payables	28,266	-	-
Bank borrowings	225,000	391,662	347,920
Total	789,093	846,247	596,522

# NOTES TO FINANCIAL STATEMENTS

## December 31, 2009

### 4 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT (Cont'd)

#### (b) Categories of financial instruments (Cont'd)

Company	December 31, 2009 RMB'000	December 31, 2008 RMB'000	January 1, 2008 RMB'000
<b><i>Financial assets:</i></b>			
Loans and receivables			
Trade receivables	1,200	8,222	5,768
Other receivables	791	373	409
Dividend receivable from subsidiaries	79,500	94,500	45,000
Due from subsidiaries	5,300	6,820	-
Restricted bank balances	35,923	367,793	412,209
Bank balances and cash	2,236	2,637	1,565
Total	124,950	480,345	464,951
<b><i>Financial liabilities at amortised cost:</i></b>			
Trade payables	400	1,928	805
Other payables	1,998	1,146	2,607
Bank borrowings	-	40,047	-
Total	2,398	43,121	3,412

#### (c) Financial risk management policies and objectives

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

##### (i) Market risk

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

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

##### (ii) Foreign currency risk management

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

The carrying amounts of foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:



# NOTES TO FINANCIAL STATEMENTS

## December 31, 2009

### 4 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT (Cont'd)

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

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

Cash and bank balances

<u>Group</u>	December 31, 2009 RMB'000	December 31, 2008 RMB'000 (restated)	January 1, 2008 RMB'000 (restated)
S\$ denominated	37,281	370,393	412,277
US\$ denominated	11,697	37	1,532

Company

S\$ denominated	37,258	370,393	412,277
US\$ denominated	901	37	1,497

Foreign currency sensitivity

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

	Impact to profit or loss	
	2009 RMB'000	2008 RMB'000 (restated)
<u>Group</u>		
S\$	(3,728)	(37,039)
US\$	(1,170)	(4)
<u>Company</u>		
S\$	(3,726)	(37,039)
US\$	(90)	(4)

The sensitivity to foreign exchange rate changes has decreased during the current period mainly due to a decrease in monetary assets denominated foreign currency.

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

# NOTES TO FINANCIAL STATEMENTS

## December 31, 2009

### 4 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT (Cont'd)

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

##### (iii) Interest rate risk management

The Group is exposed to fair value interest rate risk in relation to its fixed-rate bank borrowings (see Note 18 to the financial statements for details of these borrowings). The Group is also exposed to cash flow interest rate risk in relation to short-term bank balances which carry at prevailing market interest rates. The Group aims at keeping majority of its borrowings at fixed-rate of interest and also aims at keeping its fixed-rate borrowings on a short-term basis so as to minimise the interest rate risk. In order to achieve this result, the borrowings made by the Company are all within one year period. The Group currently does not have interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

The Group's exposures to interest rate changes on its financial liabilities are detailed in the liquidity risk management below.

##### Interest rate sensitivity

As at the end of the reporting period, as most of the borrowings are at fixed rates, it is not useful to perform a sensitivity analyses on the borrowings.

##### (iv) Credit risk management

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

The Group's credit risk primarily relates to the Group's trade and other receivables, advance payments to suppliers and subcontractors and pledged bank deposits. There is significant concentration of credit risk as the top five biggest customers account for approximately 54% (2008 : 55%) of the carrying amounts of trade receivables as at the end of the reporting period. The management of the Group generally grants credit only to customers with good credit ratings and also closely monitors overdue trade debts. The recoverable amount of each individual trade debt is reviewed at the end of each reporting period and adequate impairment for doubtful debts has been made for irrecoverable amounts. In this regard, the management of the Group considers that the credit risk associated with the Group's trade receivable and advance payments to suppliers and subcontractors is significantly reduced.

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

# NOTES TO FINANCIAL STATEMENTS

## December 31, 2009

### 4 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT (Cont'd)

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

##### (iv) Credit risk management (Cont'd)

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

Further details of credit risks on trade and other receivables are disclosed in Note 7 to the financial statements.

##### (v) Liquidity risk management

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

##### *Liquidity and interest risk analyses*

##### Non-derivative financial liabilities

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



# NOTES TO FINANCIAL STATEMENTS

December 31, 2009

## 4 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT (Cont'd)

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

(v) Liquidity risk management (Cont'd)

	Weighted average effective interest rate	On demand or less than 1 year	Between 1 to 5 years	After 5 years	Total undiscounted cash flow	Adjustment	Total
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>GROUP</b>							
<b>December 31, 2009</b>							
Trade payables	-	491,794	-	-	491,794	-	491,794
Other payables	-	31,565	-	-	31,565	-	31,565
Bid and compliance deposits	-	12,468	-	-	12,468	-	12,468
Notes payables	-	28,266	-	-	28,266	-	28,266
Bank borrowings - Fixed rate	5.55	184,818	53,215	3,278	241,311	(16,311)	225,000
Total		748,911	53,215	3,278	805,404	(16,311)	789,093
<b>December 31, 2008</b>							
Trade payables	-	426,087	-	-	426,087	-	426,087
Other payables	-	15,008	-	-	15,008	-	15,008
Bid and compliance deposits	-	13,490	-	-	13,490	-	13,490
Bank borrowings - Fixed rate	6.19	358,209	-	-	358,209	(6,594)	351,615
Bank borrowings - Variable rate	3.40	40,074	-	-	40,074	(27)	40,047
Total		852,868	-	-	852,868	(6,621)	846,247
<b>January 1, 2008</b>							
Trade payables	-	225,466	-	-	225,466	-	225,466
Other payables	-	11,260	-	-	11,260	-	11,260
Bid and compliance deposits	-	11,876	-	-	11,876	-	11,876
Bank borrowings - Fixed rate	6.15	352,863	-	-	352,863	(4,943)	347,920
Total		601,465	-	-	601,465	(4,943)	596,522

#### 4 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT (Cont'd)

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

(v) Liquidity risk management (Cont'd)

	Weighted average effective interest rate	On demand or less than 1 year	Between 1 to 5 years	After 5 years	Total undiscounted cash flow	Adjustment	Total
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>COMPANY</b>							
<b>December 31, 2009</b>							
Trade payables	-	400	-	-	400	-	400
Other payables	-	1,998	-	-	1,998	-	1,998
Total		2,398	-	-	2,398	-	2,398
<b>December 31, 2008</b>							
Trade payables	-	1,928	-	-	1,928	-	1,928
Other payables	-	1,146	-	-	1,146	-	1,146
Bank borrowings - Variable rate	3.40	40,074	-	-	40,074	(27)	40,047
Total		43,148	-	-	43,148	(27)	43,121
<b>January 1, 2008</b>							
Trade payables	-	805	-	-	805	-	805
Other payables	-	2,607	-	-	2,607	-	2,607
Total		3,412	-	-	3,412	-	3,412

# NOTES TO FINANCIAL STATEMENTS

December 31, 2009

# NOTES TO FINANCIAL STATEMENTS

December 31, 2009

## 4 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT (Cont'd)

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

(vi) Fair value of financial assets and financial liabilities

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

- The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices and ask prices respectively; and
- The fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input.

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

## 5 (A) HOLDING COMPANY AND RELATED COMPANY TRANSACTIONS

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

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

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

## (B) RELATED PARTY TRANSACTIONS

Related parties are entities with common direct or indirect shareholders and/or directors. Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions.

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



# NOTES TO FINANCIAL STATEMENTS

## December 31, 2009

**(C) The names of individuals and entities related to the Group are as follows: (Cont'd)**

<u>Name</u>	<u>Relationship</u>
Anyang Mingbo Water Co., Ltd "Anyang Mingbo"	A subsidiary of BJ Sound Enviro.
Baotou Lucheng Water Co., Ltd "Baotou Lucheng"	A PRC company owned by Eguard Resources (90%) and Beijing Lv'meng (10%).
Beijing Lv' meng Investment Co., Ltd "Beijing Lv'meng"	A subsidiary of BJ Sound Enviro.
Beijing Sound Environment Group Co., Ltd "BJ Sound Enviro"	A PRC company owned by Beijing Sanghua Environmental Technology Development Co., Ltd ("Beijing Sanghua") (62.5%), Wen Yibo (36.25%) and Hu Xinling (a director of Eguard Resources) (1.25%). Wen Yibo is the legal representative and director of BJ Sound Enviro. Hu Xinling is unrelated to the Group, Directors and Substantial Shareholders.
Beijing Sound Environmental Technology Development Co., Ltd "Sound Enviro Tech"	A PRC company owned by Wen Yibo (80%) and Beijing Laifuja Science and Technology Co., Ltd (20%). Wen Yibo is a director and the legal representative of Sound Enviro Tech.
Beijing Sound Water Technology Co., Ltd "Sound Water Tech"	A PRC company owned by BJ Sound Enviro (90%) and a relative of Wen Yibo, Wen Shuangfei (10%).
Beijing Xiaojiahe Wastewater Treatment Co., Ltd "Beijing Xiaojiahe"	Under control of the same key management personnel.
Daye Qingbo Water Co., Ltd "Daye Qingbo"	A subsidiary of BJ Sound Enviro.
Eguard Resources Development Co., Ltd "Eguard Resources"	A PRC company listed on the Shen Zhen Stock Exchange and owned by BJ Sound Enviro (51.7%) and the remaining 48.3% is owned by an unrelated party and other public shareholders. Wen Yibo is a director of Eguard Resources.
E'zhou Eqing Environmental Engineering Co., Ltd. "E'zhou Eqing"	A subsidiary of BJ Sound Enviro.

# NOTES TO FINANCIAL STATEMENTS

December 31, 2009

**(C) The names of individuals and entities related to the Group are as follows: (Cont'd)**

<u>Name</u>	<u>Relationship</u>
Hubei Jichu Water Co., Ltd "Hubei Jichu"	A subsidiary of Beijing Lv'meng.
Nanchang Xianghu Water Co., Ltd "Nanchang Xianghu"	A subsidiary of Eguard.
Huzhou Zheqing Water Co., Ltd "Huzhou Zheqing"	A subsidiary of BJ Sound Enviro.
Jiayu Jiaqing Water Co., Ltd. "Jiayu Jiaqing"	A subsidiary of BJ Sound Enviro.
Jingmen Xiajiawan Water Co., Ltd "Jingmen Xiajiawan"	A subsidiary of BJ Sound Enviro.
Jingzhou Jingqing Water Co., Ltd "Jingzhou Jingqing"	A subsidiary of BJ Sound Enviro.
Shanghai Chenghuan Water Operation Co., Ltd "Shanghai Chenghuan"	20% associated company of the Group.
Tongliao Bibo Water Co., Ltd "Tongliao Bibo"	A subsidiary of BJ Sound Enviro.
Xiangfan Hanshui Qiyi Water Co., Ltd "Xiangfan Qingyi"	A subsidiary of BJ Sound Enviro.
Xianning Ganyuan Water Co., Ltd "Xianning Ganyuan"	A subsidiary of BJ Sound Enviro.
Xianning Qingquan Water Co., Ltd "Xianning Qingquan"	A subsidiary of Eguard.

# NOTES TO FINANCIAL STATEMENTS

## December 31, 2009

### (D) Details of transactions are disclosed below.

#### i) Trading transactions

During the year, the trading transactions are as follows:

Entity	Revenue from construction contracts		Revenue from sale of goods/services	
	2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
Anyang Mingbo	17,532	49,488	-	4,200
Baotou Lucheng	5,134	-	-	-
Beijing Xiaojiahe	-	-	48	3,000
Daye Qingbo	8,283	36,300	-	-
E'zhou Eqing	2,864	52,910	-	-
Hubei Jichu	12,000	-	-	-
Jiayu Jiaqing	30,769	-	-	-
Jingmen Xiajiawan	5,682	24,390	-	-
Jingzhou Jingqing	14,618	140,499	-	-
Nanchang Xianghu	-	-	442	-
Tongliao Bibo	3,104	10,517	-	-
Xi'an Huqing Water Co., Ltd*	-	23,343	-	-
Xi'an Qingqing Water Co., Ltd*	-	32,031	-	-
Xiangfan Qingyi	-	7,583	-	-
Xianning Ganyuan	2,500	7,422	2	-
Xianning Qingquan	-	-	-	2,120
Total	102,486	384,483	492	9,320

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

Entity	Trade receivables			Trade payables		
	December 31, 2009 RMB'000	December 31, 2008 RMB'000	January 1, 2008 RMB'000	December 31, 2009 RMB'000	December 31, 2008 RMB'000	January 1, 2008 RMB'000
Anyang Mingbo	41,280	20,674	877	-	-	-
Baotou Lucheng	-	14,156	58,836	-	-	-
Beijing Xiaojiahe	156	2,200	-	-	-	-
Daye Qingbo	-	15,440	-	-	-	-
E'zhou Eqing	22,313	24,547	-	-	-	-
Hubei Jichu	4,900	-	-	-	-	-
Huzhou Zheqing	4,513	2,164	24,514	-	-	-
Jiayu Jiaqing	-	787	-	-	-	-
Jingmen Xiajiawan	-	424	-	-	-	-
Jingzhou Jingqing	1,405	54,528	-	-	-	-
Nanchang Xianghu	298	-	-	-	-	-
Shanghai Chenghuan	-	-	-	-	-	300
Tongliao Bibo	15,100	-	38,920	-	-	-
Xi'an Qingqing Water Co., Ltd*	-	-	21,410	-	-	-
Xianning Ganyuan	703	-	21,068	-	-	-
Xianning Qingquan	-	2,120	-	-	-	-
Xiangfan Qingyi	-	1,210	7,806	-	-	-
Total	90,668	138,250	173,431	-	-	300

# NOTES TO FINANCIAL STATEMENTS

December 31, 2009

## (D) Details of transactions are disclosed below. (Cont'd)

### i) Trading transactions (Cont'd)

Entity	Amount due from contract customers			Amount due to contract customers		
	December 31, 2009	December 31, 2008	January 1, 2008	December 31, 2009	December 31, 2008	January 1, 2008
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Anyang Mingbo	6,702	19,795	-	-	-	-
Daye Qingbo	676	7,260	-	-	-	-
E'zhou Eqing	-	2,047	-	-	-	-
Hubei Jichu	1,200	-	-	-	-	-
Huzhou Zheqing	-	2,540	-	-	-	-
Jiayu Jiaqing	-	-	-	14,869	-	-
Jingmen Xiajiawan	-	-	-	2,949	8,150	-
Jingzhou Jingqing	11,447	21,523	-	-	-	-
Tongliao Bibo	13,400	89,099	47,763	-	-	-
Xi'an Qinqing Water Co., Ltd*	-	-	2,762	-	-	-
Xianning Ganyuan	-	990	-	1,510	-	-
Xiangfan Qingyi	-	2,051	-	1,219	-	-
Total	33,425	145,305	50,525	20,547	8,150	-

\* In 2008, the Group increased its shareholdings in these entities from 18% to 100%.

### ii) Compensation of directors and other key management personnel

The remuneration of directors and other members of key management during the year were as follows:

	Group	
	2009 RMB'000	2008 RMB'000
Wages and salaries	1,655	1,868
Post-employment benefits	142	148
Total	1,797	2,016

The remuneration of directors and key executives is determined having regard to the performance of individuals and market trends.



# NOTES TO FINANCIAL STATEMENTS

## December 31, 2009

### (D) Details of transactions are disclosed below. (Cont'd)

#### iii) Other receivables / Other payables

	Other receivables			Other payables		
	December 31, 2009	December 31, 2008	January 1, 2008	December 31, 2009	December 31, 2008	January 1, 2008
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<u>Board of Directors:</u>						
Hu Zelin (ex-director)	-	-	2	-	-	-
Wang Zhili	-	-	-	-	-	33
Wen Yi Bo	50	-	-	-	-	-
Yan Xiaolei	14	4	4	-	-	-
	64	4	6	-	-	33
<u>Entities</u>						
Anyang Mingbo	107	-	-	-	-	-
Baotou Lucheng	-	8,912	8,912	-	-	-
Beijing Lv'meng	2,700	-	-	-	-	-
Xiangfan Qingyi	-	400	-	-	-	-
Tongliao Bibo	300	-	12,400	-	-	-
BJ Sound Enviro	-	-	-	800	-	-
	3,107	9,312	21,312	800	-	-
Total	3,171	9,316	21,318	800	-	33

The amounts due to and from are interest-free, unsecured and repayable on demand.

#### iv) Others

##### 1) Licencing of trademarks

Since 2002, the Group (being registered owner of certain trademarks) uses its trademarks for its water and wastewater treatment business. These trademarks are also used by BJ Sound Enviro for its investment in environmental protection and by Sound Water Tech, for the processing of distilled water at no consideration before March 2006.

In March 2006, the Group agreed to transfer the trademarks at no cost to BJ Sound Enviro pursuant to a Trademarks Transfer Agreement dated March 23, 2006. BJ Sound Enviro will in return grant the Group the license to use the trademarks for a period of up to 50 years at Nil consideration.

# NOTES TO FINANCIAL STATEMENTS

December 31, 2009

## (D) Details of transactions are disclosed below. (Cont'd)

### iv) Others (Cont'd)

- 2) In addition to the above transactions, the Group has entered into sub-contract arrangements with the following main contractors:

Name of main contractor	The project related to the sub-contract (the "Project")	Name of operator of the Project (the "Operator")	Relationship with the Operator
Beijing Third Urban Construction Development Co., Ltd. ("Beijing Urban Construction")	Nanchang Xianghu Wastewater Treatment Project	Nanchang Xinghu Water Co., Ltd.	Fellow Subsidiaries
Hangzhou Shizheng Engineering Group Co., Ltd. ("Hangzhou Shizheng")	Huzhou Zhebei Water Plant Improvement Project	Zhejiang Huzhou Zheqing Co., Ltd.	Fellow Subsidiaries
Hubei Gongye Construction Group Co., Ltd. ("Hubei Gongye Construction")	Hubei Zhushan Wastewater Treatment Plant Construction Project	Hubei Jichu Water Co., Ltd.	Fellow Subsidiaries
Jingzhou City Construction Group Co., Ltd. ("Jingzhou City Construction")	Zhijiang and Hubei Jingzhou Wastewater Treatment Plant Construction Project	Jingzhou Jingqing and Zhijiang Zhiqing Water Co., Ltd.	Fellow Subsidiaries
Tianjin Hanyi Construction Engineering Co., Ltd. ("Tianjin Hanyi")	Jiangsu Shuyuan Water Supply Project	Jiangsu Shuyuan Water Co., Ltd.	Fellow Subsidiaries
Xiangfan Shizheng Engineering Group Co., Ltd. ("Xiangfan Shizheng")	Xiangfan Guanying Wastewater Treatment Plant Construction Project	Xiangfan Hanshui Qingyi Water Co., Ltd.	Fellow Subsidiaries

The balances due from (to) are interest-free, unsecured and repayable on demand.

# NOTES TO FINANCIAL STATEMENTS

## December 31, 2009

### (D) Details of transactions are disclosed below. (Cont'd)

#### iv) Others (Cont'd)

During the year, the Group entered into the following transactions with the above mentioned main contractors:

Entity	Revenue from construction contracts		Purchases	
	2009	2008	2009	2008
	RMB'000	RMB'000	RMB'000	RMB'000
Hubei Gongye Construction	1,368	11,041	-	1,491
Jingzhou City Construction	5,545	16,146	-	80,554
Total	6,913	27,187	-	82,045

Entity	December 31, 2009	December 31, 2008	January 1, 2008	December 31, 2009	December 31, 2008	January 1, 2008
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	Trade receivables			Trade payables		
Beijing Urban Construction	-	764	26,964	-	-	-
Hangzhou Shizheng	-	8,501	34,726	-	-	-
Hubei Gongye Construction	5,151	5,861	8,668	1,284	1,284	3,129
Jingzhou City Construction	-	-	-	-	18,088	-
Tianjin Hanyi	-	-	4,833	-	-	-
Xiangfan Shizheng	913	433	433	-	-	-
Total	6,064	15,559	75,624	1,284	19,372	3,129

Entity	Other receivables			Amount due from contract customers		
Hangzhou Shizheng	-	7,750	7,750	-	4,875	9,750
Hubei Gongye Construction	-	-	-	1,331	4,281	3,041
Jingzhou City Construction	50	-	-	258	-	-
Total	50	7,750	7,750	1,589	9,156	12,791

# NOTES TO FINANCIAL STATEMENTS

## December 31, 2009

### 6 CASH AND CASH EQUIVALENTS

	Group			Company		
	December 31, 2009	December 31, 2008	January 1, 2008	December 31, 2009	December 31, 2008	January 1, 2008
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cash at bank	1,237,147	772,979	761,397	2,236	2,637	1,565
Restricted bank balances	72,208	369,481	418,647	35,923	367,793	412,209
Cash on hand	49	8	8	-	-	-
Cash and cash equivalents	1,309,404	1,142,468	1,180,052	38,159	370,430	413,774

#### Presentation on Statements of Financial Position

Cash and bank balances	1,237,196	772,987	761,405	2,236	2,637	1,565
Restricted bank balances	72,208	369,481	418,647	35,923	367,793	412,209
Total	1,309,404	1,142,468	1,180,052	38,159	370,430	413,774

The above balances that are not denominated in the functional currencies of the respective entities are as follows:

	Group			Company		
	December 31, 2009	December 31, 2008	January 1, 2008	December 31, 2009	December 31, 2008	January 1, 2008
	RMB'000	RMB'000 (restated)	RMB'000 (restated)	RMB'000	RMB'000 (restated)	RMB'000 (restated)
S\$ denominated	37,281	370,393	412,277	37,258	370,393	412,277
US\$ denominated	11,697	37	1,532	901	37	1,497

Restricted bank balances of a subsidiary amounting to RMB36,285,000 (2008 : RMB1,688,000) have been pledged to financial institutions in respect of letters of guarantees issued to the subsidiary to secure bank borrowings and notes payables. These pledged deposits bear fixed interest at approximately 0.36% (2008 : 0.36% to 0.72%) per annum. The pledged bank deposits will be released upon the settlement of relevant liabilities.

Restricted bank balances of the Company amounting to RMB35,923,000 (2008 : RMB367,793,000) are pledge to a financial institution in respect of banking facilities provided to a subsidiary (Note 18). These pledged deposits bear interest at rates ranging at approximately 0.05% to 0.36% (2008 : 0.06% to 1.00%) per annum.

Bank balances and cash at December 31, 2008 and December 31, 2009 were mainly denominated in RMB which is not a freely convertible currency in the international market. The exchange rate of RMB is determined by the Government of the PRC and the remittance of these funds out of the PRC is subject to exchange restrictions imposed by the Government of the PRC.



# NOTES TO FINANCIAL STATEMENTS

## December 31, 2009

### 7 TRADE AND OTHER RECEIVABLES

	Group			Company		
	December 31,	December 31,	January 1,	December 31,	December 31,	January 1,
	2009	2008	2008	2009	2008	2008
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables	454,334	462,905	409,462	1,200	8,222	5,768
Allowance for doubtful debts	(47,995)	(19,569)	(8,315)	-	-	-
Net	406,339	443,336	401,147	1,200	8,222	5,768
Bid and compliance deposits	4,777	21,267	34,891	-	-	-
Bills receivable	20,962	32,530	30,383	-	-	-
Advance payments to suppliers and subcontractors	16,293	15,140	2,182	-	-	-
Dividend receivable from subsidiaries	-	-	-	79,500	94,500	45,000
Due from subsidiaries — trade	-	-	-	5,300	4,979	-
Due from subsidiaries — non trade	-	-	-	-	1,841	-
Other receivables	13,481	3,002	1,734	791	373	409
Total	461,852	515,275	470,337	86,791	109,915	51,177
Movement in allowance for doubtful debts:						
Balance at beginning of year	19,569	8,315	8,315	-	-	-
Charge to profit and loss	28,426	11,254	-	-	-	-
Balance at end of year	47,995	19,569	8,315	-	-	-

The above allowance was provided for based on estimated irrecoverable amounts arising from construction contracts, determined by reference to past default experience. The Group reviews the recoverable amount of each individually significant trade debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts.

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

As at the end of the reporting period, trade receivables with carrying amount of approximately RMB85,050,000 (2008: NIL) have been pledged as collateral for the short-term bank borrowings of RMB50,000,000 (2008: NIL).

Included in the trade and other receivables is an amount of RMB99,953,000 (2008 : RMB170,875,000) due from related companies/parties (Note 5). No impairment has been made to these receivables from related companies/parties as there has not been a significant change in credit quality and the amounts are still considered recoverable. The average age of these receivables are 360 days (2008 : 360 days).

These receivables, which are past due and not impaired, are not secured by any collateral or credit enhancements.

In determining the recoverability of a trade receivable, the Group and the Company consider any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. Accordingly, the management believe that there is no further credit provision required in excess of the allowance for doubtful debts.

# NOTES TO FINANCIAL STATEMENTS

## December 31, 2009

### 7 TRADE AND OTHER RECEIVABLES (Cont'd)

The table below is an analysis of net trade receivables as at the end of the reporting period:

	Group			Company		
	December 31, 2009	December 31, 2008	January 1, 2008	December 31, 2009	December 31, 2008	January 1, 2008
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Within 90 days	174,551	146,388	117,022	-	8,222	5,768
91- 180 days	36,179	191,363	139,500	1,200	-	-
181 days – 1 year	65,695	66,665	79,181	-	-	-
1 to 2 years	113,377	38,920	61,052	-	-	-
2 – 3 years	16,537	-	4,392	-	-	-
Net trade receivables	406,339	443,336	401,147	1,200	8,222	5,768

The table below is an analysis of bills receivables as at the end of the reporting period:

	Group			Company		
	December 31, 2009	December 31, 2008	January 1, 2008	December 31, 2009	December 31, 2008	January 1, 2008
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
0 – 180 days	20,962	32,530	30,383	-	-	-

### 8 AMOUNTS DUE FROM / TO CONTRACT CUSTOMERS

	Group		
	December 31, 2009	December 31, 2008	January 1, 2008
	RMB'000	RMB'000	RMB'000
Contracts in progress at the end of the reporting period:			
Amounts due from contract customers	233,791	257,028	120,846
Amounts due to contract customers	(24,264)	(24,311)	(6,310)
Net	209,527	232,717	114,536
Contract costs incurred plus recognised profits less recognised losses to date	1,864,568	1,193,350	1,056,668
Less: Progress billings	(1,655,041)	(960,633)	(942,132)
Net	209,527	232,717	114,536

At December 31, 2009, retention monies held by customers for contract work amounted to RMB46.4 million (2008 : RMB 68.0 million), which are included in trade receivables.

# NOTES TO FINANCIAL STATEMENTS

## December 31, 2009

### 9 INVENTORIES

	Group		
	December 31, 2009	December 31, 2008	January 1, 2008
	RMB'000	RMB'000	RMB'000
Equipment components, at cost:			
Finished goods	-	1,083	478
Work in progress	25	10,505	-
Raw materials	11,518	10,275	-
Total	11,543	21,863	478

### 10 LAND USE RIGHTS

	Group		
	December 31, 2009	December 31, 2008	January 1, 2008
	RMB'000	RMB'000	RMB'000
Cost:			
At beginning of year	49,921	3,000	3,000
Arising on acquisition of subsidiary (Note 35)	-	46,921	-
At end of year	49,921	49,921	3,000
Accumulated amortisation:			
At beginning of year	993	420	420
Charge	1,158	573	-
At end of year	2,151	993	420
Carrying amount:			
At end of year	47,770	48,928	2,580
Less: Portion to be released to profit or loss in the next year under current assets	(1,158)	(1,158)	(63)
Amount due after one year	46,612	47,770	2,517
<u>Presentation on Statements of Financial Position</u>			
Current assets	1,158	1,158	63
Non-current assets	46,612	47,770	2,517
Total	47,770	48,928	2,580

This represents prepaid lease payments for land use rights of 3 (2008: 3) pieces of land located in the PRC on which the buildings of the subsidiaries are erected. The leases for 2 lands run for an initial period of 47 years commencing on October 18, 2001 and the other land run for an initial period of 43 years commencing April 6, 2008. None of the leases include contingent rentals.

As at the end of the reporting period, the Group has pledged land use rights with carrying amount of RMB2,454,000 (2008: NIL) to secure general banking facilities granted to the Group.

# NOTES TO FINANCIAL STATEMENTS

December 31, 2009

## 11 PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Plant and machinery RMB'000	Transportation vehicles RMB'000	Fixtures and equipments RMB'000	Construction in progress RMB'000	Total RMB'000
<u>Group</u>						
Cost:						
At January 1, 2008	16,834	80	2,643	3,050	2,678	25,285
Arising on acquisition of subsidiaries (Note 35)	24,358	7,986	-	293	-	32,637
Additions	-	40	-	508	576	1,124
Reclassifications	3,254	-	-	-	(3,254)	-
At December 31, 2008	44,446	8,106	2,643	3,851	-	59,046
Additions	-	30	108	415	-	553
Disposal	-	-	-	(12)	-	(12)
At December 31, 2009	44,446	8,136	2,751	4,254	-	59,587
Accumulated depreciation:						
At January 1, 2008	3,290	49	1,826	1,649	-	6,814
Depreciation	927	412	358	608	-	2,305
At December 31, 2008	4,217	461	2,184	2,257	-	9,119
Depreciation	1,415	826	258	424	-	2,923
Disposal	-	-	-	(5)	-	(5)
At December 31, 2009	5,632	1,287	2,442	2,676	-	12,037
Carrying amount:						
At December 31, 2009	38,814	6,849	309	1,578	-	47,550
At December 31, 2008	40,229	7,645	459	1,594	-	49,927
At January 1, 2008	13,544	31	817	1,401	2,678	18,471

As at the end of the reporting period, the Group has pledged buildings with carrying amount of RMB15,150,000 (2008: NIL) to secure general banking facilities granted to the Group.



# NOTES TO FINANCIAL STATEMENTS

## December 31, 2009

### 11 PROPERTY, PLANT AND EQUIPMENT (Cont'd)

Company	Fixtures and equipment RMB'000
Cost:	
At January 1, 2008	536
Additions	11
At December 31, 2008	547
Additions	36
At December 31, 2009	583
Accumulated depreciation:	
At January 1, 2008	201
Depreciation	269
At December 31, 2008	470
Depreciation	75
At December 31, 2009	545
Carrying amount:	
At December 31, 2009	38
At December 31, 2008	77
At January 1, 2008	335

### 12 SUBSIDIARIES

	Company		
	December 31, 2009	December 31, 2008	January 1, 2008
	RMB'000	RMB'000	RMB'000
Unquoted equity shares, at cost	588,060	431,000	431,000
Deemed investment	136,443	-	-
Total	724,503	431,000	431,000

# NOTES TO FINANCIAL STATEMENTS

December 31, 2009

## 12 SUBSIDIARIES (Cont'd)

Details of the subsidiaries are as follows:

Name of subsidiary	Country of registration and operation	Group's effective equity interest and voting power held				Cost			Principal activity
		December 31, 2009	December 31, 2008	January 1, 2008	December 31, 2009	December 31, 2008	January 1, 2008		
		%	%	%	RMB'000	RMB'000	RMB'000		
<u>Held by company</u>									
Beijing Epure International Water Co., Ltd (1)	People's Republic of China	100	100	100	149,573	149,573	149,573	Research and development of water treatment technologies and provision of services for technology consultation and transfer	
Beijing Sound Environmental Engineering Co., Ltd (1)	People's Republic of China	100	100	100	438,487	281,427	281,427	Environmental construction related to water treatment	
Epure International Engineering Pte Ltd (2)	Singapore	100 <sup>#</sup>	-	-	*	-	-	Investment holding	
Sound International Engineering Ltd (3)	British Virgin Islands	100 <sup>#</sup>	-	-	*	-	-	Investment holding	
Sound International Investment Holdings Limited (3)	British Virgin Islands	100	100	-	*	*	-	Investment holding	
<u>Held by subsidiaries</u>									
Beijing Epure Sound Environmental Engineering Technology Co., Ltd (2) (4)	People's Republic of China	100	100	100	-	-	-	Research and development of water treatment technologies and provision of services for technology consultation and transfer	
Beijing Hi-Standard Water Treatment Equipment Co., Ltd (1)	People's Republic of China	100	100	-	-	-	-	Manufacture of waste water treatment equipment	
Fushun City Qinxì Wastewater Treatment Co., Ltd	People's Republic of China	100 <sup>#</sup>	-	-	-	-	-	Construct, manage and operate the municipal wastewater projects, and recycling and sale of treated water	

588,060	431,000	431,000
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# NOTES TO FINANCIAL STATEMENTS

## December 31, 2009

### 12 SUBSIDIARIES (Cont'd)

Details of the subsidiaries are as follows: (Cont'd)

Name of subsidiary	Country of registration and operation	Group's effective equity interest and voting power held		Cost		Principal activity
				December 31, 2009	January 1, 2008	
		%	%	RMB'000	RMB'000	
Guangxi Liqing Water Co., Ltd (2)	People's Republic of China	100	100	-	-	Construct, manage and operate the municipal wastewater projects, and recycling and sale of treated water
Hainan Baichuan Water Co., Ltd (2)	People's Republic of China	100 <sup>#</sup>	-	-	-	Construct, manage and operate the municipal wastewater projects, and recycling and sale of treated water
Hancheng City Yiqing Water Co., Ltd (2)	People's Republic of China	100 <sup>#</sup>	-	-	-	Construct, manage and operate the municipal wastewater projects, and recycling and sale of treated water
Jiangyan Jiangyuan Wastewater Treatment Co., Ltd (2)	People's Republic of China	50 <sup>^</sup>	-	-	-	Construct, manage and operate the municipal wastewater projects, and recycling and sale of treated water
Shangluo Wastewater Treatment Co., Ltd (2)	People's Republic of China	100 <sup>#</sup>	-	-	-	Construct, manage and operate the municipal wastewater projects, and recycling and sale of treated water
Xi'an Huqing Water Co., Ltd (2)	People's Republic of China	100	100	-	*	Construct, manage and operate the municipal wastewater projects, and recycling and sale of treated water
Xi'an Qinqing Water Co., Ltd (2)	People's Republic of China	100	100	-	*	Construct, manage and operate the municipal wastewater projects, and recycling and sale of treated water
Yulin City Jingzhou Water Co., Ltd (2)	People's Republic of China	100 <sup>#</sup>	-	-	-	Construct, manage and operate the municipal wastewater projects, and recycling and sale of treated water

# NOTES TO FINANCIAL STATEMENTS

December 31, 2009

## 12 SUBSIDIARIES (Cont'd)

Details of the subsidiaries are as follows: (Cont'd)

# Incorporated during the financial year.

^ Incorporated during the financial year. Although the Group holds 50% of this entity, under a shareholders' agreement, the Group is entitled to the full profit or loss attributable to this entity for each of the financial year unless superseded by another agreement. The Group exercises the power to govern the financial and operating policies of this entity, and hence is accounted as a subsidiary of the Group.

\* Investment in these entities was classified under "Available-for-sale investment" in 2007.

Notes:

(1) Audited by Deloitte Touche Tohmatsu CPA Ltd, Beijing Branch for consolidation purposes.

(2) Audited by Deloitte & Touche LLP, Singapore for consolidation purposes.

(3) The unaudited management accounts have been used for consolidation purposes as they are not material to the Group's financial statements.

(4) Jointly held by Beijing Sound Environmental Engineering Co., Ltd (20%) and Beijing Epure International Water Co., Ltd (80%).

\* Amount less than RMB1,000.

## 13 ASSOCIATE

	Group		
	December 31, 2009	December 31, 2008	January 1, 2008
	RMB'000	RMB'000	RMB'000
Unquoted equity shares, at cost	2,000	2,000	2,000
Share of post-acquisition profit	561	540	15
Total	2,561	2,540	2,015

Details of the associate are as follows:

Name of associate	Country of registration and operation	Group's effective equity interest and voting power held	Cost	Principal activity
			December 31, 2009 and 2008, and January 1, 2008 %	
			RMB'000	
Shanghai Chenghuan Water Operation Co., Ltd	People's Republic of China	20	2,000	Management of the operations of water and wastewater treatment plants in Shanghai

The unaudited management accounts have been used for consolidation purposes as it is not material to the Group's financial statements.



# NOTES TO FINANCIAL STATEMENTS

## December 31, 2009

### 13 ASSOCIATE (Cont'd)

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

	Group		
	December 31, 2009	December 31, 2008	January 1, 2008
	RMB'000	RMB'000	RMB'000
<u>Statement of Financial Position</u>			
Total assets	17,163	25,170	22,674
Total liabilities	(4,358)	(12,470)	(12,599)
Net assets	12,805	12,700	10,075
Group's share of associate's net assets	2,561	2,540	2,015
<u>Statement of Comprehensive Income</u>			
Revenue	34,233	93,536	
Profit for the year	105	2,625	
Group's share of associate's profit for the year	21	525	

### 14 INTANGIBLE ASSETS

	Group		
	December 31, 2009	December 31, 2008	January 1, 2008
	RMB'000	RMB'000	RMB'000
<u>Cost:</u>			
At beginning of year	67,199	-	-
Arising on acquisition of subsidiary (Note 35)	-	67,199	-
At end of year	67,199	67,199	-
<u>Accumulated amortisation:</u>			
At beginning of year	7,199	-	-
Amortisation	10,000	7,199	-
At end of year	17,199	7,199	-
<u>Carrying amount</u>			
At beginning of year	60,000	-	-
At end of year	50,000	60,000	-

The intangible assets represent various patents which protect the design and specification in the manufacturing of waste water treatment equipment. Amortisation for the patents is provided on a straight-line basis over their estimated useful lives ranging from 4.5 years to 9.5 years. The average remaining period for the patents is 5 years (2008: 6 years).

# NOTES TO FINANCIAL STATEMENTS

## December 31, 2009

### 15 GOODWILL

	Group		
	December 31, 2009	December 31, 2008	January 1, 2008
	RMB'000	RMB'000 (restated)	RMB'000
At beginning of year	41,395	-	-
Arising on acquisition of subsidiary (Note 35)	-	27,173	-
Adjustment for deferred tax liabilities (Note 17)	-	14,222	-
At end of year	41,395	41,395	-

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

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

The Group prepares cash flow forecasts derived from the most recent financial forecasts approved by the management for the next five years. The Group's internal rates of 8% (2008: 8%) are used to discount the future cash flows.

As at the end of the reporting period, management of the Group determines that there are no impairments of the goodwill. Management believes that any reasonably possible change in any of these assumptions would not cause the carrying amount of the goodwill to exceed its recoverable amount.

### 16 SERVICE CONCESSION RECEIVABLES

	Group		
	December 31, 2009	December 31, 2008	January 1, 2008
	RMB'000	RMB'000	RMB'000
Service concession receivables	295,132	153,140	-

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

# NOTES TO FINANCIAL STATEMENTS

## December 31, 2009

### 16 SERVICE CONCESSION RECEIVABLES (Cont'd)

Service concession receivables arose from the following:

- (a) a 30-year contract in Xi'an to build and operate a waste water treatment plant. The plant started operations in October 2009 (2008: under construction).
- (b) a 28-year contract in Xi'an to build and operate a waste water treatment plant. As at the end of the reporting period, the plant is still under construction and has not commenced operations.
- (c) a 26-year contract in Guangxi to build and operate a waste water treatment plant. As at the end of the reporting period, the plant is still under construction and has not commenced operations.
- (d) a 25-year contract in Hancheng City to build and operate a waste water treatment plant. As at the end of the reporting period, the plant is still under construction and has not commenced operations.
- (e) a 25-year contract in Shangluo City to build and operate a waste water treatment plant. As at the end of the reporting period, the plant is still under construction and has not commenced operations.
- (f) a 25-year contract in Yulin City to build and operate a waste water treatment plant. As at the end of the reporting period, the plant is still under construction and has not commenced operations.
- (g) a 30-year contract in Jiangyan to build and operate a waste water treatment plant. As at the end of the reporting period, the plant is still under construction and has not commenced operations.
- (h) a 30-year contract in Fushun to build and operate a waste water treatment plant. As at the end of the reporting period, the plant is still under construction and has not commenced operations.

With respect to the above projects, the Group has evaluated and assessed that such contracts come under the scope of *INT FRS 112 Service Concession Arrangements*. Under the terms of the arrangements, the Group will receive a minimum amount of RMB39,955,000 (2008: RMB27,579,000) yearly from the contracted parties (grantors) in exchange for services performed by the Group when the plants are in commercial operations.

In arriving at the carrying value of the service concession arrangements as at the end of the reporting period, weighted average effective interest rate of 9.7% (2008: 8.9%) per annum was used to discount the future expected cash flows.

Revenue and profits for the year arising from these arrangements for the provision of construction services amount to RMB113,423,000 (2008: RMB153,140,000) and RMB25,991,000 (2008: RMB25,528,000) respectively.

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

# NOTES TO FINANCIAL STATEMENTS

## December 31, 2009

### 17 DEFERRED TAX ASSETS (LIABILITIES)

	Group		
	December 31, 2009	December 31, 2008	January 1, 2008
	RMB'000	RMB'000 (restated)	RMB'000
Balance at beginning of year	(13,287)	-	-
Credit to profit or loss (Note 25)	1,907	935	-
Adjustment due to fair value adjustment arising from acquisition of subsidiary (Note 15)	-	(14,222)	-
Balance at end of year	(11,380)	(13,287)	-

The deferred tax assets/liabilities recognised by the Group, and the movements thereon, during the financial year are as follows:

	Allowance for doubtful debts	Undistributed profits of the PRC subsidiaries	Fair value adjustment arising from on acquisition of a subsidiary	Service concession receivables	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2008	-	-	-	-	-	-
Credit (Charge) to profit or loss	2,935	(2,000)	-	-	-	935
Addition in business combination	-	-	(14,222)	-	-	(14,222)
At December 31, 2008	2,935	(2,000)	(14,222)	-	-	(13,287)
Credit (Charge) to profit or loss	4,264	(2,500)	1,647	(1,677)	173	1,907
At December 31, 2009	7,199	(4,500)	(12,575)	(1,677)	173	(11,380)

The deferred tax assets arose mainly from the allowance for doubtful debts provision. The deferred tax liabilities related to unremitted overseas income.

	Group		
	December 31, 2009	December 31, 2008	January 1, 2008
	RMB'000	RMB'000 (restated)	RMB'000
Deferred tax assets	7,372	2,935	-
Deferred tax liabilities	(18,752)	(16,222)	-
Net	(11,380)	(13,287)	-



# NOTES TO FINANCIAL STATEMENTS

## December 31, 2009

### 18 BANK LOANS

	Group			Company		
	December 31, 2009	December 31, 2008	January 1, 2008	December 31, 2009	December 31, 2008	January 1, 2008
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Bank loan A (Note i)	142,700	161,715	337,920	-	-	-
Bank loan B (Note ii)	31,000	189,900	-	-	-	-
Bank loan C (Note iii)	16,300	-	-	-	-	-
Bank loan D (Note iv)	35,000	-	-	-	-	-
Other bank loans (Note v)	-	40,047	10,000	-	40,047	-
Total	225,000	391,662	347,920	-	40,047	-

	Group			Company		
	December 31, 2009	December 31, 2008	January 1, 2008	December 31, 2009	December 31, 2008	January 1, 2008
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Presentation on Statements of Financial Position						
Current liabilities	176,700	391,662	347,920	-	40,047	-
Non- current liabilities	48,300	-	-	-	-	-
Total	225,000	391,662	347,920	-	40,047	-

Details of all the bank loans, which are repayable within one year unless otherwise stated, are as follows:

- (i) Details of bank loan A of a subsidiary consists of the following:

	Group		
	December 31, 2009	December 31, 2008	January 1, 2008
	RMB'000	RMB'000	RMB'000
Fixed-rate borrowings	142,700	161,715	337,920

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

	December 31, 2009	December 31, 2008	January 1, 2008
	%	%	%
Bank borrowing	5.11 – 8.22	5.43 – 8.22	5.42 – 7.78

As at December 31, 2009, bank borrowings of approximately RMB23,500,000 were mortgaged by certain buildings and land use rights of the subsidiary and a related company. Bank borrowings of approximately RMB40,000,000 were pledged by bank balances and personal guarantee by the executive director.

# NOTES TO FINANCIAL STATEMENTS

## December 31, 2009

### 18 BANK LOANS (Cont'd)

As of December 31, 2009, the bank borrowings of approximately RMB50,000,000 are guaranteed by Beijing Zhongguancun Sci-tech Guaranty Co., Ltd ("Zhongguancun Guaranty"), a third party of the subsidiary. The subsidiary also pledged its certain trade receivables to Zhongguancun Guaranty as the collateral.

- (ii) Details of bank loan B of a subsidiary consists of the following that are guaranteed by the Company:

	Group		
	December 31, 2009	December 31, 2008	January 1, 2008
	RMB'000	RMB'000	RMB'000
Fixed-rate borrowings	31,000	189,900	-

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

	Group		
	December 31, 2009	December 31, 2008	January 1, 2008
	%	%	%
Bank borrowing	4.62	5.81 – 6.24	-

- (iii) Details of bank loan C of a subsidiary consists of the following that are secured by the subsidiary's 8 years' charging rights under the service concession contract:

	Group		
	December 31, 2009	December 31, 2008	January 1, 2008
	RMB'000	RMB'000	RMB'000
Fixed rate borrowings	16,300	-	-

The bank loan is repayable on follows:

Within one year	-	-	-
After one year but within five years	16,300	-	-
Total	16,300	-	-

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

	Group		
	December 31, 2009	December 31, 2008	January 1, 2008
	%	%	%
Bank borrowing	6.32	-	-

# NOTES TO FINANCIAL STATEMENTS

## December 31, 2009

### 18 BANK LOANS (Cont'd)

- (iv) Details of bank loan D of a subsidiary consists of the following that are secured by the subsidiary's 30 years charging right under the service concession contract and personal guarantee of an executive director and his wife.

	Group		
	December 31, 2009	December 31, 2008	January 1, 2008
	RMB'000	RMB'000	RMB'000
Fixed-rate borrowings	35,000	-	-
The loan is repayable as follows:			
Within one year	3,000	-	-
After one year but within five years	28,800	-	-
After five years	3,200	-	-
Total	35,000	-	-

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

	Group		
	December 31, 2009	December 31, 2008	January 1, 2008
	%	%	%
Bank borrowing	7.13	-	-

- (v) In 2008, other bank loans consisted of RMB 40.05 million bank loan, denominated in Singapore Dollars, and is used as cash collateral for loans granted to a subsidiary. The bank loan bore an average effective interest of 3.4% per annum. The loan was fully repaid in 2009.

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

# NOTES TO FINANCIAL STATEMENTS

## December 31, 2009

### 19 TRADE AND OTHER PAYABLES

	Group			Company		
	December 31, 2009	December 31, 2008	January 1, 2008	December 31, 2009	December 31, 2008	January 1, 2008
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables						
Within 90 days	209,672	166,609	102,720	-	1,176	805
91 days to 180 days	94,263	102,365	73,609	-	-	-
181 days to 1 year	46,511	68,658	30,557	-	752	-
1 to 2 years	120,449	72,573	14,462	400	-	-
2 to 3 years	11,541	15,882	1,534	-	-	-
More than 3 years	9,358	-	2,584	-	-	-
Total trade payables	491,794	426,087	225,466	400	1,928	805
Other payables	21,065	15,008	11,260	1,961	1,146	2,607
Bid and compliance deposits	12,468	13,490	11,876	-	-	-
Due to subsidiaries (Note 12)	-	-	-	37	-	-
Advance from customers	3,028	5,734	-	-	-	-
Notes payable	28,266	-	-	-	-	-
Business taxes payables	67,969	47,712	26,144	-	-	-
Value added taxes payable	53,335	32,140	13,849	-	-	-
Other tax payables	3,131	1,638	1,033	-	-	-
Total	681,056	541,809	289,628	2,398	3,074	3,412

The average credit period on purchases of goods is 120 days (2008 : 120 days).

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

Included above are trade and other payables from related companies/parties (Note 5) amounting to RMB2,084,000 (2008 : RMB19,372,000).

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

The table below is an analysis of notes payables as at the end of the reporting period:

	Group			Company		
	December 31, 2009	December 31, 2008	January 1, 2008	December 31, 2009	December 31, 2008	January 1, 2008
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
0 – 180 days	28,266	-	-	-	-	-



# NOTES TO FINANCIAL STATEMENTS

## December 31, 2009

### 20 SHARE CAPITAL

	Group and Company					
	December 31, 2009	December 31, 2008	January 1, 2008	December 31, 2009	December 31, 2008	January 1, 2008
	Number of shares ('000)			RMB'000	RMB'000	RMB'000
Issued and paid up:						
At beginning of year	1,290,000	430,000	430,000	833,368	833,368	833,368
Share split of 1 into 3	-	860,000	-	-	-	-
At the end of the financial year	1,290,000	1,290,000	430,000	833,368	833,368	833,368

The Company has one class of ordinary shares with no par value and carry no right to fixed income.

In 2008, the shareholders of the Company approved the share split of each ordinary share in the capital of the Company into three ordinary shares.

### 21 REVENUE

	Group	
	2009	2008
	RMB'000	RMB'000
Revenue from construction contracts including turnkey services (and sale of equipments related to the construction contracts)	1,132,487	855,184
Revenue from sale of goods	125,382	102,730
Design service contracts	29,930	66,894
Operating and maintenance income	5,677	-
Total	1,293,476	1,024,808

### 22 OTHER OPERATING INCOME

	Group	
	2009	2008
	RMB'000	RMB'000
Deemed interest income on service concession receivables	6,702	-
Interest income	3,791	10,031
Sundry income	421	61
Total	10,914	10,092

# NOTES TO FINANCIAL STATEMENTS

December 31, 2009

## 23 OTHER EXPENSES

	Group	
	2009 RMB'000	2008 RMB'000 (restated)
Allowance for doubtful debts	28,426	11,254
Exchange losses	150	27,971
Total	28,576	39,225

## 24 FINANCE COSTS

	Group	
	2009 RMB'000	2008 RMB'000
Interest expenses on bank loans	13,630	25,141

## 25 INCOME TAX EXPENSE

	Group	
	2009 RMB'000	2008 RMB'000
Current	15,454	29,237
Overprovision in prior year	(4,048)	-
Deferred (Note 17)	(1,907)	(935)
Total	9,499	28,302

The income tax expense for the Group differs from the amount of income tax expense determined by applying the PRC income tax rate of 25% to profit before income tax as a result of the following differences:

	Group	
	2009 RMB'000	2008 RMB'000 (restated)
Profit before income tax	290,043	231,967
Tax at the respective income tax rates of 25%	72,511	57,992
Tax effect of expenses not deductible	2,156	8,496
Tax effect of income not taxable for tax purpose	-	(1,072)
Tax effect of share of results of an associate	(5)	(131)
Tax effect of different tax rates of subsidiaries	(6,439)	(10,737)
Tax effect of tax exemption granted to a PRC subsidiary	(57,413)	(27,305)
Tax effect of previously unrecognised deductible temporary differences	-	(1,247)
Tax effect of tax losses not recognised	237	306
Deferred tax liabilities arising on undistributed profits in PRC subsidiaries post January 1, 2008	2,500	2,000
Overprovision in prior year	(4,048)	-
Income tax expense	9,499	28,302

# NOTES TO FINANCIAL STATEMENTS

## December 31, 2009

### 25 INCOME TAX EXPENSE (Cont'd)

a) Beijing Epure International Water Co., Ltd

Beijing Epure International Water Co., Ltd is a foreign investment enterprise located in Beijing Zhong Guan Cun Science Park, Jiangsu Province, PRC and with a statutory tax rate of 25.0%.

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

The effective income tax rate of Beijing Epure International Water Co., Ltd for the financial year is Nil% (2008 : Nil%) per annum.

b) Beijing Sound Environmental Engineering Co., Ltd

Beijing Sound Environmental Engineering Co., Ltd is a Sino-foreign joint cooperative company located in Beijing Zhong Guan Cun Science Park, Jiangsu Province, PRC and with a statutory tax rate of 25.0%.

In 2008, the Beijing Sound Environment Engineering Co., Ltd successfully applied to enjoy a preferential tax rate at 15% from year 2008 to year 2010 under the New EIT Law and Circular of State Administration of Taxation on Issues Concerning Implementation of Preferential Income Tax Enjoyed by High-tech Enterprises (Guo Shui Han [2009] No. 203). Beijing Sound Environmental Engineering Co., Ltd will continue to enjoy the 15% tax rate if it could pass the re-examination and obtain the updated hi-tech enterprise qualification in 2010.

The effective income tax rate of Beijing Sound Environmental Engineering Co., Ltd for the financial year is 15% (2008: 15%) per annum.

c) Beijing Hi-Standard Water Treatment Equipment Co., Ltd

Beijing Hi-Standard Water Treatment Equipment Co., Ltd is a limited PRC company located in Beijing Zhong Guan Cun Science Park, Jiangsu Province, PRC and with a statutory tax rate of 25.0%.

According to Guo Shui Han [2009] No. 203, Beijing Hi-Standard Water Treatment Equipment Co., Ltd was entitled to enjoy a preferential tax rate at 15% from year 2008 to year 2010 as a high-and-new-tech enterprise in 2009 for an effective period from January 1, 2008 to December 31, 2010.

The effective income tax rate of Beijing Hi-Standard Water Treatment Equipment Co., Ltd for the financial year is 15% (2008: 25%) per annum.

d) Other PRC entities

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

e) Other non-PRC entities

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

# NOTES TO FINANCIAL STATEMENTS

## December 31, 2009

### 26 PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging:

	Group	
	2009	2008
	RMB'000	RMB'000 (restated)
Allowance for doubtful trade and other receivables	28,426	11,254
Amortisation of intangible assets *	10,000	7,199
Amortisation of land use rights **	1,158	573
Audit fees:		
- to auditors of the Company	700	1,150
- to other auditors	1,300	1,350
Cost of inventories recognised as expense	178,461	182,415
Defined contribution plans included in employees benefits expenses (Note A)	3,530	2,315
Depreciation of property, plant and equipment	2,923	2,305
Directors' remuneration:		
- of the Company	420	627
- of the subsidiaries	636	615
Employees benefits expenses (including directors' remuneration) **	37,243	27,481
Government grants - Jobs credit scheme	66	-
Net foreign exchange (gains) losses	150	27,971
Non-audit fees:		
- to auditors of the Company	110	110
- to other auditors	-	-

\* Included in cost of sales

\*\* Included in administrative expenses

#### Note A: Defined contribution plans

The employees of the Group in People's Republic of China are members of a state-managed retirement benefit plan operated by the government of PRC. The Group is required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit plan is to make the specified contributions.

The total expense recognised in the statement of comprehensive income of RMB2.53 million (2008 : RMB1.86 million) represents contributions payable to these plans by the Group at rates specified in the rules of the plans. As at December 31, 2009, contributions of RMB0.1 million (2008 : RMB0.1 million) had not been paid to the plans.



# NOTES TO FINANCIAL STATEMENTS

## December 31, 2009

### 27 EARNINGS PER SHARE

	Group	
	2009	2008
	RMB'000	RMB'000
		(restated)
	Basic	Basic
Profit attributable to equity holders of the Company (RMB'000)	280,544	203,665
Weighted average number of ordinary shares ('000)	1,290,000	1,290,000
Earnings per share (RMB cents)	21.75	15.79

There are no diluted earnings per share as no share options were granted during the financial years or outstanding at the end of the financial years.

### 28 DIVIDENDS

For the financial year ended December 31, 2009, a tax exempt (1-tier) dividend of S\$0.008 per ordinary share amounting to S\$10,320,000 (equivalent to RMB47,369,000) was paid to shareholders in respect of the financial year ended December 31, 2008.

For the financial year ended December 31, 2008, a tax exempt (1-tier) dividend of S\$0.00667 per ordinary share amounting to S\$8,600,000 (equivalent to RMB43,836,000) was paid to shareholders in respect of the financial year ended December 31, 2007.

### 29 MERGER RESERVE

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

### 30 CAPITAL RESERVE

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

# NOTES TO FINANCIAL STATEMENTS

December 31, 2009

## 31 GENERAL RESERVES

	Group	
	2009	2008
	RMB'000	RMB'000
Statutory reserve fund		
At beginning of the year	33,006	29,970
Transfer from retained earnings	27,523	3,036
At end of year	60,529	33,006

## 32 SEGMENT INFORMATION

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

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

The Group is principally engaged in three operating segments, namely (1) turnkey projects and services, (2) manufacturing (equipment fabrication), and (3) operations of water and waste water treatment facilities ("O & M").

The accounting policies of the operating segments are the same as the Group's accounting policies describe in Note 2 to the financial statements. Segment results represent the profits earned by each segment without allocation of central administration costs, director's remuneration, share of results of an associate, change in fair value of held for trading investment, interest income, foreign exchange gains and losses, finance costs at corporate level.

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

# NOTES TO FINANCIAL STATEMENTS

## December 31, 2009

### 32 SEGMENT INFORMATION (Cont'd)

Segment information about the Group's operating segment is presented below:

	Turnkey projects and services	Equipment fabrications	O & M	Elimination	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<u>2009</u>					
<b>Revenue</b>					
External sales	1,162,417	125,382	5,677	-	1,293,476
Inter-segment sales	-	47,757	-	(47,757)	-
Total revenue	1,162,417	173,139	5,677	(47,757)	1,293,476
<b>Results</b>					
Segment results	260,038	26,511	7,534	-	294,083
Unallocated income					4,228
Unallocated expenses					(8,289)
Share of profit of associate					21
Profit before income tax					290,043
Income taxes					(9,499)
Profit for the year					280,544
<u>2008</u>					
<b>Revenue</b>					
External sales	922,078	102,730	-	-	1,024,808
Inter-segment sales	-	41,876	-	(41,876)	-
Total revenue	922,078	144,606	-	(41,876)	1,024,808
<b>Results</b>					
Segment results	234,145	32,774	-	-	266,919
Unallocated income					4,365
Unallocated expenses					(39,842)
Share of profit of associate					525
Profit before income tax					231,967
Income taxes					(28,302)
Profit for the year					203,665

Segment assets represent property, plant and equipment, land use rights, intangible assets, goodwill, deferred tax assets, inventories, trade and other receivables, amount due from customers for contract work, restricted bank balances and bank balances and cash, which are attributable to each operating segments. Segment liabilities represent trade and other payables, tax payables, bank borrowings, amount due to customers for contract work and deferred tax liabilities, which are attributable to each operating segments.

# NOTES TO FINANCIAL STATEMENTS

December 31, 2009

## 32 SEGMENT INFORMATION (Cont'd)

	Turnkey projects and services RMB'000	Equipment fabrications RMB'000	O & M RMB'000	Elimination RMB'000	Total RMB'000
<b><u>December 31, 2009</u></b>					
<b>Assets and Liabilities</b>					
Segment assets	1,998,495	408,943	392,320	(322,438)	2,477,320
Interest in associate					2,561
Unallocated corporate assets					38,989
Consolidated assets					<u>2,518,870</u>
Segment liabilities	931,659	139,022	206,841	(322,438)	955,084
Deferred tax liabilities					17,075
Unallocated liabilities					2,011
Consolidated liabilities					<u>974,170</u>
<b><u>December 31, 2008</u></b>					
<b>Assets and Liabilities</b>					
Segment assets	1,619,183	337,528	161,196	(195,828)	1,922,079
Interest in associate					2,540
Unallocated corporate assets					370,880
Consolidated assets					<u>2,295,499</u>
Segment liabilities	897,101	92,593	132,071	(195,828)	925,937
Deferred tax liabilities					16,222
Unallocated corporate liabilities					41,815
Consolidated liabilities					<u>983,974</u>
<b><u>January 1, 2008</u></b>					
<b>Assets and Liabilities</b>					
Segment assets	1,378,246	-	-	-	1,378,246
Interest in associate					2,015
Available-for-sale investment					9,600
Unallocated corporate assets					414,518
Consolidated assets					<u>1,804,379</u>
Segment liabilities	648,010	-	-	-	648,010
Unallocated corporate liabilities					4,673
Consolidated liabilities					<u>652,683</u>

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

Unallocated corporate liabilities represent bank borrowings, tax payable and other payable at corporate level.



# NOTES TO FINANCIAL STATEMENTS

## December 31, 2009

### 32 SEGMENT INFORMATION (Cont'd)

	Turnkey projects and services	Equipment fabrications	O & M	Unallocated	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Other information</b>					
<u>2009</u>					
Addition to non-current assets	65	7	446	35	553
Allowance for doubtful debts	28,426	-	-	-	28,426
Depreciation and amortisation	1,171	12,728	108	74	14,081
Deemed interest income	-	-	(6,702)	-	(6,702)
Finance costs	12,756	-	846	28	13,630
Interest income	(3,004)	(83)	(4)	(700)	(3,791)

#### 2008

Addition to non-current assets	1,041	187,912	312	11	189,276
Allowance for doubtful debts	11,254	-	-	-	11,254
Depreciation and amortisation	1,222	8,527	59	269	10,077
Finance costs	23,885	-	-	1,256	25,141
Interest income	(5,512)	(146)	(8)	(4,365)	(10,031)

All external revenues of the Group during the financial year are contributable to customers established in the PRC, not the place of domicile of the Company. All of the non-current assets (other than deferred tax assets) are located in the PRC.

Revenue from major customers which accounts for 10% or more of the Group's revenue are as follows:

	Group	
	2009	2008
	RMB'000	RMB'000
<u>Turnkey projects and services:</u>		
Related companies under Beijing Sound Environment Group Co., Ltd	102,486	393,803
External parties	-	107,565
<u>Equipment fabrications:</u>		
Related companies under Beijing Sound Environment Group Co., Ltd	492	3,000

# NOTES TO FINANCIAL STATEMENTS

December 31, 2009

## 33 OPERATING LEASE ARRANGEMENTS

	Group	
	2009	2008
	RMB'000	RMB'000
Minimum lease payments under operating leases recognised as an expense in the year	2,302	3,126

At the end of the reporting period, the Group and the Company have outstanding commitments under non-cancellable operating leases, which fall due as follows:

	Group			Company		
	December 31, 2009	December 31, 2008	January 1, 2008	December 31, 2009	December 31, 2008	January 1, 2008
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Within one year	1,553	1,701	1,499	1,201	940	706
In the second to fifth years inclusive	1,562	2,759	830	1,501	2,721	705
Total	3,115	4,460	2,329	2,702	3,661	1,411

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

## 34 COMMITMENTS

	Company		
	December 31, 2009	December 31, 2008	January 1, 2008
	RMB'000	RMB'000	RMB'000
Capital commitment for investment in subsidiaries	74,790	20,500	-

## 35 ACQUISITION OF SUBSIDIARIES

In 2008:

- the Company acquired 100% of the issued share capital of Beijing Hi-Standard Water Treatment Equipment Co., Ltd for a consideration of RMB208 million and started commercial operations. The fair value of the assets acquired and adjustments, based on cash flow projections derived from the most recent financial budgets approved by management for the next five years, have been certified by an independent firm of valuation specialists. The transaction has been accounted for by the purchase method of accounting.
- the Group acquired the remaining 82% of the issued share capital of the Xi'an entities for shares of the companies amounting to RMB16.4 million that it did not own. This transaction has been accounted for by the purchase method of accounting. The Xi'an entities have not started commercial operations in 2008.

Management was of the view that the carrying values of the assets acquired approximate the fair value.

# NOTES TO FINANCIAL STATEMENTS

## December 31, 2009

### 35 ACQUISITION OF SUBSIDIARIES (Cont'd)

The fair value of the net assets acquired in the transactions, and the goodwill arising, were as follows:

	Carrying value before combination RMB'000	Fair value adjustments RMB'000	Fair value RMB'000
<u>Net assets acquired in Hi-Standard</u>			
Cash and cash equivalents	35,043	-	35,043
Trade and other receivables	11,768	-	11,768
Inventories	24,190	-	24,190
Land use rights (Note 10)	19,309	27,612	46,921
Plant and equipment (Note 11)	32,356	-	32,356
Patents on acquisition (Note 14)	-	67,199	67,199
Trade and other payables	(36,590)	-	(36,590)
Tax liabilities	(60)	-	(60)
Deferred tax liabilities (Note 17)	-	(14,222)	(14,222)
	<u>86,016</u>	<u>80,589</u>	<u>166,605</u>
Goodwill on acquisition (Note 15)			41,395
Total consideration satisfied by cash			208,000
Less: Cash and cash equivalents acquired			(35,043)
Net cash outflow arising on acquisition			<u>172,957</u>
<u>Net assets acquired in Xi'an entities</u>			
Bank balances and cash	55	-	55
Trade and other receivables	2,008	-	2,008
Inventories	8	-	8
Service concession receivables	98,668	-	98,668
Plant and equipment (Note 14)	281	-	281
Trade and other payables	(76,520)	-	(76,520)
	<u>24,500</u>	<u>-</u>	<u>24,500</u>
Less: accounted under available-for-sale investment			(8,100)
Consideration paid			<u>16,400</u>
Net cash outflow arising on acquisition:			
Cash consideration paid			16,400
Bank balances and cash acquired			(55)
			<u>16,345</u>
Total cash outflow arising on acquisitions			<u>189,302</u>

The goodwill arising on the acquisition of the above subsidiaries were attributable to the anticipated profitability of the anticipated future operating synergies from the acquisition.

In 2009, the deferred tax liability of RMB14,222,000 was computed in accordance with *FRS 12 Income Taxes* on fair value adjustments and corresponding adjusted to the goodwill on acquisition as permitted under *FRS 103 Business Combinations*.

# NOTES TO FINANCIAL STATEMENTS

December 31, 2009

## 36 PRIOR YEAR'S ADJUSTMENTS AND RECLASSIFICATIONS

In connection with the dual listing of the Company's shares on The Stock Exchange of Hong Kong Limited and the global offering of new ordinary shares in the capital of the Company, the Company adopted International Financial Reporting Standards for its application. Following which the management re-assessed and re-evaluated the functional currency of the Company and determined that the functional currency would be that of Chinese Renminbi. The Company has consequently adopted *FRS 21 The Effects of Changes in Foreign Exchange Rates* and applied the change retrospectively in accordance with *FRS 8 Accounting Policies, Changes in Accounting Estimates and Errors*.

Certain reclassifications have been made to the prior years' financial statements to enhance comparability with the current year's financial statements.

As a result, the face of the statement of financial position, statement of changes in equity and consolidated statement of cash flow, and the related notes to the financial statements have been amended. Comparative figures have been adjusted to conform with the current year's presentation.

The effects of the restatement on the prior years' financial statements and reclassification are as follows:

	Previously reported RMB'000	Adjustment RMB'000	Reclassification RMB'000	Restated RMB'000
<b><u>2007 Statement of Comprehensive Income</u></b>				
Revenue	697,341	-	-	697,341
Cost of sales	(474,257)	-	-	(474,257)
Gross profit	223,084	-	-	223,084
Other operating income	23,349	-	-	23,349
Other expenses	-	(3,256) <sup>#1</sup>	-	(3,256)
Distribution expenses	(8,904)	-	-	(8,904)
Research and development expenses	-	-	(4,697)	(4,697)
Administrative expenses	(21,282)	-	4,697	(16,585)
Share of results of an associate	15	-	-	15
Finance costs	(21,925)	-	-	(21,925)
Profit before income tax	194,337	(3,256)	-	191,081
Income tax expenses	(28,680)	-	-	(28,680)
Profit for the year representing total comprehensive income for the year	165,657	(3,256)	-	162,401

### **2007 Statement of Changes in Equity**

Share Capital	833,368	-	-	833,368
Merger reserves	(88,296)	-	-	(88,296)
Capital reserves	7,010	-	-	7,010
General reserves	29,970	-	-	29,970
Currency translation deficit	(3,256)	3,256	-	-
Retained earnings	372,900	(3,256)	-	369,644
Attributable to equity holders of the Company	1,151,696	-	-	1,151,696



# NOTES TO FINANCIAL STATEMENTS

December 31, 2009

## 36 PRIOR YEAR'S ADJUSTMENTS AND RECLASSIFICATIONS (Cont'd)

	Previously reported RMB'000	Adjustment RMB'000	Reclassification RMB'000	Restated RMB'000
<b>2008 Statement of Comprehensive Income</b>				
Revenue	1,024,808	-	-	1,024,808
Cost of sales	(684,021)	-	(7,199)	(691,220)
Gross profit	340,787	-	(7,199)	333,588
Other operating income	10,092	-	-	10,092
Other expenses	-	(27,971) <sup>#2</sup>	(11,254)	(39,225)
Distribution expenses	(11,784)	-	-	(11,784)
Research and development expenses	-	-	(6,000)	(6,000)
Administrative expenses	(54,541)	-	24,453 <sup>#5</sup>	(30,088)
Share of results of an associate	525	-	-	525
Finance costs	(25,141)	-	-	(25,141)
Profit before income tax	259,938	(27,971)	-	231,967
Income tax expenses	(28,302)	-	-	(28,302)
Profit for the year representing total comprehensive income for the year	231,636	(27,971)	-	203,665

### 2008 Statement of Changes in Equity

Share Capital	833,368	-	-	833,368
Merger reserves	(88,296)	-	-	(88,296)
Capital reserves	7,010	-	-	7,010
General reserves	33,006	-	-	33,006
Currency translation deficit	(31,227)	31,227	-	-
Retained earnings	557,664	(31,227) <sup>#3</sup>	-	526,437
Attributable to equity holders of the Company	1,311,525	-	-	1,311,525

### 2008 Statement of Financial Position

Goodwill	27,173	14,222	-	41,395
Deferred tax liabilities	2,000	14,222 <sup>#4</sup>	-	16,222

#### Note

- #1 – To adjust for the impact of changing functional currency of the Company from Singapore Dollars to Chinese Renminbi for the financial year ended December 31, 2007.
- #2 – To adjust for the impact of changing functional currency of the Company from Singapore Dollars to Chinese Renminbi for the financial year ended December 31, 2008.
- #3 – To account for the adjustments under #1 and #2
- #4 – To recognise the deferred tax liability upon acquisition of a subsidiary in 2008.
- #5 – Reclassification of the following out of administrative expenses:

Research and development expenses	– RMB6,000,000
Allowance for doubtful debts	– RMB11,254,000
Amortisation of intangible assets	– RMB7,199,000

# NOTES TO FINANCIAL STATEMENTS

December 31, 2009

## 37 SUBSEQUENT EVENTS

- (i) In January 2010, the Group completed its acquisition of Anyang Mingbo, 60% interest from BJ Sound Enviro and 40% interest from a third party with consideration of RMB27,000,000 to BJ Sound Enviro and RMB18,000,000 to the third part respectively. Anyang Mingbo then became a wholly owned subsidiary of the Group.
- (ii) On January 7, 2010, the Group has announced that it will be applying for a dual primary listing on the Stock Exchange of Hong Kong Limited and undertake a global offering of new ordinary shares in the capital of the Company.

The Company proposes to allot and issue up to 430,000,000 New Shares pursuant to the Global Offering (subject to adjustment and an over-allotment option to be granted by the Company and exercisable by the Sole Global Coordinator). The issue price of the New Shares (the "Offer Price") will be determined by the Company and the Sole Global Coordinator (on behalf of the underwriters to be appointed for the Global Offering) closer to the date of the launch of the Global Offering.

- (iii) In connection with (ii), the shareholders of the Group have on March 5, 2010, approved the following, inter alia,:
  - (a) the proposed issue and global offering of up to 430,000,000 new ordinary shares in the capital of the Company by the Company, and up to 64,500,000 additional new ordinary shares in the capital of the Company in the event of the exercise of an over-allotment option to be carried out in conjunction with the proposed dual listing of the Company's shares on the Stock Exchange of Hong Kong Limited ("SEHK");
  - (b) the proposed allotment and issue of the new shares at an offer price of no more than 15% discount to the SGX-ST market price;
  - (c) the termination of the Epure share option scheme which shall take effect only upon the listing of the new shares on the main board of SEHK; and
  - (d) the change in name by the Company to "Sound Global Ltd".

# STATISTICS OF SHAREHOLDINGS

## AS AT 18 MARCH 2010

### DISTRIBUTION OF SHAREHOLDINGS

SIZE OF SHAREHOLDINGS	NO. OF SHAREHOLDERS	%	NO. OF SHARES	%
1 - 999	8	0.31	796	0.00
1,000 - 10,000	1,544	59.71	10,029,073	0.78
10,001 - 1,000,000	1,018	39.36	52,213,073	4.05
1,000,001 AND ABOVE	16	0.62	1,227,757,058	95.17
<b>TOTAL</b>	<b>2,586</b>	<b>100.00</b>	<b>1,290,000,000</b>	<b>100.00</b>

### TWENTY LARGEST SHAREHOLDERS

NO.	NAME	NO. OF SHARES	%
1	DBS VICKERS SECURITIES (S) PTE LTD	317,609,000	24.62
2	DBS NOMINEES PTE LTD	221,772,752	17.19
3	CITIBANK NOMINEES SINGAPORE PTE LTD	184,657,267	14.31
4	HSBC (SINGAPORE) NOMINEES PTE LTD	148,214,744	11.49
5	UOB KAY HIAN PTE LTD	120,353,000	9.33
6	UNITED OVERSEAS BANK NOMINEES PTE LTD	68,156,094	5.28
7	MORGAN STANLEY ASIA (SINGAPORE) SECURITIES PTE LTD	59,570,400	4.62
8	DBSN SERVICES PTE LTD	41,316,100	3.20
9	RAFFLES NOMINEES (PTE) LTD	20,782,036	1.61
10	BNP PARIBAS SECURITIES SERVICES SINGAPORE BRANCH	16,207,000	1.26
11	DB NOMINEES (S) PTE LTD	13,587,762	1.05
12	LI JINYU	4,857,000	0.38
13	OCBC SECURITIES PRIVATE LTD	4,664,000	0.36
14	PHILLIP SECURITIES PTE LTD	2,936,300	0.23
15	KIM ENG SECURITIES PTE. LTD.	1,551,603	0.12
16	LU WEI	1,522,000	0.12
17	PARAMOUNT ASSETS INVESTMENTS PTE LTD	1,000,000	0.08
18	CIMB-GK SECURITIES PTE. LTD.	992,000	0.08
19	HONG LEONG FINANCE NOMINEES PTE LTD	765,000	0.06
20	MERRILL LYNCH (SINGAPORE) PTE LTD	672,773	0.05
<b>TOTAL</b>		<b>1,231,186,831</b>	<b>95.44</b>

# SHAREHOLDERS' INFORMATION

Number of shares issued	:	1,290,000,000
Issued and fully paid-up capital	:	SGD175,944,790.22
Class of shares	:	ordinary shares
Voting rights	:	one vote per share

As at 18 March 2010, the Company did not hold any treasury shares.

Name of Substantial Shareholders	Direct Interest		Deemed Interest	
	No. of Shares	%	No. of Shares	%
Wen Yibo <sup>(1)</sup>	-	-	713,289,000	55.3
Sound Water (BVI) Limited <sup>(1)</sup>	701,784,000	54.4	-	-
Zhang Huiming <sup>(1)</sup>	-	-	713,289,000	55.3
Tang Lianfang <sup>(1)</sup>	-	-	713,289,000	55.3
Zhang Linmao <sup>(1)</sup>	-	-	713,289,000	55.3
International Finance Corporation <sup>(2)</sup>	103,950,000	8.1	-	-
Pictet Asset Management SA <sup>(3)</sup>	-	-	65,937,000	5.1

Notes:

- Green Capital Holdings Limited is a company incorporated in BVI and is a registered holder of 11,505,000 shares in the capital of the Company. Its shareholders are Tang Lianfang (50%) and Zhang Linmao (50%), who are respectively the mother-in-law and father-in-law of Wen Yibo, the Company's Non-Executive Chairman.
  - Sound Water (BVI) Limited is a company incorporated in BVI. Its shareholders are Wen Yibo (90%) and his wife, Zhang Huiming (10%).
  - Wen Yibo, Zhang Huiming, Tang Lianfang and Zhang Linmao are deemed to have an interest in the shares held by Green Capital Holdings Limited and Sound Water (BVI) Limited.
- International Finance Corporation ("IFC") is the private sector arm of the World Bank Group and is owned by its 178 member countries. IFC is involved in promoting private businesses in developing countries by making loans and equity investments, helping companies mobilize financing in the international financial markets, and providing advice and technical assistance to businesses and governments.
- Pictet Asset Management SA is a full discretion fund management company and is deemed to be interested in the 65,937,000 shares held on behalf of its clients.

## FREE FLOAT

As at 18 March 2010, approximately 31.5% of the shareholding in the Company was held in the hands of the public (on the basis of information available to the Company).

Accordingly, the Company has complied with Rule 723 of the Listing Manual of the Singapore Exchange Securities Trading Limited.

# NOTICE OF ANNUAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that the Annual General Meeting of **SOUND GLOBAL LTD.** (the “**Company**”) will be held at Mandarin Suite, Main Tower, 5th Floor, Mandarin Orchard Singapore, 333 Orchard Road Singapore 238867 on **Friday, 30 April 2010** at 10.00 a.m. for the following purposes:

## AS ORDINARY BUSINESS

1. To receive and adopt the Report of the Directors and Audited Accounts of the Company for the year ended 31 December 2009 together with the Auditors' Report thereon. **(Resolution 1)**
2. To re-elect the following Directors retiring pursuant to the Company's Articles of Association:
 

Mr Wong See Meng	(Article 88)	<b>(Resolution 2)</b>
Mr Zhang Baolin	(Article 88)	<b>(Resolution 3)</b>
Mr Fu Tao	(Article 89)	<b>(Resolution 4)</b>
Mr Seow Han Chiang Winston	(Article 89)	<b>(Resolution 5)</b>

*[See Explanatory Note (i)]*
3. To approve the payment of Directors' fees of S\$126,000/- for the year ended 31 December 2009 (2008: S\$100,000/-). **(Resolution 6)**
4. To re-appoint Deloitte & Touche LLP as the Company's Auditors and to authorise the Directors to fix their remuneration. **(Resolution 7)**
5. To transact any other ordinary business which may properly be transacted at an Annual General Meeting.

## AS SPECIAL BUSINESS

To consider and if thought fit, to pass the following resolution as an Ordinary Resolution, with or without any modifications:

### 6. **Authority to allot and issue shares in the capital of the Company (“Share Issue Mandate”)**

“That, pursuant to Section 161 of the Companies Act, Cap. 50 and Rule 806 of the Listing Manual of the Singapore Exchange Securities Trading Limited (“**SGX-ST**”), the Directors of the Company be authorized and empowered to:

- (A)
  - (i) issue shares in the Company (“**shares**”) whether by way of rights, bonus or otherwise; and/or
  - (ii) make or grant offers, agreements or options (collectively, “**Instruments**”) that might or would require shares to be issued, including but not limited to the creation and issue of (as well as adjustments to) options, warrants, debentures or other instruments convertible into shares,

at any time and upon such terms and conditions and for such purposes and to such persons as the Directors of the Company shall in their absolute discretion deem fit; and

- (B) (notwithstanding the authority conferred by this Resolution may have ceased to be in force) issue shares in pursuance of any Instrument made or granted by the Directors while this Resolution was in force,



# NOTICE OF ANNUAL GENERAL MEETING

provided that:

- (i) the aggregate number of shares (including shares to be issued in pursuance of the Instruments, made or granted pursuant to this Resolution) and convertible securities to be issued pursuant to this Resolution shall not exceed fifty per cent. (50%) of the total number of issued shares (excluding treasury shares) in the capital of the Company (as calculated in accordance with sub-paragraph (2) below), of which the aggregate number of shares and convertible securities to be issued other than on a pro-rata basis to the shareholders of the Company shall not exceed twenty per cent. (20%) of the total number of issued shares (excluding treasury shares) in the capital of the Company (as at the time of passing of this Resolution);
- (ii) (subject to such calculation as may be prescribed by the SGX-ST) for the purpose of determining the aggregate number of shares and convertible securities that may be issued under sub-paragraph (1) above on a pro-rata basis, the total number of issued shares (excluding treasury shares) in the capital of the Company shall be based on the total number of issued shares (excluding treasury shares) in the capital of the Company at the time of the passing of this Resolution, after adjusting for:
  - (a) new shares arising from the conversion or exercise of convertible securities;
  - (b) new shares arising from exercising share options or vesting of share awards outstanding or subsisting at the time of the passing of this Resolution, provided the options or awards were granted in compliance with the rules of the Listing Manual of the SGX-ST; and
  - (c) any subsequent bonus issue, consolidation or subdivision of shares;
- (iii) in exercising the authority conferred by this Resolution, the Company shall comply with the provisions of the Listing Manual of the SGX-ST as amended from time to time (unless such compliance has been waived by the SGX-ST), the provisions of the listing rules of any stock exchange on which the shares of the Company are listed as amended from time to time (unless such compliance has been waived by such stock exchange) and the Articles of Association of the Company; and
- (iv) unless revoked or varied by the Company in a general meeting, such authority shall continue in force until the conclusion of the next Annual General Meeting of the Company or the date by which the next Annual General Meeting is required by law to be held, whichever is the earlier."

*[See Explanatory Note (ii)]*

**(Resolution 8)**

By Order of the Board

Choo Beng Lor  
Company Secretary

Singapore, 14 April 2010

# NOTICE OF ANNUAL GENERAL MEETING

## Explanatory Notes:

- (i) With reference to item 2 above:
  - (a) Mr Wong See Meng will upon re-election as a Director of the Company, remain as the Chairman of the Audit Committee and Nominating Committee and a Member of Remuneration Committee. He will be considered independent for the purposes of Rule 704(8) of the Listing Manual of the SGX-ST.
  - (b) Mr Fu Tao will upon re-election as a Director of the Company, remain as a Member of the Audit Committee and Remuneration Committee. He will be considered independent for the purposes of Rule 704(8) of the Listing Manual of the SGX-ST.
  - (c) Mr Seow Han Chiang Winston will upon re-election as a Director of the Company, remain as the Chairman of the Remuneration Committee and a Member of the Audit Committee and Nominating Committee. He will be considered independent for the purposes of Rule 704(8) of the Listing Manual of the SGX-ST.
- (ii) The Ordinary Resolution 8 proposed in item 6 above, if passed, will empower the Directors of the Company to issue shares, make or grant instruments convertible into shares and to issue shares pursuant to such instruments, up to a number not exceeding, in total, 50% of the total number of issued shares (excluding treasury shares) in the capital of the Company, of which up to 20% may be issued other than on a pro-rata basis to shareholders.

For determining the aggregate number of shares that may be issued on a pro-rata basis, the total number of issued shares (excluding treasury shares) will be calculated based on the total number of issued shares (excluding treasury shares) in the capital of the Company at the time this Ordinary Resolution is passed after adjusting for new shares arising from the conversion or exercise of any convertible securities or share options or vesting of share awards which are outstanding or subsisting at the time when this Ordinary Resolution is passed and any subsequent bonus issue, consolidation or subdivision of shares. In determining the 20% which may be issued other than on a pro-rata basis, the total number of issued shares (excluding treasury shares) will be calculated based on the total number of issued shares (excluding treasury shares) in the capital of the Company at the time this Ordinary Resolution is passed.

## Notes:

1. A Member entitled to attend and vote at the Annual General Meeting is entitled to appoint a proxy to attend and vote instead of him. A proxy need not be a Member of the Company.
2. If the appointor is a corporation, the proxy must be executed under seal or the hand of its duly authorised officer or attorney.
3. The instrument appointing a proxy must be deposited at the registered office of the Company at **1 Robinson Road, #17-00 AIA Tower, Singapore 048542** not less than forty-eight hours **(48)** before the time for holding the Annual General Meeting.

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## SOUND GLOBAL LTD.

Company No. 200515422C

(Incorporated in the Republic of Singapore)

### PROXY FORM

(Please see notes overleaf before completing this Form)

#### IMPORTANT :

1. For investors who have used their CPF monies to buy Sound Global Ltd.'s shares, this Circular is forwarded to them at the request of the CPF Approved Nominees and is sent solely FOR INFORMATION ONLY.
2. This Proxy Form is not valid for use by CPF investors and shall be ineffective for all intents and purposes if used or purported to be used by them.
3. CPF investors who wish to attend the Meeting as an observer must submit their requests through their CPF Approved Nominees within the time frame specified. If they also wish to vote, they must submit their voting instructions to the CPF Approved Nominees within the time frame specified to enable them to vote on their behalf.

I/We, \_\_\_\_\_ (name)  
of \_\_\_\_\_ (address)  
being a member/members of **SOUND GLOBAL LTD.** (the "Company"), hereby appoint:

Name	Address	NRIC/ Passport No.	Proportion of Shareholdings %
and/or (delete as appropriate)			

or failing him/her, the Chairman of the Meeting as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held on **Friday, 30 April 2010 at 10.00 a.m.** and at any adjournment thereof. The proxy is to vote on the business before the Meeting as indicated below. If no specific direction as to voting is given, the proxy will vote or abstain from voting at his/her discretion, as he/she will on any other matter arising at the Meeting:

No.	Resolutions relating to:	For	Against
1.	Report of the Directors and Audited Accounts for the year ended 31 December 2009		
2.	Re-election of Mr Wong See Meng		
3.	Re-election of Mr Zhang Baolin		
4.	Re-election of Mr Fu Tao		
5.	Re-election of Mr Seow Han Chiang Winston		
6.	Approval of Directors' fees amounting to S\$126,000 for the year ended 31 December 2009		
7.	Re-appointment of Deloitte & Touche LLP as Auditors		
8.	Authority to allot and issue shares in the capital of the Company		

(Please indicate with a cross [X] in the space provided whether you wish your vote to be cast for or against the Resolutions as set out in the Notice of the Meeting).



Dated this \_\_\_\_\_ day of \_\_\_\_\_ 2010

\_\_\_\_\_  
Signature of Shareholder(s)  
or, Common Seal of Corporate Shareholder

**IMPORTANT: PLEASE READ NOTES OVERLEAF**

Total number of Shares in:	No. of Shares Held
(a) CDP Register	
(b) Register of Members	

#### **NOTES TO PROXY FORM:**

1. Please insert the number of shares held by you and registered in your name in the Register of Members and in the Depository Register of The Central Depository (Pte) Limited. If no number is inserted, the instrument of proxy will be deemed to relate to all the shares held by you.
2. A member of the Company entitled to attend and vote at the meeting of the Company is entitled to appoint not more than two (2) proxies to attend and vote in his/her stead. A proxy need not be a member of the Company.
3. Where a member appoints two proxies, the second named proxy shall be an alternate to the first named or at the Company's option to treat the instrument of proxy as invalid unless he/she specifies the proportion of his/her shareholding (expressed as a percentage of the whole) to be represented by each proxy.
4. The instrument appointing a proxy or proxies must be deposited at the Company's registered office at 1 Robinson Road, #17-00, AIA Tower, Singapore 048542 not less than 48 hours before the time appointed for the Meeting.
5.
  - (i) The instrument appointing a proxy or proxies must be under the hand of the appointor or of his attorney duly authorised in writing.
  - (ii) Where the instrument appointing a proxy or proxies is executed by a corporation, it must be executed either under its seal or under the hand of an officer or attorney duly authorised.
  - (iii) Where the instrument appointing a proxy is signed on behalf of the appointor by an attorney, the letter or the power of attorney or other authority, if any, or a duly certified true copy thereof shall (failing previous registration with the Company) if required by law, be duly stamped and be deposited at the Registered Office, not less than forty-eight hours before the time for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote and in default the instrument of proxy shall not be treated as valid.
6. A corporation which is a member may authorise by resolution of its directors or other governing body such person as it thinks fit to act as its representative at the Meeting, in accordance with Section 179 of the Companies Act, Chapter 50 of Singapore.

#### **General:**

The Company shall be entitled to reject the instrument appointing a proxy or proxies if it is incomplete, improperly completed or illegible or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified in the instrument appointing a proxy or proxies. In addition, in the case of Shares entered in the Depository Register, the Company may reject any instrument appointing a proxy or proxies lodged if the member, being the appointor, is not shown to have Shares entered against his name in the Depository Register as at 48 hours before the time appointed for holding the Meeting, as certified by The Central Depository (Pte) Limited to the Company.





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