Annual Report 2009

Sinomem

Infinite Possibilities

Sinomem Technology Limited

SINOMEM TECHNOLOGY LIMITED ANNUAL REPORT 2009

Our Vision

To be a global leader in the development of advanced membrane technologies for water treatment and cleaner production

Our Mission

To clean the environment and generate wealth for our future

Our Philosophy

To prosper with our investors, staff and business partners through long-term partnership

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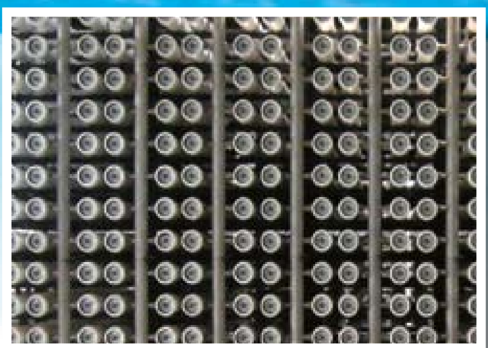


CORPORATE PROFILE

Sinomem Technology Limited ("Sinomem" or the "Group") is a global leading "clean" solution provider. It develops advanced membrane materials and processes employed for water and wastewater treatment and environment-friendly production processes in various industries such as pharmaceutical, nutriceutical, food and beverage. The Group is currently the largest membrane solution provider for industrial applications in China. The Group also owns one of the most comprehensive membrane material product portfolio in the world.

In the past few years, the Group successfully secured 15 BOT municipal wastewater treatment projects in China with more than 600,000 ton/day treatment capacity. Water business has recently become the Group's new core business, replacing traditional membrane process and engineering and biochemical production business as the largest profit contributor. Backed by strong capability in innovative membrane material and process development, the Group is aiming to transform into a global leading membrane based water solution provider.

CHAIRMAN'S STATEMENT

"Still, we are pleased to have turned in a creditable set of financials. We shall be rewarding shareholders with a proposed final dividend of 1.0 cent per share".

Dear Shareholders,

On behalf of my fellow directors, I am pleased to present to you the performance of the Group for the financial year ended 31 December 2009.

Indeed, 2009 could well be remembered as a year of tremendous turbulence. Sinomem has had its fair share of ups and downs as we too are subject to the vagaries of the marketplace. Still, we are pleased to have turned in a creditable set of financials. We shall be rewarding shareholders with a proposed final dividend of 1.0 cent per share.

As I reflect on the year past, I would say that 2009 was a year where we sharpened our focus, fine-tuning every aspect of our business.

Financial and Operations Review

In FY2009, the Group increased its revenue by 18% to S$126.8 million. This was due to increased contributions from all business segments, particularly our water treatment segment. Additionally, our administrative expenses decreased by S$5.8 million in FY2009 in the absence of significant bad debt allowances that amounted to S$8.9 million in FY2008. Finance cost also declined year-on-year by 36% to S$3.9 million due to partial repayment of convertible loan notes in FY2008. As a result, the Group reported S$22.9 million of profits attributable to shareholders in FY2009.

The remaining convertible loan notes of S$54.3 million were fully repaid in FY2009. The repayments were financed largely from internal resources. During the year, the Group also made a share placement raising about S$30.0 million. As at 31 December 2009, cash and cash equivalents stood at S$38.8 million.

Water Treatment Division

In FY2009, our water treatment segment completed 6 Build-Operate-Transfer (BOT) projects, bringing the total number of completed projects to 7. They are located in various areas of China, namely Henan Dengzhou, Henan Xuchang, Jilin Dongfeng, Jilin Tongyu, Hebei Yicheng, Jiangxi Yushan and Fujian Wuping. Added to the 3 Transfer-Operation-Transfer (TOT) projects already in operations, the division's total revenue increased by 60% to S$41.7 million in FY2009 from S$26.0 million in FY2008. Segmental gross profit of S$16.6 million accounted for about 40% of the total FY2009 gross profit of the Group.

"Backed by our strong execution capabilities and membrane technology, we envisage that the water treatment segment will continue to be the growth driver of the Group".

Membrane Process and Engineering Division

The Membrane Process and Engineering Division registered healthy revenue of S$46.7 million in FY2009 as compared to S$40.2 million in FY2008. Despite the difficult business conditions in FY2009, the division still managed to grow its operating profits by S$3.4 million from S$7.1 million in FY2008 to S$10.5 million in FY2009.

Downstream Business

The downstream business reduced its revenue by 7% to $38.4m in FY09. Operating profits amounted to $0.3m compared to a loss of $3.2m in FY08. The improvement was mainly due to write-back of allowances for inventory obsolescence and higher profits earned from local sales.

FY2010 Prospects and Future Plans — Evolving To Become An Integrated Water Solution Provider

Membrane Process and Engineering Services Demand Pick-up

With signs of gradual recovery in the global economy, we expect our clients to increase their capital expenditures, which will translate into higher demand for our membrane process & engineering services. We pride ourselves in having strong membrane process & engineering knowhow as well as membrane product development capabilities inherited from the former membrane division of Hoechst and Akzo-Nobel (Germany). Coupled with our breakthrough in developing a ceramic membrane in China, we strongly believe that our value-added services will be highly yield-efficient and cost-effective in the industrial membrane manufacturing industry. We will continue to expand our existing diversified base of more than 1,000 process applications and industrial customers in China.

Water Recycling Poses Biggest Potential

The main plan for FY2010 is to complete construction work in the remaining 4 BOT wasterwater treatment plants, which when completed, will bring the total number of BOTs in operations to 11. This accomplishment will definitely help us increase our revenue stream and cashflow over the years. With increasing attention on pollution issues, the China government has increased its environmental awareness initiatives in areas like water scarcity, especially in Northern China. As such, we expect the demand for wastewater solutions to remain strong in China. Backed by our strong execution capabilities and membrane technology, we envisage that this segment will continue to be the growth driver of the Group.

Downstream Business Opportunities

Management will continue to review the operations, management and business structure of the Group's downstream business with the view of enhancing the segment's operating efficiency and its business potential. If the opportunity arises, we may consider realising its value via a profitable restructure or disposal. We will then be able to reinvest any cash obtained to expand our water and membrane businesses to create more value for our shareholders.

Acknowledgment

In conclusion, I would like to thank our Board of Directors, management team, colleagues, business partners and shareholders for their unwavering support and contribution during the challenging times in FY2009.

主席致辞

记得小时候家乡小溪里的水清澈见底、潺潺流动，小孩可以在那里尽情的游泳、抓鱼，而今这一切成为了美好的回忆 现在的小溪水脏了，甚至许多河流的水已经干了......

为什么溪水不再清澈，河流不再洁净？那是因为环境污染的日趋严重 这固然有水体的自然污染，如降雨对大气的淋洗、对地面的冲刷，夹杂各种污染物流入水体而形成；但更为严重的是人为的污染，如工业废水、生活污水、农药化肥等对水体的污染

事实上，说到水，中国目前正面临着巨大的挑战：水短缺和水污染问题都已经相当严重 这又或者可以说成是一个问题的两个方面 因为缺水，污水排进水域，很难通过稀释得到自净 同时，污水又把仅有的一点水资源破坏了

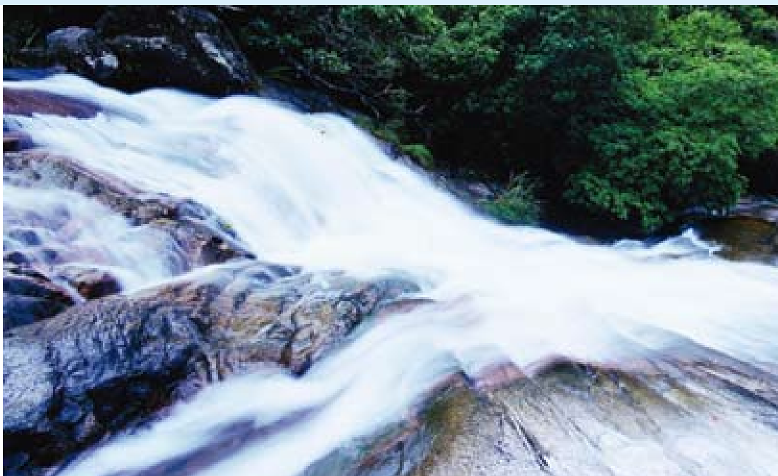
现在的缺水，有资源性的缺乏，江河里没水了；也有水质性的短缺，连地下水也越掘越深，甚至无水可采 而中国持续的工业化、城市化进程和经济的快速增长，导致污水排放量连年上升，统计数据显示2004年至2008年，中国的污水排放量年增长率达到18% 作为一个人均拥有水资源量仅占全球四分之一的国家，如何采取措施以避免严重水危机的发生已成为中国政府目前面临的最严重的挑战之一

如何治理水污染，这不仅需要政府的决策、法律的制裁和经济的制约，也需要全社会的共同参与 如果越来越多的人开始在乎家乡的小溪是不是有水，是不是洁净，我们的孩子们可不可以在水里玩耍，能不能喝到干净清洁的水，那么，全社会的力量才能动员起来，各行各业都来解决自己的实际问题 过去国家以发展经济为前提，生产和治污是分离的，是以产品为前提的末端排放达标来治理污染，其结果是排放标准越来越严，治理费用越来越高，但水资源状况却越来越严峻 这种末端治理的做法不能从根本上解决水污染问题 因此我们需要将环境污染治理从末端走向前端，通过源头治理暨清洁生产来减少污染物的排放，而这就需要我们借助更先进的技术力量和创新能力

膜技术是清洁生产、水资源再生、水循环利用的最佳手段，它对于有效减少污染物排放和实现污水资源化有着重要意义 我们可以预见，膜技术治理水污染的时代已经到来 这两年，国家的环境治理、节能减排政策已经为膜技术发展插上了腾飞的翅膀 目前，在石油化工、电力、采矿、冶金、电子、电镀、纺织、造纸、制药、制酒、食品饮料、市政供水、环保、污水回用及海水淡化等领域，膜分离技术正得到越来越广泛地应用，由此对膜元件、组件及其装备的需求量也急速增加 因此，未来中国膜技术治理水污染的前景十分广阔，膜与水处理行业将迎来快速发展的黄金时期

在今年中国的两会上，转变经济发展方式成为最热议的关键词之一 要实现加快转变经济发展方式的关键是要用科技的力量推动经济发展，其实质是要改变传统的发展思维和增长模式：经济发展必须有利于资源的持续利用，有利于生态系统的良性循环，绝不能以浪费资源和破坏生态环境为代价 生存发展观念也由单纯地从自然索取转变为与自然和谐共生，以恢复和修复已被破坏的生态系统为主题

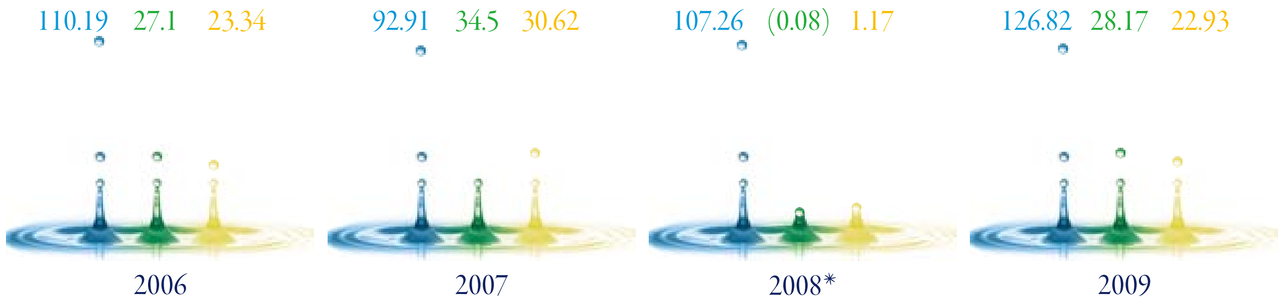
因此，2010年我们将进一步推进公司回归膜和水的主业的发展战略，在新的时期抓住机遇、迎接挑战，相信我们也将迎来公司快速发展的黄金期



FINANCIAL HIGHLIGHTS

	ACTUAL 2006 $'000	ACTUAL 2007 $'000	ACTUAL 2008 $'000	ACTUAL 2009 $'000
Revenue	110,190	92,908	107,261	126,818
Gross profit	37,426	24,054	28,057	41,077
Profit before tax	27,131	34,521	(83)	28,171
Profit attributable to shareholders	23,339	30,620	1,165	22,929
Total current assets	219,469	221,443	171,202	137,010
Total non-current assets	58,463	127,265	169,121	211,519
Total assets	277,932	348,708	340,323	348,529
Total current liabilities	21,073	45,584	102,012	64,204
Total non-current liabilities	87,286	83,665	4,468	7,735
Total liabilities	108,359	129,249	106,480	71,939
Net current assets	198,396	175,859	69,190	72,806
Net assets	169,573	219,459	233,843	276,590
Net cash	59,879	22,541	7,127	18,794

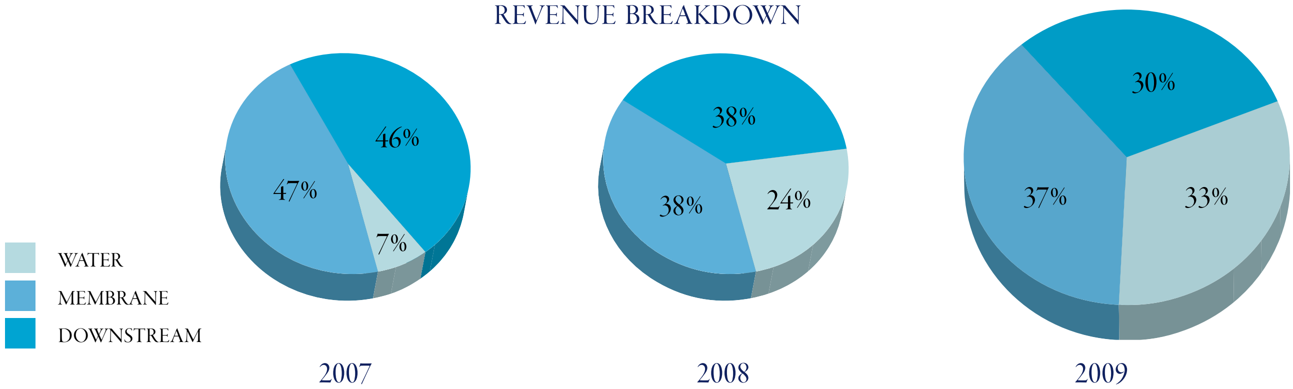
TURNOVER, PROFIT BEFORE TAX & NET PROFIT (S$ million)



* Including one-time S$19m impairments and provisions

NET CASH (S$ million) (after deducting financial obligations)

REVENUE BREAKDOWN



BOARD OF DIRECTORS

Dr. Lan Weiguang

Dr. Lan Weiguang, the Founder & Managing Director of our Group oversees the overall management and operations of our Group. He is also responsible for formulating our business model and growth strategies. From 1985 to 1992, he was Assistant Professor at the Department of Food Engineering of Jimei University in Xiamen, PRC. Prior to the founding of our Group in 1996, Dr. Lan was appointed as Technical and Sales Director of Hydrochem Engineering (Singapore) Pte Ltd from 1994 to 1995. Dr. Lan holds a Bachelor of Science degree in Chemistry from Xiamen University, PRC and a PhD in Chemistry from the National University of Singapore.

In 1997, Dr. Lan was invited to be an Associate Professor at Xiamen University and was also invited to establish an Applied Membrane Research and Development Centre in Xiamen University for scientific research purposes. In 1999, he was promoted to the position of Professor of the faculty of Chemistry and Chemical Engineering of Xiamen University.

In 2003, Dr. Lan won the Young Chinese Entrepreneur Award organized by Yazhou Zhou Kan. In 2004, Dr. Lan was invited to be a Professor from Nanchang University. In 2005, he was elected as a Deputy Council Chairman of the China Desalination Association. In the same year he won the Outstanding Entrepreneurship Award from the State Overseas Chinese Affair Office of PRC, the "Golden-Bridge" Award from Chinese Technological Market Association, and the Outstanding Science Alumni Award from the National University of Singapore. Dr. Lan is an adjunct Associate Professor of the National University of Singapore, he is also appointed as an adjunct Professor of the Water Resource Centre of Peking University. In 2006, Dr. Lan won the Excellent Employer Award by Xiamen Municipal Government, PRC. Moreover, Dr. Lan is selected as the 2007 top-ten Chinese Financial and Intelligent Persons by the National Situation Research Association of China, as well as the Mentor for Entrepreneurship & Innovation, Torch Centre, Ministry of Science and Technology, China.

Chen Ni

Chen Ni, Executive Director and co-founder of our Group oversees the administration and the day-to-day operations of our Group in Singapore. Chen Ni was a laboratory technologist at the Department of Chemistry and the Department of Chemical and Environmental Engineering of the National University of Singapore from 1992 to 1998. Prior to 1992, she was a laboratory technologist at the Department of Food Engineering of Jimei University in Xiamen, PRC for five years. She was a teacher at Wuping First Middle School in Fujian, PRC from 1984 to 1987. Chen Ni holds a Diploma in Biology from Ningde Teachers' College, Fujian Province, PRC, a Certificate in Accounting from LCCI, as well as an MBA from Shanghai Jiao Tong University, PRC.

Teng Cheong Kwee

Teng Cheong Kwee was appointed Independent Director of our Company on 14 May 2003. He also served as an Independent Director of several other listed companies. Mr. Teng started his career in 1978 in the Singapore Government Administrative Service. He later served as an Assistant Director and then a Deputy Director in the Monetary Authority of Singapore. During that period, he also served concurrently as Secretary to the Securities Industry Council. In 1989, he joined the then Stock Exchange of Singapore as an Executive Vice President. He later was appointed Executive Vice President and head, Risk Management and Regulatory Division, of the Singapore Exchange. He had also served as a council member of the Singapore Institute of Directors. Mr. Teng obtained a Bachelor degree in Engineering (Industrial) with first class honors and a Bachelor degree in Commerce from the University of Newcastle, Australia in 1977.

Hee Theng Fong

Hee Theng Fong was appointed Independent Director of our Company on 14 May 2003. Mr. Hee is a lawyer by profession and a Director of several listed companies. He is also an Arbitrator. He is currently a Partner of KhattarWong.

Kong Tai

Kong Tai was appointed Independent Director of our Company on 28 September 2007. Mr. Kong obtained a Diploma of Medicine in Management Engineering from the Shenyang Pharmaceutical University. He also holds the pharmacist's license and the title of Senior Economist in the People's Republic of China.

Since 1984, he joined Jingjiang Glucose Factory as Manager and took the responsibility for the overall management and day-to-day operations. In 1990, he embarked on a pharmaceutical venture and set up Jiangshan Pharmaceutical Co., Ltd, one of the largest vitamin producers in China, where he was the President until he retired on January 2007. In 2006, he was awarded China State Council Special Allowance for his contribution in the technology development for the production of Vitamin C. He has more than 20 years experience in nutrition-based pharmaceutical industry.

EXECUTIVE OFFICERS

Chan Chung Wai

Chan Chung Wai is the Chief Financial Officer of Sinomem Technology Limited. Mr. Chan was previously appointed as the Group Financial Controller of Eastern Holdings Ltd and he was responsible for the risk management, finance, accounting and human resource functions of the Group and its subsidiaries.

Between 2005 and 2007, Mr. Chan was the Chief Financial Officer of ArianeCorp Ltd, a company listed on the Catalist. Between 2002 and 2003, Mr. Chan was an assistant vice-president with the Credit Risk Centre of DBS Bank. Between 1999 and 2002, he was an assistant vice-president of Corporate Banking, OCBC Bank. Between 1995 and 1999, Mr. Chan was a relationship manager of Business Banking at Citibank N.A. Mr. Chan has obtained a Bachelor of Accountancy (Merit) degree from the National University of Singapore and a Chartered Financial Analyst qualification from the CFA Institute. He is also a qualified Certified Public Accountant with the Institute of Certified Public Accountants of Singapore. Currently, Mr. Chan is also a board member of public companies listed on the Singapore Stock Exchange.

Hans Joerg Heckmann

Hans Joerg Heckmann is the Vice President of Sinomem Technology Ltd and the General Manager of Microdyn-Nadir China operation. Mr. Heckmann is a German with a permanent residence in China. He achieved his academic degree in process engineering from the RWTH in Aachen, Germany. Within his professional activity, he was able to assemble a broad knowledge on membranes material production and membrane processes development. Mr. Heckmann obtained his international experiences from his employment with GNT International, a neutraceutical production company, and WEDECO Group as project engineer. In 1998 Heckmann joined the Celgard GmbH, pre-existence of Micodyn-Nadir GmbH, where he took over the responsibility for the worldwide sales in Automotive and the development of the Asian markets on the full scale of polymeric membranes.



Lan Xinguang

Lan Xinguang is the Vice President of Sinomem Technology Ltd and the Chief Executive Officer of Reyphon Agriceutical Limited ("Reyphon") since 2009. He is currently responsible for the overall management and strategic development of Reyphon and its subsidiaries. He also takes over the responsibility for the management of one of our subsidiaries Rosin Chemical (Wuping) Co., Ltd. He joined our group in 1997. Prior to that, he held different position in Hydrochem Engineering (Shanghai) Co., Ltd including Administrative Manager and Sales Representative until he left the company in 1996.

Mr. Lan graduated from the Fujian Fisheries Administrative School with a Diploma in Accounting. In July 2008, he has completed a training course on Executive Master of Business Administration from Xiamen University, China.

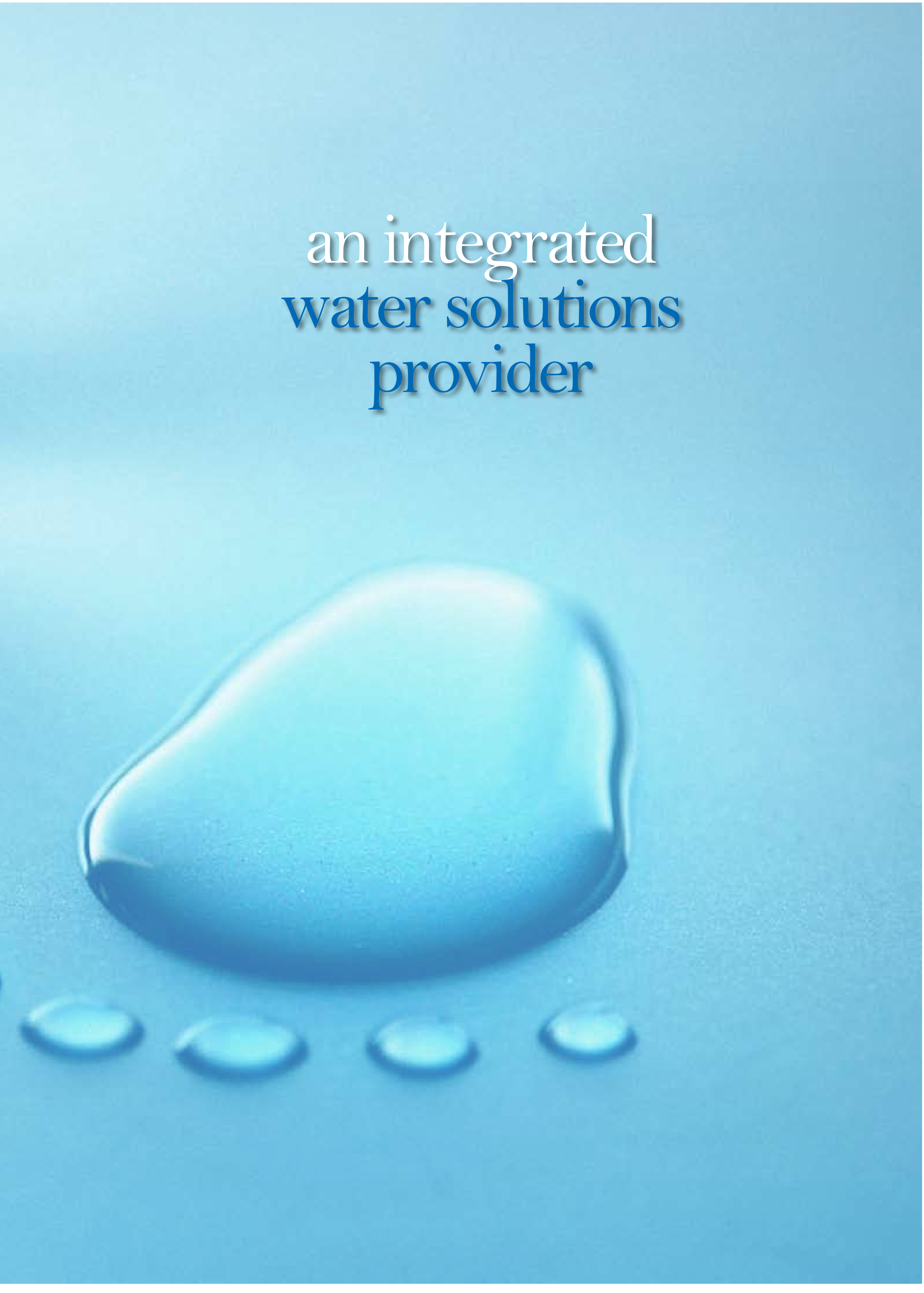
Chen Guansheng

Chen Guansheng is the Vice President of Sinomem Technology Ltd and the General Manager of the environmental process and engineering division of our group. He holds a Bachelor Degree of Chemical Engineering from Zhejiang University PRC and a MBA from Hong Kong Polytechnic University. Before his appointment in Sinomem, Mr. Chen was a Deputy General Manager of Lukang Pharmaceutical Co., Ltd, a leading pharmaceutical producer listed in Shanghai Exchange. He has more than 17 years of experiences in fermentation-based pharmaceutical industry.

Lan Chunguang

Lan Chunguang is the Vice President of Sinomem Technology Ltd and the General Manager of the membrane technology division of our Group since 2009. He is currently responsible for Group's administrative and human resources management and oversees sales & marketing, procurement & logistics, production & customer service departments for the membrane process & engineering business. He has nearly 10 years of general management experience. Mr. Lan started as an Administrative cum Customer Manager with Suntar Membrane Technology (Xiamen) Co., Ltd since 1997. From 2007, he assists the Managing Director to oversee the overall management and day-today operations. He holds a Diploma in history from Longyan Teachers' College, Fujian Province, PRC. Currently, he is doing his Executive Master of Business Administration with National University of Singapore.


stepping forward
enhancing future


an integrated
water solutions
provider

CORPORATE DATA

Board Of Directors:
Dr. Lan Weiguang (Managing Director)
Chen Ni (Executive Director)
Teng Cheong Kwee (Independent Director)
Hee Theng Fong (Independent Director)
Kong Tai (Independent Director)

Company Secretary:
Chew Kok Liang

Registered Office:
Sinomem Technology Limited
10 Ang Mo Kio Street 65 #06-10
Singapore 569059
Tel: 6481 6966
Fax: 6481 6066
Website: www.sinomem.com

Share Registrar And Share Transfer Office:
Tricor Barbinder Share Registration Services
(A division of Tricor Singapore Pte. Ltd.)
8 Cross Street #11-00
PWC Building
Singapore 048424

Manager, Underwriter And Placement Agent:
UOB Asia Limited
80 Raffles Place
UOB Plaza
Singapore 048624

Primary Sub-underwriters And Placement Agents:
United Overseas Bank Limited
80 Raffles Place
UOB Plaza
Singapore 048624

UOB Kay Hian Private Limited
80 Raffles Place #30-01
UOB Plaza 1
Singapore 048624

Solicitors To The Invitation:
Wong Partnership
One George Street #20-01
Singapore 049145

Auditors:
Deloitte & Touche LLP
Certified Public Accountants
6 Shenton Way #32-00
DBS Building Tower Two
Singapore 068809

Partner: James Xu
(Since financial year ended December 31, 2007)

Legal Advisers To The Company As To PRC Law:
Jingtian & Gongcheng
Floor 15 The Union Plaza
20 Chaoyangmenwai Dajie
Beijing 100020
PRC

Receiving Banker:
United Overseas Bank Limited
80 Raffles Place
UOB Plaza
Singapore 048624

corporate governance report

The Board of Directors (the "Board") and management of Sinomem Technology Limited (the "Company" or "Sinomem") believes in maintaining high standards of corporate governance and is committed to ensuring that effective self-regulatory corporate practices exist to protect the interests of its shareholders. The Company recognises the importance of practising good corporate governance and fully supports the recommendations of the Code of Corporate Governance 2005 (the "Code"). This report sets out corporate governance practices with specific references to the Code issued by the Singapore Exchange Securities Trading Limited ("SGX-ST").

A. BOARD MATTERS

Board's Conduct of its Affairs

Principle 1: Every company should be headed by an effective Board to lead and control the company. The Board is collectively responsible for the success of the company. The Board works with Management to achieve this and Management remains accountable to the Board.

The Board oversees the business affairs of the Company. The Board provides entrepreneurial leadership, sets strategic directions, oversees management effectiveness and proper conduct of the Company's business. It has overall responsibility for the Company's strategic plans and performance objectives, financial plans, key operational initiatives, financial performance reviews, compliance and accountability systems, and corporate governance practices.

To assist the Board in the discharge of its function, three Board Committees, namely Audit Committee, Nominating Committee, and Remuneration Committees have been constituted with clear written terms of reference. All the Board Committees perform specific roles in accordance with their respective terms of reference and, collectively, promote good corporate governance practices in the Company and within the Group.

The Board is apprised on a timely basis of relevant regulatory changes, in particular, changes in the Companies Act, Financial Reporting Standard, and any major changes or events in the industry.

The Board meets regularly, at least on a quarterly basis. Ad hoc meetings are held at such time, as and when required, to address any specific significant matters that may arise. Telephonic attendance and conference at meetings of the Board and Board Committees are allowed under the Company's Articles of Association. The Board ensures that effective management is in place to conduct the Group's business properly.

The Board has identified a number of areas for which the Board has direct responsibility for decision-making. Certain matters specifically reserved for decision by the Board are as follows:

- Review and approval of the Group's financial results announcements;
- Approval of the annual report and financial statements;
- Declaration of interim dividends and proposal of final dividends;
- Convening of shareholders' meetings;
- Approval of corporate strategy; and
- Authorization of major transactions.

The attendance of the Directors at meetings of the Board and the Board Committees held during the financial year are set out as follows:

Types of Meetings / Names of Directors	Board		Audit Committee		Nominating Committee		Remuneration Committee	
	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
Lan Weiguang	4	4	4*	4*	1	1	1*	1*
Chen Ni	4	4	4*	4*	1*	1*	1*	1*
Teng Cheong Kwee	4	4	6	6	1	1	1	1
Hee Theng Fong	4	4	6	6	1	1	1	1
Kong Tai	4	3	6	5	1	1	1	1

* By invitation

New directors would be given briefings and site visits to familiarise themselves with the various businesses and operations of the Group in the People's Republic of China ("PRC"). Directors are encouraged to attend relevant seminars and conferences to gain better knowledge and understanding of applicable rules, regulations and requirements.

Board Composition and Guidance

Principle 2: There should be a strong and independent element on the Board, which is able to exercise objective judgment on corporate affairs independently, in particular, from management. No individual or small group of individuals should be allowed to dominate the Board's decision making.

The Board comprises 5 Directors, two of whom are Executive Directors and three are Independent Directors. Their collective experiences and contributions are valuable to the Group. The Directors are as follows:

Dr. Lan Weiguang	Managing Director
Mdm. Chen Ni	Executive Director
Mr. Teng Cheong Kwee	Independent Director
Mr. Hee Theng Fong	Independent Director
Mr. Kong Tai	Independent Director

The Board considers that it is currently of an appropriate size to facilitate effective discussion and decision making, taking into account the composition of the Board, the scope and nature of the Group's operations. The Independent Directors consist of respected individuals from different backgrounds whose core competencies, qualifications, skills and experience are extensive and complementary to enable the Board to make balanced and well-considered decisions.

The Board 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 Director's independent business judgment on the conduct of the Group's affairs.

The independence of each Director is reviewed annually by the Nominating Committee in accordance with the Code's definition of independence. Each Director is required to complete a 'Confirmation of Independence' form to confirm his independence. The said form, which was drawn up based on the definitions and guidelines set forth in Guideline 2.1 in the Code and the Guidebook for Audit Committees in Singapore issued by Audit Committee Guidance Committee, requires each Director to assess whether he considers himself independent despite not having any of the relationships identified in the Code. The Nominating Committee has reviewed the forms completed by each Director and is satisfied that more than one-third of the Board comprises Independent Directors.

Chairman and Chief Executive Officer
Principle 3: There should be a clear division of responsibilities at the top of the company – the working of the Board and the executive responsibility of the company's business – which will ensure a balance of power and authority, such that no one individual represents a considerable concentration of power.

The Board is of the view that the interests of the Group is well served by having a single leadership structure, whereby Dr. Lan Weiguang serves both as the Managing Director (equivalent to the position of Chief Executive Officer, "CEO") and as Chairman of the Board. As the Managing Director of the Group, Dr. Lan has been responsible for our business strategy, the implementation of our corporate plans and policies, and the overall management of our business. Dr. Lan's experience, leadership and track record has proved to be critical to the growth and development of our Group.

Although the roles and responsibilities for both the Chairman and Managing Director are vested in Dr. Lan, the Board believes that there is an adequate balance of power within the Board. All major decisions made by the Company will be subject to review by the Board. The presence of the three competent and professional Independent Directors helps to ensure that decision-making is based on collective decisions without any individual or small group of individuals dominating the Board's decision making. In addition, the Chairman is guided by recommendations provided by the three Board Committees.

B. BOARD COMMITTEES

Nominating Committee

Board Membership
Principle 4: There should be a formal and transparent process for the appointment of new Directors to the Board.

The Nominating Committee comprises 4 Directors, a majority of whom, including the Chairman, are Independent Directors:

Chairman	:	Mr. Hee Theng Fong	(Independent Director)
Member	:	Mr. Teng Cheong Kwee	(Independent Director)
		Mr. Kong Tai	(Independent Director)
		Dr. Lan Weiguang	(Managing Director)

The Nominating Committee is governed by its written terms of reference. In accordance with the definition in the Code, the Chairman of the Nominating Committee is not directly associated with a substantial shareholder of the Company. The Nominating Committee is responsible for:

- making recommendations to the Board on all board appointments and re-nomination having regard to each Director's contribution and performance (such as attendance, preparedness, participation and candour);
- ensuring that the Directors submit themselves for re-nomination and re-election at regular intervals of at least once every three years;
- determining annually whether a Director is independent, in accordance with the independence guidelines contained in the Code;
- reviewing annually whether a director with multiple board representations is able to and has been adequately carrying out his duties as a director of the Company; and
- considering how the Board's performance may be evaluated and proposing objective performance criteria.

During the year, the Nominating Committee reviewed the independence of Directors, based on the guidelines set out in the Code, the Guidebook for Audit Committees in Singapore issued by Audit Committee Guidance Committee and any other salient factors. Following its annual review, the Nominating Committee has affirmed the independence of Messrs Teng Cheong Kwee, Hee Theng Fong and Kong Tai. In addition, the Nominating Committee is satisfied that the present Board size and complementary expertise, skills and experience of the various Board members have served the Company well in terms of decision making in overseeing the Company's business.

The Nominating Committee is satisfied that sufficient time and attention are being given by the Directors to the affairs of the Group, notwithstanding that some of the Directors have multiple board representations, and there is presently no need to implement internal guidelines to address the competing time commitments.

The Company's Articles of Association provide that, every Directors shall retire from office once every three years at each Annual General Meeting, one-third of the Directors of the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation. A retiring director is eligible for re-election.

The Nominating Committee has reviewed and recommended that Messrs Hee Theng Fong and Kong Tai who are retiring at the forthcoming Annual General Meeting be nominated for re-election. The Board has accepted the recommendations and the retiring Directors will be offering themselves for re-election.

Key information regarding the Directors is as follows:

Name of Director	Date of First Appointment	Date of Last Re-election	Present Directorships and Chairmanships in Other Listed Companies and Major Appointments	Past 3 Years Directorships and Chairmanships in Other Listed Companies and Major Appointments
Dr. Lan Weiguang	18 September 2002	30 April 2009	1. Reyphon Agriceutical Limited	Nil
Chen Ni	18 September 2002	30 April 2009	Nil	Nil
Teng Cheong Kwee	14 May 2003	28 April 2008	**Listed Companies** 1. AEI Corporation Ltd 2. Techcomp (Holdings) Ltd 3. Memtech International Ltd 4. Junma Tyre Cord Company Ltd 5. STATS ChipPAC Ltd 6. First Resources Ltd **Major Appointments** Nil	**Listed Companies** 1. Tianjin Zhongxin Pharmaceutical Group Corporation Ltd
Hee Theng Fong	14 May 2003	28 April 2008	**Listed Companies** 1. Datapulse Technology Limited 2. Tye Soon Limited 3. YHI International Limited 4. Delong Holdings Limited 5. First Resources Limited **Major Appointments** Director – NTUC Fairprice Co-operative Limited	**Listed Companies** 1. Ban Joo & Company Ltd 2. Sun Yet Sen Nanyang Memorial Hall Co., Ltd 3. Oriental Century Limited 4. Sapphire Corporation Ltd 5. Singapore Chinese Orchestra Company Limited
Kong Tai	28 September 2007	28 April 2008	Nil	Nil

The academic and professional qualifications of the members of the Board are set on pages 6 to 7 of the Annual Report. The Directors' interests in shares are as disclosed in paragraph 3 of the Directors' Report.

corporate governance report

Board Performance

Principle 5: There should be a formal assessment of the effectiveness of the Board as a whole and the contribution by each director to the effectiveness of the Board.

The Nominating Committee has implemented and continued with an annual performance evaluation process for assessing the effectiveness of the Board as a whole. The objective of the performance evaluation is to increase the overall effectiveness of the Board. The assessments are made against pre-established criteria, which are derived from the Board's charter and responsibilities. The Nominating Committee discussed the results of the Board performance evaluation to identify areas where improvements were necessary and made recommendations to the Board for action to be taken.

Access to Information

Principle 6: In order to fulfil their responsibilities, Board members should be provided with complete, adequate and timely information prior to Board meetings and on an on-going basis.

All Directors received adequate and timely information necessary for the discharge of their duties and responsibilities. Prior to each Board meeting, all Directors are each provided with the relevant documents and information to enable them to obtain a comprehensive understanding of the issues to be deliberated upon to enable them to arrive at an informed decision.

The Board has independent access to the Company Secretary, who provides the Board with regular updates on the requirements of the Singapore Companies Act, all the rules and regulations of the SGX-ST and other rules and regulations that are applicable to the Company. The Company Secretary or his representatives also attends all Board meetings and assists the Chairman in ensuring that Board procedures are followed and reviewed such that the Board functions effectively. The decision to appoint or remove the Company Secretary is a decision made by the Board as a whole.

Subject to the approval of the Chairman, the Directors, whether as a group or individually, may seek and obtain independent professional advice to assist them in discharging their duties and responsibilities as Directors of the Company, at the expense of the Company.

Remuneration Committee

Procedures for Developing Remuneration Policies

Principle 7: There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual Directors. No director should be involved in deciding his own remuneration.

The Remuneration Committee comprises the following three members, all of whom are independent of management and free from any business or other relationships to the Group which may materially interfere with the exercise of their independent judgment, namely:

Chairman	:	Mr. Hee Theng Fong	(Independent Director)
Member	:	Mr. Teng Cheong Kwee	(Independent Director)
		Mr. Kong Tai	(Independent Director)

The Remuneration Committee is governed by its written terms of reference. The duties of the Remuneration Committee include, ***inter alia***, the following:

- recommend to the Board a framework of remuneration (which covers all aspects of remuneration including Directors' fees, salaries, allowances, bonuses, options and benefits in kind) and the specific remuneration packages for the Board and key executives;
- determine the policy for establishing the remuneration packages for each Executive Director and review of the service contracts of employees;
- structure a proportion of Executive Directors' remuneration so as to link rewards to group or corporate and individual performance;
- review and recommend to the Board the terms of renewal for those Executive Directors whose current service contracts will expire or had expired;
- oversee the award of share options and the payment of fees to Non-Executive Directors; and
- consider the various disclosure requirements for remuneration packages of Directors and key executives of the Company.

The members of the Remuneration Committee do not participate in any decision concerning their own remuneration. Each member of the Remuneration Committee shall abstain from voting on any resolutions in respect of his remuneration. The Directors' fees are subject to shareholders' approval at the forthcoming Annual General Meeting.

The Remuneration Committee has full authority to obtain external professional advice on matters relating to remuneration as and when the need arises. The objective is to ensure competitive compensation is in place to build and retain capable and committed Management.

Level and Mix of Remuneration
Principle 8: The level of remuneration should be appropriate to attract, retain and motivate the Directors needed to run the company successfully but companies should avoid paying more than is necessary for this purpose. A significant proportion of executive Directors' remuneration should be structured so as to link rewards to corporate and individual performance.

The Company advocates a performance-based remuneration system that takes into account the pay and employment conditions within the industry, the Company's and individual employees' performances. The objective is to attract, retain and motivate key executives and Directors. The Remuneration Committee also reviews all matters concerning the remuneration of Non-Executive Directors to ensure that the remuneration is commensurate with the contribution and responsibilities of the Directors. The Non-Executive Directors are paid a Director's Fee. These fees are recommended by the Remuneration Committee and submitted to the Board for endorsement. The quantum of Directors' fee to be paid for each year is subject to shareholders' approval at the Annual General Meeting.

Our Managing Director, Dr. Lan Weiguang and Executive Director, Mdm. Chen Ni had entered into service agreements with the Company for an initial period of three years commencing from 2003 and renewable automatically thereafter unless otherwise terminated by written notice of three months given by either party to the other. The service agreements spelt out the salary, bonus, profit sharing and other benefits that the Executive Directors are entitled to.

On 9 May 2003, the shareholders of the Company approved the adoption of a share option scheme known as the Sinomem Employees' Share Option Scheme (the "Scheme"), which complied with Chapter 8, Part VIII of the Listing Manual of the SGX-ST. The Remuneration Committee is also responsible for administering the Scheme.

Disclosure on Remuneration

Principle 9: Each company should provide clear disclosure of its remuneration policy, level and mix of remuneration, and the procedure for setting remuneration in the company's annual report. It would provide disclosure in relation to its remuneration policies to enable investors to understand the link between remuneration paid to Directors and key executives and performance.

Directors' and Key Executives receiving remuneration for the financial year ended 31 December 2009 is set out below:

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

Remuneration Band & Name of Directors and Key Executives	Salary & CPF	Bonus & Profit Sharing	Directors' Fees	Total
Directors				
Above $250,000				
Dr. Lan Weiguang	47%	50%	3%	100%
Below $250,000				
Mdm. Chen Ni	52%	42%	6%	100%
Mr. Teng Cheong Kwee	–	–	100%	100%
Mr. Hee Theng Fong	–	–	100%	100%
Mr. Kong Tai	–	–	100%	100%
Key Executives				
Below $250,000				
Dr. Pu Weidong (resigned on 31 December 2009)	90%	10%	–	100%
Lan Xinguang	72%	28%	–	100%
Hans Joerg Heckmann	100%	–	–	100%
Lin Yongbin(resigned on 31 December 2009)	82%	18%	–	100%
Chen Guansheng	74.3%	25.7%	–	100%

Immediate Family Member of Directors/Substantial Shareholders

There is no employee of the Group who is an immediate family of a Director or substantial shareholder whose remuneration exceeds $150,000 for the financial year ended 31 December 2009. The remuneration of employees who are related to a Director or substantial shareholder is determined on the same basis as the remuneration of other unrelated employees.

Audit Committee

Accountability and Audit Accountability

Principle 10: The Board should present a balanced and understandable assessment of the Company's performance, position and prospects.

The Board is accountable to the shareholders and other stakeholders while the Management is accountable to the Board.

The Board's primary role is to protect and enhance long-term value and returns for the shareholders. In the discharge of its duties to the shareholders, the Board, when presenting financial statements and announcements, seeks to provide the shareholders with adequate analysis, explanation and assessment of the Group's financial position and prospects.

Audit Committee

Principle 11: The Board should establish an Audit Committee with written terms of reference which clearly set out its authority and duties.

The Audit Committee comprises three members, all of whom, including the Chairman, are independent:

Chairman	:	Mr. Teng Cheong Kwee	(Independent Director)
Member	:	Mr. Hee Theng Fong	(Independent Director)
		Mr. Kong Tai	(Independent Director)

The members of the Audit Committee have many years of experience in business management, finance and legal services and the Board is of the view that the members of the Audit Committee have requisite financial management expertise and experience to discharge its responsibilities.

The Audit Committee discharged its functions as set out in written terms of reference. In October 2008, the Audit Committee Guidance Committee issued the Guidebook for Audit Committees in Singapore. The terms of reference of the Company's Audit Committee were reviewed and amended, where appropriate, during the year to adopt relevant best practices set out in the Guidebook.

The Audit Committee meets regularly with the Group's external auditors and Management to review accounting, auditing and financial reporting matters, so as to ensure that an effective control environment is maintained in the Group.

The Audit Committee also monitors proposed changes in accounting policies, reviews the internal audit functions and discusses the accounting implications of major transactions. In addition, the Audit Committee advises the Board regarding the adequacy of the Group's internal controls and the contents and presentation of its report.

The functions of the Audit Committee include:

- review the interim and full year results announcements with management and external auditors before submission to the Board for approval, focusing on significant financial reporting issues and judgements so as to ensure the integrity of the financial statements of the Group and any formal announcements relating to the Group's financial performance;
- review the scope and results of the external audit and its cost effectiveness, and the independence and objectivity of the external auditors. Where the external auditors also provide substantial non-audit services to the Group, to review the nature and extent of such services, seeking to balance the maintenance of objectivity and value for money;
- review internal control and procedures, including review of the internal auditor's internal audit plan and internal audit findings;
- review interested person transactions within the scope of Chapter 9 of the Listing Manual of the SGX-ST;
- review with the external auditors, the audit plan, the system of internal accounting controls and the audit report;
- 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; and
- make recommendation on the appointment or re-appointment of the external auditors, and their audit fee.

The Audit Committee has explicit authority to investigate any matter within its functions, direct access to and full cooperation of the management. It has full discretion to invite any Director or Executive Officer to attend its meetings, and reasonable resources to enable it to discharge its functions properly.

The Audit Committee has met with the external auditors without the presence of the management for the financial year ended 31 December 2009.

The Audit Committee has undertaken a review of the independence and objectivity of the external auditors as well as the non-audit services provided by the external auditors. The Audit Committee is satisfied that the external auditors is independent and has recommended to the Board of Directors, the nomination of the external auditors for re-appointment at the forthcoming Annual General Meeting.

In line with its commitment to open communication and maintain good corporate governance practice, the Company has implemented a whistle-blowing policy where employees of the Company may, in confidence, raise concerns about possible corporate improprieties in matters of financial reporting and/or other matters.

The Audit Committee has reviewed all Interested Person Transactions during the financial year ended 31 December 2009 and is of the opinion that Chapter 9 of the Listing Manual of the SGX-ST has been complied with.

In the event that a member of our Audit Committee is interested in any matter being considered by our Audit Committee, he will abstain from reviewing that particular transaction or voting on that particular resolution.

The Audit Committee has, within its terms of reference, the authority to obtain independent professional advice at the Company's expense as and when the need arises.

Internal Controls
Principle 12: The Board should ensure that the Management maintains a sound system of internal controls to safeguard the shareholders' investments and the company's assets.

Internal Audit
Principle 13: The Company should establish an internal audit function that is independent of the activities it audits.

The Board acknowledges the importance of maintaining a sound system of internal controls to safeguard the interests of the shareholders and the Group's asset. 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.

As part of the annual statutory audit on financial statements, the external auditors report to the Audit Committee and the management any material weaknesses in financial controls over the areas which are significant to the audit.

Yang Lee & Associates is the Company's appointed Internal Auditors. During the year, the Internal Auditors carried out an internal audit on a key business segment of the Group, focusing on material internal controls, including financial, operational and compliance controls, in accordance to an internal audit plan approved by the Audit Committee. All Internal Audit reports were submitted to the Audit Committee for deliberation with copies of these reports extended to the Managing Director and the relevant senior management executives. In addition, internal audit's summary of findings and recommendations and Management's responses were discussed at the Audit Committee meetings.

Both internal and external auditors conduct an annual review of the effectiveness of the Company's and the Group's material internal controls, including financial, operational and compliance controls, and risk management. Any material non-compliance or weakness in internal controls and recommendations for improvements were reported to the Audit Committee. The Audit Committee also reviewed and monitored the effectiveness of the actions taken by the management on the recommendations made by the internal and external auditors in this respect. The Board is satisfied that there are adequate internal controls in the Group.

C. COMMUNICATION WITH SHAREHOLDERS

Communication with Shareholders

Principle 14: Companies should engage in regular, effective and fair communication with shareholders.

The Company believes that a high standard of disclosure is crucial to raising the level of corporate governance. The Board has embraced openness and transparency in the conduct of the Company's affairs, whilst preserving the commercial interests of the Company. Information is communicated to shareholders on a timely basis and is made through:

(i) annual reports that are prepared and issued to all shareholders;

(ii) interim and full year results announcements;

(iii) circulars and notices to the shareholders;

(iv) press releases; and

(v) disclosures to the SGX-ST via SGXNET.

The Company does not practice selective disclosure as all material and price-sensitive information is released through SGXNET.

Greater Shareholder Participation

Principle 15: Companies should encourage greater shareholder participation at Annual General Meetings and allow shareholders the opportunity to communicate their views on various matters affecting the company.

The Annual General Meeting is the principal forum for dialogue with shareholders. There is an open question and answer session at which shareholders may raise questions or share their views regarding the proposed resolutions and the Company's businesses and affairs. The Chairmen of the Audit, Remuneration and Nominating Committees are normally available at the Annual General Meeting to answer any questions relating to the work of these Board Committees. The external auditors are also in attendance at the Annual General Meeting to assist the Directors in answering questions from shareholders.

If any shareholder is unable to attend, he is allowed to appoint up to two proxies to vote on his behalf at the meeting through proxy forms sent in advance. The Company ensures that there are separate resolutions at general meetings on each substantially separate issue.

D. ADDITIONAL INFORMATION

Dealings in Securities

The Group has adopted a Code of Best Practice on Securities Transactions by Officers to govern the dealings in securities by the Directors and officers of the Group in compliance with Rules 1207(18) of the Listing Manual of the SGX-ST. Directors, management and officers of the Group who have access to price-sensitive, financial or confidential information must not deal in listed securities of the Company one month before the announcement of the interim and full-year results, and ending on the date of announcements of the relevant results. Internal memorandums are sent to remind Directors and officers of the Company on the period where dealings in Company's securities are prohibited. Directors and officers of the Company are also expected to observe insider-trading laws at all times even when dealing in Company's securities within the permitted trading period. Directors are also required to notify the Company on their dealings in the Company's shares within two business days.

Risk Management

The Group is continually reviewing and improving the business and operational activities to take into account the risk management perspective. The Group seeks to identify areas of significant business risks, and will consider the appropriate measures to be taken to control and mitigate these risks. The Group reviews all significant control policies and procedures and highlights all significant matters to the Audit Committee.

Material Contracts

No material contracts were entered into by the Group for the benefit of any of the Directors, either subsisting at the end of the financial year or if not then subsisting since the end of the previous financial year.

Interested Party Transactions

Details of Interested Person Transactions ("IPT") for the financial year ended 31 December 2009 are set out below. These IPTs are less than 3% of the Group's latest audited net tangible assets.

Name of Interested Person	Aggregate value of all interested person transactions during the financial year under review (excluding transactions less than S$100,000 and transactions conducted under shareholders mandate pursuant to Rule 920)		Aggregate value of all interested person transactions conducted under shareholders mandate pursuant to Rule 920 (excluding transaction less than S$100,000)	
	31 December 2009	31 December 2008	31 December 2009	31 December 2008
	S$	S$	S$	S$
Suntar Technological Park Development Co., Ltd – Leasing of land and buildings	526,794	479,397	–	–

In accordance with the Company's internal policy, the above IPT was reviewed and approved by the Audit Committee.

FINANCIAL CONTENTS

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.

1 DIRECTORS

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

Dr Lan Weiguang
Chen Ni
Teng Cheong Kwee
Hee Theng Fong
Kong Tai

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 this report.

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:

	Shareholdings registered in name of director		Shareholdings in which directors are deemed to have an interest	
Name of directors and companies in which interests are held	At beginning of year	At end of year	At beginning of year	At end of year
Sinomem Technology Limited				
Ordinary shares				
Dr Lan Weiguang	259,237,960	271,268,960	10,000,040	10,000,040
Chen Ni	10,000,040	10,000,040	259,237,960	271,268,960

By virtue of Section 7 of the Companies Act, Dr Lan Weiguang and Chen Ni are deemed to have interests in all the related corporations of the company.

The directors' interests in the shares and options of the company as at January 21, 2010 were the same 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 those 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 Sinomem Employees' Scheme ("the Scheme") in respect of unissued ordinary shares in the company was approved by the shareholders of the company at an Extraordinary General Meeting held on May 9, 2003.

b) The committee administering the Scheme comprises:

Hee Theng Fong (Chairman)
Teng Cheong Kwee
Kong Tai

Under the Scheme granted to the directors and employees, an option entitles the option holder to subscribe for a specific number of new ordinary shares in the company at a subscription price per share determined with reference to the market price of the shares at the time of grant of the option. The Share Option Committee may at its discretion, fix that subscription price at a discount up to 20% off market price. The consideration for the grant of an option is $1.00. Options granted with the subscription 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 the market price set at a discount to the market 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 subscription price. 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 company.

There were no options granted pursuant to the Scheme.

c) During the financial year, no options to take up unissued shares of the company or any corporation in the group were granted and there were no shares of the company or any corporation in the group issued by virtue of the exercise of an option to take up unissued shares.

d) At the end of the financial year, there were no unissued shares of the company or any corporation in the group under option.

6 AUDIT COMMITTEE

The Audit Committee of the company is chaired by Teng Cheong Kwee, and includes Hee Theng Fong and Kong Tai. The members of the Audit Committee are all independent directors.

The Audit Committee has held six meetings during the financial year and has reviewed the following, where relevant, with the executive directors and the external and internal auditors of the company:

a) the audit plans and results of the internal auditors' examination and evaluation of the group's systems of internal accounting controls;

b) the group's financial and operating results and accounting policies;

c) the financial statements of the company and the consolidated financial statements of the group before their submission to the directors of the company and external auditors' report on those financial statements;

d) the quarterly, half-yearly and annual announcements as well as the related press releases on the results and financial position of the company and the group;

e) the co-operation and assistance given by the management to the group's external auditors; and

f) the re-appointment of the external auditors of the group.

The Audit Committee has full access to and co-operation of the management and has been given the resources required for it to discharge its functions properly. It also has full discretion to invite any director and executive officer to attend its meetings. The external and internal auditors have unrestricted access to the Audit Committee.

The Audit Committee has recommended to the directors the nomination of Deloitte & Touche LLP for re-appointment as external auditors of the company at the forthcoming annual general meeting of the company.

7 AUDITORS

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

ON BEHALF OF THE DIRECTORS

Dr Lan Weiguang

Chen Ni

April 12, 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 33 to 102 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 then ended and at the date of this statement, there are reasonable grounds to believe that the company will be able to pay its debts as and when they fall due.

ON BEHALF OF THE DIRECTORS

Dr Lan Weiguang

Chen Ni

April 12, 2010

independent auditors' report

to the members of Sinomem Technology Limited

We have audited the accompanying financial statements of Sinomem Technology Limited (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 cash flow statement 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 33 to 102.

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 profit and loss account and balance sheet 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. Except as discussed in the Basis for Qualified Opinion paragraph below, we conducted the 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 qualified audit opinion.

Basis for Qualified Opinion

Unaudited consolidated management accounts of subsidiary used in consolidation

As further disclosed in Note 2 to the financial statements, the audit of the financial statements of a 52% owned subsidiary, Reyphon Agriceutical Limited, including its subsidiaries, Jiangxi New Reyphon Biochemical Co., Ltd ("JNR") and Xi'an Reyphon Chemicals Co., Ltd (collectively known as the "Reyphon Group") for the financial year ended December 31, 2009 has not been completed as at the date of the issuance of this report due to certain accounting and audit issues, including certain internal control matters, and outstanding matters which have not yet been satisfactorily resolved. Accordingly, management has used the unaudited consolidated management accounts of the Reyphon Group for the purpose of preparing the consolidated financial statements of the group for the financial year ended December 31, 2009. Based on the unaudited consolidated management accounts, the Reyphon Group accounted for $38,440,000, $14,696,000, $24,630,000 and loss for the year of $335,000 and comprehensive loss of $690,000 representing 11%, 5.8%, 19.4%, 1.5% and 4.1% of the group's total assets, attributable net assets, revenue, attributable profit and attributable total comprehensive income respectively for the financial year ended December 31, 2009.

We are unable to determine whether the unaudited consolidated management accounts of the Reyphon Group are suitable for inclusion in the preparation of the consolidated financial statements of the group and whether any adjustments and/or additional disclosures are necessary in respect of the Reyphon Group to be included in the consolidated financial statements of the group.

independent auditors' report

to the members of Sinomem Technology Limited

Our audit report dated April 13, 2009 on the financial statements of the company and the group for the previous financial year ended December 31, 2008 ("FY 2008") was qualified for the same reason as set out in the preceding paragraph.

Qualified opinion on the Reyphon Group for FY 2008

The audit report dated April 27, 2009 on the financial statements of the Reyphon Group for FY 2008 was qualified in relation to revenue and trade receivables and payable of JNR as more fully described in Note 43 to the financial statements. These matters relating to JNR have not been resolved as of the date of this report.

Accordingly, we are unable to determine whether any adjustments to the financial statements of the Reyphon Group for December 31, 2008 would affect the group's results, financial position, changes in equity and cash flows for the financial year ended December 31, 2009.

Qualified Opinion

In our opinion, except for the effects of such adjustments to and/or disclosures in the accompanying financial statements, if any, as might have been determined to be necessary for the matters set out in the Basis for Qualified Opinion section above, 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.

Report on Accounting and Other Records

In our opinion, the accounting and other records required by the Act to be kept by the company and by those subsidiaries 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

Singapore
April 12, 2010

statement of financial position

December 31, 2009

	Note	Group			Company	
		2009 $'000	2008 $'000 (Restated)	January 1, 2008 $'000	2009 $'000	2008 $'000
ASSETS						
Current assets						
Cash and cash equivalents	8	38,768	67,803	113,681	656	2,205
Pledged fixed deposits	8	310	1,552	71	–	–
Trade receivables	9	27,009	34,611	34,200	–	–
Current portion of long-term financial receivables	10	9,451	8,616	1,396	–	–
Other receivables and prepayments	11	38,579	33,679	57,439	149,281	145,166
Prepaid land rental	12	854	746	470	–	–
Inventories	13	21,667	23,776	14,186	–	–
		136,638	170,783	221,443	149,937	147,371
Non-current assets held for sale	14	372	419	–	–	–
Total current assets		137,010	171,202	221,443	149,937	147,371
Non-current assets						
Trade receivables	9	–	–	723	–	–
Long-term financial receivables	10	92,560	60,917	30,167	–	–
Prepaid land rental	12	31,072	27,255	21,885	–	–
Subsidiaries	15	–	–	–	6,900	6,900
Associates	16	31,178	28,946	30,086	–	–
Available-for-sale inv estments	17	825	577	5,963	–	–
Property, plant and equipment	18	41,172	38,275	30,115	–	–
Long-term loan receivable		–	–	7,880	–	–
Long-term other receivable	11	12,283	10,980	–	–	–
Goodwill	19	240	240	446	–	–
Other intangible asset	20	261	374	–	–	–
Deferred tax assets	21	1,928	1,557	–	–	–
Total non-current assets		211,519	169,121	127,265	6,900	6,900
Total assets		348,529	340,323	348,708	156,837	154,271

statement of financial position

December 31, 2009

		Group			Company	
				January 1,		
	Note	2009	2008	2008	2009	2008
		$'000	$'000	$'000	$'000	$'000
			(Restated)			
LIABILITIES AND EQUITY						
Current liabilities						
Trade payables	22	32,824	30,569	23,626	–	–
Other payables and accrued expenses	23	14,797	15,804	11,730	26,329	285
Bank loans	24	14,420	–	9,594	–	–
Convertible loan notes	25	–	54,346	–	–	54,346
Income tax payable		2,163	1,293	634	–	–
Total current liabilities		64,204	102,012	45,584	26,329	54,631
Non-current liabilities						
Convertible loan notes	25	–	–	81,546	–	–
Deferred income	26	834	855	1,778	–	–
Deferred tax liabilities	21	6,901	3,613	341	–	–
Total non-current liabilities		7,735	4,468	83,665	–	–
Capital, reserves and minority interests						
Share capital	27	120,782	90,727	90,727	120,782	90,727
Treasury shares	28	(1,704)	–	–	(1,704)	–
Reserves	29	18,915	24,653	7,617	–	1,156
Retained earnings		115,412	94,147	94,332	11,430	7,757
Equity attributable to equity holders of the company		253,405	209,527	192,676	130,508	99,640
Minority interests		23,185	24,316	26,783	–	–
Total equity		276,590	233,843	219,459	130,508	99,640
Total liabilities and equity		348,529	340,323	348,708	156,837	154,271

See accompanying notes to financial statements.

consolidated statement of comprehensive income

Year ended December 31, 2009

	Note	Group 2009 $'000	2008 $'000 (Restated)
Revenue	30	126,818	107,261
Cost of sales		(85,741)	(79,204)
Gross profit		41,077	28,057
Other operating income	31	9,750	9,297
Gain from partial redemption of convertible loan notes	25	–	5,570
Administrative expenses		(21,224)	(26,982)
Impairment losses	32	(38)	(13,243)
Finance costs	33	(3,855)	(6,037)
Share of profits of associates	16	2,461	3,255
Profit (loss) before income tax		28,171	(83)
Income tax expense	34	(5,423)	(3,994)
Profit (Loss) for the year	35	22,748	(4,077)

consolidated statement of comprehensive income

Year ended December 31, 2009

	Note	Group 2009 $'000	Group 2008 $'000 (Restated)
Other comprehensive income:			
Exchange differences on translation of foreign operations		(7,196)	17,116
Fair value changes on available-for-sale investment		–	477
Other comprehensive income for the year, net of tax		(7,196)	17,593
Total comprehensive income for the year		15,552	13,516
Profit (Loss) attributable to:			
Owners of the company		22,929	1,165
Minority interests		(181)	(5,242)
		22,748	(4,077)
Total comprehensive income attributable to:			
Owners of the company		16,683	16,907
Minority interests		(1,131)	(3,391)
		15,552	13,516
Basic and diluted earnings per share (cents)	36	4.87	0.25

See accompanying notes to financial statements.

statements of changes in equity

Year ended December 31, 2009

	Share capital $'000	Treasury shares $'000	Currency translation reserve $'000	Legal reserve $'000	Capital reserve $'000	Revaluation (deficit)/ reserve $'000	Other reserve $'000	Retained earnings $'000	Attributable to equity holders of the company $'000	Minority interests $'000	Total $'000
Group											
Balance at January 1, 2008	90,727	–	(2,915)	8,353	1,156	(477)	1,500	94,332	192,676	26,783	219,459
Total comprehensive income for the year											
– As previously reported	–	–	15,323	–	–	477	–	2,910	18,710	(1,743)	16,967
– Effect of prior year adjustment	–	–	(57)	–	–	–	–	(1,746)	(1,803)	(1,648)	(3,451)
– As restated	–	–	15,266	–	–	477	–	1,164	16,907	(3,391)	13,516
Transfer to legal reserve	–	–	–	1,293	–	–	–	(1,349)	(56)	56	–
Dividends to minority interests	–	–	–	–	–	–	–	–	–	(476)	(476)
Arising from incorporation of subsidiaries	–	–	–	–	–	–	–	–	–	1,344	1,344
Balance at December 31, 2008	90,727	–	12,351	9,646	1,156	–	1,500	94,147	209,527	24,316	233,843
Total comprehensive income for the year	–	–	(6,246)	–	–	–	–	22,929	16,683	(1,131)	15,552
Transfer to legal reserve	–	–	–	1,664	–	–	–	(1,664)	–	–	–
Issue of share capital	30,055	–	–	–	–	–	–	–	30,055	–	30,055
Repurchase of shares	–	(1,704)	–	–	–	–	–	–	(1,704)	–	(1,704)
Redemption of convertible loan notes (Note 25)	–	–	–	–	(1,156)	–	–	–	(1,156)	–	(1,156)
Balance at December 31, 2009	120,782	(1,704)	6,105	11,310	–	–	1,500	115,412	253,405	23,185	276,590

statements of changes in equity

Year ended December 31, 2009

	Share capital $'000	Treasury shares $'000	Capital reserve $'000	Retained earnings $'000	Total $'000
Company					
Balance at January 1, 2008	90,727	–	1,156	2,982	94,865
Total comprehensive income for the year	–	–	–	4,775	4,775
Balance at December 31, 2008	90,727	–	1,156	7,757	99,640
Total comprehensive income for the year	–	–	–	3,673	3,673
Issue of shares capital	30,055	–	–	–	30,055
Repurchase of shares	–	(1,704)	–	–	(1,704)
Redemption of convertible loan notes (Note 25)	–	–	(1,156)	–	(1,156)
Balance at December 31, 2009	120,782	(1,704)	–	11,430	130,508

See accompanying notes to financial statements.

consolidated statement of cash flows

Year ended December 31, 2009

	Group	
	2009	2008
	$'000	$'000
		(Restated)
Operating activities		
Profit (loss) before income tax	28,171	(83)
Adjustments for:		
Share of profits of associates	(2,461)	(3,255)
Gain from partial redemption of convertible loan notes	–	(5,570)
Gain from sale of held for trading investments	–	(570)
Impairment loss on non-current assets held for sale	38	44
Impairment loss on prepaid land rental	–	2,082
Impairment loss on investment in associate	–	7,899
Impairment loss on goodwill	–	206
Impairment loss on property, plant and equipment	–	3,012
Gain on disposal of property, plant and equipment	(87)	(68)
Allowance for doubtful trade receivables	165	3,481
Allowance for doubtful other receivables	–	5,386
Allowance for inventories	228	1,404
Reversal of allowance for inventory	(1,044)	–
Depreciation of property, plant and equipment	3,353	3,041
Property, plant and equipment written off	–	31
Amortisation of prepaid land rental	697	585
Amortisation of intangible asset	99	49
Interest expense	3,855	6,037
Finance income	(3,318)	(2,642)
Interest income	(1,450)	(1,960)
Operating cash flows before movements in working capital	28,246	19,109
Trade receivables	6,831	(779)
Other receivables and prepayments [(1)]	(2,568)	8,471
Inventories	2,410	(9,708)
Trade payables	3,073	5,092
Other payables	39	(3,196)
Deferred income	–	(1,015)
Cash generated from operations	38,031	17,974
Income tax paid	(1,444)	(1,620)
Net cash from operating activities	36,587	16,354

consolidated statement of cash flows

Year ended December 31, 2009

	Group 2009 $'000	2008 $'000 (Restated)
Investing activities		
Interest received	1,450	1,960
Increase in financial receivables – net [1]	(37,921)	(31,917)
Purchase of property, plant and equipment	(7,183)	(12,721)
Prepayment of land rental	(4,820)	(5,588)
Prepayment of property, plant and equipment	(1,914)	–
Proceeds from disposal of held for trading investments	–	570
Proceeds from disposal of property, plant and equipment	186	509
Dividends received from an associate	–	4,057
Receipt of loan repayment from third parties	2,726	9,333
Acquisition of investment in associates	–	(1,121)
Acquisition of intangible asset	–	(423)
Acquisition of non-current assets held for sale	–	(463)
Acquisition of available-for-sale investments	(248)	(577)
Net cash used in investing activities	(47,724)	(36,381)
Financing activities		
Repayments of bank loans	–	(9,594)
Repayment of advance from a bank	(691)	–
Advance from a bank	–	2,743
New bank loans raised	14,420	–
Proceeds from loan from non-financial institution	–	3,587
Repayment of convertible loan notes	(58,650)	(27,000)
Contributions by minority shareholders of subsidiaries	–	1,344
Payments to minority shareholders of subsidiaries	–	(476)
Fixed deposits pledged to a financial institution	1,242	(1,481)
Purchase of treasury shares	(1,704)	–
Proceeds on issue of shares	30,055	–
Interest paid	(707)	(666)
Net cash used in financing activities	(16,035)	(31,543)
Net decrease in cash and cash equivalents	(27,172)	(51,570)
Cash and cash equivalents at beginning of year	67,803	113,681
Effects of exchange rate changes on the balance of cash held in foreign currencies	(1,863)	5,692
Cash and cash equivalents at end of year (Note 8)	38,768	67,803

Note

[1] In 2009, financial receivable of $6,036,000 was transferred to other receivables.

See accompanying notes to financial statements.

1 GENERAL

The company (Registration No. 200208107G) is incorporated in the Republic of Singapore with its principal place of business and registered address at 10 Ang Mo Kio Street 65 #06-10 Techpoint, Singapore 569059. The company is listed on the mainboard of Singapore Exchange Securities Trading Limited. The financial statements are expressed in Singapore dollars.

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

The principal activities of its subsidiaries and associates are described in Notes 15 and 16 respectively.

The consolidated financial statements of the group and the 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 April 12, 2010.

2 UNAUDITED FINANCIAL INFORMATION OF REYPHON AGRICEUTICAL LIMITED

(a) During the course of the audits of the Reyphon Group, the auditors encountered a number of accounting and audit issues, including certain internal control matters, and outstanding matters, which are important to their audit of the reporting packages of two wholly-owned subsidiaries of Reyphon namely, Jiangxi New Reyphon Biochemical Co., Ltd ("JNR") and Xi'an Reyphon Chemicals Co., Ltd ("XNR") for the financial years ended December 31, 2009 and 2008. The Audit Committee of the company and Reyphon were updated regularly on the progress of the audit work and the significant accounting and audit issues, including certain internal control matters, encountered during the course of the audit. It is noted that JNR did not maintain adequate supporting documentation, including but not limited to adequate records of delivery documents acknowledged by the customers on the receipt of goods sold and documentation over cash receipt in respect of such sales. Adequate controls over collection of payments from customers were also not exercised by JNR.

(b) As of the date of the authorisation of the issuance of the accompanying financial statements, there remained certain unresolved issues relating to the audit of the Reyphon Group. As the audit of the Reyphon Group is still in progress, additional matters, including internal control and corporate governance issues, may also arise that may be material and pervasive to the unaudited management accounts of the Reyphon Group.

(c) As of the date of the authorisation of the issuance of the accompanying financial statements, the management and directors of Reyphon are still working with the auditors to complete the audit of the Reyphon Group's consolidated financial statements for FY 2009. Accordingly, management of the company has used the unaudited consolidated management accounts of the Reyphon Group for the purposes of preparing the consolidated financial statements of the group for FY 2009. Management is of the view that these unaudited consolidated management accounts of the Reyphon Group are suitable for inclusion into the consolidated financial statements of the group for FY 2009.

(d) Based on these unaudited consolidated management accounts, the Reyphon Group accounted for $38,440,000, $14,696,000, $24,630,000 and loss for the year of $335,000 and comprehensive loss of $690,000 representing 11%, 5.8%, 19.4%, 1.5% and 4.1% of the group's total assets, attributable net assets, revenue, attributable profit and attributable total comprehensive income respectively for FY 2009. For the financial year ended December 31, 2008, the Reyphon Group accounted for $40,859,000, $15,386,000, $21,795,000, loss for the year of $5,636,000 and comprehensive loss of $4,419,000 representing 12%, 7.3%, 20.3%, 483.8% and 26.1% of the group's total assets, attributable net assets, revenue, attributable profit and attributable total comprehensive income respectively as restated (Note 42). The contribution of the Reyphon Group to the consolidated financial statements of the group for FY 2009 is summarised below:

2 UNAUDITED FINANCIAL INFORMATION OF REYPHON AGRICEUTICAL LIMITED (cont'd)

	Reyphon Group (Unaudited)	Other Sinomem entities excluding Reyphon Group	Total Sinomem Group
Statement of Financial Position	$'000	$'000	$'000
Current assets			
Cash and cash equivalents	7,578	31,190	38,768
Pledged fixed deposits	–	310	310
Trade receivables	5,359	21,650	27,009
Current portion of long–term financial receivables	–	9,451	9,451
Other receivables and prepayments	763	37,816	38,579
Prepaid land rental	233	621	854
Inventories	4,635	17,032	21,667
	18,568	118,070	136,638
Non–current assets held for sale	372	–	372
Total current assets	18,940	118,070	137,010
Non–current assets			
Long–term financial receivables	–	92,560	92,560
Prepaid land rental	8,715	22,357	31,072
Associates	–	31,178	31,178
Available–for–sale investments	–	825	825
Property, plant and equipment	10,785	30,387	41,172
Long–term other receivable	–	12,283	12,283
Goodwill	–	240	240
Other intangible asset	–	261	261
Deferred tax assets	–	1,928	1,928
Total non–current assets	19,500	192,019	211,519
Total assets	38,440	310,089	348,529
Current liabilities			
Trade payables	3,168	29,656	32,824
Other payables and accrued expenses	7,161	7,636	14,797
Convertible loan notes	–	14,420	14,420
Income tax payable	–	2,163	2,163
Total current liabilities	10,329	53,875	64,204

2 UNAUDITED FINANCIAL INFORMATION OF REYPHON AGRICEUTICAL LIMITED (cont'd)

	Reyphon Group (Unaudited)	Other Sinomem entities excluding Reyphon Group	Total Sinomem Group
	$'000	$'000	$'000
Non-current liabilities			
Deferred income	–	834	834
Deferred tax liabilities	–	6,901	6,901
Total non-current liabilities	–	7,735	7,735
Capital and minority interests			
Equity attributable to equity holders of the company	14,696	238,709	253,405
Minority interests	13,415	9,770	23,185
Total equity	28,111	248,479	276,590
Total liabilities and equity	38,440	310,089	348,529
Statement of Comprehensive Income			
Revenue	24,630	102,188	126,818
Cost of sales	(18,444)	(67,297)	(85,741)
Gross profit	6,186	34,891	41,077
Other operating income	103	9,647	9,750
Administrative expenses	(6,419)	(14,805)	(21,224)
Impairment losses	(38)	–	(38)
Finance costs	(459)	(3,396)	(3,855)
Share of profits of associates	–	2,461	2,461
(Loss) Profit before income tax	(627)	28,798	28,171
Income tax expense	(14)	(5,409)	(5,423)
(Loss) Profit for the year	(641)	23,389	22,748
Other comprehensive income:			
Exchange differences on translation of foreign operations	(678)	(6,518)	(7,196)
Total comprehensive income for the year	(1,319)	16,871	15,552
(Loss) Profit attributable to:			
Owners of the company	(335)	23,264	22,929
Minority interests	(306)	125	(181)
	(641)	23,389	22,748
Total comprehensive income attributable to:			
Owners of the company	(690)	17,373	16,683
Minority interests	(629)	(502)	(1,131)
	(1,319)	16,871	15,552

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING – The financial statements have been 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 Companies Act and Singapore Financial Reporting Standards ("FRS").

ADOPTION OF NEW AND REVISED 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 disclosed below:

FRS 1 – Presentation of Financial Statements (Revised)

FRS 1 (2008) has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements. In addition, the revised Standard requires the presentation of a third statement of financial position at the beginning of the earliest comparative period presented if the entity applies new accounting policies retrospectively or makes retrospective restatements or reclassifies items in the financial statements.

Amendments to FRS 107 Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments

The amendments to FRS 107 expand the disclosures required in respect of fair value measurements and liquidity risk. The Group has elected not to provide comparative information for these expanded disclosures in the current year in accordance with the transitional reliefs offered in these amendments.

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 not changed (Note 38).

At the date of authorisation of these financial statements, the following FRSs and amendments to FRS that are relevant to the group and the company were issued but not effective:

FRS 7	–	Amendments to Statements of Cash Flows
FRS 24	–	Related Party Disclosures (Revised)
FRS 27	–	Consolidated and Separate Financial Statements (Revised)
FRS 28	–	Investments in Associates (Revised)
FRS 103	–	Business Combinations (Revised)

Consequential amendments were also made to various standards as a result of these new/revised standards.

The management anticipates that the adoption of the above FRSs and amendments to FRS in future periods will have no material impact on the financial statements of the group and of the company in the period of their initial adoption, except for the following:

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Amendments to FRS 7 Statement of Cash Flows

The amendments (part of Improvements to FRSs issued in June 2009) specify that only expenditures that result in a recognised asset in the statement of financial position can be classified as investing activities in the statement of cash flows. Consequently, cash flows in respect of development costs that do not meet any criteria in FRS 38 Intangible Assets for capitalisation as part of an internally generated intangible asset (and, therefore, are recognised in profit or loss as incurred) will be reclassified from investing to operating activities in the statement of cash flows. The amendments to FRS 7 will be adopted for periods beginning on or after January 1, 2010.

FRS 24 (Revised) – Related Party Disclosures

FRS 24 (Revised) Related Party Disclosures is effective for annual periods beginning on or after January 1, 2011. The revised Standard clarifies the definition of a related party and consequently additional parties may be identified as related to the reporting entity. In addition, the revised Standard provides partial exemption for government-related entities, in relation to the disclosure of transactions, outstanding balances and commitments. Where such exemptions apply, the reporting entity has to make additional disclosures, including the nature of the government's relationship with the reporting entity and information on significant transactions or group of transactions involved. In the period of initial adoption, the changes to related party disclosures, if any, will be applied retrospectively with restatement of the comparative information.

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 details 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 details of future business combinations 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.

FRS 28 (Revised) – Investments in Associates

In FRS 28 (Revised), the principle adopted under FRS 27 (Revised) (see above) that a loss of control is recognised as a disposal and re-acquisition of any retained interest at fair value is extended by consequential amendment to FRS 28 (Revised); therefore, when significant influence is lost, the investor measures any investment retained in the former associate at fair value, with any consequential gain or loss recognised in profit or loss.

FRS 28 (Revised) will be adopted for periods beginning on or after July 1, 2009 and will be applied prospectively in accordance with the relevant transitional provisions 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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

FRS 28 (Revised) – Investments in Associates (cont'd)

The results of subsidiaries acquired or disposed during the year are included in the consolidated profit and loss statement 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 in line with those used by other members of the group.

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

Minority interests in the net assets of consolidated subsidiaries are identified separately from the group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination (see below) and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover its share of those losses.

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

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 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.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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 and expense are recognised on an effective interest rate basis for debt instruments.

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 plus transaction costs.

Other 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.

Available-for-sale financial assets

Certain shares 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 5. Gains and losses arising from changes in fair value are recognised in other comprehensive income 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 profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in other comprehensive income and accumulated in revaluation reserve is reclassified to profit or loss. Dividends on available-for-sale equity instruments are recognised in profit or loss 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 end of reporting period. 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.

Loans and receivables

Trade receivables, financial 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 rate method, except for short-term receivables when the recognition of interest would be immaterial.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each end of the 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 available-for-sale equity instruments, a significant or prolonged decline in the fair value of the 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 re-organisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, 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 of 120 and 180 days for sales of goods and services rendered respectively, as well as observable changes in national or local economic conditions that correlate with default on receivables.

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.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables where the carrying amount is reduced through the use of an allowance account. When a trade or other 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.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss.

With the exception of available-for-sale equity instruments, if, in a subsequent period, 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 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 not been recognised.

In respect of available-for-sale equity instruments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any subsequent increase in fair value after an impairment loss is recognised in other comprehensive income.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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.

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 rate method, with interest expense recognised on an effective yield basis, except for short-term payables where the recognition of interest would be immaterial.

Interest-bearing bank loans are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate 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).

Derecognition of financial liabilities

The group derecognises financial liabilities when, and only when, the group's obligations are discharged, cancelled or they expire.

Convertible loan notes

Convertible loan notes are regarded as compound instruments, consisting of a liability component and an equity component. The component parts of compound instruments are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible instrument. This amount is recorded as a liability on an amortised cost basis until extinguished upon conversion or at the instrument's maturity date. The equity component is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently remeasured.

CONSTRUCTION CONTRACTS – Where the outcome of a construction contract 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 the amount can be measured reliably and its receipt is considered probable.

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.

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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

The group as lessor

Rental income from operating leases is recognised 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 use benefit derived from the leased asset is diminished. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

The group as lessee

Rentals payable under operating leases are charged to profit or loss 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.

NON-CURRENT ASSETS HELD FOR SALE – Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

INVENTORIES – Inventories are stated at the lower of cost and net realisable value. Cost comprises 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.

PROPERTY, PLANT AND EQUIPMENT – Properties in the course of construction for production, supply or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognised impairment loss. 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, other than construction in-progress, over their estimated useful lives, using the straight-line method, on the following bases:

Leasehold buildings	–	over the terms of lease which are from 2% to 5%
Motor vehicles	–	13% to 20%
Plant and machinery	–	8% to 10%
Furniture, fittings and equipment	–	20%

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.

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

PREPAID LAND RENTAL – This comprises payments for land use rights, which are amortised on a straight-line basis over the lease term ranging from 28 to 50 years.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

GOODWILL – Goodwill arising on the acquisition of a subsidiary 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 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.

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, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

The group's policy for goodwill arising on the acquisition of an associate is described under 'Associates' below.

INTANGIBLE ASSETS – Intangible assets acquired separately are reported at cost less accumulated amortisation and accumulated impairment loss. 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 end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

ASSOCIATES – 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 associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost and 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 profit or loss.

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.

IMPAIRMENT OF TANGIBLE AND INTANGIBLE ASSETS EXCLUDING GOODWILL – At each end of 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. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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 for which the estimates of future cash flows have not been adjusted.

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 (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or 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 (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

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 date, 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.

LEGAL RESERVES – The People's Republic of China's laws and regulations require Sino-foreign cooperative joint ventures to provide for certain statutory reserves, namely reserve fund and enterprise expansion fund, which are appropriated from net income as reported in the statutory financial statements. All these reserves are at the discretion of the entities' board of directors. The reserve fund can only be used, upon approval by the relevant authority, to offset accumulated losses or increase capital. The enterprise expansion fund can only be used to increase capital upon approval by the relevant authority.

GOVERNMENT GRANTS – Government grants are not recognised until there is reasonable assurance that the group will comply with the conditions attaching to them and the grants will be received. Government grants whose primary condition is that the group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Other 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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Rendering of services

Revenue and profits from contracts of short-term nature are recognised and recorded when the contracts are completed. However, any estimated losses on uncompleted contracts are recognised in advance to completion to the extent determinable.

Revenue from operating services is recognised on a straight-line basis over the period of the operating agreement.

Sale of goods

Revenue from the sale of goods is recognised 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.

Construction contracts

Revenue from construction contracts is recognised in accordance with the group's accounting policy on construction contracts (see above).

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.

Dividend income

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

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 profit or loss in the period which they are incurred.

RETIREMENT BENEFIT COSTS – Pursuant to the relevant regulations of the People's Republic of China ("PRC") government, the PRC subsidiaries of the group ("PRC subsidiaries") have participated in central pension schemes ("the Schemes") operated by local municipal government whereby the PRC subsidiaries are required to contribute a certain percentage of the basic salaries of their employees to the Schemes to fund their retirement benefits. The local municipal governments undertake to assume the retirement benefit obligations of all existing and future retired employees of the PRC subsidiaries. The only obligation of the PRC subsidiaries with respect to the Schemes is to pay the ongoing required contributions under the Schemes mentioned above. Contributions under the Schemes are charged to profit or loss as incurred.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due. Payments made to state-managed retirement benefit schemes, such as the Singapore Central Provident Fund, are dealt with as payments to defined contribution plans where the group's obligations under the plans are equivalent to those arising in a defined contribution retirement benefit plan.

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 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 is 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, 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. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each end of the 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 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 outside profit or loss (either in other comprehensive income or directly in equity), in which case the tax is also recognised outside profit or loss (either in other comprehensive income or 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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

FOREIGN CURRENCY TRANSACTIONS AND TRANSLATION – 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 the company are presented in Singapore dollars, which is the functional currency of the company, and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency are recorded at the rates of exchange prevailing on the date of the transaction. At each end of the 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 in other comprehensive income. For such non-monetary items, any exchange component of that gain or loss is also recognised in other comprehensive income.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the group's foreign operations (including comparatives) are expressed in Singapore dollars using exchange rates prevailing at the end of the reporting period. Income and expense items (including comparatives) are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, 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. On the disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation accumulated in a separate component of equity, shall be reclassified from equity to profit or loss (as a reclassification adjustment) when the gain or loss on disposal is recognised.

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 recognised in other comprehensive income and accumulated in foreign currency translation reserve (attributed to minority interest, as appropriate).

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.

CASH AND CASH EQUIVALENTS – Cash and cash equivalents comprise cash on hand and at bank and fixed deposits and that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

4 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the group's accounting policies, which are described in Note 3, 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 entity's accounting policies

Management is of the opinion that any instances of application of judgements are not expected to have a significant effect on the amounts recognised in the financial statements, other than the following:

Service concession arrangements under INT FRS 112 ***Service Concession Arrangements***

The group adopted INT FRS 112 in relation to its waste water treatment plants. The adoption of INT FRS 112 requires management to exercise its judgment in order to estimate the fair value of the construction service as well as the operation service under the terms of the arrangements. Further information relating to these arrangements is disclosed in Note 10.

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 date, 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.

a) Key estimation uncertainties under the Reyphon Group

As stated in Note 2, the financial statements of the Reyphon Group for the current financial year are still in the midst of being audited. As such, there are uncertainties over the financial information of the Reyphon Group included in the consolidated financial statements. The unaudited financial information of the Reyphon Group is disclosed in Note 2.

b) Impairment of investment in and amount due from subsidiaries and associates

Determining whether investments in and amount due from subsidiaries and associates are impaired requires an estimation of the recoverable amount of these subsidiaries and associates. Recoverable amount is the higher of fair value less costs to sell and value in use. The value in use calculation requires the company to estimate the future cash flows expected from the cash-generating unit and an appropriate discount rate in order to calculate the present value of the future cash flows. Fair value less costs to sell has been determined based on the professional valuation carried out by independent valuers. Management has evaluated the recovery of those investments based on such estimates and is confident that the allowance for impairment, where necessary, is adequate (Notes 15 and 16).

c) Impairment of property, plant and equipment, prepaid land rental and deposit for land rental

Determining whether property, plant and equipment, prepaid land rental and deposit for land rental are impaired requires an estimation of the value in use of these assets. The value in use calculation requires the company to estimate the future cash flows expected from the cash-generating unit and an appropriate discount rate in order to calculate the present value of the future cash flows. Management has evaluated the carrying amount of those assets based on such estimates and is confident that the allowance for impairment, where necessary, is adequate (Notes 11, 12, 18).

4 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (cont'd)

ii) Key sources of estimation uncertainty (cont'd)

d) Assessment of recoverability of debts

The assessment of recoverability of debts of the group is based on the ongoing evaluation of collectibility and ageing analysis of the outstanding debts and on management's estimate of the ultimate realisation of these debts, including creditworthiness and the past collection history of each debtor. Management has evaluated the recovery of those debts based on such estimates and is confident that the allowance for doubtful debts, where necessary, is adequate (Notes 9, 10 and 11).

e) Income taxes

The group is subject to income taxes in Singapore and People's Republic of China. Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the course of business. The group recognises liabilities for anticipated tax based on estimates of whether additional taxes will be due. Where the final outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made (Notes 21 and 34).

f) Contract revenue

As described in Note 3 to the financial statements, revenue and costs associated with a project are recognised by reference to the stage of completion of a project activity at the end of the reporting period date, 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. In addition, when it is probable that the total project costs will exceed the total project revenue, the expected loss is recognised as an expense immediately. These computations are based on the presumption that the outcome of a project can be estimated reliably.

Management has performed the cost studies, taking into account the costs to date and has made a best-effort estimate of the costs to complete each project. Management has also reviewed the status of such projects and is satisfied that the estimates to complete are realistic.

g) Allowance for inventories

In determining the net realisable value of the group's inventories, an estimation of the recoverable amount of inventories on hand is performed based on the most reliable evidence available at the time the estimates are made. This represents the value of the inventories which are expected to realise as estimated by management. These estimates take into consideration the fluctuations of price or cost, or any inventories on hand that may not be realised, directly relating to events occurring after the end of the period to the extent that such events confirm conditions existing at the end of the period. The carrying amount of inventories is disclosed in Note 13.

5 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT

(a) Categories of financial instruments

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

	Group		Company	
	2009 $'000	2008 $'000 (Restated)	2009 $'000	2008 $'000
Financial Assets				
Loans and receivables (including cash and cash equivalents)	194,804	190,139	149,787	147,371
Available-for-sale financial assets	825	577	–	–
Financial Liabilities				
Measured at amortised cost	62,041	100,719	26,329	54,631

(b) Financial risk management policies and objectives

The group has a system of controls in place to create an acceptable balance between the cost of risk occurring and the cost of managing the risks. The management continually monitors the group's risk management process to ensure that an appropriate balance between risk and control is achieved. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the group activities.

The Audit Committee overseas how management monitors compliance with the group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the group. The Audit Committee is assisted in its oversight role by the internal audit function which undertakes regular reviews of risk management control and procedures, the results of which are reported to the Audit Committee.

The group does not hold or issue derivative financial instruments for speculative purposes.

There has been no change to the group's exposure to these financial risks or the manner in which it manages and measures the risk. Market risk exposures are measured using sensitivity analysis indicated below.

5 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT (cont'd)

(b) Financial risk management policies and objectives (cont'd)

(i) Foreign exchange risk management

The group transacts business in various foreign currencies, including the United States dollar, Euro and Hong Kong dollar and therefore is exposed to foreign exchange risk, which is not hedged by any financial instruments. The group relies on the natural hedges between such transactions.

At the end of the reporting period, the carrying amounts of monetary assets and monetary liabilities denominated in currencies other than the respective group entities' functional currencies are as follows:

	Group				Company			
	Assets		Liabilities		Assets		Liabilities	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000	2009 $'000	2008 $'000	2009 $'000	2008 $'000
US dollars	14,584	5,480	2,201	741	13,804	18,410	26,033	–
Euro	1,296	3,824	1,333	2,102	2	2	–	–
Hong Kong dollars	14	42	–	–	–	–	–	–

The company has a number of investments in foreign subsidiaries, whose net assets are exposed to currency translation risk. The group currently does not enter into any derivative transactions to hedge this risk.

Foreign currency sensitivity

The following table details the sensitivity to a 10% increase and decrease in the relevant foreign currencies against the relevant functional currency of each group entity. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible reasonable 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. The sensitivity analysis includes external loans as well as loans to foreign operations within the group where they give rise to an impact on the group's profit or loss and/or equity.

If the relevant foreign currency weakens by 10% against the functional currency of each group entity, profit or loss will decrease by:

	US Dollar impact		Euro impact		Hong Kong dollar impact	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Group						
Profit or loss (i)	(1,238)	(474)	4	(172)	(1)	(4)
Company						
Profit or loss (ii)	1,223	(1,841)	–	–	–	–

5 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT (cont'd)

(b) Financial risk management policies and objectives (cont'd)

(i) Foreign exchange risk management (cont'd)

If the relevant foreign currency strengthens by 10% against the functional currency of each group entity, profit or loss will increase by:

	US Dollar impact		Euro impact		Hong Kong dollar impact	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Group						
Profit or loss (i)	1,238	474	(4)	172	1	4
Company						
Profit or loss (ii)	(1,223)	1,841	–	–	–	–

(i) This is mainly attributable to the exposure to US dollar fixed deposits and outstanding on receivables and payables at the end of the reporting period in the group.

(ii) This is mainly attributable to the exposure to US dollar fixed deposits and outstanding US dollar inter-company receivables and payables at the end of the reporting period.

Foreign currency movements have no significant impact on the group's equity.

The group's sensitivity to foreign currency has increased during the current year mainly due to increased US dollar denominated cash and bank balances at the end of the reporting period.

(ii) Interest rate risk management

The group's policy is to maintain cash and cash equivalents and borrowings in fixed rate instruments. The group's exposure to interest rate risk arises from cash and cash equivalents placed with banks in Singapore and People's Republic of China. The interest rate risk is managed partly by using natural hedges that arise from offsetting interest rate sensitive assets and liabilities.

Interest rate sensitivity

The interest-bearing cash and cash equivalents placed with banks are short-term in nature. Variations in short-term interest rate are not expected to have a material impact on the results of the group.

Financial receivables are measured at amortised cost using the effective interest method under which the interest rates are fixed at the date of inception.

As at December 31, 2009, the group has no other financial instruments which carry variable interest rates except for advance from a bank and loan from non-financial institution (Note 23). Any reasonable possible change in the interest rate will not have significant impact on the group's profit and loss. Accordingly, sensitivity analysis is not performed.

The company's profit and loss and equity are not affected by the changes in interest rates as the interest-bearing instruments carry fixed interest rate and are measured at amortised cost.

5 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT (cont'd)

(b) Financial risk management policies and objectives (cont'd)

(iii) Equity price risk management

The group does not hold any significant equity investment except for investments classified as available-for-sale. Accordingly, sensitivity analysis for equity price risk has not been performed.

(iv) Credit risk management

Credit risk refers to the risk that a 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'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 principal financial assets are cash and bank balances, trade, financial and other receivables and loan receivables.

The group's credit risk is principally attributable to its trade, financial and other receivables. These receivables consist of a large number of customers, spread across diverse industries and areas are mainly concentrated in the People's Republic of China. Ongoing credit evaluation is performed on the financial condition of these receivables. The amounts presented in the statement of financial position are net of allowances for doubtful receivables.

The group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The credit risk on liquid funds is limited because the counterparties are mainly creditworthy banks.

Further details of credit risks on trade, financial and other receivables are disclosed in Notes 9, 10 and 11 respectively.

5 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT (cont'd)

(b) Financial risk management policies and objectives (cont'd)

(v) Liquidity risk management

The group maintains sufficient cash and cash equivalents, and internally generated cash flows to finance its activities. The group minimises liquidity risk by keeping committed credit lines available.

Liquidity and interest risk analysis

Financial liabilities

The following tables detail the remaining contractual maturity for 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. The table includes both interest and principal cash flows. The adjustment column represents the possible future cash flows attributable to the instrument included in the maturity analysis which is not included in the carrying amount of the financial liability on the statement of financial position.

	Weighted average effective interest rate %	On demand or within 1 year $'000	Within 2 to 5 years $'000	Adjustment $'000	Total $'000
Group					
2009					
Non-interest bearing		42,067	–	–	42,067
Variable interest rate instruments	6.3	5,788	–	(234)	5,554
Fixed interest rate instruments	4.5	15,126	–	(706)	14,420
		62,981	–	(940)	62,041
2008					
Non-interest bearing	–	40,043	–	–	40,043
Variable interest rate instruments	6.3	6,603	–	(273)	6,330
Fixed interest rate instruments	6.4	58,650	–	(4,304)	54,346
		105,296	–	(4,577)	100,719
Company					
2009					
Non-interest bearing		26,329	–	–	26,329
2008					
Non-interest bearing	–	285	–	–	285
Fixed interest rate instruments	6.4	65,250	–	(10,904)	54,346
		65,535	–	(10,904)	54,631

5 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT (cont'd)

(b) Financial risk management policies and objectives (cont'd)

(v) Liquidity risk management (cont'd)

Financial assets

The following table details the expected maturity for financial assets. The inclusion of information on non-derivative financial assets is necessary in order to understand the group's liquidity risk management as the group's liquidity risk is managed on a net asset and liability basis. The tables below have been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets except where the group and the company anticipates that the cash flow will occur in a different period. The adjustment column represents the possible future cash flows attributable to the instrument included in the maturity analysis which are not included in the carrying amount of the financial asset on the statement of financial position.

	Weighted average effective interest rate	On demand or within 1 year	Within 2 to 5 years	After 5 years	Adjustment	Total
	%	$	$	$	$	$
Group						
2009						
Non-interest bearing	–	86,455	–	–	–	86,455
Fixed interest rate instrument	6.1	16,410	28,768	165,417	(102,246)	108,349
		102,865	28,768	165,417	(102,246)	194,804
2008						
Non-interest bearing (Restated)	–	81,640	–	–	–	81,640
Fixed interest rate instrument	5.2	49,379	18,641	107,186	(66,707)	108,499
		131,019	18,641	107,186	(66,707)	190,139
Company						
2009						
Non-interest bearing	–	149,782	–	–	–	149,782
Fixed interest rate instrument	0.69	5	–	–	–	5
		149,787	–	–	–	149,787
2008						
Non-interest bearing	–	147,366	–	–	–	147,366
Fixed interest rate instrument	2.16	5	–	–	–	5
		147,371	– -	–	–	147,371

5 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT (cont'd)

(b) Financial risk management policies and objectives (cont'd)

(vi) Fair value of financial assets and financial liabilities

The carrying amounts of cash and cash equivalents, trade and other current receivables and payables, provisions and other liabilities approximate their respective fair values due to the relatively short-term maturity of these financial instruments. The fair values of other classes of financial assets and liabilities are disclosed in the respective notes to financial statements.

The fair values 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 prices; 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.

(c) 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.

The capital structure of the group consists of debt, which includes the borrowings disclosed in Notes 23, 24 and 25, cash and cash equivalents and equity attributable to equity holders of the company, comprising share capital, reserves and retained earnings as disclosed in Notes 27, 28 and 29 and in the statement of changes in equity.

The group reviews the capital structure on a regular basis. As part of this review, the group considers the cost of capital and the risks associated with each class of capital. Based on considerations, 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. There is no external capital requirement imposed on the group.

The group's overall strategy remains unchanged from 2008.

6 RELATED COMPANY TRANSACTIONS

Related companies in these financial statements refer to members of the company's group of companies.

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

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

7 OTHER 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 on the other party in making financial and operating decisions.

Some of the company's transactions and arrangements are with related parties and the effect of these on the basis determined between the parties are reflected in these financial statements. The balances are unsecured, interest-free and repayable on demand unless otherwise stated.

During the year, group entities entered into the following transactions with related parties:

	Group	
	2009 $'000	2008 $'000
Sales to associates	(755)	(2,107)
Purchases from associates	–	488
Purchases from a related party in which a director of the company has substantial interests	–	28
Rental of premises paid to a related party in which a director of the company has substantial interests	527	479

Significant transactions with former shareholders of Reyphon are as follows:

	Group	
	2009 $'000	2008 $'000 (Restated)
Sales	(6)	(1,831)
Rental expense	737	686

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No expense has been recognised in the period for bad or doubtful debts in respect of the amounts owed by related parties.

Compensation of directors and key management personnel

The remuneration of directors during the year was as follows:

	Group	
	2009 $'000	2008 $'000
Short-term benefits	1,151	701
Post-employment benefits	26	22
Total	1,177	723

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

The management is of the opinion that there are no other key members of management except the directors of the company.

8 CASH AND CASH EQUIVALENTS

	Group		Company	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Cash and bank balances	32,740	35,875	651	2,200
Fixed deposits	6,338	33,480	5	5
	39,078	69,355	656	2,205
Less: Fixed deposits pledged to a financial institution	(310)	(1,552)	–	–
Cash and cash equivalents at end of year	38,768	67,803	656	2,205

Bank balances and cash comprise cash held by the group and short-term bank deposits with an original maturity of three months or less. The carrying amounts of these assets approximate their fair values.

Fixed deposits bear interest at rates ranging from 0.01% to 1.37% (2008: 0.01% to 4.31%) per annum and for a tenure of approximately 30 days (2008: 30 days).

The fixed deposits of the group amounting to $310,000 (2008: $1,552,000) are used as collateral pledge to a financial institution for bankers' guarantees and letter of credits (Note 39).

The group's and company's cash and cash equivalents that are not denominated in the functional currencies of the respective entities are as follows:

	Group		Company	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Denominated in:				
United States dollars	11,757	3,596	15	73
Euro	929	3,207	2	2
Hong Kong dollars	14	42	–	–

9 TRADE RECEIVABLES

	Group	
	2009 $'000	2008 $'000 (Restated)
Outside parties	28,414	29,478
Allowance for doubtful debts	(3,943)	(3,829)
	24,471	25,649
Associates (Note 16)	2,456	8,946
Related parties (Note 7)	82	16
	27,009	34,611

As at December 31, 2008, an amount of $6,317,000 included in trade receivables related to construction contracts. Contract costs incurred plus recognised profits amounted to $9,492,000. Progress billings amounted to $3,175,000. The construction contract was completed during the current financial year.

The average credit period on sale of goods is 120 days (2008: 120 days). The average credit period on service revenue is 180 days (2008: 180 days). No interest is charged on the trade receivables.

Allowance for doubtful debts amounting to $3,943,000 (2008: $3,829,000) was made based on estimated irrecoverable amounts from sale of goods to outside parties determined by reference to past default experience.

The table below is an analysis of trade receivables as at December 31:

	Group	
	2009 $'000	2008 $'000 (Restated)
Not past due and not impaired	14,894	18,691
Past due but not impaired [i]	12,115	15,920
	27,009	34,611
Impaired receivables – collectively assessed	3,943	3,829
Less: Provision for impairment	(3,943)	(3,829)
	–	–
Total trade receivables, net	27,009	34,611

9 TRADE RECEIVABLES (cont'd)

(i) Ageing of receivables that are past due but not impaired

	Group	
	2009 $'000	2008 $'000
4 months to 6 months	2,088	3,225
6 months to 12 months	5,956	5,770
> 12 months	4,071	6,925
	12,115	15,920

The group has not provided for these balances which are past due as there had not been a significant change in credit quality and the amounts are still considered recoverable. The group does not hold any collateral over these balances.

Movement in the allowance for doubtful debts:

	Group	
	2009 $'000	2008 $'000 (Restated)
Balance at beginning of the year	3,829	540
Increase in allowance recognised in profit or loss	165	3,481
Amounts written off during the year	–	(40)
Amounts recovered during the year	(8)	(225)
Exchange differences	(43)	73
Balance at end of the year	3,943	3,829

The group's trade receivables that are not denominated in the functional currencies of the respective entities are as follows:

	Group	
	2009 $'000	2008 $'000
Denominated in:		
United States dollars	1,847	1,860
Euro	48	256

10 LONG-TERM FINANCIAL RECEIVABLES

	Group	
	2009	2008
	$'000	$'000
Financial receivables	102,011	69,533
Less: Non-current portion of financial receivables	(92,560)	(60,917)
Current portion	9,451	8,616

Financial receivables arose from the following:

(a) three 25-30-year Build-Operate-Transfer ("BOT") contracts to build and operate waste water treatment plants in Dengzhou and Xuchang, Henan province and Yushan, Jiangxi province, People's Republic of China. As at the end of reporting period, construction of these plants have been completed and operations have commenced.

(b) four 25-30-year Build-Operate-Transfer ("BOT") contracts to build and operate waste water treatment plants in Dongfeng and Tongyu, Jilin province; Yicheng, Hubei province; Wuping, Fujian province, People's Republic of China. As at the end of the reporting period, construction of these plants have been completed and are undergoing the process of operation testing;

(c) four 25-30-year Build-Operate-Transfer ("BOT") contracts to build and operate waste water treatment plants in Taonan, Yitong and Mei He Kou City, Jilin Province and Changtai, Fujian province, People's Republic of China. As at the end of reporting period, the plants are still under construction and have not commenced operations; and

(d) three 30-year Transfer-Operate-Transfer ("TOT") contracts to operate waste water treatment plants in Siping and Gongzhuling, Jilin province and Juye, Shandong province, People's Republic of China. As at the end of the reporting period, these plants have commenced operations.

The above arrangements have been classified as service concession arrangements under INT FRS 112. Under the terms of the arrangements, the group will receive a total minimum amount of $28.8 million yearly (2008: $26.3 million yearly) from the contracted parties (grantors) in exchange for services performed by the group when all the plants are in full commercial operations. Revenue and profit after tax for the year arising from the provision of construction services amount to $34.0 million and $8.7 million (2008: $20.2 million and $4.8 million) respectively.

In arriving at the carrying value of the financial receivables as at the end of the reporting period, effective interest rate of 6.1% (2008: 6.1%) per annum was used to discount the future expected cash flows.

The fair value of the non-current portion of financial receivables approximates its carrying value, as management is of the opinion that the effective interest rate used is similar to the market interest rate for an instrument bearing the same risk profile and characteristics at the end of the reporting period.

The long-term financial receivables are denominated in the functional currencies of the respective entities.

The counterparties of the above service concession arrangements are municipal governments in People's Republic of China. Management is of the view that the associated credit risk is not significant.

10 LONG-TERM FINANCIAL RECEIVABLES (cont'd)

The significant aspects of the above service concession arrangements are as follows:

(a) The arrangements are 25-30-year concession arrangements for waste water treatment with the respective municipal governments. The group has a total of 3 (2008: 3) transfer-operate-transfer arrangements and 11 (2008: 10) build-operate-transfer arrangement as at the end of reporting period.

(b) For the above arrangements, the group has a contractual right under the concession arrangements to receive a fixed and determinable amount of payments during the concession period irrespective of the usage of the plants. The municipal governments guarantee a minimum treatment volume ranging from 10,000 tonnes to 90,000 tonnes per day. Waste water treatment fees range from RMB0.70 to RMB0.90 per tonne, which will be adjusted according to local price index, electricity price changes, labour cost changes, etc. from the third year of operation.

(c) All the waste water treatment arrangements state the rights and obligations for the grantor and operator as follows:

(i) The operator has an unconditional right to use the land and infrastructure within the waste water plant. The operator also has an unconditional right to receive payment from the local government for treatment of waste water.

(ii) The operator has the obligation to treat the required amount of waste water and also to ensure that the treated water fulfil the standard quality requirement of the grantor. In addition, the operator cannot provide waste water treatment services to third parties without seeking permission from the grantor.

(iii) The infrastructure including the plant and equipments, "know-how", operations manual, hand-over report, design of infrastructure and related documents, for the waste water treatment plant will be transferred over to the grantor or any grantor appointed agencies at the end of the concession period.

(iv) The arrangement is terminated only when the other party breaches the contract or due to unforeseeable circumstance.

(v) The operator has the obligation to maintain and restore the waste water plant to its operational condition upon transferring to the grantor at the end of the concession period.

11 OTHER RECEIVABLES AND PREPAYMENTS

	Group		Company	
	2009 $'000	2008 $'000 (Restated)	2009 $'000	2008 $'000
Subsidiaries (Note 15)	–	–	149,281	145,160
Associates (Note 16)	7,825	6,989	–	–
Related parties (Note 7)	602	113	–	–
Prepaid purchases	11,873	17,039	–	–
Prepayments for acquisition of property, plant and equipment	1,914	–	–	–
Short-term loan to third parties	2,760	5,486	–	–
Deposits for land rental	10,369	10,980	–	–
Staff loan	281	567	–	–
Other deposits	18	24	–	–
Others	20,020	8,847	–	6
	55,662	50,045	149,281	145,166
Less: Allowance for doubtful debts – others	(4,800)	(5,386)	–	–
	50,862	44,659	149,281	145,166
Less: Non-current portion				
Prepayments for acquisition of property, plant and equipment	(1,914)	–	–	–
Deposits for land rental after impairment	(10,369)	(10,980)	–	–
Non current portion	(12,283)	(10,980)	–	–
Current portion	38,579	33,679	149,281	145,166

The staff loan and amount due from subsidiaries, associates and related parties are non-trade in nature, interest-free, unsecured and repayable on demand.

The short-term loan to third parties is secured on certain property and plant of the third parties and carries interest at rate of 10% to 25% (2008: 10% to 15%) per annum. The loan is expected to be repaid within 12 months. Included in the short-term loan to third parties is a balance of $2,760,000 (2008: $3,376,000) of which the third party is in dispute of the interest to be charged. As there is uncertainty on the interest expected to be received on the loan, no interest income has been recognised in the profit and loss.

Prepaid purchases relate to advance payments made by the group to its suppliers for goods to be purchased.

The prepayments for acquisition of property, plant and equipment and deposits for land are classified as non-current asset as management expects that the amount is not expected to be utilised within 12 months.

Except for the short-term loan to third parties, the other receivables are interest free and repayable on demand.

11 OTHER RECEIVABLES AND PREPAYMENTS (cont'd)

Movement in the allowance for doubtful debts

	Group	
	2009	2008
	$'000	$'000
Balance at beginning of the year	5,386	–
Increase in allowance recognise in profit or loss	–	5,386
Amount written off during the year	(473)	–
Exchange difference	(113)	–
Balance at end of the year	4,800	5,386

The group's and company's other receivables that are not denominated in the functional currencies of the respective entities are as follows:

	Group		Company	
	2009	2008	2009	2008
	$'000	$'000	$'000	$'000
Denominated in:				
United States dollars	980	24	13,789	18,337
Euro	319	361	–	–

12 PREPAID LAND RENTAL

	Group
	S'000
Cost:	
At January 1, 2008	22,593
Additions	6,592
Exchange differences	1,828
At December 31, 2008	31,013
Additions	5,431
Exchange differences	(901)
At December 31, 2009	35,543
Accumulated amortisation:	
At January 1, 2008	238
Amortisation	585
Exchange differences	37
At December 31, 2008	860
Amortisation	697
Exchange differences	(42)
At December 31, 2009	1,515
Impairment:	
Impairment loss for 2008	2,082
Exchange differences	70
At December 31, 2008	2,152
Exchange differences	(50)
At December 31, 2009	2,102
Carrying amount:	
At December 31, 2009	31,926
At December 31, 2008	28,001

Presented in the statement of financial position as:

	Group	
	2009 $'000	2008 $'000
Current asset	854	746
Non-current asset	31,072	27,255
Total	31,926	28,001

Prepaid land rental comprises payments for land use rights, which are amortised on a straight-line basis over the lease term ranging from 28 to 50 years (2008: 28 to 50 years).

12 PREPAID LAND RENTAL (cont'd)

In 2008, the impairment loss of $2,152,000 was recognised for two pieces of land based on the professional valuation carried out by an independent valuer by making reference to the market value of land and land datum value method. After considering the market condition as at December 31, 2009, management is of the view that no further impairment is required for the prepaid land rental.

13 INVENTORIES

	Group	
	2009 $'000	2008 $'000 (Restated)
Raw materials	5,514	7,392
Work in progress	9,840	12,759
Finished goods	6,892	5,029
	22,246	25,180
Allowance for inventories	(579)	(1,404)
Total	21,667	23,776

Movement in the allowance for inventories:

	Group	
	2009 $'000	2008 $'000
Balance at beginning of the year	1,404	–
Increase in allowance recognised in profit or loss	228	1,404
Reversal during the year	(1,044)	–
Exchange differences	(9)	–
Balance at end of the year	579	1,404

The allowance made in previous year amounting to $1,044,000 has been reversed during the year as the related inventories were sold during the year at a mark up. The reversal is included in cost of sales.

14 NON-CURRENT ASSETS HELD FOR SALE

	Group	
	2009 $'000	2008 $'000
As cost	463	463
Less: impairment losses	(91)	(44)
	372	419

In 2008, Reyphon acquired 55% equity interest in the share capital of Changda Xinfeng Bioengineering Centre Co., Ltd ("Changda") incorporated in the People's Republic of China. Changda is engaged in research and development activities. Changda does not have any active activities and has been loss-making since incorporation. On December 30, 2008, the directors of Reyphon resolved to dispose of the equity interest in Changda.

The proceeds on disposal are expected to be less than the carrying amount of the net assets and, accordingly, an impairment loss of $91,000 (2008: $44,000) has been recognised.

15 SUBSIDIARIES

	Company	
	2009 $'000	2008 $'000
Unquoted equity shares, at cost	6,900	6,900

Details of the company's significant subsidiaries at December 31, 2009 are as follows:

Name of subsidiaries	Country of incorporation and operation	Proportion of ownership interest and voting power held		Principal activities
		2009 %	2008 %	
Held by the company				
Suntar Investment Pte Ltd (i)	Singapore	100	100	Investment holding; purification and distribution of water (including desalination of water).
Suntar Membrane Technology (Singapore) Pte Ltd (i)	Singapore	100	100	Water treatments, membrane technology and as commission agent.

15 SUBSIDIARIES (cont'd)

Name of subsidiaries	Country of incorporation and operation	Proportion of ownership interest and voting power held		Principal activities
		2009 %	2008 %	
Held by subsidiaries				
Changtai Suntar Water Treatment Co., Ltd (ii) (iii)	China	100	–	Waste water treatment.
Dongfeng Suntar Water Treatment Co., Ltd (iv)	China	100	100	Waste water treatment.
Gongzhuling Suntar Water Treatment Co., Ltd (ii)	China	100	100	Waste water treatment.
Jiangxi Huaiyushan Suntar Active Carbon Co., Ltd (ii)	China	100	100	Active carbon production.
Jiangxi New Reyphon Biochemical Co., Ltd (vi)	China	52	52	Production and sale of gibberellins and other fermentation-based biochemical products.
Juye Suntar Water Treatment Co., Ltd (ii)	China	100	100	Waste water treatment.
Lianyungang Zhongxin Chemical Environment Exploitation Co., Ltd (ii)	China	60	60	Chemical industry park, infrastructure development and water treatment.
Meihekou Suntar Water Treatment Co., Ltd (iv)	China	100	100	Waste water treatment.
Microdyn-Nadir (Xiamen) Co., Ltd (iv)	China	68	68	Developing and manufacturing membrane materials and modules.
New Suntar Environmental Engineering (Nanchang) Co., Ltd (iv)	China	100	100	Dormant.
Reyphon Agriceutical Limited (vi)	Singapore	52	52	Investment holding.

15 SUBSIDIARIES (cont'd)

Name of subsidiaries	Country of incorporation and operation	Proportion of ownership interest and voting power held		Principal activities
		2009 %	2008 %	
Rosin Chemical (Wuping) Co., Ltd (ii)	China	100	100	Production and sale of rosin-based chemicals.
SCT Suntar Ceramic Technology (Xiamen) Co., Ltd (iv) (v)	China	50	50	Production, research and development of tubular ceramic membranes.
Sinomem Technology Development (Ji'an) Co., Ltd (ii)	China	100	100	Dormant.
Siping Suntar Technology Co., Ltd (ii)	China	100	100	Waste water treatment.
Suntar Desalination (Xiamen) Co., Ltd (iv)	China	100	100	Dormant.
Suntar Environmental Engineering (Xiamen) Co., Ltd (ii)	China	100	100	Engineering design and construction for environment protection and integrated utilisation of resources; technology development, design, fabrication and installation of equipments for environmental protection and integrated utilisation of resource.
Suntar (Lianyungang) Environmental Co., Ltd (ii)	China	100	100	Municipal waste water company, waste water treatment; property development and sale; construction; estate management.
Suntar Membrane Technology (Xiamen) Co., Ltd (ii)	China	100	100	Development, manufacturing of equipment and parts primarily for membrane filtration technology, sale of manufactured equipment and ancillary parts, provision of installation and commissioning of relevant projects and provision of technical services and consultation.

15 SUBSIDIARIES (cont'd)

Name of subsidiaries	Country of incorporation and operation	Proportion of ownership interest and voting power held		Principal activities
		2009 %	2008 %	
Suntar Process Technology (Xiamen) Co., Ltd (ii)	China	100	100	Development, application and sale of membrane separation and purification technology, provision of commissioning and technical consultation. Development, production and sale of membrane material.
Suntar Technologies Investment (Xiamen) Co., Ltd (ii)	China	100	100	Investment holding.
Taonan Suntar Water Treatment Co., Ltd (iv)	China	100	100	Waste water treatment.
Tongyu Suntar Water Treatment Co., Ltd (iv)	China	100	100	Waste water treatment.
Wuping Suntar Water Treatment Co., Ltd (iv)	China	100	100	Waste water treatment.
Xiamen Bostar Enterprise Co., Ltd (iv)	China	100	100	Trading of electronic equipment, software and technology.
Xi'an Reyphon Chemicals Co., Ltd (vi)	China	52	52	Manufacturing of pharmaceutical ingredients and related products.
Xuchang Suntar Water Treatment Co., Ltd (ii)	China	100	100	Waste water treatment.
Yicheng Suntar Water Treatment Co., Ltd (ii)	China	100	100	Waste water treatment.
Yitong Water Treatment Co., Ltd (iv)	China	100	100	Waste water treatment.
Yuanda Technology (Dengzhou) Co., Ltd (ii)	China	100	100	Waste water treatment.
Yushan Suntar Water Treatment Co., Ltd (ii)	China	100	100	Waste water treatment.

15 SUBSIDIARIES (cont'd)

Notes on auditors

(i) Audited by Deloitte & Touche LLP, Singapore.

(ii) Audited by overseas practices of Deloitte Touche Tohmatsu for purpose of consolidation.

(iii) Incorporated in the current financial year.

(iv) Not audited as these subsidiaries are either dormant or not material for the group's consolidated financial statements. Unaudited management accounts were used for consolidation purposes.

(v) The group holds a 50.1% equity interest in this entity.

(vi) Unaudited management accounts are used by management for consolidation purposes. As of the date of authorisation of the issuance of the financial statements, the audit of the consolidated financial statements of Reyphon Agriceutical Limited and its two subsidiaries, Jiangxi New Reyphon Biochemical Co., Ltd and Xi'an Reyphon Chemicals Co., Ltd by an overseas practice of Deloitte Touche Tohmatsu is still not completed as more fully described in Note 2 to the financial statements.

16 ASSOCIATES

	Group	
	2009 $'000	2008 $'000 (Restated)
Cost of investment in associates including goodwill	32,327	32,327
Share of post-acquisition reserve	6,750	4,518
Impairment loss	(7,899)	(7,899)
Total	31,178	28,946

Details of the group's significant associates at December 31, 2009 are as follows:

Name of associates	Country of incorporation and operation	Proportion of ownership interest and voting power held		Principal activities
		2009 %	2008 %	
ITN Membrane Trade (Xiamen) Co., Ltd (i)	China	50	50	Sale of tubular ceramic membrane.
Microdyn-Nadir GmbH (ii)	Germany	50	50	Manufacturing and sale of membrane.
Pharmesis International Ltd (iv)	Singapore	24	24	Manufacturing pharmaceutical products, including western medicine and traditional Chinese medicine.
Shandong Tianli Biochem Co., Ltd (iii)	China	30	30	Sorbitol manufacturing.

16 ASSOCIATES (cont'd)

Name of associates	Country of incorporation and operation	Proportion of ownership interest and voting power held		Principal activities
		2009 %	2008 %	
Sinphon Bioscience (Ji'an) Co., Ltd [(i)]	China	50	50	Manufacturing and sale of xanthan gum and related products.
Xiamen Northern Suntar Nano Technology Co., Ltd [(i)]	China	50	50	Research and development, design, manufacturing and sale of water treatment chemicals based on nano- powder materials.
Xinyuan Wastewater (Ji'an) Co., Ltd [(i)]	China	40	40	Waste water treatment; technology development, engineering design and construction for environment protection and integrated utilisation of resources.

Notes on auditors

(i) Not audited as these associates are either dormant or not material. Unaudited management accounts were used for consolidation purposes.

(ii) Audited by overseas practices of Deloitte Touche Tohmatsu for purpose of consolidation.

(iii) Audited by Shandong Zhong Tian Heng Certified Public Accountants Ltd.

(iv) Audited by Ernst & Young LLP, Singapore.

Summarised financial information in respect of the group's associates is set out below:

	2009 $'000	2008 $'000
Total assets	242,051	173,471
Total liabilities	(138,627)	(74,832)
Net assets	103,424	98,639
Group's share of associates' net tangible assets	26,325	24,093
Revenue	193,016	206,531
Profit for the year	6,020	10,643
Group's share of associates' profit after tax for the year	2,461	3,255

Included in the carrying value of the group's associates is an amount of $4,853,000 (2008: $4,853,000) relating to goodwill from the acquisition of the following associates:

16 ASSOCIATES (cont'd)

	Group	
	2009 $'000	2008 $'000
Membrane operations:		
Microdyn-Nadir GmbH	4,197	4,197
Sorbitol manufacturing operations:		
Shandong Tianli Biochem Co., Ltd	656	656
	4,853	4,853

The group performs impairment testing on the carrying amount of the associates whenever there are indications of impairment.

i) In 2008, an impairment loss of $7,899,000, resulting from deteriorating business, has been provided on an associate of which the estimated recoverable amount is lower than its carrying amount. The recoverable amount has been determined on the basis of fair value less costs to sell. Fair value was determined based on the professional valuation carried out by an independent valuer on January 31, 2009. Determination of fair value is based on the best information available to reflect the amount that the group could obtain from the disposal of the assets in an arm's length transaction between knowledgeable willing parties, after deducting the costs of disposal.

ii) The recoverable amounts of the other associates to which the goodwills are allocated are determined from value in use calculations. The key assumptions for the value in use calculation are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the period. Management estimates discount rates specific to the associates. The growth rates are based on industry growth forecasts. Changes in selling prices 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 budgets approved by management for the next five years and extrapolates cash flows for the following five years based on an estimated growth rate of 4% to 10%. The rate used to discount the forecast cash flows is 10%.

17 AVAILABLE-FOR-SALE INVESTMENTS

	Group	
	2009 $'000	2008 $'000
Unquoted equity shares, at cost	825	577

The available-for-sale investments relate to an equity interest in 19% of the share capital of Siping Suntar Exploitation Co., Ltd, incorporated in the People's Republic of China.

Unquoted equity shares are measured at cost less impairment as the management is of the opinion that their fair values cannot be measured reliably.

The available-for-sale investments are denominated in the respective entity's functional currency.

18 PROPERTY, PLANT AND EQUIPMENT

	Leasehold buildings $'000	Motor vehicles $'000	Plant and machinery $'000	Furniture, fittings and equipment $'000	Construction in-progress $'000	Total $'000
Group						
Cost:						
At January 1, 2008	12,088	2,012	17,444	2,536	3,295	37,375
Exchange differences	793	99	1,350	183	215	2,640
Additions	48	454	2,290	1,832	8,097	12,721
Reclassification	(1,085)	124	966	(5)	–	–
Disposals	–	–	(223)	(246)	–	(469)
Write-off	–	–	(42)	(373)	–	(415)
At December 31, 2008	11,844	2,689	21,785	3,927	11,607	51,852
Exchange differences	(302)	(47)	(531)	(59)	(292)	(1,231)
Additions	202	–	468	387	6,126	7,183
Reclassification	506	114	337	(1,388)	431	–
Disposals	–	(240)	(6)	(19)	–	(265)
Write-off	–	–	(320)	(3)	–	(323)
At December 31, 2009	12,250	2,516	21,733	2,845	17,872	57,216
Accumulated depreciation:						
At January 1, 2008	1,141	1,039	3,894	1,186	–	7,260
Exchange difference	72	63	455	86	–	676
Depreciation	654	324	1,776	287	–	3,041
Reclassification	(945)	110	431	404	–	–
Eliminated on disposals	–	–	(13)	(15)	–	(28)
Write-off	–	–	(14)	(370)	–	(384)
At December 31, 2008	922	1,536	6,529	1,578	–	10,565
Exchange difference	(48)	(31)	(310)	(43)	–	(432)
Depreciation	801	326	1,943	283	–	3,353
Reclassification	83	11	44	4	(142)	–
Eliminated on disposals	–	(155)	(2)	(9)	–	(166)
Write-off	–	–	(137)	(2)	–	(139)
At December 31, 2009	1,758	1,687	8,067	1,811	(142)	13,181
Impairment:						
Impairment loss recognised in the year ended December 31, 2008 and balance at December 31, 2008	–	–	3,012	–	–	3,012
Write-off	–	–	(184)	–	–	(184)
Exchange difference	–	–	35	–	–	35
At December 31, 2009	–	–	2,863	–	–	2,863
Carrying amount:						
At December 31, 2009	10,492	829	10,803	1,034	18,014	41,172
At December 31, 2008 (Restated)	10,922	1,153	12,244	2,349	11,607	38,275

In 2008, the group carried out a review of the recoverable amount of property, plant and equipment having regard to its ongoing operations. The review led to the recognition of an impairment loss of S$3.0 million in property, plant and equipment of a subsidiary that is loss making during the year. The impairment loss has been recognised in profit or loss. The recoverable amount of the relevant assets has been determined on the basis of their value in use. The discount rate use in measuring value in use was 6.66%.

19 GOODWILL

	Group
	2009
	$'000
Cost:	
Arising from acquisition of additional interests in subsidiaries and balance at December 31, 2008 and 2009	446
Impairment:	
Impairment loss recognised in the year ended December 31, 2008 and balance at December 31, 2008 and 2009	206
Carrying amount:	
December 31, 2009	240
December 31, 2008	240

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units (CGUs) that are expected to benefit from that business combination. Before recognition of impairment losses, the carrying amount of goodwill has been allocated as follows:

	Group	
	2009	2008
	$'000	$'000
Biochemical products operations:		
Reyphon Agriceutical Limited (Single CGU)	206	206
Desalination of seawater operations:		
Suntar Desalination (Xiamen) Co., Ltd (Single CGU)	240	240
	446	446

The group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

The recoverable amounts of the CGUs are determined from value in use as well as fair value less costs to sell calculations. The key assumptions for the value in use calculation are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the period. Management estimates discount rates specific to the CGUs. The growth rates are based on industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market. The key assumptions for the fair value less costs to sell calculation are those regarding the determination of the fair value and the estimation of the costs of disposal.

For determination of value in use, the group prepares cash flow forecasts derived from the most recent financial budgets approved by management for the next five years and extrapolates cash flows for the following five years based on an estimated growth rate of 10% to 15% (2008: 10% to 15%). The rate used to discount the forecast cash flows is 10% (2008: 10%).

19 GOODWILL (cont'd)

For determination of fair value less costs to sell, management has estimated the fair values of assets and liabilities of the CGU using observable current market transactions of similar assets.

At December 31, 2008, before impairment testing, goodwill of $206,000 was allocated to the Reyphon Agriceutical Limited CGU. Due to deteriorating financial performance, the group has revised its cash flow forecasts from this CGU as a result of which an impairment loss against goodwill of $206,000 was recognised.

20 OTHER INTANGIBLE ASSET

	Group $'000
Cost:	
Additions and balance as at December 31, 2008	423
Exchange differences	(18)
At December 31, 2009	405
Amortisation:	
Amortisation and balance as at December 31, 2008	49
Additions	99
Exchange differences	(4)
At December 31, 2009	144
Carrying amount:	
At December 31, 2009	261
At December 31, 2008	374

The intangible asset pertains to technology know-how acquired for the group's tubular ceramic membrane production process. The intangible asset has a finite useful life, over which the asset is amortised over 5 years.

21 DEFERRED TAX

The following are the major deferred tax assets and liabilities recognised by the group and the movements thereon, during the current and prior reporting periods:

Deferred tax assets

	Allowance for doubtful debt $'000
Credit to profit or loss in 2008 and balance as at December 31, 2008 (Note 34)	1,557
Exchange differences	(49)
Credit to profit or loss for the year (Note 34)	420
At December 31, 2009	1,928

Deferred tax liabilities

	Construction and service income $'000
At January 1, 2008	341
Exchange differences	(218)
Charge to profit or loss for the year (Note 34)	3,490
At December 31, 2008	3,613
Exchange differences	(193)
Charge to profit or loss for the year (Note 34)	3,481
At December 31, 2009	6,901

At the end of reporting period, the aggregate amount of temporary differences arising from PRC withholding tax associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised is $43,490,000 (2008: $15,923,000). No liability has been recognised in respect of these differences because the group is in a position to control the timing of the reversal of temporary differences and the company does not intend to distribute the dividend out of the subsidiaries' profit which may attract withholding tax.

Any potential tax effect of temporary differences arising in connection with interests in associates is insignificant.

22 TRADE PAYABLES

	Group	
	2009 $'000	2008 $'000
Outside parties	23,756	23,610
Related parties (Note 7)	1,059	1,716
Associates (Note 16)	651	41
Customer advances	7,358	5,202
Total	32,824	30,569

The average credit period on purchases is 45 days (2008: 45 days). No interest is charged on the trade payables.

The group's trade payables that are not denominated in the functional currencies of the respective entities are as follows:

	Group	
	2009 $'000	2008 $'000
Denominated in:		
United States dollars	2,201	741
Euro	889	2,101

23 OTHER PAYABLES AND ACCRUED EXPENSES

	Group		Company	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Outside parties:				
Acquisition of waste water treatment plants	3,463	3,064	–	–
Others	3,582	4,728	–	–
Related parties (Note 7)	5	31	–	–
Subsidiaries (Note 15)	–	–	26,033	–
Short-term loan from non-financial institution	3,502	3,587	–	–
Advance from a bank	2,052	2,743	–	–
Accrued expenses	2,193	1,651	296	285
Total	14,797	15,804	26,329	285

23 OTHER PAYABLES AND ACCRUED EXPENSES (cont'd)

The short-term loan from non-financial institution recognised in the financial statements of Reyphon is unsecured, bears floating interest rate based on a bank's prime rate at 6.03% per annum and was repayable on May 24, 2009 which has been extended to December 31, 2010. The carrying amount of this loan approximates its fair value as the interest rate approximates the prevailing market rate.

In 2008, Reyphon obtained an advance from a bank. Management of Reyphon is still in the process of finalising the terms, duration and interest rate with the bank. The interest rate paid during the year for such advance was 6.66% per annum and unsecured at year end. Management of Reyphon is of the view that the carrying amount of this advance approximates its fair value as the interest rate approximates the prevailing market rate.

The group's other payables that are not denominated in the functional currencies of the respective entities are as follows:

	Group		Company	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Denominated in:				
United States Dollars	–	–	26,033	–
Euro	444	–	–	–

24 BANK LOANS

The borrowings are repayable as follows:

	Group	
	2009 $'000	2008 $'000
Bank loan due for settlement within 12 months – unsecured	14,420	–

The bank loans of $2,060,000; $8,240,000 and $4,120,000 were incepted on November 11, 2009, November 25, 2009 and December 31, 2009 respectively at fixed interest rate at 5.31% per annum. These loans are repayable on November 11, 2010, November 25, 2010 and December 31, 2010 respectively. The bank loans are guaranteed by a subsidiary of the company.

The carrying amount of these bank loans approximate their respective fair value as the interest rate approximates the prevailing market rate.

The bank loans are denominated in the entity's functional currency.

25 CONVERTIBLE LOAN NOTES

The convertible loan notes issued on December 14, 2006 are unsecured. The notes are convertible into ordinary shares of the company at any time between the date of issue of the notes and their settlement date at the option of the holder. On issue, the loan notes were convertible at 800,000 shares per $1,000,000 loan note. A total of 80 notes were issued.

If the notes are not converted, they will be redeemed on December 14, 2011 at par. Interest is payable on the settlement date at 30.5% of the principal. In addition, the holder has the option to require the issuer to redeem all or some of the notes on December 14, 2009 with interest payable at 17.3% of the principal. This option is an embedded derivative that is closely related to the host contract. Accordingly, this option is not separately accounted for in the financial statements. As at December 31, 2008, the convertible loan notes are shown as a current liability in view of this option.

On December 24, 2008, under the mutual agreement between the notes holder and the company, 30 loan notes were redeemed for a consideration of $27,000,000 at a price of $900,000 per note. The gain from this partial redemption amounting to $5,570,000 has been taken up in the profit and loss.

On December 14, 2009, the balance of the 50 loan notes were fully redeemed at the principal amount of $50,000,000 plus interest of $8,650,000. There is no significant gain or loss arising from the redemption.

The net proceeds received from the issue of the convertible loan notes have been split between the liability element and an equity component, representing the fair value of the embedded option to convert the liability into equity of the group, as follows:

	Group and Company	
	2009 $'000	2008 $'000
Nominal value of convertible loan notes issued, net of transaction costs	77,750	77,750
Equity component at inception	(1,156)	(1,156)
Liability component at date of issue	76,594	76,594
Equity component reversed upon early redemption	1,156	–
Interest charges	13,471	10,323
Partial redemption in 2008	(32,571)	(32,571)
Early redemption in 2009	(58,650)	–
Liability component at end of year	–	54,346

The interest charged for the year is calculated by applying an effective interest rate of 6.39% (2008: 6.39%) to the liability component for the 11.5 months period in 2009 (2008: 12 months).

The fair value of the liability component of the convertible loan notes at December 31, 2008 approximates its carrying amount, as the management is of the opinion that the effective interest rate used was similar to the market interest rate for an instrument bearing the same risk profile and characteristics at the balance sheet date.

26 DEFERRED INCOME

This relates to government grants that certain subsidiaries have applied for and received. The grants are recognised as and when related expenses incidental to the grants are incurred.

	Research and development grant $'000	Prototype development grant $'000	Total $'000
Group			
At January 1, 2008	501	1,277	1,778
Exchange differences	36	91	127
Utilised during the year	–	(1,050)	(1,050)
At December 31, 2008	537	318	855
Exchange differences	(13)	(8)	(21)
At December 31, 2009	524	310	834

27 SHARE CAPITAL

	Group and Company			
	Number of shares			
	2009 '000	2008 '000	2009 $'000	2008 $'000
Issued and paid up:				
At beginning of the year	461,780	461,780	90,727	90,727
Issued for cash	50,000	–	30,055	–
At end of the year	511,780	461,780	120,782	90,727

Fully paid ordinary shares, which have no par value, carry one vote per share and carry a right to dividends as and when declared by the company.

The proceeds on issue of shares during the year were net of transaction cost amounting to $945,000.

28 TREASURY SHARES

	Group and Company			
	Number of shares			
	2009	2008	2009	2008
	'000	'000	$'000	$'000
At beginning of the year	–	–	–	–
Repurchased during the year	10,000	–	1,704	–
At end of the year	10,000	–	1,704	–

The company acquired 10,000,000 of its own shares through purchase on the Singapore Exchange during the year. The total amount paid to acquire the shares was $1,704,000 inclusive of transaction costs amounting to $4,000, and has been deducted from Shareholders' equity. The shares are hold as "treasury shares".

29 RESERVES

i) Legal reserve

The People's Republic of China's laws and regulations require Sino-foreign cooperative joint ventures to provide for certain statutory reserves, namely reserve fund and enterprise expansion fund, which are appropriated from net income as reported in the statutory financial statements. All these reserves are at the discretion of the entities' board of directors. The reserve fund can only be used, upon approval by the relevant authority, to offset accumulated losses or increase capital. The enterprise expansion fund can only be used to increase capital upon approval by the relevant authority.

ii) Capital reserve

The capital reserve relates to the equity component of convertible loan notes, measured in accordance with the substance of the contractual arrangement. The equity component is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole, net of income tax effects, and is not subsequently remeasured. Upon early redemption, the consideration paid is allocated to the liability and equity components in the same method as that used to make the original allocation of the proceed of the issue of the instrument between the liability and equity components upon initial recognition.

iii) Revaluation reserve

The revaluation reserve relates to the gains or losses arising from changes in fair value of the group's available-for-sale investments.

iv) Other reserve

Other reserve relates to a transfer from retained earnings of an amount equivalent to the gain arising from dilution of the group's interest in an associate pursuant to the associate's listing in 2004. This transfer occurred in 2005.

30 REVENUE

	Group	
	2009 $'000	2008 $'000 (Restated)
Revenue from rendering of services	40,043	40,574
Construction revenue from waste water treatment plants	34,018	20,151
Operation revenue from waste water treatment plants	7,648	5,850
Revenue from sale of goods	45,109	40,686
Total	126,818	107,261

31 OTHER OPERATING INCOME

	Group	
	2009 $'000	2008 $'000 (Restated)
Interest income from outside parties	1,450	1,957
Finance income from long-term financial receivables	3,318	2,642
Gain from sale of held for trading investments	–	570
Rental income	1,700	1,243
Government grants including deferred grants utilised (Note 26)	3,120	2,119
Others	162	766
Total	9,750	9,297

32 IMPAIRMENT LOSSES

	Group	
	2009 $'000	2008 $'000 (Restated)
Impairment loss on:		
investment in associate (Note 16)	–	7,899
prepaid land rental (Note 12)	–	2,082
goodwill (Note 19)	–	206
property, plant and equipment (Note 18)	–	3,012
non-current assets held for sale (Note 14)	38	44
Total	38	13,243

33 FINANCE COSTS

	Group	
	2009 $'000	2008 $'000
Interest on convertible loan notes	3,148	5,371
Interest on bank loan	707	666
Total	3,855	6,037

34 INCOME TAX EXPENSE

	Group	
	2009 $'000	2008 $'000
Current tax expense	2,353	1,980
Underprovision of current tax in prior years	9	81
Deferred tax (Note 21)	3,061	1,933
Total	5,423	3,994

Prior to 2007, under the tax legislations applicable to foreign investment enterprises in the People's Republic of China ("PRC"), a foreign invested manufacturing enterprise was exempted from income tax for the first two years commencing from its first profit-making year of operations after offsetting all unexpired tax losses carried forward from prior years and is further entitled to receive a 50% relief on its income tax liability of 33% for the next three years.

On March 16, 2007, PRC promulgated the Law of PRC on Enterprise Income Tax ("New Law"). On December 6, 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations changed the statutory Enterprise Income Tax ("EIT") rate from 33% to 25% commencing January 1, 2008 onwards. In accordance with the New Law, the enterprises that originally enjoyed a "Two year exemption and three year 50% relief" on the EIT and other preferential treatment in the form of periodic tax deductions and exemptions in accordance with the applicable tax laws, administrative regulations and relevant documents may, after the enactment of the New Law, continue to enjoy such benefits until the expiration of the applicable period. Enterprises whose preferential treatment period has not commenced due to the fact that no profits had been generated in previous years will enjoy such preferential tax treatment beginning January 1, 2008 until the expiry of such period; and enterprises that enjoyed low preferential tax rate in accordance with the tax laws and administrative regulations may, pursuant to the provisions of the State Council, gradually transit to the tax rate of 25% within five years of the implementation of New Law.

In 2009, certain entities in PRC received preferential tax rates ranging from 10% to 20% (2008: 9% to 18%).

Domestic income tax is calculated at 17% (2008: 18%) of the estimated assessable profit for the year. Taxation for PRC is calculated at the rates prevailing in PRC.

34 INCOME TAX EXPENSE (cont'd)

The total charge for the year can be reconciled to the accounting profit as follows:

	Group	
	2009 $'000	2008 $'000 (Restated)
Tax at the domestic income tax rate of 17% (2008: 18%)	4,789	(15)
Tax effect of share of results of associates	(418)	(586)
Tax effect of non-deductible items	994	2,815
Tax effect of different tax rates of subsidiaries operating in other jurisdictions	1,218	1,790
Tax exempt income	(1,621)	(1,035)
Underprovision of current tax in prior years	9	81
Losses not available for carryforward	443	1,217
Others	9	(273)
Tax expense for the year	5,423	3,994

35 PROFIT (LOSS) FOR THE YEAR

Profit (Loss) for the year has been arrived at after charging (crediting):

	Group	
	2009 $'000	2008 $'000 (Restated)
Staff costs (including directors' remuneration and directors' fee)	9,857	8,576
Directors' remuneration	867	432
Directors' fees	310	291
Cost of defined contribution plan	751	613
Net foreign currency exchange loss (gain)	192	(1,275)
Non-audit fees paid to auditors	76	130
Research and development cost	2,309	2,711
Government grants	(3,120)	(2,119)
Cost of inventories recognised as expense	51,286	43,892
Allowance for doubtful trade receivables [1]	165	3,481
Allowance for doubtful other receivables [1]	–	5,386
Allowance for inventories	228	1,404
Reversal of allowance for inventories	(1,044)	–
Amortisation of prepaid land rental [1]	697	585
Amortisation of intangible asset [1]	99	49
Depreciation of property, plant and equipment	3,353	3,041
Property, plant and equipment written off [1]	–	31

(1) Included in administrative expense

36 EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to the ordinary equity holders of the company is based on the following data:

	2009	2008 (Restated)
Earnings		
Net profit for the year attributable to equity holder of the company (in $'000)	22,929	1,165
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share (in '000)	470,489	461,780

There is no dilution of earnings per share as no share options were granted. The effect of convertible loan notes had not been considered as the convertible loan notes was anti-dilutive.

37 OPERATING LEASE ARRANGEMENTS

The group as lessee

	Group	
	2009 $'000	2008 $'000
Minimum lease payments under operating leases recognised as an expense in the year	1,340	1,750

At the balance sheet date, the group has outstanding commitments under non-cancellable operating leases, which falls due as follows:

	Group	
	2009 $'000	2008 $'000
Within one year	712	1,345
In the second to fifth years inclusive	122	697
After five years	6	–
Total	840	2,042

Operating lease payments represent rentals payable for the rental of office premises, factory and equipment. The leases are negotiated for terms ranging from 1 to 5 years (2008: 1 to 3 years) and rentals are fixed throughout the duration of the lease.

37 OPERATING LEASE ARRANGEMENTS (cont'd)

The group as lessor

The group rents out certain of its plant and equipment in the People's Republic of China under operating leases. Rental income earned during the year was $1,700,000 (2008: $1,243,000).

At the end of the reporting period, the group has contracted with tenants for the following future minimum lease payments:

	Group	
	2009	2008
	$'000	$'000
Within one year	1,700	1,266
In the second to fifth years inclusive	2,550	3,165
Total	4,250	4,431

38 SEGMENT INFORMATION

Information reported to the group's chief operating decision maker for the purposes of resource allocation and assessment of segment performance is specifically focused on the group's operating division. The group is currently organised into four operating divisions – membrane process and engineering, nutraceutical production and trading, waste water treatment, and trading of equipment.

Membrane process and engineering	–	polymer membranes manufacturing, membrane-based process and development, engineering design, equipment fabrication, system integration, on-site installation and commissioning and after-sales technical support and raw material production for membrane.
Nutraceutical production and trading	–	production of gibberellin, xanthan gum and sorbitol; and trading in nutraceutical products including vitamins.
Waste water treatment	–	provide waste water treatment services to the municipal and industrial users under build-operate-transfer or transfer-operate-transfer arrangements.
Trading of equipment	–	trade of stainless steel and glucose products.

In prior years, the group reported certain products (active carbon) under the segment of nutraceutical production and trading. For FRS 108 purposes, the active carbon production is included in the membrane process engineering segment as this is more reflective of the management information reported to the group's chief operating decision maker. Amounts reported for the prior year have been restated.

Segment revenue and expense: Segment revenue and expense are the operating revenue and expense reported in the group's profit and loss statement that are directly attributable to a segment and the relevant portion of such revenue and expense that can be allocated on a reasonable basis to a segment.

The accounting policies of the reportable segments are the same as the group's accounting policies described in Note 3. Segment profit represents the profit earned by each segment without allocation of share of profits of associates, finance costs, and income tax expense. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

38 SEGMENT INFORMATION (cont'd)

Segment assets and liabilities: Segment assets include all operating assets used by a segment and consist principally of operating receivables, inventories, prepaid land rental and property, plant and equipment, net of allowances and provisions. Capital additions include the total cost incurred to acquire property, plant and equipment, prepaid land rental and intangible assets directly attributable to the segment. Segment liabilities include all operating liabilities and consist principally of accounts payable and accruals.

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.

Segment information is presented below.

December 31, 2009

	Membrane Process and Engineering $'000	Nutraceutical $'000	Waste water treatment $'000	Trading $'000	Eliminations $'000	Group $'000
Revenue						
External sales	46,744	38,305	41,666	103	–	126,818
Inter-segment sales	9,890	–	–	297	(10,187)	–
Total revenue	56,634	38,305	41,666	400	(10,187)	126,818

38 SEGMENT INFORMATION (cont'd)

Inter-segment sales are charged at prevailing market prices.

	Membrane Process and Engineering $'000	Nutraceutical $'000	Waste water treatment $'000	Trading $'000	Eliminations $'000	Group $'000
Results						
Segment result	10,458	377	18,836	(68)	–	29,603
Finance cost						(3,855)
Share of profits of associates	210	2,130	121	–	–	2,461
Impairment loss on non-current assets held for sale	–	(38)	–	–	–	(38)
Income tax expense						(5,423)
Profit for the year						22,748
Balance sheet						
Segment assets	140,765	58,479	116,703	1,404	–	317,351
Interests in associates	8,726	20,927	1,525	–	–	31,178
Consolidated total assets						348,529
Segment liabilities						
Unallocated liabilities	36,361	11,007	13,444	10	–	60,822
Consolidated total liabilities	–	–	–	–	–	11,117
						71,939
Other information						
Capital additions	7,355	5,103	156	–	–	12,614
Impairment losses recognised in profit or loss	–	38	–	–	–	38
Amortisation	457	245	94	–	–	796
Depreciation	1,986	1,364	1	2	–	3,353

38 SEGMENT INFORMATION (cont'd)

December 31, 2008

	Membrane Process and Engineering $'000	Nutraceutical $'000	Waste water treatment $'000	Trading $'000	Eliminations $'000	Group $'000
Revenue						
External sales	40,170	32,350	26,001	8,740	–	107,261
Inter-segment sales	8,744	–	–	376	(9,120)	–
Total revenue	48,914	32,350	26,001	9,116	(9,120)	107,261

Inter-segment sales are charged at prevailing market prices.

	Membrane Process and Engineering $'000	Nutraceutical $'000	Waste water treatment $'000	Trading $'000	Eliminations $'000	Group $'000
Results						
Segment result	7,094	(3,604)	12,574	392	(514)	15,942
Finance cost						(6,037)
Share of profits of associates	1,115	1,815	325			3,255
Impairment loss on investment in associate		(7,899)				(7,899)
Other impairment losses		(5,344)				(5,344)
Income tax expense						(3,994)
Loss for the year						(4,077)
Balance sheet						
Segment assets	175,541	58,074	75,588	2,174	–	311,377
Interests in associates	8,844	18,698	1,404			28,946
Consolidated total assets						340,323
Segment liabilities	20,602	8,430	15,414	39	–	44,485
Unallocated liabilities						61,995
Consolidated total liabilities						106,480
Other information						
Capital additions	10,350	9,386	–	–	–	19,736
Impairment losses recognised in profit or loss	8,105	5,138	–	–	–	13,243
Amortisation	354	155	125	–	–	634
Depreciation	1,735	1,303	1	2	–	3,041

38 SEGMENT INFORMATION (cont'd)

Geographical information

The group's operates in two principal geographical areas – People's Republic of China and Singapore (country of domicile).

The group's revenue from external customers and information about its segment assets (non-current assets excluding investment in associates, deferred tax assets, long term financial receivables and other financial assets), analysed by the geographical area in which the assets are located are detailed below:

	Revenue from external customers		Non-current assets	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Singapore	12,560	8,322	102	164
People's Republic of China	114,258	98,939	72,643	65,980
Total	126,818	107,261	72,745	66,144

Information about major customers

There is no major customer with revenue more than 10% of the group's total revenue.

39 CONTINGENT LIABILITIES (SECURED)

	Group	
	2009 $'000	2008 $'000
Bankers' guarantees	310	109
Letter of credits	–	1,443

The details of the security are disclosed in Note 8.

40 COMMITMENTS

	Group	
	2009 $'000	2008 $'000
Capital expenditure authorised but not yet contracted	42,642	29,880
Contracted commitments for the acquisition of waste water treatment plants	9,270	1,067
Contracted commitments for the acquisition of expenditure relating to construction of waste water treatment plants	15,852	5,286

41 EVENTS AFTER THE REPORTING PERIOD

Subsequent to December 31, 2009, the group invested RMB20.0 million (S$4.1 million) to set up two 100% held subsidiaries in Dongliao and Baicheng, Jilin province, People's Republic of China. The companies' principal activity is waste water treatment.

42 PRIOR YEAR ADJUSTMENTS

The prior year's consolidated financial statements of the group were prepared based on the unaudited consolidated management accounts of the Reyphon Group. The audited financial statements of the Reyphon Group subsequently available are adjusted mainly for additional impairment loss on the plant and equipment, allowance for doubtful receivables and allowance for inventories. As a result, certain line items have been amended on the face of the consolidated statement of financial position, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows. The adjustments affecting consolidated statement of changes in equity are reflected in the consolidated statement of changes in equity.

	Previously reported $'000	Prior year adjustments $'000	Restated $'000
Consolidated statement of financial position as at December 31, 2008			
Trade receivables	34,591	20	34,611
Other receivables	33,784	(105)	33,679
Inventory	24,210	(434)	23,776
Property, plant and equipment	41,207	(2,932)	38,275
Reserves	24,710	(57)	24,653
Retained earnings	95,893	(1,746)	94,147
Minority interests	25,964	(1,648)	24,316
Consolidated statement of comprehensive income for the year ended December 31, 2008			
Revenue	107,241	20	107,261
Costs of sales	(78,812)	(392)	(79,204)
Gross profit	28,429	(372)	28,057
Other operating income	9,425	(128)	9,297
Gain from partial redemption of convertible loan notes	5,570	–	5,570
Administrative expenses	(26,980)	(2)	(26,982)
Impairment losses	(10,407)	(2,836)	(13,243)
Finance costs	(6,037)	–	(6,037)
Share of profits of associates	3,255	–	3,255
Profit (Loss) before income tax	3,255	(3,338)	(83)
Income tax expense	(3,994)	–	(3,994)
Loss for the year	(739)	(3,338)	(4,077)

42 PRIOR YEAR ADJUSTMENTS (cont'd)

	Previously reported $'000	Prior year adjustments $'000	Restated $'000
Other comprehensive income:			
Exchange differences on translation of foreign operations	17,229	(113)	17,116
Fair value changes on available-for-sale investment	477	–	477
Other comprehensive income for the year, net of tax	17,706	(113)	17,593
Total comprehensive income for the year	16,967	(3,451)	13,516
Profit (Loss) attributable to:			
Owners of the company	2,910	(1,745)	1,165
Minority interests	(3,649)	(1,593)	(5,242)
	(739)	(3,338)	(4,077)
Total comprehensive income attributable to:			
Owners of the company	18,710	(1,803)	16,907
Minority interests	(1,743)	(1,648)	(3,391)
	16,967	(3,451)	13,516
Basic and diluted earnings per share (cents)	0.63	0.38	0.25

	Previously reported $'000	Prior year adjustments $'000	Restated $'000
Consolidated statement of cash flows for the year ended December 31, 2008			
Operating activities			
Profit (Loss) before income tax	3,255	(3,338)	(83)
Adjustments for:			
Impairment loss on property, plant and equipment	176	2,836	3,012
Allowance for doubtful other receivables	5,281	105	5,386
Allowance for inventories	987	417	1,404
Trade receivables	(759)	(20)	(779)

43 BASIS FOR QUALIFIED OPINION ON THE REYPHON GROUP FOR FY 2008

The auditors' report dated April 27, 2009 on the financial statements of the Reyphon Group for the financial year ended December 31, 2008 were qualified on the following basis:

"Revenue and trade receivables

As announced on October 16, 2008 by the Company, a subsidiary of the Company, Jiangxi New Reyphon Biochemical Co., Ltd ("JNR") suffered from poor operational management during the year ended December 31, 2008.

JNR did not maintain adequate supporting documentation, including but not limited to adequate records of delivery documents acknowledged by customers on the receipt of goods sold and documentation over cash receipt in respect of such sales. Adequate controls over collection of payments from customers were also not exercised by JNR. The recorded revenue and outstanding trade receivables of JNR amounted to RMB103,411,000 for the year ended December 31, 2008 and RMB25,644,000 as at December 31, 2008 respectively. Accordingly, positive independent confirmations were requested from JNR's customers for sales made for the year ended December 31, 2008 and trade receivable balances outstanding as of December 31, 2008 aggregating RMB73,133,000 and RMB24,852,000 respectively. At the date of Reyphon's audit report for FY 2008, sufficient and satisfactory confirmation replies from JNR's customers for revenue and trade receivables amounting to RMB5,927,000 and RMB2,744,000 in aggregate were not received. As there were no other practicable alternative audit procedures that we could perform, we were not able to obtain sufficient appropriate audit evidence to satisfy ourselves as to the validity and completeness of revenue and trade receivables not confirmed by the customers and, accordingly, unable to conclude on the validity and completeness of the remaining revenue and trade receivables of JNR not selected for positive independent confirmations.

Payable

Included in trade payables of JNR as of December 31, 2008 is an amount of RMB143,735 due to a party affiliated to the former shareholder of JNR. Positive independent confirmation received from the party affiliated to the former shareholder of JNR stated that the amount outstanding was RMB2,671,648. JNR's management has provided an explanation on the difference as described in Note 16 to the financial statements. We have not been provided with sufficient appropriate audit evidence to satisfy ourselves as to its validity and accuracy."

Statistics of Shareholders

SHAREHOLDERS' INFORMATION

Class of Equity Securities	Number of Equity Securities	Voting Rights
Ordinary Shares	501,780,000	One vote per share (excluding treasury shares)
Treasury Shares	10,000,000	Nil

The percentage of treasury shares against the total number of issued shares excluding treasury shares is 1.99%.

DISTRIBUTION OF SHAREHOLDERS BY SIZE OF SHAREHOLDINGS
AS AT 19 MARCH 2010

Size of Shareholdings	No. of Shareholders	%	No. of Shares	%
1 – 999	8	0.18	1,007	0.00
1,000 – 10,000	2,294	51.54	15,884,067	3.17
10,001 – 1,000,000	2,126	47.76	101,075,692	20.14
1,000,001 and above	23	0.52	384,819,234	76.69
TOTAL	4,451	100.00	501,780,000	100.00

Note:

% based on 501,780,000 shares (excluding share held as treasury shares) as at 19 March 2010.

* Treasury shares as at 19 March 2010 – 10,000,000 *

TWENTY LARGEST SHAREHOLDERS
AS AT 19 MARCH 2010

	Name of Shareholder	No. of Shares	% of Shares
1	LAN WEIGUANG	231,268,960	46.09
2	RAFFLES NOMINEES (PTE) LTD	41,750,332	8.32
3	UOB KAY HIAN PTE LTD	16,321,000	3.25
4	HSBC (SINGAPORE) NOMINEES PTE LTD	13,516,532	2.69
5	CIMB-GK SECURITIES PTE. LTD.	11,484,000	2.29
6	CHEN NI	10,000,040	1.99
7	DBS NOMINEES PTE LTD	9,828,272	1.96
8	CITIBANK NOMINEES SINGAPORE PTE LTD	6,738,840	1.34
9	UNITED OVERSEAS BANK NOMINEES PTE LTD	6,366,118	1.27
10	DBS VICKERS SECURITIES (SINGAPORE) PTE LTD	5,432,000	1.08
11	DB NOMINEES (SINGAPORE) PTE LTD	4,590,392	0.91
12	OCBC SECURITIES PRIVATE LTD	4,428,000	0.88
13	PHILLIP SECURITIES PTE LTD	3,815,000	0.76
14	MORGAN STANLEY ASIA (SINGAPORE) SECURITIES PTE LTD	3,284,000	0.65
15	DBSN SERVICES PTE LTD	3,004,000	0.60
16	BANK OF SINGAPORE NOMINEES PTE LTD	2,110,000	0.42
17	LEE SUI HEE	2,000,000	0.40
18	KIM ENG SECURITIES PTE. LTD.	1,974,000	0.39
19	SOH BUCK CHIEW	1,700,000	0.34
20	LIM & TAN SECURITIES PTE LTD	1,571,000	0.31
	TOTAL:	381,182,486	75.94

Note:

% based on 501,780,000 shares (excluding share held as treasury shares) as at 19 March 2010.

* Treasury shares as at 19 March 2010 – 10,000,000 *

Statistics of Shareholders

SUBSTANTIAL SHAREHOLDERS

(As recorded in the Register of Substantial Shareholders)

	Direct Interest	%	Deemed Interest	%
Dr Lan Weiguang	271,268,960	54.06	10,000,040	1.99
Chen Ni	10,000,040	1.99	271,268,960	54.06

The percentage of shareholding above is computed based on the total issued shares of 501,780,000 (excluding treasury shares).

PERCENTAGE OF SHAREHOLDING IN PUBLIC'S HANDS

Based on information available to the Company as at 26 March 2010, approximately 43.95% of the Company's total number of issued shares excluding treasury shares listed on the Singapore Exchange Securities Trading Limited was held in the hands of the public. Accordingly, the Company has complied with Rule 723 of the Listing Manual of the SGX-ST.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of SINOMEM TECHNOLOGY LIMITED (the "Company") will be held at 10 Ang Mo Kio Street 65 #06-10, Singapore 569059 on 29 April 2010 at 3 p.m to transact the following businesses:–

ORDINARY BUSINESS

1. To receive and adopt the Directors' Report and the Audited Accounts of the Company and the Group for the financial year ended 31 December 2009 together with the Auditors' Report thereon. **(Resolution 1)**

2. To declare a one-tier tax exempt final dividend of S$0.01 per share for the financial year ended 31 December 2009. **(Resolution 2)**

3. To re-elect the following Directors of the Company retiring pursuant to Article 91 of the Articles of Association of the Company:–

   Hee Theng Fong **(Resolution 3)**
   Kong Tai **(Resolution 4)**
   [See Explanatory Note (i)]

4. To approve the payment of Directors' fees of S$161,000 for the financial year ended 31 December 2009. (2008: S$151,000) **(Resolution 5)**

5. To re-appoint Messrs Deloitte & Touche LLP as the Auditors of the Company and to authorise the Directors of the Company to fix their remuneration. **(Resolution 6)**

6. To transact any other ordinary business which may properly be transacted at an Annual General Meeting.

SPECIAL BUSINESS

To consider and if thought fit, to pass the following resolutions as Ordinary Resolutions, with or without any modifications:–

7. Authority to issue shares in the capital of the Company pursuant to Section 161 of the Companies Act, Cap. 50 and Rule 806 of the Listing Manual of the Singapore Exchange Securities Trading Limited

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, the Directors of the Company be authorised 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) 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 may 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 of the Company while this Resolution was in force,

(the "***Share Issue Mandate***")

provided that:–

(1) Save for sub-paragraph (2) below, the aggregate number of shares (including shares to be issued in pursuance of the Instruments, made or granted pursuant to this Resolution) and Instruments to be issued pursuant to this Resolution shall not exceed fifty per centum (50%) of the total number of issued shares (excluding treasury shares) in the capital of the Company (as calculated in accordance with sub-paragraph (3) below), of which the aggregate number of shares and Instruments to be issued other than on a pro rata basis to existing shareholders of the Company shall not exceed twenty per centum (20%) of the total number of issued shares (excluding treasury shares) in the capital of the Company (as calculated in accordance with sub-paragraph (3) below);

(2) the aggregate number of shares (including shares to be issued in pursuance of the Instruments, made or granted pursuant to this Resolution) and Instruments to be issued to existing shareholders via a pro-rata renounceable rights issue pursuant to this Resolution shall not exceed one hundred per centum (100%) of the total number of issued shares (excluding treasury shares) in the capital of the Company (as calculated in accordance with sub-paragraph (3) below);

(3) (subject to such calculation as may be prescribed by the Singapore Exchange Securities Trading Limited) for the purpose of determining the aggregate number of shares and Instruments that may be issued under sub-paragraphs (1) and (2) above, the percentage of issued shares and Instruments 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 the Instruments or any 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 Part VIII of Chapter 8 of the Listing Manual; and

    (c) any subsequent consolidation or subdivision of shares;

(4) in exercising the Share Issue Mandate conferred by this Resolution, the Company shall comply with the provisions of the Listing Manual of the Singapore Exchange Securities Trading Limited for the time being in force (unless such compliance has been waived by the Singapore Exchange Securities Trading Limited) and the Articles of Association of the Company; and

(5) unless revoked or varied by the Company in a general meeting, the Share Issue Mandate shall continue in force (i) until the conclusion of the next Annual General Meeting of the Company or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is earlier or (ii) in the case of shares to be issued in pursuance of the Instruments, made or granted pursuant to this Resolution, until the issuance of such shares in accordance with the terms of the Instruments or (iii) in relation to sub-clause (2) above, 31 December 2010 or such other deadline as may be extended by the SGX-ST whichever is earlier.
[See Explanatory Note (ii)] **(Resolution 7)**

8. Authority to allot and issue shares and Instruments other than on a pro rata basis at a discount not exceeding 20 per centum (20%)

That subject to and pursuant to the Share Issue Mandate being obtained in Resolution 6 above, approval be and is hereby given to the Directors of the Company to allot and issue shares (including shares to be issued in pursuance of the Instruments, made or granted pursuant to the Share Issue Mandate) other than on a pro rata basis at an issue price per share as the Directors of the Company may in their absolute discretion deem fit provided that such price shall not represent a discount of more than 20 per centum (20%) to the weighted average price per share determined in accordance with the requirements of the SGX-ST and 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 of the Company is required by law to be held or 31 December 2010 or such other deadline as may be extended by the SGX-ST whichever is earlier.
[See Explanatory Note (iii)] **(Resolution 8)**

9. Authority to issue shares under the Sinomem Employees' Share Option Scheme

That pursuant to Section 161 of the Companies Act, Cap. 50, the Directors of the Company be authorised and empowered to offer and grant options under the Sinomem Employees' Share Option Scheme (the "Scheme") and to issue from time to time such number of shares in the capital of the Company as may be required to be issued pursuant to the exercise of options granted by the Company under the Scheme, whether granted during the subsistence of this authority or otherwise, provided always that the aggregate number of additional ordinary shares to be issued pursuant to the Scheme shall not exceed fifteen per centum (15%) of the total number of issued shares (excluding treasury shares) in the capital of the Company from time to time and that such authority shall, unless revoked or varied by the Company in a general meeting, 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 of the Company is required by law to be held, whichever is earlier.
[See Explanatory Note (iv)] **(Resolution 9)**

10. Renewal of Share Purchase Mandate

That for the purposes of Sections 76C and 76E of the Companies Act, Cap. 50, the Directors of the Company be and are hereby authorised to make purchases or otherwise acquire issued shares in the capital of the Company from time to time (whether by way of market purchases or off-market purchases on an equal access scheme) of up to ten per centum (10%) of the total number of issued shares (excluding treasury shares) in the capital of the Company (as ascertained as at the date of Annual General Meeting of the Company) at the price of up to but not exceeding the Maximum Price as defined in the Letter to shareholders dated 14 April 2010 (the "Letter"), in accordance with the terms of the share purchase mandate set out in the Letter, and this mandate shall, unless revoked or varied by the Company in general meeting, 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 of the Company is required by law to be held, whichever is earlier.
[See Explanatory Note (v)] **(Resolution 10)**

By Order of the Board

Chew Kok Liang
Company Secretary

Singapore, 14 April 2010

Explanatory Notes:–

(i) Mr Hee Theng Fong will, upon re-election as a Director of the Company, remain as Chairman of Nominating Committee and Remuneration Committee and as a member of the Audit Committee. Mr Hee Theng Fong will be considered independent.

Mr Kong Tai will, upon re-election as a Director of the Company, remain as member of Audit Committee, Nominating Committee and Remuneration Committee. Mr Kong Tai will be considered independent.

(ii) The Ordinary Resolution 7 above, if passed, will empower the Directors of the Company from the date of the above Meeting until the date of the next Annual General Meeting of the Company, or the date by which the next Annual General Meeting of the Company is required by law to be held or such authority is varied or revoked by the Company in a general meeting, whichever is the earlier, 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 existing shareholders of the Company save that such number shall be up to 100% of the total number of issued shares (excluding treasury shares) in the capital of the Company in relation to a pro-rata renounceable rights issue to existing shareholders.

For determining the aggregate number of shares that may be issued, the percentage of issued shares in the capital of the Company 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 Instrument or any convertible securities, the exercise of share options or the vesting of share awards outstanding or subsisting at the time when this Ordinary Resolution is passed and any subsequent consolidation or subdivision of shares.

The 100% renounceable pro-rata rights issue limit is one of the new measures implemented by the SGX-ST as stated in a press release entitled "SGX introduces further measures to facilitate fund raising" dated 19 February 2009 which became effective on 20 February 2009 and will expire on 31 December 2010 unless extended. It will provide the Directors with an opportunity to raise funds and avoid prolonged market exposure by reducing the time taken for shareholders' approval, in the event the need arises. Minority shareholders' interests are mitigated as all shareholders have equal opportunities to participate and can dispose their entitlements through trading of nil-paid rights if they do not wish to subscribe for their rights shares. It is subject to the condition that the Company makes periodic announcements on the use of the proceeds as and when the funds are materially disbursed and provides a status report on the use of proceeds in the annual report.

(iii) The Ordinary Resolution 8 above is one of the new measures implemented by the SGX-ST as stated in a press release entitled "SGX introduces further measures to facilitate fund raising" dated 19 February 2009 which became effective on 20 February 2009 and will expire on 31 December 2010 unless extended by SGX-ST. The Ordinary Resolution 8 above, if passed, will empower the Directors of Company to allot and issue shares (including shares to be issued in pursuance of the Instruments, made or granted pursuant to the Share Issue Mandate) other than on a pro-rata basis at a discount of not more than 20% to the weighted average price per share determined in accordance with the requirements of the SGX-ST.

(iv) The Ordinary Resolution 9 above, if passed, will empower the Directors of the Company, from the date of this Meeting until the next Annual General Meeting of the Company, or the date by which the next Annual General Meeting of the Company is required by law to be held or such authority is varied or revoked by the Company in a general meeting, whichever is the earlier, to issue shares in the Company pursuant to the exercise of options granted or to be granted under the Scheme up to a number not exceeding in total (for the entire duration of the Scheme) fifteen per centum (15%) of the total number of issued shares (excluding treasury shares) in the capital of the Company from time to time.

(v) The Ordinary Resolution 10 above, if passed, will empower the Directors of the Company from the date of the above Meeting until the next Annual General Meeting of the Company or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is the earlier, to repurchase ordinary shares of the Company by way of market purchases or off-market purchases of up to ten per centum (10%) of the total number of issued shares (excluding treasury shares) in the capital of the Company at the Maximum Price as defined in the Letter to shareholders. The rationale for, the authority and limitation on, the sources of funds to be used for the purchase or acquisition including the amount of financing and the financial effects of the purchase or acquisition of ordinary shares by the Company pursuant to the Share Purchase Mandate on the audited consolidated financial accounts of the Group for the financial year ended 31 December 2009 are set out in greater detail in the Letter to shareholders.

Notes:

1. A Member entitled to attend and vote at the Annual General Meeting (the "Meeting") is entitled to appoint a proxy to attend and vote in his/her stead. A proxy need not be a Member of the Company.

2. The instrument appointing a proxy must be deposited at the registered office of the Company at 10 Ang Mo Kio Street 65 #06-10, Singapore 569059 not less than forty-eight (48) hours before the time appointed for holding the Meeting.

SINOMEM TECHNOLOGY LIMITED
(Registration No. 200208107G)
(Incorporated in the Republic of Singapore)

Directors:
Dr Lan Weiguang (Managing Director)
Chen Ni (Executive Director)
Teng Cheong Kwee (Independent Director)
Hee Theng Fong (Independent Director)
Kong Tai (Independent Director)

Registered Office:
10 Ang Mo Kio Street 65 #06-10
Singapore 569059

14 April 2010

To: The Shareholders of Sinomem Technology Limited

Dear Sir/Madam,

RENEWAL OF SHARE PURCHASE MANDATE

1. BACKGROUND

1.1 We refer to (a) the notice of Annual General Meeting ("AGM") of the Shareholders of Sinomem Technology Limited (the "Company") dated 14 April 2010 (the "Notice of AGM"), accompanying the Annual Report 2009 of the Company, convening the AGM to be held on 29 April 2010; and (b) Ordinary Resolution No. 10 under the heading "Special Business" set out in the Notice of AGM.

1.2 The purpose of this letter is to provide the Shareholders with information relating to the abovementioned proposal to be tabled at the AGM.

1.3 At the Extraordinary General Meeting ("EGM") of the Company held on 28 April 2009, Shareholders had approved the grant of a mandate (the "Share Purchase Mandate") to enable the Company to purchase or otherwise acquire the issued ordinary shares in the capital of the Company ("Shares").

The rationale for, the authority and limitations on, and the financial effects of, the Share Purchase Mandate were set out in the Company's circular to Shareholders dated 30 March 2009 (the "Share Purchase Circular").

1.4 The Share Purchase Mandate will expire on the date of the forthcoming AGM, being 29 April 2010. The Directors propose that the Share Purchase Mandate be renewed at the forthcoming AGM.

1.5 In this Letter to the Shareholders, the following definitions apply throughout unless otherwise stated:–

"**Act**" or "**Companies Act**"	:	The Companies Act (Cap. 50) of Singapore, as amended or modified from time to time
"**AGM**"	:	The annual general meeting of the Company
"**Articles**"	:	Articles of Association of the Company
"**Board**"	:	The Board of Directors of the Company

letter to shareholders

"CDP"	:	The Central Depository (Pte) Limited
"Companies Amendment Act 2004"	:	The Companies (Amendment) Act 2004 of Singapore
"Companies Amendment Act 2005"	:	The Companies (Amendment) Act 2005 of Singapore
"Company"	:	Sinomem Technology Limited
"Directors"	:	The directors of the Company, including alternate directors of the Company (if any), as at the date of this Letter to the Shareholders, and "Director" means any of them
"EPS"	:	Earnings per Share
"FY"	:	Financial year ended or ending 31 December
"Group"	:	The Company and all its subsidiaries
"Latest Practicable Date"	:	5 April 2010, being the latest practicable date prior to the printing of this Circular
"Listing Manual"	:	The Listing Manual of the SGX-ST, as amended or modified from time to time
"Market Day"	:	A day on which the SGX-ST is open for trading in securities
"Memorandum"	:	The Memorandum of Association of the Company
"NTA"	:	Net tangible assets
"NAV"	:	Net assets value
"SFA"	:	The Securities and Futures Act (Cap. 289) of Singapore, as amended or modified from time to time
"SGX-ST" or "Singapore Exchange"	:	Singapore Exchange Securities Trading Limited
"Share Purchase Mandate"	:	The mandate to enable the Company to purchase or otherwise acquire its issued Shares
"Shares"	:	Fully-paid ordinary shares in the capital of the Company
"Shareholders"	:	Registered holders of the Shares, except that where the registered holder is CDP, the term "Shareholders" shall, where the context admits, mean the Depositors whose securities accounts are credited with the Shares
"Substantial Shareholder"	:	In relation to the Company, a person who has an interest in not less than 5% of the issued voting Shares of the Company
"Take-over Code"	:	The Singapore Code on Takeovers and Mergers, as amended or modified from time to time
"S$" and "cents"	:	Singapore dollars and cents respectively
"%"	:	Percentage or per centum

Unless otherwise stated in this Letter to the Shareholders, any term defined under the Companies Act, the SFA, the Listing Manual or the Take-over Code shall, where applicable, have the meaning assigned to it under the Companies Act, the SFA, the Listing Manual or the Take-over Code, as the case may be. In particular:

The terms "**Depositor**", "**Depository Agent**" and "**Depository Register**" shall have the same meanings ascribed to them in Section 130A of the Companies Act. The term "**Treasury Shares**" shall have the meaning ascribed to them in the Companies Act.

Words importing the singular shall, where applicable, include the plural and vice versa and words importing the masculine gender shall, where applicable, include the feminine and the neuter genders. References to persons shall include corporations.

Any reference in this Letter to the Shareholders to any enactment is a reference to that enactment as for the time being amended or re-enacted. Any word defined under the Companies Act or any statutory modification thereof and not otherwise defined in this Letter to the Shareholders shall have the same meaning assigned to it under the Companies Act or any statutory modification thereof, as the case may be.

Any reference to a time of day in this Letter to the Shareholders shall be a reference to Singapore time unless otherwise stated.

2. THE PROPOSED RENEWAL OF THE SHARE PURCHASE MANDATE

2.1 Rationale

The Act allows a Singapore-incorporated company to purchase or otherwise acquire its issued shares, stocks and preference shares if it is expressly permitted to do so by the company's articles of association. Any purchase or acquisition of shares by the company would have to be made in accordance with, and in the manner prescribed by the Act and the Listing Manual and such other laws and regulations as may, for the time being, be applicable.

The Share Purchase Mandate will give the Directors the flexibility to purchase or acquire Shares if and when circumstances permit. Share purchases or acquisitions provide the Company and its Directors with an easy mechanism to facilitate the return of surplus cash over and above its ordinary capital requirements in an expedient and cost-efficient manner. The purchases or acquisitions of Shares may, depending on market conditions and funding arrangements, lead to an enhancement of the EPS and/or NTA per Share.

Share purchases or acquisitions also allow the Directors to exercise control over the Company's share capital structure with a view to enhance the EPS and/or NTA per Share. The Share Purchase Mandate will further give the Company the opportunity to purchase or acquire Shares when such Shares are undervalued and help to buffer short-term share price volatility and offset the effects of share price speculation, thereby boosting Shareholders' confidence and employees' morale.

The Share Purchase Mandate also enables the Directors to purchase or acquire Shares, and hold the repurchased Shares as treasury shares.

If and when circumstances permit, the Directors will decide whether to effect the Share purchases or acquisitions via Market Purchases or Off-Market Purchases (as defined below), after taking into account the amount of surplus cash available, the then prevailing market conditions and the most cost effective and efficient approach.

The Directors will only make purchases or acquisitions of Shares pursuant to the Share Purchase Mandate when they consider it to be in the best interests of the Company and in circumstances which they believe will not result in any material adverse effect on the financial position of the Company or the Group, or result in the Company being delisted from the SGX-ST or being insolvent. It should be noted that the purchases pursuant to the Share Purchase Mandate may not be carried out to the full limit as mandated.

2.2 Authority and Limits on the Share Purchase Mandate

The authority and limits placed on the Share Purchase Mandate are summarised below:–

2.2.1 Maximum Number of Shares

Only Shares which are issued and fully paid-up may be purchased or acquired by the Company. The total number of Shares that may be purchased or acquired by the Company pursuant to the Share Purchase Mandate shall not exceed ten per cent. (10%) of the issued Shares of the Company as at the date of the last AGM held before the resolution authorising the Share Purchase Mandate is passed or as at the date of the resolution authorising the Share Purchase Mandate is passed (the "**Approval Date**") whichever is higher. Any Shares which are held as treasury shares will be disregarded for purposes of computing the ten per cent. (10%) limit.

For illustration purposes only, on the basis of 501,780,000 Shares in issue as at the Latest Practicable Date, not more than 50,178,000 Shares (representing 10% of the Shares in issue as at that date) may be purchased by the Company pursuant to the Share Purchase Mandate. As at the Latest Practicable Date, the Company is holding 10,000,000 Shares as treasury shares as illustrated in Section 2.14 below.

2.2.2 Duration of Authority

Share purchases or acquisitions may be made, at any time and from time to time, on and from the Approval Date, up to:

(i) the date on which the next AGM of the Company is held or required by law to be held; or

(ii) the date on which the Share purchases are carried out to the full extent mandated; or

(iii) the date on which the authority conferred by the Share Purchase Mandate is revoked or varied by Shareholders in a general meeting,

whichever is the earliest.

The Share Purchase Mandate may be renewed at each subsequent AGM or other general meeting of the Company.

2.2.3 Manner of Share Purchases or Acquisitions

(i) Share purchases or acquisitions may be made by way of:

(a) on-market purchase transacted through the SGX-ST's Central Limit Order Book trading system or on another stock exchange on which the Shares are listed and/or through one or more duly licensed dealers appointed by the Company for that purpose ("**Market Purchase**"); and/or

(b) off-market purchase in accordance with an equal access scheme for the purchase or acquisition of Shares from Shareholders ("**Off-Market Purchase**").

(ii) The Directors may impose such terms and conditions which are not inconsistent with the Share Purchase Mandate, the Listing Manual and the Act, as they consider fit in the interests of the Company in connection with or in relation to any equal access scheme(s).

(iii) Under Section 76C of the Act, an equal access scheme must satisfy all the following conditions:

(a) offers under the scheme must be made to every person who holds shares to purchase or acquire the same percentage of their shares;

(b) all of those persons must have a reasonable opportunity to accept the offers made to them; and

(c) the terms of all the offers must be the same except that there shall be disregarded:

(1) differences in consideration attributable to the fact that the offers relate to shares with different accrued dividend entitlements;

(2) differences in consideration attributable to the fact that the offers relate to shares with different amounts remaining unpaid; and

(3) differences in the offers introduced solely to ensure that each member is left with a whole number of shares.

(iv) In addition, under the Listing Manual, in making an Off-Market Purchase in accordance with an equal access scheme, the Company must issue an offer document to all Shareholders containing at least the following information:

(a) the terms and conditions of the offer;

(b) the period and procedures for acceptances;

(c) the reasons for the proposed Share purchases;

(d) the consequences, if any, of the Share purchases by the Company that will arise under the Take-over Code or other applicable take-over rules;

(e) whether the Share purchases, if made, could affect the listing of the Shares on the SGX-ST; and

(f) details of any Share purchases made by the Company in the previous twelve (12) months (whether Market Purchases or Off-Market Purchases), giving the total number of Shares purchased, the purchase price per Share or the highest and lowest prices paid for the purchases, where relevant, and the total consideration paid for the purchases.

2.2.4 Maximum Purchase Price

The purchase price (excluding brokerage, stamp duties, commission, applicable goods and services tax and other related expenses) to be paid for Shares purchased or acquired pursuant to the Share Purchase Mandate will be determined by the Directors.

However, the purchase price to be paid for the Shares purchased or acquired pursuant to Share Purchase Mandate as determined by the Directors must not exceed:

(a) in the case of a Market Purchase, one hundred and five per cent. (105%) of the Average Closing Price (as defined below) of the Shares; and

(b) in the case of an Off-Market Purchase, one hundred and twenty per cent. (120%) of the Average Closing Price (as defined below) of the Shares,

(the "**Maximum Price**") in either case, excluding related expenses of the purchase or acquisition.

For the above purposes:

"**Average Closing Price**" means the average of the closing market prices of the Shares over the last five (5) Market Days, on which transactions in the Shares were recorded, immediately preceding the date of Market Purchase by the Company or, as the case may be, the date of the making of the offer pursuant to the Off-Market Purchase pursuant to the equal access scheme, and deemed to be adjusted for any corporate action that occurs after the relevant five (5) Market Days period; and

"**date of the making of the offer**" means the date on which the Company announces its intention to make an offer for the purchase or acquisition of the Shares to holders of Shares, stating the purchase price (which shall not be more than the Maximum Price determined on the foregoing basis) for each Share and the relevant terms of the equal access scheme for effecting the Off-Market Purchase.

2.3 Status of Purchased Shares

Under the Act, the Company may choose to hold the purchased Shares as treasury shares or to cancel them.

Shares purchased or acquired by the Company are deemed cancelled immediately on purchase or acquisition (and all rights and privileges attached to the Shares will expire on such cancellation) unless such Shares are held by the Company as treasury shares. The total number of issued Shares will be diminished by the number of Shares purchased or acquired by the Company and which are not held as treasury shares.

Any Shares purchased or acquired by the Company and cancelled will be automatically delisted by the SGX-ST. Certificates in respect of purchased or acquired Shares that are cancelled by the Company will be cancelled by the Company as soon as reasonably practicable following settlement of any purchase or acquisition of such Shares.

2.4 Treasury Shares

Under the Act, Shares purchased or acquired by the Company may be held or dealt with as treasury shares. Where the Company holds the purchased Shares as treasury shares, the Company may deal with such treasury shares in such manner as may be permitted by and in accordance with the Act. Some of the provisions on treasury shares under the Act are summarised below.

(i) Maximum Holdings

The aggregate number of Shares held as treasury shares cannot at any time exceed ten per cent. (10%) of the total number of issued Shares of the Company at that time.

(ii) Register of Members, Voting and Other Rights

The Company shall be registered as a member in respect of the treasury shares but shall not have any right to attend or vote at meetings and for the purpose of the Act, the Company shall be treated as having no right to vote and the treasury shares shall be treated as having no voting rights.

In addition, no dividend may be paid, and no other distribution (whether in cash or otherwise) of the Company's assets may be made, to the Company in respect of the treasury shares. However, the allotment of shares as fully paid bonus shares in respect of treasury shares is allowed. A subdivision or consolidation of any treasury share into treasury shares of a smaller amount is also allowed so long as the total value of the treasury shares after the subdivision or consolidation is the same as the total value of the treasury share before the subdivision or consolidation, as the case may be.

(iii) Disposal and Cancellation

Where Shares are held as treasury shares, the Company may at any time (but subject always to the Take-over Code):

(a) sell the treasury shares for cash;

(b) transfer the treasury shares for the purposes of or pursuant to an employee's share scheme;

(c) transfer the treasury shares as consideration for the acquisition of shares in or assets of another company or assets of a person;

(d) cancel the treasury shares; or

(e) sell, transfer or otherwise use the treasury shares for such other purposes as may be prescribed by the Minister of Finance.

2.5 Reporting Requirements

(i) Within thirty (30) days of the passing of a Shareholders' resolution to approve the purchases of Shares by the Company, the Company shall lodge a copy of such resolution with the Accounting & Corporate Regulatory Authority ("ACRA").

(ii) The Company shall notify the ACRA within thirty (30) days of a purchase of Shares on the SGX-ST or otherwise. Such notification shall include details of the date of the purchases or acquisitions, the total number of Shares purchased or acquired by the Company, the number of Shares cancelled, the number of Shares held as treasury shares, the Company's issued share capital before the purchase or acquisition, the Company's issued share capital after the purchase or acquisition, the amount of consideration paid by the Company for the purchases or acquisitions, whether Shares were purchased or acquired out of the profits or the capital of the Company, and such other particulars as may be required in the prescribed form.

(iii) The Listing Manual specifies that a listed company shall report all purchases or acquisitions of its shares to the SGX-ST not later than 9.00 a.m. (a) in the case of a Market Purchase, on the Market Day following the day of purchase or acquisition of any of its shares; and (b) in the case of an Off-Market Purchase under an equal access scheme, on the second Market Day after the close of acceptances of the offer. The notification of such purchases or acquisitions to the SGX-ST shall be in such form and shall include such details as may be prescribed by the SGX-ST in the Listing Manual. The Company shall make arrangements with its stockbrokers to ensure that they provide the Company in a timely fashion with the necessary information which will enable the Company to make the notifications to the SGX-ST.

(iv) For an Off-Market Purchase, the Listing Manual requires that the listed company issue an offer document to all shareholders containing the information as set out in section 2.2.3(iv) above.

2.6 Sources of funds

The Company may not purchase or acquire its Shares on the SGX-ST for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the SGX-ST.

Any purchases or acquisitions of Shares may be made only if the Company is solvent and out of the Company's capital or profits. It is an offence for a Director or manager of the Company to approve or authorise the purchase or acquisition of Shares, knowing that the Company is not solvent. For this purpose, pursuant to the Act, a company is solvent if:–

(i) the company is able to pay its debts in full at the time of payment for the purchase of shares and will be able to pay its debts as they fall due in the normal course of business during the period of twelve (12) months immediately after the purchase; and

(ii) the value of the company's assets, at the time of the purchase and after such purchase, is not less than the value of its liabilities (including contingent liabilities), having regard to the most recent financial statements of the company and all other circumstances that the directors or managers of the company know or ought to know affect or may affect such values.

The Company will use internal resources or external borrowings or a combination of both to fund purchases of Shares pursuant to the Share Purchase Mandate. However, in considering the option of external financing, the Directors will consider particularly the prevailing gearing level of the Group. The Directors will only make purchases or acquisitions pursuant to the Share Purchase Mandate in circumstances which they believe will not result in any material adverse effect to the financial position of the Company or the Group.

2.7 Financial Effect

Under the Act, purchases or acquisitions of Shares by the Company may be made out of the capital and/or profits of the Company.

Where the purchased Shares are cancelled, a reduction by the total amount of the purchase price paid by the Company for the Shares cancelled will be made to:

(i) the share capital of the Company where the Shares were purchased out of the capital of the Company;

(ii) the profits of the Company where the Shares were purchased out of the profits of the Company; or

(iii) the share capital and profits of the Company proportionately where the Shares were purchased out of both the capital and profits of the Company.

Where the purchased Shares are held in treasury, the total issued Shares of the Company remains unchanged.

Where the consideration paid by the Company for the purchase or acquisition of Shares is made out of profits, such consideration (excluding related brokerage, stamp duties, commission, applicable goods and services tax and clearance fees) will correspondingly reduce the amount available for the distribution of cash dividends by the Company.

Where the consideration paid by the Company for the purchase or acquisition of Shares is made out of capital, the amount available for the distribution of cash dividends by the Company will not be reduced.

The financial effects on the Company and the Group arising from the purchases or acquisitions of Shares which may be made pursuant to the Shares Purchase Mandate will depend on, inter alia, whether the Shares are purchased or acquired out of capital and/or retained profits of the Company, the number of Shares purchased or acquired, the consideration paid for such Shares and whether the Shares purchased or acquired are held as treasury shares or cancelled. It is therefore not possible to realistically calculate or quantify the impact at this point of time.

Purely for illustration purpose only, on the basis of 501,780,000 issued and paid-up Shares as at the Latest Practicable Date, and assuming no further Shares are issued or repurchased, and no Shares are held by the Company as treasury shares, on or prior to the AGM, the purchase or acquisition by the Company of up to the maximum limit of ten per cent. (10%) of its issued Shares will entail a purchase or acquisition of 50,178,000 Shares.

In the case of Market Purchases by the Company, based on the existing issued and paid-up capital of the Company as at the Latest Practicable Date and the assumption that, pursuant to the Share Purchase Mandate, the Company purchases the maximum number of 50,178,000 Shares at the Maximum Price of S$0.565 per Share (being the price equivalent to five per cent. (5%) above the average of the closing market prices of the Shares for the five (5) Market Days on which the Shares were traded on the SGX-ST immediately preceding the Latest Practicable Date), the maximum amount of funds required for the purchase of 50,178,000 Shares (excluding brokerage, stamp duties, commission, applicable goods and services tax and other related expenses) is approximately S$28,350,570.

In the case of Off-Market Purchases by the Company, based on the existing issued and paid-up capital of the Company as at the Latest Practicable Date and the assumption that, pursuant to the Share Purchase Mandate, the Company purchases the maximum number of 50,178,000 Shares at the Maximum Price of S$0.646 per Share (being the price equivalent to twenty per cent. (20%) above the average of the closing market prices of the Shares for the five (5) Market Days on which the Shares were traded on the SGX-ST immediately preceding the Latest Practicable Date), the maximum amount of funds required for the purchase of 50,178,000 Shares (excluding brokerage, stamp duties, commission, applicable goods and services tax and other related expenses) is approximately S$32,414,988.

On the basis of the assumptions set out above and the following:

(a) the Share Purchase Mandate had been effective on the Latest Practicable Date and the Company had purchased the maximum of 50,178,000 Shares representing ten per cent. (10%) of the Shares in issue as at the Latest Practicable Date out of capital and held as treasury shares or cancelled;

(b) the consideration for the purchase or acquisition of the Shares is funded by internal resources,

an illustration of the financial impact of Share purchases or acquisitions by the Company pursuant to the Share Purchase Mandate on the Group and the Company's audited financial statements for FY2009 is set out below.

(1) Market Purchases — Purchases made entirely out of capital and held as treasury shares.

	Group (S$ '000)		Company (S$ '000)	
	Before Purchase	**After Market Purchase**	**Before Purchase**	**After Market Purchase**
As at 31 December 2009				
Share Capital	120,782	92,431	120,782	92,431
Retained Profits	115,412	115,412	11,430	11,430
Shareholders' Funds	253,405	225,054	130,508	102,157
NTA(1)	252,904	224,553	130,508	102,157
Total Liabilities	71,939	71,939	26,329	26,329
Current Assets	137,010	108,659	149,937	121,586
Current Liabilities	64,204	64,204	26,329	26,329
Working Capital	72,806	44,455	123,608	95,257
Number of Shares ('000)	501,780	451,602	501,780	451,602
Financial Ratios				
EPS (cents)	4.57	5.08	0.73	0.81
NTA per Share (cents)	50.40	49.72	26.01	22.62
Gearing (times)(2)	0.28	0.32	0.20	0.26
Current Ratio (times)(3)	2.13	1.69	5.69	4.62

(2) Market Purchases — Purchases made entirely out of capital and cancelled.

	Group (S$ '000)		Company (S$ '000)	
	Before Purchase	**After Market Purchase**	**Before Purchase**	**After Market Purchase**
As at 31 December 2009				
Share Capital	120,782	92,431	120,782	92,431
Retained Profits	115,412	115,412	11,430	11,430
Shareholders' Funds	253,405	225,054	130,508	102,157
NTA(1)	252,904	224,553	130,508	102,157
Total Liabilities	71,939	71,939	26,329	26,329
Current Assets	137,010	108,659	149,937	121,586
Current Liabilities	64,204	64,204	26,329	26,329
Working Capital	72,806	44,455	123,608	95,257
Number of Shares ('000)	501,780	451,602	501,780	451,602
Financial Ratios				
EPS (cents)	4.57	5.08	0.73	0.81
NTA per Share (cents)	50.40	49.72	26.01	22.62
Gearing (times)(2)	0.28	0.32	0.20	0.26
Current Ratio (times)(3)	2.13	1.69	5.69	4.62

(3) Off-Market Purchases — Purchases made entirely out of capital and held as treasury shares.

	Group (S$'000)		Company (S$ '000)	
	Before Purchase	After Off-Market Purchase	Before Purchase	After Off-Market Purchase
As at 31 December 2009				
Share Capital	120,782	88,367	120,782	88,367
Retained Profits	115,412	115,412	11,430	11,430
Shareholders' Funds	253,405	220,990	130,508	98,093
NTA(1)	252,904	220,489	130,508	98,093
Total Liabilities	71,939	71,939	26,329	26,329
Current Assets	137,010	104,595	149,937	117,522
Current Liabilities	64,204	64,204	26,329	26,329
Working Capital	72,806	40,391	123,608	91,193
Number of Shares ('000)	501,780	451,602	501,780	451,602
Financial Ratios				
EPS (cents)	4.57	5.08	0.73	0.81
NTA per Share (cents)	50.40	48.82	26.01	21.72
Gearing (times)(2)	0.28	0.33	0.20	0.27
Current Ratio (times)(3)	2.13	1.63	5.69	4.46

(4) Off-Market Purchases — Purchases made entirely out of capital and cancelled.

	Group (S$ '000)		Company (S$ '000)	
	Before Purchase	After Off-Market Purchase	Before Purchase	After Off-Market Purchase
As at 31 December 2009				
Share Capital	120,782	88,367	120,782	88,367
Retained Profits	115,412	115,412	11,430	11,430
Shareholders' Funds	253,405	220,990	130,508	98,093
NTA(1)	252,904	220,489	130,508	98,093
Total Liabilities	71,939	71,939	26,329	26,329
Current Assets	137,010	104,595	149,937	117,522
Current Liabilities	64,204	64,204	26,329	26,329
Working Capital	72,806	40,391	123,608	91,193
Number of Shares ('000)	501,780	451,602	501,780	451,602
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NTA per Share (cents)	50.40	48.82	26.01	21.72
Gearing (times)(2)	0.28	0.33	0.20	0.27
Current Ratio (times)(3)	2.13	1.63	5.69	4.46

Notes:

(1) NTA equals Shareholders' funds less intangible assets.

(2) Gearing equals total liabilities divided by Shareholders' funds.

(3) Current ratio equals current assets divided by current liabilities.

Shareholders should note that the financial effects set out above, based on the respective aforementioned assumptions, are for illustration purposes only. In particular, it is important to note that the above analysis is based on historical audited numbers FY2009 (save for the number of Shares, which are based on the number of Shares as at the Latest Practicable Date) and is not necessarily representative of future financial performance.

The Company will take into account both financial and non-financial factors (for example, share market conditions and the performance of the Shares) in assessing the relative impact of a Share purchase or acquisition before execution. Although the Share Purchase Mandate would authorise the Company to purchase or acquire up to ten per cent. (10%) of its issued Shares (excluding Shares held in treasury), the Company may not necessarily purchase or acquire or be able to purchase or acquire the entire ten per cent. (10%) of its issued Shares (excluding Shares held in treasury). In addition, the Company may cancel all or part of the Shares repurchased or hold all or part of the Shares repurchased as treasury shares.

2.8 Taxation

Section 10J of the Income Tax Act stipulates that when a company purchases or acquires its own shares from a shareholder using funds other than contributed capital of the company, the payment by the company shall be deemed to be a dividend paid by the company to the shareholder. Accordingly, the Company will, in repurchasing its own Shares out of profits, be deemed to have paid a dividend to its Shareholders from whom the Shares are purchased.

Shareholders who are in doubt as to their respective tax positions or tax implications of Share Purchases by the Company, or who may be subject to tax whether in or outside Singapore, should consult their own professional advisers.

2.9 Listing Status

The Company is required under Rule 723 of the Listing Manual to ensure that at least ten per cent. (10%) of its Shares are in the hands of the public. The "public", as defined under the Listing Manual, are persons other than (a) the directors, chief executive officer and substantial shareholders, or controlling shareholders of the Company and its subsidiaries, and (b) the associates of such persons named in (a).

As at the Latest Practicable Date, there are 220,511,000 Shares in the hands of the public, representing 43.95% of the issued Shares of the Company. Assuming that the Company purchases its Shares through Market Purchases up to the full ten per cent. (10%) limit pursuant to the Share Purchase Mandate, the number of Shares in the hands of the public would be reduced to 170,333,000 Shares, representing 37.72% of the remaining issued Shares of the Company (on the assumption that the purchased Shares are not cancelled).

In undertaking any purchases of its Shares, the Directors will use their best efforts to ensure that a sufficient number of Shares remain in public hands so that the Share purchases will not:

(i) adversely affect the listing status of the Shares on the SGX-ST;

(ii) cause market illiquidity; or

(iii) adversely affect the orderly trading of the Shares.

2.10 Implications under the Take-over Code

The resultant increase in the percentage of voting rights held by a Shareholder and persons acting in concert with him, following the purchase of Shares by the Company, will be treated as an acquisition for the purposes of Rule 14 of the Take-over Code ("**Rule 14**"). Consequently, depending on the number of Shares purchased by the Company and the total number of Shares in the capital of the Company at that time, a Shareholder or group of Shareholders acting in concert with each other could obtain or consolidate control of the Company and could become obliged to make an offer under Rule 14.

Under the Take-over Code, persons acting in concert comprise individuals or companies who, pursuant to an agreement or understanding (whether formal or informal) co-operate, through the acquisition by any of them of shares in a company to obtain or consolidate effective control of that company. Unless the contrary is established, the following persons, inter alia, will be presumed to be acting in concert:

(i) a company with any of its directors (together with their close relatives, related trusts as well as companies controlled by any of the directors, their close relatives and related trusts);

(ii) a company, its parent, subsidiaries and fellow subsidiaries, and their associated companies and companies of which such companies are associated companies, all with each other;

(iii) an individual with his close relatives, related trusts, any person who is accustomed to act in accordance with his instructions and companies controlled by these persons, all with each other; and

(iv) any person who has provided financial assistance (other than a bank in the ordinary course of business) to any of the above for the purchase of voting rights.

For this purpose, ownership or control of twenty per cent (20%) but not more than fifty per cent (50%) of the voting rights of a company will be regarded as the test of associated company status.

The circumstances under which Shareholders (including Directors) and persons acting in concert with them respectively will incur an obligation to make a general offer under Rule 14 after a purchase or acquisition of Shares by the Company are set out in Rule 14 and Appendix 2 of the Take-over Code.

In general terms, the effect of Rule 14 and Appendix 2 of the Take-over Code is that, unless exempted, the Directors and persons acting in concert with them will incur an obligation to make a general offer under Rule 14 if, as a result of the Company purchasing or acquiring Shares, the voting rights of such Directors and their concert parties would increase to thirty per cent. (30%) or more, or if the voting rights of such Directors and their concert parties fall between thirty per cent. (30%) and fifty per cent. (50%) of the Company's voting rights, the voting rights of such Directors and their concert parties would increase by more than one per cent. (1%) in any period of six (6) months.

Under Appendix 2 of the Take-over Code, a Shareholder not acting in concert with the Directors will not be required to make a general offer under Rule 14 if, as a result of the Company purchasing or acquiring its Shares, the voting rights of such Shareholder would increase to thirty per cent. (30%) or more, or if such Shareholder holds between thirty per cent. (30%) and fifty per cent. (50%) of the Company's voting rights, the voting rights of such Shareholder would increase by more than one per cent. (1%) in any period of six (6) months. Such Shareholder need not abstain from voting in respect of the resolution authorizing the proposed Share Purchase Mandate.

Shareholders who are in any doubt as to whether they would incur any obligations to make a take-over offer as a result of any purchase of Shares by the Company pursuant to the Share Purchase Mandate are advised to consult their professional advisers and/or the Securities Industry Council before they acquire any Shares in the Company during the period when the Share Purchase Mandate is in force.

2.11 Directors' and Substantial Shareholders' Interests

As at the Latest Practicable Date, the shareholdings of the Directors and the Substantial Shareholders in the Company before and after the purchase of Shares (assuming that the purchased Shares are cancelled and not held as treasury shares) pursuant to the Share Purchase Mandate, based on the Register of Director's Shareholdings and the Register of Substantial Shareholders, are as follows:

	Before Share Purchase			After Share Purchase		
	Direct Interest (No. of Shares)	Deemed Interest (No. of Shares)	Total Interest (%)	Direct Interest (No. of Shares)	Deemed Interest (No. of Shares)	Total Interest (%)
Substantial Shareholders/ Directors						
Dr Lan Weiguang[(1)]	271,268,960	10,000,040	56.05	271,268,960	10,000,040	62.28
Chen Ni[(2)]	10,000,040	271,268,960	56.05	10,000,040	271,268,960	62.28
Directors						
Teng Cheong Kwee	—	—	—	—	—	—
Hee Theng Fong	—	—	—	—	—	—
Kong Tai	—	—	—	—	—	—

Notes:

(1) Dr Lan Weiguang is deemed to be interested in the 10,000,040 Shares held by his spouse, Madam Chen Ni.

(2) Madam Chen Ni is deemed to be interested in the 271,268,960 Shares held by her spouse, Dr Lan Weiguang.

Shareholders should note the following:

(i) the figures in the above table are set out for illustrative purposes only and calculated on the assumption that (i) the maximum amount of ten per cent. (10%) of the Shares of the Company purchased under the Share Purchase Mandate will be cancelled and not held as treasury shares and (ii) there is no change in the number of Shares held or deemed to be held by the Directors and the Substantial Shareholders; and

(ii) if all the purchased Shares are held as treasury shares and not cancelled, there will be no change in the interests of the Directors before and after such purchase. However, the interests of the Substantial Shareholders as a percentage of the voting Shares in the Company will change before and after such purchase as the treasury shares do not carry any voting rights.

As at the Latest Practicable Date, both Dr Lan Weiguang and Madam Chen Ni have a shareholding interest of approximately 56.05% in the Company (direct and indirect) and would not be obliged to make a general offer under Rule 14 and Appendix 2 of the Take-over Code to other Shareholders under the Take-over Code due to the Share Purchase Mandate.

Based on the above information, as at the Latest Practicable Date, none of the Directors will become obligated to make a general offer in the event that the Company purchases the maximum number of 50,178,000 Shares under the Share Purchase Mandate. Based on the Register of Substantial Shareholders of the Company as at the Latest Practicable Date, the Directors are not aware of any Substantial Shareholder who may become obligated to make a mandatory offer in the event that the Company purchases the maximum number of 50,178,000 Shares.

2.12 Suspension of Purchase

(i) The Company may not effect or undertake any Share purchases or acquisitions prior to the announcement of any price-sensitive information by the Company, until such time as the price-sensitive information has been publicly announced or disseminated in accordance with the requirements of the Listing Manual.

(ii) The Company may not effect or undertake any Share purchases or acquisitions on the SGX-ST during the period commencing two (2) weeks before the announcement of the Company's financial statements for each of the first three (3) quarters of its financial year, or one month before the financial year, as the case may be, and ending on the date of announcement of the relevant results.

2.13 Shareholders' Approval

The renewal of the Share Purchase Mandate is conditional upon the approval of Shareholders at the AGM. As such, approval is being sought from Shareholders at the AGM for the renewal of the Share Purchase Mandate for the purchase or acquisition by the Company of its issued Shares. If approved, the Share Purchase Mandate will take effect from the date of the AGM and continue in force until the date of the next AGM or such date as the next AGM is required by law to be held, unless prior thereto, Share buybacks are carried out to the full extent mandated or the Share Purchase Mandate is revoked or varied by the Company in general meeting. The Share Purchase Mandate may be put to Shareholders for renewal at each subsequent AGM.

2.14 Shares Purchased By The Company

The Company has in the previous 12 months made purchases of its Shares by way of market acquisition pursuant to the Share Purchase Mandate, details of which are set out below:

Total number of Shares purchased	Total number of Shares cancelled	Highest price paid per Share for Shares purchased ($S)	Lowest price paid per Share for Shares purchased ($S)	Total consideration paid for Shares purchased ($S)
10,000,000	N.A	0.17	0.17	1,704,416.43

3. DIRECTORS' RECOMMENDATION

Having fully considered the rationale for the proposed renewal of the Share Purchase Mandate, the Directors are of the view that the proposed renewal of the Share Purchase Mandate is in the best interests of the Company and recommend that Shareholders vote in favour of the Resolution relating to the proposed renewal of the Share Purchase Mandate.

4. DIRECTORS' RESPONSIBILITY STATEMENT

The Letter to the Shareholders has been seen and approved by the Directors, including those who have delegated detailed responsibility for the Letter to the Shareholders, and they collectively and individually accept full responsibility for the accuracy of the information given in this Letter to the Shareholders and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, the facts stated and opinions expressed in this Letter to the Shareholders are fair and accurate in all material respects as at the Latest Practicable Date and there are no material facts the omission of which would make any statement in this Letter to the Shareholders misleading.

5. SGX-ST'S DISCLAIMER

The SGX-ST assumes no responsibility for the correctness of any statements made, reports contained or opinions expressed in this Letter to the Shareholders.

Yours faithfully
For and on behalf of the Directors

Dr Lan Weiguang
Managing Director
Sinomem Technology Limited

SINOMEM TECHNOLOGY LIMITED

(Company Registration No. 200208107G)

(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 Sinomem Technology Limited's shares, this Report 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 Annual General Meeting 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, ____

of ____

being a member/members of Sinomem Technology Limited (the "Company"), hereby appoint:–

Name	NRIC/Passport No.	Proportion of Shareholdings	
		No. of Shares	%
Address			

and/or (delete as appropriate)

Name	NRIC/Passport No.	Proportion of Shareholdings	
		No. of Shares	%
Address			

or failing the person, or either or both of the persons, referred to above, the Chairman of the Annual General Meeting (the "Meeting") as my/our proxy/proxies to vote for me/us on my/our behalf at the Meeting of the Company to be held at 10 Ang Mo Kio Street 65 #06-10, Singapore 569059 on 29 April 2010 at 3 p.m and at any adjournment thereof. I/We direct my/our proxy/proxies to vote for or against the Resolutions proposed at the Meeting as indicated hereunder. If no specific direction as to voting is given or in the event of any other matter arising at the Meeting and at any adjournment thereof, the proxy/proxies will vote or abstain from voting at his/her discretion. The authority herein includes the right to demand or to join in demanding a poll and to vote on a poll.

(Please indicate your vote "For" or "Against" with a tick [✓] within the box provided.)

No.	Resolutions relating to:	For	Against
1	Directors' Report and Audited Accounts for the financial year ended 31 December 2009		
2	Payment of proposed one-tier tax exempt final dividend of S$0.01 per share for financial year ended 31 December 2009		
3	Re-election of Hee Theng Fong as a Director		
4	Re-election of Kong Tai as a Director		
5	Approval of Directors' fees amounting to S$161,000		
6	Re-appointment of Messrs Deloitte & Touche LLP as Auditors		
7	Authority to issue new shares		
8	Authority to issue new shares other than on a pro-rata basis at a discount of not more than 20%		
9	Authority to issue shares under the Sinomem Employees' Share Option Scheme		
10	Renewal of share buyback mandate		

Dated this ____________ day of ________________________ 2010

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

____

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

Notes:

1. Please insert the total number of Shares held by you. If you have Shares entered against your name in the Depository Register (as defined in Section 130A of the Companies Act, Chapter 50 of Singapore), you should insert that number of Shares. If you have Shares registered in your name in the Register of Members, you should insert that number of Shares. If you have Shares entered against your name in the Depository Register and Shares registered in your name in the Register of Members, you should insert the aggregate number of Shares entered against your name in the Depository Register and registered in your name in the Register of Members. If no number is inserted, the instrument appointing a proxy or proxies shall be deemed to relate to all the Shares held by you.

2. A member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint not more than two 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 appointments shall be 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. Completion and return of this instrument appointing a proxy shall not preclude a member from attending and voting at the Meeting. Any appointment of a proxy or proxies shall be deemed to be revoked if a member attends the meeting in person, and in such event, the Company reserves the right to refuse to admit any person or persons appointed under the instrument of proxy to the Meeting.

5. The instrument appointing a proxy or proxies must be deposited at the registered office of the Company at 10 Ang Mo Kio Street 65 #06-10, Singapore 569059 not less than 48 hours before the time appointed for the Meeting.

6. The instrument appointing a proxy or proxies must be under the hand of the appointor or of his attorney duly authorised in writing. 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. Where the instrument appointing a proxy or proxies is executed by an attorney on behalf of the appointor, the letter or power of attorney or a duly certified copy thereof must be lodged with the instrument.

7. 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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Sinomem

SINOMEM TECHNOLOGY LIMITED
Registration Number: 200208107G
10 Ang Mo Kio Street 65 #06-10 Singapore 569059
Tel: (65) 6481 6966   Fax: (65) 6481 6066
Email: info@sinomem.com Website: http://www.sinomem.com